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Savvy strategies for profitable traders.

LETTER FROM THE DEVELOPER

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Welcome back! By the time you read this we should be fairly deep into the summer. Here in Austin, Texas, it's probably pushing 100+ degrees at this time so if you're like me, you are seeking refuge inside! Hopefully you're also taking advantage of the summer and vacations to get out and take some trips with your family and friends. It's always critical to take a few steps away from trading. I find I comeback energized and thinking clearly after a vacation. Remember, as tempting as it might be, try to limit your trading if you are traveling. You can always swing trade, or manage your open trades but try not to start your vacation days with daytrading.

Perhaps the biggest even for us during 2012 so far has been the launch of the **Premier Trader University** (PTU). At the time I'm writing this letter, we just transitioned our second set of PTU students through the Undergraduate education and they are all about to start on their chosen "Major" (Forex, Futures or Stock & Options). It was an amazing group of individuals from around the world who were part of the first two classes!

We're now enrolling our 3rd group of PTU students and couldn't be more excited. The concept behind the PTU has been to combine the best trading systems with the best overall education to ensure not only do you master the systems, but you actually get the training and support to make those trades, live in the markets, and book the profits in your trading account. Equally as important has been our focus on lifestyle. We are calling it "Lifestyle Trading" and we're very much against trying to trade for many hours per day.

All of the PTU trade plans were designed to keep you in the markets for the shortest amount of time. Even if you choose daytrading, the idea has been **to minimize exposure and work** so you can actually have the lifestyle you seek. Swing trading is a great way to free up time but we wanted to ensure that you could trade as actively as you desire, and still not slave away at your computer for hours on end. That's no way to live and it's no way to trade.

What we also found was that many people who purchased our systems in the past would understand the system "on paper" or "on the chart" as we like to say. But they would then run into all types of issues when it came to actually executing the system that they seemingly understood. Much of what we have attempted to provide with the PTU educational experience is that skillset that enables you to finally match the results in your account with what you see on the screen.

If you haven't yet attended one of our informational webinars on the Premier Trader University I would highly encourage you to do so. There you'll get all the details on the trading systems (designed to trade forex, futures and stocks, ETFs & options) as well as the curriculum that we cover in the University. All taught from the comfort of your home and office. Visit the link below for more info:

http://www.netpicks.com/ptu

Have a great rest of the summer!

Mark Soberman

Mark Soberman

CONTENTS

WHAT'S NEW AT NETPICKS

New Newsletter Format

You're probably thinking that your NetPicks Informer Newsletter looks like it has lost a little weight this time around… and it has! But don't fret, in effort to keep you updated more frequently, we're coming to your mailboxes… monthly! That's right, instead of receiving one gigantic Informer every quarter, we're going to send you a slightly lighter version each and every month so you don't have to wait 3 months to get your dose of market tips and NetPicks tricks.

And one more thing, **if you're still interested in continued access to the mailed version of the NetPicks Informer, please let us know!** By raising your hand and telling us you love your printed Informer, you're helping us keep costs down by determining which households prefer to receive a printed version and which want to read an electronic version. So if you haven't already, please make sure you've visited this link and filled out this form:

http://www.netpicks.com/informer

WAYS TO ENTER THE MARKET

by Shane Daly

As a trader, there are a few ways you can enter a trade and which one you use can actually make a difference in the outcome of a trade. Certain orders, depending on when used, can cause your position to suffer from slippage. **This essentially means that your order will get filled at a price different than what you expected.** For the most part though, retail Forex traders don't suffer too much from this unless they trade around news releases. For the most part, the slippage is small, if any, in normal market conditions. It really all depends on what happens between pressing the order button and the order getting filled.

Market Order: This is the basic way of entering a trade. When you click the buy/sell/close button on your platform, you are requesting a transaction at the best available market price. The issue with this is that the bid/ask price is constantly fluctuating. If you see a price of 1.3400 for example and you want to enter a buy by pressing "Buy", by the time the order occurs, price may have gone down or up. If price goes up, you bought more expensive and with down, you got a cheaper price. When scalping other markets, I do like to use market orders simply because of the quick move I am looking for. On fast time frames, the setups may not reach your pending orders by a tick and you miss the move.

