THE NETPICKS INFORMER

Savvy strategies for profitable traders.

Quarter 1 | 2012

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LETTER FROM THE DEVELOPER

Hello and Happy New Year! This is my first opportunity to wish you well in 2012 and I must say, I'm ready to get things going!

What can I say; I always look forward to the start of a new year. To be perfectly honest, while the holidays are great personally, as a trader, it can be a very different story. During the holidays, you find yourself asking questions like, "Should I trade on this day… should I stand aside… what about tomorrow?" So much doubt goes into it that sometimes I think I should just take the second half of December OFF and say, "See ya next year!".

What really surprised me so early in this 2012 are the extremely LOW trading ranges and volatility. See, everyone expects that come January 2nd the markets will snap right back to their crazy selves but what I've found in recent years is that the first half of January is actually the opposite. However, I am expecting that by February we'll start to see the volatility we all know and love (hopefully).

During this time, it is a good reminder why I prefer DYNAMIC trading systems. We make certain all NetPicks trading systems can adapt to changing market conditions because truly, you really never know what lies ahead in the next month. So you better have a trading system that can account for it!

Which brings me to one of my **New Year's Resolutions** for this year.

This year, I resolve to figure out and then SOLVE why so many traders have trouble reconciling what is happening on their trading chart vs. the success they see in their trading account. We talk to countless traders that seem to 'have it down': the system, the rules, the set-ups – but for some reason, their live account doesn't come close to reflecting what's happening on the chart.

The good news is we have actually already identified several hurdles and profit-blockers to help solve this epidemic (one of the many benefits of having a **full staff** of actual live in-the-market traders that started out just like you). And my goals is to focus on overcoming these hurdles and distill them down to usable tips and techniques to help you take your 'screen success' to real success.

First step? Take the time to read this quarter's NetPicks Informer. Trading takes work and it takes time… and sadly there isn't an EASY button you can push - even if it seems like EVERYONE is trying to sell you otherwise. But you can take advantage of their quest for the EASY button and their laziness and get the edge with discipline and perseverance. That's the edge we try to give you at NetPicks and an edge that will never cease.

To your great success in 2012!

Mark Soberman

Mark Soberman

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WHAT'S NEW AT NETPICKS

Seven Summits Trader Pro Mastermind

For the first time ever (by invitation only) we're hosting our very first Seven Summits Trader Pro MASTERMIND. What is a Mastermind?

Simply put, a Mastermind is a small, yet mighty group with one goal in common: taking your trading above and beyond. In a Mastermind Group, the agenda belongs to the group and each person's participation is key. Peers give feedback, help brainstorm new possibilities, and set up accountability that keeps members focused and on track. Participants in the group will create a community of supportive traders who will work together to move each of the individual's trading careers to new heights!

Best of all, as members continue to build their skills trading in 'sim' mode, they also have the chance to trade a live funded account, eventually earning their way toward being **PAID to trade** an actual fund, professionally!

Right now, the Mastermind application process is invitation-only. You must be a current good-standing member of the Seven Summits Trader (full version) and this opportunity is not for newbies. We've just accepted our first batch of students and Mastermind meetings have already begun. We'll keep you updated as we progress. And if you're interested in joining the next Mastermind group, please get on our Updates list:

http://www.netpicks.com/mastermind-updates

Keltner Bells Upgrades

For all you Keltner Bells fans (or traders looking for any excuse to join us!), we just completed our first round of big upgrades to the system, trade plans and training. Specifically, we did the following:

- Introduced advanced trade filter for INCREASED **WIN RATE**
- Added **new forex markets**, creating MORE opportunities every day
- Even easier learning techniques - get up and running even **FASTER**
- Updated tradeplans for better **speed**, **ease** and overall **wins** in the market

In addition to the above improvements, we also added some brand new trade plans for all new markets including the EURAUD, AUDJPY, EURCAD and GBPCAD. So in the event you're ready to step up and vary your trading a bit more, these new options are available to you!

ANOTHER TOOL IN THE TOOLBOX *By Ron Weiland*

If you know NetPicks, you know we are always looking for ways to improve your (and our) trading. We like cutting-edge charting and tools that can give us a read on the market. That is one reason we use Renko and Range bars in our swing trading and even day trading. We have many customers and we encourage everyone to share their ideas and experiences so that we can share with others. This is what leads me to our discussion today…

In December we released our latest Seven Summits Trader Automation and Strategy Back-Test software. Those SST Pro members could take their ideas and run some tradeplan tests. That is exactly what inspired Benjamin Gerard Sanchez. He took an idea on Wheat and tested it with Kase Bars. It had fantastic results, which we will share in this article.

But first, we need to educate you on Kase Bars and how they differ from Range bars. Basically, Kase Bars are very similar to Range bars, except they have a true range that is based only upon real price data. It takes into account gaps between the bar close and the current high or low of the bar. So, not all bars will be equal.

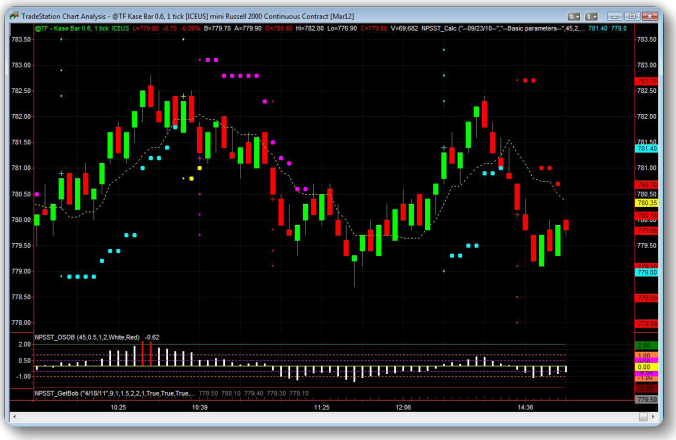
The True Range is Equal to the Maximum of the:

- High minus the low
- High minus the previous close
- Previous Close minus the low

One of the Benefits of a true range bar is that you can see breakaways, measuring or midpoint or exhaustion gaps, and other candlestick formations like island reversals. If you are running automation or strategies you will have greater reliability and accuracy since the orders generated come from actual price action and orders that actually happened in the markets.

Also, since you are charting True Range, you can use an ATR (Average True Range) on a regular time based chart and determine the best True Range or Kase bar value to use. So, think of it like this, if you know a good ATR of a market, you now know the very best Kase bar to trade off of and get the best picture of market for trading.

Take a look at these pictures of the TF on a Kase Bar .6 True Range and a .6 Range bar chart. Notice that some of the bars are longer or shorter than each other on the Kase bar. That is because it takes real price action and does not fill gaps. So, there is less volatility in the charting and therefore smoother charts.

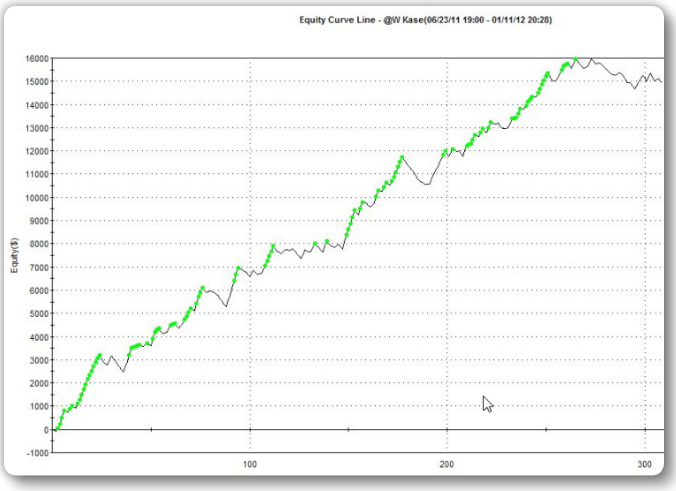


There is no chop zone up/down in the middle of the chart above like the one below. Instead you see a smoother chart and it picked up the overbought market that the Range bar chart missed… giving a double win!

