insider tips to navigating the financial markets

1

discipline

2

adapting

1. Discipline

Traders need to maintain a consistent approach to the markets. No matter how much preparation goes into trading, if you do not practice a consistent level of discipline in trading, then you can become lost. All the planning in the world will not help if you fail to use it.

Before trading every week, it is important to develop a strategy to help guide a trader through the trading week. This game plan alerts a trader to economic news, trading strategies, support and resistance, and any other factors that can cause the markets to move. Going into a trading week blind can cause losses that could have otherwise been avoided by simply spending an hour analyzing current events and economic data. Trading is a business and a business cannot operate without some sort of plan. Taking the extra time to make a game plan for every week can make a trader more successful.

2. Adapting to Changes in the Market

The markets change and you need to be prepared to change with them. The markets are fluid and dynamic. Patterns that may be easily identifiable from one year ago may not be recognizable in the market today. Discipline is a virtue, but stubbornness is a vice. You need to be able to change with the market, and be prepared to trade as the market is telling you to trade it without having a bias.

When it comes to trading, having a market bias is not necessarily a bad thing. It can be a good thing if it is used correctly. For example, if one's research, market analysis, and bias support a bullish position but the market briefly heads south, the bullish bias may keep one from falling for the short play that would not pay. Or, the bias may temper an impulsive urge and keep one on the sidelines and out of the market until further analysis. Having a market bias becomes a problem when and only when one acts on the bias alone, behaving as if he has a crystal ball.

How then does one form an opinion of market direction without being shackled to that opinion and misled by it? How does one hold one's bias in check so that one can adapt to constantly changing market conditions and read correctly the true course of the market? It's not always easy, but it can be done by letting the numbers lead the way. Let us explain with some specifics.

During much of 2005, many traders had a bearish bias. There were a number of good reasons for having a negative view including a bull market that is overstaying its welcome, war and political unrest, natural disasters, a soaring national debt, rising interest rates, escalating oil prices, and a housing boom that shows signs of cooling or maybe even bursting. Nevertheless, in spite of these troublesome issues, throughout much of the year prices on Wall Street have remained strong and the futures indices have been positive. The Dow hit 10983.00 in March and in late July the S&P Futures hit 1255.00. Within days the Nasdaq touched 1648.50 and in early October the Dax Futures hit 5167.00. In fact, the Dax Futures, a German index that is traded on the Eurex Exchange, exhibited the greatest strength of any of the futures indices and rose over eight hundred points from its yearly open. Clearly, for almost half of the year, in spite of anyone's bias, many financial areas were exhibiting strength. So, how did a profitable trader respond when the S&P hit its high in July or the Nasdaq in August? Did he defy logic and stay short as the S&P rose above the 1250.00 price just because he had a bias? Not, if he wanted to make money.

3

market indicators

3. Using Major Market Indicators to Manage Your Portfolio

The S&P is the standard by which the professionals are judged. An accurate estimation of the market's direction should also show the direction of your portfolio. The Stock Market is a mirror of society and reflects the economic pulse of the world. Most traders and investors are inundated with too much information and have no way to take advantage and profit from the input.
It is very important to understand the code. The impact of information in the markets can drive the markets higher or lower. Being able to understand and react to this information will determine the profit or loss the trader will acquire. A good example of this is the Bond Market. The Bond Market is priced on the current direction of interest rates and inflation; higher rates bring about lower Bond prices, and lower rates make prices go higher. As the maturity of a Bond is extended, the rate of inflation becomes a factor in the Bond prices. Flow of capital to Bonds rises as rates increase and Equity prices go lower. The opposite effect occurs when rates are raised, and equities are the recipient of the decreased capital flow.

As method traders, we start with a simple analysis of whether to be long, short, or out of the market. Unless you get this important question right, regardless of your approach, your results will suffer. Being on the right side of the market always pays. Trying to determine which is the right side of the market can sometimes be difficult. A trader must develop the proper tools needed to interpret the market's language to find the right direction, whether short term or long term. Some of those tools are to determine key numbers (Support and Resistance), time of day (when volume and liquidity are present) and use a roadmap (evaluate indicators to determine reaction).