Limit Order: I prefer these types of orders when trading slower time frames. These orders are only filled when price reaches the price you have chosen to enter the market. My broker actually uses the word "limit" to describe something that actually has two names which depend on whether you are buying or selling

Buy Limit: Once you set these in your broker platform, you have set instructions to buy if the market reaches your price or lower. Limit buys are always set BELOW the current market price. The first yellow line is the low of that bar and the bottom is where you would set a buy limit order. If/when prices reaches that level, you will be entering the market long.

Sell Limit: The exact opposite of buy limit. Your order to enter the market short is set ABOVE current price. The bottom yellow line is the high of that bar and the top yellow line is where you have placed an order to short the market if price reaches that level.

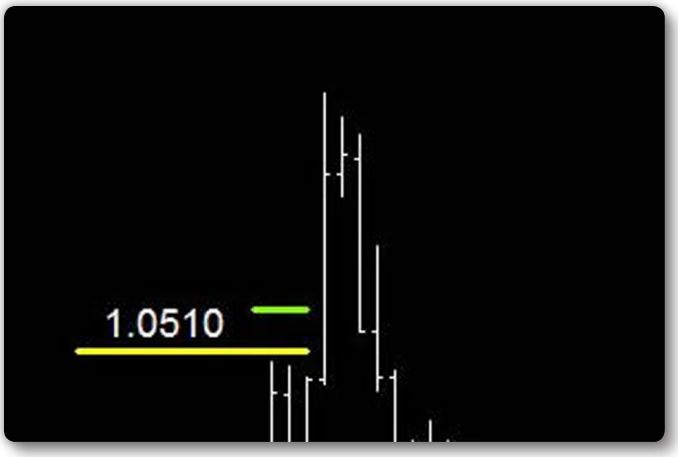
The positive of setting a limit order is that you will get filled at the price you choose. The negative is price may almost reach

your entry price and then turn leaving you on the sidelines without a fill.

Stop Order: These are an interesting type of order and they do have a unique quality about them and that is they combine the attributes of both limit and market orders. For brevity sake, these orders are the opposite of the limit orders. For example, if you choose to enter a market long, setting a buy stop order has you setting an order ABOVE the current price. Sell stops have the order set below current price. The main drawback when you choose to use a stop order to enter the market is the same drawback you get with market orders and that is… best possible price. In the chart to the right, you set an order to catch a break of the highs at the yellow line. It is possible, depending on the market conditions, that you do not get filled until the green line.

That is called slippage, and when designing or testing a system, keep it in mind as slippage can have a direct impact on the profitability of your trading system.

Stop-Loss Order: One of the most important orders you should know and use is a stop-loss order. When in a trade,



these are the orders that can get you out if the trade is not doing very well. It can also get you out of profitable trades if you "trail" the stop behind price to lock in profit. Many traders love the set and forget ability of setting a stop-loss order. You are essentially safe in knowing that the risk you can tolerate is protected by a stop order and you don't have to remain glued to the trading screen. Ensure you set one the moment you enter a trade.

TRADING WITH A SMALL ACCOUNT: Can YOU Succeed with $1,000?

By TJ Noonan

I wish I had a dollar for every time I heard this question. The answer is -- I don't know! Yes, it can be done but, honestly, it's doubtful. I hate to disappoint you. Most traders do not succeed. Whether you have a small account or a large account, it probably doesn't matter nearly as much as whether you have taken the time to learn how to trade and to master yourself. **Traders usually fail for reasons that have nothing to do with their available trade capital.**

Now that I have that disclaimer is out of the way, I will offer you a more optimistic viewpoint. YES, it can be done. There are steps you can take to succeed with a $1,000 trade account. Let's take a look at them one at a time.

1. **You Are Limited to Forex.** That's it. Forget futures and forget stocks. You will need a broker that allows you to trade micro lots. Do not even consider trading anything else. By trading micro lots, you can put small risk on every trade and build your account slowly but steadily.