Now for the Power of Kase Bars in Action

Here is Benjamin's Research and Plan (we all owe him at heart felt thanks and appreciation for sharing this with others)…

Here is a Wheat Kase Bar trade plan. If you are not familiar with Kase bars, they are very similar to range except they print with a tick difference from close to open. They tend to stay with the trend more and not get knocked around in chop as much, and they definitely take some getting used to as to their cadence. This is a very simple plan that calls for a max 1 loss per day or 1 winner as long as it totals 8 ticks or more otherwise it will take another trade until it reaches its tick goal or gets stopped. It has 3 targets, 2 money management and a fixed target, no trailers. Here are the results.



Now for the Strategy Performance Report - that was done with our Auto Trade Back Testing Software. It can help you test new ideas or maybe even a slightly different Kase size (the sky's the limit!).

TradeStation Performance Summary			
	All Trades	Long Trades	Short Trades
Total Net Profit	$14,925.00	$7,125.00	$7,800.00
Gross Profit	$26,250.00	$12,800.00	$13,450.00
Gross Loss	($11,325.00)	($5,675.00)	($5,650.00)
Profit Factor	2.32	2.26	2.38
Roll Over Credit	$0.00	$0.00	$0.00
Open Position P/L	$0.00	$0.00	$0.00
Select Total Net Profit	$14,925.00	$7,125.00	$7,800.00
Select Gross Profit	$26,250.00	$12,800.00	$13,450.00
Select Gross Loss	($11,325.00)	($5,675.00)	($5,650.00)
Select Profit Factor	2.32	2.26	2.38
Adjusted Total Net Profit	$11,934.66	$5,082.22	$5,610.09
Adjusted Gross Profit	$24,230.77	$11,435.52	$11,955.56
Adjusted Gross Loss	($12,296.11)	($6,353.29)	($6,345.47)
Adjusted Profit Factor	1.97	1.8	1.88
Total Number of Trades	309	162	147
Percent Profitable	54.69%	54.32%	55.10%
Winning Trades	169	88	81
Losing Trades	136	70	66
Even Trades	4	4	0
Avg. Trade Net Profit	$48.30	$43.98	$53.06
Avg. Winning Trade	$155.33	$145.45	$166.05
Avg. Losing Trade	($83.27)	($81.07)	($85.61)
Ratio Avg. Win:Avg. Los	1.87	1.79	1.94
Largest Winning Trade	$300.00	$300.00	$300.00
Largest Losing Trade	($162.50)	($162.50)	($162.50)
Largest Winner as % of	1.14%	2.34%	2.23%
Largest Loser as % of G	1.43%	2.86%	2.88%

Look for more trade tips and plans at
http://www.netpicks.com/learning-center/training-webinars/
and http://netpicks.com/trading-tips/

Good Trading, Ron

CALENDAR

January: Keltner Bells, Seven Summits Trader Mastermind

February: Seven Summits Trader Basic & Pro

March: Mastery Series Training, Big Announcement

WHEN IT'S OK TO QUIT YOUR TRADING *By Mark Soberman*

Despite the amount of information there is on trading techniques and strategies, it's generally recognized that the mental aspect of trading, the psychology of trading, is a dominant determinant of how well you can trade. With the best systems in the world, if you cannot implement them you will inevitably lose your account.

This is not often understood by those new to trading. It is expected, not to say a sign of maturity, that we can exercise our will power and do what is needed, subject to it being physically possible. Yet if you gave the same trading plan to 100 different traders, every one of them will give you a different outcome because of hesitation in execution, or second-guessing the plan, or some other deviation.

The business of trading for a living puts you under a kind of stress that you will have seldom experienced in other aspects of life, and requires a level of fitness even when you are basically sitting still. Physical exercise greatly improves both mental and physical health, lowers blood pressure, helps you combat stress and think more clearly especially in adversity.

Trading is counter intuitive. No matter how good your trade selection, inevitably you will have a share of losers, and it is natural to beat yourself up about them, wondering what you did wrong. The answer to this is that you may have done everything perfectly, but that is not what your mind will be telling you. It is easy to conjure up scenarios where you will be hard-pressed to exercise your will power, concentrate, and do the right thing, purely because of the foreign nature of trading.

It assists tremendously to keep a trading log that records both your trades and your emotional condition. Some would say that it is essential. This can provide you with an early warning that things are not working out emotionally, provided you are scrupulously honest in filling it out. But even this may not save you if you are feeling under the weather, or you are tired. Trading requires you to be on top of your game in every aspect, as you are dealing with the potential for large financial losses in a short period of time.

Sometimes the markets will not seem to cooperate. This can arouse all sorts of other emotions, particularly if you have had several losses and feel that you "deserve" to win this time. The market is bigger than any individual trader, and doesn't care if you feel you are "owed" a win because of past history. If you find that you are becoming emotionally involved with your trades in this way, then it is time to step back and get some perspective on the situation.

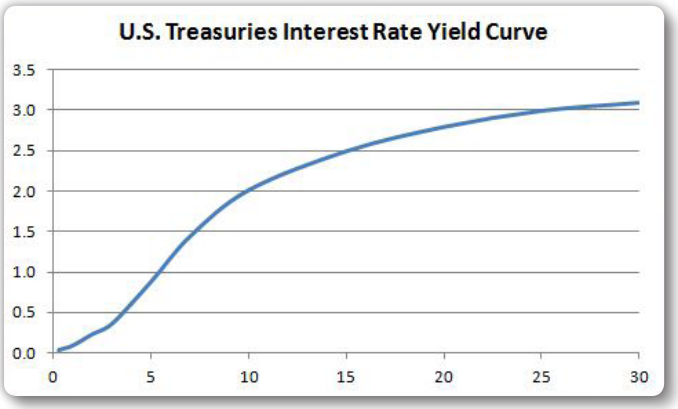
It's okay to stop trading, close your open trades, and call it a day. If you miss an opportunity for profit, there is no problem as there will be other opportunities tomorrow. It is much more of a problem if you insist on keeping going despite the fact that you are not trading your strategies efficiently, and consequently blow your account. If you recognize trading for the effort that it is, then you will appreciate that sometimes you need to take a break.

WHY SHOULD I CARE ABOUT BONDS? *By Bob Malinowski*

As active traders, we tend to pay close attention to the markets we trade, whether day trading or swing trading, and for most of us that tends to be the stock, Forex, or futures markets. These markets provide ample opportunities to diversify into a great number of instruments, which provide lots of price action. In recent years, trading the U.S. bond market has not been very exciting because interest rates have been at record lows, interest rates have not moved, and the Federal Reserve has signaled its intention to keep rates at these low levels for many more months (or even years) to come. Although bond trading has not been very exciting lately, there are a number of reasons for traders and investors to pay close attention to the bond market.

First, let's examine the similarities and differences between stocks and bonds. Both stocks and bonds are traded securities that have value that can go up or down. The primary difference is that stocks represent equity or ownership in a corporation, and bonds represent debt to the issuer, which can be a corporation, a local municipality, or a national government. Bonds are issued to attract capital, in the case of corporations, or to finance spending, in the case of governments. Bonds are issued with a defined face value known as the par value or principal. Bondholders receive a fixed return on their investment as an interest rate called the "coupon rate" which is a percentage of the bond's original price. Bonds are issued for defined periods of time, and expire with the original principle returned to the investor. All bonds carry the risk that the issuer will not make all promised payments in full or on time. To account for various levels of assumed risk, bond investors demand higher interest payments for bonds that they deem to have greater risk or greater time to maturity.

