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Preface

All traders ride the emotional roller coaster of the highs and lows of the stock market and face the difficult process of learning to deal with it. The trading apprenticeship takes the novice trader down that well worn path which many have travelled before them, involving self education through books, newsletters and courses, trying to understand how to apply complex methods such as Gann and trying to learn where to correctly place Fibonacci levels on a chart.

Some traders struggle for years trying to understand Gann's biblical references and master his intricate approach of angles, squares and trines. Some give up believing that trading isn't for them while others loose a life's fortune and become bitter and tell anyone who cares to listen that the market is rigged and that all trading educators are charlatans.

But then there is a third group of novice traders, who, with a little trading experience under their belt, step up a level and very quickly realise that complexity doesn't necessarily equate to superiority or consistency in the markets.

In fact, those who survive for years in the markets come to realise that consistency comes with simplicity, not complexity. Unfortunately as Edward de Bono points out in his book called, *Simplicity*,

“As an idea develops it may go from simple to complex and then back to simple. Growth may be excluded if complexity is excluded.”

If de Bono is right, then it seems that in order to grow as traders, we need to follow the path that involves the frustrations of trying to make complex trading methods work so that we can learn to appreciate that the simple methods of trading the market, such as a straight forward trend line, are just as effective, if not better than many other alternative methods.

Anecdotal evidence I have collected would suggest that it is unfortunate, yet true, that many seasoned traders would not have developed and reached a fairly consistent level of trading success if they had not experienced the highs and lows, frustrations and delights of self discovery, riding the emotional roller coaster and attempting to understand complex trading techniques. Without this experience, many of us would never have been inspired to develop their own approach to the market. The approach that they nurtured and tailored over many years to suit their own personalities, budgets and personal sense of greed and fear.

Of course there are traders out there who travel the same educational path as the rest of us and who succeed in making complex methods work for them. But this is certainly the minority in a world where consistently profitable traders are already a minority. But some make the complex work for them because such approaches suit their personalities.

I am not one of these traders. As far as I am concerned, trading in its simplest form is cut and dried - you either make money or you don't - and no amount of additional complexity, such as Gann angles and astrology will change that. Hardly an amazing revelation, but its acceptance by many new entrants into the world of trading is much harder to secure.

My trading life changed when I began concentrating on repeating a successful formula which came down to understanding the three simple trading principles repeated throughout this book:

- position
- risk, and
- planning

These three principles provide an easy to follow trading framework from entry to exit. They are principles shared by many traders around the world and which you can find discussed on the internet and in many other books. So if that is the case, what makes this book so different?

This book is different because it introduces new techniques and tactics. In particular, my application of the 55 day slow stochastic indicator, Doggett's exponential moving average crawl (DEMAC), my practical application of Ari Kiev's theoretical profit-target-setting approach for Wall Street traders, my macro and micro planning approach which incorporates my concept of annual loss expectancy, my chapter on developing an anti inertia mindset and the way I monitor the creation of price patterns and trends using my three-crowds-in-every-trend theory - all these things separate this book from others you may have read.

These techniques have developed over the past several years out of a fourteen year involvement in trading and investing in the Australian stock market. These techniques have been developed to suit my needs as these needs arose. I have grown in confidence using these techniques and as I have done so, my trading psychology has responded and changed accordingly. The most important change I had to make mentally was to accept that every trade works or fails on it's own accord. It doesn't matter what I do. The market will make each and every trade work or fail, regardless of my techniques, tactics, hopes or desires.

Whether you choose to micro manage all your trades or not, you soon learn that it makes absolutely no difference to the share price direction. Share price direction is totally out of our control unlike managing our money which is within our control, so that is what we should concentrate on. The simplest way we manage our money in the market is learning to understand the ebb and flow of the market and deciding to trade stocks in concert with this ebb and flow rather than getting up each morning with a plan to go against the market with a vain and feeble attempt to out smart it.