2. **You Must Invest in Yourself & Your Training.** Key elements to success, whether you are trading small or large cannot be overlooked or you will fail.

   - **Foundation:** You have to do research. This can only be achieved by manual backtesting. There's no substitute for this important first step. I call it the 'ditch-digging' of trading because in order to create a strong foundation, you have to dig ditches to pour the concrete. Backtesting will give you the preliminary knowledge and understanding you need for your chosen market(s). There is NO other way, in my opinion.

   - **Tradeplan:** You need to do the necessary research to create a tradeplan that gives you a winning edge in the market trading forex. Whether you are swingtrading, daytrading or a combination of both, you need to have a tradeplan that puts the odds in your favor on every trade. Without one, you're dead in the water. You're better off ordering vegetable seeds from the back of Boys Life Magazine with your $1,000 and selling them door-to-door, like I did when I was nine years old. At least that way you'll get used to doors being slammed in your face, which will help prepare you for facing a losing trade with the proper point of view.

   - **Discipline:** This is an acquired skill. You might think you can sit in front of your charts consistently, day in and day out, and follow your tradeplan. It might look easy when browsing charts when the market is closed. Doing it for real is an entirely different thing.

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Can you do it? Only you can answer that and it won't be answered with words. It will be answered only with your own actions.

i. Can you follow your tradeplan? Make sure you spend all the time and effort necessary to PROVE you are a disciplined trader or you will NOT succeed with a $1,000 account or even a $1,000,000 account.

- **Perspective:** So many traders fail to realize how important this is. Can you elevate yourself above your forest or are you a trader who is constantly running around amongst the trees trying to avoid getting crushed by those that fall. You have to trade the edge that your tradeplan gives you and NOT worry about whether a trade wins or loses. They will. Both will occur. With a small account, you will only succeed by trading the edge you achieve by your tradeplan and then applying it.
- **Money Management:** If you have achieved discipline and the proper perspective, you should be capable of employing the proper money management techniques required to trade a $1,000 up to a substantial sum.

i. I like to point to the Chris 'Jesus' Fergusen example, the great professional poker player. He showed how it can be done in much the same way that we would want to do it. He determined that due to his higher level of skill, that he would make the money round of a 9-person 'sit and go' poker tournament fifty percent of the time. In other words, part of his edge was to make money 50% of the time he played an online poker tournament. The other part of his 'winning edge' was the money management strategy he employed. He would only risk 5% of his bankroll (his trade capital) on any tournament. That way, he was always sure to win more when he won, than lose when he lost. He could lose 50% of the time, but it would be less than the amount he won, the other 50% of the time.

ii. Ask yourself this: Did he care if he lost a tournament, so long as he stuck with his winning tradeplan? He would NOT serve his purpose if he did. There's no room for that kind of frivolity in executing a winning tradeplan in the market. The market doesn't care, right? Nor should you! You should care about executing the plan correctly. That's it! Easier said than done though. ACTIONS speak here. Not words. Prove it!

iii. Jesus Fergusen turned $1.00 into $20,000 in two years following his plan. He proved it by doing it! He started entering .05 tournaments, which was 5% of his starting $1.00 bankroll. After some time, he had doubled his money and was entering 10-cent tournaments and so forth until he had amassed a $20,000 bankroll.

- **Record Keeping and Tracking Your Progress:** You have to measure your results. The more detail you have on your trade data, the better off you will be. I use a tool called the Ultimate Trade Analyzer (UTA), which is a powerful pre-programmed spreadsheet that allows me to track the stats of my trades. It also allows me to apply a similar money management strategy as Jesus Fergusen used. It's a 'Fixed Fractional' money management strategy and by adhering to it, you CAN trade a small account into a big one IF you've covered the above points.
- **Practice Makes Perfect:** Prove you can execute your tradeplan. Make 25 mistake-free trades in a row in a simulated account. If you make a mistake, start over again. If you can't do this important step in a sim account, what makes you think you can do it with real money? You won't be able to. Make this your final step before implementing your tradeplan with your precious $1,000 trade account. Track your results in your spreadsheet. Apply your money management technique and increase (or decrease) the stakes per your tradeplan like you would in real trading.

