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What You Can Learn from Professional Athletes
Trading vs. Triathlon
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Our annual trading fair “World of Trading” has established itself among traders as a real highlight. Every year, there is a huge rush of visitors as well as exhibitors. But as it stands now, this year’s trading fair will probably be better attended than ever before. The booths have long been sold out, and places in some seminars were already in short supply weeks ago.

The events on offer are not only of interest to neophytes. It’s especially advanced and professional traders that keep coming to our fair every year, appreciating as they do the good atmosphere, the chance to exchange views with other traders, and the variety of products offered that they can easily learn about in direct conversations with the companies offering them.

The Messe Frankfurt is the venue where, besides providing opportunities for networking with traders, we will be offering our usual top-class programme: panel discussions, lectures and seminars. And, of course, there is our highly popular live trading event where professionals demonstrate their trading skills on stage while explaining to the audience exactly how they operate, why they enter and exit and how they manage their positions, as the trade is running. Though you cannot book a place for the live trading event you just need to be there early enough, it pays to register soon for the seminars that are still available as long as there are any places left.

One of the stars at this year’s World of Trading is also our interviewee in the current issue (beginning on page 68): US professional trader John Person. When this publication went to press, there were still some places available for his seminar.

In any event, there is one thing you should definitely do as a visitor to the fair: touch base with other traders and find out all about the latest trends and offers at our exhibitors’ stands. Stagnation means regression and in trading you should at least know what the latest trends are, which is certainly of benefit in this fast moving day and age. We take this early opportunity to wish you lots of fun at the World of Trading and hope you discover lots of new ideas. «

Good Trading
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### Disclosure

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What You Can Learn from Professional Athletes

Trading vs. Triathlon

Triathlon is a race of three sports made up of swimming, cycling, and running. In a sense, any investment also includes three disciplines: saving, investing, and trading. And just as in triathlon, the third discipline is the hardest – and the one that is key at the same time. But these are by no means all the parallels between trading and triathlon: Both are very individual, the principles of success are similar, and whether you make it or not will in the end be determined by your mindset. Our deputy editor Marko Graenitz has subjected himself to the brutal rigours of preparing for the Ironman competition. Having conducted numerous interviews with traders in the past few years, he has discovered a lot of parallels between trading and triathlon. Get ready for an exciting and intriguing comparison. Ready, steady, go!

Triathlon and Ironman

Triathlon is a young sport that has become increasingly popular in recent years. A triathlon competition consists of the three disciplines of swimming, cycling, and running that are completed one right after the other. There are competitions over a variety of distances, ranging from the classic sprint distance over a 0.75 km swim, a 20 km bike ride, and a 5 km run. Longer competitions include the Olympic distance (1.5 / 40 / 10), and Half Ironman (1.9 / 90 / 21). The longest and best-known event is the Ironman (3.8 / 180 / 42), which was first held on Hawaii in 1978. To this day, the annual Ironman World Championships take place there, most recently on 12th October 2013.

» Many Roads Lead to Roth

At first glance, any comparison between trading and triathlon seems far-fetched. When you trade you sit in front of a computer, whereas you swim, cycle, and run when you do a triathlon. In that respect, the two things could hardly be any more different. But in order for a trader to learn something from triathlon, it is not the physical differences at all that matter but the principles – and these show surprising parallels.

In trading as in triathlon, there are many individually different paths that can lead to success. In trading, there are, for example, the trend-following method, mean reversion and arbitrage trading. The paths could not be more different either: besides the trader who has gone
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through the classic training programme completed at a bank or a fund, there are traders who acquire their knowledge through trading rooms, seminars, and mentors – just as there are the self-taught who teach themselves everything.

This is similar to triathlon: Successful athletes not only come from a classic source such as the German national squad. Here, too, there are newcomers such as teachers or bankers who have managed to become professional traders. Many roads lead to Rome then – the venue of the world’s largest triathlon event (in terms of participants) taking place south of Nuremberg every year.

**Nature or Nurture?**

Time and again, the question arises whether the critical success factors are innate or can be learned. In the past, it was often assumed that only a few “chosen ones” have what it takes to be resoundingly successful. Many traders know Richard Dennis’s turtle experiment from the 1980s in which he showed that virtually anyone who is reasonably normal can be successful in the stock market.

In triathlon, things are similar with the genetic component playing a certain role here. So an average person will not be in a position to win at the Olympics. But he may very well achieve a high standard of performance and win at minor competitions, finishing lengths ahead of someone who has perfect talent but fails to work on that.

So if it’s possible to be successful regardless of the genetic conditions – how then do you manage to be successful?

**Visualisation & Autosuggestion**

You first need to set a long-term goal you want to achieve. Be not (!) realistic here, but let your imagination run wild. Imagine, for example, what you would have liked to achieve in ten years’ time. Ten years is a long time. Most people overestimate what they can achieve in one year, but dramatically underestimate what they can achieve in ten years. Be as emotional as possible in your vision in order for it to be more firmly rooted in your mind. The reason for this important exercise is this: Scientists have found that our brain cannot distinguish between fiction and reality: If you conjure up the images of your future success again and again, your brain will eventually “believe” that it becomes reality. You will then have the feeling that you know you will make it – a factor that should not be underestimated! Using this psychological trick of autosuggestion, you may become convinced that you are capable of putting into practice virtually everything (realistically feasible). This may sound somewhat esoteric, but is exactly the path that has made the most successful people what they are.

**Taking the Pulse of Trading**

One way to find the right pace is to regularly take your pulse when trading – a very direct signal to tell you how much your body responds to any trading stimuli. What is your pulse when entering a trade, what is it during the trade, and what is it when closing the trade? Just like a triathlete whose resting heart rate decreases during the course of his training years, traders should also grow accustomed to a pace that will allow them to work without undue stress. And just as increased resting heart rates among triathletes point to overtraining or a disease, traders whose pulse rates are too high may easily deduce that they trade too large positions, exposing themselves to the risk of emotion-based errors.
Let’s start with triathlon: Would you like to compete over a Half-Ironman? Or complete a full-distance Ironman? Or even win a minor competition? If you are past the age of 20, you might want to aspire to catch a spot on the podium or win in your age group. Age Groups usually cover a period of five years.

And in trading? A million dollars? Or five million? Ten? Or more broadly, “financial independence” and “peace and quiet”? Or are you aiming really high, maybe wanting to manage a billion dollar hedge fund? Whatever it is, imagine it being as emotional as possible. How will it feel when you have achieved your goal? How will you feel and live and go about your daily business?

It’s the Process That Counts
If you have a specific goal and really (!) believe that you are going to achieve it, that’s already half the battle. This is because this motivation is such that it causes you, consciously and unconsciously, to do everything in your power to make that goal a reality. Not for nothing is there the saying: “Whether you think you can make it or you can’t, you will be right in either case.”

The most important thing now is to focus on the process that you need to establish in order to achieve your objective. A major goal is nothing more than many small milestones that build on each other. Table 1 shows an example of what this might look like both in trading and in triathlon. You can go through the process and optimise it in collaboration with an experienced coach – or spend more time acquiring the necessary knowledge.

<table>
<thead>
<tr>
<th>Year</th>
<th>Trading</th>
<th>Triathlon</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Year</td>
<td>Discussing the project with your family/partner; joining a stock-market forum / trading group; reading trading books (principles, psychology, strategies); trading various strategies on demo platforms of different brokers to learn the processes and compare providers; keeping a trading journal; recording and analysing all demo trades</td>
<td>Discussing the project with your doctor/family/partner; joining a triathlon club; basic-endurance training; learning the proper everyday dietary strategies; buying the necessary equipment (racing or time-trial bike, wetsuit, running shoes); competing in first few minor races (sprint distance, Olympic distance)</td>
</tr>
<tr>
<td>2nd Year</td>
<td>Reading trading books; deciding on a strategy and a broker; creating the business and trading plans; purchasing the necessary infrastructure (equipment depending on time horizon, the shorter the more extensive); opening a small (!) real-money account; trading small positions while adhering to the trading plan; recording and analysing each trade (especially any errors) in the journal</td>
<td>Increased number of training hours; initial training of basic endurance, later intensive training units to achieve competitive form; preparatory races (half-marathon, Olympic distance, Half-Ironman) to strengthen processes, pacing yourself during race, food and drink during race, mental aspects</td>
</tr>
<tr>
<td>3rd Year</td>
<td>Scheduling fixed trading times as “business hours”, finalising the business and trading plans; (optionally) adapting your strategy and broker; opening a major real-time account on which to establish a serious track record; absolute focus on adhering to the trading plan; continuing the trading journal; reading books and articles on trading (in particular on psychology)</td>
<td>Scheduling an increased everyday time budget for training purposes; 5-7 lengthy coordinated training units a week; training camp in spring; intensive training and preparatory races in the build-up phase (half marathon, Olympic distance, Half-Ironman)</td>
</tr>
</tbody>
</table>

The table shows an example of what a basic 3-year process can look like both for becoming a professional trader as well as finishing an Ironman triathlon. Within each year further processes on a smaller scale are to be established in detail. It is best to do that with the help of an experienced coach.
yourself. Thereafter, any preparation must be made as close as possible to this process with minor adjustments perhaps being necessary in keeping with any progress.

There is no shortage of trading strategies that work: CANSLIM according to William O’Neil (Simon Betschinger’s strategy in TRADERS’ 08/2012), trading at extreme market exaggerations (Larry Connors’ strategy in TRADERS’ 06/2013) or trading significant intraday breakouts (Achim Mautz’ strategy in TRADERS’ 09/2012). The more short term the trading style, the more demanding it is. So you need to decide whether – in a figurative sense – you “only” want to complete a Half-Ironman (CANSLIM position trading) or win a competition in your age group (intraday trading).

If the goal is clear, the motivation high, and the process mature, then it’s all up to the trader or triathlete: If he follows his plan religiously, there is a high degree of likelihood of him being able to actually trade profitably three years later or complete an Ironman (see Table 1). The reason for that is that he has been working towards that goal on a regular basis and in a structured manner so that financial success – in the case of triathlon the peak physical performance – will result automatically. You will just need to stay the course long enough.

No matter how high your aspirations are, however, if you have no clear process or fail to follow one consistently, you will not be able to achieve even minor trading goals or if you do, it will only be because luck was on your side. Everything stands and falls with the process. This is comparable to an Ironman competition in which a would-be finisher thinks he can complete the final marathon event with little training. This idea may sound absurd since it is apparently “clear” in triathlon that you cannot make it without completing a rigorous preparatory programme. However, in trading this is seemingly not the case but should be. After all, even here it takes several years for most neophytes to have sufficiently improved through clean processes for them to be constantly profitable.

Do Not Overexaggerate

“Over exaggerate” means starting off at too fast a pace and using up your body’s reserves in such a way that you experience a total loss of performance and may be forced to drop out of the race. The longer the race and the higher the aspirations, the higher the risk of over gambling. More often than not, this affects even experienced professionals who start off, for example, the final marathon event of an Ironman competition at too fast a pace and subsequently “hit the wall”, colloquially speaking, when you suddenly lose all your energy from one moment to the next. The right pace is key to new personal bests.

In trading, this “pace” can be equated to the position size. While you get ahead faster – as you do initially in the marathon – if you trade too large positions, you will also run a very high risk of suffering massive drawdowns later (“hitting the wall”) or even losing your trading account (dropping out of the competition).

But athletes may not only over exaggerate in a race but also in training. Those running 30 km every day, train themselves “into a hole”, colloquially speaking.
This means that their body is not getting enough recovery time prior to the next training stimulus. The result is over-training, a decline in performance and an increased risk of injury. Put simply, you cause your body to “be ruined”.

Similarly, instead of sitting ten hours straight in front of the monitor and watching every tick, you need time to recharge your batteries while trading. If you fail to take any breaks, your concentration and performance will be similarly impaired and there will be an increased risk of error, causing you to suffer unnecessary losses. However, everybody needs to find out for themselves where the optimum is – whether it’s trading or triathlon. Your best bet is to start at a low level and then increase slowly. Sooner or later, you will find “your” level where it feels just right.

Never Trade without a Helmet
Trading is risk management. None other than the successful trader Paul Tudor Jones said that basically, he spent all his time minimising risks. Trading without any risk management is like cycling down a hill in triathlon at 50 mph without applying the brakes and without wearing a helmet. Of course, this may work out fine – but only until it does not. And then you will be glad to still be alive – and in trading, you will be glad to see that your account still exists.

Trade at Your Own Pace
This leads us to the next important point: This is all about your own trading, not other people’s. Find your own performance level and follow your plan in consistently trading your own trading method. In the end, this will stand you in better stead than you can imagine. This is no different in triathlon: Those who allow themselves to be guided by others and keep trying not to lose touch with the front runners are liable to overextend themselves. Overall, you will achieve the fastest time if you constantly swim, cycle, and run at your own pace. After all, it’s sometimes the very “fast guys” at the initial stage that you leave behind in the end after your own consistent performance since they in turn have over exaggerated. Much like traders who quickly achieve high profits with large positions – a year later some of them may no longer be trading.

Discipline Makes You Successful
If you can only trade well after you have completed some specific research – something that you may not feel like doing –, then you should adhere to the process. Sooner or later you will enjoy carrying out that research if your brain associates that with positive trading results. It’s similar to that in triathlon. Everyone knows that hard interval training increases your speed by completing short fast-paced training units followed by short breaks. But it is also unpleasant. Sooner or later, though, new personal bests will cause you to love even such tough training.

Learn from Your Mistakes
The good news is that you don’t have to do everything right from the very beginning. After all, there is especially one way that you learn on the stock market: from your mistakes. Unfortunately, this is not a particularly popular approach. But nothing leaves such an indelible mark in our memory as a heavy loss. If this was caused by a missing stop, for example, you can learn a great deal from this mistake. That’s why mistakes basically are the best thing that can happen to you – especially at the beginning of a trader’s career where you trade a small account. That way, you will quickly learn without losing large amounts...
of money. So instead of becoming extremely angry at yourself on account of a mistake, you should include this experience in your future trading process to avoid making the same mistake again.

Triathletes, too, improve by learning from their mistakes. Anyone who has ever had the experience of losing their bearings in the transition area after the swimming event and being unable to find their own bike among thousands of other people’s bikes, knows what I mean. Not informing oneself ahead of time exactly when and where you get out of the water and what the fastest way to your own bike is, is the sort of embarrassing mistake that you only make once.

Keep a Record
Wherever you go, people will tell you to keep a trading journal. And for good reason. You should at least record every trade including entry and exit prices and times as well as the position size, profit/loss and a short comment. All it takes is a simple Excel spreadsheet. You’ll be amazed to see what conclusions can be drawn from all these trades later. These evaluations will be the source of your subsequent improvements: Should you place the stop closer to the entry or further away? Are you going to take partial profits too early, or do you stand to lose too many portions of your book profits by the time your exit is made? What are your best setups? What should your position size be for your maximum previous drawdown to be only ten per cent? All these questions – and many more – can be answered on the basis of your trading records. Where else can you get this information from?

Things are quite similar in triathlon: How many hours or miles were completed in which of the three sports, and how did that affect the respective personal bests in the course of a year? How much more training produced which faster times and where did the time invested lead to the most improvement? Since both triathlon and trading are very individual endeavours, nobody can answer these questions for you – except your personal journal.