There are only two best case scenarios in trading: a trading profit and a minimal loss upon exit. Without exception, every trade we make reaches one of these two conclusions at some point. Regardless of my actions in the market, the market will take every open trading position to one of these conclusions for me. This is one of the founding philosophies of this book and it was one of the hardest concepts I have since come to accept.

Part I

This book is broken up into four parts. In chapter one we pose the question, "What does it take to be a trader?" and we show where new traders can look for inspiration. After that we turn seriously to discussing the three core trading principles upon which my trading methodology is based: Position, Risk and Planning. Each concept is explored with real ASX

examples to demonstrate the point being made. Later chapters have the faint echo of these first three chapters inherent in their text because everything beyond Part I is built upon the foundations laid down in chapters one through to four.

In Part I, we look at what constitutes a better position and we discuss the importance of position as a simple, yet vitally important criteria in our trading approach. If the reader finds my cut and dried approach to trading based on what I label the “two best case scenarios in trading - an open profit or a small loss,” a little too difficult to accept and decides not to share my approach, then that is OK with me. At least they have been introduced to it and given the chance to decide for themselves if they want to adopt it or not.

The second concept we cover in Part I is Risk. It is perhaps the most important chapter in the entire book. In many other trading books, the concept of risk is dealt with towards the end of the book. But I have deliberately included it near the start of this book because our understanding of risk is vital if we are to accurately identify, monitor and manage risk in the market. My trading approach uses my ability to identify, monitor and manage risk from the outset. Risk goes hand in hand with Position. No position can be considered if it poses too much risk.

Furthermore, we discuss the concept of risk early on in the book because as any successful trader will tell you, you survive in the market not because of the large profits you make, but because of the small losses you endure. If you think this is an outrageous statement then put this book down. You are not ready for some home truths about trading. But if you read on, I will show you what I mean by this.

In Part I, we also discuss the importance of setting objectives and establishing our macro and micro trading plans. Our macro plan establishes our over arching objectives. For example, we may wish to make a minimum net return of 50% this year on a \$50 000 trading portfolio or we may wish to reduce our losses from last years \$32 000 loss (such as a well known newsletter example we use much later in the book) to a more reasonable \$10000 maximum loss over the course of the financial year. Whatever your financial objectives are, you must state them clearly because once we have established our broad based goals, we can then look at how we go about achieving them. This requires us to develop our micro plan which we also look at in this section of the book.

Part II

Position, Risk and Planning is fine in theory, but what about the “hands on” stuff? In Part II we introduce some of the “mechanics” of charting and technical analysis, such as the advantages gained by using charts and monitoring the movement of the crowd by employing the three-crowds-in-every-trade theory. This is the necessary background material we use when looking for trading candidates because a skilful hunter needs to know what “prey” he or she is looking for and where to find it *before* they can actually go out and hunt for it.

In much the same way as a hunter, a trader needs to know where the best hunting grounds are and once he or she is there, on the spot and poised to catch their prey, the trader needs to know the best method of catching the prey. Hunters who underestimate their prey or who are ignorant of how to best catch their prey, often miss out on a successful catch. It is no different for traders who have no effective way of finding trades and no means of capturing them.

Without the ability to identify the good trades from the bad ones and without the ability to capture the good ones when they come along, the whole process of trading is lost from the start.

Beyond this, we discuss what is meant by the charting advantage and I demonstrate briefly how I believe I gain an advantage in the market by using charts and technical analysis. The biggest advantage that we get is the ability to physically plot where the exposure to risk is at its greatest and where the pendulum of probability looks to have swung in our favour and back out of it again, based on our past experience dealing with chart patterns, trends and a small collection of reliable indicators.

I dub this information as “trading intelligence” and like military intelligence gathered in the field, we need to analyze what it is we think the intelligence is telling us. At times, this information can be contradictory and open to interpretation. Nevertheless, we analyze and interpret the trading intelligence to the best of our ability.

Successful traders eventually find ways and means of extracting trading intelligence from the market which best suits their trading style and their personality. Read a book like *Everyday Traders* by Nick Radge and you will see how different traders are attracted to different markets (futures, currency, stocks) or different segments within the same market (such as ordinary shares versus warrants) and you will also see how the players in each of these markets derive some sort of trading intelligence from their personal trading systems or beliefs about the way these markets work.

