THE NETPICKS INFORMER

Savvy strategies for profitable traders.

2nd Quarter | Issue 4

A $25.95 Value

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LETTER FROM THE DEVELOPER

Welcome back to our exciting 4th issue of the NetPicks Informer. If you're like me, you anticipate each one of these issues arriving in your mailbox or on your computer. After all, where can you get trading articles direct from people who are actually in the markets – each and every day? And especially, learning from traders with the same objectives and style as you!

One reason that NetPicks is able to stay current with the market and performance is our daily live trading. We make it our mission to ensure our finely-tuned trading courses continue to perform, even as market conditions evolve. We often times are asked why we make changes or alterations to our strategies. It's really quite simple. Since we're trading along with you each day (utilizing the same strategies as you are), our goal is to improve performance. There's always a new way to get a better edge, to increase your win/loss percentage… to make more money and risk less when we lose.

NetPicks has a choice. We can share our research with you although that sometimes requires new rules, new approaches, or changing markets and timeframes. Of course, it would be ideal if we never had to change a thing but, if we feel it's worth the time learning these updates we will go ahead with an update if it ultimately means more success for you. On the flip-side, we could save this research and these profitable breakthroughs for ourselves. However, if you know anything about us and our history dating back to 1996, you'll know that we've always been about sharing as much as we can. As company policy, we're not going to keep it a secret if we can help you improve your trading with our systems.

Even better, we try to share as much as possible with people who haven't purchased one of our courses. Every time we hold a product webinar we share numerous trading tips and try to always give a very honest assessment of trading – the rewards and the risks. We also do our best to save you from making poor choices in your trading, whether you become an owner or not.

You might have noticed we are doing free live webinars, about twice per month where everyone is invited. So far we've done topics such as developing your trading business plan, the trading outlook for 2010 and even featured some very special charts that can dramatically improve your winning percentage. All of this is with our compliments and our way of giving back to the trading community that has supported us for all these years. If you're interested you can always sign-up for the next one by going to our website at NetPicks.com and selecting the "Learning Center" and then "Training Webinars" and you'll be able to sign up for the next one. At the perfect price….$0.00!

I'd be remiss if I didn't mention the biggest development of all and that is the introduction of the High Velocity Market Master Version 2010. We're really excited about the upgrade, and even better, ALL current HVMM owners who are active in the HVMM Owner's Club are getting the upgrade at no charge. We're confident that it's going to take your trading success to a whole new level. The win/loss percentages continue to improve and this translates to a better bottom-line over time. We'll even be devoting much of our efforts this year to using Range Bars. (And if you don't know what Range Bars are….no problem….we've got a training webinar already done for you on that.)

That remains our mission for 2010. Great courses, great strategies, and great support plus a dedication to education for all active traders. Enjoy the issue!

Mark Soberman

Mark Soberman

WHAT'S NEW AT NETPICKS?

Can you say High Velocity Market Master 2010! The hotly-anticipated HVMM 2010 has usurped the fiercely beloved HVMM original due to its increased win/loss percentage and easy & simplicity to learn. Simply put, the HVMM 2010 can do everything that the original can do… but better!

Just recently, we wrapped on the very first HVMM 2010 2-Day Live, Virtual Training. The response was off the charts – not only did it allow attendees to skip the headaches of booking flights, hotels and time off of work but you could save a tidy sum at the very same time (think of it as 'capital preservation' ☺). Though teaching in real-life will always hold a special place in our hearts, the resounding preference for live, virtual events was clear. We can't wait for the next one!

In another 'first' for NetPicks, we're also planning to roll out a number of ultra-specialized Market Modules. We can't reveal all the details but to give you a hint, these Modules are designed to work on an existing system (i.e. the Ultimate Swing Trader or the High Velocity Market Master) and give you a step-by-step program to successfully trade a certain market & time frame.

These Market Modules are great for any trader concerned that he or she won't be able to replicate our type of solid results. We'll give you all the tools, the market/time frame/interval, risk and trade plan to accomplish the same great results you see from Mark Soberman himself. Want more info? Stay tuned and keep an eye out on your inbox for all the details…

And lastly, we're busy tinkering away in the NetPicks Development Lab at the next big system coming your way very soon. Again, we can't 'let the cat out of the bag' quite yet but we can assure you that it will be released BEFORE June 2010 and it WILL knock your socks clean off. So be sure to look for that big announcement in your email inbox and let us know if you have any questions in the meantime!

LIVING THE DREAM – Adventures of a Trading Coach

by Michael Black

You wake up in the morning. Turn the computer on and take a quick look at a few charts. You see a couple of great opportunities, load up your broker's platform and you place your trades. Both trades take off in the right direction and you watch with a big smile on your face as your account grows in size. Two wins and done. A few thousand dollars has been added to your account in a matter of minutes. You close your computer down and go back to bed. This whole process took 30 minutes.

Freedom

This is the dream for many traders, freedom from the nine to five, from office politics, not to mention financial freedom to earn as much as you want plus the freedom to spend your time in any way you choose. In essence, freedom to live the life you want, in the way you want.

However, whilst it is possible to attain this freedom, few traders actually get there. I have been working as a NetPicks Trading Coach for just over six months. In this article I would like to share some of my insights and learnings, as I have worked with various traders around the world.

What inspired me to write this article was a conversation I had with one of the world's largest forex brokers. My account has now grown to a size where I am paying significant commissions each month to my broker for every trade that I place. They run a tiered system, which means that the more you trade the less you pay per trade. I decided to re-negotiate our terms so that I could reduce my monthly commissions. What was interesting about our conversation was the following statement,

"Most of our clients don't last that long"

I asked, "what do you mean by that?" His response, "well we charge the way we do because we recognise that most traders don't last that long, in fact most blow their accounts within six months. So we aim to get as much commission out of them while they have cash in their accounts!" Wow, what an insight! He called it the 'churn'. He went on to tell me that on average, a trader will re-load his or her account five times before they become profitable. All of this led me to ask, "why this is the case?" Why is it that 95% of traders fail and only 5% succeed? And of the 5%, only 1% make a fortune, the other 4% just do ok and keep their accounts in profit.

I have a number of coaching clients all using the High Velocity Market Master, all trading the forex market. The system is the same, the market is the same yet they are achieving dramatically different results? So it can't be the system because they are both getting the same set-ups, and it can't be the market because they are both in the same market, so what is it that makes the difference?

Discipline

We all talk about the need to be disciplined traders, but what does that actually mean? Well for one thing we need to take the emotion out of our trading by focussing on our trading plan and executing our plan with precision. So you may be asking, "what's a trading plan?" If you are asking that question I would ask you to stop trading immediately, speak to your NetPicks coach and allow them to help you develop one. I come across too many traders who have a 'notional trade plan' in their mind or have something written down which says something along the lines of "make 40 pips per day". This is not a trade plan!

