"PRINCIPALS AND PSYCHOLOGY OF DAY TRADING"

By George Slezak

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ANY STATEMENT OF FACTS HEREIN CONTAINED ARE DERIVED FROM SOURCES BELIEVED TO BE RELIABLE, BUT ARE NOT GUARANTEED AS TO ACCURACY, NOR DO THEY PURPORT TO BE COMPLETE. A STOP LOSS MAY NOT LIMIT YOUR LOSS TO THE AMOUNT INTENDED. FUTURES TRADING INVOLVES FINANCIAL RISK AND SHOULD BE CONSIDERED CAREFULLY BEFORE MAKING ANY TRADES. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

REGULATORY DISCLOSURES REGARDING HYPOTHETICAL RESULTS

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS

Description of Conference Session

When you first started trading you learned that **external** distractions cost you money in your trades and you found common sense ways to deal with them. As you progress in your trading you will also find **internal** distractions, things that come from within yourself, will cost you money in your trades.

In the conference, George's memo titled "Principals and Psychology of Day Trading" will be discussed. The memo is a collection of stories about trading principals and common misunderstandings that George regularly observes in himself and in others during short term day trading, **both in the pits and as an off floor trader**. He has seen many traders trade into ruin because they were stubborn in holding on to common misunderstandings until it was too late. He feels recognizing and understanding the issues are critical to finding success in day trading.

Among the items George will talk about are: "never add to a losing position," "it is the markets reaction to news that counts," "when everyone is in, it is time to get out," "size kills," "it is always easier to enter a losing trade," "when you wake up, your instincts are wrong."

Introductory Note from George:

The memo begins with a summary, called the "daily reading", and is followed by an expanded discussion of each item.

This memo is an accumulation of ideas that have developed over several years. It is a work in progress and will be expanded with new issues over time. The memo and future updates are posted on the Internet at the following web site:

www Futures Trading School .com

Subjects to be added on next rewrite: Continuous judgment test. *** what to do with a gift trade *** Fearless *** Many similar entry strategies, but exit strategies vary greatly.

Good luck and Good Trading!

George Slezak

Other George Slezak Web sites:

www. Stock Index Timing .com

www. Commitments of Traders .com

DAILY READING ON THE

"PRINCIPALS AND PSYCHOLOGY OF DAY TRADING"

For more information, call George: 1-888 311 3400

THE TRADE DECISION

1. Never add to a losing position.

2. Always determine a stop and a profit objective before entering a trade. Place stops based on market information, not your account balance. If a "proper" stop is too expensive, don't do the trade.

3. Remember the "power of a position." Never make a market judgment when you have a position.

4. Your decision to exit a trade means you perceive changing circumstances. Don't suddenly think you can pick a price, exit at the market.

THE MARKET HAS CHARACTER

5. In a Bull market, never sell a dull market, in Bear market, never buy a dull market..

6. There are times, because of lack of liquidity, or excessive volatility, when you should not trade.

7. Trading systems that work in an up market may not work in a down market.

8. There are at least three types of markets: up trending, range bound, and down. Have different trading strategies for each.

9. Up market and down market patterns are ALWAYS present, merely one is more dominant. In an up market, for example, it is very easy to take sell signal after sell signal, only to be stopped out time and again. Select trades with the trend.

10. A buy signal that fails is a sell signal. A sell signal that fails is a buy signal.

11. It's always easier to enter a losing trade.

12. In the "blowout" stage of the market, up or down, risk managers are issuing margin call position liquidation orders. They don't check the screen for over bought or over sold, they just keep issuing liquidation orders. Don't stand in front of a runaway freight train.

13. You are superstitious, don't trade if something bothers you.

NEWS

14. Buy the rumor, sell the news.

15. News is only important when the market doesn't react in the direction of the news.

16. Read today's paper tomorrow. When you read yesterday's paper each day with the knowledge of what the market already did, you will affirm that this mornings paper with yesterday's news has nothing to do with today's market.

A TIME TO TRADE

17. On the open, never enter a new trade in the direction of a gap. Never let the market make you make a trade. (Closing an existing position is obviously ok.)

18. The first and last tick are the most expensive. Get in late and out early.

19. When everyone is in, it's time to get out.

20. Never trade when you are sick.

TRACKING YOUR TRADES

21. Size kills. Only change your unit of trading under a plan of attained goals. Also, have a plan for reducing size when your trading is cold or market volume is down.

22. Confidence kills. Remember, you really don't know anything. Respect the market every second of every day. Expect the unexpected. Always know your position and exit your trade immediately whenever you feel uneasy.

23. Measure yourself by profitable "days in a row," not by individual trades.

24. The best way to break a streak of "losing days in a row" is to not trade for a day.

25. Don't stop trading when your on a winning streak. "When your hot, your hot."

26. Three strikes and your out! Don't turn three losing trades in a row into six in a row. When your off, turn off the screen, do something else. "When your not, your not."

27. Scalpers reduce the number of variables effecting market risk by being in a position only for seconds. Day traders reduce market risk by being in trades for a matter of minutes.

28. If you convert a scalp or day trade into a position trade, by definition you did not consider the risks of the trade.

29. Don't ever fret about a missed opportunity. There is always another one just around the corner. Besides, several just happened that you didn't even know about.

MARKET OPINIONS

30. If you look for market secrets you will only find things that no one cares about. Use the conventional tools.

31. Never ask for someone else's opinion, they probably did not do as much homework as you.

32. When the market is going up, say "the market is going up." When the market is going down, say "the market is going down." Say it without qualifications, no "buts" attached. This is a reality check, you'll be amazed at how hard it is to say what is literally going on in front of you when your mind is full of preconceived opinions.

33. THE DAILY MARKET COMMENTARY: I've never had an opinion I didn't like, however, successful day trading requires flexibility. Do your homework **not** to develop a market opinion, but rather to understand the potential for both sides of the market. This will allow you to make your trades based on what the market is doing at the time of the trade.

34. Here is a quote to remember: "When you wake up, your instincts are wrong."

SOME FINAL THOUGHTS

35. When you make a mistake of discipline, whine like a fool to anyone that will listen. Errors in discipline are mistakes you will keep on making for many years. Wearing ashes and sack cloth may help extend the time before you do it again.

36. If you squirmed and moaned while you read this list, then you share two obvious characteristics with many of us: 1.You have traded long enough to recognize that *you* (not the market) make mistakes, and you try to overcome them.

And 2., now this is ugly, **you have become part of the market and you can never leave.**

No matter where life takes you, you will always check the market and always want to continue being a part of it. It's like that first true love, it will always be there no matter what the distance, no matter whether they are alive or dead.

Why is it so hard to spent 3 minutes each day to re-read this list?

------- *Check here if read before the trading day.*

------- *Check here if shoulda read before trading!!*

THE TRADE DECISION

1. Never add to a losing position.

Back

Jesse Livermore's (Edwin Lefevre pen name) Reminiscences of a Stock Operator is a book I read early in my trading career in the late 1970's. It is about a stock trader during the 1920's and 30's. One of the trading principles that he repeated throughout the book is "never add to a losing position." Prior to my reading this book, I had the idea that I could "average down" on a losing trade. IE., buy some at 10, and buy some more if it got down to 8. After all if it was a good buy at 10 it must be a great buy at 8.

Think about the beauty of Wall Street's ability to get you to average down! They actually make you think your getting a bargain by buying lower! With the idea of a bargain in your head, you don't even consider that you might be totally wrong, and the stock is going down. When you made your first purchase, the broker spent 20 minutes telling you the benefits of this stock. When he calls you to "average down", it's a 30 second sell and he got you to double your position. That second commission is a bonus to the broker for being wrong!

Once I saw that "averaging down" was not necessarily a proper trading tactic, I was free to consider that if the trade was going against me, maybe I should get out. Over time, a trader learns that the market will always be there tomorrow, and that making a fresh decision with no position is usually better. Averaging down will usually conflict with the trading discipline of having a stop loss and profit objective. Good money management will also usually not allow an additional position.

But what about pyramiding a position on a big move? Pyramiding is using *profits* in a trade to add additional positions. If a position is in a loss, there are no profits to use. NEVER ADD TO A LOSING POSITION.

2. Always determine a stop and a profit objective before entering a trade. Place stops based on market information, not your account balance. If a "proper" stop is too expensive, don't do the trade.

Good trading discipline requires that you choose a stop and profit objective before entering a trade, but picking the right point for a stop is often difficult.

There is a great deal of literature on the street that gives arbitrary rules on the placing of a stop. I've heard clients say they always want a $300 stop, (or $500, or $1,000), no matter which commodity they are trading.

A stop should **not** be based on your personal feeling about a maximum loss. A stop should be placed based on the point where the market action would suggest that your original decision to enter the trade is incorrect. If that price point is too much for your decision about loss tolerance (money management) **then don't do the trade.**

A reasonable profit objective is also a critical component of the trade decision. This gives you an amount on which to base your risk reward analysis. Why would you want to take a trade where your profit objective was say $300 away, but your stop is $600? The best professional traders will tell you a 65% win loss ratio is hard to attain.

The 80% and higher win loss ratios advertised are not a practical trading method for a professional trader. I saw the details of one trading system that boasted an 85% win loss ratio over ten years. When I saw the details I realized it only traded twice a year and exited by the close of the second day! A "professional trader" is not going to sit in front of a screen all year to only be in the market for four trading days!

A professional trader wants to find trading methods that offer consistent profits month after month. He takes a profit at a point where he has statistically shown he has a good probability of success with reasonable stops.

There are several simple ways to set profit objectives before entering a trade. One is to look at previous highs and lows that can be considered past support or resistance. Exit your trade just before the market begins a test of that level. You can use Gann levels or Fibonacci retracements as your profit objective. If I catch a turn near the high, I will usually exit just before the market gets to a halfway back.