A book such as *Everyday Traders* or *Market Wizards* by Jack Schwager reveals to the rest of us how our peers not only derive their market intelligence but also how they go about analyzing it and acting upon it. We all see the same charts and indicators, but very rarely do any of us find someone else in the market with exactly the same analysis based on the trading intelligence we have gathered via the same price charts.

Books such as the ones I’ve just mentioned confirm for us that it is at this point, where analysis takes place, that all traders break away from each other because their analysis tells each of them something different. Many traders splinter off into broad groups of either bulls or bears. The more bullish traders will buy into a stock at any cost. The less bullish will typically wait and see how the market reacts from the actions of the more bullish traders. Some traders will be bearish and again we can break down the bearish group into those who are at the extremes and those who are more moderate in their bearish sentiment towards the prevailing market conditions or towards selected stocks. We investigate this break down of bulls and bears in Chapter Six, *Crowd Dynamics*.

Our understanding of charts and our interpretation of crowd dynamics in the form of my “three crowds in every trend and rally” theory, forms the foundation of our knowledge base. We refer back to this pool of knowledge and experience when trawling the market, looking for potential trading candidates.

But just as a gold miner panning for gold on a river bank collects stone, dirt and grit in his pan, we too collect rubbish as we pan the market for trading opportunities. We learn to sift through this rubbish like the experienced gold miner, as we wade through the silt looking to find the smallest of golden nuggets.

Panning is a delicate art and in the hands of an experienced gold miner, the pan is moved

smoothly and gently from side to side as the murky water laps against the metal rim of the pan. The miner breaks down his search from the larger stones, until he is left with the heavier and finer grains of gold in the grooves of his pan. As traders we refine our search in the market for little golden nuggets by using a similar filtering process. But rather than use a pan, we use a small, select group of indicators to filter out the best trading candidates from the worst. This tick-in-the-box approach attempts to bring the highest probability trades to our attention, while casting all other candidates back into the market.

Part III

In Part III we take the better trading candidates which we found using the techniques outlined in Part II and show how different techniques can be used to refine our entries and exits if and when the time comes. The first of these techniques covers the concept I call “no man’s land”, which is an area I try to avoid when entering into a new position and it is also an area I try to avoid setting my stop-loss in. We plot no man’s land on a chart using our knowledge of crowd dynamics. Again we see echoes of Chapter Two coming through in this part of the book. Avoiding no man’s land is simply another way of embracing the concept of better positioning.

The second thing we look at in Part III, is a method for overcoming the psychological inability to commit to an entry into the markets. We do this by redefining a share price breakout above resistance levels, as a buy signal rather than as a “Oh, no I’ve missed the opportunity” signal. It is a simple approach intended to help traders overcome feelings of inertia.

Another item featured in Part III is my none traditional application of the slow stochastic indicator as a means of monitoring underlying sentiment in the market. This technique is used as part of our filtering process and it plays a central role in my trading system. Personal research and use of the 55 day slow stochastic indicator has shown that it can be used to:

- monitor both positive and negative underlying sentiment in the market
- help us to go long and short
- help us identify rebound failures with a high probability
- alert us to dramatic changes in underlying sentiment towards individual stocks despite there being no positive news announcements to the stock exchange

In Part III, I introduce my DEMAC technique which serves an important purpose for impatient traders such as myself. DEMAC stands for Doggett’s Exponential Moving Average Crawl. I developed this approach to the market originally as a method of keeping me in a strongly trending trade rather than taking a quick and early profit – particularly if I saw the market pull back a little way and I was beginning to fear that all my open profit was about to be eroded away.

The technique involves finding potential trading candidates which are breaking upwards from a long downward trend, descending triangle patterns and breaking above horizontal resistance lines for example. This technique attempts to keep us in the newly developing trend for as long as possible. It does that by getting us to change the exponential moving average (EMA) pairs (E.G. a 3 - 8 day EMA to an 8 - 13 day EMA pair, to a 13 - 21 day EMA and so on), of

which the larger of the two EMAs is used as our trailing stop.

