THE NETPICKS INFORMER

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LETTER FROM THE DEVELOPER

Let me be the first to say it…. Happy New Year!

Ok, by now it may not be really the first but it's 2011 and for traders it's always a great time to look back and reflect on your successes, and yes, even your failures in the past year.

We're all familiar with New Year's resolutions. Most of the time they center on fitness, weight loss, spending more time with family, etc… Hey, those are all great resolutions. However, you should also be sure you make some resolutions as a trader as well. Maybe this is the year you finally diligently follow your trade plan rules instead of improvising all the time, right?! Whatever the case might be, I would encourage you to list out your trading resolutions if you haven't yet already.

At NetPicks we have our own resolutions when it comes to what we want to provide you in 2011. Yes, we'll continue to focus on our popular Seven Summits Trader and Ultimate Swing Trader strategies. We've got a number of new enhancements we'll be adding to the mix in the months ahead, including a 100% forex-based version of the Seven Summits Trader. We'll also be providing continuing education in our "Mastery Series" for both systems. Our first in the series is dedicated to an Options Trading Crash Course, which we'd invite you to attend seeing as how trading options are so hot nowadays.

And our resolution to you goes well beyond this. We want to make 2011 all about traders education. And a number of free training resources available to you so you can really raise your game this year.

All of us here at NetPicks will be producing ongoing educational content for you, including this newsletter, free live training webinars you'll be invited to attend on a variety of topics – whether that's forex, futures, stocks or options – plus, we have a brand new "Trading Tips" blog you can find right from our NetPicks.com homepage which also includes our new 'Trading Breakthroughs' series that includes articles, videos and handouts to hopefully provide you with that breakthrough moment in your own trading.

This year is going to be all about continuing and dramatically improving your trading education. Dedicate yourself to continually learning and improving and it will surely pay dividends to you in your trading. I've personally been involved in NetPicks since we opened the doors back in 1996. This is now our 16th year and I can safely say that not a day goes by where I don't learn something. Until I reach 100% winners I know I'll always be seeking out the latest trading knowledge and our mission is to share that knowledge with you. Here's to a Happy and Profitable New Year to us all!

Mark Soberman

CONTENTS

Letter from the Developer 1
What's New at NetPicks? 2
A Spin Around the Neighborhood 2
Getting to Know Your Market – Timeframes ... 3
Discretion – Our Enemy 5
Volatility Indicators 6
Trade of the Month 7
Exchange Traded Funds 8
Trading Breakthroughs: Externalize The Internal 9
A Day in The Life of a NetPicks Trader - Trading The News 11
A Case for Trading Silver 12

CALENDAR

February: Seven Summits Trader Forex (First Ever Debut!)

March: Options Live Re-Release, Seven Summits Trader Live Training

April: New Mastery Series, Seven Summits Trader Demo Days

WHAT'S NEW AT NETPICKS?

As Mark mentioned, we've got several new things on horizon - the most notable is our commitment to providing more free quality trading education on a regular basis. Whether it's webinars teaching the latest techniques, an up-and-coming new market or charting timeframe, or exploring the latest platforms and hardware - we promise to give you the full scoop so you can make an informed decision (because hey, isn't that what trading's all about?).

In addition, we'll be coming out with the sophomore release of the Options Live training program. Since the first release back in Fall 2010, Coach Mike and Coach Bob have been working non-stop with our first set of students to provide them with a rock-solid foundation in trading options and judging by feedback, they're doing an excellent job. Make sure you're on the Options Live Waiting List to get more info and dates for open registration:

http://netpicks.com/optionslive

And by the time you receive this issue of the NetPicks Informer, you should have already seen that we just released the Seven Summits Trader specifically for Forex Markets! This had been a big request from several of our members - they wanted the SST dedicated solely to learning and improving their trading skills on the Forex. And this training is just what the doctor ordered! Whether it's majors or exotics - the SST Forex will teach you how to really 'corner the currencies' using the SST system. If you missed out on the SST Forex release, click the link below to get on the Updates list:

http://sevensummitstrader.com/fxupdates

Speaking of the Seven Summits Trader, we know that the registration period seems to extend longer and longer after each release- and for that we apologize. Why do we do it? We simply have to maintain a consistent level of high customer service for our existing SST traders. Our traders mean alot to us so even at

the expense of new registrations, we're going to do what we need to in order to ensure a positive experience for our existing clients.

The good news? We're opening up SST Demo Days to take the edge off! These Demo Days are dedicated to showing the Seven Summits Trader in a live webinar atmosphere. You can see how it performs, ask your questions and even have a chance to register right there (provided copies are available). Demo days will be small, informal and focused on getting your questions answered so you don't have to endure the long wait time between our major releases. To register for an upcoming SST Demo Day, make sure you visit our schedule here:

http://sevensummitstrader.com/demodays

Lastly, this past month we introduced the first installment of our Mastery Series for our SST and UST owners. This continued education program is meant to be taken 'a la carte' - while there is no dedicated theme, each session will cover the hottest topics and will be taught in much greater detail than our free educational webinars (and will often include handouts and other supplemental resources).

This month, Coach Mike taught a 2-hour 'Crash Course' in Options. Attendees gained a ton of information as well as actionable steps to start trading the options market. Nothing is just 'theoretical'. In each Mastery lesson, we teach you real trading techniques that you can apply that very day! Upcoming topics include: Trading with a Small Account and How to Trade Silver. Register for one, register for them all - it's up to you:

http://netpicks.com/masteryseries

A SPIN AROUND THE NEIGHBORHOOD

By Troy Noonan

For me, remaining disciplined is a daily 'piece of work.' One of the most difficult aspects to trading IS remaining disciplined. I have learned over many years, that the best way for me to remain consistently disciplined is to reduce my morning activities to a repeatable routine. I wake up the same way, I stagger down the hallway to my trade desk the same way, ground my fresh coffee beans the same way, and pretty much go through the same morning routine, each and every day. This sets the tone for being able to call live 'at the right edge of the chart' trades in a consistent and disciplined way as well. One of the things I do when my morning session is over, is to take a spin around my neighborhood. It helps get the blood flowing, gives me a good dose of low impact daily exercise and helps relieve whatever stress or pressure has built up as a result of the morning session.