U.S. federal government financed debt, known as Treasury securities, are considered to be the safest bond investments because they are backed by the "full faith and credit" of the U.S. government. To finance the national debt, the U.S.



government issues debt with maturity periods of 3 months, 6 months, and 12 months, also known as Treasury bills; 2 years, 3 years, 5 years, 7 years, and 10 years, also known as Treasury notes, and 30 years, known as Treasury bonds or long bonds. Generally speaking, the longer the maturity period, the greater the coupon rate because investors demand higher returns for tying up their capital for longer periods of time. The graph of the relationship between interest rate and maturity length is known as the yield curve. Currently, interest paid on very short term treasuries is near 0 (about 4/100 of 1 percent for 3 month t-bills), about 2% on 10-year t-bills, and just over 3% for 30-year bonds which carry the highest rate. All of these rates are currently at historical lows.

The remainder of this article will focus on Treasury bonds since they carry greatest risk due to the longer time to maturity, and therefore provide the greatest opportunity for the trader. Treasury bonds are issued with a term of 30 years and are offered in multiples of $100 with interest payments made every 6 months until they mature. The initial price is determined at auction, and may be greater than the face value (purchased at a premium), equal to the face value (purchased at par), or lower than the face value (purchased at a discount). Once purchased, the value of the bond will fluctuate depending on a number of factors, but ultimately it is supply and demand. There is an inverse relationship between bond price and yield: when the price of the bond goes up, its yield goes down and vice versa. This is due to the fact that the periodic interest paid by the bond is fixed. If the level of prevailing interest rates in the economy goes up, the value of bonds goes down because the interest that they pay is locked in. This fact often confuses investors because they believe that bonds are very safe investments, but unless you hold them for 30 years, you can lose money on bonds if you sell them before maturity.

So why should I care about bonds if I don't currently trade them? The short answer is that the bond market is watched by the whole world, and arguably has the most significant impact on the general economy. All else being equal, if bond prices rise, interest rates fall (impacting credit card rates, mortgage rates, and business loans) and economic activity increases resulting in lower unemployment. The bond market is also very liquid with tight bid/ask spreads and trades around the clock. Approximately $100 billion is traded daily in U.S. equities, but more than $500 billion Treasury securities are traded daily. Therefore, the bond market offers significant competition with other markets for investment capital.

The current state of the global economy has led to a flight to quality, and U.S. treasuries continue to provide the market for that flight to quality. The conventional wisdom last summer forecasted a drop in bond prices after the downgrade of U.S. debt by Standard & Poor's, but U.S. treasuries continued to attract capital. This was probably due to the perception that even though the U.S. national debt issues remained unresolved, U.S. treasuries were still safer than other sovereign debt such as European bonds. As a result, U.S. bonds were the best performing asset class of 2011, and we now have we have seen bond prices at historic levels, (and interest rates at historic lows), as shown below by the 5-year chart of U.S. bond futures.

How do we as traders make use of this information? Well, even though it looks like the Fed is going to continue to

attempt to hold interest rates down, we know that there is a limit to how far down interest rates can go. (Short term rates are near zero now.) How much higher can the bond market go? If bond investors don't believe that they can continue to profit from bonds, they may start to look for other places to invest. As traders, we should be looking for signs of this shift. As companies have become more efficient in recent years as a result of layoffs and other cost-cutting measures (resulting in lower stock P/E ratios), and with the economy starting to come out of a recession, we can expect money to start to flow out of bonds and into equities. If you are an equity market trader, you can profit from looking at signs in the bond market for opportunities to profit from equities. If you are interested in trading the bond market, there are a number of ways to participate.

One way to participate in the bond market is by trading futures. Although the futures market has been a little slow lately, particularly for day traders, it might be a good time to start watching for signs of life. A number of analysts believe the bond futures market is at a top, and could correct significantly. The Fed is trying to keep short term interest rates low, and they will probably remain low for the foreseeable future, but long term interest rates are harder to control, so look for bond futures to start to start moving again. Bond futures have a face value of $100,000, with a point value of $1000, and still trade in 1/32 of a point ($31.25/tick), so they may be a bit out of the reach for smaller accounts. The advantage of futures is that they are very liquid and trade around the clock. Another way to participate in the bond market is to look at ETFs. Bond ETFs have a number of advantages over bond futures. In addition to being very liquid, they also provide an opportunity to trade the bond market in both cash and IRA accounts, take advantage of both rising and falling bond markets, and allow you risk smaller amounts of capital. Two of the most popular ones are TLT and TBT. TLT is the 20+ year Treasury bond fund that seeks to mimic the performance of U.S. Treasury securities that have a remaining maturity of at least 20 years. TBT is the Inverse 20+ year Treasury bond fund that seeks to mimic twice the inverse of the performance of U.S. Treasury securities that have a remaining maturity of at least 20 years. There are a number of ways to trade these two ETFs. If you are bullish on bonds, you can buy shares of TLT, or you can employ options strategies such as buying TLT calls or call spreads, and selling TLT puts or put spreads. If you are bearish on bonds, you can buy shares of TBT, or you can employ options strategies such as buying TBT calls or call spreads, and selling TBT puts or put spreads. Just remember that TBT moves at twice the rate as bonds, and in the opposite direction.

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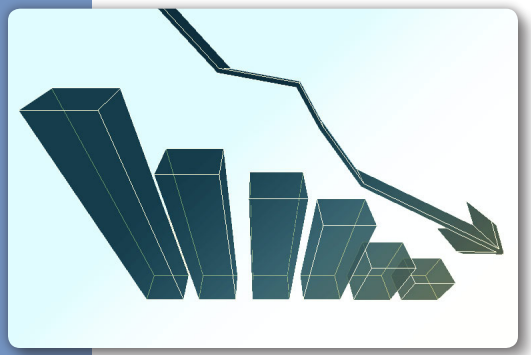
In summary, whether you plan to trade bonds or not, it is important to be aware of the bond market. Many investors believe that it is only a matter of time before the debt situation of the United States is adequately addressed, and at that time U.S. Treasury bonds may be sold heavily. In addition, many analysts believe that that global inflation may soon become a problem which would also lead to bond selling. China for instance has already seen unexpectedly high rates of inflation, and last year began to sell U.S. bonds. Other nations, such as those in the Euro zone are starting to see inflation sparked by their government's printing excess money to pay debt servicing costs. So the bottom line to all traders is to keep an eye on the bond market, watch for signs of capital redistribution, and look for trading opportunities.

WHAT SHOULD I BE DOING WHEN I HIT A LOSING STREAK? *By Mike Rykse*

If you have traded the markets for any length of time you know that markets can and will change every so often. The problem with most trading systems is that they are designed for one type of market condition and that is it. As soon as conditions change, you are left with a system that under-performs. The great part about the NetPicks systems is that they are very flexible and can be adjusted to fit different market conditions. The Seven Summits Trader indicators give us access to so many different inputs that we can fine-tune our system should markets change. This gives us an incredible amount of power with our trading.



However, even with a dynamic system like the SST there will be times when we do need to make adjustments. For example, equity markets made a big change during the 4th quarter of 2011. We went from seeing nice movement to wild swings back and forth in both directions. This made it very difficult for my swing trading over the last few months of 2011. The good news is that I'm using the SST system, which gives me an edge over time. It is very important to trust this edge and to not over react to dips in performance over the short term.

The key to using such a dynamic system like the SST is to be very patient with change. Once you hit that first losing streak, it is going to be very tempting to want to throw everything out the window and start fresh with new settings or a new system all together. However, you need to make sure you are letting the edge that the system gives you play out over time. Even if you are winning 65% of the time that means the system is still losing 35% of the time. If you quit after a few losers you are going to miss out on tremendous profits in the end.