The decision to close a profitable should NOT be based on a reversing technical signal. The decision to exit a trade IS NOT a decision to enter a trade in the opposite direction. The decision to enter a new trade should be based on a new technical signal with a statistical probability of success.

Let's say you are trading on a simple technical signal like a Doji star on a five minute Bond chart. A Doji star is a five minute bar where after a market move the open and close of the five minute bar are the same price. You might have a filter that defines a "market move" as having the Stochastics on the five minute chart to have moved from over sold (under twenty) to over bought (over 80). You might sell immediately on the Doji, with your stop one tick above the high of the Doji.

With this signal you can go back and study market history to determine the distribution of the maximum profitability before the market eventually reversed and would have theoretically stopped you out. You can also create a distribution of the number of five minute periods that passed until you were stopped out.

You can then do some optimizing to calculate what profit objective would have given you the win loss ratio that makes you comfortable. Let's say that analysis concludes 12 ticks. The distribution has profit levels as low as zero ticks to perhaps as many as hundreds of ticks. But to be consistent and avoid the large losses, you take the 12 ticks as your profit objective. In this example, your profit objective is not based on a reversing "signal" but on a reasonable statistical analysis of past history.

Since in this example I am using a Doji to signal the end of a move, you could calculate your profit objective based on how often the reversing move retraced half way back the previous move. If that meets your win loss threshold then use that level as your profit objective.

These few examples illustrate that the profit objective can be very different than waiting for a "reversing" signal and can be calculated before entering a trade.

3. Remember the "power of a position." Never make a market judgment when you have a position.

"Remember the power of a position." Once you have put on a trade, that fact that you have a position will totally bias your judgment. You need to remember the parameters of the trade you set down before you entered the trade, and follow those parameters.

I often tell clients the story of how I was advising a client on a short term day trade in Bonds. I helped him get short, then placed a stop above the market. During the trade, I felt uneasy about the action of the market, and had the client cover his short at a small profit. He instructed me to cancel his stop, but because of some distraction, I didn't turn in the ticket to cancel the stop. As I had thought, the market made a quick rally up, but still looked weak, so I called the client and advised him to re-establish his short. We placed a new stop above the market, and were looking for a retest of the days lows.

A few moments later, I received a call giving me the fill on the stop. The stop had been elected at a price just above where I had just recommended a short. It was my error in not canceling the stop, so I was now long in my error account and it was trading at a small loss.

I needed to close the error, but I looked at the market to see if the market might recover a little so I wouldn't realize a loss. The market was heading down as I had expected when I advised my client to go short, but I was sitting there trying to see if I could imagine a situation that would give a small rally so I could exit the error. I was trying to make a new market judgment when I already had a position, I was trying to rationalize that just because I was long, the market might let me recover.

I learned long ago that before you enter a trade, you establish a stop loss point and a profit objective. Now I was looking at the market trying to make those judgments based on a trade that was already on, and already underwater, and exactly opposite what I thought the market was going to do. And even worse, I was trying to make those judgments based on the current price of the market, not where I entered the trade. I was hesitating writing the ticket to close the error. In the pit of my stomach I new my hesitating to close the error was wrong, but I just wouldn't write the ticket!

I thought of one particular client who would regularly refuse to give me a stop order until some time after he had entered a trade. He would say, I like to use a $500 stop, but would place it based on where the market was at the moment he was on the phone giving me the stop order. If the trade was already against him $100, he would place his stop $500 from there, not from where he entered the trade. It would drive me nuts! He wanted to trail the stop on a winning trade by $500, but he also ended up *trailing the stop on losing trades!* He talked good discipline before he entered the trade, but when trades went bad, he consistently took larger losses than his original plan.

All of the above went through my head in a few micro seconds, and I finally wrote the ticket to close to error with a four tick loss. I was amazed that after twenty years of trading, I still had to go through that process.

The market continued on down another 16 ticks and retested the low of the day. I called my client that was short and had him cover his trade, and canceled his stop.

As a reminder, I took a copy of the fill ticket closing my error and reduced it on the copy machine to about one inch by two inches. I have that ticket taped to the side of my computer screen with bold letters that say "ALWAYS REMEMBER THE POWER OF A POSITION."

One other note, if you agree with my arguments above, **then it is inconceivable to enter a trade that reverses your position from say long to short** (IE going from long five to short five by selling ten.) First exit the position, then take a breath, then make a decision if you want to go the other way. Normally you will find the reason to exit a trade is NOT a reason to enter a trade in the other direction. The exit is part of your defense of capital. The offensive decision to enter a trade SHOULD be for completely different reasons.

4. Your decision to exit a trade means you perceive changing circumstances. Don't suddenly think you can pick a price, exit at the market.

Many times I find clients taking a position long or short and while they are in the trade they indicate that it doesn't seem to be going the way they thought. When I hear this, my advice is "when in doubt cover half, or completely get out and take a fresh look." They will agree with me, and then give me a limit order, *just slightly away from the market*, to close the trade.

They don't feel the trade is going right, but they now think they can pick up an extra three or four ticks before they get out. If it was that easy to just pick up four ticks, why not just do that all day! Time after time, the trade then gets away from them and they end up taking the full loss to their stop. Their stomach told them the right answer (to get out), but that little wind of greed or pride kept them from avoiding the loss.

IF THE TRADE ISN'T GOING THE WAY YOU THOUGHT, GET OUT AT THE MARKET!

THE MARKET HAS CHARACTER

Back

5. Never sell a dull market.

There are times when a market is out of season, or, just drifting quietly. Many times over my trading career I have followed the rule, "Never sell a dull market." The reason is that most people are NATURAL BUYERS. Has a stock broker ever called you when nothing special was going on to just sell? No, people want to "buy" things with their money.

So when the market is in a vacation mood. Not doing anything special, the greater risk is being on the short side. If a broker wants to make a commission, he knows it is easier to bring a "buy side" idea to a client. If he brought a "sell side" idea to a client, and the market was acting dull, the client couldn't imagine that a sharp sell off is on the horizon, "not in a market that is this quite".

There are exceptions, in particular the grains in a quite summer market. While the crop is in the ground and doing well, the natural market is for the farmer to sell. After harvest, the natural market in the grains turns to the buy side as previously hedged positions are lifted in the course of normal usage.

I have been corrected on the completeness of my quote. Never sell a dull market is in fact, IN A BULL MARKET NEVER SELL A DULL MARKET, AND, IN A BEAR MARKET NEVER BUY A DULL MARKET. The S&P's began trading in 1982, which is generally considered the beginning of this Great Bull that is still in place as of mid 1997. If we ever go into a BEAR, we will see if the opposite is true.

Either way, I can apply it to simply say NEVER TRADE in a dull market. As a day trader we are generally using technical indicators to help us trade with the trend. In a dull market the trading population has "gone fishing" and expecting the trading characteristics of a population of large numbers to apply to a small population is proven time and time again to be treacherous.

6. There are times, because of lack of liquidity, or excessive volatility, when you should not trade.

Over the years, I have had clients that would call every day at lunch time to try to do an S&P trade. I've traded the S&P's since they opened in 1982. The lunch hour, or the noon balloon, is a quiet market that can spurt for a few moments, but then fall back to where it was. My rule of never sell a dull market applies to the noon balloon in the S&P. (There can be a busy noon balloon to the downside, but that's a rare exception in my opinion.)

When there is liquidity, this means the population that trades a given commodity is competing for price. The larger the trading population, the more likely it becomes that the price movements will conform to our expectations based on technical indicators. When there is lack of liquidity, then any wild hair can come into the market unexpectedly, and jam it one way or the other on their whim. There simply is no one there to stop him.

When markets get excessively volatile, the "locals" or "market makers" widen out the spread between the bid and asked. In the S&P's before the crash in 1987 the bid/ask differential was one tick. During the crash, the markets in the pit had a bid/ask differential of 2.00 points! (25000 bid, offered at 25200). The bid ask differential went from $25 to $1,000. The reason the bid ask difference got so wide was that the locals didn't want to trade in a market that was acting insane. If the pit doesn't want to trade, neither should you. When that happens to a market, close your positions and just don't trade.

7. Trading systems that work in an up market may not work in a down market.

There is a big difference between an up market and a down market.

In an up market, or Bull Market, buyers are attracted to the market by the rising prices. Rising prices, even in commodities, are generally considered good news.

Traders, and investors, accumulate money before they begin to trade and only when they have adequate capital do they begin to trade. So their fundamental state of mind is "I now have some money, I want to buy something." People generally look for something to buy.

So a market that is going up, is generally attracting more and more buyers. Market tops are generally characterized by rising open interest and rising daily volume.

In a down market, generally the people that previously bought are trying to get out. Traders that look for opportunities on the short side of the market are generally a bit more sophisticated in their trading approach. They have traded for a while and can see the profit potential in participating in a down market. Most likely, they started their trading career like the majority of traders, as buyers.

So in an up market, the population of people in the market keeps on increasing right into the top. In a down market, those that were long are trying to get out. When the market starts down, short sellers are pushing, but the down trend doesn't really set in unless the longs are liquidating. Market bottoms are generally characterized by declining open interest and declining volume. At the bottom no one cares about a market, and generally very few people are trading the market.

Imagine sitting in a theater an hour before the performance and watching the audience come in. Over the course of the hour, the entire theater fills up. People wander in, get up and go out, then come back in again.

Now imagine how the theater empties after the show. Some get up early and leave, but generally the majority of the crowd get up and leave at the same time, and certainly after 15 minutes, the place is empty.

This process of bringing people in, and then getting them out, is similar to the markets. An up market just keeps filling in more market participants along the way, a down market has everyone trying to get out as soon as they can. A panic attempt to exit, just isn't pretty.

Generally, a down markets last about half as long as up markets.