Work on Your Weaknesses, Build Your Strengths
Using your experience as well as the records kept in your trading journal, and based on conversations with other traders, analyse your strengths and weaknesses from time to time. What is most important here is to eliminate your biggest weaknesses – especially if they are particularly critical to success. For example, those who tend to always want to open too large positions, absolutely need to work on this emotional impulse. However, your strengths should not be neglected either: Find out when and how you have made your biggest winning trades. Look for patterns that will help you recognise such situations even better. If you can manage to identify your most profitable setups in the markets in a reliable manner and on a regular basis, you will have reached a very big milestone in your trading career.

This is pretty much the same in triathlon, as the example of the professional Sebastian Kienle shows. His weakness was swimming and his strength cycling with running being somewhere in between. He consistently worked on improving his swimming times, but at the same time specifically kept building his cycling strength. At the 2012 Half-Ironman World Championships held in Las Vegas, he made up for lost time in swimming by cycling his way back to the top of the field at high speed, leaving those in the lead behind, as if they were mere amateurs. Thanks to his superior cycling performance, he went into the final half-marathon with a clear lead, was able to maintain it and became world champion. Here’s what’s interesting: He continued to remain loyal to his process when it came to working on his strengths and weaknesses in training. In 2013, again at the World Championships in Las Vegas, he left the water trailing less than he did in 2012, pulverised his competitors again on the bike and thanks to a strong running performance retained his world title.

The Trade of the Year
From time to time, there are those trades where everything fits – the perfect setup. A trade where you are prepared to risk more to win big. Experienced traders know how to make use of such opportunities to derive the most benefits from them while still keeping the risks under control. In some ways it’s like a major triathlon competition where you feel that are you in good shape on that day, go at a fast clip from the very beginning – and consciously run the risk of a subsequent drop in performance to perhaps win a spot on the podium if you do have sufficient strength at the end.

The goal is to learn from experience when it pays to act aggressively. Traders who master this art and vigorously pursue their best trades, can achieve much of their annual performance by exploiting just a few top opportunities. A good comparison in triathlon is the final phase of the running event. Imagine sharing the lead with three competitors a mile before the finish line. One of you is going to win, three will make it to the podium, and one is going to have to settle for fourth place. In this situation, you need to give it your all. In the
worst case, you will run out of steam in the final sprint and finish fourth. What this may look like in triathlon you can watch in a video on Youtube by entering “Bevan Docherty – Super-human Triathlon Sprint Finish”.

Both in trading and in triathlon, you can gain a lot by taking a higher risk, but also lose more (drawdown in trading, loss of performance in triathlon). If the latter is the case, it is important in both trading and triathlon to escape unscathed – to the extent that this is possible: Reduce your position size once the trade is in losing territory and completely exit the trade sooner rather than later. By no means should you just rely on “hope” when the position tanks – otherwise you may risk your entire trading account. Always remember that tomorrow is another trading day. It’s about the same in a triathlon competition: If major pieces of “hardware” such as your knee or your Achilles tendon cause a great deal of pain, just recognise “the losing trade” and get out of the race. This will allow you to enter another competition a little later. However, those who ignore the biggest warning signs, keep going at all costs despite clear evidence to the contrary, and hope that their body will be able to cope until the very end, will be risking their own health and putting their entire triathlon season in jeopardy.

Final Sprint, the Second Time Around
The final sprint in the sporting competition also lends itself to another comparison to trading: It represents the ability to really let a winning trade run and not to “be slowing the pace” too early (Figure 4). Try to complete the trade as a big win, to make it finish in first place – and do not get out prematurely, ending up in fourth place. It’s mentally tough to hang on to open profitable positions without smoothing the trade – just as it is hard to increase the pace and keep it up in the final sprint. But that’s exactly what characterises the big winners. Perhaps this comparison will help you keep the pedal to the metal when you are profitable and let the profits run.

Gritting your Teeth
For long-distance competitions like the Ironman, it will ultimately be vital to remain strong mentally. More often than not, the lack of carbohydrates in the second half of the marathon makes triathletes mentally weak causing them to be ever slower since they feel that they will “never make it”. Objectively speaking, you have performed at your very best throughout the entire competition, otherwise you would never have made it this far, but the “drawdown” at the end comes at the worst possible time and is so demoralising that some drop out of the competition. I can only urge you not to but instead stop thinking and just keep running. It’s the same in trading. If you have a good strategy that has worked well for a long time, then stick to it even during a drawdown. Reduce the position size if necessary. However, if you change or give up your strategy at short notice, you will have even less chance of surviving the drawdown. It may be hard to continue trading right through a drawdown, but you will be very glad at the next high of your equity curve that you have stayed the course – just like the triathlete really gritting his teeth during the Ironman and reaching the finish line.

Even the Best Setup May Fail
You can never be sure to be successful until you have crossed the finish line. That’s what you always need to keep in mind. No matter how much book profit the “trade of your life” may enjoy – if any extreme news suddenly breaks overnight, all that profit may quickly disappear into thin air. You can prevent this from happening by taking partial profits or securing your position with a hedge. However, this will also reduce your upside potential.

Things are much the same in triathlon: You may have a perfect day on your bike and be in the lead – but have a flat tyre and lose the race. Or – during the running event – you may even get a severe cramp in your calf right before the finish line forcing you to limp on and let your competitors pass. Again, it is possible for you to do a little bit of “hedging” here, for example, by running at a slightly slower pace while you have a comfortable lead. But you can never be sure of any success until you have completed the race.

You can never be sure of being successful until you have crossed the finish line.
A Trader’s Retirement

However, traders have not really made it until they end their trading career. After all, as long as you are trading there is the risk of losing it all. A prominent example of this is Jesse Livermore. He is considered to be one of trading’s luminaries, but he lost 95 per cent of his fortune and took his own life. No matter how profitable a trader you may have been in the past, it’s only when you have finally retired from trading and passively receive an income from dividends, interest payments, rents et cetera (and are still alive), that you have crossed “the finish line” for good.

Never Give Up

“It’s hard to beat a man who never gives up” – This is something that the legendary baseball player Babe Ruth knew all about years ago. You need to stay the course until you have reached your goal (and then set yourself a new one). Along the way, you will encounter all sorts of difficulties. Consider these as a “test” to see if you really believe in your project. You need to pass these tests by not giving up in the face all the challenges.

In triathlon, for example, you may get hurt in training. Depending on how bad your injury is, you will need to take a break for a shorter or longer period of time. Your process will be interrupted, you will feel underworked and begin to fret about your goal. But you can also see this as an opportunity: Use the time out to look at the latest training methods on Youtube, improve your diet, or take care of all the things that have previously been left unattended to for lack of time. Short time outs are sometimes helpful for your body to regenerate by completely ridding it of all training stimuli. If it is a long injury-related break, you will need to push your goals back – but postponing them does not mean abandoning them – as long as you continue to be unwavering in your determination.

In trading, it is mainly the drawdown phases that cause traders to have headaches. Always remember this: There are traders that have ruined entire accounts but still did not give up and were ultimately successful. This, of course, requires a solid inner conviction that you can come to hold through autosuggestion as described earlier. You will not really have failed until you finally give up – a decision that you do not need to make.

Join a Club

When you are among like-minded people, you can learn significantly faster. As a triathlete, these are mainly the training methods, nutrition tips and competition processes. As a trader, you can join a group that exchanges views on an informal basis, or even a live trading room where you can directly watch experienced traders in action. You will get to know other traders’ tactics and methods and be able to develop your own system from the things that you can use best for your own purposes.

The Real Enemy Is Yourself

Whether it’s trading or triathlon, the bottom line is the same: The real enemy is not the others nor general conditions or the environment, but invariably you yourself. Anyone who would like to be a successful trader needs to conquer himself – overcome his weaknesses, keep learning from his mistakes, and grit his teeth when the next drawdown comes around. Defeating the thought, “I’m at the end of my tether, why should I keep going now, it’s hopeless” – this is the point at which you conquer yourself. You will not regret it.

You Are Not Your Successes

At the end of the day, an important insight is here to stay – both in trading and in triathlon: You are not your successes – but not your failures either. Of course, you will be affected by success or failure, but it is not your identity.

Imagine, for example, having actually become rich by trading. Nevertheless, your true identity (hopefully) continues to be your “normal” life – your family, your friends, your hobbies. In the event of failure this is encouraging. It’s the same in triathlon: Imagine winning the Ironman on Hawaii and being the big star in the scene for years to come. But what are you going to do on the day after the competition and the victory ceremony? You will be going home to your family and your friends. You are going to take a rest. And then you will continue with your training process.

This is precisely the reason why you cannot be a professional trader nor a professional triathlete for the sake of money without loving the process. After all, even if you are already successful, there is always the question: What are going to do when you get up tomorrow morning? «

Marko Graenitz

Marko Graenitz is a freelance author who writes about the stock market and trading. He conducts interviews with traders and writes professional articles on capital market anomalies and trading strategies.

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Cover Story

www.tradersonline-mag.com

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Society of Technical Analysts Pakistan
TRADERS’ Talk

Carol Harmer has over 30 years’ experience of analysis and trading the world’s markets and is undoubtedly one of the most respected technical analysts in the world today. Her career started in the early eighties, trading futures on the floor at LIFFE where she quickly discovered Technical Analysis as a way to maximise profits. She was one of the first traders on LIFFE to discover and study this form of analysis and quickly became widely recognised as an expert in its use as well as highly profitable. This soon led to a position as Senior Technical Analyst for Midland Bank. She was later head hunted for the role of Manager of Technical Analysis for Nomura Bank where she was responsible for establishing a European technical department. She later became Head of Technical Trading at Credit Suisse where she also continued to trade for the bank. Carol is also one of the first TA’s from a bank to join the STA (The Society of Technical Analysts) in the mid 80’s and has trained and worked with some of the UK’s leading technical analysts. In 1996 Carol returned to LIFFE and launched ‘Charmer Charts’ to train independent traders in technical analysis, becoming the first person to provide daily forecasts for established traders on the trading floor. She became extremely well known and highly respected and enjoyed advising traders throughout the day. She also made regular appearances on Bloomberg, CNBC and Reuters financial TV and she continues to provide her valued, expert opinion on the direction of financial markets on CNBC today.

TRADERS: Hi Carol, thanks for taking the time to talk to us about your trading. To begin with can you tell me what your preferred products and markets for trading are?

Harmer: I like S&P’s and most of the major currencies. I think Euros and Cable (GBP/USD) are my preferred currencies. I also like trading Gold.

TRADERS: Do you consider yourself a day trader, swing trader or position trader?

Harmer: I’d like to say position trader. I think if you sit back, know your levels, know what you want to do and stay away from all the headless chicken noise you have a better chance of success.

TRADERS: You started trading at LIFFE in the eighties. What was it like being a female trader in a very male dominated world?

Harmer: Fantastic, as you can imagine. It was new, exciting, and to be fair it was the first step in women actually being acknowledged and treated the same as men. I was not a shrinking violet and I think this helped me greatly. LIFFE traders were very much respected by
the banks we worked for. It was hard, fast, but always fair. And it allowed me to grow in a man’s world, and I never had any problem at all being a women. If someone smacked my bottom, he got it back twice as quick and twice as hard. It was never taken seriously and this helped me a lot. I was one of the guys, and so were the other women who worked on the floor.

TRADERS’: Is there any particular strategy or pattern that you follow?
Harmer: No strategies as such. I just trawl through weekly charts every Sunday. I write my levels out, so I have a game plan, then I look at the daily charts, and see where they correlate.

TRADERS’: Can you provide an insight into your trading day? What information do you check first and how does this impact on trade planning?
Harmer: First thing obviously I check Asia, then as Europe opens I let the momentum traders get out of my way. This usually takes 15 to 20 minutes. Then I look at the pivot points, Fibonacci levels, 60 min stochastics. If the market then comes to a good buy/sell level, I react.

TRADERS’: Risk management is key to a trader’s success. Can you tell how if you use stop-losses and if so how to set and manage the levels?
Harmer: You always try and get a 3:1 ratio. This way you run profits and limit losses. Personally I never set a stop-loss unless I see it traded there twice. The first time will be stops taken out, nothing is worse than having that, then the market going back in your favour, so if you do nothing first hit. Then it does it again. At least then you know you are wrong. You have to be careful as algo systems are planned to take stops out. Us traders have to be one step ahead.

TRADERS’: Do you have your own personal trading targets and time frames? For example do you set a limit for each day or let positions run over several days or weeks?
Harmer: Totally depends. Because it is technical trading it can take a day, several days, a few weeks to achieve the target. As long as it is going in the right direction, the trade is kept on.

TRADERS’: Do you add to winning long positions?
Harmer: Sometimes, you can average in and make more money. But you can’t average every 20 pips or so, that would be madness. You need to have targets. Personally I would rather hit the target, come out of a trade, go back in on a dip. That way you maximise your profits and if Asia tanks overnight you don’t have double the pain.

TRADERS’: Do you favour any particular technical analysis systems to guide you – Bollinger bands, Fibonacci, Elliott Wave or anything else? Or do you have your own rules?
Harmer: Elliott Wave, no way, it doesn’t work. I’ve tried every system over the years, and I find the KISS way better: keep it stupid simple. I use Fibonacci, Pivot points, and good old support and resistance levels. Don’t try and over complicate a market. Strip it down to basics and you would be surprised at what you can achieve.

TRADERS’: When talking to early stage traders, what is the most important advice you give for becoming a successful trader?
Harmer: Patience, patience, patience. That is what lets most traders down. They want to do as many trades as possible. If you have made money in the first hour of trading walk away. You do not have to sit there day in day out in front of a screen trading 20/30/40 times a day. It’s madness, and you will lose money.

TRADERS’: And what about currencies, do you foresee any big changes in Forex markets this last quarter?
Harmer: Lets hope the run up to Christmas will see more of a move in Currencies. I think it will, as we have been really quiet the latter part of the year.

TRADERS’: Thank you Carol, good luck and we hope to talk to you again soon.

For further information about Carol Harmer’s reports and training services visit www.charmercharts.com. On Friday 22nd November, Carol will offer a full day live workshop near her home in Marbella, Southern Spain. For details – visit www.marbellaschooloftrading.com
Trading Seasonality’s

Part 4: Thanksgiving Seasonality Good for Nasdaq 100 and Gold

In the US, there is an important holiday when all the family members sit around the table and feast. That’s Thanksgiving Day. A seasonality that has been known for decades has often ensured that on the following Friday – the so-called “Black Friday” – traders had enough money in their pockets to do their first Christmas shopping of the season. The two most promising candidates will be presented in this article.

During the so-called “Thanksgiving rally”, you would normally go long on the Wednesday preceding this holiday and close the corresponding position on the Friday of the following week. However, we have found that it is better to enter on the Monday between 15th and 22nd November and smooth this position after exactly ten days.

The Thanksgiving rally pattern has been known for more than 30 years. Consequently, it pays to buy a little earlier since by now very many traders have joined this short-term trade. This year, the buy signals need to be implemented on 18th November. Normally, the strategy is to be traded without any stop-loss orders since there are exit days on which to close your position.

Trading Idea for Nasdaq 100

The Nasdaq 100 recently outperformed the Dow and the S&P 500. An entry should include a mental stop of 40 points.
On 19th November, you will find a video analysis in the forum of the TRADERS’ website which also shows the entire system statistics of this strategy for other important indices.

**Trading Idea for Nasdaq 100**

Wall Street has been showing signs of weakness for a few weeks. Only the Nasdaq 100 Index has bravely hung on at a high level. So if you want to make active use of the Thanksgiving rally, the Nasdaq 100 would be a candidate for it. In the last ten years there have only been three losses with 2008 showing the maximum loss at -3.08 per cent. In the last three years it was possible to make quite a bit of money using this strategy. A corresponding position should be actively monitored and smoothed in the event of a loss of more than 40 points below the entry price. The average profit was 3.18 per cent, while a loss amounted to a charge of -1.18 per cent on the account. The hit rate in the last ten years was 70 per cent with a profit factor of 6.25.