This is exactly why I like to track my performance on a daily basis. I take time everyday to log my trades and to take notes about that days performance. That way I know over time how my system is doing. Once you hit those few losing trades you can go and see that even with those losers the system is still very profitable over a larger sample of trades. This can help with the emotional aspect of trading. We have all been in that place where you get frustrated with the lack of profits. By having a trade journal you can go back and review the big picture.

When you do reach that point when it is time to make changes, what steps do you need to follow? Here are a few thoughts to keep in mind:

- Make sure you are following all the rules of your system and trade plan correctly. If you are in a losing streak is it the system breaking down? Or is it just you making mistakes? I've been on both sides of this one myself over the years.
- Review your trade journal to see an extended performance report. If you don't document your trades on a daily basis, go back and record a few months worth. This way you can determine if it is a market change or just a pullback in performance.
- Are there any small changes to your trade plan that you could make to help performance? For example, a change in start/end time or trading a different time of day. This will be much easier than starting over with a new market or even a new system.
- Be slow to change. Your system won't be profitable every day, week, or even month. If it is a proven system then give it time to get through a slow down. Many retail traders spend years and thousands of dollars going from one system to the next when all they need to do is master one system for the long haul.
- If you do make changes to your system and trade plan make sure they are backed up by results and not just a hunch. We all tend to think we are smarter than we really are. Let the numbers speak for themselves. If you have an idea of a change that might improve performance, you better be able to back that up with test results.

Finally, make sure you are a consistent trader. This means you are taking the time to test your system before jumping in with both feet. Once you are trading live, make sure you keeping a daily trade journal. I know it is not fun stuff to do but it will pay off in a big way once you hit that first slowdown. Instead of beating your head against a wall trying to figure out what to do you will be able to calmly react accordingly based on numbers and a real performance report. The best traders I know are the ones that stay disciplined and committed to trading their system correctly over time. Always looking for the next best market or system will only lead to frustration and a loss of thousands of dollars.

INTERVIEW WITH SST MEMBER, BRAD NISKANEN

By Troy "TJ" Noonan

Not too long ago, I had the pleasure of interacting with new SST Member, Brad Niskanen, regarding the new SST Pro and some interesting tradeplans that he had been working on. Brad came into the fold via the live traderoom and before too long, he was requesting a way to get his hands on the SST Pro. While it was not on the market at the time, we do make it available from time to time to members of the live traderoom when they ask about it. The squeaky wheel gets the grease.

What struck me about Brad was how quickly he immersed himself into learning the method and in a very short amount of time, probably less than a few weeks, he was already working on his own unique way of using the SST Pro, researching and working out his own tradeplans. He began interacting with me and actually submitted some very interesting ideas, which I have since (with his permission) published on the Owner's Club in the SST Pro Tradeplan Section of the site. Most notably is his unique style of daytrading the S & P. Rather than the usual means of slugging it out with the big guns in the market trading the ES, Brad is actually using the SST Pro with Renko bars to daytrade the SPY. It's a great approach and worth consideration. It also opens up a whole world of new possibilities and ways to trade with the SST Pro.

Moreover Brad is currently beta testing the new chart trading functionality that will be forthcoming in a new TradeStation release very soon. Watch out NinjaTrader!!

He was also kind enough to share some personal experiences with us which we offer to you here.

Background

Troy Noonan: Where are you from / where do you live?

Brad Niskanen: Currently live in Boston, MA

What did you do before you got into trading?

Technology Consulting

What got you into trading?

I've always had an interest in trading, ever since I watched my grandfather trade commodities.

What markets/timeframes did you start trading?

Equities / long-term trends

What were some of the biggest obstacles you encountered?

The biggest obstacles I faced starting out were the information and indicator overload. It is surprisingly easy to make trading very complicated.

How'd you solve them?

By going back to basics and creating a written tradeplan, it forced me to justify each component of my strategy (when I couldn't justify the rule/reason/indicator I removed from the strategy)

How'd you find NetPicks?

After quite a bit of research, talking with other traders, trying the NetPicks Live Signal Service, I knew I found a good company with solid products.

How many systems did you try before you found NetPicks?

I've tried quite a few different 'systems' though many of them were missing critical components (ranging from lack of real-world testing, lack of money management integration to inadequate software support). NetPicks has a more 'holistic' trading approach encouraging both new and experienced traders to approach trading as an athlete or musician would approach their training regime (hard work, dedication, lots of practice and frequent reviews of performance). By using sound trading strategies coupled with great software odds move into the trader's favor.

Current Plans

What are you currently trading?

SPY/intraday; Equity options/intermediate trends; Forex/intraday; CL/intraday

What trading system are you using?

NetPicks SST pro for most markets; a separate algorithm for SPY.

Are you trading part-time? Full-time? Is that your goal?

Part-time right now; I'd like to move full-time this year.

What broker? Are you happy with them?

TradeStation - I just recently moved my account there and I've been very happy with the experience.

Any obstacles you currently face?

Narrowing down the number of markets I currently trade.

What are you doing to work on them?

Following some great advice on minimalist trading (trading one market at a time; each for a shorter period of time; selecting a few favorite markets and concentrating efforts there).

What would you say is your biggest trading achievement?

I would say steadily improving my trading consistency and detaching my emotions from the trades.

What has trading allowed you to do that you might never have done otherwise?

The biggest reward of trading is the extra time I get to spend with family and friends (instead of working 70,80,90+ hours a week to meet project milestones).

The Future

Trade plans are always changing - what are you looking to try out in the future?

I'll likely continue to expand my scalping and intraday tradeplans in US equities. Also tweaking my existing tradeplans to include Renko style charts.

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What words of wisdom can you offer traders that are just starting out?

First thing I would suggest is to treat trading as a business (and all successful businesses have plans). Creating a written business plan (trade plan) forces you to thoroughly evaluate the required capital, market, timeframe, and trading strategy. In addition, it gives you the opportunity to measure your future performance against the goals you've set. Second, whatever strategy you trade with make sure you have manually back-tested it. Third, before risking real money make sure you feel comfortable with your strategy and start trading it in a simulation account (nearly every broker provides these). Finally, make sure you have money management strategy in place!

EMOTIONAL SABOTAGE *by James Kessick*

It's a funny thing really. We spend our entire childhood and adolescence learning to control and develop suitable responses to our emotions, especially strong emotions. We learn from our parents, our teachers, our peer group and our idols by observation and comparison. I would think that most people when they enter into trading would believe that they have some sort of handle on themselves in this respect. So why is it that when we enter the trading arena, so many of us struggle with our emotions getting out of control? There are clearly going to be a plethora of reasons which may vary from trader to trader. I'll suggest three for you to deliberate.

Unresolved Personal Issues

This is a big thing. It's one of the main reasons for why I always say that trading is a path of self-discovery and not just learning the markets. Any issues which you have either suppressed from your past or even are unaware of due to situations never persistently arising previously, you can guarantee trading will churn them up. What's more, until you identify and face them, they'll crop up time and time again. A fairly common scenario is of a trader consistently profiting over a period and then giving it all back in a fraction of the time.

Self-Deprecation

Simple but dangerous. It's a vicious circle which often starts with failure to properly prepare for trading each day and prepare for trading generally. You don't prepare-you do something dumb and avoidable-you're angry in the moment of the trade-you beat yourself up about it afterwards-you lose confidence in your ability-you fail to prepare for next time. Trading is about cumulative effort and results, not just one trade or one day. Negative emotions can not only be demoralizing and demotivating, they can be mentally and physically draining.

Immediacy Effect

When you are trading and are required to take some sort of action, often it's the strongest emotions which come to bear right before the execution of a trade (entry or exit). This is perhaps the most difficult aspect to overcome without effective strategies to deal with it. When we suddenly have a rush of emotion of any kind, we are hardwired to act based on it. The trouble is, markets don't care and in fact trade in a way which often compounds the issue. Emotions will distort the reality of what is going on and urge us to act in a way which is often counter-productive.