It has been my experience that the indicators I use in up markets just don't work well in down markets. I believe the basic reason is time. In day trading the S&P's for example, I have found that the 30 Stochastic is a good indicator for an up market trend. In a down market, the 15 minute Stochastic is better. Similarly for candlesticks, in an up market I follow the 30 minute candles for market direction, and in down markets, the 15 seems better.

In the stock market overall, the 9 day moving average versus the 18 day may be one of the best trend indicators. But in a down market, the 3 day versus the 5 day is probably much better.

Find indicators that work well in an up market, and different indicators (or adjust time periods) that work well in a down market. Whichever indicator is giving profitable trades will help you understand the market trend.

If you do come up with an idea for triggering a trade, make an effort to back test for at least five years.

Back in 1994, I observed that "outside days" in the Bonds seemed to be a pretty good signal I could use with "retail customers." Everyone wants a "system" for making trades, but retail customers with nothing more than the daily newspaper for an information source need something simple and easy to understand.

I tested a simple premise on 1993 data and found it to have been correct 18 out of 20 occurrences. What I was testing is when there is an outside day in the Bonds, a trading day with a higher high and lower low compared to the previous day, based on the close of that day being above or below the midpoint of that day I would enter a trade with a 30 tick stop and a 30 tick profit objective.

I started trading it, and it ran by the numbers for part of 1994, then streaked with 5 losses in a row. I decided to do a little more testing and using 1992 data had 18 losers out of 20! THIS WASN'T A "SYSTEM" IT WAS A "SYMPTOM." 1992 was an election year and Bonds seemed to be pushed around by the Treasury with Social Security Trust Fund Investments. Friends from the Bond pit confirmed that 1992 was just an awful year for trading. Things just didn't trade right.

But now that I recognize that "trigger" that worked so well in 1993 and tested badly in 1992 is a way to gain **information** about the market. If that "trigger is working, then maybe trading will be more technical with expected follow through, if it is not working, then a choppy trading approach may be better.

8. There are at least three types of markets: up trending, range bound, and down. Have different trading strategies for each.

As I discussed above, I perceive a difference in trading action of an up market, compared to a down market. But, there is another kind of market that must be considered, the range bound market. Indicators that simply oscillate between overbought and oversold are going to help you most in a range bound market.

Also, like the indicators discussed above, the time period of the trading day is very important. Using a five minute chart, selling overbought and buying oversold during the lunch hour may be a profitable strategy, even though the trading day on the 30 minute chart is in a solid up trend.

But trading the 5 minute stochastic overbought / oversold during the last hour of the trading day can be a disaster. I find the last hour of the trading day in most markets is simply a function of people doing what they have to do to unwind their day trading positions, irrespective of what the indicators are saying. Day trading shorts, particularly bad shorts on an up day, are going to cover before they go home. Longs on a down day are probably going to get out. In the Stock market futures, there is the mutual fund trading near the close to settle up redemptions or new money from customer requests over the past 24 hours.

I believe there is always an indicator that is giving profitable signals. You need to make some decisions about the time horizon you want to trade, then find an appropriate indicator to follow.

9. Up market and down market patterns are ALWAYS present, merely one is more dominant. In an up market, for example, it is very easy to take sell signal after sell signal, only to be stopped out time and again. Select trades with the trend.

This is a very interesting phenomena. Have you ever wondered why in a bull move, the bears just keep selling and getting stopped out? Well, I've been there, done that.

I understand now, that the indicators I used to make money on the downside, were doomed to failure in an up market.

Just look for a simple head and shoulders market pattern on a five minute chart. Overall this pattern has about a 35% success rate, but when it works it can be very good. If however you look at back data that was clearly in an up trend, you will find that the inverted head and shoulders patterns were successful probably 75% of the time, and that the regular head and shoulders top patterns just whipped the sellers time and time again.

Now go look back at a market that was in a down trend. There you will see head and shoulders patterns on the 5 minute chart working time after the time. The inverted head and shoulders patterns failed over and over. The bulls that made money on the pattern in the up trend, keep buying the breakout and just don't understand what is going wrong now!

I saw this effect several years back when I opened a "discount" account for an S&P day trader. He had been to a seminar on Japanese Candlesticks and was trading at a "wire house" using the 15 minute candlestick charts. He was simply selling every Doji star and taking a couple of points profit very regularly. He wanted to get a cheaper commission rate because the "wire house" just didn't give him any help.

I opened his account and offered my "full service" rate to him saying at a full service rate I would be available to share my understanding of the markets with him. He explained his method, and said he didn't need any help and wanted the cheapest rate available. So I put him on the discount table, and let him go.

Over the following two weeks, he doubled his account. He had nearly 15 winning trades in a row. I called him and commented on how well he was doing, and again asked if he would consider a "full service" rate and trade through me so I could offer him help when the situation might arise during the course of trading. I relayed my story about the "old guy" on the trading floor (see item 21) when I first got into the business. He smirked and said he didn't need any help, he would just keep his money machine going, buying and selling on 15 minute Dojis and taking 1 to 2 S&P points each trade.

About a month later, he called to balance out his account because his account was so small he wasn't allowed to day trade any longer. He asked me what happened to the market over the past several weeks? He said he had been was losing on every trade he made. I said I didn't know what he had been doing, but that the market hadn't been that volatile, it simply climbed up slowly every day for the past two weeks. I suggested that maybe his "system" only worked in volatile markets (which are typically down markets), where things move fast. The quiet up market over the past several weeks may not be the right kind of market for his method of trading Doji breakouts. He said, "well thanks for telling me, you're a lousy broker." I said, "I wasn't your broker. You wanted the cheapest commission rate available so you went to the discount table. You didn't want to pay for a broker, you got what you paid for."

I thought, "here I am, trying to defend myself because someone else, who wasn't my client, is tapped out." The "old guy" was right. Traders come, and traders go. If you develop a friendship with "new kids", and if they can't survive their mistakes then they will be gone. The friends I talk to about the markets are people I've known for twenty years, that have been trading for 20 years. I mentioned to one friend that I felt bad about this trader tapping out, I had thought he could be pretty good, and he said "don't let that beat you up, you got the market to beat you up every day."

10. A buy signal that fails is a sell signal. A sell signal that fails is a buy signal.

This is a lesson I learned many years ago when I was on the trading floor of the CBOE. I remember talking with a group of friends that were "technical" traders who kept many of the same indicators in guiding there trading. On one occasion, several of them referred to the "breakout" of the advance decline line to new highs. I had read "Barons" over the weekend and the "breakout" was mentioned in one of the articles.

Now, I did not already have a position in the market in the direction of the "breakout" so I was just watching the market and the how the group of traders were doing with their positions. I thought the market was not acting like it should for the beginnings of a major move to the upside, and the individual traders that had positions looked concerned. As they slowly lightened up on their long positions I put on heavy shorts.

Eventually the market turned down and the other traders became aggressive sellers pounding the market to get out of their positions. The market resumed it's downtrend for several weeks.

There had been an important "buy signal" that was well publicized. When the "buy" turned out to be wrong, it was a great "sell" trade. The sell side was easy to get on, and pretty much never had a draw down. When I reviewed the market top on my charts several weeks later I looked for "what technical signal" would have given me a reason for doing the trade to the sell side. There wasn't any special signal in the market action that I could find, it just turned and went straight down.

I realized that the signal for the trade to the downside was simply that the "buy signal" hadn't worked. I have always kept that lesson in mind when I'm trading

.... "A buy signal that fails is a sell signal."

Since the late 70's and early 80's creation of the S&P futures and the Bond futures, many books have been written about day trading. My observation that "a buy signal that fails is a sell signal" is shared by many authors who commonly refer to the concept as a "breakout failure." Breakout failure trades are particularly special trades because of the generally small stop loss point on the trade.

If there has been a breakout to a new high or through a trend line that then falls back below, you can take a position opposite the breakout with a stop at a new high above the breakout. It is a natural place for your stop because it is hard to say it has failed if it then climbs to new highs. Also, the initial breakout probably ran the first group of stops, so when it comes back up and hits your stop you should be able to get a reasonable fill because the main group that covered on the first breakout has already been hit.

11. It's always easier to enter a losing trade.

Don't you just hate that! Let's say there is an up move in the market and your trying to get in. Finally it starts to pull back so you do a quick calculation of the halfway back, and place your buy order. The market pulls back three times to one tick above your order, then explodes to the upside. You never got in so you start moving your bid up (chasing it up), but it just keeps walking away from you.

The next time you see the market is set up the same way, you place your bid a quarter point above the half way back. The market comes down, lets you in, and just keeps sliding down through halfway, then two-thirds, then new lows for the day. You never saw daylight, and had to chase down to exit your trade.

This happens all the time. The advice I want to offer is to place your stops BEFORE you get in the trade. If the trade goes bad, it tends to go bad right away. So when you place your buy under the market at say 67530, at the same time place your stop at say 67430. You don't have to wait until your filled to have your stop in the market. Re-Read item 2, above.

12. In the "blowout" stage of the market, up or down, risk managers are issuing margin call position liquidation orders. They don't check the screen for over bought or over sold, they just keep issuing liquidation orders. Don't stand in front of a runaway freight train.

This doesn't happen often, but it does happen. It's the kind of situation that just takes your breath away. It goes and goes and goes some more. If your lucky enough to have a position with the market, trail your stop at a comfortable level and exit MOC. If your right this kind of market, it was just luck. Don't think you can plan it again.

If your wrong this kind of market, remember you should place your stop based on when and where you entered the trade. Just because it seems out of control is not a reason to let a loss go further. Get out. Re-Read 2 above.

When a market like this is happening, I'll often get calls from customers saying they want to just get on and go for the ride. I'll ask, did you plan this? Is it part of your trading strategy, where are you going to place your stop? How will you feel if you stop is filled 2 or 3 points worse? The market is in chaos. It is not following any rules. Would you bet, say $3,000 per contract, on a toss of a coin? And if you win, will you ever be able to follow your day trading strategy again? Watch the market closely the rest of the day, and then watch tomorrow. This type of market move is characteristic of the END of a move. When it settles down, we are likely to reverse trend. That is what a "blowout" is, the end of the move. We don't know where it ends.

