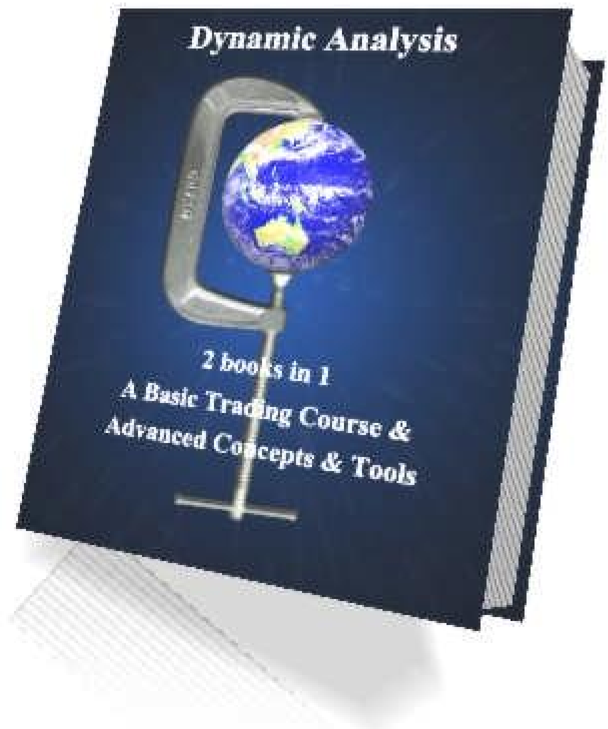

By Alma Miranda

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1 Dynamic Analysis

2 Terms & Conditions.

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Introduction

2.1 Before You Begin

This book is divided into two basic sections in an attempt to accommodate entry level, as well as seasoned traders. The first half of the book is for those who have never traded or are not familiar with basic training concepts. It will take you step by step through the basics of trading, including the logistics of opening and closing a trade, and how to read charts using technical analysis to find profitable trading opportunities.

If you feel comfortable in these areas already, you may wish to skip this section and start with the second half of this book. The second half will introduce you to advanced trading concepts and indicators not found anywhere else. It will show you the financial advantages they offer and discuss how to put them to work in actual trades.

3 Trading, A Beginners Course

4 Why Trade

I must confess that one of the reasons I was originally drawn to trading is that it is one of the few areas in the business world where the playing field is completely even. It really doesn't matter what your race, economic, social or educational background is. You have the same potential for financial success as the next trader, even if the next trader is one of the Rockefellers.

Well, while nothing is certain in this world, there is a feeling of security when you are in control. When you work for someone else for example, they are in control of the hours you work, your rate of pay, when it increases, and ultimately, whether you stay employed or not.

As a trader however, you're in control of these areas that can have such a big impact on your life, for the good or for the bad. This does not mean you'll never have a problem in one of these areas, but I for one would certainly like to be the captain of my life rather than a passenger.

Then too, there's the ever-changing economy of this world. More than any other time, financial advisers suggest that people have multiple streams of income as a means of protection, or a buffer against this ever-changing economy we must deal with. Trading too, can be an excellent source for an additional stream of income for many, as it can be done without having to leave your "normal" job. It is also an excellent source for your main income.

When you're successful at being the captain of your own life additional benefits suddenly become available, such as freedom! The freedom to decide how much time is spent working versus the time spent with your family or other interests that are important to you, the freedom to decide how much you would like to make, instead of having it dictated by someone else. And this one is particularly specific to trading; the freedom to choose where you would like to live. I don't know of any other job where you can choose to live anywhere you like in the world and do it, but trading allows this freedom of choice.

Trading also offers a simplistic way of life. This is not to say that trading is easy, because as with any profession, you must learn it well and work hard at. However, it is not a profession like a doctor for example, who must continually educate himself to stay competent or competitive in his field.

It is not a profession that requires one to have many employees, or even one for that matter, having to deal with the day-to-day squabbles and politics that exist in the average workplace.

And of course is not physically demanding either. Most are not concerned about this while they're young, but as the years slowly pass by, this topic normally becomes of greater concern to most.

If you work in a large city and must deal with heavy traffic, or commute to the city from the suburbs than you will especially appreciate this aspect of trading. NO COMMUTE!

4.1 Realistic Expectations

I'm sure you've seen the ads! People claiming you can retire next month, once you start trading. Anyone can do it! Well, if it were that simple, we would all be retired and sitting on the beach somewhere with a cool drink in our hands. And don't you think that beach would look a little crowded by now?

On the other hand, if you're armed with the right information, and willing to invest the time and energy to learn a proven trading strategy thoroughly, you can become adept at discerning price movement through simple technical analysis, which in turn will allow you to make consistent profits with very little time invested when compared to other business ventures, or especially a job.

Like any other profession, it takes time to learn and become good at it, especially when you consider that this is a profession where you compete with others. Every trade produces a profit for one person and a loss for another. Again, once learned though, only limited time is needed to be successful and start building your profits. The return on your time and money invested can be quite good.

4.2 Is Trading For Me?

Trading is not for everyone. The idea of putting your hard-earned money on the line does not sit well with many and can actually make some people sick. Of further consideration is the fact that this emotional stress can also affect your trading decisions, usually to your financial detriment. I'm sorry, but I don't have a good test for you to take to see if you are one who will be affected like the above scenario. Nonetheless, you need to make this assessment somehow.

4.3 The Trap Many Fall Into

Due to my involvement with trading, over time I've come in contact with many other traders, and would-be traders. When it comes to traders who are struggling, I've noticed a scenario that happens too often and feel compelled to share it with you.

Trading all by itself can be quite a challenge, but all too often I come across people who are looking at trading as a way of bailing them out of their financial crisis. While trading can be quite profitable, there is still considerable risk that must be managed, so you should never, never, trade with money that you cannot afford to lose. I'm not saying you need to be rich to start trading, but if you're using your last dollar to start trading, it's probably not a good idea.

To trade with funds you cannot afford to lose also creates an additional hurdle that must be overcome. It can create anxiety that will be hard to manage and can cause you to start second-guessing yourself in the middle of a trade, which will then lead to losing trades unnecessarily.

You can also become overly concerned about any losing trades, because every trade becomes financially, a life-and-death matter if you are trading with your last dollar. And the fact is all traders lose some trades, even successful traders.

So how much capital is required to trade? In the end this is a personal decision, but if you feel the amount you have set aside to trade with might be on the low end of the scale, then you will want to read through the Capitalization portion of the Money Management section in this manual, as it will no doubt assist you in making this decision.

5 Patience Is Not Just a Life Saver, It's a Money Saver

I'm sure many will be tempted to skip over this section, as it's not as exciting as the rest, especially if you have never traded before. As the subtitle suggests, however, reading this section can save you a lot of money.

Patience is the capacity or habit of being patient. And to be patient is to show self-control. So if you're new to trading, or even changing strategies, exhibiting patience by not diving in and trading with real money, not only can, but will in all likelihood save you money.

How do you do this? It's called paper trading. This simply means you pretend to trade. You make a paper record of all the trades you make. You record the price you opened them at and the price you closed them at. Paper trading is not a substitute for real trading, because in real trading when you're actually risking your own hard earned money emotions come into play and they must be controlled. You're much more likely to take greater risks when you paper trade than you would with real money, but paper trading is a step in the right direction.

Paper trading will also give you the confidence you need to stick with the principles you have learned. You will be able to do this because you prove to yourself that indeed they do work. Without such testing, you may begin to doubt what you learned when the market starts to act a little erratic. Here's an example;

Suppose you have a trading strategy that produced winners 70% of the time. Let's further suppose we could represent your trading with a toss of a coin, and that heads represents a winning trade in tales represents a losing trade. Of course, in order to get 70% heads, we would have to weight the coin somehow to make it come up that way, but let's say we are able to do this. Does this mean if we were to toss the coin 10 times that exactly 7 of the tosses come up heads and three would come up tails? No! It's possible, but it could take more tosses to get that division of wins and losses. Let's say it took a total of 20 trades to come up with our 70% of wins, which would amount to 14 winning trades and six losing one's. This means it's possible, for us to have six losing trades in a row. Unlikely, you say! Probably, but it can happen, I know, because it has happened to me.

If you are trading a new strategy and this happens to you, and you are trading with real money, how will you react? No doubt you could be tempted to abandon the strategy feeling that it is not a profitable one, especially if the six losing trades are your first six trades. The fact is though, you could be walking away from a moneymaking machine. To get realistic statistics of your winning and losing trades, you need to have a sufficient database of trades. Paper trading will help you to do this, and then you will be able to "stick to your guns" when the going gets tough.

The larger your database of paper trades, the more accurate your conclusion will be when determining if your trading strategy is profitable for not. I highly recommend that if you're not already trading successfully, that you paper trade for two or three months before actually trading with real money. This also applies, if there is a change in this strategy you're using. Having said that, I realize very few will follow this advice, as trading seems to draw those with an adventurous and independent spirit.

For paper trading to be truly helpful, you must trade with a set of rules. If you enter every trade on a whim, then tabulate the results. You've learned nothing. If however, you use a set of rules to enter and exit trades, you can discern patterns as to which set of rules is helping you or hurting you. You can also review your trades to see if and when you fail to read the charts correctly to apply your rules.

When trading on paper, don't forget to take into account your commission fees, and the slippage (the difference between the price of the stock on your order and the price at which was filled), this may need to be estimated.

6 Trading Basics

6.1 What Is Technical Analysis

Technical analysis is a method of evaluating the future price of a security or market direction based on a statistical analysis of variables such as trading volume, and price in order to identify reliable patterns that repeat themselves. It does not require any fundamental analysis, such as evaluating the economy, the industry of interest, or even the company itself, such as earnings reports, sales, profits, expenses, liabilities, etc.

Rather it assumes that all the above has been taken into account through the actions and emotions of all market participants trading a given stock, and thus are reflected in a stock chart.

6.2 Why It Works

This may not be the best example, but it illustrates the point. Does a statistical analysis of actions and emotions, provide insight to the outcome of a situation? Just ask a sports fanatic. One who keeps statistics on all the teams and players he is interested in. This individual has a lot of insight into where the game or season is headed.

Can someone doing this always pick the winner in a series of games? Probably not, that's why I said at the outset, this was not the best example. The reason for this, believe it or not is because sports are much more complicated than the stock market! Once you become adept at reading stock charts see how true this really is. This is because just two very basic forces move the stock market. I know you always hear about supply and demand, but these are not the forces as I'm speaking of. The two basic and dominant forces that move the stock market, are fear and greed.

They are basic human instincts that have not changed since the beginning of time, and are therefore very predictable.

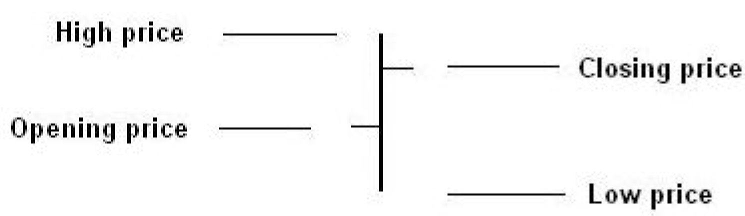
6.3 Reading Price Charts

There are several different types of Price charts that traders use, but we're only going to discuss two of them. First, we'll have a brief overview of bar charts, because this is probably the most common type of Price chart that traders use.

6.4 Bar charts:

A single vertical bar on a bar chart is used to denote a specific time frame. If you're viewing a daily chart, and then a single vertical bar would denote an entire days range of trading activity, that is to say, the lowest price and the highest price that occurred during that day. If you're viewing a weekly chart, a single bar would denote a weeks (Monday-Friday) trading range of activity, and so it would go for any timeframe being viewed.

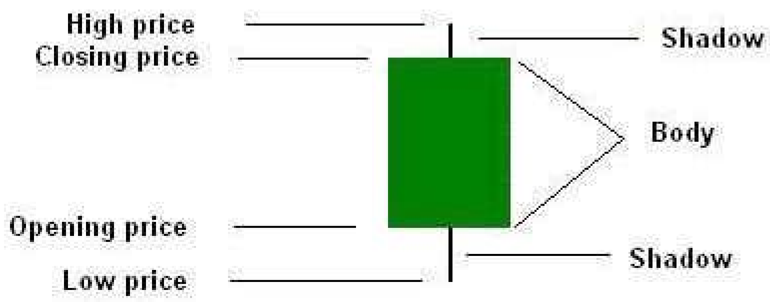
Extending to the left of the vertical line will be a short horizontal line indicating the opening price for the day, and extending to the right will be a short horizontal line indicating the closing price of the day. Note the example chart below.

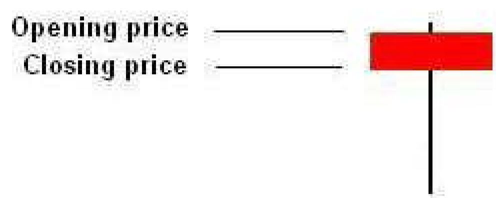


6.5 Candlestick charts:

Another commonly used price chart, and in my opinion, one superior to bar charts are candlestick charts. The candlestick has two main parts, the body in the shadow. The body encompasses the distance between the opening and closing price and is a different color depending upon whether the closing price is higher or lower than the opening price. In the example below, the body is green when the closing price is higher than the opening price, and the body is red the closing price is lower than the opening price. This graphical representation makes it easy at a glance to discern the trend of the price.

The second part of his candlestick, the shadow, is indicated by the thin vertical lines extending from the top and the bottom of the body. This portion indicates the lowest and highest prices of the day. Again, this graphical method makes it easy at a glance to discern the most important prices of the day, which are the opening and closing prices, while not overlooking altogether the lows and highs of the day. Note the example below.





Being that I am biased, the rest of the examples we will use in this book will be candlestick charts.

6.6 Support and Resistance:

Probably one of the most basic principles in technical analysis is that of support and resistance. Properly understanding how and why this principal works can lead to great financial gain.

This is basically how it works. When you view a price chart and the price does not seem to want to go above a specific point, meaning that it has risen to a specific point, one or more times, but has dropped from there, this is a point of resistance.

It is invisible. There is nothing there on the chart to stop the price from going past there, yet this resistance exists. As we discussed earlier in the section on why technical analysis works, there are events occurring in the real world that a price chart reflects. This invisible resistance point on the price chart is reflecting one of those real-world events. Note the chart example below of a resistance point that is marked by a horizontal line being drawn at that point.

Now, can you can imagine, this horizontal line being drawn is a fence, and each price point that comes up to meet it is a post supporting that fence. If so, then you can understand that the more price points that meet this point, the stronger the fence is and the harder it will be to break.

Conversely, the fewer the price points that meet this line, the weaker our fence is and the easier it will be to break. Once this point is broken however, (listen carefully, because this is very important) that same resistance point, often becomes a new support level.

This is because the traders that bought this security, which caused it to break the resistance point, were great enough in number or traded enough volume to become the dominant force at this time. So now when the price drops back to the resistance point, the dominant opinion at this time, is that this is as low as the price should go, and it is this dominant force with this mindset that will cause more buying to occur when the price drops back to this point, causing it to rise again.

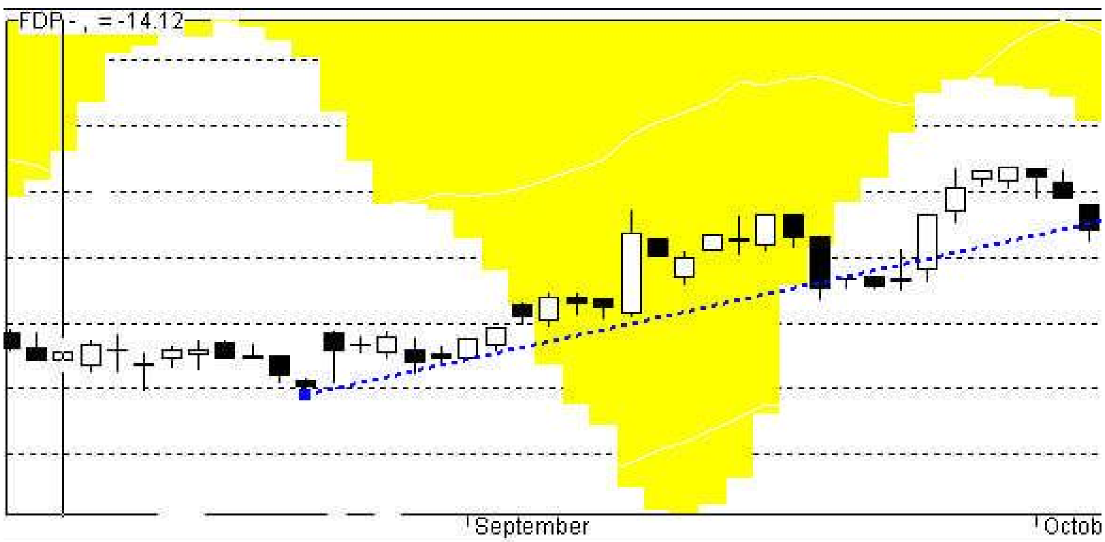
The opposite is also true. What was once a support line, and then broken, can now become a resistance line for the same reasons. Traders who became the dominant force shorted the stock, causing it to drop below its support line. When they see the price rise back to that point, they view it as another shorting opportunity, thus more selling occurs, causing the price to drop again. Note the chart below.

Another interesting aspect of support and resistance lines is that they not only occur on a horizontal plane, but also at angles. Note the support line below of an uptrend and how it becomes a resistance line once the trend line is broken.

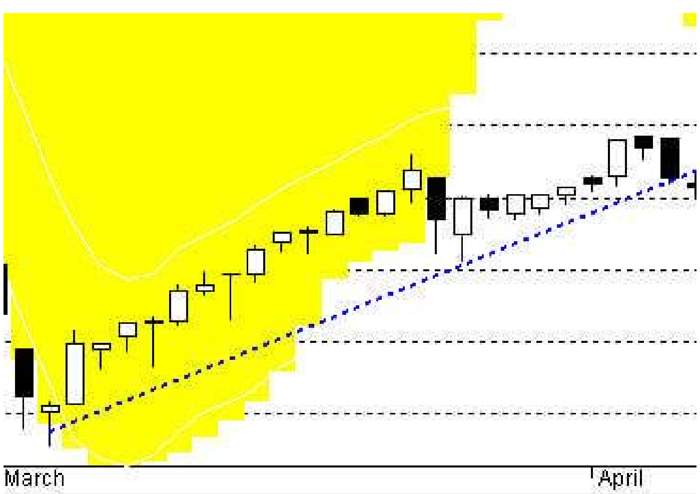
Now you have the basics of support and resistance as it relates to trading. Study this concept and it will serve you well.

6.7 Time frames:

As alluded to earlier with our bar chart explanation, you can view and trade in different time frames. You can view and trade in minute, hourly, daily, weekly, and even monthly charts. Something to keep in mind when viewing a timeframe is that just because a trend exists in one time frame at a given point in time, does not mean that the same trend exists in a different timeframe at the same point in time. For example, note the uptrend in the daily chart below of FDp. It stretches from August 24th through October 5th, almost a month and one half.



Here it is again several months later with another uptrend from March 3rd through April 6th.



Now, lets look at the same time period in a weekly chart.

Notice in the third chart, the trend is down, while in the first two charts the trend is up. This relationship can exist between any two or more time frames. The larger timeframe normally has a larger impact on the direction of the smaller timeframe, that is to say that the smaller timeframe is currently moving against larger timeframe and will most likely reverse soon as in the example above.

7 How Traders Make Money

7.1 Buying Long

Buying long, or opening a long position occurs when a trader buys a security in expectation that the value of the security will increase. If he sells it for more money than he bought it for, he will make a profit. If he sells it for less money than he bought it for, he will incur a loss.

7.2 Selling Short

Selling short or opening a short position occurs when a trader borrows a security, and then sells it. He must eventually return the borrowed stock, and thus is obligated to buy it back. When he does, if he buys it back (which is called a cover) for less money than he sold it for, he'll make a profit. If he buys it back for more money, than he sold it for, he will incur a loss. This may sound a little confusing if you've never heard of this concept before, so here's an example;

You believe that stock ABC, which is currently selling at $10 will drop in price in the near future. So you decide to sell short one share. So you <u>borrow</u> one share of ABC from your broker and sell it for $10. Now your trading account has a balance of $10. Next week, the price of ABC drops to $8 per share, so you decide to cover it, which means you buy it back and return it to the broker. Since you bought it back for $8, there is $2 left in your trading account ($10 - $8 = $2), so your profit from the trade is $2.

8 Types of Trading

When you hear about different types of trading, people are usually referring to one of two things, like the type of instrument they trade. Such as stocks, commodities, bonds, options, futures or Forex.

Also, people will refer to the type a trading by the length of time they hold an open position (own an instrument). Here's a list of some of these types;

8.1 Scalping:

This refers to trading very small changes in price. Traders using this are usually those who believe it is easier to profit with several small moves in price rather than trying to catch fewer larger moves. Normally scalpers may make a dozen or more trades in a single day.

8.2 Day Trading:

Day trading refers to someone who opens and closes positions during the same day. A trader using this strategy may trade from one to several times per day.

8.3 Swing Trading:

Swing trading is a strategy of buying or selling a security and keeping the position as long as the price keeps moving in that direction without any retracement in the price. A swing trade will normally last three to six days.

8.4 Trend Trading:

Trend trading or position trading as it is sometimes referred to, is a strategy of buying or selling a security and keeping that position open as long as the price keeps moving in that general direction. If this involves a long position, the trader normally looks for successive higher highs, higher lows, or both to keep the position open. If this involves a short position, the trader normally looks for successive lower lows, lower highs, or both to keep the position open. A trend will normally last from a few weeks to several months at a time.

9 Placing An Order

9.1 Market Orders.

Market orders are the simplest and most common orders. They simply tell a broker to buy the desired stock at the best possible price right now, which means you place the order when you want to buy the stock. Another advantage of using market orders is that the broker will charge smaller fees for a market order, because less work is involved on their end.

On the downside, market orders demand that you be available when you want the order placed. Obviously, this means your lifestyle or secular obligations probably come into the picture.

9.2 Buy Stop Orders

This is an order you place to buy a security when it meets or exceeds a specific offering price. You set. If you do not have time to monitor the market, then this type of order might be good for you. It might be considered a "set and forget" type of order. It can be placed as a "day order" or a "GTC" (good till canceled). As the name implies, the "till" canceled means that once you place the order, it stays there until executed. Usually there is a limit on it, like 90 days.

Since we need to reevaluate our candidates each day to determine the effects of new data, we will only implement this is a day order. This would mean that if the order is not executed, it will be canceled at the end of the trading day.

There are some drawbacks to buy stop orders, though. Since there are no limits or boundaries placed on the order, it will be triggered at any price equal to or greater than the set offering price. 99 times out of a hundred, this will not to be a significant problem, but what if the stock significantly gaps passed the price you wanted to buy it at? You may now be in a precarious position. Incidentally, a gap refers to the price opening either higher or lower than the price to close at on the previous trading day.

For example, suppose a stock closed yesterday at $15.32, and because of the set up, you decide that a good entry price will be $15.60. You enter a buy stop order At $15.60. The next day the stock gaps open at $17.16, 10% higher! You won't see this happen often, but it can happen. Usually what I do when things appear to be far from what was expected is "abandon ship.", especially if it is something that increases my risk. I just close the trade early, rather than do last-minute evaluation when my emotions may not be intact.

Another drawback to placing buy stops is that you can only place the buy stop equal to the value of your account. On the surface, that may not sound like a big deal, but let's look at a real situation.

Let's assume you have a modest trading account. Let's further assume you have found three good trading candidates for the next day, and only have enough capital to trade one of them. Unless you have a crystal ball, you will have a hard time determining which one, or if all or none will exceed their buy stops, and you can't place buy stops for all three! So you either need to have enough money in your account to use buy stop orders for all three or you must choose one and probably miss out on the others, which may be OK if you are patient.

9.3 Limit Orders.

Limit orders have a built-in safety against gaps as we previously discussed in section on buy stop orders. A limit order works the same way a market order does, except as the name implies, it places a limit on how high a price you will pay. Sounds great! Well it isn't.

Suppose we're back with our previous example, the stock closed yesterday at $15.52. And because of the set up, you decide that a good entry price will be $15.60. You place a limit order at $15.62, but the stock gaps open to only $15.67, only a nickel higher, then skyrockets to $16.50! You just missed the boat! Again, this will not happen all the time, but it does happen. As you can see by the above example, to some extent, it depends on how you use your limit order.

10 Stop Losses

10.1 What Is a Stop Loss

A stop loss is a way for a trader to limit his losses in the market. It is accomplished by placing a “stop loss order” with your broker. For example, if you buy a security at $10 per share and want to limit your losses to 5%, then you could place a stop loss order at $9.50 (10* 0.05 = .50) and if the price hits or drop below that point it would be automatically sold, and thus limiting your losses to 5%.

10.2 Not A Guarantee

This point must not be overlooked. A stop loss is not a guarantee of a maximum loss, although statistically it has a strong possibility to be. A stop loss set at 2% below your entry point for example, does not guarantee that your maximum loss will not be greater than 2%. Sometimes a stock will gap down past your stop loss. For example, you may enter a long position at $10, and then place your stop loss 2% below that at $9.80. Later that day the stock closes at $9.90. Then the next day it opens at $9.60 instead of $9.90, gapping down $.30. Your stoploss triggers a sell order when the price opens at $9.60, leaving you with a loss of 4%.