Secondly, there is little point to having a plan if you don't follow it, religiously. It will keep you out of trouble. We have no idea what the market will do next. But we can know ahead of time what WE WILL DO when the market does whatever it does. It's too late to be making those decisions when you are actually in a trade.

Find a way to hold yourself accountable for your results.

Share your trade plan with somebody, if it's your NetPicks coach they will help you keep on track, discuss those dodgy trades that you should never have taken. Celebrate your wins and congratulate yourself as you move towards consistency. I have a policy of 'full disclosure' with my mentor. So when we review my progress, I get a real insight into what I need to do to improve.

A 'by product' of discipline is consistency. How would you feel if every day you knew you were going to have a focussed session, where you had an edge in the market and developed the skills to apply your edge with precision? Trading would be fun wouldn't it, and it should be fun!

10,000 hours

I once heard in a seminar that it takes 10,000 hours of practice, study and application to become an expert at anything. Have you invested your 10,000 hours wisely? Have you studied your charts? Do you understand candlestick formations? Do you know where your areas of support and resistance lie? Can you implement your strategy without thinking? Do you understand the nuances of your trading platform? Do you take note of your daily ranges? Have you reviewed the news each day? Are you aware at all times of what news is coming up that might impact your trading decisions? This is a business. It's critical that you treat it as such.

The Journal

Every time I sit down with a new client that I'm coaching, I talk about the importance of keeping a journal. Some kind of log that documents your trades, why you took a particular trade and what was the outcome. Over the years this will become an important treasure trove of knowledge. Some people use a spreadsheet, I know others have built a small database to record their trades. Even if you just write it down on paper it helps your discipline, keeps you honest and provides you with a rich source of knowledge in the future. Remember, every time you place a trade there are two outcomes. You will either make some money or learn something new. When you get both, it's a double whammy, but when you lose, don't ignore the learning. Overtime your losses will reduce and your equity curve will look a lot healthier.

Living the dream is attainable for all of us. However you do need to pay your dues.

You see professional trading is not about 'chucking something on and seeing what happens'. It's about understanding your edge and applying your edge in your chosen markets, consistently and with precision. Do that and you too will become one of the 5%.

Michael Black is a NetPicks Trading Coach and Mentor, you can contact him at michael@netpicks.com

ON THE NETPICKS HORIZON

Here's your glance into the NetPicks' future. We're listing a few of the upcoming developments and events happening in the coming months. Be sure to check your Inbox for details and specific dates coming your way via email.

- The release of Specialized Trade Modules for different markets and timeframes
- Unveiling of the NetPicks Stock & Options Course
- New tips and tricks on how to use Range Bar Charts in your trade plan
- Monthly Educational Seminars focused on helping you increase your winning edge

GETTING TO KNOW US

Interviews from your NetPicks Staff. Meet, Brian Short, COO here at NetPicks.

Mark: Brian, tell me a little bit about your background and how you got started in trading?

Brian: Thanks Mark, I got started about 25 years ago. At that point, I would have called myself a buy and hold trader. That was in the mid-1980's and early 1990's where I would basically take the recommendation of my broker and act on it. That worked well for the 1990's.

As we know now, that market simply went straight up and you couldn't do anything wrong. That was my first exposure to trading. Towards the end of the 1990's and early 2000's, this mechanism broke. I took a pretty good hit, but didn't lose everything I made through the 1990's. However, it caused me to take a step back. I realized I wanted to take control of my trading. That's when I began to search for a way to do intraday trading to be a little more active.

I began to look for different services and packages that taught strategies, which is when I came upon NetPicks. I was a subscriber to the NetPicks service for a number of years utilizing their strategies.

I've been an active intraday trader ever since. I have traded forex for many years and currently I am more active in the future's market trading crude oil.

Mark: What would you see as your biggest challenge in your personal trading? Furthermore, since you also manage and support the coaching team at NetPicks, what do you see as the biggest challenge that individual traders run into when they are trading?

Brian: My biggest challenge in my own personal trading is distractions. Running a business here at NetPicks can sometimes cause me to get distracted. Often it's either an email or a phone call from a customer, so I have to constantly remind myself not to get involved in those distractions.

Overall, I feel that all traders have the exact same issue. Distractions come into play. Trade psychology is also an issue. You need to understand what it means to take heat on a trade. In other words, how not to freak out and still be able to take action on your trade plan.

Although overall, I'd have to say the biggest problem I hear about from traders is risk management. They just sometimes over-leverage themselves when they are trading. It is definitely a challenge that needs to be overcome especially by new traders.

Mark: So you are advising traders to minimize their distractions by turning off phones, turning off email, turning off facebook, and closing your door?

Brian: Yes. Exactly. Distractions could be your wife or child coming in when you are in the middle of a trade and they want your attention. It just takes a split second for your attention to be broken and your trade results lost. Focus on your trading for the time period you are going to trade and turn off all other distractions.

Mark: I know in my personal trading, for several years, I would watch CNBC. It was always good company when you were trading. I found that, over time, I would let it influence my decisions. I came to realize this was one of the worst things I could do. I would be paying so much attention to the TV that I was not acting on what was in the charts.

We always say our systems are "WYSIWYT", or "What You See Is What You Trade." I think what you are trying to say is that you need to focus and execute what is setting up on the chart as the system shows you.

Brian: Yes.

Mark: As far as some of the best things about trading - Why do you trade? What do you enjoy about it? What motivates you everyday to get up and fight the markets?

Brian: I enjoy getting up! I'm anxious and excited every day. I like the challenge of taking a strategy and applying that strategy to a market. I also thrive on the challenges that go with executing the trades. The final result is being profitable after executing everything as per your trade plan. It is a full process and I really enjoy it. I'm not going to say there aren't times I feel concerned or feel that heat and stress when a trade goes against you. I do!

However, I think, over the years, as you gain more experience, you get immune to that. You stay neutral in your emotions and work your way through it. That is what I enjoy about trading. As you have said Mark, trading is the biggest mind tease in the world. It's fun to try and figure that out. Both with a strategy and looking back at myself and working through the issues a normal trader will have. Normal traders have issues with trade psychology. The same is true of me.

Mark: I agree. People do need to give themselves some time to work through those trade psychology issues. We've had years of experience and sometimes, for us, it doesn't take that long to get to the point of mastery. Our advice to new traders is to give yourself some time to get there.

Another question we always get from new traders is about day traders. They want to know what the best markets are for day trading right now. Where is the best volatility, the best activity, etc? Could you explain to us what is happening in day trading?

Brian: I know there is alot of volatility in the forex market. It's not my personal preference, but I know many traders are doing well there. They've had good success in that market. I think part of it has to do with the time you want to trade. The best times to trade the forex is during the European sessions. That is 1:00am to 5:00am Eastern Standard Time (EST).