3. **Patience and Professionalism:** Treat your trading as a business. Be the facilitator of your tradeplan and the operator of your trade business. Learn to "lean on your system" and let the edge of your tradeplan do all the heavy lifting.

- I began tracking the real live trades I was calling in the traderoom with the EURUSD 5 minute chart using the Seven Summits Trader (SST) tradeplan that was published in the SST Owner's Club. Traders were taking these trades as I called them. I don't know of anyone who stayed with the plan but I tracked all the trades. I began with a $1,000 account size and applied 3% risk on every trade using the Fixed Fractional Money Management Strategy with the UTA. I tracked the first trade, beginning on July 29th up until December 22nd, when I took an end of year holiday vacation. Sticking to the tradeplan, with discipline and all the steps described above, here are some numbers that should offer you encouragement and inspiration:
- Trading a standard SST, 2 position approach, beginning with micro lots (10 cents per pip) and NOT applying the fixed fractional plan resulted in +2,807 pips of profit. At 10 cents per pip and applying a 1 pip spread cost resulted in an ending balance of $1,280.70. In other words, the trades made a 28% return in about 4.5 months. That's about a 70% annualized return. Not bad, right? Who wouldn't want to make a 70% per year. Of

course it's hard to get excited about making just $280.70 with 4.5 months of trading, 2.5 hours per day, right? Hey! You only got a $1,000 bucks so what did you expect? That being said, let's take a look at the result of the very same trades, using a smart, fixed fractional money management strategy, a la Jesus Fergusen.

- He used 5%. We're going to look at 2% and then 3%.

  Using a 2% risk profile, with the exact same trades, one would have traded up to 128 micro lots by the final trade and would have ended with an account balance of $12,790.60. That's sounding a lot better than the above example of just 2 single micro positions, right? This tradeplan won 72.46% of its trades, which is quite a bit better than the 50% edge Jesus Fergusen had. With such a good winning percentage, maybe one could justify bumping the stakes up a little. 3% maybe?

  Using a 3% risk profile, one could have traded up to 660 micro lots per position, which is 6.60 full size lots. The ending balance in the account would be $43,420.20, with most of the profit coming in the last month of trading. There is an exponential curve that occurs with this kind of money management strategy. Lean on your system and be patient.

  How about 5%? I wouldn't recommend it. The next 4.5 months might not do so well. Markets change. You need to be able to weather the drawdowns and survive the one-step-backwards so that you are there to take advantage of the two-steps-forward when they occur, which is how all winning tradeplans work. The beginning of 2012 was tough. It has been profitable and is at new record profit levels but 5% risk might have knocked you out of the markets. But just out of curiosity, let's take a look anyway.

  Using a 5% risk profile, one would have traded up to 10,000 micro lots, which is 100 full size lots per position. The account would have grown to $385,882.91!! Wow! Makes you think, right?

4. **Do it! Begin Trading Your Real Funds:** If you have accomplished the above, you will be in the best possible position to succeed with your $1000. Can it be done? Yes! Can YOU do it? I don't know. Only you can answer that and that can only be answered by doing it. Forget words. Words are cheap. Your actions and deeds will reveal the answer over time. Prove it by doing it.

LINE BREAK CHARTS

By Will Feibel

Introduction

Line break charts were developed in Japan and popularized here by Steve Nisson in his book Beyond Candlesticks. The purpose of line break charts is to filter out market noise and give a clear indication of trend. Figure 1 shows a line break chart of the daily Dow Industrials futures contract (YM). The white and red bars are called lines. Notice that whenever we have consecutive white lines, each line has a higher close than the previous one; when we have consecutive red lines each line has a lower close than the previous line.