This doesn't happen often, but it does happen. When it does occur, it is not buy large amounts normally, but it can be.

10.3 Where to Put Them

There are varying schools of thought on the subject. Some traders like to view this from the point of what they would like their maximum risk to be; i.e., that you put it 2% below the entry point so the loss will never be more than 2%. Some traders like to use a recent point of support. The best approach would be to tie these two strategies together, using a recent known support level that is within the percentage of risk you're willing to take.

Another issue that is just as important, if not more important than where to put your stop loss, is when to move it. Many good trades are lost by moving a stop loss too soon, too late, or to an incorrect point. When this occurs, a trader often believes it was the choice of the initial stop loss that caused the problem or the trade was a bad choice, when in fact, the choice of the time and place it was moved to, was the cause of the actual loss.

An excellent resource detailing how all this can be accomplished in a simple and straightforward fashion is the publication, "**Stop Loss Secrets**". The publication is short and to the point, covering only this specific strategy and showing how the application of it can turn losing trades into winning ones.

11 Types of Markets

11.1 Bull

A Bull market is a market that is rising. It may not be a perfect "uptrend", having every valley and peak successively higher, but is nonetheless a rising market. A Bull market may last a few months to a few years.

It gets its name "Bull" from the way Bull makes an attack. If you have ever seen a Bullfight, you'll notice that as the Bull tries to strike its target, it raises its horns upward.

11.2 Bear

A Bear market is identified by successively lower valleys and lower peaks.

A Bear market is a market that is falling. It may not be a perfect "downtrend", having every valley and peak successively lower, but is nonetheless a falling market. A Bear market may last a few months to a few years.

It gets its name, "Bear" from the way a Bear attacks its prey. There's attacked with their paws, and when they do, they swipe in a downward direction.

11.3 Lamb

A Lamb market is a trading range. It is dominated by neither the Bulls or the Bears (rising or falling), but rather it oscillates between a given range. A Lamb of course, is a docile and calm animal. In the same way a Lamb market is also a calm market. Again not rising or falling to a significant degree.

12 Reading and Using Indicators

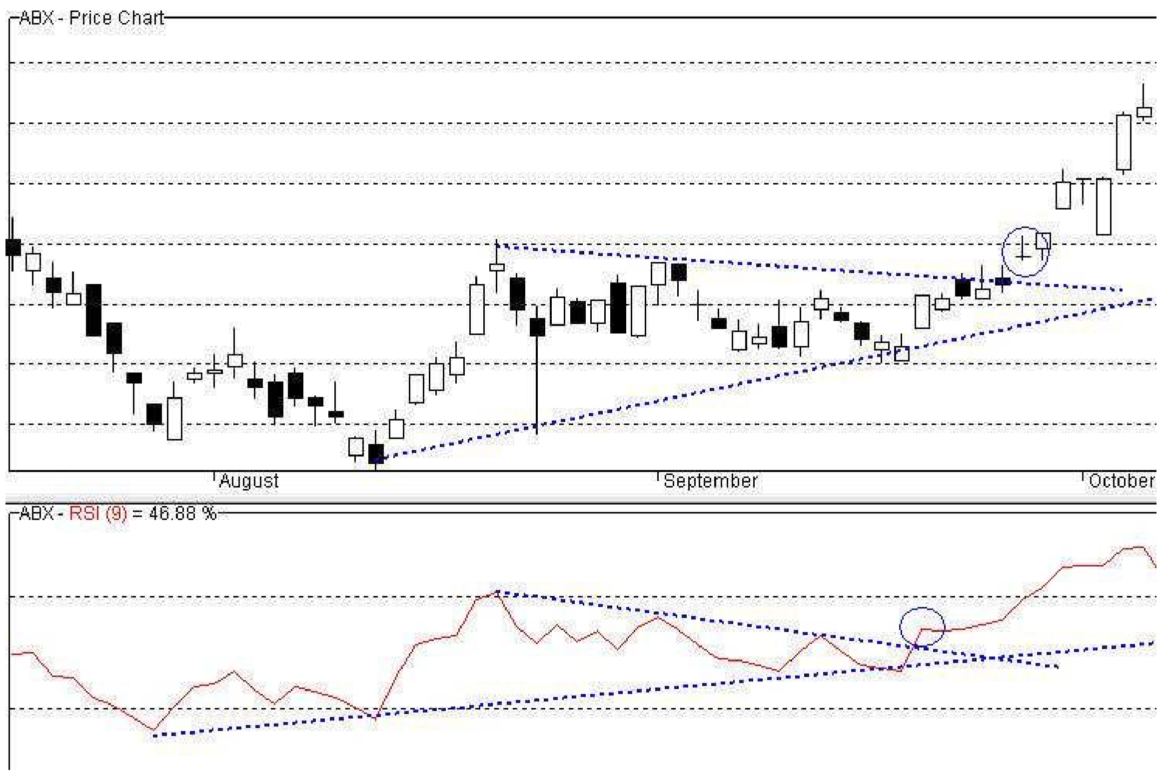
13 RSI

RSI was developed by Welles Wilder Jr. and is one of the most common indicators used by technical analysts today. It is a momentum oscillator and works by measuring the velocity of the directional price movement.

Like any other oscillator, it is bound by two points; in this case 0 and 100. It measures the ratio between the up-and-down closing averages during a given time period. The shorter of the time period used, the more volatile it becomes, or the more often it reaches its boundary lines.

13.1 Chart patterns

It is a reliable indicator when used properly, and often leads the price movement. It can be used in several ways. For instance, the same chart patterns that you can discern on a price chart, such as a triangle pattern, are often visible on an RSI indicator. In fact, oftentimes, they may be visible on the RSI indicator when they are not visible on a price chart or may give you an earlier notice signal of a price change. Note the example below;



In the example above, note how the RSI broke upward out of its triangle a full 5 days before the price broke out of its, providing a knowledgeable trader an opportunity to enter a rally early to reap more profits.

13.2 Divergence

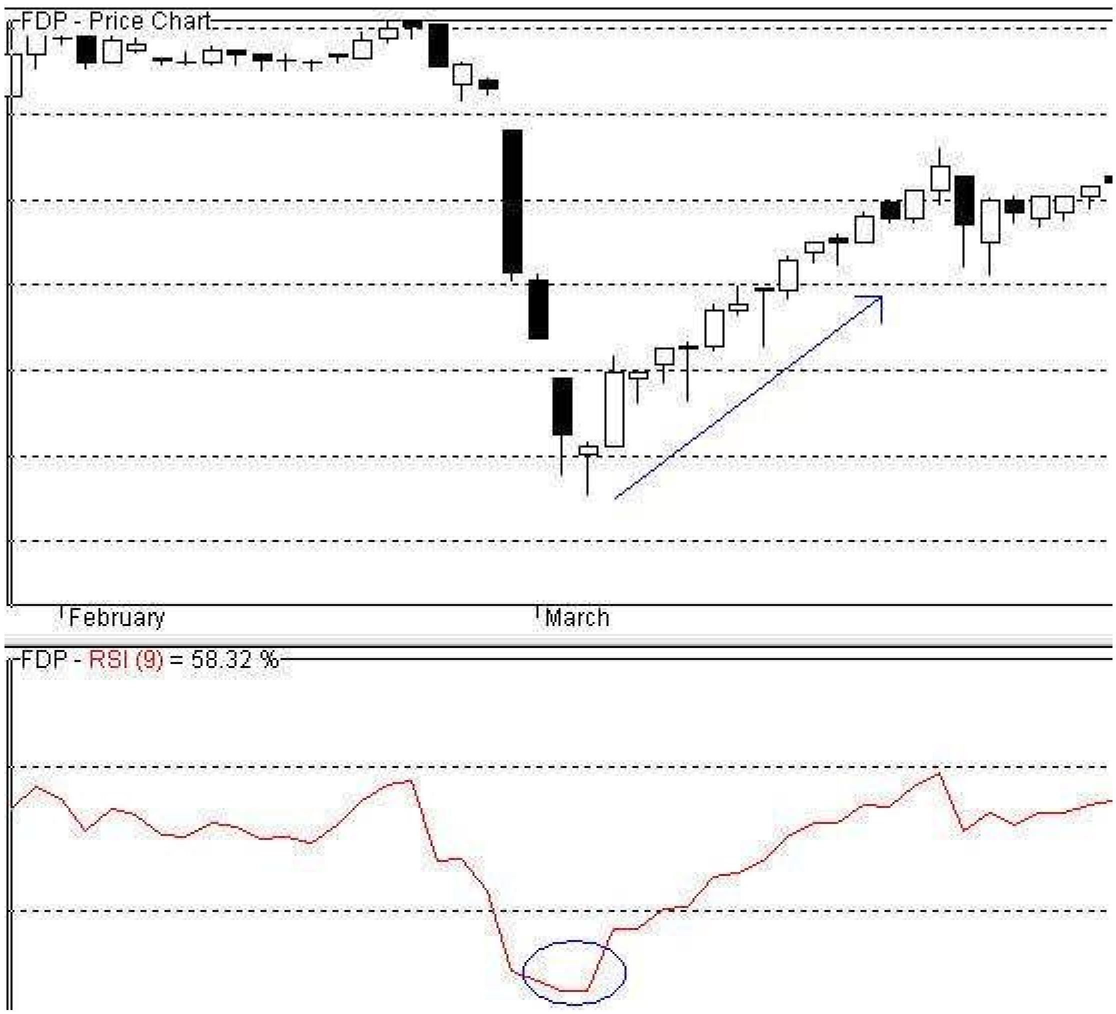
Probably the most common use of RSI is to look for divergences between a price chart and the corresponding RSI indicator. For example, when the price makes a new high (or low) and this is not confirmed by the RSI making a new high (or low). Note the example of AVL below;

This is an indication of declining prices and the RSI gave advance warning of this occurring in this case.

13.3 Market Tops and Bottoms

Another use for RSI is to identify market tops and bottoms. The price of a security can only rise so fast in a given amount of time. When it rises too high, too fast compared to its recent movement (momentum), this causes the RSI indicator to show a high reading.

The same is true of a falling price. If the price falls too low too fast when compared to its recent movement, this causes the RSI indicator to show a very low reading. Generally, a reading above 70 is considered to be overbought. This means when the RSI reaches this point, a reversal in price can be expected to some degree. A reading below 30 is considered to be oversold. This is said to be an indication that the price will rally to some degree after this occurs. Note the examples below of a market bottom;



Here we see an example of FDP. Notice how in early March after the RSI deeply penetrated its 30 line, the price took off in the other direction. Here is another example of FDP, this time however, a market top is identified. In this "real world" example, notice how the RSI hovers above its 70 line, rather than dropping immediately as in the first example. This happens at times, and so the trader should cautious and not simply assume the price will reverse once the extreme lines of the RSI have been penetrated.

13.4 Identifying Trends with RSI

While the 70/30 lines can be used to indicate reversal points in a market, looking at the RSI relative to its recent movement can also be used to discern the trend of the market.

The key to doing this, is adding two extra horizontal lines to RSI indicator, we will use the 40 and 70 lines together and the 30 and 60 lines together. Watching where the RSI moves with respect to these four lines, we can tell if the market is an uptrend, a downtrend, or a trading range.

We will define an uptrend as follows; it begins when the RSI rises above 70, and exists, as long as the RSI stays above 40. When the RSI drops below 40, but has not dropped to 30, we will define this as a trading range.

We will define our downtrend as follows. The RSI will drop below 30 to start it, and it will exist so long as the RSI does not rise above 60.

This is a very simple method to identify an up trend's, downtrend's, and trading ranges. With a little practice, you will find you don't even need to use trend lines most of the time, except when he RSI is close to one of our limit lines. Let's look at a few examples below;

In the above example, the black horizontal dotted lines in the RSI represent the 30 and 70 limits. The red horizontal dot of line, is at the 60, and the green horizontal line is that the 40. Notice as the RSI spikes above 70 in early November, the upward trend begins and remains intact until the RSI drops below the 40 line (see Green line). It barely does this in the middle of February, and clearly does it in late February, and as you can see the trend at this time I stopped.

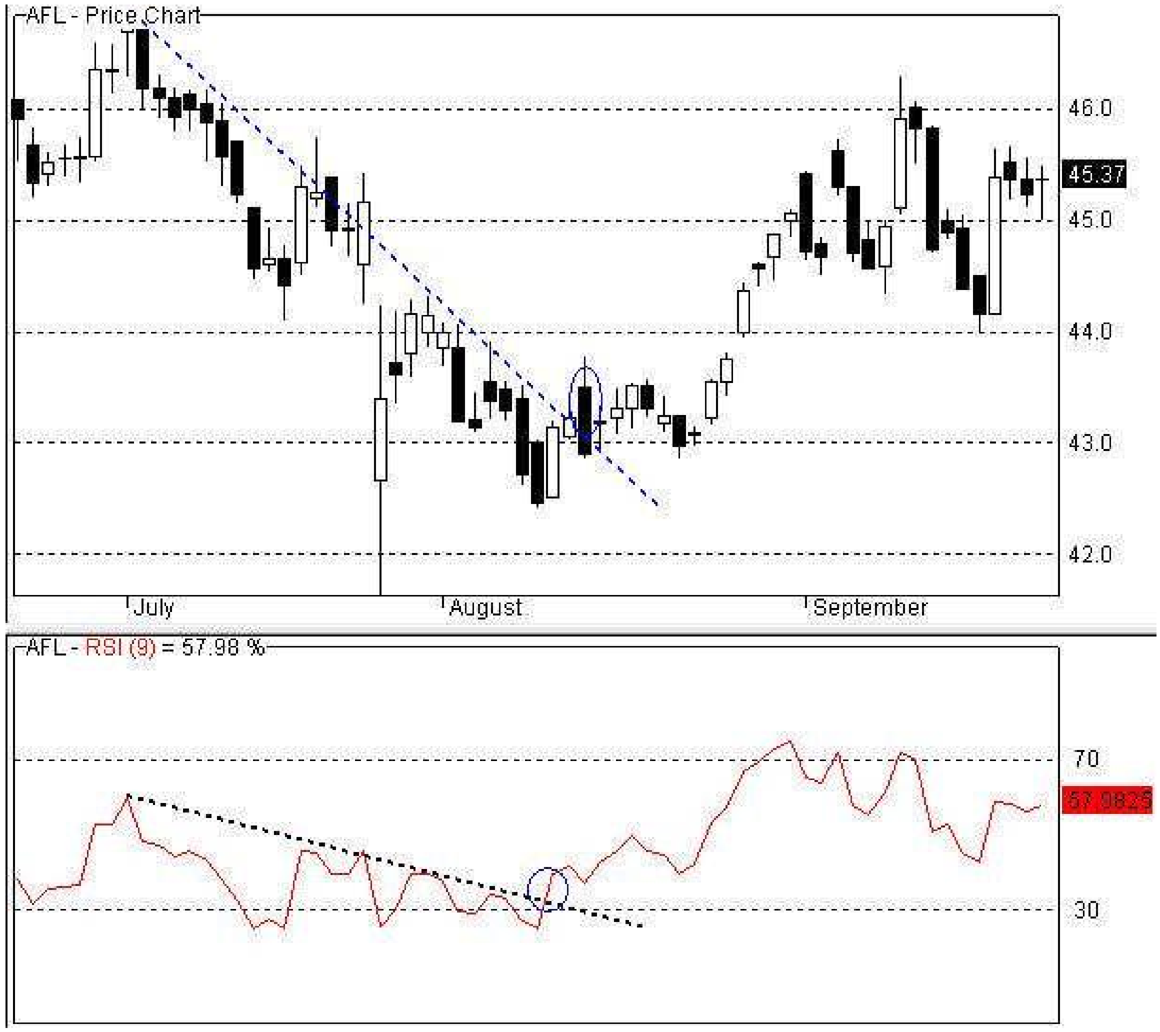
As we follow the same security for in time, a short while later, the RSA drops below the 30 line in early June. It does not rise above its 60 lines until early September, and as you can see the trend ends at this point in the example below.

Uptrend Support Lines.

Earlier, we discussed how to use trend lines on a price chart. This can also be done on other indicators, such as RSI. You'll notice when using trend lines on an RSI indicator that you often will see a trend line broken here before it is broken on a price chart, providing you advance notification of an impending change in direction of the price movement. The example below shows the RSI trend line breaks almost a month before the price trend does.

Downtrend Resistance Lines

As you might have guessed, resistance lines work in the same manner, that is, you often get advance notice of a change in the direction of the price. In this example however, the RSI only gives two days of advance notice when compared to the resistance line in the price chart. This is more common, however than our first example.



RSI, Not the Sharpest Tool in the Shed

While RSI is one of the best of leading indicators, it does have its shortcomings. This is because it attempts to measure the activity of Bulls and Bears with the same data. This is like trying to use one of those plastic fast food utensils, one that is a spoon and a fork all-in-one. You can use it as a fork or spoon, and it works okay, but if I were eating soup it will be much easier to use a regular spoon, and if I were eating a steak, it will be much easier to use a regular fork. The spoon/fork combo just doesn't do both jobs well, and the RSI indicator just can't effectively measure the momentum of Bulls and Bears.

Here is an example; notice the chart below of security ticker FDP with a standard RSI indicator. One way to enter the market with a long position would be to enter after a down trend line has been broken. Using the correct indicator, you would find on the chart below three long entry points; August 23rd, October 27th & January 24th.

Notice however, the price chart does not identify any broken downward trend lines. At best, it simply shows a dip in the price at these points. If you are relying on the standard RSI indicator below, it also does not produce a broken trend line entry at these dates.

Now take a look at the same price chart, but using a more advanced indicator that correctly displays the strength of of the trend.

The Bear Momentum Indicator™, correctly identified three broken trend line entries during the same time period. These opportunities would have been lost, if you were using an RSI indicator, or any other indicator for that matter.

The same principle applies to shorting opportunities too. Here is an example of security ticker GE. Using a broken uptrend line as short entry point and the Bull Momentum Indicator™ clearly identifies 4 shorting opportunities. One on May 20th, one July 20th, one on September 15th and one on November 25th. Note however in the chart below with the accompanying RSI indicator that there are no broken trend lines at these dates.

Here is the same time period using the superior Bull Momentum Indicator™.

Notice it clearly identified the short entry points. This is not to say that an RSI indicator will miss all opportunities of this type, but clearly there's an advantage to using these more advanced indicators, as they provide more numerous trading opportunities and a great deal more reliability as well. Ask yourself, if you were trading the above stocks, which indicator would you like to have been using? Exactly why these indicators are superior to RSI, the other advantages ways you can profit from them are discussed in the second half this book in the Dynamic Trading section, in the chapter on Momentum.

14 Volume Histogram

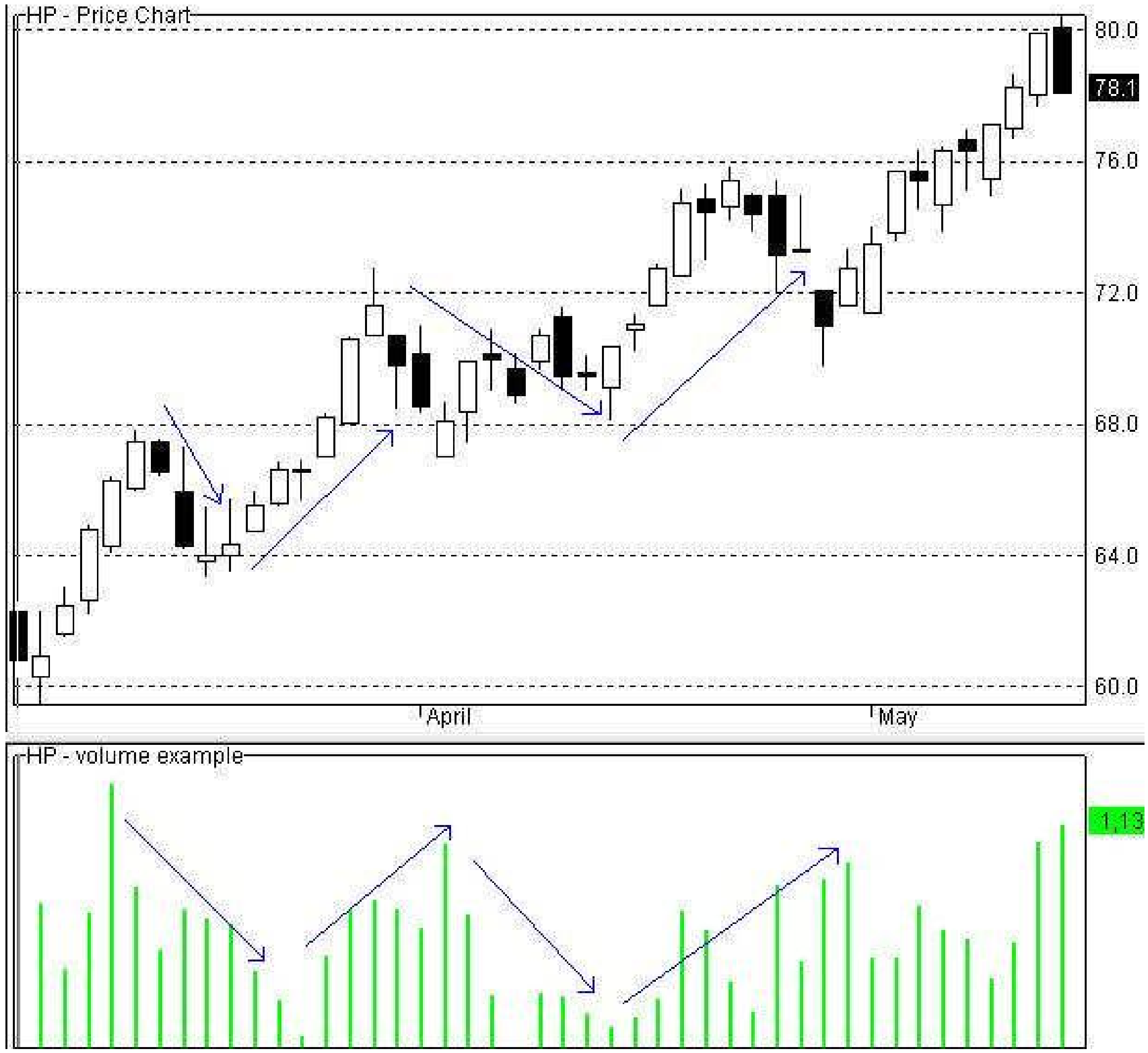
You might recall that earlier when we discussed why technical analysis works, we said that the movement of price was the last link in a chain of events. The first link in that same chain of events that is visible on a chart is volume. Most traders find that plotting volume in a histogram format makes it easiest to read, so that is the format, we will use here.

There are different ways volume data is reported. One way, and the type that we will discuss here is using volume to represent the actual number of shares that are traded. This is the way the New York Stock Exchange reports volume.

So each unit of volume represents a transaction between a buyer and seller. The buyer and/or seller may be individuals or institutions trading a small or large number of shares. The amount of volume traded at a specific price for a security is an indication of the level of confidence, commitment and desire traders have for that transaction, relative to which direction the price is moving.

For example, a trader looking for a long position may be willing to buy more of a stock, or pay a higher than market price for it, if he is very confident that the price will keep rising and he can make a profit. On the other hand, if the same trader is already holding a long position and the price begins to plummet, he may want to sell all of his holdings for fear of incurring a loss, and/or sell at a price below market value in order to get out of it right away to keep the loss from getting too large. Here is how these emotions might look on a chart.

If volume is increasing, while the price is moving in one direction, then it can be said that the volume is supporting that movement. The normal rhythm of a market dictates that the price must breathe. That is to say the price cannot continually move in one direction without resting, or pulling back from time to time. These "pullbacks", are also referred to as "retracements". So for example, for volume to be supporting a long move, the volume should be increasing as the price moves up, and decreasing when the price makes a pullback. Note the example below of symbol HP.