As stated earlier, key numbers are support (holds the market up) and resistance (keeps the market from going higher) in the market. There are many techniques in determining these key numbers, but one of the best sources is the market itself. As the market trades higher or lower, it will stop at certain points and retrace. These points at which the market stops are support or resistance. Making note of these key numbers will aid the trader in determining where to enter and exit the market. In other words, you don't want to get long just below resistance because the market could reverse and cause a good trading day to turn bad.

The language of the market changes day to day. Interpreting this language is the most difficult task a trader will encounter. The use of certain tools will aid in breaking this code to increase the odds of being on the right side of the market. The use of key numbers, time of day, and a trader's roadmap will facilitate the success of a trader. Without these tools to determine the correct trend, a trader will not last long in the market arena.

4

24 hour clock

4. Times of Day to Trade - The 24 hour Clock

There are certain times throughout the 24 hour trading cycle when the market is more likely to behave in a specific pattern. Asia is not open during the same time as the U.S., and in between them is Europe. This is the world market, and the market conditions will change as traders from different regions of the globe go about their day. TradeZones throughout each trading day seek to benefit from the most advantageous times to be in the market.

Trading is affected by a 24-hour global trading clock. Markets around the world are continuously opening and closing. Markets in one part of the world affect markets in another part of the world. Therefore, by knowing how markets in Asia and Europe are trading, informed traders have a better indication of what to expect from markets in the U.S. Here is how it works: The night S&P opens for trading on the Globex at 3:30 pm Central Time (CT). A few hours later the Asian markets open. The Nikkei opens in Japan at 6:00 pm CT. Two hours later the Hang Seng opens in Hong Kong.

The movement of these markets begins to set a trend. By 8:00 pm CT the futures markets and the bond markets have also opened. Around 2:00 am, Europe begins to open. The DAX (Germany), CAC (France), FTSE (England), and SWI (Switzerland) all open for trading.

The DAX is a very important futures market during the early morning hours. It tends to lead, while the S&P and other domestic markets tend to follow. Often, at 7:30am economic news and financial reports are released. At 8:30am, New York and Chicago markets open. From 10:00 -10:30am Europe begins to close. At 1:00pm, the DAX futures close. Bonds close at 2:00pm. At 3:00pm stocks close and 3:15pm the S&P futures close. At 3:30pm CT, the markets open for night trading and the cycle begins all over again.

Notice that the day S&P futures market closes at 3:15pm CT and the night market opens at 3:30pm CT. It is very important to liquidate your position and exit the market before 3:15pm CT. If you do not, you are deemed to have held your position overnight and a much larger margin is required. Holding your contracts overnight may result in a very unpleasant and costly call from your broker telling you that you must deposit more money into your trading account because you do not have sufficient funds for overnight trading. Just remember, holding a contract between 3:15pm and 3:30pm CT is considered holding your position overnight.

When looking at trading times, look to trade when the market is most liquid and has the most volatility. These times will usually coincide with your schedule. Since the market is run by humans, it has human tendencies. The first hour of the day market usually is a good time for trading because traders are anxious to enter into the market and position themselves for the day. The market then quiets down for lunch and picks back up again around 1:00pm CT. Between 1:30pm and 2:00pm CT the market usually chops around a bit and then picks back up around 2:30pm CT into the close. Knowing these times will help in entering and exiting the market at the best times of day.