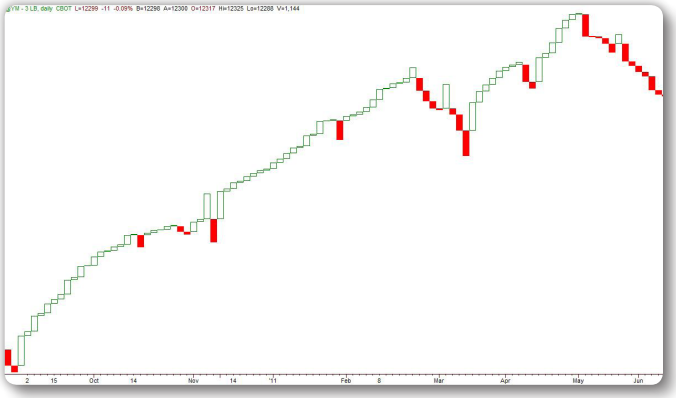

Fig 1 – Line Break Chart

Construction

Line break charts are defined by two values: the line break number and the underlying time interval. These values are used in the construction of the line break chart. The chart above is a 3 line break chart of the daily YM and in this case the construction rules are as follows, assuming the last line on the chart was a white line:

- If the close of the daily bar is higher than the high of the previous white line, draw a new white line with the open equal to the previous line's high, and the close equal to the close of the current daily bar.
- If the close of the daily bar is lower than the low of the last three lines, draw a new red line with the open equal to the previous line's low and the close equal to the close of the current daily bar.
- If neither of the above two conditions are met, do nothing.

As you can see from the construction rules, white lines are only drawn if the daily bar closes above the previous line, or if the daily bar closes below the lowest low of the last three lines.

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That's why it's called a 3 line break chart. The rules for red bars are the inverse of this. Figure 2 shows the relationship between the 3 line break chart on top and the daily chart on the bottom. The numbers on the bars indicate how single bars or groups of bars on the daily chart relate to the white or red lines on the 3 line break chart.

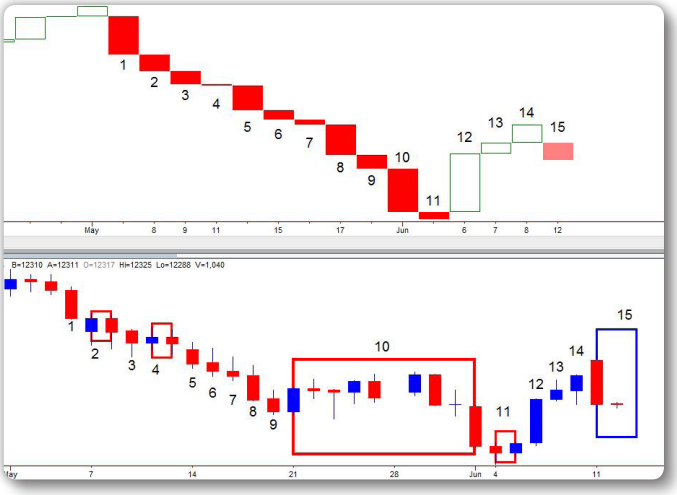

Figure 2 – 3 Line Break vs. Daily Chart

It's important to note that the construction of the line break charts is based on closing prices in the underlying time frame chart, in our example the daily chart. Daily highs and lows are not shown on the line break charts, just closing prices. This needs to be borne in mind when back testing a line break chart because we have no way of knowing how far price actually moved above or below the lines. A system based on line break charts must therefore have all entries and exits based on the close or open of a line.

As mentioned earlier, the two key values of a line break chart are the line break number and the underlying time interval. We can construct line break charts based on daily, weekly, 5 minute, hourly, any time frame, they can even be based on an underlying tick count, for example a 150 tick interval. This allows us to adapt them for day trading or swing trading systems. The line break number itself can also be changed. Although the 3 line break is the most popular chart, it's also possible to build 2 line break, 4 line break, etc. charts, the difference being that a reversing line needs to break the lowest low (or highest high) of the previous 2 or 4 lines respectively. This allows us to tailor the strength of the reversal needed to declare a change in direction, or change in line color.