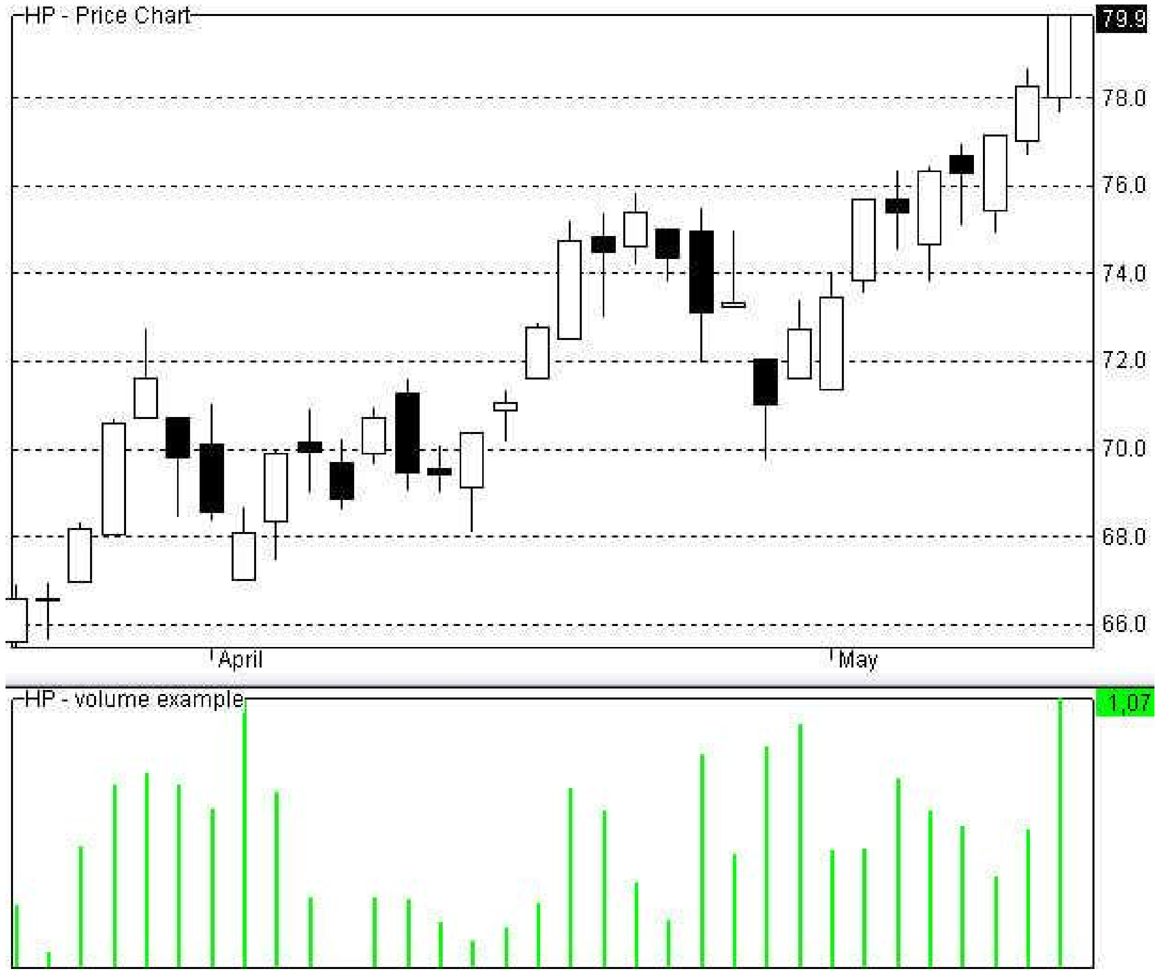


Prices can move up without increasing volume, as the last rally in the above chart appears to do, but when they do it is often not a reliable move. That is it may quickly turn the other way, turning a long position into a losing one. Notice in the chart above how in the last rally, the volume declines except for the last two days, which in this case indicates extreme selling. Because volume was not supporting the swing, look what happened on the next move in the chart below.

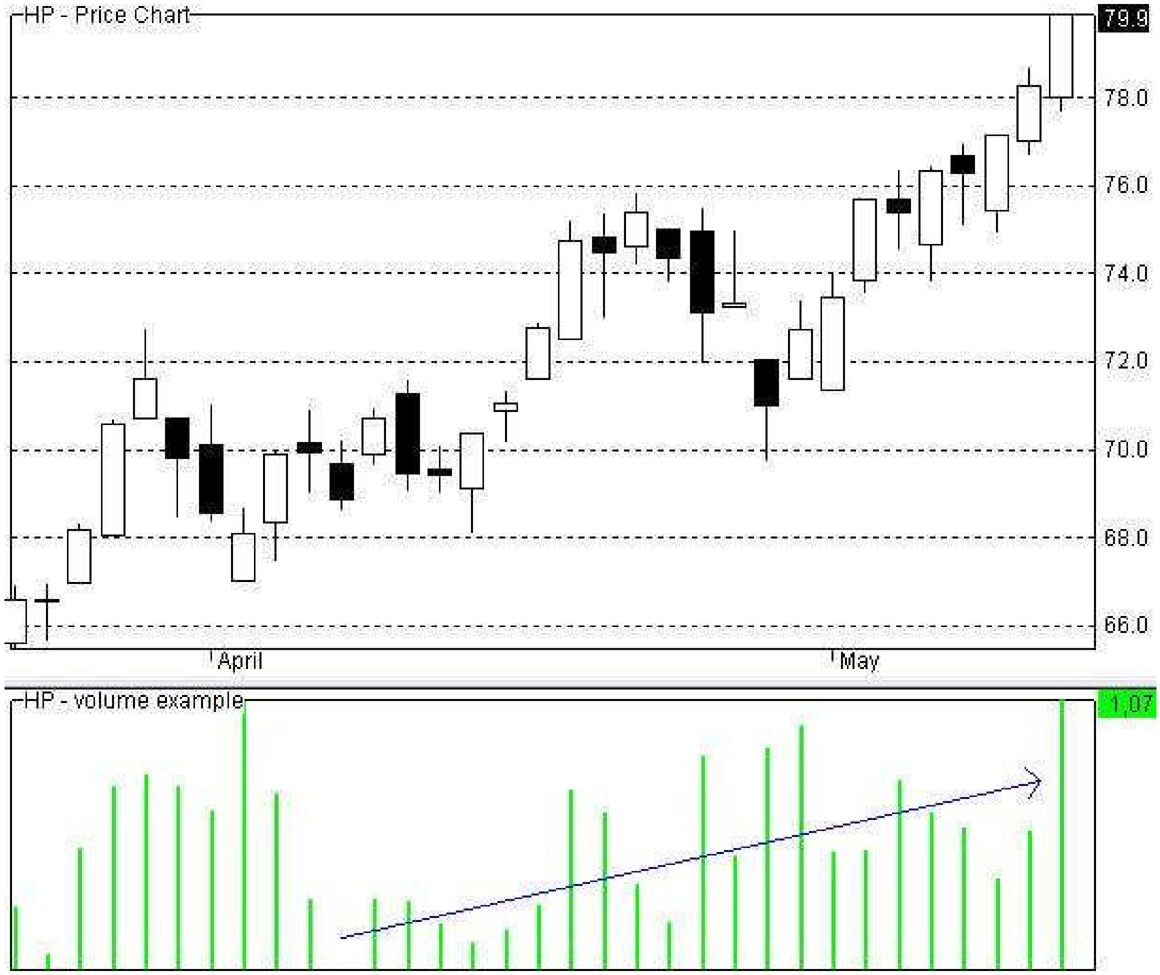
Downward price movements work basically the same way. If the volume was supporting a short move, as the price moves down the volume would be increasing, and when it retraces upward, the volume would decrease. This pattern would indicate that the volume is supporting the downward price movement as a few months before with symbol HP in this example.

One exception to this rule deals with short positions. For the price to move up predictably, it needs to be supported with volume. When the price moves down however, it can be pushed down by volume, or it can "fall" due to lack of volume as in the following example of HP.

A Volume histogram does have its limitations though. While the patterns we have just looked at are dependable, they are not always that clear. For instance, notice the chart below.



In the chart above it is hard to see if the volume actually favors upward or downward movements. In fact, some might say that in this case, the volume is favoring upward movement. Notice the same chart with a trend line added in the volume histogram below.



Does this trend in the going histogram however, painted an accurate picture of how volume is supporting the current price movement? Actually, in this case, is leading you on a long walk off a short pier. Notice how the chart unfolds in the up coming days.

Now let's do the same chart the with benefits of the superior volume indicator called the Market Sentiment IndicatorTM .

The Market Sentiment Indicator™ is a histogram with built-in trend lines. The green histogram bars and the green trend line represent the volume support of the Bulls and the red histogram bars and trend line represent the volume support of the Bears. Notice in the example above, on the last rally, support for the Bulls declined steeply in from about the middle of this trend rally, the Bears exhibit a great deal more power during this time. So this indicator shows that the underlying support has changed completely at this time, which indicates an impending change in the price. If you were holding a long position during this rally, the advance insight provided only by this indicator could have helped you to maximize your profits by getting out on time, or keep a winning trade from turning into a losing one.

Another example of this is when the price bottoms out and starts to climb again. Usually when this occurs, the volume diminishes as the Bears lose their power at the end of the downward move and as the price starts to move up it and begins to increase as the balance of power changes over to the Bulls. Sometimes, however, this shift in power from Bulls to Bears is not easily discernible on a standard volume histogram, because of panicking Bears and greedy Bulls. This is sometimes reflected in a big increase in volume at the end of the move. Note the example below;

As we have previously discussed, an increase in volume often confirms the current move, which in this case may mislead a trader viewing this chart into believing that the price continued downward.

Again, using the superior Market Sentiment IndicatorTM, this shift in power from Bears to Bulls is easily discernible. Note the same example using this more advanced indicator;

Notice how the trend lines in the Market Sentiment Indicator™ begin to exchange positions during the last 10 days or so. While the Bears (red trend line) decline, the Bulls (green trend line) begin to level off and is starting to rise a little bit. So while the volume histogram simply shows increased activity, the Market Sentiment Indicator™ helps us discern who the dominant force is, enabling us to determine where this increased activity of volume will move the price. Just as the Market Sentiment Indicator™ foresaw, the price is about to change direction. Note the following days in the chart below.

Exactly why this indicator is superior to a standard volume histogram, and other ways you can profit from it are discussed in the Second Half This Book in the Dynamic Trading section, in the chapter on Volume Analysis.

15 Using the Best Tools

So now you have not only learned what the best tools are for the technical analyst, but how to use them. While each of these tools provides insightful and useful information on their own to the point that you can actually make decisions to enter and exit trades without anything else, to benefit fully from these we need to combine them. Doing this provides an unsurpassed synergistic effect. Not only are these indicators superior to others, they also complement one another.

For example, sadly, some traders use multiple indicators providing the same information to confirm whether the trade is good or not, like using RSI and Stochastics. This is not a prudent practice. Why you ask?

Say for example, there is a car accident. No one is hurt. A policeman arrives though and wants to determine who is at fault. There are several witnesses present who saw the accident but were not involved in it. Which do you think the policeman would find more reliable, taking two statements from the same witness or taking one statement from two different witnesses?

Well you say, "why on earth would he want to take two statements from the same witness, of course he would find statements from two different witnesses more reliable". The same is true of trading. In our example above, by using the RSI and Stochastic indicators we are basically inquiring of the same source twice to check the validity of our trade. Why? Because both indicators work basically the same way.   Take a look at the formulas for each;

RSI Indicator Formula

RSI=100-(100/(1+(up/down)))

Where up = the exponential moving average of the closing prices on the days where the close is higher than the prior day during a given period.

Where down = the exponential moving average of the closing prices on the days where the close is lower than the prior day during a given period.

Stochastic Indicator Formula

CL = Close (today) - Lowest Low (in %K Periods)

HL =Highest High(in %K Periods) - Lowest Low (in %K Periods)

%K = CL / HL *100

Both indicators measure the velocity of the directional movement of the price by comparing either the closing price, high or low during a given period. Both are also bounded mathematically resulting in them bouncing back and forth between 0 and 100, making them both oscillators and causing overbought and undersold conditions at times using similar limit lines for this as well.

So while, both of these indicators are good momentum oscillators, it would redundant to use both of them and could result in a greater number of losing trades if one indicator were used to confirm the other. A more reliable approach would be to collect information from at least two different sources, like our policeman did. So if we decided to use one of the above momentum oscillators, we would want to <u>add another type of indicator</u> that provides additional insight to our analysis.

This is the approach we will take, except we'll ask for three witnesses. In the second section of this book I will show you an advanced method for pulling profits from the market by using these three separate sources of information to confirm a trade.

16 Is Money Management; Your Weak Link?

16.1 Money Management, Why Essential?

I sometimes wonder if money management would be more accurately portrayed as the "missing link" rather than the "weak link" in trading. Because you seldom hear anyone talk about it. Everyone is always looking for the "holy grail" indicator that nobody else has that is going to make them their fortune, when in fact, if they just applied effective money management to their existing strategy, assuming it is a sound strategy, this could very well be their key to success.

Imagine for a moment, if you were on the Titanic after it struck the iceberg! As you were scurrying for a life boat, you passed a deckhand who was busy polishing the brass handles on the Captains' cabin. No doubt, you would not only think he was wasting his time, but crazy too. Well, this might be an over dramatization, but with regard to your trading account, even if you have a great strategy, if you don't manage your money properly, you're just polishing the brass handles of a sinking ship, because given enough time, both the ship and your money will be long gone. Why is this? Well, answering this next question will get us on the right track.

16.2 What Is A Zero Sum Game?

The general population usually refers to a zero sum game in the context of gambling. The term means that the winnings paid to one player come from the losses of another, like a poker game for example. If you have two players and combine each players net losses and wins, you get zero.

Due to its nature, a zero sum game promotes an almost ruthless competition, because what you end up with is a double or nothing scenario. If you don't win, you simply are not short of your winnings, but you lose something you already had as well. Why do you need to know this? Because it helps you understand the mind set of the players involved. Walk down the street and try to take someone's wallet from them and see the reaction you get! Most are very committed to keeping what belongs to them, so don't expect any less when you trade.

Why bring this up? Because it shows the importance of taking your trading seriously by educating yourself properly and taking the necessary precautions to protect what you have through proper money management. To add to the seriousness of the game, is the fact that trading is a playground that leaves you with even more of a mathematical disadvantage because even if you sell a stock for the same price you paid for it, you come out with a loss because of commissions and slippage (the difference between the bid and asking price), which actually makes trading a “minus sum” game.

Consideration of the above doesn't make intelligent money management just a good practice, but a necessary one as well. Just to drive the point home a little further, let’s see what happens if you don't take the necessary steps to protect your trading account.

16.3 Recovering From Your Losses

What happens if you don't take precautions to protect your trading account? Well, let’s see. Suppose you have a modest trading account of $10,000. If you were to risk only 15% of it , $1,500, and lost it. How much would you have to make back to break even? Only $1,500 you say. Well, that is true, but now you only have $8,500 to make it back with. So you will need to make 17.7% profit instead of only the 15% you lost! What if you risk another 15% and lose? Well that would be an additional loss of $1,275 ($8,500 x 15%). Now you have a total loss of $2,775 and need to make 38.5% profit just to be back where you started.

How about one more loss? Well now you need to make a 63% profit. And finally, what if you incurred only four losses in a row risking your modest 15%? You would need a whopping 92% profit just to get back to the starting gate! So without taking the proper precautions, in a very short time your trading career could be over.

So now we can see what is at risk, so let’s see what we can do about it in the next chapter.

16.4 Capitalization

You don’t see stock market capitalization discussed very often, which surprises me because I am frequently asked, “how much do I need to start trading?” or “how much should I invest?”

Now we are NOT talking about position size, which refers to a percentage of your total capital. We are talking about the total amount of capital you have which will help determine your position size. Perhaps this isn’t discussed often because of the harsh reality of the situation, that being that many would not like the answer they get.

So how much capital is required to trade? In the end this is a personal decision, but perhaps the examples below will help you determine for yourself how much is needed.

In the example below, we are using three scenarios. All of them assume you have made ten trades, with 70% winners & 30% losers, which makes for pretty good trading. The winners are 10, 10, 8, 6, 6, 1 & 1% while the losers are 2, 2 & 6% (negative of course). While all three scenarios make the same percentage wins and losses, note the total difference in overall percent profit.

Example A

Buy	Sell	Profit / Loss	Comm	Profit
1,000	940	-6.00%	40	-100
1,000	980	-2.00%	40	-60
1,000	980	-2.00%	40	-60
1,000	1,010	1.00%	40	-30
1,000	1,010	1.00%	40	-30
1,000	1,060	6.00%	40	20
1,000	1,060	6.00%	40	20
1,000	1,080	8.00%	40	40
1,000	1,100	10.00%	40	60
1,000	1,100	10.00%	40	60
10,000	**10,320**	**32.00%**	**400**	**-80**

Total Profit / Loss --> -8.00% *

Example B

Buy	Sell	Profit / Loss	Comm	Profit
5,000	4,700	-6.00%	40	-340
5,000	4,900	-2.00%	40	-140
5,000	4,900	-2.00%	40	-140
5,000	5,050	1.00%	40	10
5,000	5,050	1.00%	40	10
5,000	5,300	6.00%	40	260
5,000	5,300	6.00%	40	260
5,000	5,400	8.00%	40	360
5,000	5,500	10.00%	40	460
5,000	5,500	10.00%	40	460
50,000	**51,600**	**32.00%**	**400**	**1,200**

Total Profit / Loss --> 24.00% *

Example C

Buy	Sell	Profit / Loss	Comm	Profit
10,000	9,400	-6.00%	40	-640
10,000	9,800	-2.00%	40	-240
10,000	9,800	-2.00%	40	-240
10,000	10,100	1.00%	40	60
10,000	10,100	1.00%	40	60
10,000	10,600	6.00%	40	560
10,000	10,600	6.00%	40	560
10,000	10,800	8.00%	40	760
10,000	11,000	10.00%	40	960
10,000	11,000	10.00%	40	960
100,000	**103,200**	**32.00%**	**400**	**2,800**

Total Profit / Loss --> 28.00% *

* This is the total profit / loss as a percent of the initial investment.

Example A shows a negative 8% return, while B shows a 24% positive return and C shows a whopping 28%! Why the drastic differences? The amount of capital invested! Example A uses $1,000 to trade with, B uses $5,000 and C, $10,000. Again, we are not talking about position size, these amounts are a position size, but it is controlled by the amount of capital you have to trade with. So if you want to place a trade for example, using $10,000, you must have more than that obviously or you would be using 100% of your capital.

Why does the amount of capital make a difference in the percent of your total profits? Because these examples take your commission fees into account and your commission fees are not based upon a percentage of the amount you trade with, they are a flat fee. In this case, $40 ($20 in & $20 out). In reality, slippage would come into play too. So as you can see by these examples, no matter how good your trading ability is, there is a minimum amount of capital required to trade with and still make a profit. If you have a large amount of capital to start with, then this is not an issue. Many new traders however, start with very little capital, and as you can see here, there is a point where it is not profitable to trade, even if you have a good system.

If you would like to modify the figures above to better reflect your individual circumstances, you can download a free Excel version by clicking on the link below. It is a spreadsheet that will allow you to change the investment amount, amounts of wins, losses and commissions. Simply click on the link and select "save".

Capitalization spreadsheet

16.5 Position Sizing

Position sizing is a simple, effective method to maximize profits and minimize losses regardless of the trading strategy you are using. Even with proper capitalization, incorrect position sizing will run your financial ship of opportunity into the rocks.

Here is a recent example that most are familiar with that will demonstrate this point. Enron! There are not too many that are unaware of the financial disaster that occurred there. What amazes me though are the growing number of people I keep hearing about, and supposedly intelligent at that, who lost their whole life savings because of the Enron ordeal. There was a saying I learned as a child that is very easy to understand, "Don't put all of your eggs in one basket". It doesn't get any simpler than that. That's what position sizing is all about, although it is more sophisticated than that.

For the sake of simplicity, lets' say you have an account of $100 and you invest $25 per trade. Obviously, if you incur only four losses in a row, your account would be wiped out! On the other hand, what if you invested only $2 per trade with the same account (the famous 2% rule)? It would take a string of fifty losses to clean you out. But, being unnecessarily “safe” can also result in a loss in profits.

For instance, with the above example, lets' say you profited on 60% of the trades and lost 40%, 100 trades total. Lets' further assume that the winning trades produced 10% profit each while the losing trades produced a 5% loss each. Applying the 2% rule above would have only earned you $8 total, while trading the larger position of 25% would have earned you $100! Over 12 times more! It would look like this:

Account equity =	**$100.00**			
2% equity =	**$ 2.00**			
(10% win = $2 x 0.10)	$ .20		x 60 trades (win 60% of trades) =	$12.00
(5% loss = $2 x 0.05)	$ .10		x 40 trades (lose 40% of trades) =	($4.00)
			Total Profit =	**$ 8.00**
25% equity =	**$ 25.00**			
(10% win = $25 x 0.10)	$ 2.50		x 60 trades (win 60% of trades) =	$150.00
(5% loss = $25 x 0.05)	$ 1.25		x 40 trades (lose 40% of trades) =	($ 50.00)
			Total Profit =	**$100.00**

Now I'm not saying to invest 25% of your equity per trade, but this demonstrates that you need a basis for determining your correct position size.

Unless you've got money to burn, you need a correct position size to balance the best AND safest return on your account. Otherwise, you risk losing too much, or profiting too little. The Laws of Mathematics can determine that amount for you.

To determine the most profitable position size, you need to take into account how much you expect to win / lose and how often you expect to win / lose, then you need to give the weight to each piece of data. The correct relationship in these numbers can and will make the difference between success & failure.

Obviously to employ this, you must have a specific trading plan to know what these numbers are, so the output will be consistent with the input. You can have more than one of course, but if you do you should keep your records for each strategy separate from the others, at least for this purpose. So, if you have already been trading with a strategy, this is where you want to obtain this information from. If you are embarking on a strategy for the first time, then you should at least back test the strategy on some trading software to get a rough idea of how you will do. If you do not have access to any back testing software, then it would be wise to use a record produced from paper trading.

Also, if you are using back tested data, it's best to use conservative figures. As time goes on and trades are closed, then you should start using "real" data for this purpose, as it will prove more reliable.

If you would like a calculator that will recommend the optimum amount of your capital to invest in each stock transaction, based upon the mathematical relationships of the percentage of wins / losses and there respective amounts, then click on the link below and select, "save" to download a free position size calculator.

Calculator

The calculator is easy to use. Simply enter the percentage of trades you expect to profit on and the expected percent each profit and loss will be. The calculator will then mathematically optimize your position size to get the most out of it no matter what your trading performance is.

Remember the saying though, "garbage in, garbage out". If the figures you enter are not an accurate representation of your trading history, then the investment amount recommended may not be the optimum amount.

Additionally, keep in mind that the percentage it recommends is based upon the ever changing total size of your account and the performance of it. So if the performance changes, you should update the figures put into it, and while the recommended position size will remain the same if the performance does, the actual dollar amount will change as your account grows or shrinks in order to maintain the same percentage.

The next logical point to cover after position sizing would be the stop loss strategy one decides to use. We won't discuss this here though as it really deserves more than just a chapter.

16.6 Emotions & Money

Some may be surprised to find the subject of emotions included in a money management discussion, but it is actually very appropriate, because if we don't control our emotions, it can send our money management program on an unscheduled detour. For this reason, it must be mentioned how important it is to control your emotions while trading. To demonstrate how import this can be consider the following example.

We have all seen how a sports figure will sometimes choke during an important point in his game due to pressure. Like a free throw during a basketball game that may make the difference between winning and losing. He misses a shot that he normally would make any other time. What happened? He lost his focus! Simply put, he became more concerned about the outcome and what was happening around him than the task at hand. The same thing can happen with trading.

If you become overly concerned with how much you are going to make (greed) or how much you are going to lose (fear), these emotions are going to have an effect on how you trade. This fact is inescapable. You must stay focused on the task at hand, that is, information management. How do I do this you ask? "I would be nuts to not care if I win or lose!" This is true, but the time to be concerned is not during the trade, it is at the time you decide to deploy your strategy. You evaluate a strategy. You test it. And then…you trust it! If you don't trust your plan, you should not be using it.

I climb cliffs for a hobby. In doing so I set up what is called a belay. This is a means of securing myself to the rock mass by using a harness, ropes, and other miscellaneous hardware. When I am in the middle of a climb, I don't worry what will happen if I slip! I know my belay will hold me. That is not to say that I haphazardly set up my belay, far from it. I set it up very carefully. I check it and then I recheck it. The same should occur with your trading.

The point here is simple, but it is so simple that if we are not careful, we may be inclined to not give it the credit it deserves. All forms of short term trading, except for day trading, can and should be implemented using end of day data. "You evaluate a strategy. You test it. And then…you trust it! If you don't trust your plan, you should not be using it." Your best strategy is to make your plans before battle, not on the battlefield. MAKE YOUR BUYING AND SELLING DECISIONS WHEN THE MARKET IS CLOSED! This is one of the easiest ways to ensure you emotions don't start to rule your trading decisions, to that end, don't succumb to the temptation of viewing intraday price charts for open positions you have. This is an easy way to implement "exceptions to the rule" that are rooted in emotion.

I'm sure you have heard it said thousands of times, "People don't plan to fail, they fail to plan". Well, if you have a plan, but don't follow it, it's the same thing. If you insist on evaluating possible buy or sell signals while the market is open, it will only be a question of time before you start to veer from your strategy, and at that point you will have no plan at all.

If after a self evaluation you feel your emotions are controlling your trading, it would probably be a good idea to seek out a course specifically on this subject.

16.7 Margin Accounts

This is where you can turbo charge your trading. If you weren't interested in making an efficient return with your money, I'm sure you would just put your money in a savings account. So a margin account is just another resource with which you can increase your profits. Now I say "can" because it can also increase your losses.

This is where many get confused about whether or not a margin account is good to have. You see, it really depends upon the trading strategy you have, which includes your money management as we have seen. Some say that it is too risky to use a margin account. Really though, it is no more risky than investing your hard earned cash! Using a margin account simply accelerates your trading capabilities. You can lose faster or profit faster. The percentage of trades that you win is a different subject than how fast you do it. If you are concerned about winning and losing, then you need to first be concerned with your strategy. Once you have tested it and have built trust in it, why would you not want it running at full speed.