13. You are superstitious, don't trade if something bothers you.

The only thing worse than putting on a trade and having the order clerk confirm the order giving you back ticket 666 is having the clerk give you ticket 666 when you get out of a trade. If he gives it to you on the way in, at least you can immediately put in another order to close the trade. When he gives you that number on the way out, it is just hanging there. What's gonna happen next?

Or trying to buy 20 at a certain price, and being told they are still working it, but so far your filled on 13. You just know your gonna get filled on the balance, and stopped out within 10 seconds. (When I was in the pit bidding on 20 and someone would say sell you 13, I'd say, "I'll buy 12." If I had to take 13, I sell it out immediately, preferable taking a tick loss. Get it over as quick as possible.)

Or driving over a black cat on the way to the office. (Ooo, that was a bad month!)

Or trading on Friday the 13th.

Or forgetting your lucky pen.

Or writing your orders with red ink.

Or having your partner open his umbrella in the office and place it behind you to dry. (Gee Dave, you might as well put a vudoo doll with a pin stuck in it's wallet under my chair!)

Or showing me a picture of an elephant with his trunk hanging down.

Or wearing socks during the summer.

Or throwing out my lucky tie!!! (ooh that hurts!) You can't believe until you see it on the trading floor how some traders have worn the same tie every day for ten years. These ties are shredded scraps of cloth, but still worn every day.

Or one of your kids giving you a "new lucky tie" for Father's Day. (Now you gotta walk around wearing two ties, after all, it might be a good one.)

Just the other day I drove at 45 MPH in a 30 right past a Cop with radar. He didn't even blink. That day I had 12 winning S&P day trades in a row!

The wealthiest pan handlers in the city stand just outside the Chicago Mercantile Exchange. I've seen guys give hundred dollar bills every day when they are on a roll.

The number one Salvation Army Christmas collection bucket is on the street between the Chicago Board of Trade and the Chicago Board of Options Exchange.

NEWS

Back

14. Buy the rumor, sell the news.

I think if you spend some time following the Bond Futures reaction to the near daily economic news announcements, you will understand that the market anticipates nearly every news item, and the markets reaction to the news is based on how close the estimates were to the actual news. So when a news item comes out, and someone says "wow that's bullish," you need to ask "why, was that better than expected?"

I remember the day after the 1994 Congressional election. The announcement overnight was that the Republicans had won control of both the House and the Senate. I had to fight off my clients all morning to keep them from buying on the open. The market had been going up for the past couple of weeks, and when the results became known, the market opened up 1%, then went straight down all day, and continued to go down for the next month.

Think about it. How could that be unexpected news, when there had to be the majority of voters voting for that result. It could have been a surprise if the announcement was 25% of the vote went to the Democrats and 75% went to the Republicans, but the winner was the Democrats. You would have to say that result would have been unexpected.

Another one of my favorites is when one of my clients calls me and tells me the temperature in Florida got below freezing the night before and he wants to buy OJ. I think, does he think he can go to the track and wait to see who won the first race, and then go to the window to buy a ticket on the race that already happened?

If a freeze is going to hit Florida, it is because a severe cold front started in Canada and pushed down through the Midwest and finally to the south. It might be unexpected to my client, who doesn't bother to turn on the weather forecast, but everyone else has been tracking the storm for a week, and day by day the price of the OJ futures was rising, anticipating that the cold front would make it down to Florida. Once the front hits, the question is how bad was the damage? Was it worse than expected? Usually it isn't, and after the up opening, everyone who bet on that horse is cashing in their tickets.

Remember, those of us who anticipated the news have to find someone to buy our position so we can take our profits. We need those guys who react on the big openings. God bless then each and every one.

15. News is only important when the market doesn't react in the direction of the news.

It's the markets reaction to the news that is important, not what the news is. In a Bull market, good news is good, and bad news is good (climbs the wall of worry.) In a Bear market, good news is bad, and bad news is bad.

When a market goes up after bad news, it just didn't care about the bad news, "it's a buying opportunity," it's a Bull market.

When a market goes down on good news, "it's a selling opportunity," it 's a bear market.

16. Read today's paper tomorrow. When you read yesterday's paper each day with the knowledge of what the market already did, you will affirm that this mornings paper with yesterday's news has nothing to do with today's market.

Anything that is in this mornings newspaper was on the wire services as it happened yesterday, and the market reacted already. Unfortunately, you may not have seen the news item when it happened, so reading the paper might be informing you of something you didn't know and it could affect your trading today. To avoid that, always read the paper one day late. If you catch something in the two day old paper you missed during the day two days ago, it is easier to let it go and not let it effect your trading.

Also, the best way to bring home the rule "buy the rumor, sell the news" is to see the feature article in the WSJ about, say, cotton, and know already that the market opened on the high of the day and then went straight down. You begin to realize that article was probably the result of several days of research, went through several layers of review, it's old news. It is not telling you that something might happen in the near future, it is telling you history that has already happened. The story suckered in the final group of buyers, and gave everyone that was already in a chance to get out.

It doesn't take long to understand that the end of the day news reports of why the market did what, is merely based on the logical assumption that what happened today had an effect on today. I squirm in my chair when I listen to the "Nightly Business News" say the Transportation index was up strong today because of the $1 drop in oil prices. I know yesterday, crude oil rose $1, and the Transportation index was also up. So why does the fact that it crude fell back down today explain today's rise in the Transports? (Then the next day crude is back up again, and so are the Transports, and they ignore connecting the two.)

The reason I'm so aware of what I consider this incredible inconsistency is because I always read the paper one day late. Their explanation of what happened that day made sense on that day. But merely seeing if it still made sense the second day so often proves to be the wrong answer that I just don't want to listen to them.

Back

17. On the open, never enter a new trade in the direction of the gap. Never let the market make you make a trade. (Closing an existing position is obviously ok.)

Before I explain this, I want to first say, if you have a position and the market is opening through your stop, you must follow good trading discipline and close your trade on the open. Never rationalize yourself out of your predetermined stop.

Most of the traders in the world go home flat. We make our money getting in and out of the market over just a couple of minutes. It just doesn't make sense to a trader to take home a position and have 16 hours of risk. So when there is a big surge open, say up, who is going to sell to the surge of buyers? Think about it, if buying the big up open was such a great deal, why would the traders that are the most consistent money makers sell? The reason is they have priced the open so far up, that they think at this level it is a good sale. In their judgment, it more than reflects their expectation of what is necessary to satisfy the temporary surge in demand. So a sale at this level will be a profitable sale.

So no matter how bad you feel about missing the move that caused the big gap up open, at the open the move is already over. It is all already in the market.

I had a client who was a nuclear engineer and spent several years studying the impact on the Bond market of economic news releases. He recognized that the market movement was based on a variance of expectations versus the actual report. He also quantified that based on a ten year study of tick by tick data, within 3 minutes after the "unexpected report" the market returned to it's normal non- correlated trading patterns. His trading strategy was to calculate a probability of when the expectations were wrong, and enter a trade in the Bonds 30 seconds before the number, and exit within 3 minutes.

18. The first and last tick are the most expensive. Get in late and out early.

If you pick a number that you think is going to stand as the high, why not see if it actually stops there and reverses, at least for a minute, before you get in on the new direction. You'll miss the exact top number if you were right, but I think that is better than having the market not so much as pause for a second as it blows through the number you thought was the high. You know as a "number picker", if it gets through this one you will simply do a new calculation and pick another one.

Further, if you were right in picking the number, consider placing your trade **based on the stop** you want to use. Let's say you pick 65560 as the top, and usually use a one point stop. Why not enter your trade at say 65470, after it stopped and turned down from 65560, and place your stop at 65570. If your number was the top, you have a great trade and a stop that shouldn't get triggered!

So there is nothing wrong in entering your trade a little bit after the turn. By waiting for some sign of changing momentum before you got in you increased the chances of a successful trade.

The same is true on exiting your trade. If you have a good method of trade entry, you will have a greater number of successful trades by exiting your trade before the market puts in a turn the other way.

Think about it. How many times have you had a trade that was profitable, but by the time you exited, you closed the trade at a loss? As a day trader, your success will come by having a high ratio of successful trades in the bank.

Let's say you have a certain break out pattern you use to enter a trade. First of all, you have momentum on your side because by definition a "breakout" trade has already put in a turn and has moved to a higher high or lower low than the level you are breaking out from. Your not trying to catch the "first tick" of the change in market direction.

If you are following a "breakout" trade method you are admitting you can't catch the "first tick" of the market move, so why should you think you can hang on until the "last tick" of the move? If you think you can pick the "last tick" then you should be a "number trader" trying to pick the "first tick", after all the last tick going one way is the first tick going the other way.

In this case, the "signal" is based on actual price action so you can go back in history to "test" the actual results of the method.

I did this on a simple breakout method I used in the DMark. I went back through five years of five minute data on the DMark and calculated a distribution of maximum profit based on different levels of stops. Then I took the information to find out at what level did I have 60%,70%, 80% winners. I found the maximum overall profit of the approach had only 30% winners, and testing through monthly periods of time had many consecutive losing months in a row. I also found that I could have 80% winners at the 7 tick profit objective level and a 10 tick stop, no losing months but the overall five year profitability was about half of optimum.

Which would you choose? The maximum profit method objective or the more consistent profit objective? Can you sustain three months of losses at any given time or do you expect a regular income from trading?

I choose the 7 tick profit objective which was statistically guarantee to be exiting early nearly 70% of the time. My ego needs winners to be willing to get up the next day and try again.