I'm lucky enough to live in a nice, well-planned residential community that is a blend of modern suburbanization and natural wild life. In fact, I have a wild life protection zone directly behind my lot line. There is an excellent jogging trail that winds around, up the hills, around the neighborhood parks, etc. There are ponds, wild turtles and frogs, reptiles, deer, rabbits, ducks, and a whole variety of other strange exotic wild birds. It always helps clear my mind when I go on my morning spin around the neighborhood and often, this is when I get some of my best ideas. This leads me to the subject of this article.

The other day, I presented a tradeplan in the SST Owner's Club on how to trade the GBPUSD 5 minute chart. The tradeplan has produced very good results over the last several hundreds of trades. However, there is one problem that I wasn't quite able to get a handle on until one of the mornings when I was on my usual spin around the neighborhood. The plan calls to lock in an 11 pip profit once the price gets to a certain preliminary target level, called the 1x. I've tried a bunch of different combinations and as it turns out, locking in 11 pips in such a way produces the best overall result. Oddly though, the 1x often comes before the

11 pip 'lock-in.' So if the 1x is only 8 pips away for example, the plan calls to lock in 11 pips once the 1x is reached. What happens, in essence is the 11 pip level becomes a level to actually scalp out of the trade.

This is not really the desired effect nor is it what I intended with the tradeplan but this is just how it wound up working out. The 5 minute chart is what I would call a static chart. In other words, it is not dynamic like a tick chart or range bar chart. The bar has to close every 5 minutes regardless of how many trades pass through the market. It is one of the limitations that come with time based charts and it is what it is. That being said, time based charts can make good charts to trade from. The SST is dynamic and self adjusts in real time and sometimes the 5 minute bar produces very small trades. These trades can become big trades though if handled properly and the SST gives us the ability to either trail or even scale in more positions as the trade progresses. But scalping out at the 11 pip level often eliminates that potential. Do you understand the dilemma?

While on my daily spin around the block, it occurred to me that this could actually be an opportunity. But it does require a bit of expertise regarding how the SST indicators actually behave in relationship to price action. It seemed to me that rather than just throw the baby out with the bath water and ditch the tradeplan altogether, there are a number of creative ways to use the SST setups and still make sense out of this tradeplan.

One way would be to trade a 3rd position and to scalp that one out at 11 pips when the 1x is smaller than 11 pips. Then, use the other indicators to help you reduce risk at the 1x level but still give the trade room to develop.

Another idea would be to trail the trigger line like we do with the EURJPY 233 tick tradeplan.

Yet another idea would be to just trail the opposite dynamic price channel line until the fixed target is reached at the 2nd target. At that level, you could exit the 2nd position and keep the 3rd position on to trail with either the trigger line or the 3 bar stop.

These are all decent ideas that will produce a very positive result. The tradeplan offers many benefits but a way to deal with the oddity of the 1x often coming before our actual 11 pip locked in profit needs to be considered.

You never know when you're going to get your 'light bulb' moments in life. I often get my best ideas when taking my spin around the block. The fact is the idea for the SST itself, came to me in such a way. I believe it is beneficial for all traders to have some sort of routine that they use to set the tone to begin their trade sessions but also, a routine that helps them when the session is over.

I recommend doing something that will give you some creative alone time and, if you can get your blood circulating with some consistent exercise as well, all the better. Don't discount how important this could be to you and your overall success, not only as a trader, but with life in general.

GETTING TO KNOW YOUR MARKET – TIMEFRAMES

By Bob Malinowski

Every market has a "personality". The more you get to know a market, the better you can trade it. How does it react to news, swing highs or lows, daily highs or lows, or key levels? How does it trade during normal market hours, open outcry, or after-hours? What price action can you expect based on the time of day, day of week, or season? A familiarity with these attributes contributes to the 10% art component of trading and can enhance your success with trading the particular market. In this article, I will examine market timeframes and trading ranges, and how to become more familiar with them.

When day trading a market, we know the importance of picking the right time frame. For most of us that means picking a timeframe that has good price action, and one that corresponds to a time of day that we are available to trade. Before we spend a lot of time back testing a market, we need to select a timeframe that satisfies both of these criteria. (We don't want to waste a lot of time on a timeframe where there is little price action.) One way to find areas of good price action is to bring up a chart, look at it over a 24-hour period, and simply look for areas of good price action. To get more quantitative information, we can add an analysis technique like an average-true-range or the NetPicks Incremental to the chart. These indicators show which times of the day experience greater price movement.

An example is illustrated in Figure 1 for the Forex pair EURJPY on January 26. Here we see that good price movements occur between 0400 and 0600 (London session), 1000 - 1100 (New York session), and 1400-1600 (Asian session), with the best price movement occurring during the London session. But this represents only one day. Let's look at the next day.

Figure 1: 5-Minute Chart of EURJPY for the 24-Hour Period of Jan 26, 2011 (U.S. Eastern Time Zone)

continued on next page

Figure 2 shows the same market for January 27. Here we see a different profile, with the best price movement between 0300 and 0400, and less relative activity during the other trading hours. Just like we need a significant number of trades to demonstrate the edge of a system, we need a significant number of days to show an expected trading range for a market.