There are three routes which you can follow in your attempts to deal with your emotions. However, you must think carefully before deciding which might suit you best.

Emotion Harnessing

This one is a struggle for me personally, yet I do know of people who are good at it. Anger and fear and greed make them focus so well that they come out on top. Actually, they tend to not perform well until they become emotional. Kind of like the way some fighters psych themselves up before entering the ring. If you are really good at reading the market, it can also be a strong indication that something's amiss. Like the adage says though, you don't need to be right to make money.

Emotion Moderation

For many people, perhaps this is the one that they will want to try. When emotions appear, you recognize them and bring yourself back to balance. All people will have some emotions at some point is the argument. Ideally, the emotion should be recognized before it is a problem, in the building up stage-negative or positive emotions. Failure to do so means that you will only be likely to 'see' the emotion fully, when you are in a position which requires action. Bringing yourself back to a state of emotional balance can take time and this is increased with the level of which the emotion is exhibited.

Emotionless Trading

When I first heard of this idea it was early on in my career. "Trade like a robot" was the suggestion. I found that at times it was easy and other times it was not. There are some people who are brilliant at it and some who are not so great. I disagree with the notion that emotions are always useful to a trader and in trading in an automaton-like way a discretionary trader loses an edge. There are some people who can only function in this way and they do a very good job when doing so.

The key to your choice is really about what you are like as a person. I feel this requires a high degree of self-honesty. The really important idea is to be aware of the type of emotions you will often exhibit and have awareness of when and why they precipitate.

What works for me

For my own trading, like so many other things in trading, I use a hybrid of methods. Emotion moderation is certainly the way for me when things aren't going well. Without it, trading can easily degenerate into something which isn't pretty! At this point, it's imperative to ask why I am getting emotional. Is it the market, is it my own execution or perhaps have I not fully prepared before starting to trade? The answers to these and other questions will increase my chances of 'pulling it back'. When I'm really trading superbly and in "the zone", I'm definitely doing things almost without thinking about them.

It's a seamless integration of preparation and method, where emotions just don't come into it. It's not like this is the case all the time though!!

What can you do to improve things?

Firstly, you have to understand yourself to some degree. Know the kind of emotions you have when things tend to get out of control and write them down. Note the sorts of market conditions when they appear and look for patterns. This is a great reason to keep a journal if not for anything else.

A really useful exercise is visualization. Professional athletes often use this technique and it can be quite powerful if used in the right manner. Practice can be for both positive and negative scenarios which are likely to get your heart pumping!

A more and more common idea not just in trading but also in broader circles of society, is the practice of mindfulness. Simply put, it is the practice of awareness of the now. Self-observation is a particularly useful aspect of this in controlling wayward emotions. It takes time and effort but is also well worth it.

Anyone who has ever had issues with controlling emotions while trading, not necessarily on a day-to-day basis, I would urge to think carefully about this subject. As skilled a technician as the trader may be and as quick they are to spot opportunities to exploit, raw human emotion can overwhelm anyone given the chance. It's up to us as traders to prepare ourselves to deal with these emotions as effectively as we possibly can in order to stay in the game in the long run.

Trade well.

THE OPEN AND ITS IMPORTANCE

By James Kessick

The open is simply the first moments of trading during a product's main session. When a market opens, its **position** relative to previous trading areas and the **type** of trading activity which follows, is potentially a great early indication of possible movements during the rest of the session. Many will overlook the open, yet for me it is just another piece of the day-trading puzzle.

POSITION

Position of open relative to the prior primary session is the most relevant nearby reference. A market opening inside yesterday's range is showing that at least for now it is initially accepting prices which were traded. This indicates a level of balance and shows less potential for a strong directional move. However, a market opening significantly out of the prior day's range is more likely to show a change in perception from traders and create imbalanced directional moves. This can be in the form of further price exploration or rejection of change and competition for price, pulling price back quickly.

In addition to the prior day, position can apply to any longer term structural reference. An example of this is an open outside a trading bracket which covers several days or even weeks/months. This kind of activity can force even bigger players into action and move the markets drastically.

Session gaps are certainly worth mentioning as they can also be important early reference. It's true that many gaps between the close of the previous primary session and the following day's opening price are often filled. If the size of the gap is significant, the information it holds may be useful. A gap on open completely out of the previous day's range might show some conviction that value has changed and price needs to follow. However, a smaller gap size on open, still within the prior day's range could more than anything act as a potent force in pulling the market back.

TYPE

The way the market trades in the context of its opening position can depict the confidence and conviction of traders right from the open. It can also highlight the sorts of traders involved. A strong directional move for example is more likely to involve longer term players who are less concerned by specific price. A back and forth non-directional open is more likely to be participated in by short term and day traders.

Immediately strong directional – Pretty much right off the bat, the market powers off in one direction. A move like this is a strong gauge of movement

Check then strong directional – Before entering strongly, some traders might want to see what the action is like when the market moves in one direction. If they think the move isn't too convincing, they then pile into the market at it moves the opposite way.

Directional fail – The market moves one way only to encounter strong counter action which makes it reverse back to where it came from.

Non or low directional – Not much conviction initially. There's no strong consensus on a different value from current prices and so the market moves up and down. Sometimes you notice it might drift one way in an up and down manner. This to me is similar. Longer term players may not want to enter and so much of the trading is by day traders. The reason for the drift is that many day traders now have been forced to trade with a directional view. If there is a consensus, the market can still drift one way without having strong conviction.

POSSIBLE SUBSEQUENT BEHAVIOUR

Of course the action of the market needs to be subsequently monitored with price objectives set and trading observed. But with the context of location, the vigor of the market from the open can give a strong indication of how much participants are likely to push the market and in which direction. A strong open is likely to be follow through with additional trading in that direction later on in the day, whereas with a weak open the market often has the chance of moves one way and then the other throughout the day.

continued on next page

The caveat is to say that if the participants of the market you are trading are waiting for a highly anticipated figure release or a rate announcement or example, the open may hold little clear significance due to traders not being willing to commit to a position early on. After the release has taken place, it's then the market really starts to move.

The open type can give you an idea of later movements. What must always be taken into account however, is that anything can happen during the day and unexpected news can quickly change the picture.

To see the video example as I go through the open from 11/23/11 in ES, check out: http://www.netpicks.com/trading-tips/the-importance-of-the-open-in-day-trading/

Trade well.

INCREASE YOUR ODDS OF A WINNING TRADE

By Shane Daly

As traders, one thing we love to do is trade. I am not trying to be glib but the thing that we love to do can also be a curse. Let me explain.

Trading is nothing like any other job out there. If someone that works in an office shows up for work and just sits at their desks surfing Facebook, they still get paid. Maybe not for long, but they get paid. Other jobs are no different. You punch in, do what you do, go home and at the end of the pay period, you get paid. Trading is nothing like that. There can be days where you sit at your desk and perhaps due to mega news releases or big money waiting on news, you don't trade. No trading equals no money lost or won. This simple fact can lead traders to do some things that do nothing but drain your account. In the quest to lay down a trade, some traders get tunnel vision and only look at the charts they are trading, and that can be a huge mistake.

There is a very simple action you can take that will not only increase the chance of taking winning trades, but can also keep you out of a loser. Check out the higher time frame charts especially the daily/weekly to see if there is something in the way.

This chart shows a pretty common trading strategy. We are in an uptrend as shown by the green line. The red line shows a resistance level that is broken and this strategy goes long on a retest of the resistance level, which we are thinking, will turn into support. In this case, the level holds and we are off to the races. Price rallies and puts us up about 15 pips!