Part IV

Finally, in Part IV we do a follow up on something we touched on briefly in Part I. We return to the idea of comparing our analysis and approach against those offered by well known newsletter tipsters and show in greater detail how this can help traders develop their approach and learn in real time what does and does not work for them personally in the market. We give greater coverage of this process in Part IV to show the reader that there are many different approaches in the market and that the approach shown in this book is only one of the thousands being espoused by anybody willing to share an opinion.

We then go beyond the tactics of trading and scanning the market for high probability trading candidates and look at some important psychological aspects which impact upon traders. We also look at the theme of consistency and how we might go about measuring our approach to the market as a means of gauging how successful or not our approach is.

At the end of the preface of *The Art of Trading*, Chris Tate writes, “if you read this book you may become a better trader, you may become very good. But I doubt that it would have very much to do with me.” I echo his sentiments entirely and send the same message to you. Whether or not you improve as a trader relies solely with your personal resolve to improve as a trader, your ability to learn, adapt and overcome the mental obstacles, of which there are many. I wish you all the best in your endeavours.

Part I

Three Principles of Trading

What does it take to be a trader

Position

Risk

Planning

Chapter One

What does it take to be a trader?

What does it take to be a trader? It's the sixty-four million dollar question. There is that old saying that says in order to master the market we have to master the three "M's" - money, method and mindset. But somehow all of us attempt to short circuit the time and experience necessary to actually master them. We all believe that somehow we are different to the thousands of others who have made it in the market by travelling along the long and difficult path to success.

Many new traders are quietly confident that they can get up to super star status by taking the short and easy route. At some point however, they have to stop and face the fact that they are not going to make it via the short cut and that if they are going to make it at all, then they are going to have to follow the long and difficult road like the rest of us. The recent shift in global markets brought on by the sub-prime inspired credit crunch indicates to me that this is the case with many of the people with whom I speak.

For example I know three traders who were riding high on the back of a four year bull run until the following stocks in their private portfolios began to take their toll on their profits and their emotions at the start of 2008.

Table 1.1

| | | |
|-----------|--|-----------------------|
| Trader #1 | Wiped out due to Opes Prime | Amount lost: \$60,000 |
| Trader #2 | Suffered significant losses with (among others): | ABS, MON, CRE and BVA |
| Trader #3 | Suffered significant losses with (among others): | BLD, JHX, THR and TTY |

So what does it take to be a trader? Does having the knowledge of the three "M's" ensures success? The three traders mentioned above would probably say it takes more than just knowing the three "M's". I'd say that it takes the courage to invest the time to acquire experience and education because without it you never fully understand the concept of the three "M's".

Unfortunately without the experiences of both profits and losses in our accounts, and without devoting enough time for education, we cannot adequately develop our own trading style. And if we can't develop our own trading style then we can't make it on our own account.

Each of us goes through some sort of metamorphosis. As you can imagine, some traders start out with a grounding in financial analysis while others start out with no idea at all. Some of those who find technical analysis after a long and extensive search to discover the secrets of the markets think that they have finally found the secrets to trading which have been eluding them all this time. With their new found knowledge of technical analysis, some of these

traders plan to beat the market with the moving average before gravitating towards using the MACD, RSI and ADX indicators which are part of almost every standard charting software package.

Some of these traders realise that without a full knowledge of how these indicators are supposed to help them beat the market (after numerous attempts at trading stocks based on entry and exit signals generated by these indicators), they turn to Fibonacci numbers, Elliot Wave theory or the grandfather of them all - Gann theory. Ultimately, those who realise that complexity does not equate to superiority abandon these more complex methods of analysing market behaviour, with all their promises of predicting future price moves, and they return to the simple moving average, trend lines, chart patterns and financial analysis.

As the quote from Edward de Bono's tells us (which we used in the preface), growth of our knowledge of new subject matter may be excluded if complexity is excluded. In other words, we need to go through this cycle of experimentation in order to grow and mature as traders. Unfortunately, this is what it takes to be a trader. Time and money. Most of us have the time, but the money is something different again.