So to make the most of our resources, we want to be using a margin account. This being the case, we will only buy securities priced over $5.00, as those below the $5.00 mark do not allow the use of margined funds, at least in US markets. Using a margin account allows us to leverage our money to the greatest extent possible. We can buy at least double, therefore profit at least double of what we could without it.

Some may balk at the fact that you have to pay interest on the money borrowed. If you compare the interest being paid out to the rate of return you are making with your account, you are saving pennies and throwing away dollars. Now this of course is made with reference to short term trading. If you are a buy and hold person, then perhaps when all is said and done, your interest might be more than your profits and dividends from the stock. Back to short term trading. All businesses have overhead. Just think of this is part of your overhead for trading, just like commission fees.

16.8 The Magic of Compounding

Everyone of course has different financial goals, and if you have got big plans or dreams, sometimes when you start out, they can seem to be unreachable. Well, I'm here to tell you that if you have a good trading and money management plan, compounding your profits can help you meet your goal faster than you ever imagined!

To illustrate how powerful compounding can be even with a modest initial investment, note the table on the next page.

For illustrative purposes only, assume you have only $5,000 to invest. If you put that in a margin account, you can easily invest $10,000 (not all in one trade of course) and still have some left over as a cushion for losses, and draw downs in your open positions.

This illustration provides for swing trading. The average swing that we will ride is about three days. There are 4.3 weeks in a month. To error on the safe side though, lets say that the average swing last five days and that there are only 4 weeks in a month. Since we have a margin account, we are doubling all that we are doing. So instead of investing $5,000 once per week, four times per month, we are investing 5,000 twice per week, four times per month, or $40,000 per month. If we generate an average net return (after commissions assumed $20 in and $20 out) of only 3% on each of those eight trades, that would be 3% X 8, or 24% return on our $5,000 for one month. WOW!

Our net profit would be, $1,200! If that amount is left in our account, the following month we will have $6,200 cash and, $6,200 margin, for a total trading power of $12,400 to start. As the account compounds, the balance skyrockets to almost one hundred seventy thousand within twenty-four months! Now that’s POWER!

Compounding Investment Example

	Accumulated Captial		No. Times Invested		Avg Return		Profit to Reinvest
Month 1	$5,000	X	8	X	24%	=	$1,200
Month 2	$6,200	X	8	X	24%	=	$1,488
Month 3	$7,688	X	8	X	24%	=	$1,845
Month 4	$9,533	X	8	X	24%	=	$2,288
Month 5	$11,821	X	8	X	24%	=	$2,837
Month 6	$14,658	X	8	X	24%	=	$3,518
Month 7	$18,176	X	8	X	24%	=	$4,362
Month 8	$22,538	X	8	X	24%	=	$5,409
Month 9	$27,948	X	8	X	24%	=	$6,707
Month 10	$34,655	X	8	X	24%	=	$8,317
Month 11	$42,972	X	8	X	24%	=	$10,313
Month 12	$53,285	X	8	X	24%	=	$12,789
Month 13	$66,074	X	8	X	24%	=	$15,858
Month 14	$81,932	X	8	X	24%	=	$19,664
Month 15	$101,595	X	8	X	24%	=	$24,383
Month 16	$125,978	X	8	X	24%	=	$30,235

Month 17	$156,213	X	8	X	24%	=	$37,491
Month 18	$193,704	X	8	X	24%	=	$46,489
Month 19	$240,193	X	8	X	24%	=	$57,646
Month 20	$297,839	X	8	X	24%	=	$71,481
Month 21	$369,321	X	8	X	24%	=	$88,637
Month 22	$457,958	X	8	X	24%	=	$109,910
Month 23	$567,868	X	8	X	24%	=	$136,288
Month 24	$704,156	X	8	X	24%	=	$168,997

An average 3% return is not hard to achieve with a solid trading strategy, and as you can see from the above, that is what can make your dreams a reality.

16.9 Conclusion

So there you have it. These are the basics to ensuring not only the survival of your trading account, but these principles should also enhance the effectiveness of any trading system as well. Now, as important as money management is, it isn't the entire key to profitable trading.

If your trading strategy isn't built on sound principles, doesn't have a proven track record of being able to provide consistent returns in any market or time frame, then not even intelligent money management will save it. So continue reading and learn how to combine time tested trading principles for profitable results, and if you really want to turbo charge your profits, then be sure to read the second half of this book to learn advanced trading concepts and tools.

17 Dynamic Analysis, Advanced Concepts & Tools

Definition of Dynamic: Pertaining to an operation that occurs at the time it is needed rather than at a predetermined or fixed time or threshold. Putting this principle to work in trading is the key to profitable trading, as we will demonstrate shortly.

Why do you need a dynamic approach? Most indicators and approaches to trading rely on stagnant, rigid information or predetermined thresholds to gain insight into a market that is not rigid, but it is rather fluid in nature.

This would be like checking the weather report before leaving for work in the morning and finding out that the forecast called for rain. So for the next 10 days straight, you take your umbrella with you to work. So while the information was probably useful the first morning you heard it, it may or may not have been relevant over the next 10 days, and most likely the older the information became, the less useful it became as well. No doubt, during the next 10 days many things could've changed to affect the original forecast, such as temperature, wind direction and speed, etc. up to date, relevant information is required for such a situation.

The same principles apply to trading. Stocks do not always move in the same direction, with the same momentum, accelerate at the same speed, or stop at the same threshold. Therefore, a successful trader must apply a strategy and use tools that take these facts into account.

You are about to learn about the most advanced indicators available today and how to profit from them. In fact, they are so advanced that until recently, even if you wanted to, you couldn't get your hands on them. Once you learn how they work and see what they can do for you, you will soon appreciate why using other indicators would be the same as putting your trading account on a roulette table, you would just be taking unnecessary risks with it.

Before we begin to look at examples of how each indicator that we will use works, we need to keep in mind that the world is not black-and-white, and neither are the markets. This being the case, these indicators, or any others for that matter, do not provide absolute information. They provide us with statistical guidelines to make intelligent decisions with. So while these indicators can provide an analyst with an uncanny ability to determine when and where prices will go, don't be surprised on the rare occasion when they leave you out in the cold, because they will. This is where intelligent money-management and proper use of stop losses becomes an invaluable part of your strategy.

Dynamic trading is all about maximizing profits, and maximizing profits is about making the most money in the least amount of time, with the least amount of effort expended. This being the case, dynamic trading is an EOD (end of day) strategy. After all, why would you want to waste your time glued to your computer screen all day, when you could be spending your time doing what's important to you. I am passionate about trading, but in the big scheme of things it is a means to an end.

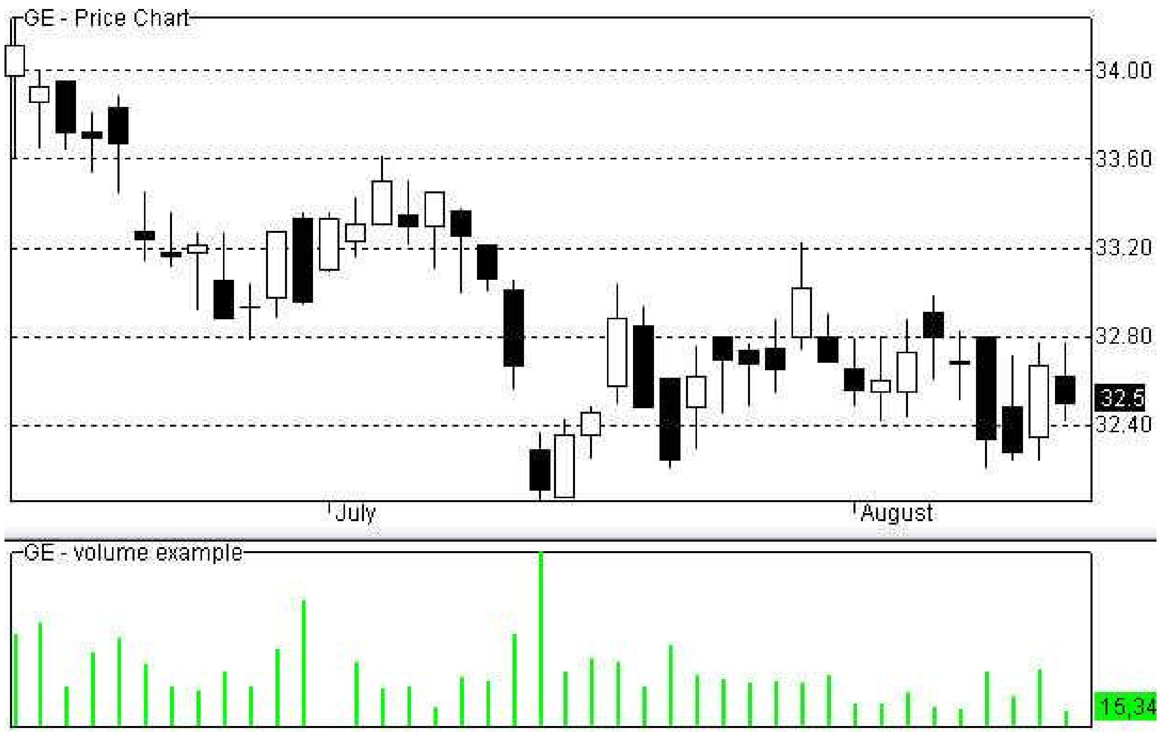
There are countless ways to enter the market, so what we will do here is show you the best tools available, explain what information can be obtained from them, and demonstrate how this information can help you make intelligent, profitable decisions when entering and exiting the market.

18 Volume Analysis

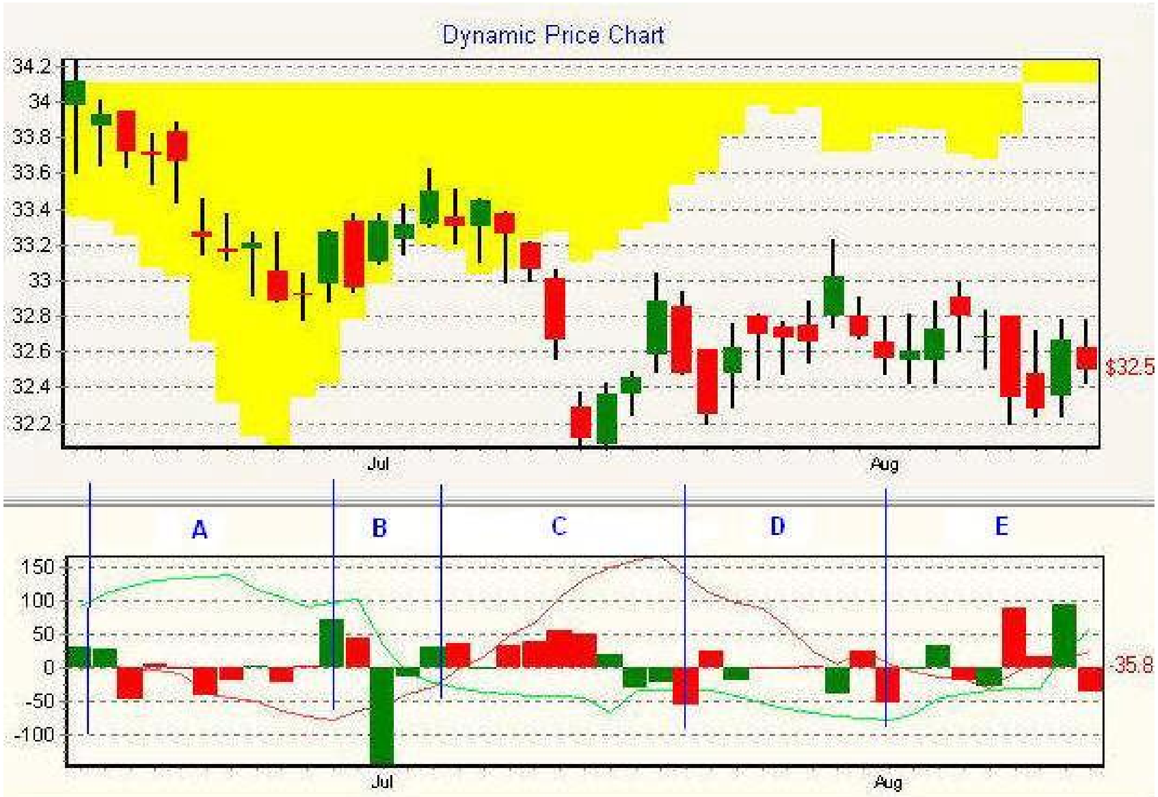
18.1 Standard Volume vs Market Sentiment™

If you're not well acquainted with the basic principles of volume analysis, then I suggest you review chapter 11 of this book before continuing, as it will make this chapter more meaningful to you. If you already understand the importance volume plays in technical analysis, then you will truly appreciate what you're about to see. Because while volume analysis is indispensable in confirming the current price movement and trying to predict the next one, no doubt you will agree, there is a generous amount of room for interpretation.

For example, try to see if you can identify the supporting pattern of volume in the chart below.



If you found that a little hard, then you're probably not alone. The same way a traffic light will turn yellow to warn you it is about to turn red, so too, if you know what to look for, the volume will signal you before a change in price is about to occur. Notice the same price chart, but this time, with the advanced market sentiment Indicator™;



Let's break this down now and see exactly what this indicator is telling us. As you can see, Market Sentiment IndicatorTM consists of a histogram and corresponding trend lines. The green bars and line represent support for the Bulls and the red bars and line represent support for the Bears.

With this indicator, what is most important is the relationship of the two lines, not so much which one is higher. So in the chart example above, in the area designated as "A" we see that the two opposing forces are basically running parallel to one another, indicating equal support at this time.

Notice however, in area B above a sharp change occurs. The Bulls suddenly become very weak, while its same time, the Bears start gaining strength. Notice too how this warning precedes the downward movement of price that comes next.

In the next section, C, we see the Bears continue getting stronger until the price bottoms out and about the same time support of the Bears peaks out too.

Next in section D we see both sides becoming weaker, although the Bears are losing more support than the Bulls. While no significant change in prices occurred yet, a warning sign is being given that the Bears are losing ground in this battle.

As we move into section E the Bears gain a slight bit of support, but nothing at all compared to what the Bulls are gaining. Thus, what started in section D, has become stronger in section E, indicating an upward price movement. Was this discernible at all with the volume histogram? Not with my eyes! See how the next few days turn out the chart below.

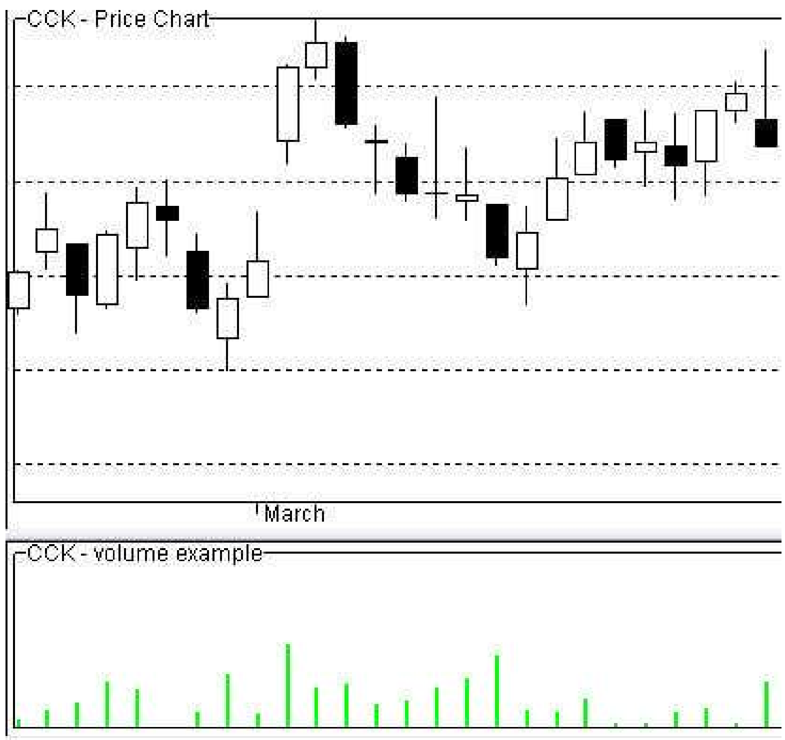
As you can see, the market sentiment actually tells us where the price is headed, as the price took off upward. Next, the sentiment for the Bulls peaks and starts to drop during the last few days of the chart, a day or two later, the price begins to fall again.

The Market Sentiment Indicator™ is nothing short of awesome by the way to service the profit potential before it occurs. It has an uncanny ability to measure the true sentiment, or strength behind a price movement. It can do this because it does more than display the gross volume traded for the day. Using a very complex algorithm, it makes the volume relative, and dynamic in nature, by taking into account how much volume is being exerted relative to recent quantities of volume and the direction in which it was expended.

Will it show you with absolute certainty every single price movement in advance? No, we're working with in the day data, so we're left with a summary of information as to what happened during the trading day. Sort of like watching the highlights of a football game on the news, you generally, what is happening, but it would be impossible to know all the details without watching the entire game.

So some may ask, "why not trade intraday and get all the details?" While there's good money to be made that way, you may as well have a regular job, because you will be tying up your entire day. Let's get back to the subject at hand.

Here's another example. Notice symbol CCK in the chart below. All the volume is diminishing and the price is flattening out. Is it becoming a quiet market? Will it just make small oscillations and go nowhere?



Using the Market Sentiment Indicator™ can remove such doubts. Let's take a look the same chart again, but with this additional insight.

Notice in the chart above, how during the last eight days market sentiment indicates a flip-flop in the control and support of the price. The trend of the Bulls is way down in the Bears have reached a new high not seen for many days, indicating a drop in prices coming soon. And that's exactly what happens, note the chart below.

Being able to discern this flow gives the analyst greater insight into the market. Such information actually allows you to see the market breathe. You can use this information to assist you in discerning possible support, resistance or turning points in the market.

This information is vital to the life of your trading account, because you want to trade with this flow and not against. When you're trading against this flow, you're financially swimming upstream.

When you look to the above chart without the advantage of using the Market Sentiment IndicatorTM, did you spot the supporting rhythm of the volume?

Don't feel bad, I didn't spot it either. It only becomes visible when the Market Sentiment IndicatorTM dissects, filters, and organizes the volume data so that the true trading-pattern starts to emerge. This is nothing short of astonishing.

I remember when I first started trading that price patterns became evident with just a little study, but volume seemed to be for the most part, chaotic at best. This didn't make sense to me, but nonetheless I couldn't find a reason for this lack of order.

The market sentiment IndicatorTM is proof that there is an orderly structure, a foundation to the movement of the markets if one knows what to look for.

We could go on all day with these examples, but I think it you get the point. It becomes clear that without the assistance of the Market Sentiment IndicatorTM you put your trading account at greater risk when you open a position in the market, because you will not be sure you have the edge by trading with the market.

There's even more you can do though to increase your odds at becoming a profitable trader. Using the same dynamic principles, we can also more accurately display the momentum of the price movement, and that is what we will discuss next.

19 Momentum

19.1 Weakest Link Theory

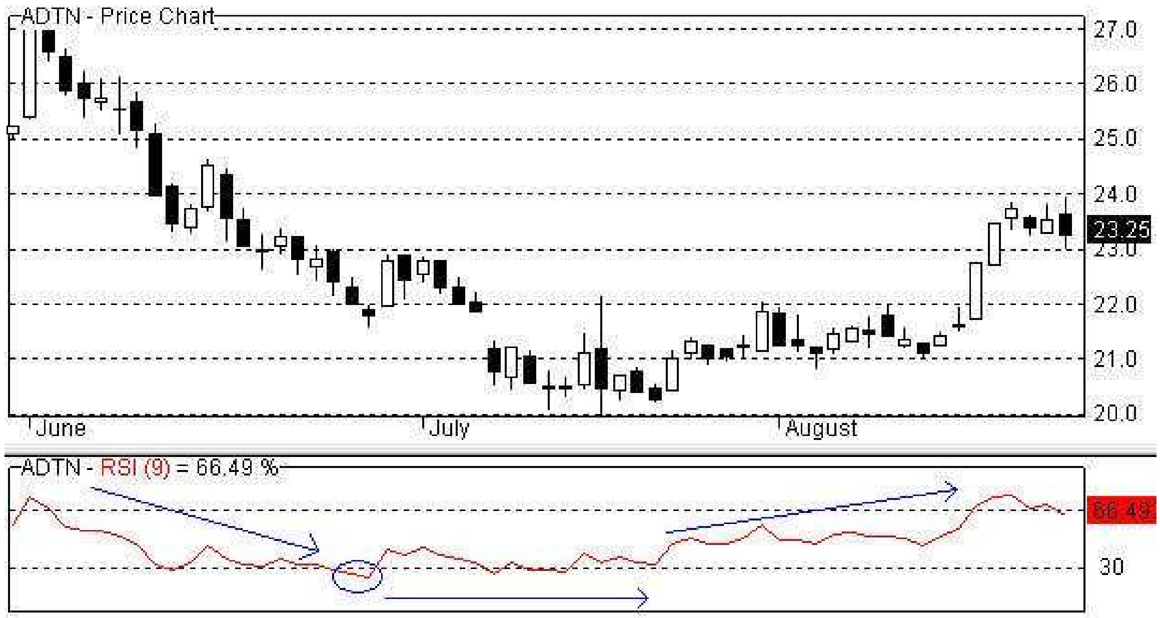
While RSI is one of the best of leading indicators, it does have its shortcomings. This is because it attempts to measure the activity of Bulls and Bears with the same data. This is like trying to use one of those plastic fast food utensils, one that is a spoon and a fork all-in-one. You can use it as a fork or spoon, and it works “okay”, but if you were eating soup it will be much easier to use a regular spoon, and if you were eating a steak, it will be much easier to use a regular fork. The spoon/fork combo just doesn't do both jobs well. Similarly, the RSI indicator just can't effectively measure the momentum of both the Bulls and Bears at either.

This has to do with the weakest Link theory. No doubt, you have heard the expression, "a chain is only as strong as its weakest link." The same is true of a trend. A trend's true strength can be measured by its weakest points. This is why, when an analyst draws a trend line, he draws it under the price or indicator if it is an uptrend, because every dip or valley in that uptrend represents its weakest point at that time. We always measure price as a trend, because whether the price is moving up, down, or sideways, it is always struggling to trend up or down. So the best way to find out where the price is headed is to measure the strength of the Bulls and the Bears separately and compare the two. You need two separate indicators to do this and I’ll explain shortly how this is done. A stable uptrend should always have successively higher low points. It's nice to have higher peaks as well, but not necessary. What I am about to show you will probably look the opposite of what you are used to seeing with regard to trend identification, but as I shall demonstrate shortly you'll notice that the strongest point of a trend is at its start and the weakest point of a trend is at the end. Most indicators, including RSI do not make this readily discernable. We will later examine this in detail and you will see why this makes sense.

A downtrend functions in the same manner. The trend line should be drawn on top of the price or indicator, so that each of the weakest points of a downtrend (which are the peaks) intersect with the trend line.

The shortfall of RSI in this regard is that it uses the "mean" data to show the weakest and strongest points of a trend, and this is not the best way to do this. This does not paint a realistic picture of what is happening. To measure the true strength of an uptrend, you must measure the weakest point of the data that indicates the Bulls strength.

To measure the true strength of a downtrend, you must measure the data that indicates the Bears strength. The area on a chart that displays the strongest point for the Bulls, usually is not the weakest point of the Bears, and vice versa. This is because one side or the other gradually gets weaker and then overpowered by the other side, or one side gradually gets stronger than the opposing side and eventually overpowers their financial adversaries. This is easy to discern when we are using the right indicators. RSI and many other indicators show these actions happening simultaneously, when in reality there is a gradual shift in power. If you have the right tools, you can see this shift in power taking place before the price actually changes direction. This can provide a higher level of confidence and put you in a position to take more profit out of a price movement. Let's look at an example below and see how this gradual shift in power takes place;



Notice in the chart above fall and rise of the price is accompanied by the fall and rise of the RSI. However, when the RSI falls, it basically rides along its bottom, although technically its lowest point is three days before July starts, but it's a little hard to tell. This pattern in the RSI though does not actually portray the change in momentum. Notice the same price chart again, but this time with Bull and Bear Momentum IndicatorsTM.

Notice on July 1st, how the dynamic Bull Momentum IndicatorTM showed a great increase in strength, even though the price continued to go down. This is because it was beginning at this point that Bulls began to fight harder to change the direction of the price.

Now look at the dynamic Bear Momentum IndicatorTM and notice how in the middle of July the momentum of the Bears had been defeated as indicated by the broken downtrend line. It is between these two points (the two circles), where a gradual change in power occurred in the dominant momentum of the market. It did not occur on a specific day and as you can see in the chart above, once the Bears were defeated. Price began to rise.

Another important reason for discerning this change in dominance is reliability. Notice the chart below of FDP. The accompanying RSI indicator shows two downward broken in lines to avoid an argument, because depending upon the trader, some might look the short-term. A longer-term trend to draw the line on. In either case, both indicate a long entry position.

In this instance however, this was a false alarm, because the price continued to fall. Note the following days.

Here is the same price chart of FDP, but this time with the dynamic Bull and Bear Momentum IndicatorsTM. While the dynamic Bear Momentum IndicatorTM shows that the Bears have lost their momentum, the accompanying Dynamic Bull IndicatorTM does not show the Bulls have attempted to take over momentum at this point, because their indicator has not risen to a new high.