24 Hour Clock (all times are in Central Time)

08:15	Globex S&P and ND Stop Trading
08:30	CME open outcry pit opens
09:00	
10:00	SWI_X (Zurich) Closes
10:30	FTSE (LONDON)
11:00	
12:00	
12:30	
13:00	DAX Futures (Frankfurt) Closes
14:00	Day Bonds Close
15:00	INDU (Dow Jones Industrial Average) Close
15:15	S&P 500, ND, and DJ Futures Close
15:30	Globex S&P and ND Opens
16:00	Bonds and E-mini DOW Close
16:30	Globex S&P and ND (Monday through Thursday Closes for one half hour)
17:00	Globex S&P
18:00	NIKKEI (Tokyo) Opens - Central Standard Time, Dow Futures and Bonds Open
19:00	NIKKEI (Tokyo) Opens - Central Daylight Time
20:00	Bonds Open, HKHI (Hong Kong) Opens - Central Standard Time
21:00	HKHI (Hong Kong) Opens - Central Daylight Time
22:00	
23:00	
24:00	
01:00	
02:00	DAX (Germany) Markets Open, Swiss opens
02:30	FTSE (London), CAC Markets Open
03:00	HKHI (Hong Kong) Closes
03:30	Record 03:30 S&P Number, NIKKEI (Tokyo) Closes
04:00	
06:00	Record the 06:00 DAX number (Pivot)
07:20	Open outcry Dow Jones Futures and Bonds open

5

key numbers

5. Identifying Support and Resistance Intraday

Key numbers are the heartbeat of the market. If you know which numbers are likely to be key, then you know the most likely places for the market to either support or resist. These key numbers are often derived from historically significant factors, such as the open of the year.

How to Find Key Numbers:

- When possible, look for market-generated numbers. The market will remember them and repeat.
  - For example: Weekly high, low, close
  - Today's open and 5 minute opening range (very important)
- Scroll back in time on 5 minute, 30 minute, and daily charts and look for important pivots like:
  - Recurring highs and lows that have formed key support and resistance bands
- Check high / low tick times of past several days to see if they coincide with tops / bottoms; if so, this will be resistance / support
- Look for key moving average levels and confluence of these levels with other key numbers (would be good to list which ones you'll look at on a regular basis)
- Market Profile: (the Chicago Board of Trade's trademarked way of displaying data)
  - Value area (where 70% of volume traded (i.e. - the "fair" price))
  - High and Low
  - Any relevant overlaps
  - Points of Rejection
  - Single tail prints
  - Identify low volume points on past several days' Market Profile
    - Sometimes market will run out of steam or retrace to these points
- Globex (overnight) high & low

6

annual cycles

6. Trading in Annual Cycles

Some businesses have better productivity and stock performance at particular times of the year. Technology stocks, for instance, tend to have a slow second quarter and an often robust fourth quarter. The fourth quarter tends to be a very robust time period due to the holidays such as Christmas. Summers typically tend to be slow as traders, like most people, plan and execute their summer vacations.

Throughout the trading year, the market has pivotal times where it tends to reverse and/or accelerate the current trend. The following dates are pivotal times in the markets and should be noted on your calendar:

January 1
April 15
Memorial Day
July 4
Labor Day
September 21 (Autumnal Equinox)
Thanksgiving
Christmas

7

fear and greed

7. Balancing Fear and Greed

Greed often creates fearless trading, but the fact of the matter is every time you trade, you put your money at risk. A responsible trader would hedge that risk with a little bit of fear. This market is bigger than any individual, and if you don't respect it, it will reach out and swat you. However, you cannot be so afraid of the market that you miss the trading opportunities.

One principle that helps to guide our lives both in business and especially in trading is emotional balance. In our opinion, finding equilibrium is the first step to becoming a successful trader. The "greed/fear syndrome" has overcome many traders who were technically and fundamentally sound, but emotionally unable to deal with these conflicting interests.

Greed is a natural human emotion that can be toxic, often ruining a great trader. For example, you get into a trade, it starts going your way and you see no reason to get out. Suddenly you find yourself shooting for the moon. Greed blinds you and the next thing you know, the market reverses and instead of making money, you are down.

On the other hand, the fear of losing is often times more emotionally paralyzing for a trader than the anticipation of winning. You sense that you can lose your capital if you are wrong. Indecision paralyzes you. You go below ground and huddle there in despair.