Figure 2: 5-Minute Chart of EURJPY for the 24-Hour Period of Jan 27, 2011 (U.S. Eastern Time Zone)

We can expect that each day may look a little different due to the normal daily fluctuations in trading activity which can be influenced by news, earnings reports, political events, sentiment – in short just about anything that affects supply and demand. Therefore it would be beneficial to know what price movement we can expect on average for the timeframes we are choosing. Then we can back test those timeframes with our chosen parameters, and let our system give us the edge we need to be successful over time.

One of the often overlooked benefits of our trading platform is the ability to use historical data for analysis. Platforms such as TradeStation provide an ability to export much of the historical data (such date, time, open, high, low, and hundreds of indicator values) that can be used to analyze the market we are trading. This data can then be imported into another software tool like Excel where simple, but powerful, analyses can be performed. For example, we can export a year's worth of data from a market, calculate the trading range, and plot average trading range over a 24-hour period. Figure 3 shows the results of exporting a year's worth of data for EURJPY 30-minute bars for the calendar year 2010, calculating the average trading range, and plotting the results using built-in tools available in Excel.

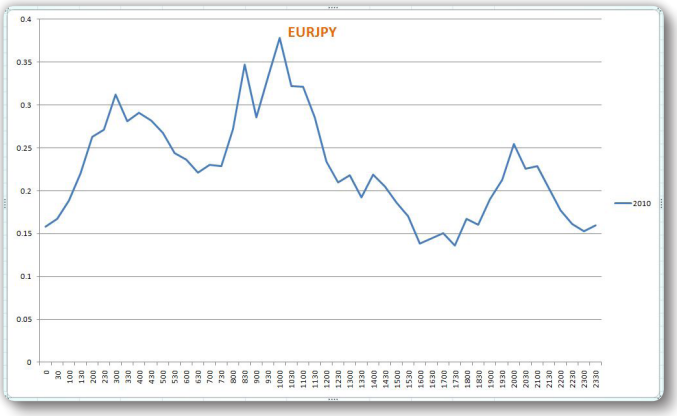

Figure 3: Average Trading Range of EURJPY throughout the day (U.S. Eastern Time Zone) in 2010

Here we get a better picture of what price movement we can expect over a 24-hour period trading the EURJPY. Although there is very good price movement during the London session, the greatest movements (on average) occur during the New York session between 0830 and 1130. The Asian session shows a spike in activity, but it does not reach the levels of the other two sessions. Knowing this, we would want to perform our back testing during one of these timeframes that fits our schedule for trading.

There are other ways we can make use of the data we exported from out platform, and we can be even more creative in how we analyze it. For instance, many traders have a feeling that some days of the week trade better than other days of the week, but it is often difficult to determine what it is that is influencing our results. Maybe the trading range has something to do with it. With the same data that we just exported, we can compare trading ranges by day of the week. Figure 4 shows a comparison of the trading ranges we can expect on Mondays versus the other weekdays. It appears that there is a noticeable decrease in trading range during our favorite sessions. During the New York session for example, the trading range on Monday between 0830 and 0900 (normally very large) is about 35% less than the rest of the week. However, during the Asian session, there is hardly any impact. Knowing this, if we are experiencing a lower profit margin on Mondays, we may want to look at back testing this timeframe with smaller targets, or using a smaller range value if we are using range bars.

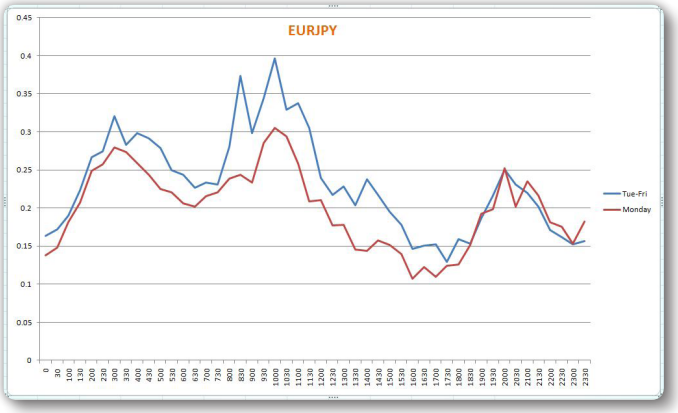

Figure 4: Average Trading Range of EURJPY throughout the day (U.S. Eastern Time Zone) in 2010 Tuesday-Friday vs. Monday

Another way to make use of this data is to look at seasonal effects on trading ranges. Figure 5 uses the same data for the EURJPY, but this time we are comparing the trading ranges of the first 11 months of the year with December. Here we see a significant drop in price movement across the day. The timeframe where we normally experience the greatest trading range, 1000-1030, has a drop of 36% in December. Again, knowing this we may want to adjust our trade plan.

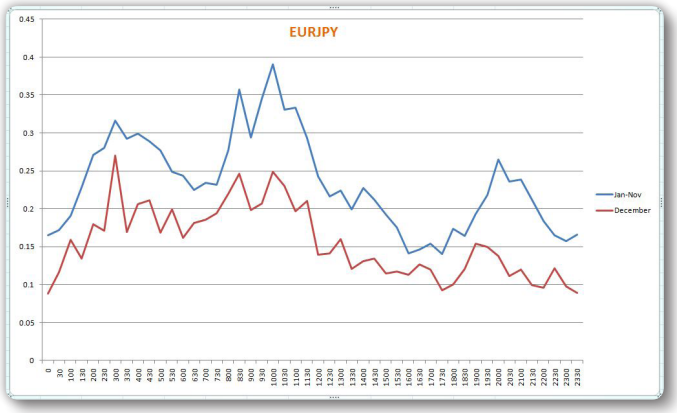

Figure 5: Average Trading Range of EURJPY throughout the day (U.S. Eastern Time Zone) in 2010 January-November vs. December

There are many ways we can use just the trading range data exported from our platform, and each market shows different results for variations in trading range. Crude oil has the weekly inventory report that impacts price action. Wheat shows seasonal variations based on harvest schedules. If you are swing trading, the data can also be used to plot average daily ranges for use in back testing swing trade plans to see how earnings reports affect results, or what time of the year may be better for swing trading a particular market.