There is a problem though. Higher timeframe charts hold a ton of weight. A daily chart, for example, will give traders a lot of time to notice a rejection of the highs. Keeping to technical trading theory, these same trades will place pending orders to short the market when price reaches that level. Above that, they will place their stops. As sure as the sun will rise in the morning, this is a given. A few things can happen at this level when price comes back. Price can be rejected right at the level, can pierce through to take the stops and then fall or blow right through it. You never know what will happen so the more conservative approach is to think that the price will be rejected at that level and you will never buy into these higher timeframe levels.

Check the Higher Timeframe Levels for Roadblocks!

Here is the daily chart of the same instrument.

In your excitement to get into a trade, you bought right into a resistance level as noted by the red square. Price then dropped over 70 pips! If you would have checked the higher chart, you would have been able to filter even the best trade signal because at these levels, price usually has a reaction in the opposite direction as the orders at the level get absorbed.

Using a basic technical analysis tool, the horizontal line at support/resistance on higher timeframe charts, you increase the odds that you are getting into a trade with potential. It is a simple strategy that can keep your account from churning into a downward spiral.

A System in Itself

The practice of checking higher timeframes is not simply reserved for finding roadblocks. One great thing about higher

timeframe levels is that many people can see them. When we look at a daily chart, it is a 100% probability that other traders can see the same levels. What does that mean for you? If we break it down into different outcomes, this is what we can assume:

- Traders will be looking for breakouts
- Traders will be looking to fade the initial move
- Trades will be looking to trade the first pullback after level break

The longer timeframe charts hold a lot of weight for the simple fact that unlike a five minute chart, these levels are "in the public eye" for a length of time that is long enough to be noticed and acted upon.

Let's dissect the following chart for a great example of the points I mentioned.

Item "one" is a previous day high that stood out. You want the levels that are obvious because if you have to hunt for them, the odds decrease on the number of other traders that see them. This level was a high that rejected a move up and sent the currency down 753 pips. It was THAT obvious.

Item "two" are the faders. These traders are the ones that look to fade these big levels. In this case, price dropped over 260 pips. A breakout trader may/may not have been taken into this trade as that depends on how much the price breaks out. If they look to trade breakouts one pip beyond the key level, often times they are victims of stop hunts by the bigger players. A pullback trader would have not been in that trade. The move into this level is another tactic you can use at these levels that is beyond the scope of this article but does provide some high probability trades.

Item "three" is the breakout traders that caught the explosion out that went 226 pips. Many breakout traders have a strategy to know which ones have a higher probability of succeeding. That is an option you can explore if breakout trading is to your liking.

Item "four" are the pullback traders. They love to wait if/until price returns to the level for a resumption of the move. Many times, when price returns to the level, pullback traders will drop down to a lower timeframe for a lower risk area to enter. Price moved over 200 pips from the previous level however by dropping down to a lower timeframe, many pullback traders got a better price with lower risk.

Trading is personal

There are many ways to trade and anybody that tries to sell you the grail, is dishonest. This article shows that whatever strategy you use, there are ways to increase your odds by simply using higher timeframes to check roadblocks. That leads to a strategy that uses only price structure and tactics that can advance your trading career and is based on sound market principles. Take some time this weekend to go over some historical charts to see if this is something that fits you as a trader.

NETPICKS AUTHOR INTERVIEW SERIES: 'TRADE LIKE A CASINO'

While trading is a difficult endeavor, it's still possible to make money doing so in today's markets. The real question is: how can you achieve this goal?

What is required is adapting a successful existing business model to this speculative arena. The model that makes most sense is the "casino paradigm" and nobody understands it better than **author Richard Weissman** - a professional trader with over fifteen years of experience consulting and training traders and risk managers.

In this NetPicks Author Webinar, we sat down with Richard to discuss how successful traders tend to operate like a casino in that they develop a method that gives them "positive expectancy" and then **unflappably implement** their approach in the face of changing, and oftentimes volatile, market conditions.

Specifically, we also…

- Reveal the **best-kept secret** in trading, the cyclical nature of volatility, and offers insights on the tools needed to measure it
- Discuss the importance of timeframe analysis and one of the most important tools associated with it—time frame divergence
- Cover common **trading pitfalls** and how to transcend them as well as a wide variety of techniques for analyzing and improving trader performance
- Examine the psychological mindset required to succeed with a positive expectancy model

Successful traders don't need luck, since they consistently play the probabilities and manage risk. That's how casinos win, and with this interview as your guide, that's how you'll learn to win in today's dynamic markets.

To listen in and see more NetPicks Author Interviews, please visit this link: http://www.netpicks.com/authorseries

MYSTERIES OF TRADER TAX STATUS *By Jim Crimmins*

Just because you call yourself a securities trader doesn't make you one in the eyes of the Internal Revenue Service.

In fact, Uncle Sam is predisposed to consider you merely a hyperactive investor—and thus deny you more favorable tax status—unless you meet a number of criteria that are frustratingly open to interpretation.

You read that right: the tax code contains no actual definition of trader tax status.

Instead, the IRS has issued guidelines that the tax courts have expanded upon with case law, most of which denied tax appeals by traders.

What we're left with is a blurred image, like a photograph of a trader taken from a speeding car.

According to the IRS, to qualify as a trader:

- You must seek to profit from daily market movements in the prices of securities and not from dividends, interest or capital appreciation;
- Your activity must be substantial, and
- You must carry on the activity with continuity and regularity.

To help determine if you meet these three tests, the IRS considers these qualifiers:

- Typical holding periods for securities bought and sold;
- Frequency and dollar amount of trades during the year;
- Extent to which you pursue trading to produce income for a livelihood, and
- Amount of time you devote to the activity.

Swoosh, right? What is "substantial" activity? "Continuity and regularity?" And what's an acceptable holding period? Is a week too long? A month?

We know who investors are: They're our hardworking neighbors who buy securities and hold them for such long-term goals as a college fund or retirement.

Traders, on the other hand, buy and sell securities solely to take advantage of short-term market changes. Your profits come from price swings, not dividends and interests. Since your holding period is brief, often a day at most—hence the term "day trader"—there's no need to perform due diligence on the companies you trade.

Who cares how the IRS classifies you? You do!

Investors are subject to the 2% threshold for deductible investment expenses—and hence cannot write off most of their expenses—and are limited to a $3,000 capital loss deduction.

But as a trader, you write off 100% of your expenses, and if you elect the mark-to-market accounting option, you can offset all of your losses against your earned income.

Three Steps to Claim and Protect Your Trader Tax Status

Step 1: Prove beyond doubt that you are a bona fide trader—that is, you "seek to profit from daily market movements."

The best way to accomplish this is by showing a pattern of high trading volume and short holding periods. Keep your personal investments well separated from your trading business. The IRS is looking for "earnest intent;" that is, you work diligently to manage transactions, conduct strategy sessions and make frequent trades.

Step 2: Clear the "substantial activity" hurdle.

The hallmarks the feds are looking for here are "frequent, regular and continuous" trading. That means volume. One court case ruled that 330 trades a year was sufficient to warrant trader status. The feds need to know that you approach this as a business, not a hobby. Fail to convince them of that and you're back in investor-land.

Step 3: Trade with "continuity and regularity."

If you want trader tax treatment, it only stands to reason that you must actually be in—and remain in—the business of trading.

Here's where the IRS is looking for a healthy flow of trades, significant dollar amounts, short holding periods—all the signs that you are at least attempting to make a living as a trader.

If you take the summer off or show other gaps in your trading, the IRS will be disinclined to grant you trader status. If you're a newbie and flame out after nine months, while it seems unfair, the IRS has made it clear: no trader status for you.

Once you obtain trader tax status, you're not entirely in the clear. Owing to the capricious nature of appellate rulings and the ever-evolving tax code, there are no guarantees that the trader status you enjoy today might not be gone tomorrow.