**Trading Idea for Gold**

Gold is the second candidate that could be purchased based on Thanksgiving seasonality. The profit factor in this case is a phenomenal 22.14 with a hit rate of 80 per cent. Last year the biggest loss suffered was -10.18 points. Again, it is advisable to schedule a mental stop of 40 points. As is shown in Table 1, the average profit was more than 3.6 per cent, while the loss of 0.66 per cent was significantly lower than in the Nasdaq 100.

In both markets, Nasdaq 100 and Gold, the stop should be placed at breakeven no later than when half of the expected average profit is achieved in percentage terms. Especially at the beginning of the year, we saw downward movements of Gold from 50-100 dollars. Adjusting a stop avoids surprises that come unexpectedly.

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**Table 1: System Evaluation for Thanksgiving**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Nasdaq 100</th>
<th>Gold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit factor in %</td>
<td>6.25</td>
<td>22.14</td>
</tr>
<tr>
<td>Hit rate in %</td>
<td>70</td>
<td>80</td>
</tr>
<tr>
<td>Average Profit/Loss in %</td>
<td>2.68</td>
<td>5.54</td>
</tr>
<tr>
<td>% Kelly</td>
<td>58.81</td>
<td>76.39</td>
</tr>
<tr>
<td>Profit factor per day</td>
<td>0.6254</td>
<td>2.2143</td>
</tr>
<tr>
<td>Profit expectation in %</td>
<td>1.87</td>
<td>2.81</td>
</tr>
<tr>
<td>Geometric Mean in %</td>
<td>1.84</td>
<td>2.76</td>
</tr>
<tr>
<td>MEGAN Ratio</td>
<td>15.35</td>
<td>25.62</td>
</tr>
<tr>
<td>Average % result</td>
<td>1.87</td>
<td>2.81</td>
</tr>
<tr>
<td>Average % result per year</td>
<td>48.55</td>
<td>72.98</td>
</tr>
<tr>
<td>Average % profit</td>
<td>3.18</td>
<td>3.67</td>
</tr>
<tr>
<td>Average % loss</td>
<td>-1.18</td>
<td>-0.66</td>
</tr>
<tr>
<td>Average % profit per day</td>
<td>0.32</td>
<td>0.37</td>
</tr>
<tr>
<td>Average % loss per day</td>
<td>-0.12</td>
<td>-0.07</td>
</tr>
<tr>
<td>Largest % profit</td>
<td>5.39</td>
<td>10.31</td>
</tr>
<tr>
<td>Largest % loss</td>
<td>-3.08</td>
<td>-0.74</td>
</tr>
<tr>
<td>Number of wins</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Number of losses</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

For a holding period of ten days you have an unusually high profit factor. The average profit is three times as high as the average loss.

Source: www.captimizer.de
The Unhappy Marriage of the Market and the Government

How an Overactive Government Bent on War Can Wreck Your Portfolio

The relationship between governments and the markets is tense and can wipe billions from the market. When rumours that missiles had been fired at Syria hit the market the FTSE-100 plunged. Private investment guru Clem Chambers, CEO of ADVFN.com and author of “ADVFN Guide: A Beginner’s Guide to Value Investing”, takes a look at recent events and relates them to tested market theory.

The depression that the West is slowly climbing out of has a long chain of causality. If you follow it back far enough you reach the desire of Western governments to grow. Growth has to be funded – and the easy route is via credit expansion. More credit creates an increased tax base which can be tapped. That way, with more credit you can tax the future and push the problem from the present.

However, credit growth causes a cycle of boom and bust especially when the output of the application of credit is tapped off into the non-wealth creating public sector. One of the problems with growing the public sector is that as it gets bigger it gets harder to control. At some point it gets out of control altogether.
Such runaway government becomes a law unto itself and cannot be diverted or reined in by elected politicians. It takes on a purpose of little more than self-fulfilment. It will likely continue to grow, barely checked and often to the detriment of the markets. Runaway government is what killed the Soviet bloc, and it is now one of the key chronic problems facing the West.

Markets and government are intrinsically linked. Business people think they are tough and smart, which is why they are often tempted into politics. However, they are slouches compared to politicians and often get eaten alive in the realm of politics and government. This is why you should never back business against government.

**Just a Coincidence?**

**Director’s Buying At the Same Time**

Government will always win. Politicians wipe out whole industries, lock people in jail, go to war etc; business has no real power against government when push comes to shove. This is why you should listen to government and trade their position. What they say ultimately goes. But government is also slow to react so, if you can define the political course set upon, you can trade it for a long time and let it build.

This goes for all investments from Forex right down to small companies. The leviathan of government sets the agenda for a country’s economy; it is one of those big pictures. If government is green, buy into wind farms. If it is socialist invest in nursing homes and bridge builders. It’s not that difficult. It is simply extremely hard to downsize government once it has been grown. Turkey’s do not vote for Christmas, and neither do politicians. Traders are left out in the cold waiting for the changes needed to help the market grow.

The United States has suffered from runaway government more than most. It, for instance, spends $100m a year counting and measuring trees. This particularly stands out in its military sector where it is said to spend more money than the next 18 countries on defence, whilst 14 of those countries are said to be allies. It has so much military it cannot control its own aggression, and this has had a dramatic effect on the United States’ economy and markets.

**Will It Mean Governments Need to Shrink?**

**Interest Rates On the Rise**

The United States’ military action in the last decade has created 1/3rd of the whole US national debt. There would be no debt ceiling issue or sequester without the vast drain on American resources created by fighting in two countries whose total GDP was less than 0.3 per cent of the USA’s GDP – just think of how the market could be booming in this alternate reality!

The US has spent the equivalent of 100 years’ worth of Afghan and Iraqi GDP on trying to win its Middle East argument. This is a stand out example of runaway government and lost wealth creating opportunity. But just like the bubbles of credit, this kind of behaviour caused by runaway government is not sustainable. The end of the road is in sight as with wealth depleted, reality sets in. Reality is a platform for growth, the dissipation of perpetual war is not.

It is clear interest rates are going up and they will rise and with it debt laden governments will have to shrink whether from good housekeeping or necessity, and this will likely free up resources for wealth creation. The US needs to rebuild its shattered reputation and restructure its economy and it is likely that it can and will. If it will only do this by getting back to what it used to do so well, which is back to business. This will be excellent news for the world and your portfolio. Also, if it avoids getting embroiled in a conflict it can’t afford and can’t win, it will be a positive sign that the US can start to rebuild itself, at a juncture where it is realistic to imagine that it will, on its current trajectory, lose its primacy in the world.

Perhaps some would think the prospect of the US fighting itself into standstill and economic collapse would be a good thing. However the world will be a safer place if there is to be a return to economic growth in the west rather than further degeneration as that can only lead to more conflict. As such, the initial underwhelming response to intervention in Syria was a good omen for the future. The indicators that the great depression is coming to a close and coming thick and fast, but there have to be fundamental drivers to maintain the recovery outside the creation of new money through central bank intervention.

**Conclusion**

New money only creates wealth if there is the economic environment to apply the capital for private sector growth. Accordingly, the West needs to shift the balance back towards the private sector and the United States stepping back from its doctrine of perpetual war would be an important and positive change. If it does step back from the doctrine of perpetual war, the world will be a better and a richer place and the United States’ economic decline may be halted. «
The Halloween effect states that stocks should be purchased at the end of October and sold at the beginning of May. For all those who have their doubts about this market anomaly, Prof Jacobsen of Massey University has published a study proving beyond any doubt that such an anomaly does exist. This article gives a short overview of the results as well as of further improving approaches.

Using all available share prices data, he analysed 108 stock markets in different places and over different time periods. The upshot was that there is such a thing as the Halloween effect in nearly every stock market in the world. In 81 countries returns are higher from November to April than during the rest of the year, and in 35 of these countries the anomaly is statistically significant.

The scientific rigour applied to achieve such results is outstanding and beyond any criticism. Even when the time factor is taken into account, the Halloween effect stands up. To prove this, Jacobsen examined both 300-and 60-year periods as well as rolling 2.5 and 10-year periods to find out that in 82 per cent of all cases, the Halloween effect generated significantly higher returns than a Buy-and-Hold strategy. These findings, in particular the insight into which stock markets are suitable for a Halloween strategy, are helpful for investors (see Figure 1).

Selecting markets may be simple: Just take ten to 16 significant countries from the Jacobsen study, find the appropriate ETFs and buy these at the time of entry. The timing may be simple, too: Buy the ETFs or certificates on 31st October and sell them on 1st May.

Regarding timing we conducted a long term study covering a period of 40 years that suggested that the month of July was a better time to exit (see TRADERS’ 07/2013). Then, we carried out quite a few studies using indicators to find out the best times for entry and exit. Here the results generated by technical analysis were the more successful ones.

To determine how fund selection and technical analysis operate together, we have combined both results in a simulation.
For the simulation, we chose ten stock funds from countries that in 2002 were known as Halloween markets based on a scientific paper by Prof Jacobsen. These equity funds reflected the equity portfolio in the Halloween months for the entire period under consideration (2002-2013). From May to October, the proceeds from the previous period were invested in German fixed income assets (REXP ETF). The euro-denominated MSCI World served as a benchmark for the equity market with the REX performance index doing the same for the bond market. The strategies shown in Figure 2 are variations on the Halloween strategy with different funds and chart indicators for entry and exit times as well as, for comparison purposes, the conventional Halloween strategy with fixed times.

Conclusion
The Halloween markets after Jacobsen achieved an excess return of 2.25 per cent per year after deducting costs. However, the variable changeover times in combination with chart technique achieved an excess return of 3.37 per cent. The excess return of the Halloween Strategy over Buy-and-Hold is 8.92 per cent per year compared which we can confirm in 25-year studies on the DAX.

Implementation of the strategy takes time since a closer look at all the academic papers and statistics reveals a significant weakness: The success rate of 82 per cent over a period of ten years shows that in 18 per cent of cases you would have achieved a better result with a buy-and-hold strategy. This means that it is sometimes possible for the strategy not to be successful until the third or fourth year. Besides, knowledge of selection of the market or fund is necessary to actually choose funds that reflect the Halloween. The market currency and the funds play an essential role since currencies, too, may support or weaken the effect. For example, US stocks listed in the S&P 500 or Dow Jones are typical Halloween markets with a significant excess return, but at an annualised -4.23 per cent the EUR/USD exchange rate creates a negative Halloween effect, which means that the dollar-denominated Halloween markets become irrelevant to Europeans.

**F1) Strength of the Halloween Effect Worldwide**

Halloween markets that generated more than five per cent excess return. The bigger the blue circle, the higher the excess return compared to the Buy-and-Hold strategy.

Source: Jacobsen 2012

**F2) Investment Strategies Compared**

Risk-reward ratios of different strategies. The points stand for the following strategies: grey = Buy-and-Hold MSCI World in euro, yellow = mixed funds (67% MSCI World in euro, 33% REXP), green = Halloween strategy MSCI World in euro and REXP with fixed changeover times, orange = Buy-and-Hold REXP, blue = 4D Asset-Oscillator strategy (Halloween strategy MSCI World in euro and REXP with variable changeover times).

Source: Telestrader, own calculations
TRUST IN GLOBAL FINANCIAL INSTITUTIONS REMAINS NEGATIVE

Thomson Reuters announced the results of its proprietary Trust Index showing that trust in the Top 50 Global Financial institutions remained negative in the third quarter (-1.5 per cent), according to news and social media sentiment analysis, but regional differences have widened since the second quarter. So the institutions in Europe/UK saw modest third-quarter improvement in trust sentiment from -1.5 to -1.0 per cent, and are now on par with the Asian institutions which have led in trust scores for virtually all of 2013 (at -1.0 per cent for both quarters). At -1.6 per cent the institutions in North America were flat for the quarter, but had the lowest levels of confidence overall. On the other hand, the financial metrics indicate increased confidence in the sector, but regulatory activity shows no sign of abating.

Source: www.thomsonreuters.com

POSSIBILITIES OF US DOWNGRADE

The latest fiscal showdown in Washington could spark another downgrade of the U.S. credit rating even after the recent resolution, but investors aren’t sweating it. Standard & Poor’s made headlines and roiled world markets following the last debt ceiling crisis, in 2011, when it cut the United States’ sterling AAA rating to AA+. The rating agency cited concerns about the nation’s long-term debt and its dysfunctional policy making. But two years later, that downgrade has had little lasting impact. As in 2011, the possibility of a debt ceiling breach remains a scary prospect, but investors say the ratings agencies are largely an afterthought in the current crisis. The rating agencies took hits to their reputations following the financial crisis, having failed to flag signs of trouble in the housing market ahead of the crash. Five years later, the effects of these mistakes are still lingering.

Source: money.cnn.com; by James O’Toole

ALPARI SPONSORS WEST HAM UNITED FC

As part of its recently announced sponsorship of West Ham United FC for the 2013/2014 season, Alpari held a charity event benefitting “The English Theatre” in Frankfurt. As part of a friendly match against FSV Mainz 05, the entire West Ham team signed the new team jersey with the Alpari logo. The jersey was later auctioned off by West Ham fans, which raised proceeds of more than 1600 euros – including a donation by Alpari – all of which was gifted to the “English Theatre” in Frankfurt.

Source: www.alpari.co.uk
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TRADER TOP 100

DAN ZANGER’s

ChartPattern.com

HOME OF THE ZANGER REPORT
APPLE DETHRONES COCA-COLA AS TOP GLOBAL BRAND

It seems technology companies have taken the fizz out of Coca-Cola. Apple is this year’s Best Global Brand, ending Coca-Cola’s 13-year hold on the No. 1 spot. Google jumped to second, while the soft-drink giant fell to third. Brand rankings are based on multiple factors, including how well the company’s products or services perform financially and how well it influences consumers. Overall, technology companies dominated this year’s Best Global Brand list, snagging six of the top 10 spots. Joining Apple and Google in the top 10 are IBM (No. 4), Microsoft (No. 5), Samsung (No. 8) and Intel (No. 9).

Source: www.usatoday.com; by Brett Molina

INDIA SUFFERS CAD TROUBLE

As the government gets down to addressing the economic difficulties India faces, its attention cannot but focus on the current account deficit (CAD), the excess of foreign exchange expenditure relative to forex earnings and receipts such as remittances. It is that deficit that is the “fundamental” that underlies the rupee’s weakness and triggers collateral effects that threaten much damage. Over recent quarters the deficit has not just been high but also rising relative to GDP, reaching a record of well above 6 per cent in the last quarter of calendar year 2012. Moreover, it is well above the 2.5 to 3 per cent of GDP the government believe can be financed with “normal” capital inflows.

Source: www.thehindu.com; by C P Chandrasekhar

BANK OF ENGLAND PLANS FOR PLASTIC NOTES

Plastic bank notes could start being issued within three years under plans being drawn up by the Bank of England. Polymer notes are cleaner, more secure and because they last longer, £10 million a year cheaper than the cotton paper currently used. The proposals could see new-style £5 and £10 notes starting to replace paper currency for the first time in the Bank’s 300-year history. If produced, they would also be smaller, in line with other countries, with the £10 reducing in size to become slightly larger than euro notes.