By taking advantage of the capability to export data from our trading platform and analyzing with tools widely available in software like Excel, we can enhance our understanding of the markets we trade and provide us with more information to become better traders. I have created a spreadsheet in Excel for analyzing the range data for twenty markets. If you are interested in the spreadsheet, please email at bob@netpicks.com

DISCRETION – OUR ENEMY *By Keith McKenzie*

The other day a colleague of mine and I were talking over some of our silver trades and the topic of discretion came up on how we were using it in our trading. Now, before I go any further let me give you the dictionary definition of discretion so we can all be on the same page. The definition of discretion is "the power or right to decide or act according to one's own judgment". So continuing on with our discussion, we talked about this trade and that one, and we came to the conclusion that when we used our discretion we were usually wrong. In fact, as we continued to talk about this, we came to another conclusion that we didn't "know jack" about where the market was going or going to go at any given time. If you're a technical trader, discretion is something you need to eliminate from your trading.

To demonstrate this look at figure 1, this is a 233 tick Silver chart on Monday morning January 24, 2011. Now, I start trading Silver at 8 am EST. I came into my office around 7:30 am and I noticed that we had a successful premarket reversal short and a basic add on that was stopped out for1 tick gain. At 8:24 we had a reentry short at 27.480 with a swing low at 27.410 (channel low was at 27.420). My money management target was 27.380,

Figure 1

Figure 2

6 ticks below the swing low. My trade plan for this market allows me to adjust a maximum of 6 ticks around key levels, anymore than that I'm required to take the trade "as is".

So here's where my discretion came in, as I was looking at this trade my choices were to adjust my entry down below the swing low at 27.405, that's 15 ticks below my systems entry, that's $375.00 per contract insurance I'm paying to make this adjustment in money terms and against my trade plan rules. It also increases my risk on the trade to 46 ticks if it's a straight-up loser, or I could take the trade as is, thinking that I would get ticked in at 27.48, price would move down to the swing low at 27.41 and bounce off that and go up and stop me out. With all this going on in my thought process (and I had about 15 minutes to think about this), I decided just to step aside. I didn't take the trade. If you look at figure 2 you can see the results of that trade, and yes, it was a full target winner. When I went back to review this trade and tried to recall what I was thinking, I realized that was my problem, I was thinking. I was using my judgment or discretion about the trade.

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The good news is this was just one trade, I have been trading this market since the beginning of the year and after reviewing my trade journal this was an isolated incident , but it deserved to be recognized. It's a reminder to me that I trade a technical system that shows me entries with defined targets and stops. I have a comprehensive trade plan that I use to trade that market. I live on the right side of the chart, my system is my edge. I have to fight through the discretion, better yet just get rid of it.

VOLATILITY INDICATORS *By Will Feibel*

Markets alternate between periods of high and low volatility. During the volatile periods we usually see extended moves and solid results from trending or breakout systems; periods of low volatility on the other hand result in periods of consolidation and are ideal for channeling or fading systems. The holy grail of trading is knowing early on what phase the market is in so that we can choose the right trading tools for the current phase.

Several indicators have been developed that can assist us in that task and we'll go over some of the most popular ones in this article.

ADX (Average Directional Movement Index)

The ADX indicator measures the strength of a trend based on the highs and lows of the price bars over a specified number of bars, typically 14. Generally an ADX crossing of the 20 or 25 levels is considered the beginning of a trend, either an uptrend or a downtrend. A move down in the ADX is considered to signal the end of a trend. While the ADX is below 20 or 25 the market is usually in a consolidation. As long as ADX continues to grow, the trend remains strong, but once it starts to turn down the trend is weakening. The chart in figure 1 highlights the area where ADX is over 20 and we can see strong trends in place. The arrows show where the trend slows down followed by a turn down in the ADX.

Figure 1

The ADX has two drawbacks. First, it does not indicate the direction of the trend. For that it's often combined with the Directional Indicator (+DI and –DI) and as a matter of fact the ADX calculation is based on the DI. It's easy enough however to determine the trend visually of with the use of a simple moving average. Second, as is the case with most indicators the ADX is a lagging indicator. It signals the beginning or end of a trend after the fact. With proper risk management however that can still allow us to profit from the bulk of a strong move.

Average True Range (ATR)

The ATR measures the true range of the specified number of price bars, again typically 14. The true range differs from a simple range in that it includes the close of the prior bar in its calculation. ATR is a pure volatility measure and does not necessarily indicate a trend. It's quite possible to have volatile price movement inside a choppy market, as is often the case during an important news event. The best way to use the ATR is as an indication of a change in the nature of the market. We may see ATR rise as the market moves from a tight consolidation to a strong trend or we may see ATR fall as the market transitions from choppy price action into a smooth, strong trend. Figure 2 shows a couple of examples where ATR actually falls as price begins to trend, and drops as price enters some choppy consolidation.

Figure 2

The ATR has the same drawbacks as the ADX. It does not indicate direction, so we often see a rising (or falling) ATR in both an uptrend and a downtrend, and it is a lagging indicator so it will not catch the very beginning or end of a market transition. A third drawback of the ATR is that it will not work with range, momentum or Renko bars. Since those are all constant range bars the ATR will essentially be flat and equal to the constant range.