My favorite market right now where we are seeing plenty of activity is crude oil. It is a market I trade each and every day. I trade gold on occasion. I see good movement there. Natural gas has good movement as well. I also trade some of the equity indexes like the DOW or Russell. Not quite as much activity, but still good markets to consider for your own trading.

My personal favorite for the moment is crude oil. I look to trade that from 9:00am to 11:00am. I only give myself those 2 hours, so I limit the amount I am trading each day. Then I get on with the rest of the day like running NetPicks. However, if you like golf or something else, you can move on with that part of your day.

Mark: I think, for those trading forex, obviously the pairs talked about the most for day trading on forex are the GBPUSD, EURUSD, and we do have successful pairs in the Asian section with EURJPY. Those tend to be the narrower spreads.

Then, Brian of course mentioned several other future's markets. You can branch out into stocks and other markets as well. There's plenty of opportunity for everybody.

Brian also talked about system strategies. I know I have picked-up many over the years. I have shelves full of the stuff. I haven't grabbed very many over the recent years except when I am curious about seeing what someone else has done.

Brain what would you say sets NetPicks apart? What are the top 2 things about our strategies, our training, and our courses that we offer? What really differentiates NetPicks in your opinion?

Brian: The biggest thing that sets us apart is our caring for those members that decide to purchase our products. It doesn't end with you receiving a box. We give you support in several ways. One is through training sessions that you can attend. We also have coaching staff you can contact that are experienced traders. I am here taking phone calls every day. We keep in contact with our clients. We are here to offer our experience to those who are new to trading or are intermediate. We even work with advanced traders. We are here to be the coach that can help keep you in check and headed in the right direction.

That is number one. Number two is we have strategies that help get you an edge in the market, which is key. There might be other strategies out there but we have looked at tons of them and I just feel very comfortable knowing our strategies are top of the line. They are not going to win every time, but they give you the edge you need to be successful.

UNDERSTANDING RETRACEMENT

by Russell Rice

As a long time trader, I am keenly aware of the importance of following what is perhaps the first rule of trading – trade with the trend. Trading with a trend sharply increases your chances of success.

In many instances even if a poorly timed entry moves against you the trend will come to your rescue and turn a losing position into a winner. The trick is to know how and when to get on board the trend.

I recently wrote an article entitled "Never Chase"(NetPicks Informer, Issue #3, page 8) where I detailed my feelings about the importance of being patient and letting the market come to you instead of chasing. Traders who chase or try to jump on board a breakout very often find out they have just bought at an emotional high or sold at an emotional low. Adding a "Never Chase" rule to your trading plan will save untold amounts of financial capital as well as mental capital.

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Knowing full well that snapbacks in price will eventually happen our job as traders then becomes one of knowing how to read the psychology of the retracements themselves so we do not enter prematurely.

A simple pattern that I see repeating itself over and over again is that retracements occur in two segments. The psychology behind this price action is readily apparent but seems to go unnoticed by a large majority of traders.

Reading Retracement Psychology Correctly

As extended short term moves begin to exhaust themselves traders who missed the move begin patting themselves on the back. Finally after exercising great patience a pullback is at hand. The pullback starts and chart watchers get ready. This is the moment they have been waiting for.

The First Segment

A nice countertrend spike finally occurs and at the first sign of a waning in momentum a wave of "early adopters" jumps in. They are sure they will be rewarded handsomely for their patience and trading skills and for a few seconds they are.

Price begins to turn and head back in the direction of the trend. The early adopters and longer term position holders still in the trade both breathe a sigh of relief.

The Second Segment

Then suddenly, much to their dismay, price reverses again. Now the market has two groups holding positions that are going against them. The emotional second segment, or leg, to the retracement begins. The early adopters panic first. They bail out of the trade because they have no profit to cushion their premature entry.

Losses mount quickly for the early adopters and now put a second wave of profit erosion on longer term positions. Liquidation in this second segment of the retracement is usually more intense than the first.

Timing the end of the Retracement - Setting up a great Risk/Reward Trade

Having a better understanding of how retracements often unfold in two distinct segments will help immensely when looking for the proper spot to enter a trend trade without doing so prematurely.

I look for a waning in momentum by closely watching candlestick development on a fast 144 tick chart as a tip off for when the second leg of the retracement has exhausted itself.

When candles change color and become smaller I will take a position and immediately place a relatively tight stop.

By following this method I have set up a trade with great risk/reward potential. If the trade fails I will incur a small loss. If the retracement has run its course and the trade takes off in the intended direction it could develop into a big trend trade winner.

Russell Rice, Moderator, NetPicks Forex Trading Room

THE SCALP AND TRAIL; A One Hour Per Day Winning Day Trade Plan

by Troy Noonan

This plan was tested on the @NQ.D 144 Tick Tradestation chart but should probably be tested on the Globex @NQ as well. I specifically chose the .D chart to help identify gaps and to avoid taking the first trade of the day in the direction of the gap.

This plan would be an excellent plan for either the trader with limited trade capital, a trader who is just beginning and wants to become an ace trader in a short period of time, or for anyone who just has a limited amount of time to trade. In fact, over the past 3 weeks, I tested this plan with the idea of only trading the 1st hour of the US Equity Session. It worked like a charm.

Before I get into the plan, here are a few notes regarding this plan:

1. The set-ups happen quickly and within the first hour of trading, you should be able to reach our basic 'power of quitting' goal. That is, get two winners and have a positive result. I stopped after the first hour whether I was behind or not. There is nothing to stop someone from continuing to trade if still negative but I believe over time, it really would not be necessary and sticking to the 1 hour time limit has some added benefits; a built in circuit breaker and a way to prevent one from over trading. I tested this for 14 sessions (President's Day shortened the final week). All in all, I ended up with 11 winning sessions, 2 losing sessions and 1 break even. We also have a lot of past history with the plan through much of 2009 and judging by what I saw, it continues to hold up fine.

2. Because the set-ups happen fast, it will force you to become perfect at your executions which will make you a rock solid trader. That alone is worth the price of admission! Anyone who wants to 'learn how to trade' with precision and a very tight rule set, would benefit greatly from this approach.

3. I am presenting this as a 2 position approach. 1 contract will come out at a fixed target and the 2nd we will use a trailing stop to catch the occasional big move. You don't need many of those to make a huge positive impact on your results.

4. A $5000 account is the minimum amount of trade capital that I would recommend for this strategy. In the world of daytrading futures, that is considered a small account. I believe, with practice, one could trade this strategy and do quite well. Over the first three weeks in February (when I tested this plan), if traded accurately and correctly, a trader could have netted +67 Nasdaq emini points ($20 per point) for a $1340 gain. That is a 27% return on a starting $5000 account in just three weeks. Without any money management, and by merely trading the 2 contracts as the plan describes, that would be more than a 500% annualized return in just 1 hour per day. With some basic money management, the returns would be even greater. Keep in mind that those figures do not take into account trade costs but even once you factor trade costs into the equation, the returns would still be substantial.