Those who have read the biographical accounts of Jesse Livermore in "Reminiscences of a Stock Operator" and Nicolas Darvas in "How I Made \$2,000,000 in the Stock Market", will recognize the cycle of growth through experimentation. Jesse Livermore went from the bucket shops to the broking houses and back to the bucket shops as he made and lost fortunes. Nicolas Darvas took tips and learned the hard way that tips are for waiters, not for traders. He also learnt that remaining aloof from the noise of the markets was advantageous.....especially after he moved to New York to be close to the action.

Once he was close to the action he became swept up in the action and lost his focus. He started loosing money so he switched back to his aloof approach to the market and went back on a world dancing tour where his fortunes on Wall Street flourished again.

All the best literature on how to trade the market concludes that those traders who make it on their own, do so because they develop, refine and use a trading methodology or system which is uniquely their own and which works hand in hand with their personalities. Probably the most famous of these is the Darvas Box trend trading approach. Regardless of whether this is the case or not, the fact remains that if you are to believe the successful traders in the current financial literature, (such as those interviewed in Market Wizards by Jack Schwager), they tell us that if we are ever to make it in the market, we had better come up with our own system because ultimately this is the only path to establishing and maintaining a successful trading career.

But we need somewhere to begin. We need something to kick start the process of metamorphosis that transforms us from amateur to full time trader. We need to see how others trade the market in order to broaden our knowledge and ideas so that we too can grow and develop into better and more educated traders. Learning how others trade helps this process because learning how others trade is both interesting and important and provides a working model upon which to base our own system. We can add or delete things from the working models of other traders and over time, our own system evolves out of that.

This is exactly how my personal trading system developed and how I became a better trader for it. I outline this process in the remainder of this chapter. This is how you will also become

a better trader.

The first example I can use to show how this process of self development occurs, involves my adoption of the Guppy multiple moving average as part of my system. Obviously I got that from Daryl Guppy. But I also use the fifty-five day slow stochastic indicator which is something I devised by myself for myself through hours of back testing a variety of stock standard indicators found in most charting software packages. The application of the fifty-five day slow stochastic indicator is discussed in chapter eleven.

I use the concept of early bulls, consolidation bulls and break out bulls (or bears as the case may be), which is something of my own making (or at least something which I have not seen discussed in any other trading book). I use the concept of convergence and divergence of stock prices in conjunction with avoiding entering and placing stops in what I call “no man’s land” (again something which I devised personally after discovering that I was continually being stopped out of profitable trades because my stops were misplaced).

So you see, we all get our start from somewhere and for most of us, we get our start in fundamental or technical basics and unfortunately that is where it ends, as if somehow that is all we need. While the basics, learnt properly at the start always forms a solid base from which to grow, mature and learn additional trading techniques and tactics, there is still one thing missing. And that thing is Mindset. You need to take those technical basics and run with them in a direction which wholly and solely compliments your personality or mindset and benefits you and nobody else.

Traditional technical analysis tells us to trade chart patterns such as the ascending triangle. But after the novice trader correctly identifies an ascending triangle and takes a position in it, what then? Does he hold? Does he fold? Where does he protect himself from the downside? And how far down does he let the downside go because he decides to protect himself? These are the sorts of questions that we need to answer. We only get those answers if we extend ourselves and our knowledge of the basics. Part IV provides a starting point for those looking to go beyond the basics.

I use technical analysis but my personal analysis calls upon my understanding of cognitive psychology and heuristics. There are not many traders around who openly suggest that most technical indicators are flawed and that any use of them should be tempered with knowledge of cognitive psychology and heuristics. But I am not alone in this view. For example, Australian currency trader Scott Barlow expresses similar sentiments in his interview with Nick Radge in Chapter Six of *Everyday Traders*.