One good way to secure your trader status is to trade under the umbrella of a business. That's not only where the most lucrative tax advantages reside, but a legal entity such as a general partnership, Limited Liability Company or C corporation sends a strong message to the IRS that yours is an earnest and legitimate business enterprise worthy of trader tax status.

My recommendation is for you to maintain a daytimer devoted completely to tracking the amount of time you spend each day on your trading activities. If you are audited by the IRS chances are it will be two or three years after you have filed your taxes. The daytimer will service as proof of how many hours you spend each week on your trading activities.

About Jim Crimmins: Jim has become a nationally known speaker on tax strategies, entity structuring, and lifestyle change. He delivers over 30 talks a year throughout America as well as speaking in several chat rooms each month. You can learn more at TradersAccounting.com.

KAGI CHARTS *By Will Feibel*

Introduction

Several years ago we started using range and Renko charts with our systems here at NetPicks. This has piqued people's interest in some of the other more esoteric chart types. In this article we'll introduce you to Kagi charts.

Kagi (rhymes with touchy) charts were developed in the 1870's in Japan, and many of us in the US first learned about them from Steve Nison in his book Beyond Candlesticks. Like Renko charts, Kagi charts are independent of time and have the virtue of filtering out much of the market noise, thereby giving a clear indication of price trend.

Basics

Looking at a Kagi charts you might think you're seeing a very long snake gradually weaving its way to the right. There appear to be no distinct price bars as you'd see in time based, Renko or other charts, but that's simply due to the presentation method. We do in fact have a series of price bars, the vertical bars, connected by the short horizontal bars. Every horizontal bar represents a high or a low. A bar that moves from a low to a high is an up bar, one that moves from a high to a low, a down bar. Note also that an up bar can be either thick (green on some platforms) or thin (red on some platforms), so color or line thickness does not reflect the direction of price movement inside the bar.

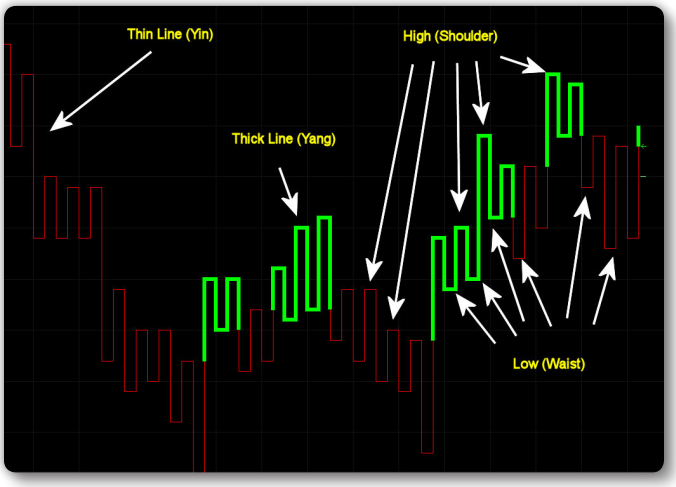

Figure 1 – Kagi Chart

The style or color of the Kagi line tells us what the dominant market trend is. A thick (green) line tells us the market is in a rally and the dominant trend is up; a thin (red) line says that the market is in decline and the dominant trend is down.

Each of the elements of a Kagi chart also has a unique name. The thick line is called the yang line while the thin line is called a yin line, and a high is referred to as a shoulder and a low as a waist. We won't use these names in this article however, we'll keep referring to them as thick or thin or high or low.

Reversals

Consider an up bar, one that started drawing from a price low. As long as price continues moving up, the bar grows longer and the high of the bar extends further. Minor price fluctuations will not affect the direction of the bar. However, once price retraces a predetermined amount we have a reversal, and your charting platform will draw a short horizontal line at the bar high and commence drawing a down bar. As long as price continues to move down, the new bar will extend lower. If price however moves back up by the same predetermined amount, we establish a new low, draw a horizontal line at that low and begin drawing an up bar.

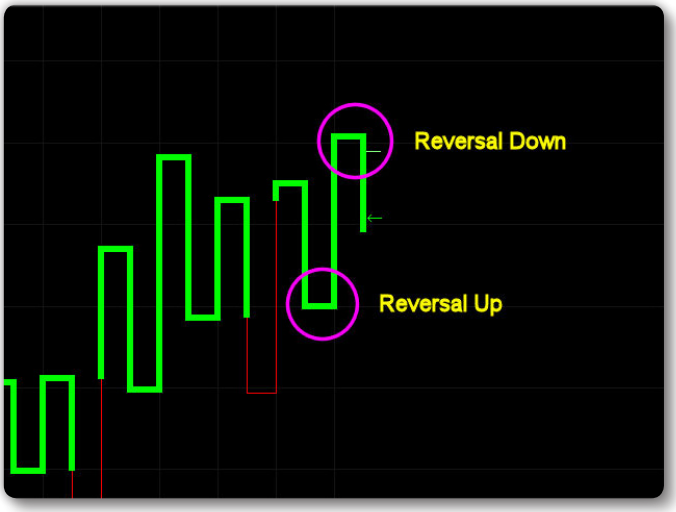

Figure 2 - Reversals

On most charting platforms, including Tradestation and NinjaTrader, the reversal can be specified as either a fixed amount or a percentage of the price of the instrument. The traditional approach uses 4% of price as the reversal amount. Note that you can have a series of reversal but the line style – thick or thin – will not necessarily change. In effect what you'll see is essentially a series of swing highs and swing longs.

Dominant Trend Reversals

As stated earlier, a thick line indicates a dominant trend to the upside. As long as price does not move below the previous low

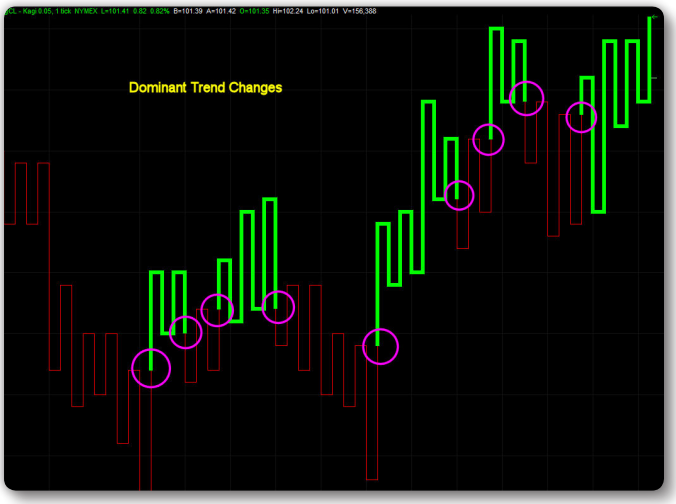

Figure 3 – Dominant Trend Changes

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on the Kagi chart, that dominant trend will remain in effect and the line will remain thick. Once the previous low is broken, the style immediately changes to a thin line, indicating that the dominant trend is changing to a downtrend. Conversely, when a thin line has price breaking a previous high, it becomes thick again indicating a shift out of the dominant downtrend.

In practice you'd need to see a couple of reversals where the line remains thin before accepting that the dominant trend has changed, since as you know prices usually go through a consolidation period before definitively changing direction. These consolidations show up clearly on a Kagi bar as a succession of short thick and thin lines.

Application

The traditional approach to trading Kagi charts says that you buy whenever the line changes from thin to thick, and you sell when it changes from thick to thin. Because the Kagi charts filter out a lot of the market noise, this can keep you in some very nice trends. Of course it's not perfect either, as you'll still be susceptible to chop whenever price consolidates.

You can also use Kagi charts as a directional filter for your current trading system. Open a chart with your trading system and a separate Kagi chart for the same instrument. Only take long setups from your system while the Kagi line is thick, and only take short setups from your trading system while the Kagi chart is thin.