Source: www.oney.aol.co.uk

BLACKBERRY POSTS RECORD DROP IN REVENUE

BlackBerry is committed to completing a series of major changes quickly after posting a nearly billion-dollar loss and a 45 per cent drop in revenue for the second quarter. The troubled smartphone company reported a loss of $965 million and revenue of $1.6 billion, in line with what it warned when it surprised the market by preleasing dismal earnings projections last week and announcing 4,500 layoffs. The company posted revenue of $2.9 billion in Q2 last year.

Source: www.business.time.com
MIDDLE EAST RETAIL BANKING FORUM

With a blend of incisive commentary and lively debate, the Middle East Retail Banking Forum 2014 on January 21 and 22 will be a vibrant platform for attracting decision-makers from the retail sector, aiming to become one of the best deal-making and networking events of the year, with helping to overcome the most recent retail challenges in the Middle East region and sharing the best practices and solutions to contribute in shaping the industry for tomorrow. TRADERS’ is media partner of the event. For more information on the event or to register to attend, visit: www.globalleadingconferences.com/conferences/middle-east-retail-banking-2014

A STOCK CALLED TWTRQ WAS UP AS MUCH AS 1500% BECAUSE PEOPLE THOUGHT IT WAS TWITTER

Twitter filed to go public on Friday, 4 October, choosing the stock ticker TWTR. Twitter shares are expected to start trading before Thanksgiving this year. But it looks like some investors are a bit confused. A company called Tweeter Home Entertainment, which has the stock ticker TWTRQ, was up as much as 1500 per cent today, but fluctuated wildly. It ended the day up more than 684 per cent. The stock was halted for a while after several outlets reported the news.

Source: www.businessinsider.com, written by Steve Kovach
WHY CRUDE PRICE IS FALLING

OPEC trimmed its 2014 forecast of demand for crude produced by its 12 member countries by 300,000 barrels per day to 29.61 million b/d and left its estimate for this year unchanged at 29.93 million b/d. Both forecasts were below the current level of production, which had fallen to 30.23 million b/d in August, a drop of 124,000 b/d from July. On a quarterly basis, OPEC sees the call on its own crude averaging 30.3 million b/d in the third quarter of 2013 and 30.72 million b/d in the fourth.

Source: www.platts.com; by Margaret McQuaile & Dan Lalor

LEADING US ECONOMIC INDICATORS
ROSE IN SPITE OF HIGHER BORROWING COSTS

An index of U.S. leading indicators advanced by more than expected in August as the economy shrugged off higher borrowing costs and the lingering impact of tax increases and Washington budget cuts, that posed a headwind for U.S. growth and hiring. Leading Economic Index gained 0.7 percent to 96.6 last month, compared to a 0.5 per cent rise in July.

Source: www.dailyfinance.com

TWITTER DISCLOSED
FINANCIAL PRIVACY FOR IPO

Twitter has unsealed the documents for its planned initial public offering of stock and hopes to raise up to $1 billion in one of the year’s most eagerly awaited stock market debuts. The documents revealed for the first time how much money the social networking company makes. Founded in 2006, Twitter has never turned a profit and has an uninterrupted history of losses totalling $419 million since its inception. But its revenue is growing. Twitter disclosed its filed confidential papers to start the IPO process. The company was taking advantage of federal legislation passed last year that allows companies with less than $1 billion in revenue in its previous fiscal year to avoid submitting public IPO documents.

Source: www.timesofindia.indiatimes.com
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New Products

News from the World of Technology

- Justine Williams-Lara, trader, educator, coach, author of *Trading Chaos*, and president of Profitunity Trading Group, has created a 90-minute DVD course on how to count Elliott waves using simple and precise techniques on current charts in all time frames and markets including futures, stocks, ETFs, indexes, and forex. The DVD includes real-time examples of counting Elliott waves. It also teaches how to utilise Profitunity indicators such as fractals and the Awesome Oscillator (AO) to help identify the underlying structure of the current market. Even if a trader already has a profitable trading system, the DVD is designed to help improve the trader’s ability to spot the immediate trend and fine-tune entries and exits. Additional details can be found at www.profitunity.com

- KeyFutures has released a new app that allows the user to look through the layers or legs of commodity spreads on a mobile device. With its seasonal indicator, the user can plan spread positions. It allows synchronisation and backup of a spread’s settings and notes among all the user’s devices through iCloud. The interface gives the user tools for following and choosing spreads for trading. Common technical analysis indicators can be used, and the user can write notes and draw. A ruler tool calculates price & time. For more information, please visit www.key-futures.com

- AbleSys’ AbleTrend add-on for eSignal has been released with eSignal version 11.6, built in as a part of the new eSignal platform. AbleTrend indicators now work seamlessly in eSignal along with other eSignal indicators. AbleTrend provides specific buy, sell, stop, and exit trading signals for any market – including stocks, futures, forex, and more. A 30-day free trial for the AbleTrend add-on for eSignal is available as an introductory promotion. For more details, visit www.ablesys.com

- Modulus has introduced Brainwave Trader, which provides individualised neurofeedback training to help traders enhance their trading performance and reduce losses. Electroencephalography (EEG) signals are fed from a headset into a software application, which interprets the raw signals and correlates the trader’s brainwave patterns with the trader’s profits & losses in real-time, using a real-time market data connection. The software allows the trader to trade normally while brainwave patterns are being analysed. The results could help the trader find the optimal state of mental awareness that is most highly correlated with profitable trading. The software costs $299. EEG headsets are sold separately, starting at $79. For more details visit www.modulusfe.com/brainwave

- Stricknet is a daily download service for stock option data. The data contains all options for stocks and ETFs. It offers more than ten years of historical options data. The data includes option symbol, stock symbol, last sale, volume, strike, bid, ask, open interest, year of expiration.
In addition, end-of-day quotes are offered for more than 30,000 stocks from July 2005 to present. Historical data prices start at $97. The end-of-day daily download service starts at $19.95 a month. Additional information you can find on www.stricknet.com

» Trading Diary is a trading journal app for the iPad from PlumSquare Software for stock, futures, options, and forex trading. Since the iPad is portable, it facilitates keeping a trading journal. The app grades entries, exits, and overall performance. The software is based on the principles of risk management, recordkeeping, and grading performance, as outlined by well-known trading psychologist Alexander Elder, using technical analysis to manage stock trades. The software maintains a trader’s privacy by storing sensitive trading data on the iPad itself, rather than on the company’s server. The Trading Diary app is available on the iTunes store for $179.99. Additional information you can find on www.tradingdiary.pro

» Barchart.com, Inc. has released their new flagship market data and commodities trading platform, Barchart Trader. Featuring real-time price data from major futures and equities exchanges, advanced charting, streaming news, analytics and integrated electronic trading, Barchart Trader provides a complete set of features for commodities traders of all types.

Barchart Trader was built from the ground up with a focus on providing a low learning curve and clean interface without sacrificing any of the features that users expect from a professional trading workstation. With CQG trading integration, Barchart Trader supports trading accounts for over 40 different brokerages and FCMs. Other key features include:

• Full real-time market coverage of all major commodities and equities exchanges, as well as indices, forex and mutual funds
• Pre-configured workspace templates and workspace sharing
• Multiple platform themes/colour schemes to choose from
• and many more

Barchart Trader is available at www.barchart.com/trader. Users can register for a free version with delayed streaming and historical market data or subscribe to one of the real-time versions.

» FXstreet.com announced the launch of FXBeat, a news and commentary feed conducted by Jamie Coleman and Gerry Davies, the analysts behind Forex Live and FXBriefs. Jamie Coleman and Gerry Davies and their team have been market participants and professional market observers for decades. As former traders at some of the world’s largest banks, and analysts at some of the market’s most respected firms, they combine experience and judgment to help traders navigate the global FX markets. Around 80 pieces of news will be published every day, with a minimum of 50 pieces when activity in the market is low. The FXBeat feed informs and comment on events first, in a fast and fun way. It differentiates from a newswire as their producers are not objectively describing the market but giving their esteemed perspective into what is important and what is not. In doing so, they often make fun of the markets illustrating a point with a whimsical graphic or a YouTube video. They pioneered the format, dating back to 2007, and now they join FXstreet in order to combine both team’s strengths. FXBeat can be found at www.fxstreet.com/news/fxbeat
TradeShark®

Accurate Short-Term Market Forecasts Based on Global Intermarket Dynamics

Most individual traders find it difficult to compete with financial institutions, commercials and professional traders on the basis of fundamentals so they turn to charts and technical analysis and software to analyse the one element – price – that incorporates everything known about a market. TradeShark goes a step further by analysing the underlying relationships among markets and using this data to produce predictive indicators that reveal accurate short-term market forecasts without requiring any programming or other complex steps.

**Installation**

Installing TradeShark is quick and easy (about five minutes). Simply follow the directions that appear on screen as you download and install. The suggested system requirements are:

- Operating System: XP (SP3), Vista (SP1), 7, 8
- Processor: 1.4 GHz
- Memory: 1 GB (XP), 2 GB (Vista, 7)
- Screen Resolution: 1024x768
- Hard Disk: Approximately 1 GB of available hard-disk space

**Data Provider**

The TradersOnly DataCenter (TradersOnly.com) is the preferred data provider for TradeShark. TradersOnly provides inexpensive, top-quality market data for various markets in the United States, Canada, India, Australia, and the United Kingdom. The TradersOnly data is provided in a format designed specifically for use with TradeShark to make the data handling experience as transparent and easy as possible.

**Overview**

TradeShark is unique, cutting-edge trading software that applies the pattern recognition capabilities of neural networks to intermarket analysis. The end result is TradeShark’s ability to produce predictive, leading technical indicators that make highly accurate, short-term forecasts of price trends in forex, equities, commodities, futures, and ETF markets around the globe.

Intuitively, traders know that today’s globally interconnected markets have considerable influence on each other. If understood, these multi-market connections would give traders an unprecedented trading advantage. This is particularly true now, as most traders continue to focus narrowly on single-market technical indicators that look primarily at one market at a time. While this approach has been the mainstay of technical analysis for decades, it fails to address these powerful intermarket relationships that drive today’s global markets.

Yet, discovering these relationships and being able to capitalise on them remains elusive for even those traders aware of the intertwined nature of the global markets, simply because there is no easy way for these
traders to do it on their own. That’s where TradeShark really shines. Its developers have harnessed the power of computers to find these underlying, subtle relationships that can’t be seen by the human eye while looking at price charts. Then, using highly-sophisticated, patented, artificial intelligence technologies involving the application of neural networks to global intermarket data, TradeShark provides its users with highly accurate short term market forecasts based on these underlying, global intermarket dynamics.

TradeShark is ready to run right out of the box. All of the research and development behind the software’s proprietary technologies and trend forecasting indicators has been done for you. This involves running countless calculations through a consistently updated neural network. This process, developed and refined over more than two decades by TradeShark’s development team, effectively transforms technical analysis (as we have known it) from its historical focus on individual markets into an intermarket framework that is more effective, given the nature of today’s globally intertwined markets.

Through its intermarket approach, TradeShark creates leading technical indicators that have true predictive capabilities. They are easy to use and do not require a trader to do any programming or juggling of parameters – just drag and drop a specific predictive indicator on a chart and your intermarket analysis can begin. This is TradeShark in a nutshell.

What sets TradeShark apart from other trading software is its use of highly sophisticated algorithms in a neural network process that creates true predictive indicators of price trends based on the intermarket dynamics of the most influential 25 related markets on each “target” market under analysis. These predictive capabilities provide traders with insight about potential market turning points which can give traders an early warning of impending trend changes as they are just developing – instead of two or three days too late.

Predictive Indicators
TradeShark offers more than a dozen proprietary, technical indicators that analyse price movements to
reveal changes in market strength, predict the next day’s high and low trading range and provide a forecast, based on the software’s proprietary Neural Index which shows where prices might close in the next two days. Tests over many years and in different market conditions have shown a consistent accuracy rate for the Neural Index of around 80 per cent. For the purpose of this review, a mix of stocks, futures and forex markets were selected and tested from Jan 1, 2013 through mid-August 2013. The results from these most recent seven months of 2013 indicate the accuracy published on the TradeShark website is realistic.

TradeShark also includes the trademarked Intelliscan® feature that provides about two dozen distinct filters for scanning markets based on various predictive indicators. These simple but highly effective filters allow you to find trading opportunities based on your chosen criteria and provide alerts about potential trend changes to allow you to make or modify trades based on the most current trend forecasts.

The graphical interface provides sharp, clear charts that can be tailored to whatever type of bar/candle chart with whatever colours you want to use. You can build your own templates with whatever best suits your style or you can use one of the templates provided. You can develop your own portfolio of markets that you want to follow and click through multiple charts of these markets with ease.

**Educational Partners**

Until this release, TradeShark was available only to a limited number of professional traders. One of them is Larry Williams, a legendary trader known for developing innovative trading concepts and creative indicators over the last 50 years, writing numerous trading books, presenting seminars worldwide and winning competitive trading championships.

Another well-known name in trading circles, Jack Schwager, the author of the Market Wizards books, as well as other trading books and a fund trading advisor, has also had access to TradeShark in advance of its availability to the general public. Jack Schwager offers several of his proprietary indicators exclusively on the TradeShark platform. These indicators have never been available to the general public, so this is a very exciting development.

**Summary**

Years ago drivers looking under the hood of their cars could identify the fan belt, spark plugs, dip stick, and other essential elements to perform most of the routine maintenance on their vehicles. It was pretty much a do-it-yourself project to take care of a vehicle.

Today’s cars are so complex and sophisticated that it requires a trained technician and a computer diagnosis whenever anything needs to be fixed. Looking under the hood won’t help most people much. Now, all you have to do is start the engine and take off. It still takes skill to drive the vehicle but, for most people, the mechanical aspects are best left in the hands of experts.

Similarly, TradeShark handles all the complex, sophisticated global intermarket analysis “under the hood” and then presents the key findings through a variety of predictive indicators that reflect where prices are expected to head. You still have to be the driver who makes the decisions about when and where to go, but you don’t have to do any programming or even know anything about neural networks or intermarket analysis.

TradeShark gives you clues about the direction to go with a roadmap of indicators pointing the way. Your goal as a trader is to make money from the markets. Now, with TradeShark you can accomplish this more confidently, more quickly and with a greater degree of predictive accuracy.
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Mike Bellafiore is the co-founder of SMB Capital, a proprietary trading firm in New York City; SMBU, their education arm; and SMB Systems Trading, their algorithmic trading division. He is the author of “the trading classic” One Good Trade. His firm has regularly appeared on CNBC, Bloomberg TV, CNN Money, Fox Business, the BBC, and in the Wall Street Journal and the street.com. SMB’s trader training program was highlighted on the TV documentary Wall Street Warriors. An international lecturer, Mr. Bellafiore has built trader training programs globally for hedge funds, prop trading desks, and retail traders, working with some of the world’s largest traders. He lives on the Upper West Side, with his wife and new born son.

The Playbook
An Inside Look at How to Think Like a Professional Trader
by Mike Bellafiore

Want to become a truly great trader – either for yourself or for a proprietary trading firm? This book will help you get there. The only book of its kind, it’s based on one of most successful trader training programs – and it’s the closest thing to signing up for a “trader boot camp” yourself! You’ll learn by watching new traders walk through actual trades, explain what they’ve tried to do, and try to survive brutally tough expert critiques.

One trade at a time, you’ll discover how professional traders must think in order to succeed “under fire,” how they assess their own performance, and how they work relentlessly to improve. Using concrete, actionable setups drawn from his extensive trading and training experience, Mike Bellafiore walks through an extraordinary array of trades, showing readers how to maximize profits and avoid disastrous hidden pitfalls.