Application

The simplest application of line break charts is to use the change in line color as a trade setup: when the first white line forms, go long; when the next red line forms reverse to short; repeat for each change in direction. Looking at Figures 1 and 2 we see that this can be quite an effective strategy in strongly trending markets, however during market consolidations it can lead to significant losses. Alternating line colors are a clear sign of consolidation in the market and can help mitigate that risk somewhat by telling us when to stay out of the market.

Another approach that works well with line break charts is to use them for identifying simple chart patterns. Figure 3 shows how well the chart highlights a double top and double bottom formation that defined a short term trading channel. A line closing below or above this channel gives us a clear setup for going long or short, and we can use the height of the channel in projecting the target for the move. We could also use simple trend lines to indicate reversals or to help us trail a stop in an existing trend.

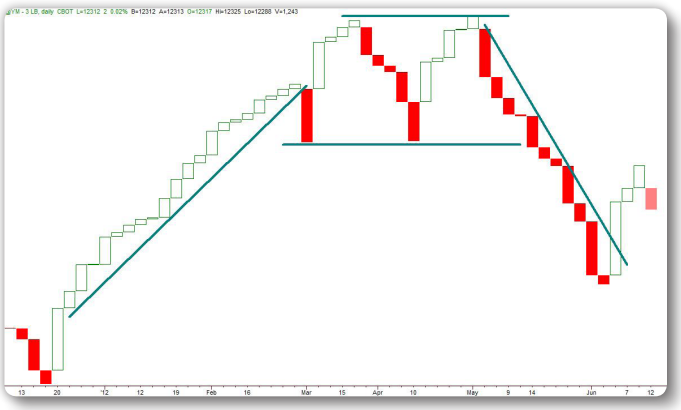

Figure 3 – Chart Patterns and Line Break Charts

It's also possible to use line break charts in conjunction with standard technical analysis indicators in the creation of a system. Figure 4 shows a simple system based on a 3 line break chart with an exponential moving average and the CCI (commodity channel index) oscillator. In this system long trades are entered when the CCI crosses above -100 and a white line closes above the exponential moving average; the trade is exited either when the CCI crosses below +100 or a red line is formed. Rules for shorts are the inverse. The green arrows show long or short entries and the red arrows show the exits.

Figure 4 – Technical Analysis Indicators and Line Break Charts

The entry or exit rules of course can be refined through the use of different or additional indicators and/or lower time frame charts.

Finally, line break charts can serve as a directional filter for setups on different time frame charts. Only go long if the last line was white; go short if it was a red line.

Conclusion

Line break charts can be a valuable addition to your trader's tool chest. They can be used on their own or in combination with other charts. Just be careful when back testing these charts, remember that only closing prices are plotted, not highs and lows, so test results may look much better than real trading results would have been.

WHINGERS, WHINES AND DOWNRIGHT SORE LOSERS

by James Kessick

We've all been there to some extent during a tough trading session. Maybe we skipped our preparation for the day or perhaps we were distracted whilst trading or maybe even the market just flipped, handing out loss after loss on what's normally a great play. It's not too difficult to see that when we feel cheated or frustrated, there's a danger of slipping into the whiner/sore loser mentality. The way I see it, is that trading acts like drawing venom out of a bite. It brings out ugly emotions that we need to learn to control and naturally avoid if we're to prosper in the long term.

A part to sore losing in trading is loss aversion. This is part of human nature and trading really brings it out in all its glory. When we have a good system and it takes a series of losses, it's easy for this to come out. Not only does loss aversion tend to make us not want to lose what we have, it also makes us not want to accept losses we've already taken. This in particular becomes worse if we don't understand the concept of trading probability and start to believe the market must just be 'wrong'. Trading isn't always about doing x and getting result y. Then of course the next stage is abandoning the system as 'clearly' it's useless. It absolutely must be understood that even when you execute a good plan well, there will be times when you must take a loss.