19. When everyone is in, it's time to get out.

Several years back I wrote a "Futures Fax" recommending that my clients exit a long Gold trade. I told the story about a beach in Hawaii where I often took my children when they were younger.

The beach was on the west end of Oahu, and during the week, we would go there and be the only people there. The beach was posted "Danger, strong undertow." I would put life jackets on my then 12 year old daughter and 5 year old twin boys (they are over 21 now) and let them roll around in the surf. I would stand about 10 yards out in the water, facing the beach, and watch them every minute. The waves would come up and knock them off their feet like bowling pins. They would get up, make an awful face, wipe their eyes, giggle like crazy, them get knocked over again by the next wave. They would play like that for hours.

On one trip, we went there on the weekend, and there was a lot more people there. Apparently, the "locals" on their days off, preferred this more remote beach to the "tourist" beaches. I put the kid's life jackets on and took my post in the water to watch them, but in a short period of time, there were a lot of kids in the surf.

Their moms and dads were up on the beach starting barbeques and sitting next to coolers, and the waves were knocking all of the kids over. With so many people there, it wasn't a lot of fun. Babies would wander into the surf, and mom would come screaming over to pick him up. Groups of kids would get knocked over and go out whining to mom and dad about sand in their eyes.

When we were the only people on the beach, I was able to "control" the risk of the high surf beach. With the beach crowded full of people and kids, I just felt there were too many distractions, too many things that could go wrong, I didn't feel comfortable about the safety of my kids. We packed up and went to the tame beach by the hotel.

I told the above story in relation to the position my clients had being long Gold. I explained that based on the Commitments of Traders, we had got in long gold near the lows and had traded in and out and built a position with nearly a 30 dollar per oz profit per contract over the past six weeks. I explained that from the charts I did not have a sell signal, and that we had still not met the profit objective that was about $20 higher.

But, the Wall Street Journal had an article that day that laid out the reason why Gold was going higher. CNBC had several features that day on Gold and Gold Stocks, including John Murphy showing the strong charts explaining that it should go $20 higher.

It just seemed everyone was in Gold with the same opinion. Where we had been trailing our stops and easily moving in and out, suddenly there were gaps and more volatility. I said it looks like "everyone is in, so let's get out." I didn't feel, if hit, our stops would get filled well. I just wasn't comfortable recommending the position any longer. I said I don't have a "sell signal" but let's get out and go find some quite, ignored market with a new COT "signal."

A couple of days later, Gold opened with a $12 down gap and quickly slid all the way down to the lows.

Sometimes, the same type of thing happens when your day trading. You just sense that everyone is in on one side of the market. It's one of those days where CNBC says, "based on the last ten years the market has been up on this day 85% of the time." This may not be the time to go opposite what everyone else is doing, but there is nothing wrong in just stepping aside, and watching when you get that feeling.

As a trader you have to struggle with the knowledge that "everyone" is saying the same thing. You have to remember that by the time "everyone" is aware of something, the ones who anticipated the event are getting out by unloading their positions to the "Johnny-come-lately's."

If you correctly anticipated the situation you have to overcome the "see I told you so" feeling because you have to avoid the ego trip of being right. You made your money on the trade by getting in BEFORE any one else believed you. Now that everyone pats you on the back and agrees with you, that is a sure sign that it is time to exit and re-think the situation or move to another market. You know "everyone" told you were wrong when you entered the trade, but you were right. If "everyone" now tells you are right you must expect that "they" are all wrong again because that is their track record.

20. Never trade when you are sick.

Over my 15 years as a trader on the trading floor there obviously have been times when I had a cold, or a sore throat, or the flu. I have learned many times over that trying to trade when I'm sick has always cost me a great deal of money.

Trading requires split second judgment, both when your in the pit, or sitting at a screen. A simple momentary hesitation can be the difference between a good trade and a bad trade.

Many times I have gone to the doctor for a sore throat, and asked for a shot of antibiotic to knock it out of me, only to have the doctor tell me to take a prescription of a new pill form antibiotic. He would tell me that these are non- drowsy, they will have no side effects.

I'd feel better the next morning and go to work. At the end of the day I'd look at my trades and find I made, say 20 losing trades in a row! Where was my discipline? Why did I keep trading? The simple answer is some small part of me was a little numb. My reactions were just a little bit off center. I was not feeling that turn in my stomach that becomes part of the reflex in getting out of a trade.

I had gotten into trades on my normal method that I feel gives me a probability of success, but often after having had a profit in the trade, I let it turn into a loser before I got out.

Knowing when to get out of a trade at a profit is one of the most misunderstood parts of trading. This is where trading is truly an "art." When I'm trading well, I find I often get out early. I feel great at the end of the day counting the number of "winning" trades I had in a row.

If your sick, and taking one of the "new wonder antibiotics" that have "no side effects" (but will also clean the dirt out from under your toe nails) or some other medication outside of your normal way of feeling, JUST DON'T TRADE. A big part of trading is that subjective way you feel just a little bit different while your in a trade. If your on some unusual medication, or feeling under the weather, you just don't have that usual built in basis of reference to your feelings about the trade.

21. Size kills. Only change your unit of trading under a plan of attained goals. Also, have a plan for reducing size when your trading is cold or market volume is down.

When you first start trading, doesn't it make sense to trade just one contract until you have some pattern of success before beginning to trade two contacts at a time?

As you find your niche, then go to 3, 5 or 10. You will find that as you increase your size, your trading strategy begins to change from when you were doing only one. You may take a few off early, you may add an extra couple, then take them off again quickly. Each time you increase your size, you are going into a new area of your trading pattern. You will fell different, but if you continue successful trades, you will build a comfort level and eventually push larger.

Traders commonly make the mistake of trading at a size level that is perpetually undercapitalized. Let's say you start your account using "day trade" margins, which are generally set at half the full overnight margin. If you have some successful trading, and increase your account to an amount equal to "full" margin, should you then double your size? Most people do, and eventually get knocked all the way out.

It seems minimum margins are set at an amount equal to about one times the largest expected (two standard deviations) average daily range per contract. I don't believe the Exchanges have a published hard and fast rule that they are locked into, it just seems that is where margins are usually set. The point is margins are set in relation to the contract's daily volatility for the protection of the Exchange and the FCMs.

So if your trading account only has day trade margin (half the exchange minimum margins) to cover your trading, one common trading error can wipe you out if there is a big move day. The most common errors that wipe traders out are putting in a buy instead of a sell. Or forgetting to cancel a stop after you close a trade, and then having the stop hit as the market makes a run towards a limit move. Under either circumstance, you have a position the next morning that you had not planned for and you have a big margin call. Your toast, adios, bye-bye, signora, screwed, got the shouldawouldacoulda's, mad, on the bench, etc.

You've been a successful trader, having the majority of your trades as winners, built up your account, and now a trade error has knocked you out, and maybe put you deficit. You can't trade until you put in some capital, and you see the successful trades you would have done happening all day. Your trading judgment was right, your just made a mistake related to the details of trading. Sucks huh?

I can't tell you not to start out under margined, everyone does. I can tell you however, that you should not increase your day trading size until you have more than two times full margin per contract account balance. So if the S&P margin is $12,000, You should not go to two contracts until your over $24,000.

You might say, "wait a minute. I started out with say 8k trading one contract, now I'm up to 16k, I want to trade two's." My response is if you can make 8k trading one, wait until you make another 8k, bringing your account up to 24K before you increase your size. Just because you got away with it trading undercapitalized for a while doesn't mean you should ignore that risk forever. My trading experience says it's gonna happen sometime. It has happened to me as well as everyone I know. Mistakes, bad days and errors are just a cost of doing business and you better have the reserves if you want to stay in this business. If your gonna be trading for the next ten years, delaying another couple of months just doesn't matter in the big scheme of things. It's better than getting knocked out for the count by a blind side.

If you talk to traders that trade managed money you will find that most require FOUR times margin set aside to determine trading level. They try to never have positions where margin requirement exceeds 25% of account capital. They have a business to protect and they know "overtrading" eventually will catch up to you.

You also need a plan on when to reduce your size.

Using my S&P example above, if your account drops below $24,000, you should be back to trading ones. If you waited for 24K before increasing to two S&P's in your day trading, if your account drops below that number you go back to ones. The process of increasing your size needs the discipline of cutting back your size when your trading gets off balance. This is essential because as you increase your size, the money comes a lot faster, and can go a lot faster. If, when you traded ones, you would make or lose $500 a day, when you get up to fives, you'll be making or losing $2,500 a day.

22. Confidence kills. Remember, you really don't know anything. Respect the market every second of every day. Expect the unexpected. Always know your position and exit your trade immediately whenever you feel uneasy.

Try to stay in the game. Survive

I remember when I first walked onto the trading floor as a member back in 1978.

Prior to my going into trading, I was a CPA with a major Public Accounting firm, and had worked in International Finance. I thought I knew something about business, and that this would help me as a trader. I needed to pick the stocks I was going to trade in (I started trading as a member of the option exchange, I didn't move to the Commodity Exchanges until the S&Ps opened in 1982), so I reviewed several Annual reports and 10Ks.

Right from the beginning, I was losing money fairly consistently. It was pretty clear I didn't have a clue how to trade from the floor. I watched traders that appeared to me to be making money. I tried to understand what they were doing. I made an effort to try to join different traders at lunch or having coffee.

There was this one "old guy" who was always on the floor, but stood off in the background. I went over to him one day and introduced myself to him. He cut my introduction short and said he tried not to make acquaintances with traders on the floor. He said traders come and go too fast. He said "if your still here a year from now, then we'll talk." Then he turned and walked away. He said it in a kind voice so I didn't find him rude.

Over the course of the following year I found many different ways to lose money. One particularly prominent member offered me some advice one day, and even let me participate in part of one of his trades. He sold 1,000 "out of the money" options for a 1/16th minimum tick (a tiny) just moments before the options "expired". He graciously turned to me and asked if I wanted a hundred. So I sold 100, he sold 900.