5. The maximum gain was $115 while the maximum loss was only $45.

I used the time tested Universal Market Trader (UMT) Advanced. I used the default settings except for the following changes to the calculator:

1. Set IncrStopAdj to true
2. Tendbandclearance set to 4
3. HiddenColor set to rgb(75,75,75)

The trade plan is as follows:

1. Don't take the first set up of the day in the direction of any gap open. The .D chart is perfect for filtering these out. If the price pulls back into the trendlines, you can take the trade as a pullback set up (see below).

2. Enter each trade with two contracts. The first is seeking to exit at its 2x target. The 2nd we want to use a trailing stop, and ultimately exit with a 3 bar stop strategy. There are other trailing stop strategies that might be worth exploring as well which I will briefly discuss below.

3. Use the basic, 'out of the box' Advanced Tactics money management techniques. Here's a brief recap using a long trade as an example.

   a. When the price gets to the 1x, move the stop to 1 tick below the set-up bar. If the stop began at 1 tick below the set-up bar, or as much as 25% inside the set-up bar, then leave it where it is. Don't take trades if the stop is more than 25% inside the set-up bar. You might want to consider 1/3 of the way inside on longer than usual bars but that would be discretionary.

   b. Mark on your chart with a horizontal line, the 1.5x (the midway point between the 1x and the 2x). Once the price touches that level, move your stop to the close of the set-up bar.

   c. Exit the first contract at 2x. If the price pulls against us, exit both positions at the designated stop.

   d. Let the 2nd position stay on, using a 3 bar stop for your exit. The only caveat is to not take a loss on this position. If the 3 bar stop forces the 2nd contract into a losing position, then lock in 1 tick to cover your commission instead.

      i. Note that the trailing position will often not do as well as the fixed target position. That's ok. Every now and then you will catch a big move that more than makes up for the difference.

   e. Only select trades where the reward is greater than the risk. This shows up on the calculator and you can see it 'at a glance'. By sticking to this rule, you will filter out many bad trades and you will skew the odds more in your favor.

   f. We used to only take trades with a 7 tick or greater reward profile. Since we are trailing a stop with a 2nd position, I believe it is ok to take trades with as small as a 6 tick profile provided the risk is less. Also, since we want to finish in the first hour, these smaller trades are necessary to take.

   g. Don't take trades when the directional indicator is between the entry and the target.

   h. If a basic set-up occurs, that is, it prints on your chart as either magenta or cyan, and it does not meet our requirements (either the R:R is unfavorable, or the directional is in the way) you must look for the subsequent 'hidden value' trades

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that follow, which will show up in gray. This is critical. Most of the trades we take are hidden value trades.

4. Pullback Set-ups: These trades are my favorite because they tend to be larger. We also get more favorable R:R ratios. Begin your stop right below the set up bar or nearest swing. Due to how these trades set themselves up, it will often be a tighter stop, than the basic set-ups. Only take pullback trades that touch the solid trend lines. Touching the dashed lines only does not qualify.

5. If a trade fails, take a 2^{nd} attempt if a new valid set-up appears, even if it's a hidden value set-up.

6. The only adjustments I made were a single tick to get around a price that was a multiple of 10. Also, I made a 2 tick adjustment if the entry fell right on the directional, or a 1 tick adjustment if it fell 1 tick off of the directional. The idea was to give it a two tick margin above the directional. Due to the quarter point ticks that we must deal with when trading the NQ, I chose to not make any other adjustment. In addition, I do believe it makes sense to adjust around major swing levels, but not minor ones.

If you have any of the other NetPicks trade strategies, live the Original UMT Core strategy or the HVMM, then you could consider applying the NetPicks Momentum (mom) indicator. This indicator would give you additional ways to trail a stop. I have looked at it with the 11 setting and even other settings, which I think offer very enticing opportunities with this plan. Also, one could incorporate the 'mom flip' set-up as well. While I didn't formally track these trades, it appeared to me that they would have worked quite well and I believe would make this an even more profitable strategy. But as far as a tight and concise tradeplan, I believe that this will continue to perform well, on a consistent basis and by keeping it to just one hour, you will always be in a safe position.

For more information or if you have any specific questions, please feel free to write me at tjnoon@netpicks.com.

YOUR REWARD IS WAITING!

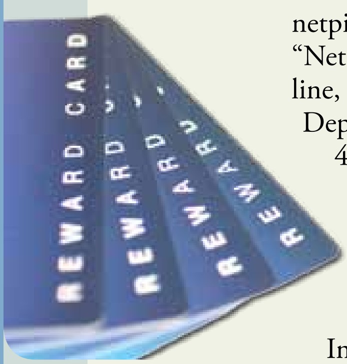
This is your chance to be heard. We're looking forward to what you have to say!

Every day you take trades just as we do, so we'd be crazy not to listen. The best part is we not only listen, but we reward you for speaking up.

In every issue we have a new contest with a new question to answer, and prizes to win.

Here's how it all works:

1. Answer the question(s) below.
2. Submit your answer(s) via email to: info@netpicks.com and be sure to reference "NetPicks Informer Contest" in the subject line, or snail mail to: Attn: NetPicks Contest Department, 9400 Macarthur Blvd 124-417 Irving, TX 75063.



3. 2 winners will be chosen. We will contact the winners personally and announce them in the next issue of the NetPicks Informer.

Question: What's your favorite book about trading? Then tell us how and why it helped you.

Let us know what you've been reading lately or what you read in the past that helped you in your trading career. If we pick your answer to this question, we'll hook you up with one of our trade coaches to help you in any area you're still struggling in! You'll get one hour of dedicated time with an expert trade coach.

We're looking for sincere honest answers and feedback. Keep your answers clear and concise, but remember one sentence answers won't cut it.

You have nothing to lose! This is your chance to let us know what's on your mind and get rewarded for it!

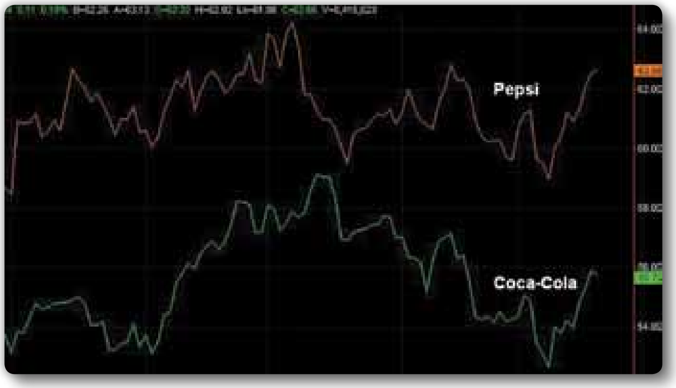
As always if you have any support questions or any other feedback, please email us at: info@netpicks.com.