Both of these extremes can destroy even the most experienced trader. The key to overcoming these devastating emotions is to find a middle ground. Planning your trades, determining entry, exit, and setting stop parameters can help to alleviate the stress associated with making decisions while in a trade. Planning the trade ahead of time and determining these parameters, as well as a comfortable level of risk vs. reward will greatly improve the likelihood of trading success.

8

plan

8. Plan Your Day, Week, Month, and Year in the Market

Have a game plan before you approach each trading day. Set out objectives for not only the week and month, but also for the year. Businesses set fiscal calendars and budgets. Trading is a business and the same preparation should apply. If the "good" news is not perceived to be as good as expected, then we can see the market falling on what may have been considered good news. The same is true in the opposite direction.

Before trading every week, it is important to develop a strategy to help guide a trader through the trading week. This game plan alerts a trader to economic news, trading strategies, support and resistance, and any other factors that can cause the markets to move. Going into a trading week blind can cause losses that could have otherwise been avoided by simply spending an hour analyzing current events and economic data. Trading is a business and a business can not operate without some sort of plan. Taking the extra time to make a game plan for every week can make a trader more successful.

One of the first things to do before every trading week is to put your thoughts on paper. Review the previous week for mistakes you may have made so that you can avoid them in the upcoming week. Look at the overall trend for the last week and what news the market was most concerned with. The only statistical data given for trading the market is past history. Since no one has a crystal ball, traders have to rely on what happened in the past. A review of the recent past can help find the trends in the markets and keep a trader on the right side of the fence. Putting your thoughts on paper also helps to purge the mind. Writing your thoughts down allows you to see the biases you may have and neutralize them.

Earnings have a great influence in the market. Corporate earnings can swing the market up or down from day to day depending on which company is announcing their earnings. In our current market, investors are trying to figure out if the U.S. economy is starting to bottom and improve. This is done by watching the corporate improvements in business or deterioration due to slow sales. A trader must be aware of the forthcoming earnings announcements from day to day. Most earnings are announced in January, April, July, and October, but there are some that come out during odd times so it is a good idea to check every week. Knowing this will help in organizing your short term and long term plan.

9

stop management

9. Stop Management

The lesson that most traders seem to forget, or never learn for that matter, is that sometimes even the best traders are wrong. Losing trades have a multi-dimensional effect on a trader. The inability to confront and cope with these losses will lead to failure. The first and most obvious impact is that failure to accept a loss can turn a short-term trader into a long-term investor. Each and every one of us have bought a stock, seen the price fall below our "mental stop," and then become a long-term cheerleader hoping for the price to rebound. Since most traders trade on margin, marrying a stock can cause a quick end to a trading career. A second and equally important impact of a trading loss is the emotional toll a bad move can leave on a trader. Inexplicably some traders think they will never lose. While having a positive attitude is beneficial, a realistic expectation of loss and risk are necessary when approaching the market. Losses are part of trading. The sooner a trader understands how to cope with loss, on an emotional and monetary level, the less time it will take to succeed. When a loss is incurred, know that there is always another trade.

Usually if you get into a trade and are not comfortable with it after a period of time, then it may not have been the best trade to be in. Your analysis should work pretty much from the start, if it does not then you need to accept that you may be wrong. At the very least this gives you an early opportunity to cut back on your position. By doing this, you reduce your exposure in the market and limit risk.

10

manage risk

10. Manage Risk, the Reward Will Come

If you control the risk in trading, then you will be around longer. The longer you are trading, the more you will learn about the markets. As you develop your trading skills, you will then have a greater opportunity to turn small profits into large profits.

Risk and reward is something that every trader has thought about. When looking at any trading system or methodology, one of the first questions that crosses a trader's mind is: What will I have to risk for the projected reward? So you pound away at how to get this information before trying it. This is not to say this is a bad idea, but most traders look at the short term instead of the bigger picture. Traders need to look at all the trades taken and figure out what was made versus what was lost, instead of how many points were made versus where the protective stop was placed. Though trading is an odds game and there will be losses, minimizing the losses will greatly increase the reward.