Bollinger Bands (BB)

Bollinger Bands are calculated based on the distance of price from a moving average over a specified number of bars, typically 20. The bands are a fixed number of standard deviations above and below the moving average, usually two standard deviations. If the price deviation follows a normal distribution that means that 95% of the normal price fluctuation should be contained within the bands, so a breakout from the bands implies a move outside of that 95% probability range, or an increase in volatility. Unlike ADX and ATR, Bollinger Bands indicate both volatility and direction. When price volatility is high the bands widen, when it's low the bands tighten. Since it's possible to have high volatility during consolidation, typically choppy periods will have wide bands moving sideways, as shown in the first highlighted section of Figure 3. When prices transition into a

trend the bands will widen and slope up or down, as shown in the other two highlighted areas. As long as price continues to hug the upper or lower band the trend remains strong, but once price drops away from the bands the market is typically entering a consolidation phase or possibly reversing. You can clearly see these transitions in the chart.

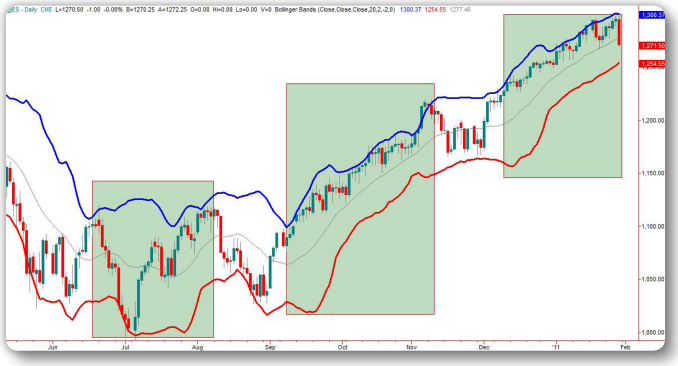

Figure 3

Bollinger Bands are an excellent volatility and trend indicator, but like all indicators are not perfect. They also lag price action so they will not catch the very beginning or end of a trend. And they can also signal false transitions as shown in the first highlighted area, where price bounces between the bands. Although clear in hindsight, at the time price touches the bands it's not clear if it signals the start of a trend or the beginning of a fading move or reversal.

Volatility Squeeze

The volatility squeeze is not an indicator per se but a technique to identify periods of market consolidation by combining two indicators, the Bollinger Bands and Keltner Channels. Keltner channels are similar to Bollinger Bands with the difference that the channels are based on a multiple of the ATR above and below the moving average. That means that they are much more uniform in size and indicate trend transitions quicker than Bollinger Bands.

The volatility squeeze occurs when the Bollinger Bands close inside of the Keltner Channel, meaning that the standard deviation of price around the average is less than the average true price range deviation and that the market is consolidating. Figure 4 is a range bar chart of the S&P e-mini futures. As you can see the market was trending very well except for the two highlighted areas where the Bollinger Bands dropped inside the Keltner Channel. This chart used the default settings for both indicators and you may want to experiment some to fine tune the squeeze for your markets.

Figure 4

As with all the indicators the volatility squeeze also lags price action, but a breakout of the squeeze can be a powerful setup for an emerging trend

Summary

These have been just a few volatility indicators commonly available in all charting platforms. I encourage you to experiment with them and observe them in action. They can be excellent tools to identify market transitions, and combined with other trending indicators or oscillators could form the basis of a flexible trading strategy.

TRADE OF THE MONTH *By Troy Noonan*

A few weeks ago, on January 19th, a trade presented itself to us in our Live Traderoom that required some fast, real-time decision making. Depending on how one decided to approach this particular trade had a significant impact on the result. It required an expert knowledge of the particular trade system we were trading - the Seven Summits Trader (SST), a confident and assertive approach to the rules of the particular tradeplan we use to trade this market, and a good dose of common sense which I guess could be put in the category of the 10% art part of trading. Moreover, this particular market, the Russell eMini, waits for no one and often requires the confident assertive approach that I just mentioned. In other words, you don't have time to dilly dally. You snooze, you lose!

Let me break it down step by step and explain the setup, how I decided to call it live, and what might be described as the conflicting points-of-view on how this trade might have and indeed was, actually traded by other members in the traderoom.

As I said, the Russell eMini requires fast and deliberate action sometimes. That's one of its appealing qualities for daytrading because often, we can hit our daily goals quickly and move on to actually having a life, away from the markets. So here's the play by play on how this trade unfolded.

At 9:33am EST, there was a long set up with an entry at 806.9. One of the things we are keen on is making minor adjustments around key levels and our experience with this market had taught us over and over again that 5's and 0's are levels to be respected. So instead of getting long at 806.9, I called an adjusted entry at 807.1. The market came up and touched 807 and then quickly began to sell off. That one minor adjustment saves us from a

losing trade. Within two minutes we were already confronted with a short trade. This time, the setup bar gave us an entry to go short at 805.1. Again, by the same logic, I called for an adjustment to get below the 805 key level. In this case however, I made a subtle (and this is where the 10% art part came in) decision to adjust NOT to 804.9 but to 804.8. My reason for doing so was to give a little bit more respect to the big round number ending in a 5. I do the same thing with big round numbers that end in a 0 with the Russell. You see, 806.0 (the Russell being quoted in 10ths of a point) was a key level, but 805 was even MORE of a key level, from my point of view.