Bellafiore covers support plays, bull-and-bear flags, opening drives, important intraday levels, bounce and fade trades, pullbacks, scalps, technical opportunities, consolidation, relative strength, market trades, and more. He also presents indispensable insights on
psychology and trader development, based on his work with hundreds of traders on a major commodity exchange and an elite prop firm’s trading desk. Packed with colour, personality, and realism, there’s never been a more exciting guide to real-world trading – or a more valuable one!

In this book, Mike Bellafiore will help you:

• Build a trading PlayBook that builds from your strengths.
• Trade bigger, with a proprietary trading risk system.
• Develop a methodology to make trading decisions.
• Understand what it takes to be a pro trader by reading about many successful pros from SMB Capital.
• Avoid “intern-level” mistakes their pro traders have made in real-time.
• See the “Future of Trading” and what you need to do to succeed.
• Remember to be grateful for your opportunity to trade and invest. «

Bibliography

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Every active trader looks at the condition of the market – in general he focuses on the development of different sectors, ETFs as well as single stocks. The use of watchlists as well as specific websites, that cover the current market situation, are very common. You get an even clearer picture with the help of so-called “heatmaps”. The development of certain parameters like price, volume or relative strength in relation to an index are displayed in different colours and therefore the trader gets all relevant information at one glance – depending on his time frame. The app StockTouch from Visible Market fulfills this requirements very well and the newest version for the iPad and the iPhone is available since June 2013.

Range of Functions
StockTouch can be installed on the iPad directly from the app store and can be used immediately. The first screen clarifies the main function of this tool: heatmaps. Figure 1 shows that the standard settings display the 900 biggest US-stocks according to their performance in various colours. The division in nine sectors helps the user to get a quick overview of price development. The time frame ranges from one day to five years and therefore the app is interesting for short term traders as well as the classical investor.

The strength of the app in connection with a tablet shows if you look closer at a certain stock of a sector: With one touch on the screen you have an overview of the
particular sector and another click leads you directly to the overview of the particular stock that you wish to analyse in detail. Swipe movements make it all fun and there is no latency. Figure 2 shows the overview of the single stocks and the included information:

- line chart (intraday up to five years at maximum), including historical performance
- open, high, low, close, current price
- market capitalisation
- trading volume
- PER, dividend yield
- Company-related news

The information is updated automatically every five minutes and it is accompanied by an acoustic signal; therefore the trader is always up to date during the day. A very helpful detail is the uncomplicated inclusion of single stocks into an individual watchlist that is available in a separate heatmap. We have to highlight the fact that the presented functions are not restricted to the top 900 US-stocks but heatmaps can be created for the 900 leading international dividend stocks and even ETFs – and therefore alone the potential user group of StockTouch will increase.

Interesting Information Perfectly Processed

We want to show you the additional information and possibilities of the app in Figure 3: You see the trading activity on a weekly basis for the 100 biggest ETFs. The strength of a display with a heatmap is obvious – the user gets an immediate overview of the ETFs that have a trading volume above or below average and he can then include this information in his analysis and trading ideas. Another option of the app is the relative strength in relation to the S&P 500.
time frames. If you want to know the performance in relation to the average of a particular sector, you can do so with only one touch. The favourites are highlighted and therefore the analysis of your personal “darlings” respectively portfolio-members is even easier and faster.

**Individual Selections**
All users who want to adapt the selection criteria have some interesting possibilities with StockTouch to optimise the visual display. Heatmap can display the different stocks sorted by alphabetic order, beginning with the largest market capitalisation to the smallest or by the size of the price development per period as well as by the trading volume. This is organisation and clarity at its best.

**Fundamental Key Figures**
An additional highlight of StockMap are the two heatmaps for long term oriented market participants: the fundamental key figures PER and dividend yield. Figure 4 shows the dividend yields of the largest US-stocks, starting with the lowest PER to the highest PER. The key figures are shown for the sector as well as for the single stock and enable a fundamental overview. Our favourites are graphically highlighted and therefore we get an optimal overview.

**Great App with First-Class Graphic**
The app StockTouch is very easy to use and has information depth that is presented visually in a perfect way. If you include heatmaps in your daily analysis routine you will never stop using it – because we like information that is presented pleasantly and wisely. And this app fulfils this requirement in any way! Stock Touch is a free app that should be on every iPhone and iPad!
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Part 2: Covered Call Writing

In the first part of this two-part series of articles (TRADERS’ 10/2013), the author had presented the main features of the increasingly popular Weekly Options, explaining the basics as well as their pros and cons. In the second part he will now be turning to a specific strategy that can be implemented by using weekly options. It is one of the most widely used strategy implemented with options: classic covered call writing. This is a combination of the purchase of stocks and the simultaneous sale of call options.
First this note: Any strategy presented on a few pages of a magazine article can only be viewed as an introduction to a strategy and not a ready-made trading system. The strategy described here is designed to provide readers a basis for their own continued research and consideration and is by no means meant to be implemented right after perusal.

Covered Call Writing
The term “covered call writing” can best be described as “sale of a covered call option”. This strategy is as simple as it is lucrative and therefore is a staple investment of many professional market participants. However, very few European-based private investors use this strategy, which is no doubt due to their lack of knowledge about its many possibilities.

Basics
Covered call writing is an option trading strategy that includes the simultaneous purchase of stocks or ETFs and the sale of related call options. A brief excursion into the theory of options may be in order here: As a rule, stock options and options on ETFs refer to 100 shares. So in order to be able to sell a covered call option, a trader always needs to have 100 corresponding shares or ETFs. The motivation behind the sale of a covered call is to achieve an additional return regardless of the performance of the stock or ETF itself. Let us look at a simple example:

A trader owns 100 shares of XYZ, whose value currently stands at $100. He now sells a call option with a strike price of $105 and a maturity of 50 days. In return, he will receive a premium of one dollar a share for a total of $100.

If the stock does not rise above 105 dollars by the expiry date of the option in 50 days’ time, the call option will expire worthless and the trader has made $100. This corresponds to an additional income of one per cent (100 shares at 100 dollars each = 10,000 dollars, one per cent of which equals 100 dollars). But what happens if the stock rises beyond the 105 dollars assumed here? In that case the trader, who is both the owner of the shares and the seller of the call option, needs to sell the shares at a price of 105 dollars. In such a case we speak of his shares getting “called”. But that is no problem. The trader has made a profit of five dollars a share (an increase from $100 to $105) plus an additional profit of one dollar a share from the sale of the call option, adding up to a total profit of six dollars a share. This constitutes a return of six per cent within 50 days.

Let’s now also consider the case involving a stock dropping within the original maturity of the option. Again, the trader makes a dollar a share from the sale of the call option since the latter will expire worthless at the end of the original maturity. So his risk is only in the decline of the share price and this risk he would also be exposed to if he didn’t sell the call option. So the strategy of the covered call writing provides the trader with additional income in the form of the premium.

Rights and Obligations in Call Options
The buyer of a call option has the right but not the obligation to buy the underlying asset (stock or ETF) at a specified price (strike) within a defined original maturity (term of the option). He can exercise this right (but does not have to) during the term of the option (American-style option) or at the expiry date (European-style option), but he doesn’t have to.

The seller of a call option has the obligation to sell the underlying at a certain strike price during the original maturity of the option if the buyer of the option calls on him to do so.

Jens Rabe
Jens Rabe received his market training in Frankfurt and Chicago and had the opportunity to work, amongst other places, on the trading floor of the CBOT. He is the author of the (German-language) book, “Option Strategies for the Practical Trader – How to Secure a Steady Income on the Stock Market.”

www.optionsstrategien.com
from the sale of the option. It is no protection against a
decline in the share price since the premium collected
from the sale of the call option is usually so small that it
does not provide adequate compensation for a possible
loss of the shares in case of a sharp price decline. Here,
the trader needs to protect himself by other means – for
example, by using stops. If share prices rise markedly,
however, such a strategy will curtail profit since – as
shown in the example above – the trader needs to sell
the shares to the buyer of the call option at the agreed-
upon price.

The question must be asked though how often
extreme price rises within a short period of time are
a realistic scenario. Especially in today’s fast-paced
trading world where a trader feels like a long term
investor if he holds a stock for more than a few days, the
sale of covered call options seems to be a good strategy
since it can easily be implemented from a psychological
perspective.

Implementation with Weekly Options
How can this strategy now be applied by using weekly
options and what benefits can be derived from this?
Again, a concrete example will serve to illustrate this.

As a tool we will consider the “small” ETF on the
S&P 500 Index, the SPY. The SPY is an ETF on the
performance of the S&P 500 Index. The value of the
ETF represents one tenth of the index. An overview
of which stocks and ETFs include weekly options can
be found on the website of the CBOE (Chicago Board
Options Exchange: www.cboe.com/micro/weeklys/
availableweeklys.aspx).

Suppose a trader continues to be bullish on the
performance of the S&P 500 and therefore buys 100
SPY at a price of $154.97 each. This means that his total
investment is $15,497.

Currently (18th March 2013), options with different
maturities are available for the SPY, including several
weekly options. The trader chooses to sell options with
a maturity of ten days (expiry date 28th Mar 2013) and
a strike of 156. For this option, he will receive a total
premium of $72.50. At first glance, this may not seem
much, but let’s look at the numbers again in detail:

| Purchase Price: | $15,497 |
| Premium Income: | $72.50  |
| Strike Price of Option: | 156 |

The premium income equals 0.46 per cent of the
purchase price and so constitutes a correspondingly high
“interest yield” within only ten days or seven trading
days. Now how will the investment be performing in the
coming days in relation to the performance of the S&P
500? Incidentally, once the article is published you can
check and see as a reader how this example has developed in reality.

Scenario A: S&P Remains Unchanged
In an unchanged market, the trader
only collects the premium of the
call option sold, earning the above-
mentioned 0.46 per cent within
the coming seven trading days.
Although this appears to be a bit of
a naive calculation, a profit of 0.46 per
cent in seven trading days amounts
to an annualised profit of 16.42 per
cent, almost double the average of
what you can expect to make in the
stock market.

Scenario B: S&P Rises Above 1560 (SPY 156)
In this case, the trader can again
keep the collected premium of 0.46
per cent. At the same time, he makes a profit of $1.03 per purchased SPY, making another $103 or 0.66 per cent. Overall, this amounts to a profit of 1.12 per cent or $175.50. Again, these figures may seem small, but they constitute an annualised return in excess of 43 per cent. And that in turn is a result that most traders can only dream of.

Scenario C: S&P 500 Falls
Of course, the trader may again keep the collected premium and secure the profit of $72.50 since the call option will expire worthless. As a result, he will receive compensation of 0.72 points in the SPY for the possible loss of value. This corresponds to nearly seven points in the S&P 500. The trader will not suffer any loss up to a decline of the SPY from currently 154.97 to 154.25. However, if the decline goes any further, he will start making a loss – regardless of whether he has sold call options or not; after all, even without the sale of the latter he would suffer losses with a long position in the SPY if the price were to decline.

Summing up the results of all three scenarios, we can say that the sale of covered call options provides the trader with an additional return that, while appearing to be small at first glance, is quite remarkable on closer inspection. While the sale of covered options does not directly act as a hedge against price slumps, it should be noted that this is not the motivation behind such a strategy.

Benefits of Weekly Options
But what is the special advantage of weekly options with this strategy? In the author’s experience, two things stand out here: First, it is the relatively high premium collected upon the sale when compared to standard options, and secondly, it is the high degree of flexibility resulting from the short maturity of the options.

High Premiums on Weekly Options
As mentioned above, a premium income of less than $100 as shown in the example above, seems rather low compared to the original amount spent on the purchase of the SPY. However, a closer look at the mechanics behind the scenes reveals that the high premiums are justified by the short time to expiration, which increases the time decay of the option. Consequently, the premium income is substantial enough to offset the potential losses in the event of a significant price decline.

Overall, the sale of covered call options provides an additional return that can be quite substantial, even if it appears small at first glance. This strategy is particularly useful for traders who want to take advantage of the option market without committing to a long-term position. By selling call options, traders can generate income and potentially benefit from price movements in the underlying asset, while limiting their downside risk.
Covered-call strategies with weekly options offer traders a significant increase in performance compared to exclusive buy-and-hold strategies.

of the ETFs. However, it has also been shown that the consistent and continued writing of such weekly options may yield a rather high annualised return, especially when compared to a conventional standard option. Again, the above example will serve as a comparison.

Scenario A: Weekly Option with a Maturity of Ten Days, Strike 156
Premium Income: $72.50
This represents a premium of $7.25 for each remaining day of maturity.

Scenario B: Standard Option with a Maturity of 33 Days
Premium Income: $164.50
This represents a premium of $4.98 for each remaining day of maturity.

So the weekly option provides the trader with a premium income that is 45 per cent (!) ($7.25 versus $4.98) higher than is the case with the sale of a standard option. That alone would be a good reason to switch henceforth from standard options to weekly options when selling covered call options.

Increased Flexibility
There is another significant benefit to trading weekly options as opposed to standard options, and that has to do with flexibility. Until now, traders applying covered-call strategies, have always been somewhat inflexible with regard to the price performance of the underlying. It was only possible to anticipate major changes – upwards or downwards – by taking elaborate adjustment measures. Depending on the underlying of the ETF or stock, a trader can now use weekly options to respond to the price action considerably more flexibly. Since the options expire within a few trading days, he can keep selling new call options, responding to the changes in the price of the underlying. When prices are rising, new options will simply be sold at higher strike prices; when prices are falling, the strikes of the options will be adjusted downwards. This allows any premium incomes to be generated in a much more stable manner, causing the overall return to increase as well.

Conclusion
Covered-call strategies with weekly options offer traders a significant increase in performance compared to exclusive buy-and-hold strategies. The short maturities may also enable active traders holding positions only in price swings of very few days and weeks to generate additional income. Compared to a buy-and-hold strategy, such strategies may seem more labour-intensive but the extra income that can be generated that way will no doubt justify the effort. This example shows that just the simple principle of selling covered options can cause a return to be achieved that is well above any conventional expectations. However, this should not lead novices in this field to now assume that the value of their portfolios can be increased exponentially. But such strategies are definitely suitable as a basic building block for a steady market income.
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Educating and Empowering Professional Traders
Fibonacci Swing Strategy

How to Determine Realistic Price Targets

Everywhere in daily life, we encounter the scholarly work of the greatest mathematician of the Middle Ages, Leonardo of Pisa – whether we are conscious of it or not. So-called “Fibonacci Ratios” may also provide a valuable service in the technical analysis of financial markets when it comes to determining entry signals and price targets. An effective tool is a simple trading approach based on a combination of retracements and projections.

Retracements versus Projections

Whether it is just superstition or some kind of a law of nature, the fact of the matter is that the series of numbers introduced by Leonardo of Pisa, better known as Fibonacci, and the ratios that can be derived from them can also be applied to the stock market. Fibonacci tools can be used both on the price and on the time level. However, the method discussed here is limited to their application on the price level.

Both retracements and Fibonacci projections are being used here. The former describe the magnitude of the correction that is used for entry. By contrast, projections serve to determine important price targets following a successful entry. Both elements are based on the assumption that certain ratios are brought to bear not only in nature but also on the financial markets. Readers watching major indices like the DAX or the S&P 500 but also other liquid markets and individual

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stocks will confirm that, more often than not, Fibonacci levels do indeed indicate distinctive (turning) points in the development of the share price. It does not matter whether it is a weekly or a 5-minute chart – the Fibonacci ratios can be used with all time frames.