When looking to trade the markets, one approach allows traders to take advantage of small moves that will help traders stay in a trade longer as it develops. Most traders get into a trade and get out with their full position only to miss the big move. If the trade goes against them, the loss is many times greater than the profit that would have been made. To reduce this frustration, look to take out small pieces of the market on some of the position and let the remainder ride the trend. In this way, a trader can balance fear and greed as well as minimize the loss and maximize the gain.

11

staying in good trades

11. Staying in Good Trades

Let the market take you out. By moving stops along with the market movement, you can put yourself in a position to ride out a great trending move. If the market wants to run for 20 or 30 points, letting it run would be a good idea, when you are on the right side. Tighten your stop to below recent "noise" levels and make sure that you lock in profits as the move progresses. For day traders there are three aspects of a trade that will be looked at to get into a position of trading "for free", in other words, financed the trade to where if stopped out, there will be no loss of money. With each step, 1/3 of the total position is taken out of the market, therefore, it's best to trade in increments of three. The three aspects of the trade are the Tick, Trade, and Trend. In each aspect, 1/3 of the total position is taken out of the market at greater increments, and the protective stop is reduced to minimize the loss.

First is the "TICK" part of the trade. This is where the first third of the total position is taken out at a pre-determined point of profit. This part of the trade is really a scalp type trade where we are looking for a small initial profit after being filled. We take 1/3 of our position out of the market at .75 points on the S&P futures, 3 points on the DOW futures, 1.5 points on the DAX futures, and 1.5 points on the Nasdaq futures. The protective stop will be an arbitrary placement of no more than 1/3 the average true range of the market.

The "TRADE" portion of the trade is to catch more of the momentum of the market. This is usually twice the "Tick Trade" distance. During the Trade portion, we will take out another 1/3 of the total position meaning that if we get filled on this portion, we will have taken 2/3 of our total position out of the market. In the S&P we will look for 1.5 to 2 points, DOW 6 to 8 points, DAX 3 to 5 points, and the Nasdaq 3 to 5 points. This is the portion of the trade that will allow us to finance the rest of the trade and see if we can catch the real trend of the market. After taking out this portion of the trade, adjust your protective stop to where if stopped out, you will not lose any money.

The final part of the trade is the "TREND" trade. With the whole trade financed by this point, we are looking to ride the trend of the market. We would like the market to move in our direction for the rest of the day; however, we look to the support and resistance numbers to see where the market is likely to move to. The last 1/3 of the position is taken out at the trader's discretion, but making sure the trade will not lose money. At this point, the fear of the trade is gone because the protective stop is placed no further back than break even. Using this technique will keep you in a good trade longer, playing on the market's money.

12

minimizing losses

12. Getting Out of Bad Trades

One thing about stops is that you never want to move them away from the market. If the trade or the entry was bad, then stepping back and re-evaluating is the proper response. If you insist on staying in a bad trade, then there is a high likelihood that it will only get worse. Losses are a part of trading. Accept them and move on.

All traders have losses, and a trader will not win every time. Minimizing loss is the key to successful trading. If one can filter out the bad trades, and only stay during the good trades, losses are minimal, and gains abound. Learning from your mistakes is the first step to achieving this goal. What went wrong with the trade? Did I break the rules? Was my stop in the wrong place? These are questions every trader has to ask himself/herself after every loss. Even in winning trades, why did you win? Finding the right combination is the prize each trader seeks. What is right for one trader might not be right for another. Learning about one's own limitations and shortcomings is the first step to accomplishing good trades. If you find you have a hard time trading in the afternoon, and you trade well in the mornings, then minimize the afternoon trading and concentrate on the morning trading. Some days during the week or month might not be good for you. The key is to eliminate the trades that tend to go against you and maximize the trades that pay off.