So far, so good. Hopefully everyone has a firm grasp of the setup that occurred so far. Now, here's the part that might lose some people, especially those who are not familiar with the SST so I will do my best to explain it as clearly as possible. With the SST, our entries, targets and stops print directly on our chart, making it an indispensible tool to trade with. The targets appear at three separate levels, each one requiring some sort of action on our part, to manage our trade. We also approach our Russell eMini trading with two positions. One has the goal of exiting at our fixed target, which happens to be the middle target that prints on our chart; the 2nd target which we call, the 1.5x). The 2nd position, we use a trailing stop to manage its exit.

One tick before the first target, the 1x, is where we are alerted to move our initial stop to lock in 1 tick of profit on both positions and thus, completely eliminate the risk from the trade. However! There is a nuanced rule that we use sometimes called the "small trade rule." The SST being dynamic and self tuning to market conditions might produce a trade with very close targets. Our rule simply says that if our full fixed target, the 1.5x is one point or less from our entry, we will move to the next target level, the 2x, or third target that prints on the chart. This helps avoid some market noise and gives the trade more of a chance to develop.

Here's where the nuance comes into play. The fixed target at the 1.5x was at 803.8. The entry that printed on the chart was 805.1, which was 1.3 points away. Many traders eliminated the small trade rule because it was indeed more than 1 point as I just described. My take on it was different though. I don't consider a short entry at 805.1 a valid entry. My adjustments around key 5's and 0's are written into my tradeplan as a hard rule and not a discretionary decision to make. So my valid entry was at 804.8, exactly 1 point away and thus, the small trade rule was in effect.

The thing is, when we use the small trade rule, we don't only move the fixed target to the next level, but we also move the trade management rule to the next level as well. Instead of locking in a tick of profit near the 1x as described above, we don't lock in the one tick until the 1.5x is touched. THAT one tick, made a HUGE difference to the outcome of the trade.

The price DID come down and touch 804.4, 1 tick before the 1x (804.3). Those traders who did NOT follow my trade call, quickly moved their stops down to lock in one tick at 805 or might have even put their stops at 805.1 for a breakeven outcome. But those who did follow my call, did not move their stops from the original position because the small trade rule had us waiting until the 1.5x was touched, which had not yet occurred, so we kept the full risk on the trade, which also afforded the trade more 'breathing room.'

The market, in its infinitely challenging ways, did come up and stop those traders out, reaching up as high as 805.5. Their trade was finished. Those who exercised patience and confidence in the system, were able to hang onto their positions. The price then turned down and began to methodically head lower, point after point after point. We exited our first position at the 3rd target level, the 2x, and then implemented our 3 bar stop trailing strategy to capture a big, juicy 5.7 point move, finally stopping out at 799.1!! The entire trade gave us a cool +7.2 points for $720. Those that stopped out by not using our small trade rule, netted 1 tick on two positions for $20.

Luckily the Seven Summits Trader is so robust and forgiving, it did give those traders a chance to get back on board the move down, and by being alert, they were able to catch some of that move anyway. But that's not the point.

The market will always throw you a different look and feel, every single session. The point I am trying to make with this example is how important it is to have a well established and understood tradeplan, an expert knowledge of your trade system and then be able to execute the strategy with utmost confidence and deliberation. It takes practice but it is totally doable. You just have to follow the steps necessary to achieve that level of proficiency. The very thing we teach here at NetPicks.

To see this trade and to learn more about the powerful SST please go to, www.SevenSummitsTrader.com.

EXCHANGE TRADED FUNDS *By Mike Rykse*

Over the past few years, one of the most impressive growth stories has been the rise of Exchange Traded Funds. An ETF is an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities, or bonds and trades at approximately the same price as the net asset value of its underlying assets over the course of the trading day.

With their growing popularity among investors, the number of available ETF's has expanded tremendously. There are now close to 1000 available ETF's available on the market. You can find them based on major market index products, different market sectors, commodities, and currencies. This gives traders a quick way to diversify their investments.

One of the most exciting developments in the world of ETF's has been the creation of the ProShares products. ProShares are products that allow traders to take a bearish stance on the markets while actually buying an ETF. These products follow the price of various market indexes and sectors but with an inverse price relationship. As the markets go down the inverse products go up

in value. This gives traders with retirement accounts, which are usually limited to the buy side of the market, the ability to take a short position by actually buying a product.

ProShares also offer leveraged ETF's. These are products that follow the prices of index products and sectors but move at a 2 to 1 ratio of the underlying. This allows traders to make more money quickly with a small move in the markets.

With such a large universe of ETF's it can be difficult to know which ones are good candidates to trade. I have gone through and documented some of my favorites to trade. I am looking for some basic criteria when analyzing the universe of ETF's. The items that I look for are liquidity, good range, and optionable products. First, I want to make sure the products that I trade have good volume. Some of the newer ETF's have very low volume which can make them difficult to trade. At a minimum I want to see an average daily volume of 250,000 shares. I also want to take a look at the charts to make sure that I'm trading products that move. I don't want to trade an ETF that only makes a few decent moves each year. Finally, I like to trade options so I want to make sure I'm looking at products that have liquid options. I want open interest of at least 300 contracts across the strikes that I'm looking to trade.

In the following chart, I have created a broad list of ETF's that track different indexes, sectors, commodities, and currencies that can be used as a sample watch list. This list was created with the active trader in mind. I am trying to capture the short term swings in these products. Average holding time for a position on these products is anywhere from 3 days on out to 3 weeks. If you combine these short term moves with some basic options strategies, it is very possible to see returns of over 100%. It is very important to narrow down the list of nearly 1000 available ETF's to a specific list of names that you can reference throughout the year as different markets and sectors heat up and cool down.

The emergence of ETF's makes them difficult products to ignore. They are quickly becoming a very profitable part of my trading. If you are looking for a quick easy way to put on a diversified position, then the ETF's are definitely the way to go. Use the following list of ETF's to jumpstart your trading in 2011.