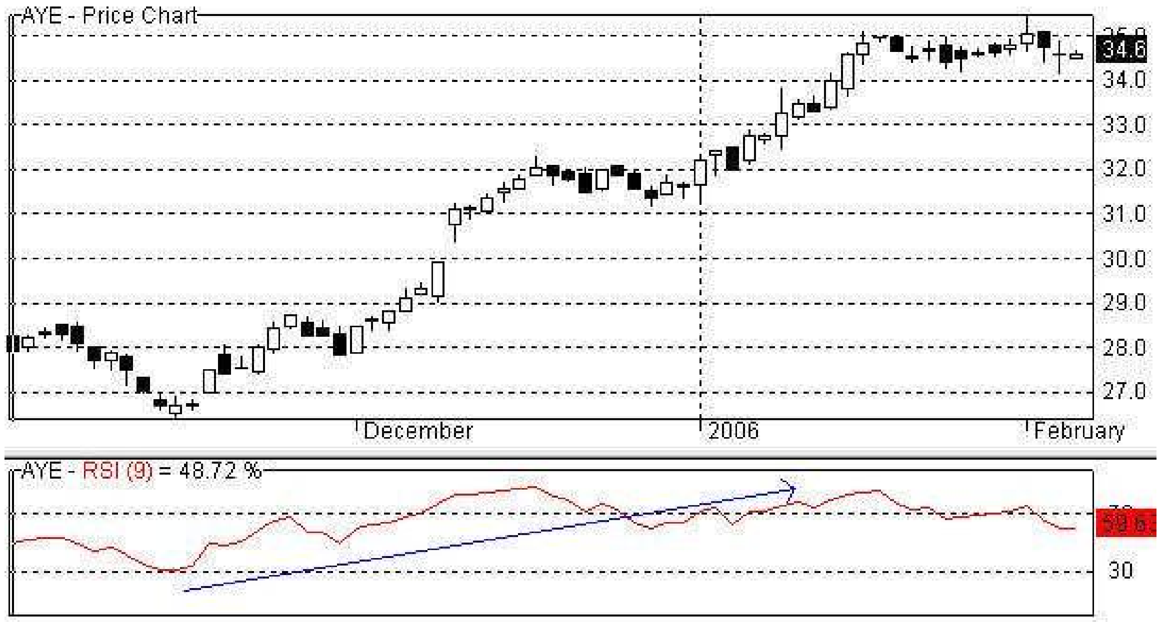
However, in the next couple of days, the Dynamic Bull IndicatorTM does display a new high telling us that the next resting point of the Bear Momentum IndicatorTM will be a good entry for a long position, and not a false alarm as the RSI displayed earlier. Note the next few days in the chart below.

In this case, confirming the relative power of the two opposing forces kept us out of a losing long position and helped us to enter a profitable one.

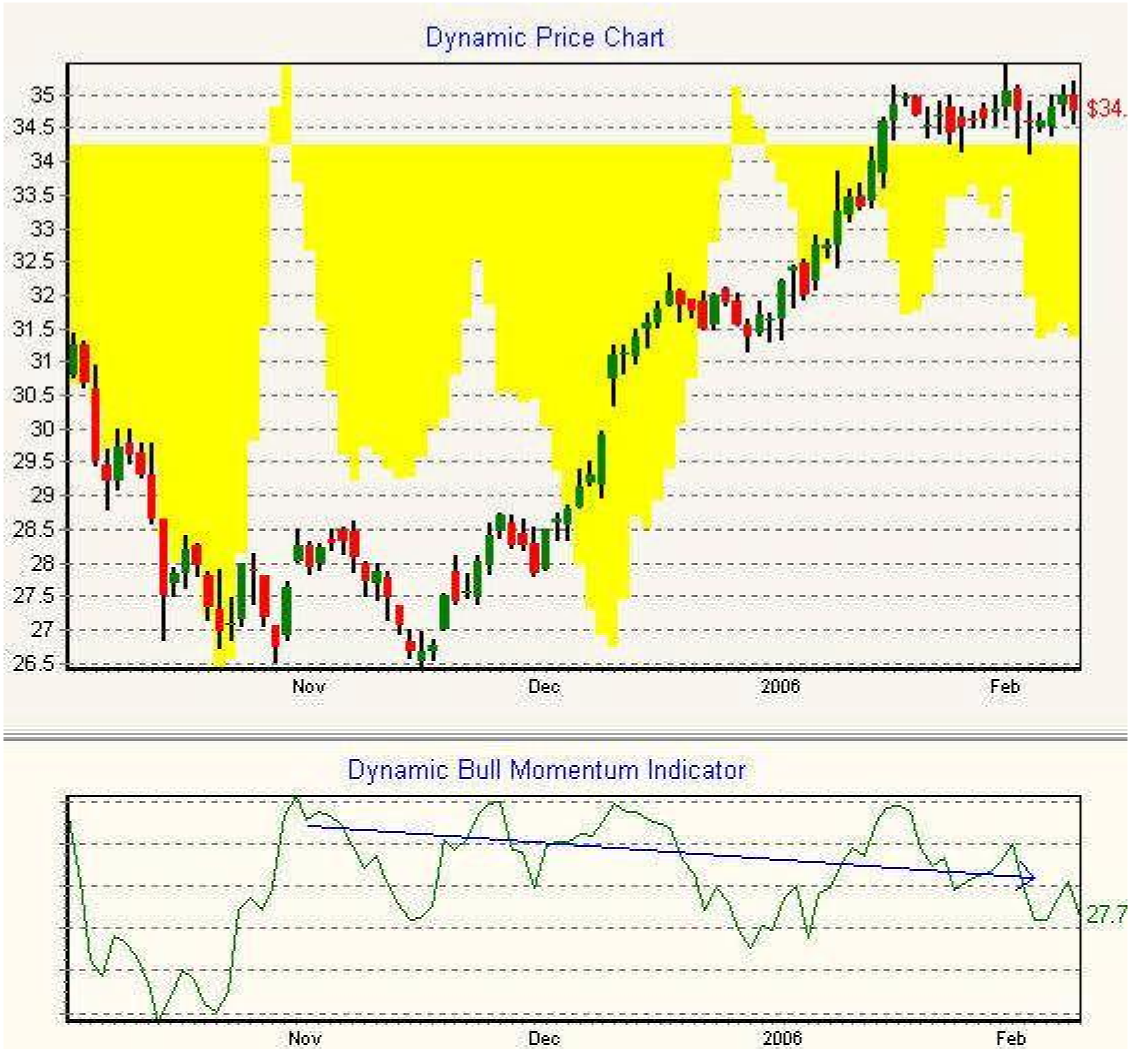
19.2 Bull Momentum

The Bull Momentum Indicator™ is designed to show the true strength of Bulls whether the market is in an up or downtrend. This information can prove to be more profitable than the "mean" momentum of the price movement, as is provided with most indicators, such as RSI. This is because as the Bulls and Bears struggle to dominate the market and control shifts from one group to the other, knowing exactly when the Bulls start to become stronger than the Bears will allow you to get in on the very beginning of an upswing or an uptrend. Likewise, knowing when the Bulls began to become weaker than the Bears will allow you to pull out of the market before the price changes, again allowing you to keep as much profit as possible or provide you with an opportunity for a short position.

Notice the uptrend in the chart below, and the accompanying RSI indicator. At the start of the trend, the RSI indicator is low and each successive peak becomes higher as it reaches the end of the trend. This is a typical relationship between RSI and a price uptrend. It has its uses, but it does not indicate where the true strength and weakness of the uptrend actually is, which is critical, if we are looking for a profitable entry with minimal risk.



Now look the same chart with the Bull Momentum IndicatorTM added.



Notice the first peak in the trend is the highest, and each successive peak is lower. This is the typical relationship between the Bull Momentum IndicatorTM and an uptrend in price. This accurately indicates where the strength and weakness of the trend really is, basically the opposite of what the RSI indicator is displaying. Why is this? Simple physics!

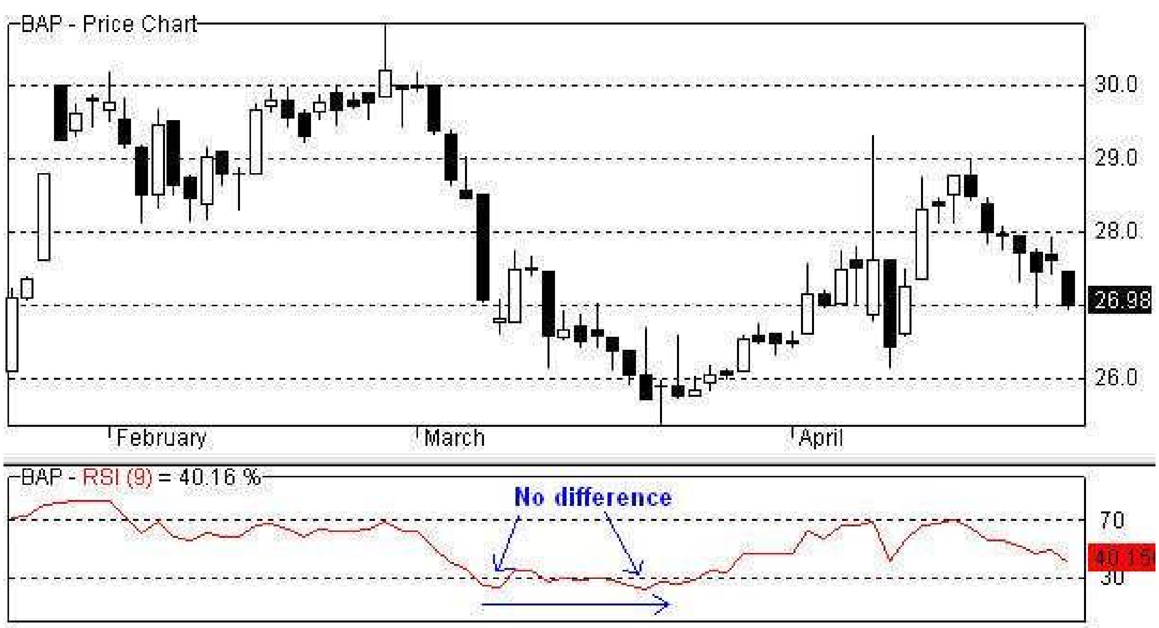
Newton's third law states, "For every action, there is an equal but opposite reaction."

Perhaps you've experienced this personally. Have you ever try to help someone push a car that wouldn't start? To initially get it moving it took the most effort didn't it? Once it was moving however, it may not have been easy to push, but it was certainly easier than getting it moving from a dead stop, right?

The same principle holds true in the stock market. To get a stock moving in one direction, or to change directions, takes more energy than is required to keep it moving in that direction. Thus, we would expect to see greater momentum as the trend begins and less momentum as it ends. This is exactly what the Bull Momentum IndicatorTM displays.

Knowing when the Bulls are the strongest can be a great advantage if we are looking for a long entry point. Likewise, knowing when the Bulls are the weakest is also helpful, if we're looking for safe exit to a profitable long position, or a short entry point. Additionally, entering a long position when the Bulls are strongest and the Bears are weakest provides minimal risk and maximum rewards, although other methods of confirmation are necessary to enter the market and will be discussed later. The Bull Momentum IndicatorTM becomes an even more powerful weapon to a trader when combined with the Bear Momentum IndicatorTM, because now the trader has insight into the strengths and weaknesses of all market participants. Armed with this information, a savvy trader can identify turning points in the market with laser accuracy. Examples of this will be discussed in the section, "When to Enter the Market".

The Bull Momentum IndicatorTM also makes it easier to spot the true bottom of market. Often times an indicator such as the RSI will hover at the bottom of its scale when the price dips and does not allow for advance notice of an impending change in the direction of the price or gives several false signals. Note the chart below;

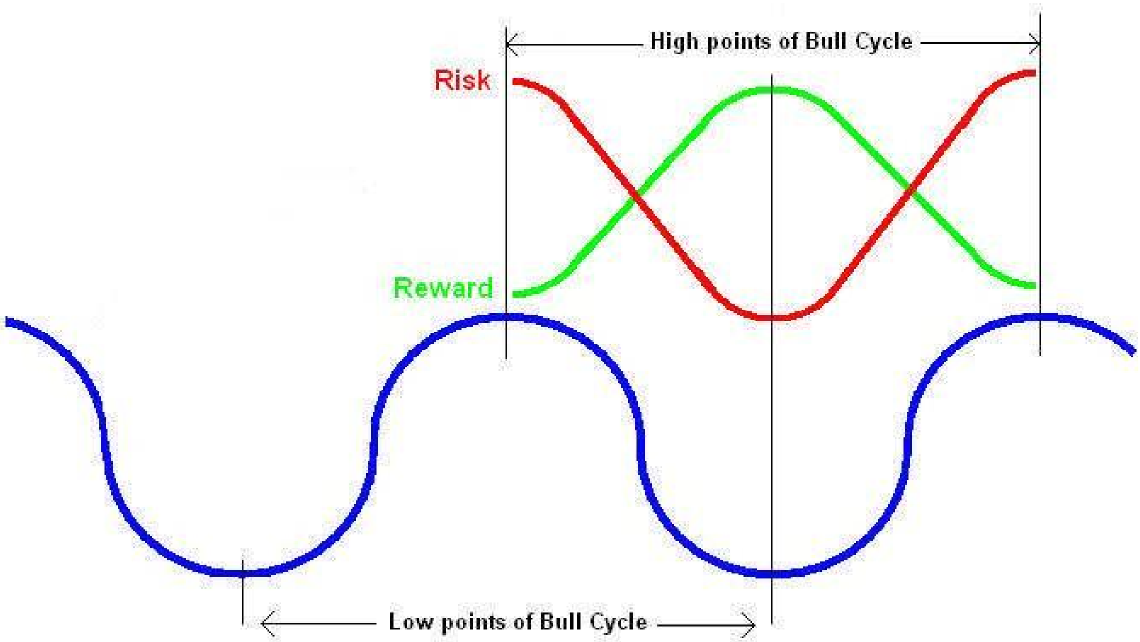


Now look at the same chart with the Bull Momentum Indicator™ added. When the price was at its absolute bottom on March 21st, the RSI indicator did not give any indication of the impending price change, but the Bull Momentum Indicator™ at the same point has clearly risen from its previous low on March 8th, where the Bulls were truly at their weakest point, thus indicating that an increase in prices likely.

If you looked at this chart and asked yourself, "If the weakest point of the Bulls was on March 8th, then why did the price keep moving downward?", then you asked an excellent question. The reason is, at that point, even though the Bulls were starting to become stronger, they still were not strong enough to overpower the Bears yet. This is yet another example of a gradual shift in power between the two opposing forces.

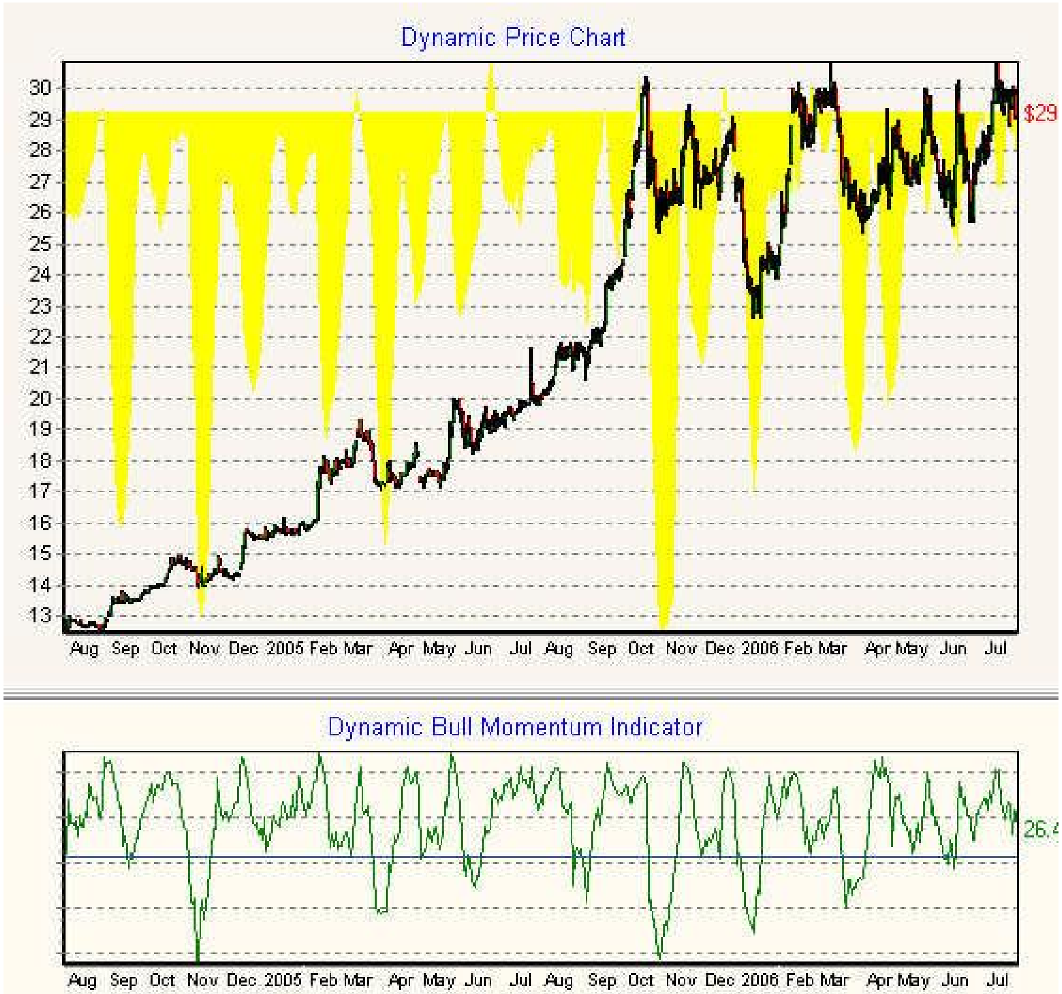
If you're looking for a swing or trend position to provide you the greatest financial gain, then you will find a Bull Momentum IndicatorTM to be an indispensable tool.

Another great use of the Bull Momentum IndicatorTM is locating the absolute weakest points of the Bulls. Whether the market is moving up, down, or sideways, it is advantageous to have this information because Bulls and Bears alike exhibit their strength in waves, or cycles. These waves or cycles are not exact, by any means, but they are uniform enough to be helpful. If you time a long entry point even close with a low Bull Momentum point, you can get a great risk/reward ratio. Note the illustration below;



Bull Cycle Risk / Reward Evaluation

Now let's see how easy this is to find using the Bull Momentum IndicatorTM. The chart below shows roughly 24 months of the symbol BAP. Notice when you view the Bull Momentum IndicatorTM that the majority of the dips in this indicator stop at about the same level. So what we do next is draw a horizontal trend that will intersect where the majority of these dips stop at. What we're left with are our deep valleys that pierce the support line on a semi regular basis.



A long entry point occurring shortly after one of these long dips confirmed by one of the techniques later discussed in this manual can be very profitable. Even if they do not occur at a regular interval, if we establish that the majority of the dips stop at a certain level, any spike piercing that level are strongly suspect to being a low Bull Momentum point.

19.3 Bear Momentum

The Bear Momentum Indicator™ is designed to show the true strength of the Bears, whether the market is an up or downtrend. This information can prove to be more profitable than the "mean" momentum of the price movement, because as Bears and Bulls struggle to dominate the market and control is always shifting from one group to the other. Knowing exactly when the Bears start to become stronger than the Bulls will allow you to get in on the very beginning of the downswing or a downtrend. Likewise, knowing when the Bears begin to become weaker than the Bulls will allow you to pull out of the market before the price changes, again allowing you to keep as much profit as possible.

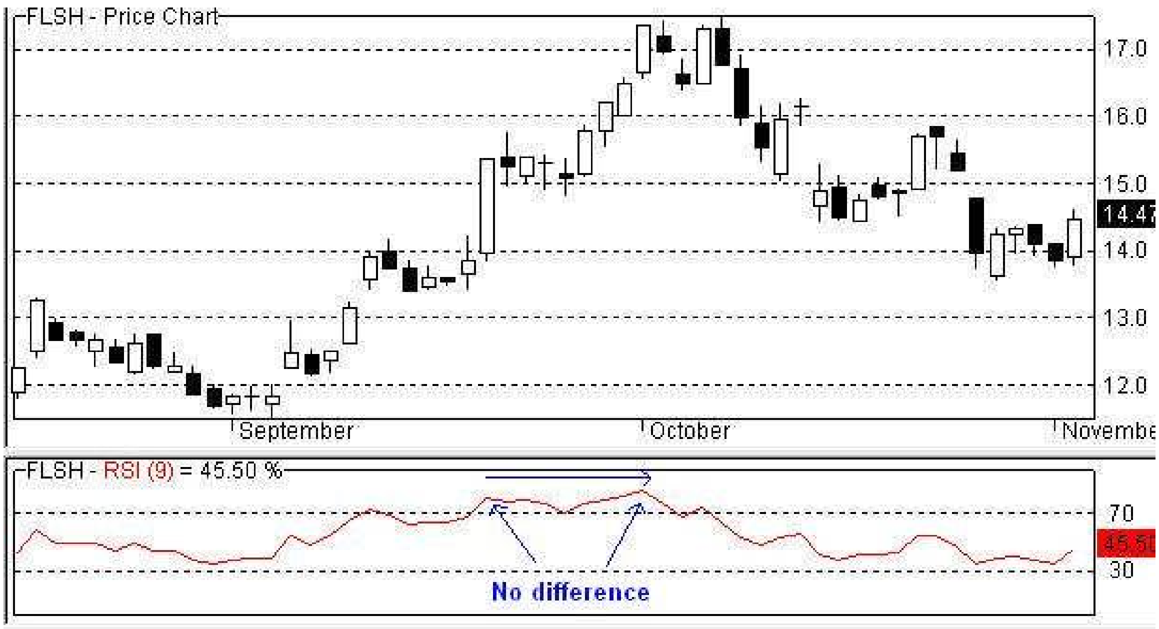
Notice the downtrend in the chart below, in the accompanying RSI indicator. At the start of the trend, the RSI indicator is high, and each successive dip becomes lower as it reaches the end of the trend. This is a typical relationship between RSI and the downtrend. It has its uses, but it does not indicate what the true strength and weakness of where the downtrend actually is, which is critical if we are looking for a probable entry with minimal risk.

Now look at the same chart with the Bear Momentum Indicator™ added.

Notice how the first dip in the trend is the lowest, and each successive dip is higher. This is the typical relationship between the Bear Momentum Indicator™ in a downtrend in price. This actually indicates when the strength and weakness of the trend really is, basically the opposite of what the RSI indicator is displaying. Why is this? Again, simple physics! (see Bull Momentum).

Knowing when the Bears are the strongest can be a great advantage if we're looking for a short entry point. Likewise, knowing when the Bears are the weakest is also helpful if we're looking for safe exit to a profitable short position, or a long entry point. Additionally, entering a short position when the Bulls are strongest and the Bears are weakest provides minimal risk and maximum rewards for long position, although other methods of confirmation are necessary to into the market. These will be discussed later. The Bear Momentum Indicator™ becomes an even more powerful weapon to the trader, when combined with the Bull Momentum Indicator™, because now the trader has insight into the strengths and weaknesses of all market participants. Armed with this information, a savvy trader can identify turning points in the market with laser accuracy. Examples of this will be discussed in section, "When to Enter the Market".

The Bear Momentum IndicatorTM also makes it easier to spot the true top of a market. Often times an indicator such as the RSI will hover at the top of its scale, when the price rises and does not allow for advance notice of an impending change in the direction of the price. Notice the same chart, a few months earlier;



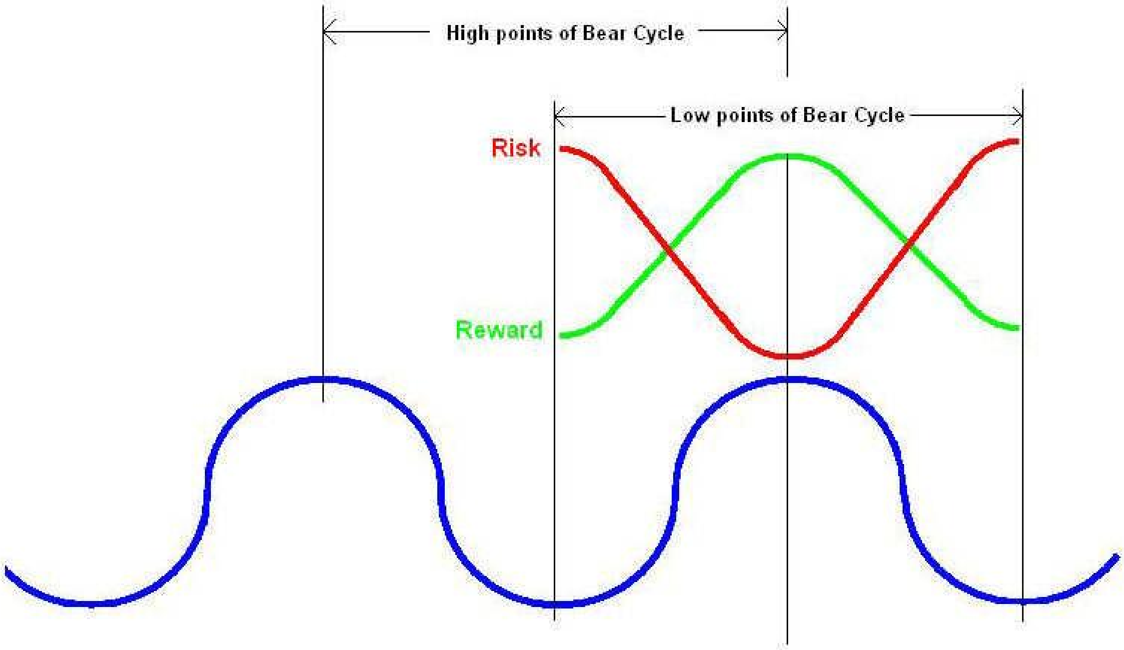
Notice how between September 21st through October 1st the RSI hovers at the top end of its scale, not providing any warning of impending change in price, hanging you up to drive your holding a long position at this point. In failing to assist you are looking to enter a short position on time.