Objective of the Strategy

The philosophy behind the following trading strategy can be explained without difficulty – after all, it is based on the traditional definition of a trend according to Charles Dow. Within an intact trend, any movement that is reflected in the price development over time, will be corrected to a certain extent before it can continue. Resembling the way living beings breathe in and breathe out, price development consists of a sequence of movements and corrections. Traders who want to trade the trend may – in keeping with the pro-cyclical approach – use breakouts for entry. However, an alternative that is more interesting from a risk-reward perspective is provided by an entry into the correction. This reduces the risk while increasing the profit potential. After completion of the correction, the latter can be identified by using the projection technique. Here, the original impulse movement is added to the low of the correction and multiplied by 1.272 or 1.618 (long version) or subtracted accordingly from the high of the correction (short version).

The Setup

The setup of the Fibonacci swing method is relatively simple and can be traded on all liquid markets and time frames. First, an impulse movement needs to be identified. This movement will be there if it is an upward or sharply downward one comprising one or more large candles whose strength stands out from the previous price action.
Once the impulse movement begins to falter and transitions into an opposite correction, the moment of the Fibonacci retracements has arrived. Traders can apply the retracement tool to the high and low of the movement, hereby identifying the potential correction goals. The most important levels here are the 38.2 per cent and the 61.8 per cent retracements. At this point, an obvious choice is the placing of limit orders which will be executed automatically once those levels are reached. Alternatively, traders may also wait for a confirmation at the respective Fibonacci retracements before opening a trade. This will reduce the error rate but also increase the amount of time required to watch market action.

The stop should be placed just below the low of the impulse movement (long version; just above the high for the short version). Once the extreme point of the original impulse movement is reached or exceeded, the stop should be moved to breakeven. The exit from the trade will be made at the 127.2 per cent projection level – the minimum price target – or at the 161.8 per cent projection level. The respective risk-reward ratios are shown in Figure 1.

Concrete Examples
The example in Figure 2 is designed to show specifically how the trading strategy is used in practice. It is a 5-minute chart of the S&P 500 for the period of 25th to 27th March 2013. On 25th March, there was a dynamic rise of nearly ten points between 6.15 pm and 7 pm.

Then a correction of this movement set in so that traders were able to bet on a resurgence by placing a buy limit at the 61.8 per cent retracement. The low of the aforementioned movement

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**Figure 1** Schematic Representation of the Fibonacci Swing Strategy (Long Version)

- **Entry A** (38.2%)
- **Entry B** (61.8%)
- **Stop**
- **RRR (A) = 2.1**
- **RRR (B) = 3.3**
- **Target 1** (127.2%)
- **RRR (A) = 0.62**
- **RRR (B) = 1.62**
- **Stop at Break Even**

**Figure 2** S&P 500 (5-Minute Chart)

In the S&P 500, there was a dynamic upward momentum on 25th March. The following correction seemed an excellent choice for a long entry at the 61.8% Fibonacci retracement (Point 1). The stop was placed just below the low of the original impulse movement. The projection targets (Points 2 and 3) were reached on the following day so that a high risk-reward ratio of 2.9 and 3.8 respectively was achieved.

Source: www.tradesignalonline.com
at 1546.22 points served as a stop while the targets were found at 1560.20 points (127.2 per cent projection) and 1563.39 points (161.8 per cent projection). In actual fact, the low was formed almost exactly at the 78.6 per cent retracement at 1548.28 points, which was followed by a dynamic rise that already reached the first profit target shortly after the opening on the following day. The second price target resulting from the 161.8 per cent projection of the original impulse movement, was also achieved in late trading. With an exit at the first price target, the risk-reward ratio of that trade would be at 2.9 while in the case of an exit at the second price target it would be as high as 3.8.

Another example is the Apple stock shown in Figure 3. After the massive downward gap there was a stabilisation attempt between late January and early February 2013 that traders were able to use for a short swing trade on the long side. Again, the entry was made here at the 61.8 per cent Fibonacci retracement level. The main target at the 161.8 per cent projection level coincided almost exactly with the resistance (low of 15th January) so that a near-optimal exit near the high was possible.

Possible Individual Modifications
The strategy presented here may, of course, be combined with other technical tools such as support and resistance lines to increase the sustainability of the Fibonacci levels. Furthermore, the bundling of multiple Fibonacci levels forming so-called “clusters” is a good addition, but cannot be discussed in detail at this point. Some traders also use a moving average as an output filter in order to improve the quality of the signals. Beyond that, the exit process can be modified. For example, traders could make partial exits at the first and second price targets and hold the remaining third of the position with a manual trailing stop until the trade is stopped out.

Conclusion
The procedure for identifying entry and price target levels described above is a simple yet effective tool that can be applied to both larger and smaller time frames. Those of you think that the Fibonacci tools are a money-making machine will be disappointed since in reality that is unfortunately not the case, as is true of all other approaches. However, this approach will certainly serve the purpose of systematically tracking down low-risk entries and delivering realistic price targets. The rest is taken care of by the stop. «
Benefitting from the Real Principle behind Forex Trading

Matching Weak Currencies against Strong Currencies

In the currency trading world, you need to speculate on one currency having more stamina than the other one – this is what will bring nice rewards as it enables you to follow the direction of the dominant biases and primary trend confirmation patterns. Significantly trending markets can be tumultuous at times, to the extent that speculators without clearly-defined trading plans can be overwhelmed. Those with clearly-defined plans usually thrive without having to push the envelope. Forex trading is all about matching weak currencies against strong currencies. Anyone who can do that with satisfactory accuracy will enjoy occasional windfalls, while controlling risk effectively. This article describes one way of achieving this goal with a simple trading approach.

» When a Pair Becomes Strong and Vice Versa
The fact that profitable Forex traders know how to skilfully match currencies with stamina versus currencies without stamina will forever hold. When a pair, say AUD/USD, reaches a recalcitrant supply level and fails to breach it to the upside, then it falls. This means that the Aussie has become weaker than the Greenback at that level. On the other hand, when the aforementioned pair reaches a conspicuous demand level and fails to breach it to the downside, it may start rising. This means the Aussie has become stronger than the Greenback. In other word, a pair skyrockets when the base currency is stronger than the counter currency, and plummets when the base currency is weaker than the counter currency. Anytime a pair is strengthened, it is said that bulls dominate since they open long positions and the price shoots up as a result.
of buying pressure. Anytime a pair/cross is weakened, it is said that bears dominate since they open short positions and the price nosedives as a result of selling pressure. When the markets are moving in significant modes, countertrend corrections are often transitory in nature, with extremely low accuracy if speculated on. This results in losses for those who use mean reversion methodologies.

As bulls leave a trading instrument, it may fail to rally further north. Then it would enter a consolidation phase and eventually experience a pullback. Buyers, perceiving that the trading instrument is rejecting further northward movement, would smooth their open trades and bank their gains. The buyers smooth their open trades by selling – an action that often leads to further southward movement, surely tempting to sellers that seek a chance to capitalise on the weakness of the trading instrument. When they go short with new positions, the trading instrument moves further southward. Ultimately, those who have gone short at the earliest opportunity would partially bank their gains, anticipating some transitory rallies.

The market does not have to move in your direction simply because you have opened a trade, thinking the market would move in that direction. While understanding the principle enables one to reap huge gains in the markets. It will not always work, hence the exit and position sizing rules that ensure one survives in the long run. In a recent interview published by Louise Bedford, one proficient trader named David said that the beautiful part of trading is learning to live comfortably with uncertainty, for the pursuit of certainty is a waste of time. It just does not exist.

Currency Instruments Groups
Some of the popular currency groups are GBP pairs, AUD pairs, EUR pairs and JPY pairs. For instance, if the Yen loses strength seriously, all the JPY pairs would trend upwards significantly for as long as the Yen remains very week. This is true, whether the EUR or the GBP or any other currency is strong or not. It just happens that they would go in the direction of the JPY pairs. Whenever the Yen becomes seriously strong, you will see all the JPY pairs trending downwards for as long as the Yen maintains that great stamina. This would happen whether the AUD or the CHF is strong in its own right or not: the JPY pairs would simply remain positively correlated.

The Trading Approach
For this trading purpose, a simple moving average period 50 is used on 4-hour charts. When a currency, say the Cable becomes extremely strong, you would see the GBP/USD crossing the SMA 50 to the upside and closing above it. Around this time, you would likely see most other GBP pairs like GBP/AUD, GBP/NZD, GBP/CAD, GBP/JPY, and GBP/CHF close above the SMA 50 on their respective 4-hour charts (while the EUR/GBP closes below it). That would be the time to go long on most of the GBP pairs. When the Kiwi becomes extremely weak, you would see the NZD/USD crossing the SMA 50 to the downside and closing below it. At this time, you would likely see other NZD pairs like NZD/CHF, NZD/CAD, and NZD/JPY, close below the SMA 50 on their respective 4-hour charts (while EUR/NZD, GBP/NZD, and AUD/NZD close above it). That would be the time to go short on all the NZD pairs. With this approach, you would understand why it is occasionally more preferable to sell the EUR against the JPY and not to buy it against the JPY, especially if most currencies are hopeless against the JPY. Therefore, going short on the EUR/JPY would be more profitable than going long on it (in the context mentioned here).

When one studies only one pair in a currency instruments group without caring about what happens to other pairs within the group, one would be prone to serious decision errors, which one need not make.
in the first place. This fact is valid for Big Picture and smaller time horizons as well. One needs to know how the strength or the weakness of a particular currency affects other major currencies before one opens trades. Taking most pairs in a currency instruments group into consideration would help you know where the markets are really headed.

Trade Examples

In the examples mentioned here, spreads are not taken into consideration (for they tend to vary from broker to broker). The red vertical line on the left part of the chart shows where a trade was entered while the red vertical line on right part of the chart shows where it was exited.

Example A: Significant Northward Moves on the JPY

On April 4, 2013, all the JPY pairs suddenly skyrocketed seriously; an event that lasted for several days. The action that was taken by the BoJ resulted in an exponential weakness in the Yen. Of course, the USD/JPY also went north.

Example B

When Cable Loses Stamina

Although GBP/USD (Cable) was very strong at the time of writing this article, there have been times when the Cable’s loss or gain of stamina would be so serious to the extent that all or most of the GBP pairs would be affected. Where the GBP is the base currency, the pair would nosedive (and vice versa for where the GBP is the counter currency). It happened frequently in the past.

In January 2013, the Cable was very weak versus most currencies and most GBP pairs were rejecting bullish attempts on them as they trended downwards. The short trade on the GBP/USD was a profit.

Instrument 1: USD/JPY

Order: Buy
Entry date: April 4, 2013
Entry price: 94.70
Stop-loss: 93.20
Trailing stop: 96.20
Take profit: 97.70
Exit date: April 5, 2013
Profit/loss: 300 pips

Example B

When Cable Loses Stamina

Although GBP/USD (Cable) was very strong at the time of writing this article, there have been times when the Cable’s loss or gain of stamina would be so serious to the extent that all or most of the GBP pairs would be affected. Where the GBP is the base currency, the pair would nosedive (and vice versa for where the GBP is the counter currency). It happened frequently in the past.

The examples were deliberately chosen to drive home a point: not all the pairs in a currency instruments group will always go in your direction when this trading approach is used. In January 2013, the Cable was very weak versus most currencies and most GBP pairs were rejecting bullish attempts on them as they trended downwards. It is interesting, and
of course, normal to see that the EUR/GBP trended significantly upwards throughout January 2013. However, it would be worthy of mention that the GBP/JPY that was supposed to be very bearish did not do that. Why? It is because of a phenomenon known as the JPY pairs correlation, which makes them go in the same direction no matter what happens in other markets (in most cases). For instance, you can sometimes see that the weak EUR which is going down against most currencies is rising against the Yen only because all other JPY pairs are in a bullish mode.

Instrument 1: GBP/USD
Order: Sell
Entry date: January 3, 2013
Entry price: 1.6155
Stop-loss: 1.6305
Trailing stop: 1.6005
Take profit: 1.5855
Exit date: January 18, 2013
Profit/loss: 300 pips

Instrument 2: GBP/AUD
Order: Sell
Entry date: January 3, 2013
Entry price: 1.5480
Stop-loss: 1.5630
Trailing stop: 1.5330
Take profit: 1.5180
Exit date: January 10, 2013
Profit/loss: 300 pips

Note
In some cases, all the pairs in a currency instrument group may not give the signals on the same day. In the GBP pairs examples above, the GBP/CHF gave a bearish signal later than most GBP pairs, while the GBP/AUD gave a bearish signal one day earlier than the GBP/USD. Even the GBP/CHF would have its stop hit during a bullish correction that was transient but posed a threat to the bears. In spite of this fact, the profits realized on other GBP pairs would have all added up to compensate for the loss on the GBP/CHF, while ensuring that your portfolio ended up in a green territory. If the stop or the target is not reached in 15 trading days, close the trade manually. «

F3) Cable’s Weakness Makes the GBP/AUD Go South

When the Cable is very week, you would hardly see other GBP pairs going upwards, except the EUR/GBP. So the GBP/AUD went downwards and hit its target within eight trading days.

Source: www.metaquotes.net

«
Here I will describe my trading day and what happened when trading short term on Friday 6th September 2013. Every day I start with market preparation and talk to our traders in the online-trading room. That day we started trading with the following preparations:

1. The market is influenced strongly by news of Syria and a possible military attack of the USA. Therefore we have a close look at possible news that could give strong momentum to the market.
2. The market will probably be quiet until 2:30 pm when the unemployment figures are published in the USA. The non-farm payrolls often cause a larger movement in the markets.
3. Experience has taught us that the first 20 minutes after the publication of the non-farm-payrolls often causes unclear and false signals. Therefore our plan is to wait at least 15 to 20 minutes after publication before entering aggressive trades.
4. The stock market is in a medium term correction and we are in the middle of “summer-trading” – that means that the price movements are weak except for those driven by important news. The markets tend to sell breakouts. The best risk-reward ratio can often be found at extreme reversal points with counter trend trades.

At 2:30 pm the non-farm payrolls are published. The market immediately rises to new highs on volume above average. A typical “fake”, because within minutes the market sells the break-out. I do not see any relevant sales or buyers but even so the market returns to its
break-out-levels until 3 pm. This time the high is not reached, the level of 15,000 points is clearly rejected and a reversal formation builds in the 1-minute chart. I immediately recognise that this is a perfect short level. I open a trade and inform the other traders. The stop-loss is placed slightly above 15,000 with about five to ten points risk. Almost immediately after the entry the market falls. Often the market “fidgets” at the open and I think about closing the trade in profit – part of the position or the whole position. I decide to close a part of the position and therefore I am on the safe side during the open. I let the remaining part of the short position run because it is a first-class setup.

Soon I hear the news that Russia will intervene if the USA attacks Syria. Strong sell orders appear in the order book – the market drops quickly and confirms further shorts. I shout into the trading room: “We short until the volume in the order book decreases and we find a higher high! This could be the trade of the week!” The Dow Jones drops more than 200 points within minutes. I can realise a risk-reward ratio of 20 near the lows. The selling is brutal and fast and I cannot believe that there is not at least a little correction off the lows. That does not mean to buy blindly but you should carefully look at reversal formations. The long-term levels of the daily chart are still intact. At around 4 pm the volume dries up at the lows. Shortly afterwards, the Dow Jones increases above the 14,800 level and a technical reversal formation builds. This is a clear sign for a strong short squeeze.

I can imagine how the last sellers will feel if we break 14,800.