Now I'd like to point out at that being a sore loser and hating losing are not necessarily the same thing. Sore losers usually hate losing too, but hating losing is something to cultivate if you can become a good loser. I hear all the time that people say "learn to love small losses". Well frankly, I hate all losses. I prefer to take small losses over big ones, but I certainly will never like, let alone "love" a loss whether it be small or large. There's a good amount of things in trading which can seem counter-intuitive, but this one I think is wrong. The reason I say this is because it goes against our nature and what we're trying to achieve. It's better hate big losses and therefore take small ones instead. Don't love small losses. Also, it's important to define "small" as it leads the mind to thinking taking losses of only a few ticks will help you be successful. This can be the complete reverse of reality. Small really means getting out of a bad trade as soon as you can. That means you might have a set of criteria which will get you out of a trade before it hits your stop-loss order. It also means not mindlessly clinging on to a trade in the red when it's well beyond your stop, in the hope it will come back for you. Hating losing can also be a big motivator too. A great deal has been said about leveraging our natural emotions to achieve desired responses. If you can use it to motivate you to prepare properly, to make sure you're mentally ready to trade, focused and free from distraction, then that is a positive response to the strong emotion. It's the will to win (not the refusal to accept losing).

The effects of sore losing are clearly quite negative, but perhaps more wide-ranging than many would expect. They can be:-

Demotivating/demoralizing – If a good plan fails and you start to believe there's something wrong with it, you're far less likely to stick to it. But also taking into account all the effort you've put into creating, testing and preparing to trade your plan, it can act to make you feel incapable and less willing to put the same effort in again.

Antagonizing – This can be pretty destructive and push you into taking rash, revenge-type trades. Believing at the time that the market must be wrong and being annoyed that it has the audacity to take money off you, you go on a personal crusade to take it down. The market doesn't care. Really.

Deceiving – With your head spinning with the emotions of anger, disappointment, inadequacy and whatever else, the true form of the market is likely to become pretty blurred. You might think at the time it's crystal clear, but that's probably not the case.

Emotionally destabilizing – Because of all the emotions which you feel, the ups and downs of each and every trade can start to be felt 100 fold. Each tick against you is like a statement of how terrible you are at trading or how stupid the market must be and ultimately drives you towards losing control and discipline.

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WHINGERS, WHINES AND DOWNRIGHT SORE LOSERS CONTINUED

Preventing acceptance of losses – If you place too much importance on any one trade, you could find yourself in a position where you've been well onside and end up losing because you wanted more on the trade, or a refusal to let go when a trade goes wrong results in being forced into taking a big loss (often right before the market reverses). Following on from this is, by not accepting cumulative intraday losses within your daily stop limit and fighting to get back to even, the temptation is to try to make back the entire amount in one fell swoop which is not planned for and unrealistic. Decent trades can then turn into bad ones and compound the losses for the day and cause further psychological issues.

The first step to rectifying the problem clearly is recognition. This is why people always bang on about keeping a journal. Even if you think you know you have certain issues and what they are, journaling for a sustained period of time can be an eye-opener as to why they occur and to what extent.

Next, you must start out the day by accepting that you don't know whether the next trade you take will be a winner or a loser. This is whether or not you've done a bunch of testing and your results say that historically, the system you're using will win 99% of the time. One, all of the 1% which are losing trades could come in a cluster. Two, the market could just change and the strategy lose some efficacy. Strategies tend to have periods of working really well and less well.

Then you must see when you take a loss, the annoyance generated by it should elicit a planned response rather than an uncontrolled one. When you feel that wrenching in your gut because you've just taken a hit on a trade, you must train yourself to wait and reassess the situation to see if you really think the market is telling you want you had originally thought. Don't immediately jump back into the market. Perhaps the 3-strike rule is one which may be of benefit. This is if you take 3 consecutive losers you stop trading, step back and reassess. Possibly go for a walk, go to the gym and just take your mind off trading. Then reappraise the market and recenter/refocus yourself before getting involved again if of course you're still within your daily loss limit.

Feeling bad about a trading loss doesn't mean you have to be controlled by untrained responses to the emotion. Instead, if you can use this to drive you to prepare well, to be ready to trade each day and make sure you are focused and free from distraction, you'll be harnessing the power of emotion rather than being a sore loser.

Trade well.