I was now short 100 $20 options at $6.25 each, or a total of $625. The stock closed on the expiration Friday at $19.75 so the options were considered worthless. The next day I was exercised on the 100 options making me short ten thousand shares of stock. I learned this just as the announcement of a $28 takeover bid of that company was on the news tape.

On Monday, the stock didn't reopen for trading, there was a possible second bid. I found stock in Europe on Wednesday to cover my shorts. The stock didn't reopen for trading for ten days. When all was said and done, I had lost about $100,000 in return for the opportunity to make $625.

When the stock reopened, it started trading at $28, and within a week walked back down to $20. Two months later, the deal was done at $28.

The "prominent trader" lost about $800,000, and shrugged it off as a cost of doing business. He just kept on selling "teennies".

One older trader in the pit had a heart attack and died.

Several traders were never seen again (obviously put out of business). And two brothers I talked to often, made millions. They had thought something was going on and were long big before the deal. They hadn't let me in on their guess.

Obviously, I didn't want to talk to anyone anymore to find out how they traded to make money. I still had some capital left. I just put my head down and started trading. I became a scalper, just buying and selling every moment trying to make an eight or scratch. I threw out the "annual reports and 10Ks". I stopped reading the newspaper. I had to survive. I didn't want to leave a place were there was the chance to maybe someday make millions like the brothers did.

Somehow, I made it through my first year. I got lucky and caught the 78 October massacre being long a bunch of puts. (The brothers were long everything and nearly went broke in the massacre.)

One day, I was wandering the floor and saw the "old guy". I remembered what he had said to me about if I could survive a year. I was suddenly filled with pride. Sure it had been tough, but I realized I had survived my first year! I was still here! I had seen a lot. I was now "one of the boys". I walked over to the "old guy" thinking I was now gonna be able to talk to him. I started the conversation saying "hey, you were right about how hard it is to make it through the first year."

He cut me short and said "George, if you make it through another year, we'll talk." And he walked away.

Every year times were tough. Every year times were great. Every year something new and unexpected happened, many times over. I know if I saw that "old guy" now twenty years later he would still say "George, if you make it through another year, we'll talk."

The point is if you want to be in this business, I believe you have to understand that the market is a live, reeling, unpredictable, animal. Find what works today. Expect that it may not work tomorrow. If it stops working, then find something else that works. If you get bumped from first base, go play in right field. Learn how to be a short stop. You'll never have a chance to hit a home run if your not in the game. If you love the game, try to stay in the game. Survive.

23. Measure yourself by profitable "days in a row," not by individual trades.

I have often heard traders say "I make money every day." Many traders set their goals simply by saying they want to make "50 ticks a day." On good days they may make 200 ticks, or a thousand ticks, but coming in the next day their goal is still to make 50 ticks a day.

As a trader, you want an easy daily goal. You don't want to "fail" at your goal often. "Failing" knocks you down. You want to keep you confidence. Setting a daily goal lets you pause for a moment when you get there to decide if you want to keep on going that day, or stop. If it has been easy to get there, and your trades are going well, stay.

If you have been battling for hours and see you just got there, maybe it's time to stop for the day. Tomorrow when you check your sheets all you will see is that you made money, and you are ready to go on. You did something right.

Another thing about an easy daily goal, is when you are down your goal, say down 50 ticks, it helps ring a bell to let you know something isn't right. Cut your size, pay attention, don't let it go too far.

Think back how many days in a row you have made money. Over time you know how it has gone. "I made money 10 days in a row. I made money 18 days in a row. I made money 5 days in a row." You know there were breaks in the run and you restarted your count. It has always been that way, it will always be that way. If today is turning sour, you can stop and restart your count of days in a row again.

This is an important mind set to acquire. You know the market WILL still be here tomorrow. Thinking about making money "days in a row" become premised on the assumption that you will be here again tomorrow. You are not swinging for the fences every time at bat. You want to play a good game today, and come back again tomorrow to play again.

24. The best way to break a streak of "losing days in a row" is to not trade for a day.

The one thing you must accept as a fact is that the market will open whether or not you are going to trade today. If the market seduces you into feeling "I gotta be there" every minute that the market is open then you are setting yourself up for the possibility that you could go into a losing streak without a life jacket to pull you out.

Every commodity account statement has a value called the "net liquidating value, or total equity." This is the amount that your account is worth as of the end of the trading day. If you have positions, the value of those positions relative to your entry price is reflected every day, positions are marked to the market. This is simply what your account is worth. It reflects your profit and loss from daily trading as well as your daily unrealized profit and loss on positions. The change in your net liq today compared to your net liq yesterday is your profit or loss for the day.

Every trader should keep a separate list of his daily net liq and the net change from yesterday. The net change is what you evaluate to determine if you made money, and how many days in a row you are making or losing. I also like to add a column on that list of the number of trades I did each day.

I know of several traders that chart their net liq, including volume, as a way of evaluating their daily trading performance.

What you need to be concerned about here is DENIAL. It is real easy to fall into the trap of losing money every day, and blaming it on circumstances.

Many traders in the pit can tell you exactly how many ticks they have made trading at any moment in the day. They will say, I'm up 30 ticks or I'm up 100 ticks, or whatever. The point is they evaluate how they are doing continuously during the day.

"Overtrading" is the most common response when someone asks "what am I doing wrong."

If you keep the above list, you will understand you are most profitable at a certain daily trading volume. Typically when your trading exceeds your normal volume you are on the path towards "overtrading" which usually ends in disaster.

Let's say you make five trades a day and make about $1,000. Over time, you find that your normal profitable day usually is 4 to 6 trades and daily profit is $800 to $1,200. Suddenly, you are making 10, 12 or 18 trades a day, and still making $800 a day.

Something is happening. You are changing your method of trading, but not increasing your net profitability per trade. If this is a planned change, and you expect to continue at this new volume level, ok. But if you are still trading basically the same way you have always traded, the increase in volume without a corresponding increase in daily profit should be considered a red flag that something is going wrong.

You are obviously having more losing trades, but are able to find winning trades to offset. If you think about it you will realize that you are taking trades you would normally consider marginal in order to make up for some losses. Probably, the market is changing and your not adapting your method of trading to the changing market.

I forecast you will soon find trading days with big losses overall. Your increase in volume will eventually all go sour, and in a day or two you will wipe out a month's worth of work.

My guess is you have a trading approach that works in one type of market, but not in another. You may be a "breakout" trader that works well when the market has volatility, but when it settles into a trading range you chew yourself up.

The point is the increase in volume, or a series of losing days in a row means you are doing something that isn't working. Take a day off and go golfing. Spend the next day just watching the market, not trading.

Then come back and limit the number of trades you make to half of what you considered your normal daily volume. If you make money for the day, then increase back to normal. If you don't make money, then you need to step aside and try to figure out what is going wrong.

This is when understanding money management and relating your trading size to your account balance becomes so important. Your in a "draw down" and if you are undercapitalized, you might go all the way down.

You need to have capital in reserve to be able to get through a period of reevaluation when you will have no income. You need to have a method to protect that capital reserve.

"But I need to take $5,000 a month out of my account." Don't rationalize losing money because of your need to make money. You won't be trading long.

"But I'm trading the same way I always have." So what, I know, your right and the market is wrong. You won't be trading long.

"I'm only losing a little bit on each trade, but I'm making it up in volume." Your broker thanks you.

Then comes the phone call: "Your account is too low, you can't trade anymore until you put in some more money." The next day the market still opens, and no one misses you.

Good traders make money every day. Good traders take a lot of vacations. Good traders go home early often. Good traders don't necessarily trade a lot of volume (relative to their normal volume and account balance.) Good traders make money in up down or sideways markets. Good traders always know their account balance. Good traders know how much money they are making at every moment of the day.

25. Don't stop trading when your on a winning streak. When your hot, your hot.

A disciplined trader monitors himself closely and knows the importance of controlling risk and looking out for when times go sour. A disciplined trader should also recognize when things are going well.

When your just trading right, this is not the time to get lazy and go home early because of your tee off time. This is one of those fortunate times when you can build your account balance and possibly move to the next level in trading size. When your trading is going well, put your head down and drive.

26. Three strikes and your out! Don't turn three losing trades in a row into six in a row. When your off, turn off the screen, do something else. When your not, your not.

In addition to monitoring your trading "days in a row" I suggest you monitor your trades in a row. A good trading method has more winning trades than losing trades. But whatever your method, bottom line, trading is an art. The decision to actually do a trade is probably the most important part of a trade. If you are watching a screen and the bells and whistles go off, you still have to react and pick up the phone and make the trade. The difference between a good trade that just works beginning to end and a trade that has your back against the wall the entire time may come down to simply a moments hesitation in picking up the phone.

I know that everything in front of me can be working just right, but that IRS agent sitting in the office next door looking at my records might be enough to preoccupy part of my brain. Have a rule that if you make three losing trades in a row, stop trading for the day. Something is wrong, you don't usually make three losing trades in a row. Take a break, find out what is going on in your head. If other business is on your mind, then take care of it.

This again becomes a point of confidence in what you are doing, and having the capitalization that allows you to sometimes just walk away from the market.

27. Scalpers reduce the number of variables effecting market risk by being in a position only for seconds. Day traders reduce market risk by being in trades for a matter of minutes.

Having an understanding that risk is proportionate to the amount of space between you and a trade is important when you hear what is going on in the pits. If a Member in the pit scalps 10 lots, he is buying and selling almost continuously during the day. By the end of the day he may have traded 1,000 contracts, and be up 300 ticks on the day. Made money on some, scratched a lot, lost on some.