Symbol	Description
SPY	SPDR S&P 500 Trust
DIA	SPDR Dow Jones Industrial Average ETF
QQQQ	PowerShares QQQ Trust, Series 1
IWM	iShares Russell 2000 Index Fund
FXI	iShares FTSE China 25 Index Fund
EWZ	iShares MSCI Brazil Index Fund
EEM	iShares MSCI Emerging Markets Index Fund
XLP	Consumer Staples Select Sector SPDR Fund
RTH	Retail HOLDRS Trust
XLE	Energy Select Sector SPDR Fund
OIH	Oil Service HOLDRS Trust
XLF	Financial Select Sector SPDR Fund
FAS	Direxion Daily Financial Bull 3X Shares
FAZ	Direxion Daily Financial Bear 3X Shares
GDX	Market Vectors Gold Miners ETF
XLK	Technology Select Sector SPDR Fund
SMH	Semiconductor HOLDRS Trust
ZSL	ProShares UltraShort Silver
SKF	ProShares UltraShort Financials
QID	ProShares UltraShort QQQ
SH	ProShares Short S&P 500
DXD	ProShares UltraShort Dow 30
TZA	Direxion Daily Small Cap Bear 3X Shares
BGZ	Direxion Daily Large Cap Bear 3X Shares
GLD	SPDR Gold Shares
SLV	iShares Silver Trust
USO	United States Oil Fund, LP
UNG	United States Natural Gas Fund, LP
FXE	CurrencyShares Euro Trust
UUP	PowerShares DB US Dollar Index Bullish Fund
VXX	iPath S&P 500 VIX Short-Term Futures ETN

TRADING BREAKTHROUGHS: EXTERNALIZE THE INTERNAL

"Externalize the Internalize" is from Shane Daly, one of our Trading Coaches who specializes in forex trading – both day and swing trading. He is based in Canada and has coached and mentored many NetPicks clients. The video below was taken from our 2011 Trading Outlook webinar but in there he discussed a really cool video technique he's used that literally has transformed his trading. You can watch the short video and then we suggest you download the Special Report:

http://netpicks.com/externalize

It doesn't matter what you trade — you're going to find this training invaluable. Shane also wanted us to pass along that while he feels there are many forex brokers you can choose from, one of his favorites has been Oanda, in particular since they have been reporting the highest success rate from traders opening accounts there which is quite fascinating. Click the Oanda banner on the site to find out how this is being accomplished – if you trade forex in particular.

EXTERNALIZE THE INTERNAL

By Shane Daly

Anybody who has seriously looked into trading the market has heard the familiar refrain, "psychology plays a huge part in your success".

What does that mean?

In essence, it means that the thoughts you have, the emotions you have, your "confidence quotient" and how you deal with them all, in the end, will dictate whether you end up on the side or a player in the game. What is a "confidence quotient"? It is simply how high is your confidence in executing your trade plan even when faced with the inevitable loser. Do you know that if you give ten traders the exact same trade strategy, you will get 10 different results?

The Turtles

The Turtles were a group of ordinary people who answered an ad for trading apprentices in the newspaper in 1983. You can find the entire story on the internet but it was simply a dispute between two traders with one believing traders were born and the other believed traders could be taught. In the end, 13 people were in the group who, once they learned the strategy, would be given an account between $500,000 to $2 million to trade.

One of the first big trades was in heating oil. Keep in mind that all the traders were given everything they needed to trade including the markets, position sizing, stops, exits….everything. For one reason or another, the only trader who followed the rules and was fully vested in the trade was Curtis Faith. The trade was big and Faith made some large money for his trainers and over the course of four years, he made approx $31 million. Curtis had the confidence to follow the strategy as written. He was not shaken out. He did not fall victim to fear and greed.

13 traders. 13 different results.

Thoughts are things

I do not know where I first heard that but when I started to understand that, things changed. Not just in trading but in other aspects of my own life. Why do many ultra successful musicians, actors, business people or sports athletes end up battered, broken, in rehab or washed up? On the outside, they appear to have it all. The money. The fame. They appear happy. We never really know the demons they and others have in their minds. It is clearly enough though to take all that they have worked for, away.

It is no different for the average person or the trader.

If you are sitting in front of your computer and your strategy gives a buy signal, do you act? What happens when you are in a trade and you get taken out? What about when the trade gets stopped out and <u>then</u> goes in your direction? How do you react? We can list a host of other issues:

- Drawdowns
- Margin calls
- Over trading
- Deviate from the plan
- Adding more markets
- Jumping from strategy to strategy (Holy Grail seeker)
- Quitting

All of these happen to the majority of traders. The trading highway is littered with broken people and blown out accounts. The failure rate is ultra high. If psychology is so important, we can assume that those that fail, did not get a handle on this extremely important factor. Many people use the analogy of a professional athlete. There are many football and hockey players but only a select few that make the big leagues. I think that is very simplistic. Much like in trading, supply and demand rule the roost when it comes to the sports, entertainment or even the business world. There may be many qualified people (supply) but only so many spaces (demand). Many fall through the cracks. Trading is different. The markets do not conspire to pick and choose who will succeed. Nope, that is all on you.

Pictures tell the tale

Ever had that experience where you see a photo of yourself and think "I've put on some weight!" How about hearing yourself recorded and not even recognizing your own voice? Until you are faced with it, there are some qualities you have that you do not even know about. In trading, you are well advised to know a lot about yourself. One of the most important things to know is what that little voice in your head is saying when you trade.

How do you know unless you consciously listen?

Exactly. That brings me to the point of this report.

One thing that turned my trading around was actually recording my screen and my externalized thoughts while I traded.