Later I buy the higher high above the 14,800 level and place the stop at the last lows. The whole market recovers and increases to daily highs. But who would have thought that immediately after the realised short trade a profitable long trade would form. Although I shouted the trade to my colleagues I recognised that only a few executed the second trade. Why? The entry was not the major challenge, but you had to show self-assurance and you had to know that there was a great long opportunity – and then you had to define the right stop-loss and the right risk to hold the trade long enough.

“Stay in the trade as long as it is profitable” – this is the greatest difficulty, because you need courage, experience, clarity, soberess and of course trust. Trust that you know what to do in order to count yourself among the winners in the long term. You never know for sure if a trade will be successful. Trading is a game with uncertainties and probabilities. Every trade can go wrong and we are risk-averse people therefore we want to avoid this. But only if we are willing to take risk can we win. The difference between an average trader and a professional trader is the execution of trades as soon as you see a first-class-chance – independent of the last trade.

[The chart shows the relevant points of the trading day: the non-farm-payrolls at 2:30 pm (A), the short setup (B), the profit-taking of part of the position (C), the acceleration after the statement of Putin (D), the closing of the short trade with decreasing volume (E) and the long setup for the expected short squeeze (F). Source: www.tradesignalonline.com]
Risk- and Money Management

Part 2: The ABC of Risk Management

In this series Jens Klatt introduces a multilevel process of developing a risk- and money-management-plan. The first part (TRADERS® 10/2013) discussed the meaning of money-management. Now in the second part we want to show the pitfalls and how to avoid them as well as the contents of a good risk and money management.

» Many traders want to start their trading career by achieving big profits with a small trading account. This may be one of the main reasons that new traders turn to the forex market. But many traders do not realise one thing: In trading they have to deal with the real risk of losing money.

New traders can be blinded by greed. The negative aspect here is not greed per se, but what it provokes in...
new traders: Actions that can have a catastrophic effect on their trading account and their trading goals. In other words: A few trades can destroy an entire trading career.

We want to focus on the most common perils to help you avoid such scenarios.

**Pitfall A: Trading without Stop-Loss**

After studying a few technical charts some traders think that price will return to its entry level sometime if they are patient with their loosing trade – even though the price oscillates wildly. They even hope to turn it into a winning trade. But this is very far from the truth and any trader who bought the currency pair GBP/JPY at 250 in July 2007 will confirm this (Figure 1).

Any trader who trades the mantra “Price will turn in my direction some day” – in our case the long position GBP/JPY in July 2007 – will find himself in a hopeless situation sooner or later. Most of the time the chances that the price will really return to the entry price are very poor.

**How Can You Avoid Pitfall A?**

Use a stop-loss for every trade you place. Then you limit the possible size of loss to a healthy portion of your trading account. Do not risk more than five per cent of your available capital with all open trades.

**Pitfall B: Poor Risk-Reward Ratio**

In addition to mistake number 1 traders often accept bigger losses than profits. A survey of DailyFX based on twelve million individual trades confirms this. The most common mistake among forex-traders is that the loss on a poor trade is bigger than the profit on a good trade. The diagram in Figure 2 shows the average profits (in blue) and losses (in red) of traders in some common currency pairs. The graphic shows that traders tolerate about two EUR loss for every Euro profit. This is the result of the fact that traders do not plan their trades adequately and that they do not determine their potential risk and reward prior to the trades.

![F1] Daily Chart GBP/JPY

Starting from the 2007 highs for the year is the GBP/JPY more than 40% fall in the value.

A counter movement of about 67% is necessary to correct this movement.

Figure 1 shows the daily chart of the GBP/JPY starting with the highs of 2007. The British pound lost about 40 per cent until summer 2013. A counter movement of about 67 per cent would be necessary to make this movement up.

![Source: www.tradesignalonline.com](https://www.tradesignalonline.com)

![F2] Average Profits vs. Average Losses

You can see the average profits in some common currency pairs in blue and the average losses in red. The graphic shows that traders accepted about two Euros loss for every Euro profit.

![Source: DailyFX-Research](https://www.dailyfx.com)
It is very simple to understand this: If you trade a position that is too large for your trading account, every pip-movement has a correspondingly larger impact on your account. A survey by the analysts at DailyFX showed that the profitability in trading is dependent on the size of the account (Figure 3). And that’s where effective leverage comes into play. If the trader has an account of 1000 EUR and he trades two mini-lots EUR/USD long – which means an equivalent of 20 000 EUR/USD with a leverage of 200:1 – then the trader effectively works with a leverage of 20:1 (20 000 (equivalent) / 1000 (account size)). If you have an account of 10 000 EUR the calculation is as follows: 20 000 (equivalent) / 10 000 (account size) = 2:1.

Surveys showed that the profitability of traders who used an effective leverage of 5:1 or smaller was nearly 100 per cent higher than of those traders who used an effective leverage of 20:1 (Figure 3).

How Can You Avoid Pitfall C?
Do not over use leverage. Many professional traders try to use a leverage below 10:1. They only trade positions of an equivalent of 10 000 EUR or smaller for every 1000 EUR of their trading account: If the size of their trading account is 2000 EUR, you should only choose position sizes of 20 000 EUR/USD at maximum (that equals two mini-lots of EUR/USD).

Conclusion and Outlook
If you consider and understand these three pitfalls it should result in a real break-through for your trading; you should always remember these three pitfalls, because the rules of the risk- and money-management apply to every new trade. The next part of this series will discuss the topic “How to place an effective stop”.

Figure 3 shows the profitability of traders in relation to their account size. The graphic clearly shows that the use of effective leverage decreases in relation to a growing account size, but the profitability increases.

Source: DailyFX Research
+80% Trading & Investing Success Rate

+200% Profit Earned For 2013 Already

Control Your Financial Future, Achieve Your Dreams!

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Economic Data as Market Mover

Part 3: Durable Goods

Every trader knows about this: the market is quiet and uneventful and there are no extreme movements. And only moments later the markets seem to go crazy. Often the reason is economic data – mainly from the USA. Today we want to introduce the durable-goods-report, which is published once a month and provides data about investment activity.

Analysts look at different macro-economic data for economic analysis. We already introduced the non-farm payrolls (TRADERS’ 09/2013) and the ISM-manufacturing index (TRADERS’ 10/2013) and in this part we want to discuss the durable goods report, which offers important information about the macro-economic development in the States. The reason: even though the US service sector is much larger than manufacturing industries – the main part of the economic fluctuation is caused by activities in the manufacturing sector.

Analysts, investors and traders know of durable goods report because it is one of the most important
economic indicators. The report is based on the aggregated data on new orders received, sales and inventories of companies with an annual turnover of more than 500 million dollars. The calculation and publication of the results started in 1957 on a monthly basis and is executed by the Census Bureau. The whole report consists of six parts:

- new orders
- shipments
- unfilled orders
- inventories
- capital goods
- revisions

Many companies plan their future production based on a combination of new orders and inventories. The change in durable goods orders is the most important part of the report for the financial markets. Durable goods are those that have an expected life span of at least three years, such as cars, computers or furniture. The change in new orders is calculated in relation to the prior month and the month before that and is published in absolute figures and in percentages. The report offers precious information to determine the investment activity of companies and consumers and is the basis for the estimation of future industrial production.

Transport Goods and Munitions Provide Volatility

The past shows that the durable-goods-report shows high volatility in comparison to other indicators. There are often drastic changes from one month to the other and that causes difficulties in the interpretation. The reason is goods like munitions, ships and airplanes.

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**F1) Report of Durable Goods (April 2013)**

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The report of durable goods offers information about the activities of the industries. The durable goods new orders are especially important for market participants. In addition to the total key figure an adjusted figure is published that excludes munitions and transport goods.

Source: www.census.gov/manufacturing
Due to their high prices even minimum quantities of new orders cause enormous effects on the result. Therefore an adjusted key figure is published as well where munitions and transport goods are not included (ex defence and ex transport). In general it is better to smooth the time series to increase the significance. In practice a 3-month average is often used and for example compared to the S&P 500.

Meaning for the Financial Market

The durable-goods-report is published in the last full week of a month at 2:30 pm CET between Tuesday and Thursday. The publication of this economic indicator is important for the financial market because it is the first clue of future economic activity. If there are significant differences between the data and the consensus-estimations there are often strong changes in price at the markets. Scientific analysis showed that the key figures without the transport goods (ex transport) have the most influence on the DAX.

Example

Let’s take a look at the development of the stock market and the currency market based on the durable-goods report of 24th May 2013. The consensus estimated an increase in new orders for April of 15 per cent. Actually there was an increase of 3.3 per cent to 222.6 billion dollars. The value was -5.9 per cent in the prior month. Even with the exclusion of the transport goods the durable-goods report was better than expected. Figure 2 shows the development of the DAX-future and the currency pair Euro/Dollar in the 1-minute chart. First there was an increase in stocks but that did not last long. On the forex market there was a decrease of the Euro against the US-Dollar, but later the price turned to the other direction. The explanation of this seemingly illogical reaction can be explained by the market participants fear of a possible change in Fed monetary policy. Market participants fear that the better the economic data, the higher the probability that the Fed will reduce its influence.

Conclusion

Economic data are important to long-term investors as well as short-term traders, because monetary policy depends on the cyclical activity of the industries. New orders for durable goods are an important factor that cause dynamic movement in the stock-, bond-, forex- and commodities markets. Therefore it is important that traders who hold open positions prior to the publication of data close their positions or protect them closely. Market participants who want to enter new positions should wait for the first reaction and slow down and only then place their trades to avoid unnecessary risk.

Source: www.tradesignalonline.com
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In this series we are asking Pro Traders about their psychological processes. Delving a little into how it feels to them when trading. The good and the bad. How this has changed over time and what preparation they do mentally for performing as a trader. One of the key features for us was that we wanted traders with experience who have been through the mill over the years and of course, we appreciate those who were kind enough to talk to us so candidly. We hope this gives developing traders more to learn from. Each interview in this series was conducted by Richard Chignell who is himself a trader. Please visit his blog at http://embracethetrend.com.

**Richard Chignell: How long have you been trading?**
**Boorman:** I’ve held a variety of roles within the financial industry since 1987. I started with Schroders in London just a few weeks before my 18th birthday. My first real break came a few years later when I went from being a fund manager’s assistant and moved up into the trading room. They were a fantastic group of people and I learnt so much. Even before I joined Schroders I had an avid interest in markets and used to place trades with a broker in between lectures at college.

**Richard Chignell: What style of trading/investing do you practice?**
**Boorman:** I’m a technical trader, specifically a trend-follower. It’s taken me many years to get here, to understand what works best for me, and to develop trading systems and methods that suit my personality and trading style. I think that’s key. I trade global index, currency and commodity futures with systematic trend following, and US stocks with what I call a ‘rules-based discretionary’ style.

**Richard Chignell: How do you feel when a trade goes against you?**
**Boorman:** I don’t like it, but I accept it readily. As a trend-follower you typically have more losing trades than winning ones, but as long as you are disciplined in executing the time honoured strategy of cutting losers and running winners, your average win will outweigh your average loss and make you profitable overall. So I now look at losing trades as being part of a winning system.

**Richard Chignell: How do you feel when a trade goes for you?**
**Boorman:** It feels good as it means I don’t have to do anything, and for some people that’s the hard bit. The sitting, waiting, letting those winners run can be difficult if you expose yourself to the noise of news and commentary bombarding you with reasons to do something.

**Richard Chignell: How have these feelings changed over your trading career?**
Jon Boorman, CMT, is a market technician and trader with over 25 years experience in global equity, forex, and futures markets. He has formerly held roles as a sales trader to hedge funds and institutions, a prop trader at an investment bank, and a buy-side head of desk. Jon currently writes the Alpha Capture blog at jonboorman.com, where he employs trend following and momentum strategies to generate actionable trade ideas, and will shortly begin managing money for clients as President and CEO of Broadsword Capital, LLC.

Richard Chignell: If you could give aspiring traders one piece of advice about emotionally handling the market what would it be?

Boorman: It all begins with you. Know yourself first, and then you can recognise your emotions when they reveal themselves in your trading. It’s like the quote from The Money Game “If you don’t know who you are, the stock market is an expensive place to find out.” I can now watch a situation develop in the market and recognise what the old me would have done. It doesn’t mean I don’t still feel those emotions, but I now understand the reasons behind them, what motivates me, the biases I have, and how to deal with that. If you can combine self-awareness with a systematic approach to trading you will significantly improve your chances of success.

We’d like to thank Jon Boorman for sharing the way he tackles the market from an emotional/mental side of things and for his willingness to allow us to post this as a free resource in the hope that traders who have been in the market for less time or are thinking of entering can perhaps pick up some A-HA’s. If you are interested in finding more out about Jon, you can find him

» at his Website: www.jonboorman.com
» on Twitter: @jboorman

Jon Boorman

Jon Boorman, CMT, is a market technician and trader with over 25 years experience in global equity, forex, and futures markets. He has formerly held roles as a sales trader to hedge funds and institutions, prop trader, research analyst, and buy-side head of desk. Jon currently writes the Alpha Capture blog at jonboorman.com, where he employs trend following and momentum strategies to generate actionable trade ideas, and will shortly begin managing money for clients as President and CEO of Broadsword Capital, LLC.
John Person is a 33 year veteran of the Futures and Options Trading industry. He started on the Floor of the Chicago Mercantile Exchange back in 1979. He then had the privilege of working with George Lane, the innovator of the Stochastic indicator. John has worked his way throughout the industry as an independent Trader, Broker, Analyst and Branch Manager for one of Chicago’s largest firms. He is the author of several top rated trading courses and books. He was the first ever to introduce traders to a powerful combination of candlesticks and pivot point analysis. In 1998, he developed his own proprietary trading system and began publishing “The Bottom-Line Financial and Futures Newsletter”, a monthly publication that incorporates fundamental developments as well as technical analysis that includes the data from his trading system, with his powerful indicator “Persons Pivots”. John is widely quoted in the industry and a sought after speaker for many of the worlds top professional organisations.
TRADER TRAINING AND DEVELOPMENT Ltd is launching its 12-week flagship “Proprietary Trader Career Mentoring Program” (P.T. - Ca.M.P.).

Program Aim:
The Program has been designed to train traders in quantified, rule-based trading techniques to manage one’s portfolio across all time frames and all liquid global markets (Equity indices, Bonds, Commodities, Forex). The techniques can be applied across all instruments (futures, spot, CFD’s, spread betting).

Program Duration:
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TRADER TRAINING AND DEVELOPMENT Ltd after the completion of the Program will put the trainee traders of the Protege Group on the “Top Trading Talent” Challenge. Each trainee will have the opportunity to win £12,000 in cash.

IN ORDER TO APPLY FOR A POSITION IN THE “PROTEGE GROUP”, EMAIL ALEX SPIROGLOU: alex@TraderTD.com
» TRADERS: When did you first hear about the markets and trading, at all?
Person: Where I grew up many of my friends parents were in the business, so at a young age lots of kids were hired for summer help as runners on the floor. It was actually a friend of my parents that suggested I get a summer job as a runner at the exchange. He was a member of the CME so I went down applied at a few companies and was hired at Packers Trading, primarily a Cattle and Feeder Cattle trading firm.

TRADERS: What were the major lessons learned for you on the floor?
Person: At that time I was 16 and not really interested in trading, but what I did learn was to be early for work, as some of the traders would pull runners aside and give really big tips for doing special running chores like going back up to the office or down to the restaurants to get them a drink or food. So if you were around early you got chosen.

TRADERS: What was your career goal you set for yourself back then?
Person: I actually wanted to be a lawyer and go to law school. I had an idea to be a criminal lawyer.