At every moment he knows how many contracts he is long or short. He is trying to buy on the bid and sell on the offer. Generally he doesn't have a clue what is going on in the world, and doesn't care. He is too busy focusing on being on the market to be able to watch the news tapes. If he is long 10 and the market ticks down, in a second he can sell them and then pause. At that moment he is out of the market and doesn't have to get back in, he is out of risk.

A "day trader" has a higher level of risk than a scalper in the pit in that he is generally on the other side of the phone to a trade. Day trading focuses on monitoring price movements as they appear on a computer screen as compared to the scalper in the pit focusing on the bids and offers as they come into the pit. The scalper is reacting to market movements BEFORE they are traded. The day trader is reacting to market movements AFTER they have traded and been recorded on the exchanges transaction tape.

The scalper reacts instantly with an executed trade; "sold ten at 62550."

The day trader reacts by picking up the phone, dialing, getting the phone answered, stating the order, then having the floor operation communicate the order to a floor broker who then executes the trade; "sold ten at 62550." If both the scalper in the pit and the day trader on the other side of the phone reacted at the same moment you can see that the scalpers trade was executed far ahead of the day trader's.

But the day trader's transaction is far ahead of the position trader's (or overnight trader's) transaction who is reacting the next day to the item he read in the newspaper. The day trader's transaction was a few ticks later than the scalper's. The position trader's transaction could be many points different than the day trader's.

To compensate for this different trade risk, all other things being equal, the size of the day trader's unit of trades would have to be very different than the size of the scalper's trade.

Back when I was on the floor, if I was in the pit I was scalping 20's to 50's. If I was standing outside the pit giving orders to the broker to execute my trades I was trading tens. If I was upstairs trading over the phone, I was trading twos to fives.

My quantities were different for each step I was away from the pit, but so were my trade objectives. In the pit, holding for 3 or 4 ticks was a long trade. From outside the pit I looked for half points, from upstairs I looked for two points or more.

28. If you convert a scalp or day trade into a position trade, by definition you did not consider the risks of the trade.

You can see that the "position trader" referred to above is making his trade decisions on a completely different level that the scalper or day trader. The position trader could be short all day, while the scalper has been long or short many times during the day; while the day trader may have traded long in the morning, and short in the afternoon.

Generally, the position trader is looking at charts with daily bars. The entire trading day is represented by one mark on the chart (or sixty minute 7 marks, or thirty minute 14 marks.). The day trader is looking at five minute bars. The trading day is represented by 78 bars on the screen. The scalper in the pit is making his decisions based on the thousands of bids and offers coming into the pit throughout the day.

When the position trader entered his trade he did so expecting certain parameters on the trade. In order to compensate for the risks of all the things that could affect the trade over 24 hours or more the positions traders size (all other things being equal with respect to the scalper and day trader, specifically trading capital) would be substantially less than the day trader and the scalper.

So if you are day trading tens and decide to hold your trade overnight you simply could not have considered the risks of the position trade. If you told me you day traded tens and decided to hold two overnight I might say you considered some of the risks.

When day traders trade undercapitalized relative to the size they trade during the day, then hold the position overnight, their level of under capitalization relative to a position trade is simply in my view a death wish. They are just asking for the market to put them out of the business.

29. Don't ever fret about a missed opportunity. The is always another one just around the corner. Besides, several just happened that you didn't even know about.

I often have client's call me to whine saying "Why didn't you call me, the market's down 75 points!" Or, after making six S&P points on a day trade they say, "why did we get out so early? The S&P went another ten points!"

The "shoulda woulda coulda's" are a characteristic of a relatively new trader. They have not had enough experience to truly understand that the market will ALWAYS be there and there will always be another trade just around the corner. Each trade they make is still a "special one," and they think they should get all there is to get from the trade.

Over the years, I've made tens of thousands of trades. When I look back at all my trades they seem to fall into a relatively normal distribution (bell shaped curve) of winning and losing trades. When I think about the trades out in the tails of the distribution I honestly can say I would rather not have them their at all. Way out on the ends are my biggest winners and my biggest losers. I would gladly trade not having the winners for not having the losers.

The big losers hurt, but in retrospect, the big winners hurt even more!

The big losers were like the amputation of a limb. OK, the arm is gone. It hurts. But now what am I gonna do? I need to do this or I need to do that. I want to survive.

But the big winners? I'm King of the Hill! I know how to do it! I'm great! It's like the Kung Foo guy in the movie - I can dodge bullets! Party! I'm a money machine! I can just dip into the well and draw out a bucket of money any time.

Where's the deep soul searching thought after the big winning trade? It isn't there. If it was there, you would see that just the month before, or even the week before your trades were within that "normal distribution." What happened to give you that big trade probably had nothing to do with you except for the fact you were there. You were in the market when the opportunity came, and the market simply didn't let you out.

You were on a freight train that became a runaway, but the track was clear all the way, so you ended up setting a New York to L.A. record. By the time you got to L.A. they got the breaks fixed so you didn't continue on into the Pacific.

The history I have seen of myself and of many others on the trading floor is that after the big winners you need to be just as concerned about survival as after the big losers. You need to understand that it was the market conditions what allowed that big profit, and that those conditions just weren't there in the recent past and won't be there again until sometime in the future.

You didn't do anything different than what gave you your normal bell distribution. After the current market condition passes, you will be going back to the normal bell again. But your old normal bell was premised on market respect and the desire to survive. If you go back to that normal bell as Mr. Invincible, you won't have those survival instincts in tune. You won't stop those losses. Your gonna get nailed.

So when I get client's out of a trade early, it's my desire to grab a piece then step aside. I want to make money like the way they vote in Chicago, "early and often." I really don't want to swing for home runs, because the big strike outs will then start coming again.

I just don't want to be one of those "mystical" trend followers that acknowledge that they have nine losers out of ten trades, but that tenth one covers all the losses and makes "huge" money beyond. My ego just can't stand those nine losses. I'll probably be so beat up that when the big one comes I'll just take pennies and walk away.

Besides, if I'm in the market and consistent, I know that runaway will come a certain percentage of the time anyhow, and when it does I'll just be there. If I miss that one, there may be another one just around the corner.

I like to tell new day traders the story about the guys with the "Bass Boats" on Lake Geneva, Wisconsin. They are out on the lake at dawn and use their electric motors to guide them along the shoreline.

They are expert at casting. They drop their lures under the piers, then in between and under a group of boats. Then they move over to the next pier. If they get a bite, they bring it straight in. They know that if they try to "play it" their line is gonna get snagged on the pier posts or in a motor, or ladder. Even trying to bring it straight in they still get snagged often and end up cutting their line. They may cast a thousand times, get 50 bites, and bring home five fish.

But the experienced "Bass Boat guy" also knows sometime he is going to hook a whale, and that whale is going to go straight out into deep water. That is when he has that big trade. He plays it, works it, and if he has some skill and is lucky he finally brings it in and has a trophy fish.

The next weekend when he goes back out on the lake does he start using a deep sea rig with 100 pound test line. "From now on I'm only going to after the big ones." No, he goes out with the same boat, and the same tackle. Maybe in his mind he is looking for the "big one" again for a little while, but after 50 or so casts, he is back into the routine of working the shoreline.

I had one new client tell me to call him ONLY when I saw a big trade. I heard the baseball game on in the telephone background, and I asked him to call me ONLY when there was going to be a double play. He knew if I wanted to see a double play I had to sit on the couch for the whole game, and maybe one wouldn't happen in that game, so I would have to watch another. I had to be prepared to not miss any part of the game so I needed a comfortable chair, a cooler full of bev and snacks, and no nodding off!

I told him it is the same kind of thing trying to catch a big market move day trade. Your not going to have a double play if no one is on base. Your not going to have a double play if there are two outs. But even if there is one out and a man on first, does that mean there will be a double play? It can happen in that split second when the batter bounces the ball to the short stop, but there were endless other possibilities a fraction of a second before he hit the ball. What if there was a man on second, a caught fly ball, and they nail the man on second for not tagging up? Can I call him and complain that he didn't call me so I could see it happen?

Expect most of trading to be within the normal bell distribution of your trades. If you miss a big play, or even catch a big play, or have a "hot" string of big plays, expect the next day to be right back into the normal bell.

30. If you look for market secrets you will only find things that no one cares about. Use the conventional tools.

When I came into the business in the late seventies I scoured the exchange libraries and found most of my trading guidance from books or manuscripts written in the twenties and thirties. When I look at the books written today, or the high tech computer software used by traders today, there is NOTHING DIFFERENT THAN WHAT HAS EXISTED SINCE THE BEGINNING OF TIME.

The reason is simple, all we have to look at is open high low close and volume. We had that information 100 years ago, and we have the same information now. The difference is today we have far more accurate more timely data to apply the old ideas. 100 years ago you couldn't day trade from Hawaii, the boat to the mainland just wasn't fast enough, only members on the floor had that information. Today, anyone anywhere can have instant information about the markets, but the information is the same as it has always been, only communicated better.

So when you search market data to find your trading approach, don't spend your time looking for a unique pattern or formula. Spend your time looking at the conventional tools to understand how they work, what their probabilities of success are, and when they might work with a higher probability.

Think about it. At any moment there are tens of thousands of traders looking at the movement of the stock market with the purpose of trying to make a successful trade. What is it that they will see that will make then do a trade? You don't have to predict the future to know when they are coming, you just have to be in a moment before the tidal wave of orders hit the market.

31. Never ask for someone else's opinion, they probably did not do as much homework as you.

As a trader, I have an approach to trading that I have developed over the course of my career trading. I know the way I trade today is not the way I traded last year, perhaps not even the way I traded last month. Each day that I look at the markets I learn something new and modify the way I plan my trades. I know this is true for all traders that have survived because the market is always changing, but always the same.

A market opinion is based on the market facts as of this moment, but to the day trader in the next moment there is new information. Do you think a trader should ignore new information and maintain an opinion at all costs? Of course not.