PAIRS TRADING

by Mike Rykse

In the current market environment, traders need as many tools as possible in order to profit from ever changing market conditions. So far in 2010, we have seen tight ranges on most stocks. While this may seem difficult to profit from, there are many market neutral strategies that can be used. Many times, traders get intimidated by the term market neutral because it means we are getting away from the buy and hold strategies that we all are used to.

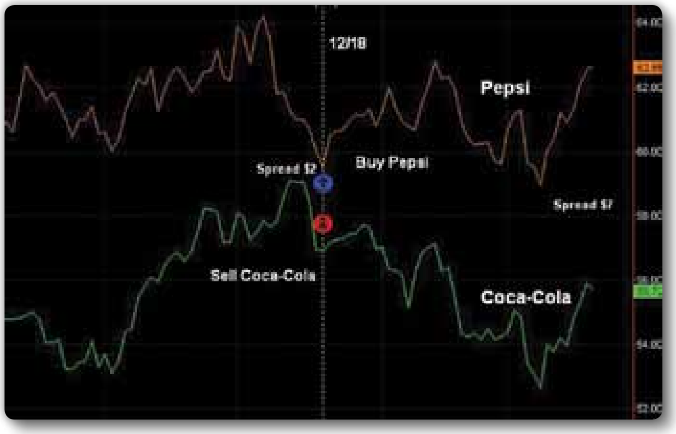
One strategy that can be very beneficial in today's markets is the use of pairs trading. Pairs trading refers to taking opposite positions in two different stocks that have shown to have correlation. While this can be a complex strategy to use at times, the concept behind it is very basic. You want to find two stocks that are historically correlated and then profit from the times when this correlation temporarily breaks down. What you want to do in a pairs trade is look for situations where one of the stocks looks cheap or expensive relative to the other. We would buy the one that looks cheap and sell the one that looks expensive.



Example 1. To see this chart in a larger size visit: www.netpicks.com/charts.html

The first thing you want to do is find an example of two stocks that are highly correlated. A good example of this would be Coca-Cola and Pepsi. Taking a look at the chart in Example 1 showing our two stocks, you can see that there is a correlation. Next, you will find the spread between the prices of the two stocks. To do this we will look at the price of one stock minus the other. We will want to look to see if that spread is historically high or low. To do this you will need to go back in time and find the mean of the spread between the two. In this example I found that the historical spread between the two falls in a range of $5 and $8 and the current spread is $3, which would be low. With the expectation that this spread will go back to its mean of $7, we would buy the cheap stock and sell the expensive stock at the same time. We would exit both positions once the spread got back to $7.

Let's walk through the example with Coca-Cola and Pepsi in more detail. Going back to December of 2009, the correlation between these two stocks temporarily broke down. Knowing that these two stocks have proven to be correlated going back in time, I am going to try and profit from this current break down. Taking a look back at the historical spread between the two stock prices, we see a range of between $5 and $8. Back in the middle of December the spread narrowed to around $2 (12/19/09). With the expectation that the spread between the two stocks would go back to around $6, we would have bought the stock that looked cheaper (Pepsi) and sold the one that looked more expensive (Coca-Cola). Looking at the chart on 12/18/09 in Example 2, you can see how the price of Pepsi retreated while Coca-Cola held up nicely. While the correlation seemed broken, we would expect it to correct at some point. If our expectations proved correct, we would profit from Pepsi rising and Coca-Cola falling in price. Once the spread between the two stock prices got back to $7 we would close both positions. As you can see below, once the spread between the two corrected back towards its mean, the correlation between two resumed.



Example 2. To see this chart in a larger size visit: www.netpicks.com/charts.html

While this is a very basic example of a pairs trade, I hope you can see the potential in this strategy. We aren't betting on the direction of the overall market at all in this trade. We are looking at historical data and then placing a bet on two correlated products following their patterns of price movement. Our example looked at two different stocks. However, different ETF's or index products make good candidates as well.

These setups don't occur all that often, but when they do they provide a very low risk opportunity to book some profits. Forming a watch list of stocks that tend to show correlation is a great way to benefit from these situations.

RANGE BARS – THE EQUALIZER

By Ron Weiland

As traders, we should always test different ways of trading to try and find something that will give us a better edge in our trades. We should not be afraid to explore new approaches that have not been readily used in the trading arena. Range bars are a new method of charting that qualifies.

Basically, a range bar, is a bar that has the same price increment and each bar closes either at the high or the low, regardless of where it opened. So, if you want a range of 5 points on the Dow, set your range to 5. Every time the DOW moves 5 points up or down it will print a bar. Time has no effect. This gives us an edge in markets that are moving sideways or are very flat. Take a look at the following charts.

Chart 1. To see this chart in a larger size visit:
www.netpicks.com/charts.html

Chart 2. To see this chart in a larger size visit:
www.netpicks.com/charts.html

These two charts cover the Russell for the first 2 hours of trading. Chart 1 is Range and Chart 2 is time. As you can see, it is much easier to trade and see trends in price action on a range bar chart (not to mention we had 3 winning trades). Now take a look at what a time chart looks like with the same price action. You can see the dramatic difference.

Looking at Range Bars for forex traders

Trading is simple, but not easy. A key to success is eliminating the constant "noise" that so efficiently clouds trade signals. Forex traders understand this all too well. Unexpected news, technical "violations" and geo-political events can create doubt and confusion. Doubt and confusion creates hesitation. You hesitate, you lose. Range bars help show you the picture of what price is doing. It does not matter what indicators you use, they will respond much faster and give a clear pattern to improve your trading.

Range Bars now available on Metatrader

It used to be that with Metatrader you only had the option of trading with time charts, not anymore! You can now use Range bar charts and reduce market debris such as long-wicked whipsaw bars, stalls and consolidation. All of these can prevent traders from clearly seeing the market as it unfolds. You're probably thinking, "Wait! Everybody uses time-based charts" and you're right, and that's the problem. Replacing time-based indicators with range bars may very well replace your losses with profit.

The Trading Edge with Range Bars

The greatest edge of a range bar is the information displayed is directly relevant to your trade. When using a time-based technical signal, your trade is late by definition. The price footprint must first occur before you see it. The range bar is valued by technicians because unlike a chronology-based signal, a range bar is the actual price parameter a currency has established over an undefined amount of time. For example, an 8-pip range bar candlestick shows the trader a definitive trading range. A break above or below this range isn't a "violation" but a price expansion. How does this help the trader? The signal accuracy available for a long or short trade using range bars is phenomenal, controlled, and emotionless.

Have you ever thought about it this way?