Now let's look the same chart with the Bear Momentum IndicatorTM. Notice it peaked on September 21st and had dropped significantly by October 1st indicating that any rise in price at this point in the market was due to "coasting" and that a change in price was imminent.

Of course, as mentioned earlier, the real power behind the Bear Momentum IndicatorTM is when it is combined with the Bull Momentum IndicatorTM, then it can be easily discerned which force is exerting the most power, allowing you to align yourself for a position that provides the greatest reward and least amount of risk.

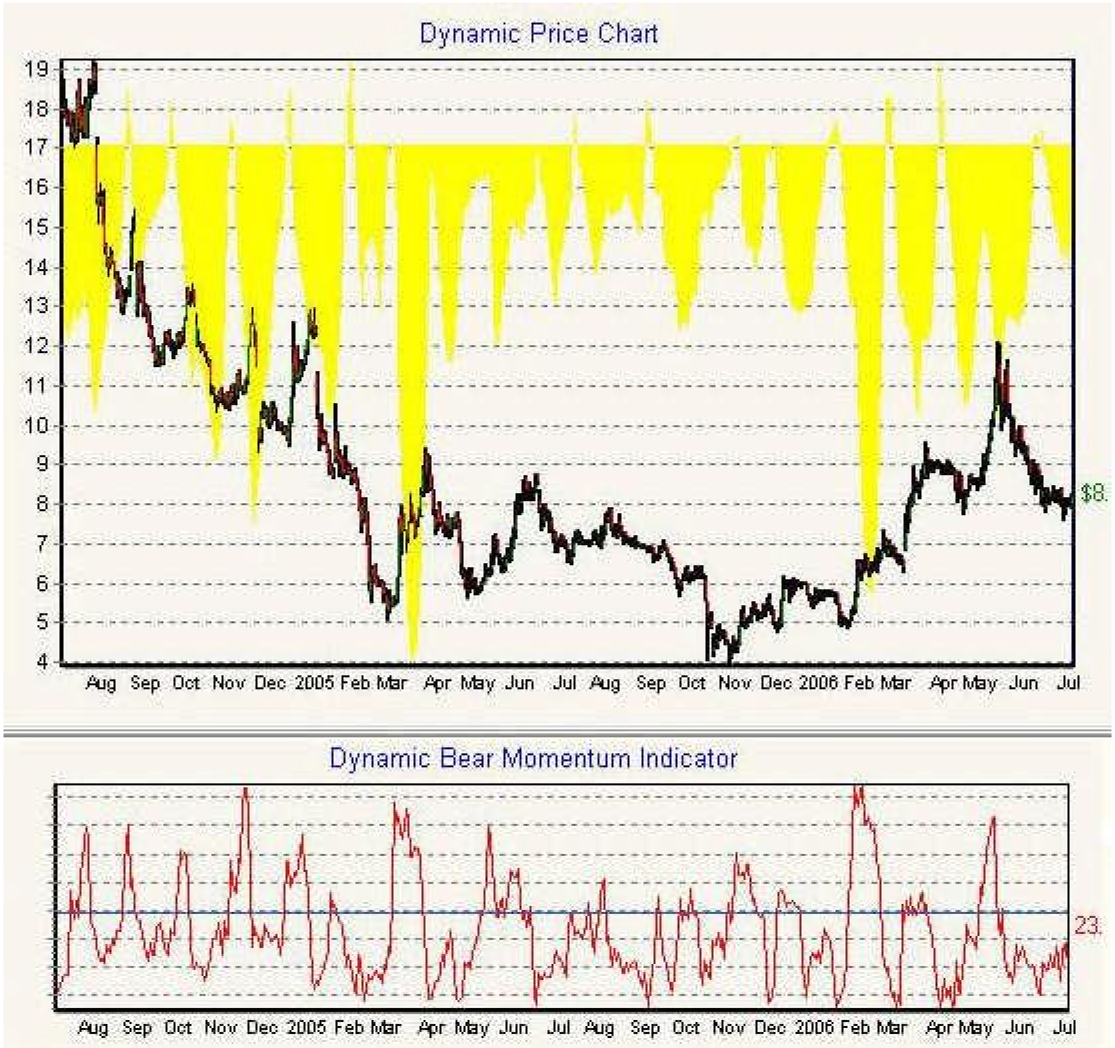
Another way this indicator can assist you in locating high reward / low risk trades is with its ability to identify the true weakest area of the Bear's Momentum.

This is true whether the market is turning up, down, or sideways. It is advantageous to have this information because Bulls and Bears alike exhibit their strength in waves, or cycles. These waves or cycles are not exact most of the time, but they are uniform enough to be helpful. If you time a short entry point even close to the Bears weak area of their momentum, you greatly increased your reward for a short position while at the same time, diminishing risk to the full system possible. Note the illustration below;



Bear Cycle Risk / Reward Evaluation

Now let's see how easy it is to find one of these high points in the Bear Momentum. Below is a chart of KKD for the last two years or so. Look at the Bear Momentum Indicator™ and notice how the majority of the peaks intersect at about the same level.



If we place a horizontal trend line at this level, any of the peaks piercing this level significantly normally provide excellent entry points for short positions when used in conjunction with one of the techniques later discussed in this manual. Even if they do not occur at a regular intervals and, if we establish that the majority of the peaks stop at a certain level, any spike piercing that level are strongly suspect to being a low Bear Momentum point.

19.4 Additional Benefits

Another facet of the dynamic Bull and Bear Momentum IndicatorsTM is the way they relate to one another with respect to support and resistance. This analysis is useful, if we are unsure whether market is headed, and is accomplished by using support and resistance principles.

You might recall in an earlier section of this book we discussed support and resistance that a resistance line when broken, often becomes the new support line. Likewise, what has been a support line, and then becomes broken, many times turns out to be a new resistance line.

This principle, not only works in price charts, but with many indicators as well, including the dynamic Bull and Bear Momentum IndicatorsTM. The way we benefit from this is because when we view these indicators with respect to their recent support and resistance lines, normally one is weak, while the other is strong, or vice versa.

Note the chart below of AFL.

We see a consolidation in the price movement over the last several days. The Market Energy IndicatorTM (yellow histogram), which will be explained in the next chapter, indicates a sharp movement in price is imminent, but which direction will it go? We find this out, by comparing the Bull and Bear Momentum IndicatorsTM.

You may recall from the chapter entitled "The Weakest Link Theory", that true strength is measured at its weakest point. So what we will do here is draw a trend line under the dips of the Bull Momentum IndicatorTM and another trend line on top of the peaks of the Bear Momentum IndicatorTM.

As soon as we do this something becomes evident. First let's examine the Bear Momentum IndicatorTM. Recall that our support and resistance principles dictate that, once a resistance line is broken, it often becomes a new support line. So we notice here that the Bear Momentum IndicatorTM is approaching what should be its new support line, indicating that it should not pass there, or drop further. This means that at this point the Bears should not become any stronger, which indicates that the price should not drop any further either.

The Bull Momentum Indicator™ on the other hand, has dropped well below its support line, which statistically should now become its new resistance line. As you can see, it is far from its resistance line, indicating there is a lot of room for upward movement before it should become weak or meet resistance, further indicating the price should move upward.

So in this instance, both the Bull and the Bear Momentum Indicators™ are in agreement. They're both indicating an upward movement in price. Let's advance in the chart and see if this is the case.

As you can see here the price did move upward, as expected. This analysis, like any other is not foolproof, but statistically speaking, it is extremely reliable.

Allow me to possibly save you some time. I know when I learn a new way to use and indicator, one of the first things I do is see if it works with other indicators, sort of wondering if I just didn't notice a particular pattern in the past.

The search would be futile, because as previously stated, other indicators used to mean data to represent momentum, as no comparison can be made between the two opposing market forces. The only place the Bull & Bear Momentum indicatorsTM are available is with **Dynamic Analysis Charting Software**

20 Market Energy

People say the two things you can count on in life are death and taxes. That's because they're like the rising sun, you can count on them happening day after day, after day.

When it comes to the markets, there is also something you can count on day after day. It is the fact that markets continually contract and expand. Just like the sun rising, as long as the markets exist, they will always contract and expand. It is their nature.

When I say contract and expand, I'm referring to the amount of movement the price makes in reference to its recent movement.

When the market is in a contraction phase, or a congestion phase as it is usually referred to, it means there has been very little movement of the price in reference to its recent movement. The price is bound by a narrow band of support and resistance. This pattern often occurs as a result of indecision or lack of commitment on the part of traders. When the market is an expansion phase, it means there has been a lot of movement in the price in reference to its recent movement. Note the sample chart below;

The market is a living entity which reflects the activity of the market participants, the buyers and sellers. Because of this, the price cannot continually run in one direction without stopping, but rather it must "breathe", just as the market participants do. Obviously people don't continually buy or sell.

Things occur in life to punctuate this buying and selling process, such as news releases and other events that cause a change in perception of the value of the market. Then as the price itself changes, the buyers and sellers constantly reevaluate whether the current price makes it a good candidate to be bought or sold. This reevaluation process causes hesitation or a change in the pace of the buying and / or selling that is occurring. So when the price rises for example, it must at times rest or decline a little before it can continue up.

The same is true when the price drops. It can only drop so far before it must rest, or rally a little bit and then continue down.

Another way of thinking of this concept is to liken this to a spring. When a spring is compressed, the energy is increased and when this energy becomes greater than the outside forces that are holding it there, the response will be for the spring to expand. This usually happens rapidly. The same is true with market movement. When the markets contract and the outside pressures that are causing this contraction diminish, the response is for the market to expand, that is for the price to rise or fall quickly, in reference to recent movement when it was contracting.

The opposite is true too. When the spring is relaxed, or expanded, there is no energy that is being stored up, so market movement after this point can be expected to be minimal in reference to recent movement.

A shrewd trader can use this concept to greatly increase his risk / reward ratio. How so? Because when we manage our risk properly, we limit our losses, so they should always be a given amount we determine in advance, preferably a small amount, barring any gaps in the market. But if we enter the market during a contraction phase our winning trades statistically should be much larger. So by being able to discern when the market is in a contraction or expansion phase, our chances for profit on a trade are greatly increased, while our losses should remain the same, small. So now we have a trading strategy with a high reward and a low risk.

The Market Energy also gives us a hint as to what to expect next in regards to the direction of the price when it is in an expansion phase. As mentioned earlier, the market must breathe when it moves and the expansion phase is the breath the market is taking during that move. So if you note the direction of the price movement after the market has left a contraction phase and enters an expansion phase, it will normally continue in the same direction as it leaves the expansion phase. How do we know when the market is in a contraction or expansion phase? Enter the proprietary indicator, Market Energy. Let's look at the same chart again of symbol PRS, but this time with the benefit of the Market Energy Indicator™. The yellow area in the example chart below represents the expansion and contraction of the price movement. The smaller the yellow area becomes the more compressed our spring is, and the more energy to market is storing up, and thus the potential for increased rapid price movement afterwards. The larger the yellow area becomes represents the expansion phase of the price movement.

Notice the expansion phase occurring during the middle of November. At that point, the price is higher relative to the last contraction area. Since an expansion phase indicates rest, this indicates that the price is resting on its way of, which is why we can expect another rise (not fall) in price movement at the next contraction phase, which occurred in early December.

As with all forms of technical analysis, this is not a hard and fast rule, but rather a statistical fact. This means the odds are in our favor that the price will continue in the direction the price was headed before the expansion phase occurred, but it is not a fact.

Now there is another indicator that somewhat indicates the available Market Energy, namely Bollinger Bands, but they don't even come close to the power, reliability, and ease of interpretation when compared to the Market Energy Indicator™. Bollinger Bands when used to identify explosive moves, often miss opportunities, and / or provide the information needed after the price movement has begun, thus missing out on an opportunity for profit. This is not the case with the Market Energy Indicator™ though. Note in the charts below how many entry opportunities were either missed, given too late, or not discernible with the Bollinger

Bands, while the Market Energy IndicatorTM gave numerous entry points at a time that would allow for the most profit to be taken;

In the chart above the Market Energy IndicatorTM gave an alert on January 25th the price move was imminent. Next, you can see a price movement of 3.8%. Now let's look at Bollinger bands in the same chart. This time, no volatility was evident until January 31st, when the move was almost over.

Next on March 21st, the Market Energy IndicatorTM gave advance warning of a price move. Within the next few days, the price skyrocketed by 11.3%.

The Bollinger bands on the other hand, do not indicate any volatility until April 1st. Entering a long position at this point, could only resulted in 5.4% profit, less than half compared to using the Market Energy IndicatorTM as part of our entry criteria.

On July 1st, the Bollinger bands show a tightening, revealing some volatility, but only 1.3% in price movement follows this. Not a signal most of us would be interested in.

Again on August 26th, the Market Energy IndicatorTM alerts us of a price movement. Immediately a powerful 5.7% move occurs.

Do the Bollinger bands tighten significantly, alerting us to increased volatility? Certainly not before the price increases, even then, I don't see much of a tightening in the bands, but you be the judge for yourself.

Again, October 28 advance warning is provided by the Market Energy Indicator™. Within just a couple days another 3.6% move occurs in the price.

During this time the Bollinger bands appear to be silent as regards, providing a helpful counsel.

Lastly, November 27th we are alerted to another move by the Market Energy IndicatorTM. As usual, within a few days significant move occurs, which would have produced 10.5% profit if we had entered a long trade.

Again, the Bollinger bands are silent as seen below.

So ask yourself this question; which indicator would you have liked to be using during this year? One that tells you reliably, in advance when a significant price move is likely to occur? Or one tells you after-the-fact and often tells you incorrectly or not at all? The Market Energy Indicator™ is only available with **Dynamic Analysis Charting Software**.

While the above examples of Market Energy show very deep contractions. While these are the most reliable, even shallower contractions such as the one shown above in late November are also very useful.

21 Listen To Your Advisors

Now let's see how we can put our new tools to use to make a profit. Much in the same way the president of a country might use experts in different fields to make a decision, we will use our four indicators to make an intelligent decision in locating a potentially profitable trade.

And just like our president, who might choose to listen to all of his advisors, or only some of them by overriding their opinion with his own, we too may do this by only taking into account some of our indicators. Obviously the more advisors that are in agreement, the stronger their effect should be on our decision.

First we must weigh how much profit potential we perceive exists with the amount of risk that exists for entering the trade. In making such a decision, our thought process should be focused on what each indicator is telling us. Most important in this regard though, is the Market Energy IndicatorTM. If it is deep in a contraction phase, then there is great potential, whether a short or long opportunity exists. Sometimes patience, or actually a lack thereof, may come in to play. If we are anxious to make a trade because we haven't found one recently, we may start to ignore some of the indicators we are seeing that are telling us it is not a good trade. This is a common and potentially costly situation that many new traders find themselves in.

Sometimes it is a matter of just calculating risk. Perhaps, one indicator will disagree with the other three, and the other three are giving a very strong signal in the direction we would like to trade, so we go with the majority vote of our advisors.

Then we calculate the amount of risk that exists by simply measuring the difference between the stop loss point and the entry point. Notice I said, "the amount of risk.", not the "likelihood of risk" . The likelihood of risk is dependent upon other factors, such the possibility of being stopped out, but we will discuss that shortly. For now, let's look at our first criteria for entering the market.

22 When to Enter the Market Long

22.1 Is There Potential?

Of course, our purpose for entering a trade is to make a profit. So the first thing we want to do is make sure there is a potential for profit. Look at the chart below of the FTEK.

We can easily see that the Market Energy IndicatorTM shows an extreme contraction during the last week or so. Even though the indicator is now expanding, the price has not made a significant move up or down since then. So the energy that has been stored up in the market has not been expended yet. This indicates there's potentially a good profit to be made with minimal risk. This is not unusual because the Market Energy IndicatorTM is designed to give advance warning of an explosive move, although in this example, we got a lot more notice than usual.

22.2 Who Is In Charge?

Next, we want to do is determine which side is in charge, the Bulls of the Bears, then we can determine if a long or short position would have the greatest chance of success, and of course provide the least amount of risk. If we're looking for a long position, we do this by making sure our opponent, the Bears, have already been defeated. This is done by drawing a downtrend resistance line on the Bear Momentum IndicatorTM and making sure they have lost their footing. This is indicated by the fact that the trend line has been broken and the Bear Momentum has found a new resting point on or close to the trend line. In effect, the resistance line for the Bears has now become their support line. This means that a point that was once their weakness, is now their strongest. Let's take another look at our chart of the FTEK.

If the indicator turns upward before it reaches the downtrend line, or around there, then this is a strong indication that the Bears have just lost their dominance of the market. The very fact that the Dynamic Bear IndicatorTM is just above its resistance line means that statistically we have a strong chance it will turn up.

This is one of the strongest indications that the Bulls are currently in control of the price movement, even if the price is not moving upwards yet. Why? Because this pattern tells us that the Bears cannot possibly get stronger at this point, and therefore will have a difficult time moving the price down any further. **Dynamic Analysis Charting Software** can easily find such patterns.

Let's go back and look at our example again. Notice in the chart above of FTEK on the Bear Momentum IndicatorTM how the downtrend resistance line has been broken and the indicator is on its way back down to meet the trend line again?

Further confirmation that FTEK is providing us with a good long entry at this time can be seen in the Bull Momentum IndicatorTM. Note that since the most recent low in early December, its support line has not been broken.

So far we've determined that this trade has a good potential for profit with minimum risk. The Bear Momentum IndicatorTM confirms a long position by showing that the Bears are weak. The Bull Momentum IndicatorTM confirms the trade by showing that the Bulls are strong. So we have used three of our four available tools.

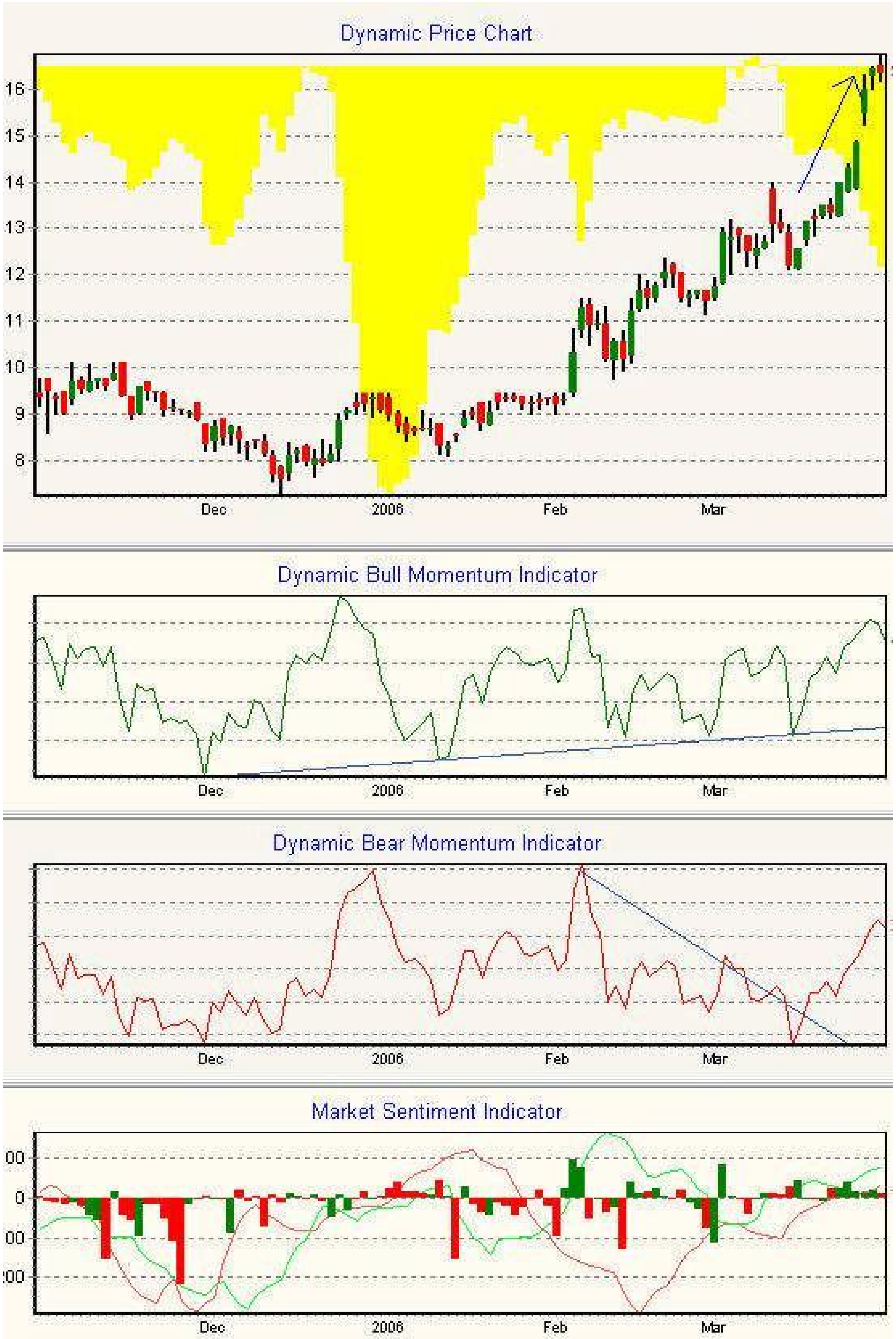
Lastly, we will look and see if the market sentiment is an agreement. If we look at our next chart with the Market Sentiment added, we notice that the market sentiment actually is favoring the Bears just a little bit more at this point. We can discern this because we see that over the past few days that while the market sentiment for the Bulls (Green line) has been increasing a little, the market sentiment for the Bears (redline) has been increasing more.

Dynamic Price Chart
14
13.5
13
12.5
12
11.5
11
10.5
10
9.5
9
8.5
8
7.5
Dec
2006
Feb
Mar
Dynamic Bull Momentum Indicator
Dec
2006
Feb
Mar
Dynamic Bear Momentum Indicator
Dec
2006
Feb
Mar
Market Sentiment Indicator
100
0
-100
-200
Dec
2006
Feb
Mar

So while we do not have unanimous vote, we do have a majority, three out of the four indicators. Remember, just like the advisors of our president, the more opinions, we have confirming an action, the more we should be convinced that this it is correct action to take. This example then makes this a good candidate for long position.

Once we have confirmed whether the Bulls or the Bears are the current dominant force in the market, then you can align ourselves with the most powerful side for either a long for a short position, in this case a long position.

Now lets look again to see how the chart unfolds.


Dynamic Price Chart
16
15
14
13
12
11
10
9
8
Dec
2006
Feb
Mar
Dynamic Bull Momentum Indicator
Dec
2006
Feb
Mar
Dynamic Bear Momentum Indicator
Dec
2006
Feb
Mar
Market Sentiment Indicator
0
Dec
2006
Feb
Mar

We can see the trade took off nicely. The market sentiment never did show itself to be favoring the Bulls during this move, but rather displayed and even sentiment between the two groups.

So here we have used a combination of the Bear & Bull Momentum Indicators, along with the Market Energy to select a long position, which in this case yielded a 15.5% profit!

For a long position we will always first check for excessive Market Energy, then to see if the Bear Momentum downtrend has been broken, then for the Bull Momentum and / or market sentiment to support the move as well.