Another thing I use is a macro-micro plan which I devised based on the work of U.S. trading psychologist Ari Kiev. In books such as *The Psychology of Risk and Trading to Win*, Kiev promotes the idea of creating large targets on a weekly, monthly or yearly basis and then committing ourselves to achieving those targets. I like that idea. This is basically what I do when I develop my broad macro plan.

My macro plan for my online Trading Diary, is to return a minimum \$25000 net profit with a starting capital of \$50000 and risking only a maximum of \$8000. These are the macro or broad guidelines.

The micro plan takes care of all the other smaller, more precise details. I use it to answer

questions such as; “Can I take this trade and if so, how much can I risk seeing I can only loose \$8000 for the year?”

I use a sliding scale risk model inspired by the work of Nobel Prize winning behavioral psychologists Daniel Kahneman and Amos Tversky. The reduction in the size of the amount I wish to keep at risk in the market after my position has moved into profit, acts as a trailing stop. As with any trailing stop, it puts the onus onto the stock to continue making money for the trader. The concept of “onus” is an important one in my approach to the market and discussed at different points throughout this book.

While I fully accept responsibility for my profits and my losses and while I fully accept responsibility for my success and failures, once I am in a profitable position, the onus switches from me to the market. A trailing stop will take me out of a trade once the trade is no longer moving satisfactorily in the right direction. The onus is not on me, as a single, private trader to ensure that the stock price keeps going up. That onus falls upon the market’s shoulders. I simply stick around to manage the exit.

Of course, the onus of getting in and out of a trading position falls fairly and squarely on the trader’s shoulders but that is where it ends. Traders do not carry the onus for the accuracy of the technical indicator used to trigger an entry into a stock, the stock’s price performance, the company’s profit and loss performance, the incompetence of the company’s management and subsequently, the changing fortunes of a company’s fundamentals.

Investors on the other hand do carry all these things on their shoulders because they buy the company and vote in the board and base their investment decisions on company performance and so on. This is what separates you as a trader from an investor.

If you believe that the onus of a stock’s performance is your responsibility, put this book down. You are not suited to be a trader. There are investment newsletters out there which promote the idea that the onus of a stock’s performance falls upon the shoulder’s of its investors. Subscribe to one of these newsletters for they are better suited to your beliefs about the way the market should work.

These same publications promote the idea that investors should hold onto a stock as a “valued” investment even when the share price is falling. These same publications promote the idea that people who do not hold onto an under performing stock during the bad times, don’t deserve to benefit from profits earned during the good times. But the onus on stock performance should never rest on the shoulders of a trader.

As traders we don’t want to know about stocks which are under performing (unless we intend to go short using CFDs or to buy Put warrants or options). Traders typically only want to know about those stocks which can make them money. And it is this very attitude which is at the centre of the vitriol that comes out of some investing newsletters regarding the so called “parasitic” traders, such as you and I.

But when all is said and done, traders don’t have to “earn their stripes” by holding onto a bad investment and waiting until it comes good again. Making money is not about martyrdom. Trading and investing is about making your free cash work hard for you and the harder you can make it work, the better. Once a stock is eating away at my trading capital or once it has stopped making me money, I drop it like a hot potato. No martyrdom required.

So what is required to become a trader? You have to find and develop your own trading style. And how do you go about it? As I have outlined above, one way we go about it is to take our favorite pieces of other people's trading approaches and bring them together to form our own unique approach.

We can do this several times over from several different traders until we find a suitable combination. For those lacking ideas of where to start, let's begin by looking at the analysis behind a stock recommendation from a stock market newsletter provider to see if the analysis shown and discussed by them, makes sense to us, fulfills the requirements we are looking for in a trading system and is easy to understand and replicate.

In September 2007 a particular newsletter recommended SWK as a buy when the stock was at \$1.44. Figure 1.1 on the opposite page, pinpoints where this price is located on the chart.

As you can see, at the time of the recommendation, SWK was in a strong up trend. The newsletter from which this example is taken, is renowned for using fundamental analysis and we can assume that their analysts determined that the current up trend would continue based on their interpretation of the underlying fundamentals of the company. The newsletter also suggested that subscribers set their protective stop at 70 cents, which was more than 50% away from the entry price. The horizontal line and text at the bottom of the chart indicates where 70 cents is located on this chart in real time.