If you trade the Forex market and you seek to make 8 Pips on a trade wouldn't it be more useful to pull up an 8 Pip candlestick chart? Yes it would be. An 8 pip candlestick would ignore time and instead concentrate on price movement alone, and price is what ultimately matters. Once the currency trade moves outside the 8 Pip range, another candlestick will form, no matter how many minutes or seconds this may take.

For the trader accustomed to viewing time-based candlesticks, not to worry. The visual look of the range bar chart is the same as a time-based candlestick, but you may find a clarity you never thought possible.

Chart 3. To see this chart in a larger size visit:
www.netpicks.com/charts.html

Chart 3 is an example of the EURUSD with Metatrader and 5 Minute Intervals. Not too bad, but I think you will like the range chart better.

Now compare Chart 3 and Chart 4. Notice how long the tight range of chop is on the 5 minute chart. Compare that with the smooth price action on the range chart. You clearly pick up the trend in price action. On the time chart we would get into the trade and really not know if we were out of the chop. Not to mention we did not make as much.

All of the coaches/traders here at NetPicks constantly look to improve their winning edge through improvements to the systems and general trading practices. Adding range bars has had a positive effect across all the markets we

Chart 4. To see this chart in a larger size visit:
www.netpicks.com/charts.html

trade. As an educational and training company, we look to pass this along to our loyal customers and fellow traders everywhere.

Good trading, and hope to see or speak to you soon.

Ron
NetPicks Coach and Support Team Member

THE SEDUCTION OF SYSTEM TESTING

by Will Feibel

We all know that back testing is vital to validating a trading system, creating a trade plan, managing risk, and projecting realistic financial results, but it can be such a chore! It would be great if we could just have an automated strategy that does all of the work for us. If you know how to program for your charting platform and it supports automated testing, or if your vendor provides an automated strategy, then you can. But beware; system testing can be seductive however treacherous. Let's look at some of the major pitfalls:

- Programming limitations
- Sample size
- Curve fitting

We'll discuss each of these in turn.

Programming Limitations

Experienced traders don't simply follow rules mechanically. They consider the context of the market and recent price activity in establishing their entries and exits. Some of these factors can be programmed, although they can be quite complex, others simply can't. Examples of factors that can be programmed are adjustments around indicators and key levels, volatility filters, and impact of higher or lower time frames. There are other examples, but these are typically factors that are visually apparent but programmatically complex, especially once the interaction between several of these is included. Factors that cannot be programmed are changes in the fundamentals affecting a specific market, or scheduled and unscheduled news events. They simply cannot be built into a software model, and whatever results we get from an automated test we already know will not be accurate or reliable.

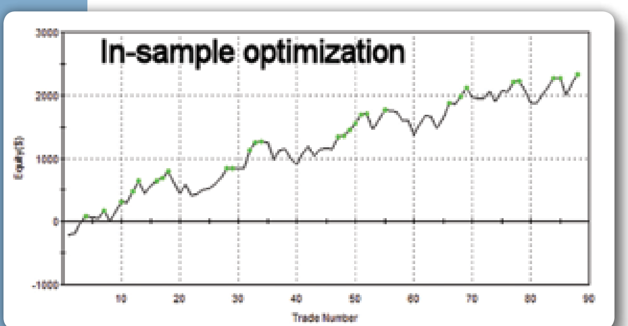
Sample Size

A proper test needs to cover an adequate sample period. For a day trading system you should have at a minimum a three month back test, preferably six months or longer. For a swing trading system you need several years of back test

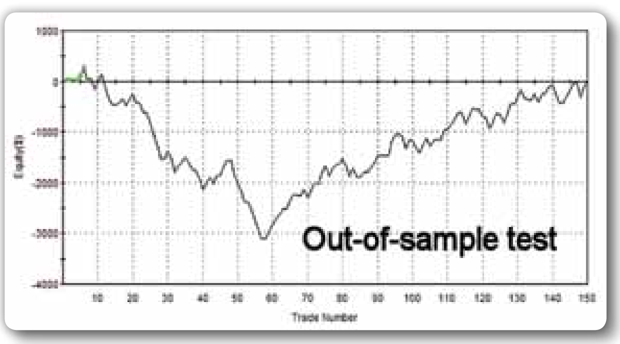
continued on next page

data. Your charting software and data provider will be the limiting factor here. If you trade time interval charts on Tradestation for example, you can get a year and possibly more of data. If you want to test tick charts however you can only get six months of historical data, still adequate for day trading but not for swing trading. And if your system relies on range bars or Renko bars then you can barely get two months of data, inadequate even for testing day trading systems.

The second issue with sample size is that it should be large enough to provide data for both in-sample testing and optimization, and out-of-sample validation. What that means is that you want to do all of your optimization and fine tuning on the in-sample time interval, let's say the last four months, but still have an un-optimized time period that you can test to validate your findings, called the out-of-sample period. As an example look at these two charts. The first one shows a system that has been optimized to give us a very nice equity curve:



This curve is the result of a two month optimization performed on the last two months of historical data. It shows a steady rise in equity with occasional small draw downs. However, once we add the prior month's out-of-sample data to the mix the picture changes completely, as can be seen in the next figure:



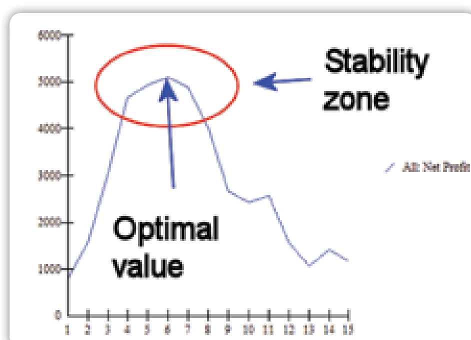
Had we not blocked out a segment of the data for out-of-sample testing we might have started trading this system live with the expectation that it would continue to perform as it did during the in-sample period. With the addition of the out-of-sample data we recognize that the system has a flaw. You don't want your live trading to turn into the out-of-sample test.

Curve Fitting

This is perhaps the most seductive and most dangerous aspect of system testing. We can optimize each of our variables over a range of values and do one giant optimization run that optimizes all variables simultaneously. We then pick the result with the highest net income and proceed to trade that, usually with disastrous results. This is the approach used by some vendors when they display those incredible equity curves that are too good to be true. We end up buying the curve fitted system and start trading it live and its performance falls apart. That's because curve fitting finds the one ideal combination of values that works for that specific set of price bars. And only for that specific set of price bars. The first chart we showed above is an example of curve fitting. The second chart shows what typically happens outside of the curve fitted sample.