But when you ask someone's opinion, do you understand that opinion is only good for that moment? Or maybe it was based on the market as of yesterday or the day before!

Recently, CNBC had the quote on the day after Christmas that "the day after Christmas had been up every year since 1947." Was this information that helped a day trader? The market opened that day at the high of the day (the Dow up about 70 points a few minutes after the open) and traded DOWN all day. The Dow closed up 18 points on the day, but that was near the low of the day. If you did any day trading you had to do it from the short side. So if you had the opinion that it was going to be an up day that opinion cost you money.

Or someone's opinion that we are "in a Bull market" can affect your thinking about a trade. Most would say we were in a Bull market since 1982 or possibly since the 1974 low. Does that mean you tried to day trade from the long side in the crash of 1987? Or any of the other periods of market correction since 1974?

Or even if you get down to asking what do you think about the next ten minutes? Well if the market is trending on the one minute chart you would have to offer the opinion that it is going up. But if one minute later it broke the one minute trend line you would no longer have that opinion.

Some time back I had a day trader that was doing very well day after day. He had a discount account so I wasn't helping him with his trades, I was just watching over his account balance. I would know when he put in a trade, and because he was "hot" I'd look at the market to see if I could figure out what signals he was following. There was nothing obvious. I made an effort to block out knowing what he was doing when I was making my own trades, but he kept doing well and it was hard to ignore it.

Over time, I had several chances to talk to him and he would offer the opinion that he was buying because he thought the market would be up in the afternoon, or selling because he thought it would be down in the morning. He was doing pretty good!

When I did my own trades, I had in the back of my mind what he was doing that day. If my work agreed, I had that little extra comfort level that he also thought the market was going up. If my work suggested down and he was long, I had an extra doubt to overcome before I put on my short.

One day he did a couple of really dumb trades and I gave him a call to caution him about the size he was trading. We talked a little and he mentioned that he didn't have real time quotes, he didn't even have cable for market prices off CNBC! I asked what was his strategy in trading?

He explained that he would stay up late at night so he would be able to take a morning nap and an after noon nap. When he woke from the nap he would immediately write down what he was dreaming about. Based on what he was dreaming he would enter a trade. (He explained if he had been running up stairs in his dream it was particularly bullish for the market.)

I said to be careful with his size and wished him good luck. I immediately transferred his account to be under the supervision of another broke kicking myself for the time I had wasted letting his trades affect my trades.

I have often had non clients or even other brokers ask me what I thought about a market and I try to offer an opinion with a "based on this or that" qualification, or strongly state a stop with the opinion. This way when three days later they come back to me complaining the "you said the market is going up, I'm long and it's been down the last two days" I can at least say I told you to trail a stop, it was hit two days ago. I know inside they only asked my opinion to try to get confirmation on their own idea. They were happy I agreed initially, but didn't like the thought of trailing a stop so they ignored that portion of my advice.

Back in the early 1990's I was able to do some computer work for a couple of CTA's that had a "hot" trading system.

I knew their reputation of having several hundred S&P's to trade at a moments notice. When they came into the market, they simply pounded out their trade then disappeared for a while obviously holding a new position.

I would hear from time to time that "they" had got long, or got short, and I would consider it in my own trading.

When I wrote a computer program to automate their trading model I fully understood their trading method. It was a money making system, but I had no interest in trading by their model. I was surprised when I understood that their model reversed positions on average one and ½ times per day.

That meant that in the past when I had heard that they had a position, it was very likely that they had already reversed. It now knew what they were doing was totally meaningless to developing a market opinion, but many times I was affected by having to overcome the thought that I had heard "they" had a position.

The opinion that I hear often is "the baby boomers are putting so much money into their retirement accounts that the market can't go down." On October 27, 1997, the market had an old fashioned "October Massacre" and dropped 550 points. It went down, don't tell me it can't go down. From the August 7 high on the Dow of 8299 to the October 28th low of under 6900 the market dropped 1,400 points.

I'm a day trader, I live and die on the next fifty point move on the Dow. Don't tell me some big macro type of argument that is the basis of your opinion on the market. When I tell them the market went down on a given day or week they say "yeah but it is still up for the year!" I don't want to hear your opinion of the market. In the 1400 point drop I made money. If I followed the advice that it's a bull market forever, I'd be out of business in a decline like that!

The Market had a low in 1932 of around 60 points and in 1997 got over 8,000. Based on the last 65 years of market statistics I can tell you that there is over a 95% chance that the market will be up ten years from now IF the sun rises every day for the next ten years! How's that for an opinion, now go make a day trade with your new "inside information".

32. When the market is going up, say "the market is going up." When the market is going down, say "the market is going down." Say it without qualifications, no "buts" attached. This is a reality check, you'll be amazed at how hard it is to say what is literally going on in front of you when your mind is full of preconceived opinions.

You may be beginning to sense that I have a pretty strong opinion about market opinions. I have a right to my view because I paid a lot of money over time being distracted by hearing what other people think. It takes a long time to understand the cost and effort it takes to over come preconceived notions. As a day trader, you will eventually arrive at the same conclusion. The question is how much will it cost you to come to that conclusion, and can you survive the cost.

The thing I try to tell myself every moment of every trade is to say what the market is literally doing at this moment. "I'm looking for a sell, but right now the market is going up." It will probably keep going up, unless it stalls and starts going down, but right now it is going up!

A moment later, what is it doing? It is going up, should I sell? Why would you sell? Is it going down? No, it's going up.

A moment later, what is it doing? It seems to have stalled. I'll sell because I am looking for it to go down. But is it going down? No!

A moment later, what is it doing? It is going up, I should not be short. Cover your trade.

The point of the reality check is to be sure you are trading reality not imagination. I do understand that many trades are made "anticipating" a market turn. If that is your approach you need to be cold and calculating in evaluating your expectation.

If you are anticipating a turn, at what price difference, or what time difference will you acknowledge you are wrong. Be sure to determine that before entering the trade. Don't allow those parameters to change once you are in the trade.

There is nothing more foolish than a trader trailing his stop against his position because he stubbornly thinks "I'll be right in just a few more moments so I'll move my stop so I won't get stopped out."

When I was trading in the pit every day, after I cleared my outbraves in the morning I would go to the health club to swim a half mile. While I was swimming I would recognize that there was a crowd in my head arguing the pros and cons of the market. I learned to follow a routine while swimming laps to try to clear my head of opinions prior to going into the pit to begin trading. As I swam, I would look down at the lane line at bottom of the pool and say to myself "follow the line." When I exhaled on my stroke I would say "opinions." Repeatedly saying "follow the line" and exhaling "opinions" was a very important ritual that I went though every day for nearly fifteen years of trading on the trading floor.

33. THE DAILY MARKET COMMENTARY: I've never had an opinion I didn't like, however, successful day trading requires flexibility. Do your homework not to develop a market opinion, but rather to understand the potential for both sides of the market. This will allow you to make your trades based on what the market is doing at the time of the trade.

I know the best approach for a day trader is to not have any opinions, but if you find that you are continually bombarded with opinions that you just can't shut out then a approach I have found helpful is to thoroughly think out reasons for both sides of the market.

Let's say you think out that the market can be bullish for the following five reasons. And you also think out that the market can be bearish for an equal number of reasons.

The reasons for each opinion above should be thoroughly thought out, the logic tested and the markets past movements in relation to past similar events tested. Now you can with some degree of authority talk both sides of the market at any moment.

For example, "Bonds are going higher so that is bullish for stocks." You can study comparisons of the stock market and the Bond market and find many times where that is true.

"Bonds are going higher (rates lower) and that is bearish for stocks." Again you can study past market comparisons and find many instances where this is also true.

Study these situations in great detail so you thoroughly understand that the relationships can have a high positive correlation as well as a high negative correlation all the way down to intra day turns on the five minute chart. Now, no matter which side is working, you can use that information in your trading without having the bias that the effect on the market will always be the same way.

Think about the situations where the Fed raises interest rates. You will hear all of the following:

The Fed raised rates and the market went down.

The Fed raised rates a quarter point, "as expected", and the market went up.

The Fed raised rates more than expected, which suggests the Fed will not have to raise rates again for some time, and the market went up.

In a surprise move, the Fed raised rates more than expected, and the market went down.

If you follow the news and results above, you will understand that the news commentator is simply connecting two events that occurred the same day as if there was a cause and effect relationship. He read on the news tape that the Fed raised rates, and he read on the news tape that the market went down. He simply reported them both in the same phrase.

I often squirm in my chair when I watch the nightly business new connect a move in the transportation stocks to changes in the price of crude oil. On a given day crude could rise a dollar, and the transports are up. The rise in crude is not reported with the rise in the transports. The next day crude drops a quarter and the transports are up again. The commentary is the transports rose on the drop in the price of crude.

34. Here is a quote to remember: "When you wake up, your instincts are wrong."

This means you have to try very hard, it is difficult, to get on the right side of the market. What comes naturally is usually the wrong answer when it comes to day trading. If it was natural 90 % would win rather than 90 % lose.

SOME FINAL THOUGHTS

Back

35. When you make a mistake of discipline, whine like a fool to anyone that will listen. Errors in discipline are mistakes you will keep on making for many years. Wearing ashes and sack cloth may help extend the time before you do it again.

36. If you squirmed and moaned while you read this list, then you share two obvious characteristics with many of us;

1.You have traded long enough to recognize that ***you*** (not the market) make mistakes, and you try to overcome them.

And 2., now this is ugly, you have become part of the market and you can never leave.

No matter where life takes you, you will always check the market and always want to continue being a part of it. It's like that first true love, it will always be there no matter what the distance, no matter whether they are alive or dead.

REMEMBER, the market will always be here. You may think you are trying to "beat the market" or, that the market may be beating you. When you make trading personal you are making a mistake. Your trades will never influence the market, the market does not try to influence you.

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Good Luck and Good Trading!

George