- Why constitutes this setup?
- Where is my stop? Risk?
- Where is my profit target?
- What am I thinking if the trade is against me?
- What am I thinking if the trade is going my way?
- How do I feel with a winner?
- How do I feel with the loser?

You get the point. The entire trading session was screen captured with the exact thoughts I was having being spoken and recorded. Believe me when I say it was a very interesting exercise. It taught me that I had a lot of negative things to say when the trade was not working out. Believing and knowing that thoughts are things, I was simply setting myself up for future failure. I learnt that this one trade is just one, a small percentage of all the trades I would and will eventually take. There are so many other things that I learned about myself but that is not the point. The point is what will you learn about yourself if you take up the task?

How to get started

It is very easy…and free.

The answer is Camstudio. http://www.camstudio.org

Easy to install and use, Camstudio is an outstanding screen capture tool that will enable you to record your charts and voice for your entire trading session.

There are plenty of instructions to enable a trouble free install. As well, the FAQ section will help with issues such as high CPU usage (lower the capture rate). You don't need a movie quality recording so just keep it basic.

I have personally passed along this tip to many traders. To a person, they have found this to be an invaluable tool in helping them move forward with their trading.

There is a catch to all of this. Once you have identified some of the issues you have (such as anger when you get stopped out), you must be willing to work on that part of your character. There are plenty of authors out there such as Douglas and Van Tharp that have made trading psychology and dealing with the negative their entire business model.

To a successful trading career!

A DAY IN THE LIFE OF A NETPICKS TRADER - Trading The News

By Ron Weiland

What a week, this week. The markets have been up one minute then a quick reversal or just range bound waiting to break. We traded through this and came out at the end of the week a stronger, better trader. Want to know how we do this on a consistent basis? Here is our secret.

- You need to have a detailed trade plan and execute it.
- Don't let your feelings on where you think the market will go.
- Take the News as it happens and let the price action work for you.
- Try and stay emotion-free and work through the chop to get to the other side.

I know you have heard all of that before, but let's put it into action this week. One of the many markets we trade live each week is the Oil Inventory Release. It is usually on a Wednesday at 10:30 EST, unless there is a holiday and then it moves to Thursday at 11:00. This week they were expecting a small build in Oil supplies and so you would "think" any big surprise in that number either way would move the market.

Take a look at the chart below and you will see the last two news releases. In both cases the numbers were worse than expected so you would "think" that the market would go down. It did - but not before large moves to the upside.

So, the key is, don't let the news or what you think the market will do with that news influence your trade decisions. Take the signals your system gives you and trade them. You will come out a winner!

Here is a close up of the action and then a few more trades after the news. Again, if you were only looking for the shorts and did not take the longs you would not have done very well.

Remember the keys to trading success are. Have a plan, stick with it and try and remove your feelings and bias from your trading. It does not matter how good your system is if you don't execute the trades and come out the other side profitable.

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A CASE FOR TRADING SILVER

By Brian Short

As an active intraday trader and swing trader one of the key ingredients to look for in a market is volatility. We really do not care if the market moves up or down as long as we get nice swings in both directions. With that being said, one of my favorite markets to trade right now is silver and specifically the silver futures. In 2010, silver was up 84% where as gold was up a little more than 30%. Both metals have been on a steady bull run since the early 2000's. Let's take a look at some of the key reasons why I think silver will continue to be a great market to trade over the coming months (and even years).

#1 Quantitative Easing QE1 and QE2

The term quantitative easing (QE) describes a form of monetary policy used by central banks (The Fed) to increase the supply of money in an economy when the discount rate is at or close to zero. You don't have to fully understand QE - I am not sure I fully understand it all! But what is important to know is how this policy affects silver and gold. The first round of QE was in March of 2009 and was estimated at 1.8 trillion. The second round of QE2 was announced November of 2010 at 600 billion. Basically the Fed is pushing this money into the system to try and jump- start the economy. Each time the Fed has initiated this policy it pushed the value of the dollar lower, but gold and silver values went higher. QE2 will end in June of 2011, but as I write this there are rumblings from one of the Fed speakers hinting at the possibility of a QE3. If this were to happen, it should be very bullish for silver and gold.

#2. Consumption

Most of all the gold ever mined is still available. Silver, however, is somewhat closer to commodities like crude oil and soy beans. Silver is a byproduct of other mining operations (mostly gold or copper), rather than being mined for its own sake. It has been estimated that in 1900 there were 12 billion available ounces of silver in the world. According to the commodities research firm, CPM Group, this number dropped dramatically to around 2.2 billion ounces by 1990. Today, the amount of above-ground refined silver has fallen to less than 1 billion ounces. Global demand for silver is outpacing the world's silver production capabilities.

#3. Industrial Demand

Unlike gold, silver is predominantly used by industry today. Excluding silvers investing demand, London's VM Group analysts now forecast an additional 350 million ounces of annual silver demand by 2020 due to the manufacturing of the following: RFID tags for stock control and ID cards, solar panels, computers, circuit boards, cell phones, televisions, and PDA's.

#4. Volatility

On average, over the last 42 years, a 1% move in gold is matched by a 1.75% move in silver both up and down. In other words, anyone expecting strong gains in gold should expect exaggerated gains in silver. Just check the spike in January of 1980 for proof. Gold prices tripled in the last six months of the preceding year, but silver prices rose 5.7 times over, peaking at $50 an ounce.

To wrap it up, silver is rare, inexpensive, a protection against inflation, and possibly poised for one of the best bull runs in history. The following variables are making silver a potentially excellent investment: An out-of-whack silver -to- gold ratio, increasing industrial and investment demand, declining production and mining output, and future economic uncertainty. It is this trader's belief that over the next few years, silver will continue to provide investors with both long-term and intraday trading opportunities.