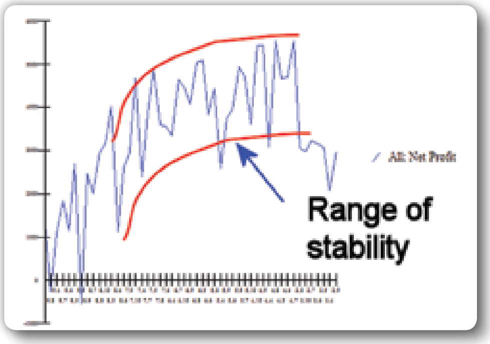
There are ways to avoid the curve fitting problem. One approach is to buy software specifically designed for testing. These packages can do several things. Typically they run a test multiple times, each time introducing an element of randomness to the historical price data. If the result of such a test shows a composite equity curve that still looks solid then that gives greater assurance that the results are not curve fitted. These packages may also assist in the optimization process through the use of sophisticated genetic algorithms or neural networks, and for the serious system designer may well be worth the expense.

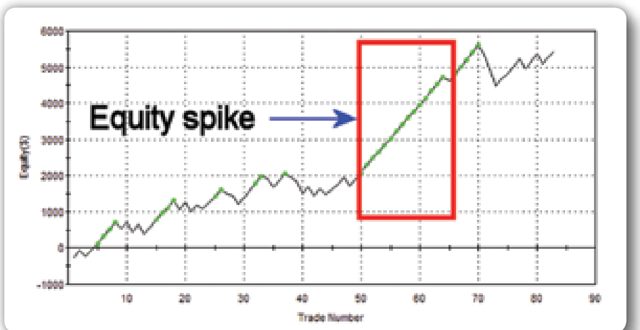
A second approach to reducing the risk of curve fitting is to perform the tests in several steps, always with an eye to stability in the results. We usually start by establishing a baseline model with a baseline set of variables. We then test each variable individually and look for values that appear stable. As an example look at the following chart, this measures the net income of a system as a function of a specific variable. You see a peak value that gives a clearly optimal result. More importantly however you can see that the results to the left and right of this optimal value are still good, and they fall of gradually. This tells us that we have found a stable value for this variable.



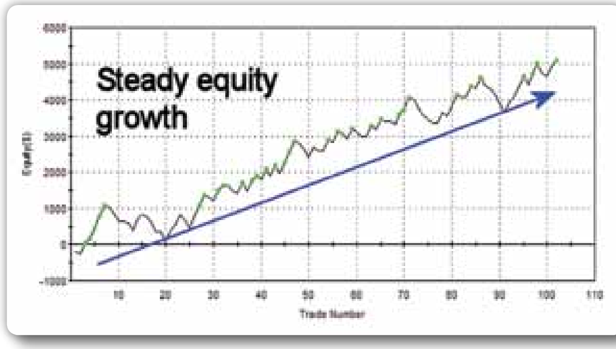
Once optimal and stable values are found for each variable we can start testing them in combination, again with an eye on stability. The following curve shows the result of testing a pair of variables. Although not as smooth as the single variable test it does show a clear area of solid performance with a relatively stable range of combinations to either side. All of the combinations in this zone should give us positive results in our equity curve.

Next we look at the general shape of our equity curve. We want to see one that advances gradually and steadily, and not one that is profitable because of brief spikes. Consider the following equity curve:





It shows a great overall result, however for most of the period equity growth was relatively flat and were it not for the spike in equity, which may have been due to an unusual confluence of factors, would be totally unimpressive. The next curve on is much more appealing, even though the final net income is slightly lower:



Equity rises steadily with occasional draw downs throughout the period. Not only does this give us greater comfort in the stability of the system, it's also much easier to trade psychologically. We'd rather see steady progress in our equity than have to wait for the occasional home run streak.

To further validate your test results you can rerun it on slightly higher and lower time frames. For example if you performed your test on a 100 tick chart, run it on a 95 tick and on a 105 tick. If both of those time frames give you solid results then you have greater assurance that your system is not curve fitted.

Finally, we always allow for an out-of-sample test, as discussed above. This is the final check. If the system continues to perform well in the out-of-sample period then we can feel comfortable in starting to trade the system live.

Conclusion

System testing is seductive in its apparent simplicity, but it can be a mine field to the unprepared trader. Understand that your system test can provide useful guidance and a general sense of system performance, but live trading results will always differ.

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TRADE OF THE MONTH

by Troy Noonan

Trading has been tough this first part of 2010. It seems, more often than not, we are challenged with numerous tough set ups and the necessity to really gut-out hard trades. Sometimes the difference between a successful session and a losing session boils down to just a tick or two, and the decisions one makes at critical moments in a trade. It reminds me of a hard fought football game, where the players are fighting as if it were life or death. Missing or hitting the 10 yard marker, and thus the first down, can come down to a single inch and can completely change the outcome of the game and even the season. The same is true with trading.

That thought was going through my mind Tuesday, Feb 9th, on a hard fought Russell eMini trade we were in. We had already hit a nice winner for 2.5 points, rather quickly actually, and only needed one more win to finish a quick and efficient session, hitting our goal with a perfect 2 wins and done, "see ya tomorrow!"

One of the mainstays in my trade room is the Russell eMini with a 233 tick chart and our tried and true "UMT Original (Core)" Strategy. I have called over 2000 live trades with the UMT Core and have combined the "power of quitting" goal strategy for a steadily growing equity curve over the past 2 years. You might say I've seen everything the Russell has to offer with that strategy and you'd almost be correct. The market however, continues to be infinitely challenging and sometimes it will put one to the test and the decisions that a trader makes, even down to a one tick adjustment in a stop, entry or target, can make all the difference.

On this particular trade, we had a 'long reversal' that had triggered us in. Reversal trades, being counter trend and as a result, counter-intuitive, are difficult to take in general. But they play an important role in our sequence of trades when trading the UMT Core. In our standard reversal set-up, it requires placing the stop beyond the prior swing low and tends to also require a bit more risk than the other set ups. They are very powerful trades but like everything in trading, nothing works 100% of the time.

On this particular trade, the market had become oversold, based on our proprietary oversold/overbought indicator. At 9:49 EST, it gave us an entry price of 591.6 off of the @TF chart (a continuous Russell eMini Tradestation chart). I have indicated the actual set-up bar with a cyan blue arrow in diagram 1. Notice that the entry was over 2 1/2 points away from the actual set-up bar, which is indicated by the cyan horizontal line. Exactly 5 minutes later, the price came up and hit our entry. We found ourselves long, and instantly it moved back down against us.

How many times do you get triggered into a long trade at the absolute high point of the move? We often have a way to stop and reverse to short when a trade behaves in such a way. Our trade plan has specific rules and it tries to 'admit' when it is wrong, allowing us to cut our risk and to get onto the 'correct' direction of the market which is the basic theory behind any 'stop and reverse' set up. The red bar that closes below the solid bands you see on the chart, marked with a red arrow above it, would typically be our set-up to stop and reverse to short. BUT!! (Thank goodness for 'but's.. lol..) In this case, we had an exception to that rule which prevented us from reversing to short. You will notice, next to the red bar that I indicated, that there is also a blue dot. The blue dot shows that our solid bands had 'crossed over' the dashed bands, signifying a change of trend to the upside. That would be great seeing as though we had just entered a counter trend long reversal trade, but in this case, it seemed to be happening too late. The market was pulling down hard against our position. I could either cut risk on the long trade and get short, to catch the next move down (which was the intuitive thing to do) – or – I could stay with our long trade and remain stoic to our trade rules, regardless of what seemed to be a trade destined to hand us a full size loss.