13

diversify

13. Trading Many Markets: Diversify

There are some days when the market you specialize in may not be performing up to par. Having a diverse repertoire of markets to trade in affords you a greater chance of trading in "good" markets every time you go out. If one is closed, the other may in fact be open. The DAX market for instance trades on most U.S. holidays.

Futures markets generally move in the same direction. If the S&P Futures are trending upward, the Dow, Nasdaq, and DAX tend to also be moving up. Likewise, if the markets are trending down, all of them tend to move down. If there is divergence in the major markets, it is a clear sign that no trending direction has been found and the skillful trader needs to stay out of the market. If a trend appears to be forming, but one of the major markets is not participating, beware. The trend may not be strong and may end or reverse. Simply stated, if one of the major markets is not agreeing with the others, trouble is likely brewing.

Another thing to notice is that even when all markets are moving in the same direction and there appears to be a trend, one of the markets may be leading the way up or down such that the movements in that market are more pronounced than in the other markets. Astute traders can correlate markets and use this information to confirm market moves and to select the most profitable market to take advantage of a move.

14

education

14. Educate Yourself

Trading is a profession, and like any profession it is one that requires education. The more you know about your chosen profession, the better advantage you have in succeeding. We as individuals train for just about everything we do in life. Trading in the markets should be no different.

Education is one of the most important keys to trading successfully. Every trader has to have a basis to come back to, and a good education is the best foundation. Learning the trends of the market can save a trader from depleting his/her account. Think of the money which would have been saved if those who owned Oracle, JDS Uniphase, Lucent, or even Wal-Mart, knew when to get out of the market. If good stop loss management was in place, a trader would have lost about 10% on each of these stocks instead of holding them all the way down, thinking they were just in a "corrective" stage. Some analysts still think Lucent is a good buy.

Education not only teaches us how to trade, but how to manage money as well. Many traders have lost money since 2000. However, knowing how to identify the trend reversals and minimizing losses has helped smart traders to prosper. Those who had no education to recognize these trends are no longer trading and have gone on to other jobs. The pain endured by these traders far outweighed the joy of trading, and their emotions overcame the techniques, so the traders passed away. Knowing what to trade, how to trade, and when to trade will reduce a trader's exposure to the market and give the trader more time to analyze the market, rather than trading the market.

15

reviewing

15. Reviewing Your Day with Lessons Learned

Look back at each day and evaluate it. Every day you learn something new is a profitable day. This market can show you new things every day, and you need to be in a position to take advantage of that. If you can erase one mistake per month you make in trading, just think of the money you can save.

A trader learns from experience. One of the best ways to educate oneself is by reviewing the past. Everyone makes mistakes, though it seems more prevalent in the market, a trader won't win all the time. Looking back at those mistakes can improve the odds for the future. If a trader could eliminate his five worst trades from last year, what would his account look like now? A trader has to constantly review all trades taken each day. Learning from mistakes and eliminating them will increase the odds of making better trades. Constantly evaluate each loss and find what went wrong, as well as evaluate each win and expand on it. Keeping the good trades and eliminating the bad trades will help a trader improve performance.

After reviewing the past, the last step is to live in the future. Always striving to improve and to learn more about the market will surely enhance the ability of a trader to do well. The past cannot be changed, but a trader can learn from it. Each day is a new fiscal year to a trader, and he/she must strive to do better. The markets change and a trader must be able to adjust with the market or be left behind. No one can predict the future, but being prepared for what could happen will give a trader the edge over the majority of those who are in the market.

Every trader has had losses. Being resilient enough to bounce back and win is the goal of every trader. The tools and techniques to do this must be engraved in a trader's mind. Traders must start by looking at themselves and developing a good educational foundation before true successes can be attained in the market. Leave the past behind and look to the future. Review and learn from mistakes. Most of all, relax and enter the market each day with a clear mind. These techniques will help every trader to travel the road to successes.