Finally, you can use all of the usual technical analysis techniques with Kagi charts, including support/resistance levels, price formations, and all of the technical indicators available in your charting package. Give it a try: pull up a chart of your favorite trading system and simply change the chart type to Kagi. Your system will continue to work as before, except that now all the signals will be based on the Kagi chart. A word of caution is in order here: if you day trade using a Kagi chart be sure to set the precision on the chart to 1 tic intervals.

Figure 4 – NetPicks SST with Kagi Chart

Conclusion

Kagi charts are another tool we can use in trading the markets. They do a great job of filtering out noise and indicating major trends and can be used either on their own or in conjunction with other charts and systems. Open up Kagi charts of your favorite instruments, experiment with the reversal size and see how you can incorporate them into your own trading.

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MY GRANDMA KNEW BEST *By TJ Noonan*

I was fortunate growing up because I had a few adult mentors who taught me some very important life lessons at an early age. My parents divorced when I was a young boy and my mother would drop my baby sister and I off at my grandmother's house in San Francisco, to baby sit while she went to work.

My Grandmother was an amazingly talented and classically trained artist. I would spend hours each day watching her paint and actually had my hands in some of her paintings. She loved to get her grandchildren's "innocence and sense of carefree 'child knowing'" as she would call it, into her works of art. As I got older, we would talk a lot about all kinds of art, and most importantly, how to treat our life as our greatest work of art. Life was the ultimate blank canvas and the only limitations were our own imaginations.

There were many things that she taught me, but three in particular greatly influenced me and I could still hear her words at various random moments to this day repeating one of these three statements, depending on whichever is needed at the time. All three of these pearls of wisdom have come up more than once, at various times throughout my trading career and each one has helped me in profound ways, so I thought I would share them here, in hopes that someone else might also be helped in their moments of need.

The first is rather humorous, and is used when you are feeling down, making mistakes, experiencing losses, bad luck, or pretty much in a one-step-backwards mode.

Behold the dung hill
Yet upon its heaping stench
Morning glories bloom

-- Unknown Haiku Poet

Of course my Grandmother was the Unknown Haiku Poet but not being of Japanese descent, she would always claim that she was not. Having heard this poem at a very young age, it took me some years before I fully grasped its meaning. When life is at its bleakest, this poem reminds us that it will pass. It is a message of great optimism. I seem to always recall it after a series of bad trades (the dung hill). When you have a great tradeplan and trade method, the best trades always follow the worst, and the two steps forward mode (morning glories) always follows the one-step-back. It merely becomes a matter of confidence in your method, and in yourself.

The second statement that always finds its way into the forefront of my thoughts is: "The true artist NEVER cheapens his style."

This was repeated to me over and over throuhout my years growing up. When I finally understood the fact that my life was indeed, my great work of art, I took those words deeper to heart. I was also fortunate to learn some critical lessons trying to learn how to play drums at an early age too, and this idea was interchangeable with a phrase some of you may have heard me say over the years, "practice how you intend to play." Practice hard, play hard. Or, to think of it another way, practice like a wimp, play like a wimp. There are important nuanced lessons in this piece of wisdom, from taking responsibility for your decisions to focus, discipline, perfecting your execution, repetition (and a lot more).

This idea transposed to my trading rather easily and is the KEY to my success as a trader, a traderoom moderator, a trade system developer and everything else associated with my career. It worked great for my rock bands and it works just as great for my trading. It also helps keep things very simple. If you want to succeed as a trader, then practice at it. Practice succeeding. Strive for excellence and never settle for mediocrity. There is a step-by-step way and mentors are available to help you when you need it. 'Never cheapen your style' in anything that you do. After all, if you are doing it, it must be worth doing, right? So do it at the highest level!

Finally, the third thing she taught me, and I realize this might be somewhat controversial but she believed it and so do I.

The grand purpose of technique is to elevate the vocabulary of your creativity, no matter what field.

This took me a long while to fully understand because, while it may not seem like it, it actually is rather straight forward, but also quite nuanced with deeper layers. When I started working on rudimentary techniques in both music and sports is when it began truly making sense.

My grandmother would go on to say that 'technique can be taught, learned and practiced (and anyone can be a technician), but true creativity, the spark of genius, is something that we ALL have as children and actually we have it throughout life. Many just misplace the key to unlock it. Achieving greatness in anything requires creativity AND the mastery of your technique to elevate to the highest level.' The more you know how to do (technique), the more you can say (create).

This helped my trading dramatically (when I finally 'got it') by motivating me to practice my techniques and to gain as much knowledge as I could. It's an ever going process though because there is always something new to learn. I've come to the point where I can take what I have learned, and apply it in new and innovative ways, to uncover new trade opportunities. And so could you. Don't take the short way. Do it right. Practice how you intend to play and realize when you have a setback, good fortune will swing back around. You have great ways to trade right at your fingertips. If you let yourself succeed, you WILL succeed.

Unfortunately, I lost my Grandmother at a very young age (she passed away when she was just 66). If you'd like to see some of her work, I put up a website in her honor, www.JosephineRobbins.com. *Perhaps her words will help you as they have helped me.*

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PULLING THE TRIGGER *By Brian Short*

What It Takes to Have the Nerve To Trade

What is it about trading that makes it so difficult to take action? Even managers and leaders of men can falter when it comes to placing a trade in the market. Being frozen and unable to pull the trigger is a common feeling, particularly with novice traders.

There are a couple of reasons that pulling the trigger can be difficult. The most obvious one is that you are attached emotionally to the funds in your account, and hate to put them at risk. If you cannot afford to lose then you cannot trade effectively. You should not be using funds that you will need to replace your car next year, or even pay your mortgage this month. If that is you then go away, and come back when you have amassed some money that you can "play" with.

But the more likely subconscious reason that you may hesitate to pull the trigger is that you are afraid you could be wrong, and that would make you feel like an idiot and foolish. This is the last thing that you want to put yourself through, and the only way your subconscious sees to avoid it is not to make the trade in the first place. If you don't take the trade, it can't go wrong; therefore there is no chance you will feel like a fool – in this respect, at least.

You may need to make a mental adjustment. Some trades will be losers, as no one can anticipate the direction of the market all the time. What you need is confidence that you will win in the long-term, because you have developed a trading plan which works overall. One useful tip to overcome your reluctance to pull the trigger is to set stop losses and commit to following them in every situation. That way you can know that your possible loss has a hard limit.

How do you develop confidence in your trading? One way is by developing your competence, studying books, subscribing to newsletters, taking part in traders' forums and attending courses. These are all fine and good but in my opinion the most important ingredient to having a high level of confidence is to have a trading method that you believe in and a method that gives you an edge in the market.

You need to understand your trading plan, and how your chosen strategies are intended to work. You can build up confidence in the plan by careful back testing, and this will also allow you to become at ease with the fact that a proportion of the trades will not succeed, yet the plan makes money overall. This gives you license to make failing trades, as long as they are in accordance with your plan, and accept that they are part of the process of making a profit.

Moving on from the planning and back testing stages, you can start in the live market by trading a demo account, and making sure that you achieve the same results over time as your back testing indicated. I highly recommend that you make at least 25 error free trades in demo mode before you even consider trading with real money. Once you have traded a demo account, you still have not felt the strength of the emotions that using real money can evoke. When you are comfortable with the mechanics of implementing your trading plan, it is time to put it into practice, and I recommend you ease into this by using very low risk, until you feel you are mentally able to cope with larger stakes. The forex market is a great place for a beginning trader to start because you can place very small trades, using micro-lots basically risking pennies per trade.

Developing the right mental attitude to trading allows you to keep the inevitable losses in perspective, and not dwell on them. Thinking about losses can paralyze your actions, making it difficult to close a losing trade and realize the loss, or to pull the trigger to open the next trade. Focus on executing your trade plan precisely and exactly as you have laid it out and the edge that your method has built into it will pay off.