It was a tough position to be in, knowing that so many traders in the trade room were depending upon 'my' decision, and to call out of what to do in a timely way for them to act upon. And, the price was moving. I had to decide quickly. Luckily for me, I learned some time ago, that to really be successful at day trading, you have got to 'lean on the system' for tough decisions. Leave out the discretionary decisions that are most likely coming from some sort of misunderstood emotion (a subject for another article) and usually wind up being wrong more times than they're right.

A few minutes later, the price had pulled all the way down, even breaking the swing low that gave us the set up in the first place, by one tick. On two separate bars! In fact, it also missed hitting our stop, which was just two ticks below that same set-up bar, by just one tick. We also got a cross over short signal, as indicated by the red dot in diagram 3, a trade set up that clearly was coming too late. If only that blue dot hadn't shown up when it did, we would already have gotten short and would have significantly cut the risk off of the long position we were in. We had broken the swing low (and session low I might add) on two consecutive bars and it was imminent that we would get stopped out. Second guessing would be a normal reaction at this point, no?

Miraculously, we had somehow managed to survive. In fact, the price had pulled all the way back to our entry. I wonder how many reading this article would have been happy just to jump out at break even, feeling nothing short of giddy, for surviving that close call. That would be the intuitive thing to do. After all, it's not often one gets a 2nd lease on life, right? This is the kind of trade that really tests one's mettle.

We're day traders! We don't have the luxury of acting intuitively. That would be the human thing to do, and consequently the WRONG thing to do. Trading is so counter intuitive which is why we have 'trade rules.' The rules were established to give us an edge in the market. We don't know if any trade will win or lose. We only know that we put the odds in our favor on every trade that our system signals. Some trades will live on the fringe and will put you to the test. This was one of those trades if ever there was one.

At exactly 10:18, approximately 45 minutes after our trade initially set-up, and about 30 minutes after it had triggered in, we exited the position with our FULL profit in hand. Power of quitting had us stopping with a nice +4.6 points on the session. The system somehow, kept us from stopping and reversing out of a winning trade. In fact, we would have reversed into a short trade that also would have lost and instead of a full size winner and our session nicely over, we would have been in the hole with two losses in a row, and the need to keep trading, with the outcome of the session in doubt. 1 tick away from stopping out made all the difference! Since that particular trade caused us to come face to face with so many psychological issues, the kind that most traders must reconcile on a day to day basis, I decided that this WAS the trade of the month.

Much can be learned from experiencing a trade like this. The most important thing though, in my mind, is the confirmation that we really don't know that outcome of any trade, until it plays itself out. All we know is that if we have done our homework and have established an effective trade plan, we will put the odds in our favor and over time, those odds will work themselves out in our favor, if we can somehow stay out of the way, and let it do its thing. Some trades will require every last tick of its overall profile to work as in this case. Those wind up just being 'another trade' in our spreadsheet and blend into the overall history of all our trades. It's a bit different during the time we are living through it. Those that can detach from the immediate trade and just stick with the plan that has given us our edge will be the traders that find success.

RE-ENTRIES: Adding to your bottom line

by Shane Daly

A great thing about a trending market is it can be relatively easy to make money from it. The secret is to be a part of it. How do you do that when the core setup of your strategy has already produced a winner? Re-entries. Optional re-entries to be exact.

Let's first look at the mechanics behind a re-entry using a buy as an example. A certain price level is reached that buyers find to be attractive. Buying occurs causing the market to rise. Another price level is reached where buyers have reached a target and take profit (selling their position). This selling causes the market to retrace (pullback). This retrace will last as long as the sellers outnumber the buyers. Also, the longer this selloff occurs, those holding long positions may be getting "spooked". When this occurs, the retrace continues to pick up speed until the sellers are exhausted and the buyers come into the market at an attractive price. There is a general rule that trading the first pullback in the market is buyable (on a long). Why? Think of it as those that missed/skipped the first buy want to capitalize on the move. They can buy in at a cheap price and that is what they do. There's a problem with that scenario, the more pullbacks, the less "push" remains in the market. Usually, it is the rookie trader that does not pay attention to how far the market has extended and end up buying at the top.

The issue becomes "how do I know the pullback has ended?" There are many ways you can use to find "the bottom" You can look for a price pattern, a certain exhaust candle, support/resistance levels, Fibonacci levels or gut feel. There are both objective and subjective ways.

Chart 1. To see this chart in a larger size visit: www.netpicks.com/charts.html

This chart (Chart 1) is a great example. It shows the first buy opportunity and the re-entry. Ask yourself, how would you get into the second trade for 25 pips profit?

continued on next page

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All guess work was taken out of this trade. I had a successful buy which then allows me to take an "optional re-entry". Notice how a perfectly formed "V" occurs on the pullback before the buy? That is picture perfect. There was a strong interest in the selling and an equally strong interest in the buy. No sideways meandering action. I bought the first pullback and continuation objectively. What showed me? The High Velocity Market Master system. See the Chart 2 below for the exact setup.

Chart 2. To see this chart in a larger size visit: www.netpicks.com/charts.html

Buying the first pullback as shown by the strategy serves up 25 pips. On the far right of the screen was the end of the overall move at that time. This pullback re-entry was not only objective without any guesswork but allowed me to gain another portion of the up move. It also shows that not everything lasts forever. That is why when faced with a strong move, keep in mind how many pullbacks have occurred. I usually won't take anymore than two re-entries.

What about re-entering after a loss? Here are my thoughts on the subject. If the market at the time of a setup does not have a big enough push to target and then stops out, I would like to see the market prove itself. Meaning? Let the market complete a full trade in the initial direction. Many do not do that simply because of never wanting to miss a move. This is where the re-entry comes into play. Once the market has proven itself (for as much as it can), the re-entry play is on the table. I would be willing to take a higher setup though.

This chart (Chart 3) explains in better detail:

1. Failed trade. Triggers and exit on early exit
2. Higher setup occurs. This I would take
3. The initial trade goes to full target
4. If the higher setup did not occur (2), a re-entry presents itself allowing you to get into the move

Chart 3. To see this chart in a larger size visit: www.netpicks.com/charts.html

The huge point is to never be afraid of missing the initial move. Re-entry trades are a superb tool to add into your toolbox. Yes, you will be fine just sticking to core setups but the re-entries are icing on the cake. Not only do they get you out of the market early with 2 wins and positive POQ (power of quitting), they also add to your bottom line.