23 How to Enter a Long Trade

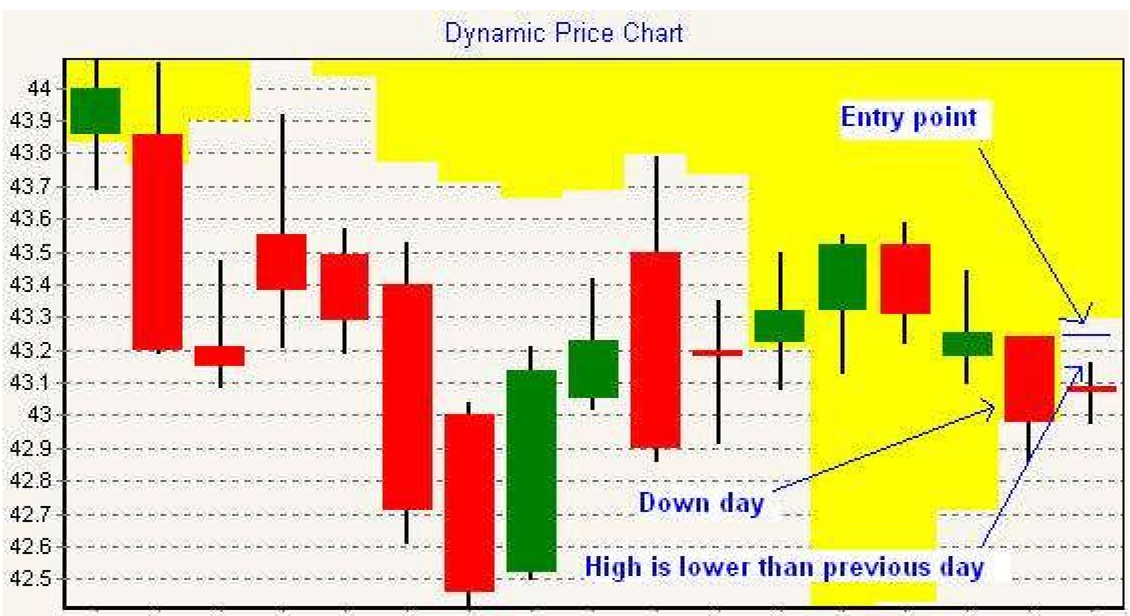
Just to make sure we're on the same page, the entry strategies discussed in this section are not in themselves criteria for entering a trade. They should be used once a trading opportunity has been identified by means of market momentum, energy, and sentiment, or a combination thereof.

23.1 2 Day Entry

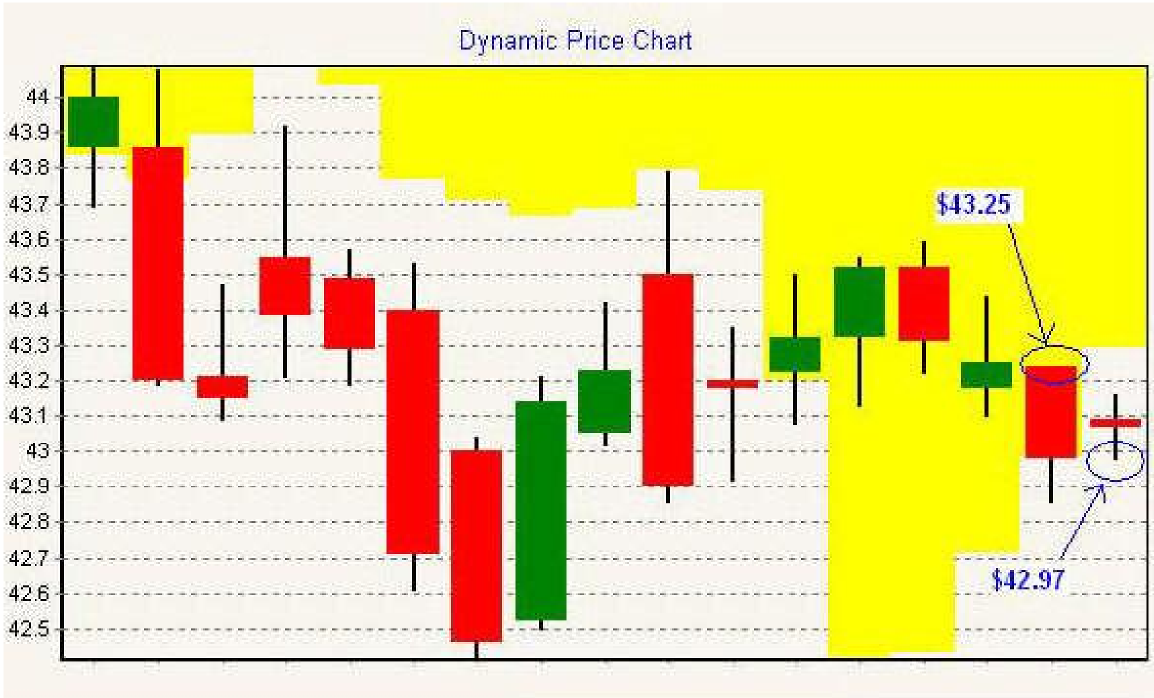
The Two Day Entry method is our most common method to use. It provides a reasonable combination of risk control with an opportunity and is very simple to identify and use.

The "2 days" referred to are today and the day before. To enter the market Long with the 2 day method, we look for today's high to be lower than the high of the previous day and for yesterday, to be a down day, or in other words, for yesterday's close to be lower than its open. Today can be an up or down day.

Then we simply watch for the price of the next day to exceed a high of the original previous day. Note the chart below.

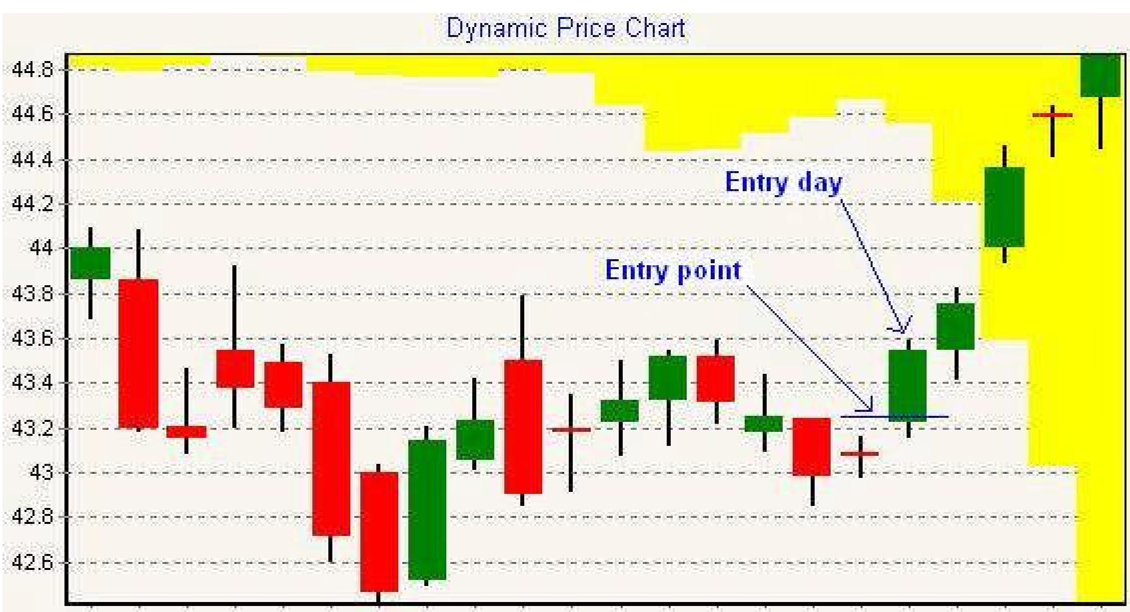


Before entering however, we want to calculate our risk for this entry. We do this by dividing the low of today, -$.01 by the high of the previous day +$.01. Then we subtract the quotient from one. For this example, the calculation would look like this.



42.97 / 43.25 = 0.9935
1 - 0.9935 = 0.0065 or .65%

This gives us the percentage of risk if we use the low of today -$.01 as our stop loss. If after making this calculation, the risk is acceptable to us, then we can proceed with monitoring the trade for an entry. If the price exceeds the second previous days high, then we enter the market. Here's a view of the above set up after we have entered the market.

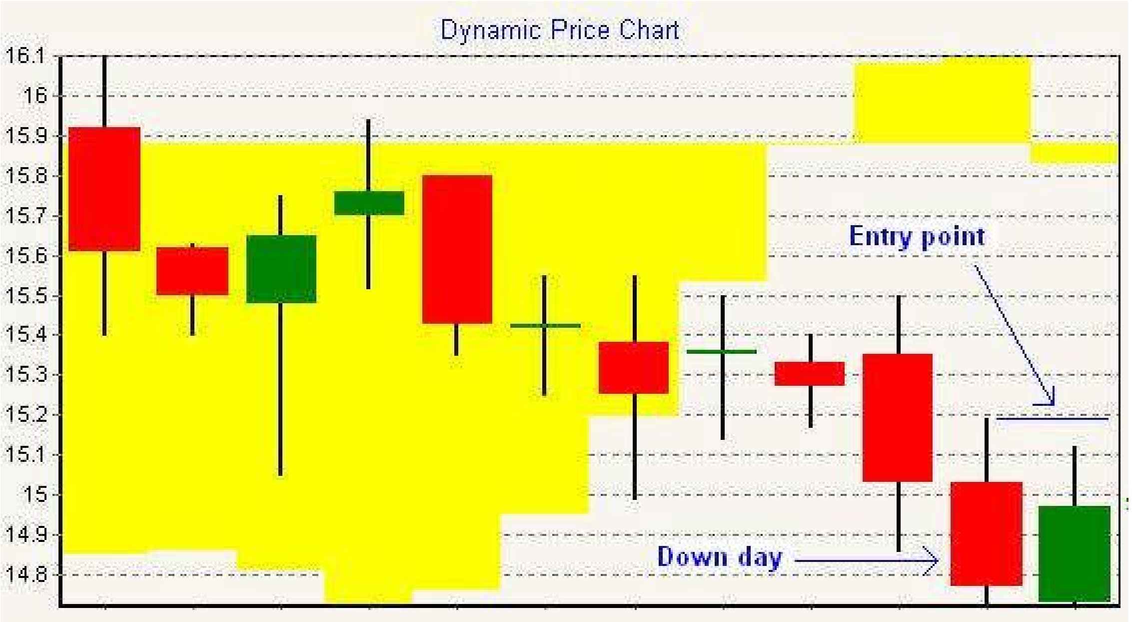


When using **[Dynamic Analysis Charting Software]**, this calculation is made for us automatically, for on-the-fly observations of possible trades. This greatly decreases the time needed for scanning stocks on a daily basis.

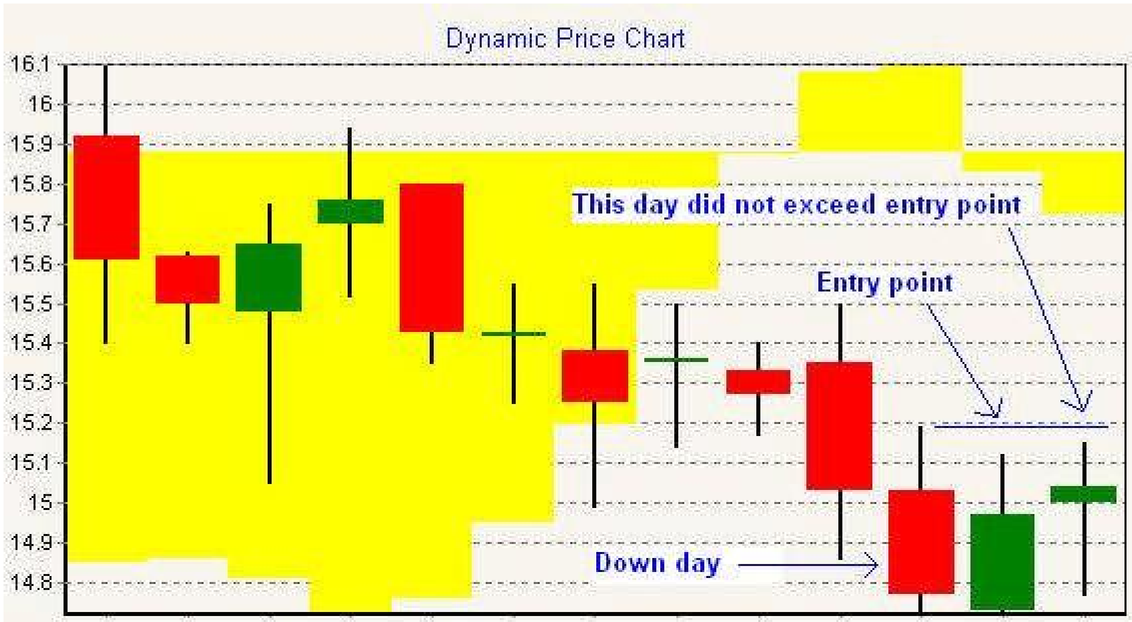
23.2 3 Day Entry.

The 3-day entry method is probably the second most popular method we will use. As you might have guessed, the "three days" refers to the most recent three days.

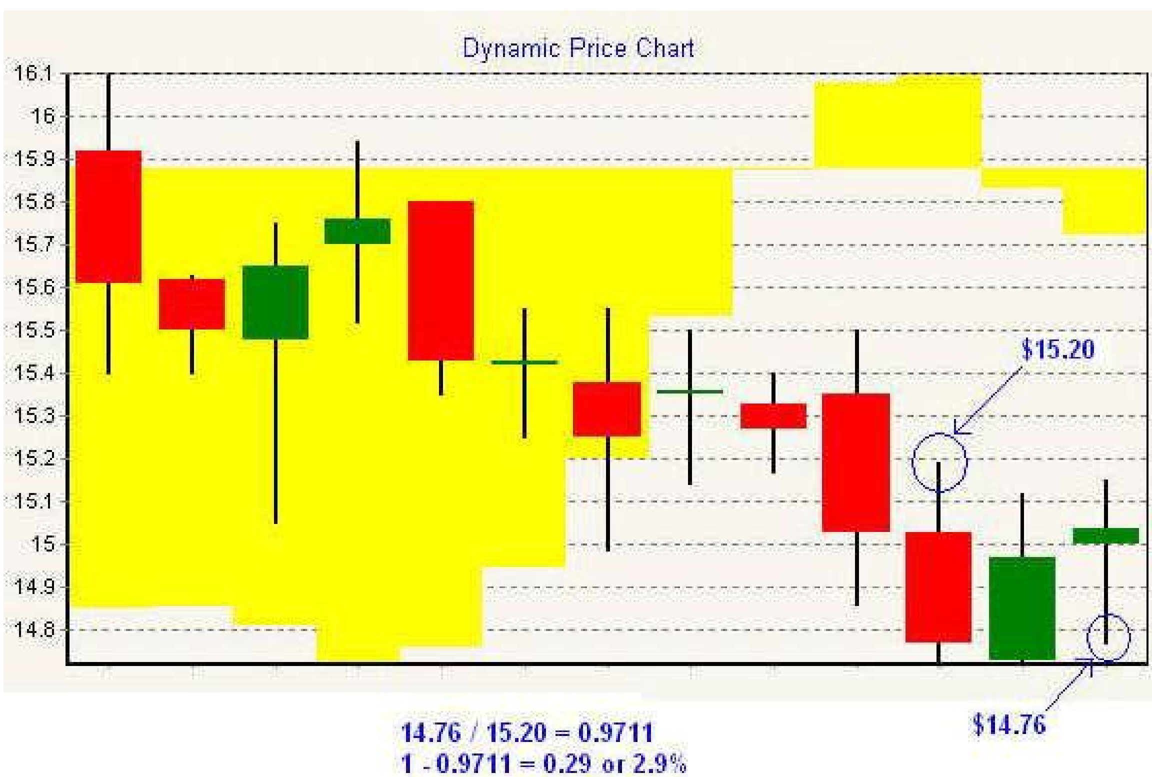
We use this method when we have identified a two-day entry, but the price on the first day after identifying to the entry did not exceed the second previous day's high. Our scenario for this set up would begin like the chart below.



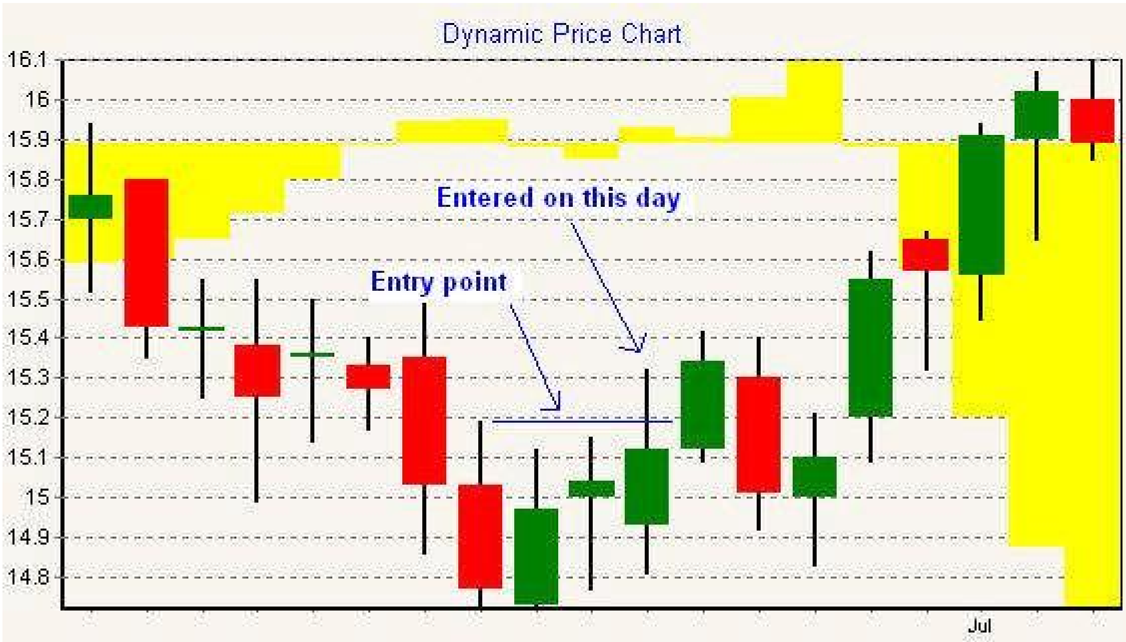
As we move forward in time we see in the next day when we are expecting to buy the stock, the price to not exceed our entry point as seen below.



This failed or stalled entry has become our three-day entry method. We're still looking at the same entry point in the two-day method, but we are a day more forward in time. Again, we use the same calculation to determine our risk. We take the low of today -$.01 divided by the high +$.01 of the original previous day. Then we subtract the quotient from one. For this example, the calculation would look like this.



Here is that set up after we enter the market.



The risk evaluation of a 3- day entry is also calculated automatically with **[Dynamic Analysis Charting Software](#)**.

23.3 10 Day Entry

No doubt you're seeing the pattern now, the "10 Day entry" refers to the last 10 days. This time, however, were not looking for a particular pattern within the 10 days, only the highest price that occurs during the last 10 days, because we will use that as our entry point. Note the sample chart below.

The 10 Day entry does not exhibit itself that often, but when it does is good to take advantage of it. Why? Because it is one of the safest entries we can find. This is because it uses standard support and resistance principles to determine our entry point.

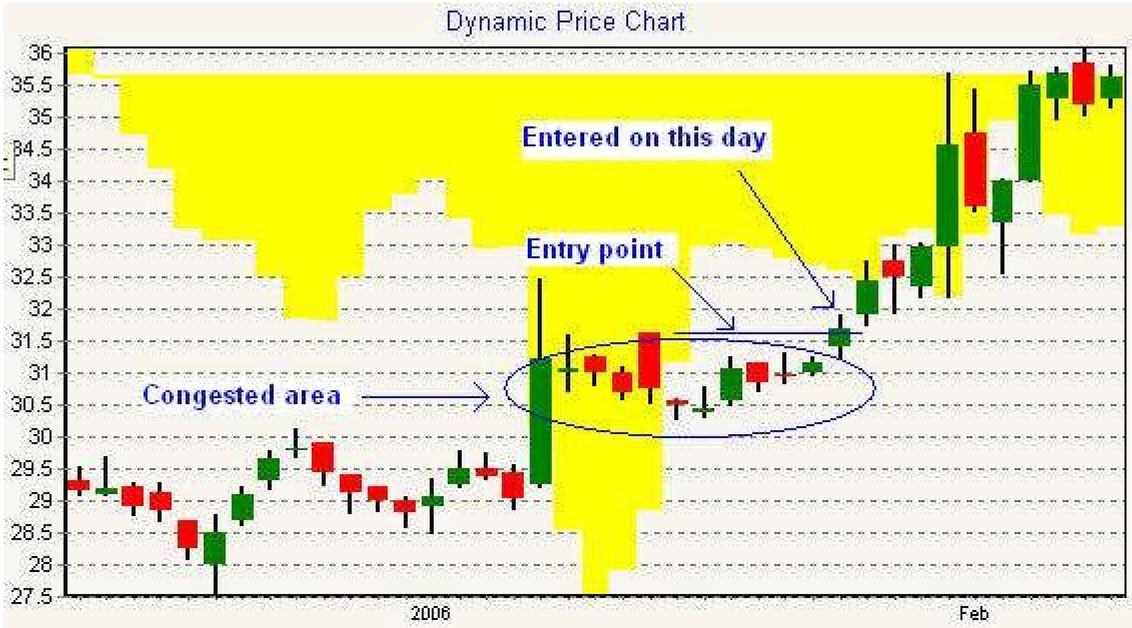
We calculate our risk for the 10 Day entry by dividing today's low -$.01 by the highest high +$.01 of the last 10 days, then subtract the quotient from one. We only use this entry when after calculating the risk we find that the risk for this type of an entry is equal to, or lower than the average risk we're willing to take for a 2 or 3 day entry.

The risk calculation for the above entry would look like this.

30.96 / 31.64 = 0.9785
1 - 0.9785 = 0.215 or 2.15%

Notice in the example above that the previous 10 days were somewhat congested, that is the price does not fluctuate very much when compared to recent activity. This is the pattern we're looking for. To look for an entry point above the high of the last 10 days, when during the last 10 days the price has fallen 10% would obviously be pointless. So we want to look for this congestion pattern. In this example, we have a 2 day entry with only a risk of .96%, but if we use the 6 day old high, our risk only increases to 2.15%, but since that is a minor resistance point, the chances of a long position failing after the price exceeds that 6 day old high are greatly reduced.

An additional point to remember when looking at a 10 Day entry, is that the older the high point is during the 10 days, generally the safer the entry will be. Here's how the setup looks in the big picture.

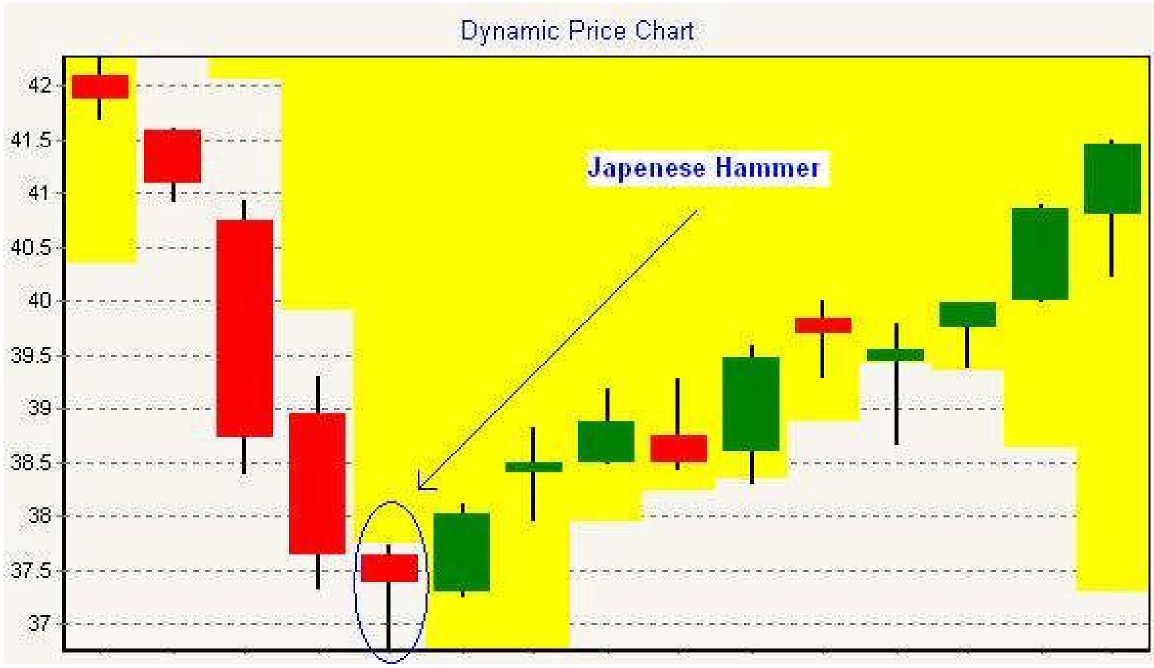


When using **Dynamic Analysis Charting Software**, if a good a 10 day entry exists, it will indicate this and tell you the risk of the entry, again saving you time while scanning for trading candidates on a daily basis.

23.4 1 Day Entry From The Bottom.

The one-day entry from the bottom method is more profitable entry than the 2, 3, or 10 Day entry methods. However, it is riskier than any of these other methods because the two and three-day entries have a built-in safety by using the previous day's high as the entry point, so we need to be little more concerned about the data from this particular day to determine if it is a Bullish for a Bearish day, because we will use the high of this day plus one cent is our entry point. To that end, we will borrow some wisdom from Japanese candlesticks.