TRADERS: How did you still end up being a trader?
Person: I was actually on a train studying for an economics exam while attending Loyola Business school in Chicago. Sitting next to me was the man who asked me what I was studying, what my interests were, and finally he said he was interested in hiring someone like me. He said he worked in the commodity industry, he gave me a card and said come visit my office and we’ll go to lunch and see if I am interested. A week later I called him up and met him at the Insurance Exchange building at 175 West Jackson, next to the CBOT. That’s where the Mid-American Commodity Exchange was located. We had lunch and then he showed me up to his office and then his “war room”. That was his trading room. His wife Kerry was extremely nice and welcomed me. I was hooked. In fact I think it was Kerry his wife who had me fill out some forms for the CTFC and get finger printed in order to get registered as a Registered Commodity Representative with both the CME and CBOT. That was before the NFA was created.

TRADERS: Did you actually use George Lane’s Stochastic indicator yourself, and do you still use it today?
Person: George was great, and yes I did use it but I use it now for more longer term analysis to confirm bearish and bullish divergence patterns. I have a momentum tool I created which is available in the TD Ameritrades platform. It’s available as a library on Bloomberg Terminals, Tradestation, Metastock, Genesis and a host of other well known platforms like eSignal OEC and Ninja trader. It’s called the PPS indicator and I use that primarily in conjunction with my Persons Pivot tool.

TRADERS: Many of our readers may not have access to those platforms. Can you give us a brief introduction to how the PPS indicator is calculated, and how it works?
Person: The calculations are based on a proprietary algorithm. It works to identify changes in the market’s trend; it is very effective when used with multiple time frames. For example if the 60 minute and 15 minute are flashing a buy mode then when day trading I like to look at shorter term buy signals. On Monday morning on October 7th we had a text book example of this specific situation. As Figure 1 shows on the lower quadrant, at

Pivot Point Calculation
A pivot point (P) is a price level in technical analysis used by traders as a predictive indicator of market movement. It is calculated as an average of the High (H), Low (L) and Close (C) in the prior trading period. In addition to the pivot itself you can calculate additional levels of support and resistance by subtracting or adding as follows:
- R1 = 2xP - L
- R2 = P + (H - L)
- R3 = H + 2x(P - L)
- S1 = 2xP − H
- S2 = P - (H - L)
- S3 = L - 2x(H - P)

On Balance Volume
This indicator, developed by Joe Granville, provides a running total of volume for a specific underlying. Using the OBV, traders can attempt to detect when many market participants accumulate or distribute their shares. That way, an uptrend in the OBV confirms a price uptrend and vice versa. Divergences may be interpreted as warnings signs; e.g. a down trending OBV as price is still in an uptrend would be a bearish signal. Side note: Joe Granville passed away on 7 September 2013.

Side note: Joe Granville passed away on 7 September 2013.
the end of the 60 minute bar at 9 am the indicator fired off a bullish signal (green triangle). The 15-minute chart (middle quadrant) fired off a bullish signal at the end of the 9.45 am time frame, at the same time the 5 minute (top quadrant) was in a bullish mode. Coincidentally we also had a 5-minute High Close Doji pattern too. The entry is to go long against a pullback to the moving averages and for day traders stops can go under the low of the trigger bar. If the market is to behave bullishly then we should be safe with that stop placement as the markets once in a bullish trend tend to make higher lows.

**TRADERS**: How did your career actually develop? What went right, what went wrong, and most important, what did you learn along the way?

**Person**: My career started as I worked for George Lane. I started out helping to collect data on reports, helping to put together his newsletter and watched him trade and analyse the markets. He was more involved with the agricultural markets. I had had a fascination with the financial markets, mainly the 30 year bonds. In 1984 the CBOT first introduced Options to the Bonds, that was the first commodity and I was hooked. I learned how to leverage leverage with more leverage using defined risk parameters. What went right was that I had a great teacher showing me how to determine a trend direction and trade that trend. What went wrong is a tough question, but I think as a trader we all know good things come to an end. By mid 1986 I had done extremely well, and took time off from the markets. And that was a great decision. Because as we all know the trend is your friend until it ends. Good traders do know once they’ve made money you need to step back, walk away and revaluate. Because if you continue trading, as I was, the market will want your money back.

**TRADERS**: How did you do when trading went from the floor to the screen more and more? From your point of view, what’s the difference in the skills a trader needs to succeed?

**Person**: I am a technical trader; I have always used charts, back in the day we did them by hand. Today I

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**Call Spread**

A long call spread is an option strategy where traders buy calls at strike price A and simultaneously sell the same number of calls of the same underlying and expiration date but at a higher strike price B for a net debit (see figure to the left below). A short call spread is vice versa; selling the lower strike calls and buying the higher strike calls for a net credit. As for the long call spread, selling a cheaper call with higher strike helps to offset the cost of the more expensive call being bought. This lowers the risk of the trade but at the same time, limits profits (from where the call is sold). As for the short call spread, buying a cheaper call with higher strike helps to limit the risk if the stock goes up while selling the more expensive call earns the premium. However, buying the hedging call also reduces the net credit received when running the strategy.
find trading off the computer gives all traders an equal edge, to a degree. Computers give traders access to more sophisticated programming and analysis capabilities. Electronic trading gives more data like volume, bids & asks, comparative analysis, spread differentials, and so on. It is more transparent. The downside is you don’t see or hear the order flow like you did on the floor. In other words you miss seeing or hearing if institutions are steadily selling or buying. Plus computers rely on the internet, there have been known to be outages.

**TRADERS**: Please provide some more details about your trading. How do you select your entries and exits, and where do stops and targets go for your trades?

**Person**: Most of my entries are limit orders. After a bullish trigger fires off I look for snap backs to a moving average, for example. I also will enter stop orders to enter if my limits are not picked off so I can catch an entry as the market moves in the intended direction. I use what I call the Last Condition Stop method and trail stops. Profit targets are usually set, but for day trading purposes I usually enter in all at once and scale out of trades and trail stops on the balance. When establishing a position trade I will typically scale into a position.

**TRADERS**: What does Last Condition Stop method mean?

**Person**: Primarily if long the market you place sell stops under the lows of specific breakout bars. That’s a bar where it has closed above the previous bars high.

**TRADERS**: What trade setups do you use?

**Person**: Several bullish trade set-ups I use are my PPS signal entries or my High Close Doji patterns. The HCD pattern has a specific entry and stop placement rules. This is one of about 20 various chart pattern formations I use consistently, in fact the HCD and the bearish LCD patterns is fully explained in many of my books.

**TRADERS**: Can you explain your “Persons Pivot” approach?

**Person**: This is a dynamic leading price indicator. It’s based on a moving average component using the pivot point as the input value rather than the close. Based on the moving average analysis it gives the trader the technical outlook of the market – bullish, bearish or neutral – and under that assumption filters out the projected support and resistance level. So if the market is determined to be bullish it gives the projections of the R-2 down to the S-1 target levels using the five point pivot math calculations. I have developed this for various time periods and conditions. For example on TD Ameritrades platform I programmed instead of a monthly calendar Pivot calculation we have a condition of the Option expiration, which is a monthly time period except it revolves on the Friday of option expiration.

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The candle forming at 9.30 am is a typical High Close Doji pattern, turning around the short term downtrend and allowing for a Persons Pivot Signal later on when the market went through the high of that candle.

*Source: www.TradeNavigator.com*
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TRADERS: Can you give us a brief explanation of the High Close Doji pattern, as well?

Person: As a trader I am looking for the most reliable and consistent trading pattern. As a constant student of the market, I started reading about candle patterns back in the mid-90’s. What a more bullish pattern could possibly exist other than the Island Bottom (Abandon Baby) or the Morning Doji Star? Unfortunately, these two patterns rarely showed up. However, what I did see on a consistent basis and identified was the common denominator factor was that after a downtrend once a Doji formed it was the candle with-in so many bars that closed above the Doji High. Thus I termed the pattern the High Close Doji (Figure 2). I first published this in my book Candlestick & Pivot Point Trading Triggers, by John Wiley & Sons in 2005 (page 215). What’s great is the entry and stop-loss placement is consistent and has specific rules.

TRADERS: Please show us some recent trades that underline your method.

Person: Sure, I just did an option trade on Priceline in front of a large audience on Wednesday October 2nd, in fact we even put out a Twitter Alert as a follow up. The setup was the price was trading up to the Monthly Persons Pivot of 1072. We had a volume set-up using On Balance Volume (crossing of OBV with its moving average). The trade was a selling of the October 1070/1080 call spread collecting $4.60. Some traders opted selling the weekly expirations which was slightly less premium. The next day PCLN had dropped to a low of 1043. Figure 3 shows the setup and signal.

TRADERS: Please also show one or two losing trades in order for us to learn how you are handling losses.

Person: Figure 4 shows a trade that was a text book set-up but didn’t perform. DHI generated a weekly buy signal at monthly support. The move was supported by an increase in volume as indicated using the OBV indicator shown at point “A”. The entry was at $20.17. The stop was placed under my 5 per cent risk parameter and under the 20 week moving average at $18.72. The trade didn’t work, momentum stalled, and now I move on to the next trade.

TRADERS: What is your method in risk and money management?

Person: Typically with day trades I use a stop placement based on condition and not dollar or price level. Meaning if I have a buy signal my stop is below the lowest low of the last four bars or below the low of the trigger bar. The distance or risk amount also helps determine position size. In addition in times where the markets are held hostage to a current event situation such as the US government shutdown where any news flash creates a knee jerk reaction I will lower my position size. As for a swing or position trades on a long entry depending on the condition and the set-up I like to use a 5-per cent risk factor in conjunction with a support level. At times if the stop need to be under a moving average or old low then my risk may increase to say six to eight per cent as in the case of the trade in DHI.

TRADERS: Does 5-per cent risk factor actually mean you risk five per cent of trading capital?

Person: Great question, no not at all. I use a 5-per cent factor on the value of the trade then I determine what that dollar amount is to then discover my overall position size. For example, if there is a $20.00 stock,
five per cent is $1.00, but if the low or a support is say $1.26 from the entry I’ll make that adjustment.

TRADERS: Please describe the worst trade you’ve ever been in, and what you learned from that.
Person: The worst trade I ever made was actually an error. It was a very large option trade in bonds and I offset the wrong strike. What I learned was no matter how great a profit is in a trade if you are not careful if you act too quickly to exit, errors can happen. Traders need to check the position and make sure you are offsetting the right side and quantity. One needs to be emotionally balanced.

TRADERS: Also, please describe you greatest winning trade.
Person: There really isn’t any one single. The greatest money making trade was an option position in bonds, but I have to say the greatest trades I make is when I trade my set-ups, place the limit bids on a long entry or an offer on short set-ups, the market fills my price and the trade goes according to the plan.

TRADERS: When analysing your biggest winning trades, did you find some kind of pattern that helped you replicate such homeruns?
Person: Yes it’s letting the trade ride. One needs to remember it takes time for the trade to mature, having the discipline to let it ride and resist the urge to take a quick profit. That’s one thing that I discovered about myself, when I scale out of a portion of my trade and trail a stop on the balance I am more relaxed in letting the trade ride.

TRADERS: What do you recommend to new traders to get started?
Person: Trading takes practice and finding out how you act and react when you put a trade on. Find a trading method and stick to the rules. As human beings we are naturally creatures of habits. Typically we have bad habits, knowing that can be your greatest asset. Most traders fail because they think they know more than the markets. If your methods are sound, and you adhere to your risk parameters, if the trade has merits then you will be rewarded.

TRADERS: What does it take from a psychological view for traders to succeed?
Person: I’m not a psychologist, but humility and the ability to be disciplined to wait for your trade set-up rather than anticipate that a signal will occur so you can get in better or “beat” the market plus having the discipline to hold onto the winning trade is what it takes. I say humility because to me every time I caught myself saying “oh this market has to be a buy because it can’t go any lower” really is a statement of ego, which is another way of pretending you know more than the market.

TRADERS: Which other profession would you choose if you ever had to stop trading?
Person: I’d probably be a lawyer.

TRADERS: Besides trading, what kinds of sports etc are you doing?
Person: I’m fairly active. We live in Florida, I play Golf, love to fish, we snorkel and spear for Hog fish in the Bahamas. Plus we have three Grandchildren under six so baby sitting and visiting with them is kind like an extreme sport in of itself. Trading can be draining, I try to work out at least four days a week.

Here you see a trade that didn’t perform. DHI generated a weekly buy signal at monthly support. The move was supported by an increase in volume as indicated using the OBV indicator shown at point “A”. The entry was at $20.17. The stop was placed at $18.72. The trade didn’t work, momentum stalled.

Source: www.TradeNavigator.com

F4) Losing Trade at DHI
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<td>London Metal Exchange</td>
<td>Shanghai</td>
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**Important Dates for Your Calendar**

- **26.11.2013**: Introduction to the LME
- **27.11.2013**: Introduction to Hedging with Futures and LME swaps
- **29.11.2013**: Introduction to Physical Trading & Warehousing
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The Key to Success Lies “Within”

There is no such thing as reality. Well-known management trainer Vera F. Birkenbihl talked about reality and cognition and about the fact that we often complement situations by our experiences from our past – most of the time from our childhood. Everything that we traders notice daily in front of our screens has little to do with reality but is our own cognition. Everybody who treats daytrading as a business will analyse the market according to his business plan. There are several possibilities that can be divided into two main groups. One group is traders who like fundamental analysis. These traders are often invested long term. The second group is the technicians who trade short term. We want to highlight “market mechanics” (this trading method, in German “Markttechnik”, was developed by German trader Michael Voigt) which is related to technical analysis. The technical analyst tries to deduce future price developments of an underlying based on the examination of past price development; the approach of market mechanics examines price development by considering the behaviour of different market participants.

The trader must never forget that what he sees is only his own selective cognition – despite all the ways of analysing the market. We always see the world like we think it is. The process is simple: all information that we receive is unconsciously divided into important and unimportant information. We only notice what we find important. All unimportant information is ignored by our consciousness. You have to imagine the effect if all bits of information that affect you right now would be noticed 100 per cent. Your mind would collapse with all this information! In general, selective perception is an important and precious protection mechanism. The big question is what does a single trader find important or unimportant.

Different factors influence our cognition and therefore our actions. First of all there are our values. If for example a child learns from its parents that money destroys character, rich people are cheats and you have to work hard for your money, then trading is inconsistent with our values, because you cannot earn more money in a short time anywhere other than on the international financial markets. You have to know that it is a basic need of humans to be loved and respected. This need can be expressed in different ways, but there is always a feeling related to it. If a trader learned as a child that much money equals being a bad guy, then he internalised an unconscious program that will get in the way of his long term success in trading. But in general the trader is not aware of this fact and therefore he often searches for solutions to improve his trading. Professional traders know that the solution can be found within oneself. So professional traders practise mental training to be successful – just like professional athletes.

The fact that 90 per cent of all traders lose money in the markets shows that mental training is missing in trading. If you want to be a professional trader you have to develop your own mental abilities. Mental training enables the trader to recognise his subconscious values prohibiting his success and to transform the feelings underneath. False beliefs cannot be easily deleted because the of underlying feelings cause our actions. Feelings are another form of energy, and energy cannot be deleted, but it can be transformed. «
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Based on

I especially like his emphasis on financial markets like stocks, copper, and oil as leading indicators of economic turns and why it’s necessary to know the trend in those markets. He offers advice on just how to do that. I can’t think of a better time for him to have written this book and for investors to read it.

- John Murphy,
Author of Intermarket Analysis and the Second Edition of The Visual Investor

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