Fig. 1.1 SWK recommended as a buy



In appraising the approach of this newsletter and deciding whether or not it suits our needs and whether or not we can take anything away from it for our own educational purposes we need ask the following questions:

- Do we wish to combine fundamental and technical analysis?
- Do we wish to follow trends such as this? After all, they often take some time to develop and have I got the patience to wait?
- Can I trade a stock based simply on a trend line, or do I need to use complimentary technical indicators to convince me to buy this stock?
- Am I prepared to set my Stop-Loss at 50% below my purchase price?

The first of these questions asks us if we wish to combine fundamental and technical analysis. Fundamental analysis requires an understanding of P/E Ratios, Return On Equity (ROE), profit and loss statements, an understanding of the underlying business of the company, its systemic and geo-political risk (if applicable), its competitors and their market share and so on. The accountants among us don't have a problem with this 'bread and butter' stuff, but this information becomes complex and cumbersome to the rest of us.

For most of us, we rely on somebody else to decipher fundamental analysis for us before we can use it and base any trading or investment decision upon it. In the past I have found that this has meant that:

- I find myself constantly relying on somebody else's opinion or interpretation of the information instead of relying upon my own analysis and taking responsibility for my own actions,
- I loose execution speed of getting into or out of a stock while I wait for fundamental analysts (E.G. a newsletter's analyst or stock broker) to guide my actions,
- The market movements do not always accurately reflect the underlying fundamentals of a company.

If, like me, you would prefer the speed offered by doing your own analysis and taking responsibility for your own actions and if you would like to capture market moves, whether they accurately reflect company or economic fundamentals or not, then you probably have the sort of personality more suited to becoming a technical based trader.

If, on the other hand however, none of these alternatives are preferable to you, then perhaps, a fundamental approach is more in keeping with your personality. And that is our main goal here – finding what works in the market which we like and what methods resonate with our own personality.

Having looked at the SWK recommendation and asked ourselves the questions I listed above, we have to decide whether or not we wish to follow newsletter trading ideas such as this or not. For me personally, I look at the overall trading approach offered by this newsletter (who shall remain nameless), and immediately want to change the recommended positioning of the stop-loss from 70 cents (50% below the recommended entry price) to much closer to the trend line as shown in the green box in Fig. 1.2. (The basis for this approach becomes clearer in the following chapters).

The example shown in Fig. 1.2, is an example of how we could hypothetically use a newsletter recommendation to weigh up the pros and cons of one approach to stock selection and analysis. This example shows us how it is possible to borrow one of the ideas shown (in this case the idea of using and placing a protective stop), and how it is also possible for us to tweak the idea so that it better suits our personality and desired approach to trading.

We remind ourselves again of the over riding question we seek to answer in this opening chapter: “What does it take to be a trader?” It takes time and effort to find and analyze the suggestions of other analysts to learn what works for us personally and what doesn’t. If something doesn’t work for us, we simply move on and look for something else that does. We don’t waste our time trying to fit our personality to an approach that just feels all wrong. Its like trying to put a square peg into a round hole.

Fig. 1.2



As you can see from all that I have outlined above, I arrived at where I am today with some help from others, just as you will (if you haven’t already). Mostly, the help I got from other traders was the inspiration to build my own system based on what I needed as part of a strong, robust trading system that suited my personality.

Some years ago, the highly respected Forbes Magazine in the United States, described Bill Gates as: “Though an innovative and forward-thinking entrepreneur, Bill Gates didn't invent crucial technology. Rather, he shrewdly adapted and improved products first made by others.”

So if the world's richest man thinks its OK to take the ideas of others, adapt and improve them in order to make a fortune, then it should be OK with you and I to do the same. I therefore encourage you to experiment because it is through this experimentation and extending the boundaries set by fundamental and technical basics that you are truly going to thrive and find your own personal answer to the question which heads this chapter - what does it take to be a trader?