There are two Japanese candlestick patterns that will prove useful to us here. They are the "hammer" and the "inverted hammer" pattern. A hammer pattern is a Bullish signal. This is significant when it occurs at the end of a declining trend in the price. It is identified by its small body at the higher end of the shadows. It can be either an up day or a down day, although an update is preferred. The shadow beneath the body should be a least twice the height of the body itself and the shadow above the body should be very small, if one exists at all. Note the example below;



An inverted hammer pattern is also a Bullish signal. The inverted hammer pattern is as the name implies, an upside down hammer formation. This formation has the body at the lower end of the shadow range. Again, it can be either an up day or a down day, although an up day is preferred. An inverted hammer is noted by the long shadow being on the top side of the body of the price, and very little of the shadow if any below the body. Again we are looking for this at the bottom end of a down trend. Note the example below;

To get our risk for a 1-day entry, we divide the low -$.01 by the high plus one cent, and then subtract the quotient from one to get our percentage of risk for this type of entry. In the example chart above, the calculation would look like this;

55.89 / 57.05 = 0.9797
1 - 0.9797 = 0.0203 or 2.03%

Of course, **Dynamic Analysis Charting Software** always displays this calculation for us to facilitate the daily scanning of stocks.

23.5 1 Day Entry From The Top.

The one-day entry from the top method also only takes into account data from the current day to evaluate risk. Dynamic analysis trading software always displays this for you. Of the four types of entries we have discussed, one day from the top is the riskiest, but he usually offers the highest reward too (not a big surprise).

We calculate our risk the same as we did for the one-day from the bottom entry. We divide the low -$.01 by the high +$.01, and subtract the quotient from one to get our percentage of risk.

As the name suggests, this entry is used when prices are rising rather than declining. So the day in question will have the highest high of the most recent days. There are a couple of rules to help qualify this day as a good entry point.

Today's high, must be higher than yesterday's high and today's close must be higher than today's open. Additionally, the dynamic Bull Momentum Indicator™ must be lower than the previous days. Note the example below.

This entry, like the 10-day entry does not avail itself frequently. Now if you don't have the dynamic Bear Momentum Indicator™. You can try using another such as an RSI indicator, but often times, it will miss this opportunity, because it won't decline as the dynamic Bull Momentum Indicator™ will.

24 When to Enter the Market Short

Just like entering a long trade, before we consider entering a short trade must make sure there is potential for profit. Again, we use our Market Energy IndicatorTM. Notice the example below a symbol FDP.

We can easily see the Market Energy IndicatorTM shows an extreme contraction during the last few days, indicating the energy that has been stored up in the market has not been expended yet. This indicates there's potentially a good profit to be made with minimal risk.

Next, we want to determine which side is in charge, the Bulls with the Bears, so we can determine if a long or short position would have the greatest chance of success, and of course provide the least amount of risk. If we're looking for a short position, we do this by making sure our opponent, the Bulls, have already been defeated. This is done by drawing an uptrend support line on the Bull Momentum IndicatorTM and making sure they have lost her footing. This is indicated by the fact that the trend line has been broken and the Bull Momentum has found a new resistance point on or close to the trend line. In effect, the support line for the Bulls has now become their resistance line. Note the chart below.

In this example, we can clearly see that the support line in the Bull Momentum Indicator™ has been broken. The trend line is moving out of the window, but if we imagine it going forward we will see it would extend above the current Bull Momentum Indicator™, thus providing resistance of the Bulls at this point. The indicator appears to be bouncing off the resistance line.

If the indicator turns down before it reaches the uptrend line, or around there, which it is appearing to in the above example, this is a strong indication that the Bulls have just lost their dominance of the market.

This is one of the strongest indications that the Bears are currently in control of the price movement, even if the price is not moving downward yet. Why? Because this pattern tells us that the Bulls cannot possibly get stronger at this point, and will therefore have a difficult time moving the price up any further. The very fact that the Dynamic Bull Momentum Indicator™ is just below its resistance line, means that statistically, we have a strong chance it will turn down. **Dynamic Analysis Charting Software** can easily find such patterns.

For further clarification as to whether the Bulls or the Bears are the dominant force right now, we can draw a downtrend line in the Bear Momentum IndicatorTM to see if their momentum is intact. So let's do that now.

The left peak inside the circle in the above example is not significant enough to bring the trend line right up to its edge. So while it is a steep trend line, it is intact.

So to recap, at the latest period of time, the Market Energy IndicatorTM shows that there is potential for an explosive move, and the Bull Momentum IndicatorTM has lost its support, while at the same time, the Bear Momentum IndicatorTM displays strong momentum.

At this point in examining this security as a possible trade, we have used three or four tools, now we will use our last tool, the Market Sentiment IndicatorTM to see if it is in agreement. When we view last ten days or so of the trend lines in the market sentiment window, we see the Bulls (green trend line) have lost a little support, while at the same time, the Bears (red trend line) have gained significant support.. Note the example below.

So by using these four proprietary tools, we have confirmed that there is the potential for move and that the Bears are the dominant market force. So now we can align ourselves for a short position with this security.

So in this instance, all four of our tools indicate this is a good candidate for a short trade. Now let's see how this trade unfolds by taking a look at the next few days.


Dynamic Price Chart
19
18.8
18.6
18.4
18.2
18
17.8
17.6
17.4
17.2
17
16.8
16.6
16.4
16.2
16
15.8
15.6
Aug
Sep
Oct
Dynamic Bull Momentum Indicator
Aug
Sep
Oct
Dynamic Bear Momentum Indicator
Aug
Sep
Oct
Market Sentiment Indicator
150
100
50
0
-50
-100
Aug
Sep
Oct

This particular trade turn out to be an excellent one, providing a whopping 14% profit. Of course, not all candidates turn out to be such excellent trades, but trading success lies in statistics. If you have a solid foundation and stick to it you will succeed.

25 How to Enter a Short Trade

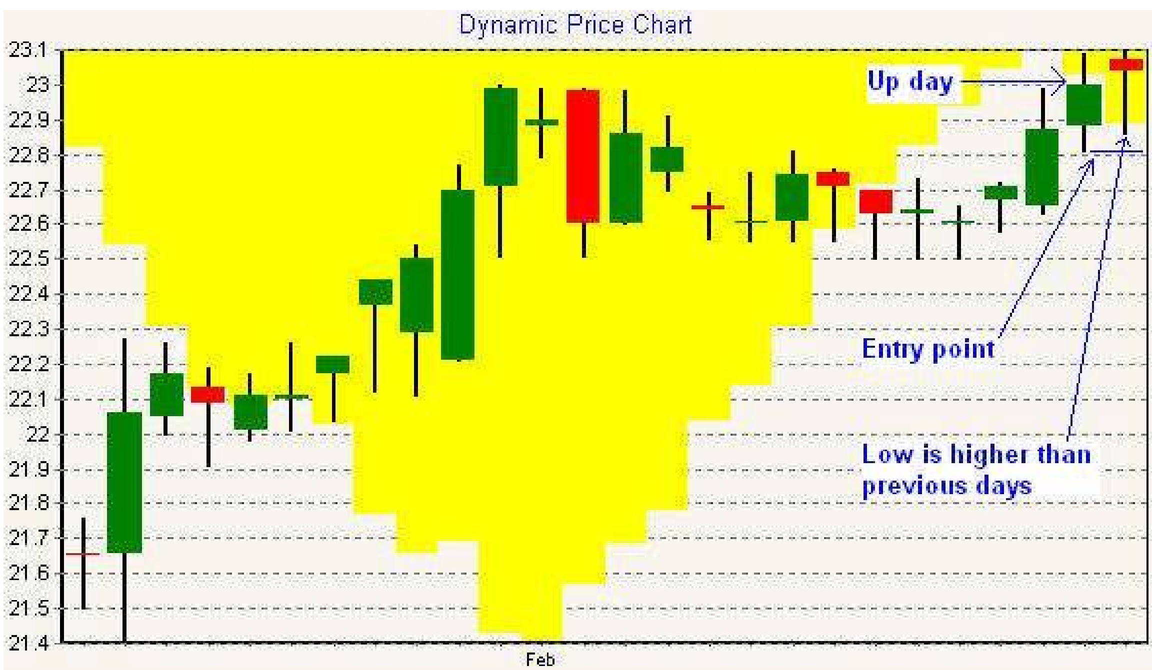
The same principles that apply to long trades also apply to sure trades, so the entry strategies discussed in this section are not in themselves criteria for entering a trade. They should be used once the trading opportunity has been identified by means of market momentum, energy, and sentiment, or a combination thereof.

25.1 2 Day Entry

The two-day entry method is our most common method to use. It provides a reasonable combination of risk control and opportunity and is very simple to use.

The "2 day's" referred to are today and the day before. To enter the market short with the two-day method, we look for today's low to be higher than the low of the previous day and for yesterday to be an up day, or in other words, for yesterday's close to be higher than its open.

Then we watch for the price of the next day to go below the low of the original previous day. Note the chart below.



Before entering, however, we want to calculate our risk for this entry. We do this by dividing the low of yesterday, -\$.01 by the high of today day +\$.01. Then we subtract the quotient from one. For this example, the calculation would look like this.

$22.80 / 23.11 = 0.9866$
$1 - 0.9866 = 0.0134$ or 1.34%

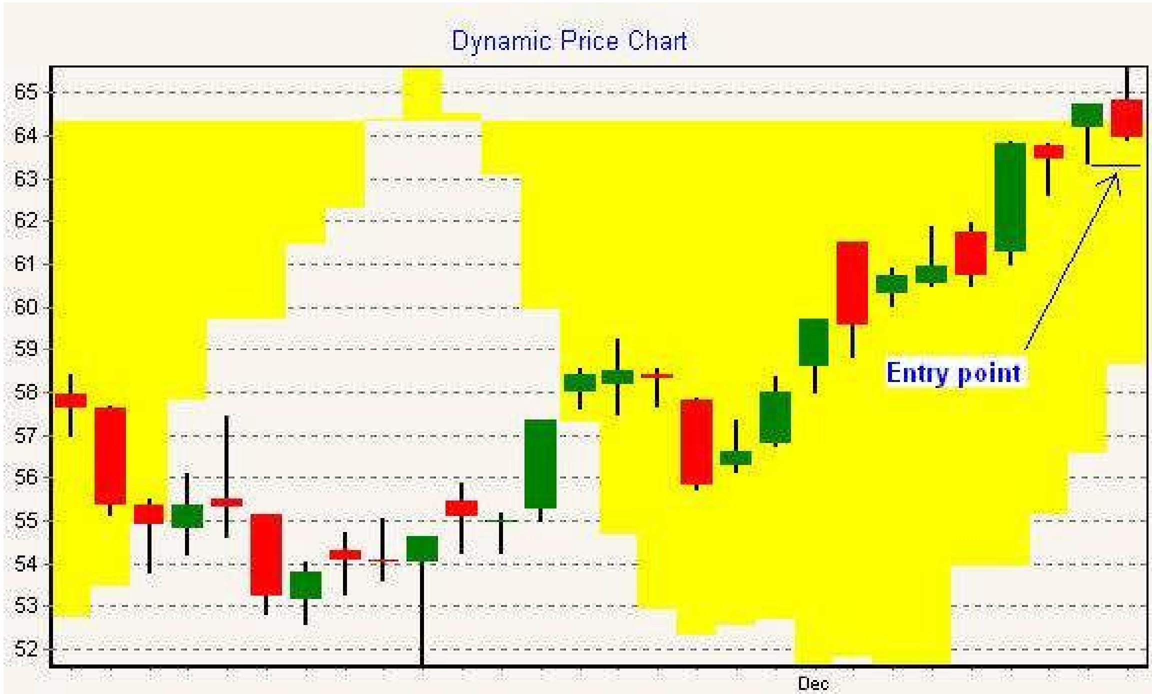
This gives us the percentage of risk, if we use the high of the previous day +$.01 as our stop loss. If after making this calculation, the risk is acceptable to us, then we can proceed with monitoring the trade for an entry. If the price drops below the original previous day's low, then we enter the market short.

When using **Dynamic Analysis Charting Software** these calculations are done for us automatically for on-the-fly observations of possible trades. This really decreases the time needed for scanning stocks on a daily basis.

25.2 3 Day Entry

The three Day entry method is probably the second most popular method we will use. As you may have guessed, the "three days" refers to the most recent three days.

We use this method, when we have identified a two-day entry, but the price on the first day after identifying the entry did not drop below the original previous day's low. Our scenario for this set up would begin like the chart below.



In the above chart we have a set up for a two-day entry on a short position. As we move forward in time we see the next day when we are expecting to short the stock, but the price does not drop below our entry point. As seen below.

This failed, or stalled entry has become our three-day entry method. We're still looking at the same entry point in the two-day method, but we are a day more forward in time. Again, we use the same calculation to determine our risk, we take the low of the original previous day -$.01 divided by the high +$.01 of the today. Then we subtract the quotient from one. For this example it would look like this.

63.34 / 64.91 = 0.9758
1 - 0.8758 = 0.024 or 2.4%

Here is that set up after we entered the market.

The risk calculation of a 3-day entry is also made automatically with **Dynamic Analysis Charting Software**.

25.3 10 Day Entry.

No doubt you're seeing the pattern now, the "10-day entry" refers to the last 10 days. This time, however, were not looking for a specific pattern within the 10 days, only the lowest price that occurs during that 10 days, because we will use that as our entry point.

The 10 day entry does not exhibit itself very often, but when it does. It is good to take advantage of it. This is because it is one of the safest entries we can find. The reason for this is that it uses standard support and resistance principles to determine our entry point.

We calculate our risk for the 10 Day entry by dividing today's high +$.01 by the lowest low of the last 10 days -$.01, then subtract the quotient from one. This will give us our percentage of risk for the entry if we use today's high +$.01 as our stop loss. We use this entry when after calculating and the risk we find the risk for this type of an entry is equal to, or lower than the average risk we're willing to take for a 2 or 3 Day entry. Here's an example of one below.

Noticed in the example that the previous 10 days were somewhat congested, that is the price does not fluctuate very much when compared to recent activity. This is the pattern were looking for. To look for an entry point below the low the last 10 days, when during the last 10 days, the price has risen 10% would obviously be pointless. So we want to look for this congestion pattern. An additional point to remember when looking at the 10 day entry, is that the older of the low point is during that 10 days, generally the safer the entry will be. Here is how the setup looks in the big picture.

When using Dynamic Analysis Trading Software, if a good 10 day entry exists, it will indicate this and tell us the risk of the entry, again saving as time while scanning for trading candidates on a daily basis.

25.4 1 Day Entry From The Top

The one-day entry from the top method is more profitable than the 2, 3, or 10 Day entry methods. However, it is riskier than any of these three other methods, because the two and 3 Day entries have a built-in safety by using the previous day's low as the entry point. So we need to be a little more concerned about the data from this particular day to determine if it is a Bullish or a Bearish day, because we will use the low of this day -$.01 as our entry point. To that end, we will borrow some wisdom from Japanese candlesticks.

We will look for a formation called the hanging man pattern. The hanging man formation is exactly the same as the hammer formation, except that it occurs at the end of an uptrend. Once again, the body of the price occupies the top portion of the shadow and the shadow below the body should be least twice as tall as the body itself, with very little if any shadow above body. Like the hammer formation, it doesn't matter whether this is an up or a down day. To determine our risk for this entry, we again divide the low -$.01 by the high +$.01, and then subtract the quotient from one to get our percentage of risk for this entry. Of course, Dynamic Analysis Trading Software does this calculation for us. Here is an example of the hanging man pattern along with the risk calculation.

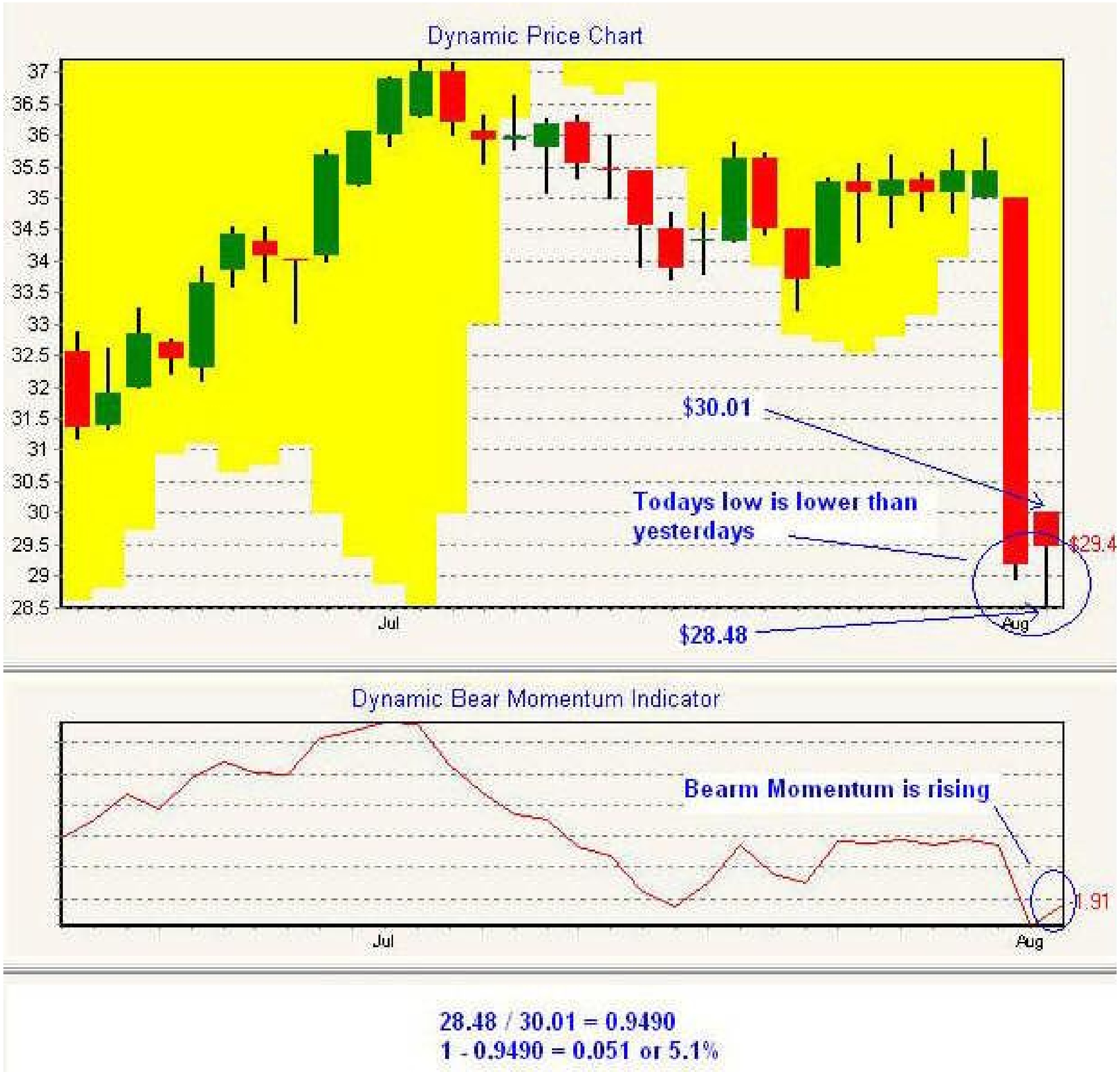
25.5 1 Day Entry From The Bottom

The 1 day entry from the bottom method also takes into account data from the current day to evaluate risk. **Dynamic Analysis Charting Software** always displays this for you. Of the four types of entries we have discussed so far, the 1 day entry from the bottom is the riskiest, but it usually offers the highest reward too.

We calculate our risk. The same as we did for the 1-day top entry. We divide the low of today -$.01 by the high of today +$.01, and subtract the quotient from one to get our percentage of risk.

As the name suggests, this entry is used when prices are declining, rather than rising. So the day in question will have the lowest low of the most recent days. There are a couple rules to help qualify this day as a good entry point.

Today's low must be lower than yesterday's low and today's close must be lower than today's open. Additionally, the dynamic Bear Momentum Indicator™ must be higher than the previous day's. Note the chart example and risk calculation below.



This entry, like the 10-day entry does not avail itself frequently. Lets see how the entry looks in the big picture.

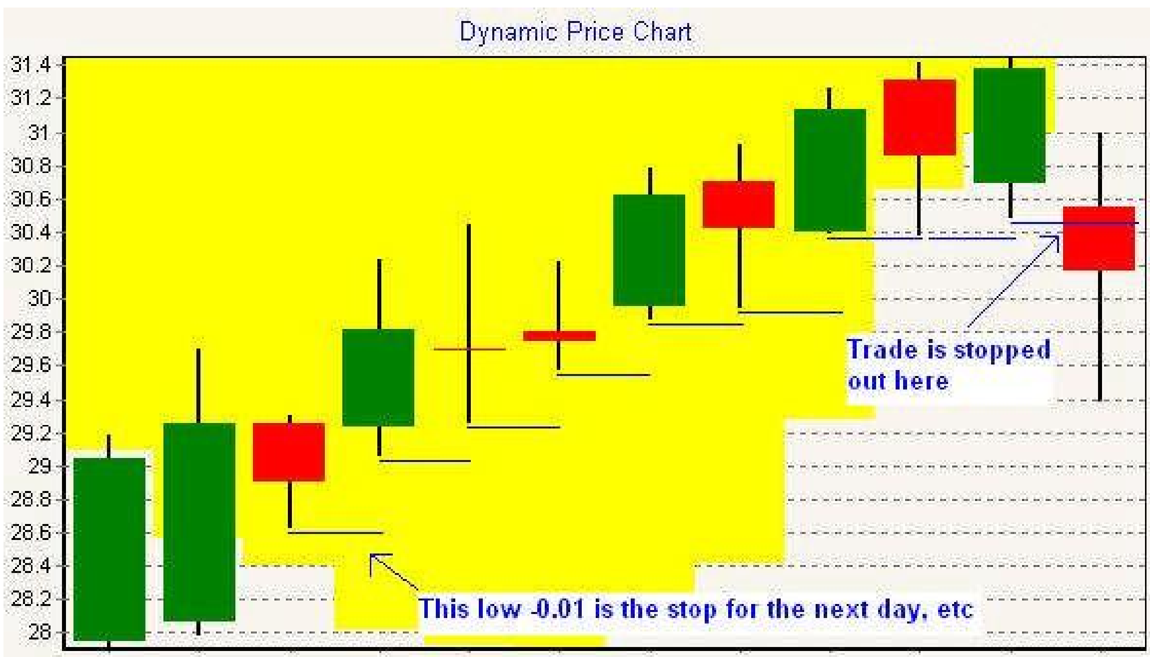

Dynamic Price Chart
37
36
35
34
33
32
31
30
29
28
27
26
25
Jul
Aug
Entry point
Entry day

26 Exiting The Trade / Stop Losses

26.1 The "On The Run" Approach

If your style of trading is such that you have little time to give to examining your open trades in the evening or you're just looking for a simple approach for an exit strategy, then this might work well for you.

It doesn't get any simpler than this and it works well, if you're interested in swing trading. All you do is simply use the low of yesterday, minus one tick for your stop loss. Each following day, you make the same adjustment, moving your stop loss to one tick below the previous day's low. Note the example below.



This type of exit strategy produces very short trades, usually two to five days, but it is a hard one to mess up, if your entry strategy is sound.

26.2 The Momentum Approach

The momentum approach is clearly the best approach I have found for exiting a trade while at the same time managing risk by means of a stop loss. It works well with any entry strategy, and is a sophisticated, yet simple system that tells you exactly where to place your stop loss, and when to move it based on momentum while allowing your stop loss to be your exit strategy.

The strategy is detailed in a straightforward fashion in the publication, "**Stop Loss Secrets**". The publication is short and to the point, covering only this specific strategy. If you're trading style is such that you have the few minutes to examine your trades nightly, you will find this exit strategy can keep you in strong trades longer and get you out of losing trades quicker, but most important is that it will keep you from getting stopped out unnecessarily, I highly recommend it.

27 Summary

So now you have in your trading arsenal not only the basics, but the most advanced tools available for the technical analyst today. Will the tools you have learned to use in this book always produce the patterns that you have seen here? Will they always prove superior to any other indicator? No! Technical analysis is statistical in nature. So while I have been biased in choosing examples in this book that clearly show the patterns discussed, they will not always appear so. This is the real, complicated world we live in, but as I said, this is a statistical work, so the majority of the time the indicators discussed in the advanced section of this book will prove to be extremely insightful and reliable.

When using these advanced indicators, if the patterns produced do not to clearly identify your position in the market, you have two choices; you can either move on to a new trading candidate, or push the envelope in trying to develop your powers of pattern recognition. The choice is yours.

So how do you find the type of trades in the examples we've just discussed in the Advanced Concepts & Tools section? Well, first off, you need the indicators described here of course. Second, you need an efficient way to locate those trades. Dynamic Analysis Trading Software provides both of these for you.

Dynamic Analysis Charting Software allows you to scan for stocks based upon Market Energy, Dynamic Bull and Bear Momentum, and Market Sentiment conditions. You can use only one, all three or any combination thereof.

It will also easily remember and categorize the stocks you would like to watch and do much more for you. Using dynamic analysis trading software for trading is like a modern-day pilot using radar to navigate. Sure, he can fly without it, but the pilot's vision and awareness is extremely limited when compared to using radar to assist him as the level of risk increases, he is more likely to miss an important detail needed to maintain a low level of risk or help him to reach his destination safely, especially under stormy conditions.

Likewise, dynamic analysis trading software can bring to the attention of the trader details necessary to maintain a low level of risk and to help him reach his goal, explosive trades that lead to profit. Much of this, like radar, is done behind-the-scenes without the trader having to give concern to it, only having to read his instruments like the pilot.

Come see how you too can benefit from this fantastic software by visiting;
Dynamic Analysis Charting Software