THE NETPICKS INFORMER

Savvy strategies for profitable traders.

Quarter 2 | 2011

A $29.95 Value

LETTER FROM THE DEVELOPER

Can you believe we're this far into 2011 already? The other day I had to fill out a date on a form and finally, without hesitation I didn't have to think about the year!

You may recall from our last newsletter that we had a specific resolution for the year to focus more on your trading education. The good news is unlike most New Years resolutions, we're actually sticking to this one! You really need to check out our "Trading Tips" blog located here:

http://netpicks.com/trading-tips

Where else can you read about Volatility, Kettle Bells, Vacation, Options, Back-Testing and Perspective? Yep, that's just a few of the recent topics. Its great reading and tremendously educational all thanks to the amazing Coaching team we have here at NetPicks. So do yourself a favor, not only read the pages that follow, but make a visit to our Trading Tips blog a regular habit. And, did I mention it's available to you at the best price of all? Free.

What I start to realize is how important it is to communicate on a regular basis with other people who are out there trading the live markets (like you). It's interesting, because when we have a live webinar, even if it's for something we are marketing, one of our coaches will say that he uses one of our systems let's say the Ultimate Swing Trader, but uses it on a 15 minute chart of the EURCAD. Or a 4 hour of the AUDUSD. Or I'll hear about one of our course owners using the SST on a market that not even I've checked out (the other day this was FAS and FAZ ETF's.)

Without fail, anytime I seem to put together a group of customers or coaches, whether in a room (virtual or in person) it amazes me how people are using our strategies and taking them beyond markets and timeframes that we haven't even looked at.. That's why I want to encourage all NetPicks system owners to participate in the Owner's Clubs that we've made available to you. Read our blogs. Our newsletter. Make sure you're on our email list and attend our live free webinars.

Why? You never know where the next great inspiration will come from. Sometimes literally a few words from someone with a new market or idea can literally transform your trading.

Keep your eyes and ears at the ready. And prepare to be inspired!

Mark Soberman

Mark Soberman

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CALENDAR

May: Seven Summits Trader Open Enrollment

June: Seven Summits Trader Mentoring Program, All New Mastery Series

July: Pre-release of Brand New Super Secret Strategy for Current NetPicks Owners

WHAT'S NEW AT NETPICKS? Ch-ch-changes! Changes abound here at NetPicks.

The beloved famous 10-minute swing trade strategy, the **Ultimate Swing Trader** was finally retired from public release. Yep, sad but true – after a 2-year long run, we've finally hit capacity for this ground-breaking system and have decided to give the system the rest it needs while continuing to fully support the brand new owners that joined us in the last release in April. Will it be pulled out of the vault in the near future? Right now - no. But we are hard at work developing all-new systems that'll hopefully fill the void ;)

And speaking of new systems, our fearless leader is making great strides in the final testing stages of a **brand new method** (and you're going to be thrilled). If you loved the Ultimate Swing Trader's simplicity and straightforward wins, mark your calendar for August 2011 because there just **might** be a surprise around the corner. (Even better, if you're a current NetPicks system owner, we're tossing around the idea of a pre-release party just for our current owners so you can bring home the latest system BEFORE anyone else). Gotta love those family perks, right?

By now, you've probably heard of our latest Seven Summits Trader add-on, '**GetBob**'. GetBob is really an acronym for 'Get Back on Board' and allows you to get back in a trade when it reverses to the original direction. The SST core is powerful – but along with power comes responsibility – responsibility to good risk management rules, that is! So when the SST rules tell you to push your stops down to lock in or break-even, many times, it works in our favor by saving us a ton of money. But, being conservative does have its drawbacks… namely, sometimes at the expense of extra profit. GetBob is an extra indicator and rule set meant to remedy that. If the original trade resumes moving in the right direction, GetBob will tell you when and how to 'get back onboard' and scoop up the profit you would have otherwise missed out on. Boasting a HUGE win rate, our GetBob owners are ecstatic with the results. Have you gotten back on board today? Check out the SST blog for more info:

http://sevensummitstrader.com

What else can you expect? How about a brand new Seven Summits Trader **Mentoring Program** in June! If you haven't participated yet in a NetPicks Mentoring Program, you simply must join us in this next class. It's similar to our Live Training… but dialed up to 11! You get your own private Coach assigned to you, dedicated one-on-one help along with group course lessons complete with homework assignments to really reinforce the learning process. Sound daunting? It's not. The traders that complete the Mentoring Program typically go on to successful trading careers (and not just shelve the system never to be seen again). Just check out what some of our attendees had to say about the Program:

> "Firstly I would like to say a big thank you. The Mentor programme has been exactly the right thing for me. It has helped me focus on exactly what I am doing and why I am doing it." (Philip Beaven)

> "Your Program was well structured right from the beginning and made one think outside of the box. My Mentor, Ron Weiland, has been very helpful to me in trying to understand me and helping me with the different setups. I feel that Ron had taken a personal interest in my success. Thank you." (Stanley Halgas)

> "My mentor, Will is a great guy. He really knows the system and has been through a lot of the same things that have hindered my success to this point. I really appreciate his help." (Eric Michel)

The next Mentoring Program will begin in June – but while you're here, think it over, will you? In our 15 years of experience, different traders need varying degrees of support. Some traders can pick things up just with video training, but most need a little more help to get things going. This Program is designed to give you all the support you need to get up and running… and profitable! Stay tuned for more info…

COULD KEEPING A TRADE JOURNAL BE THE MISSING LINK? *by Mike Rykse*

For many of us the closing bell means the end of a long day spent following the markets. It's tempting to shut things down and then move on with the rest of your day. But is this really the best thing to do? If this sounds all too familiar to you then you are missing out on the most important part of the day. When you are trading during market hours, it's very easy to get caught up in the heat of the battle. This makes it difficult to learn from things going on around you. Did you follow your trade plan? Did you make the correct key level adjustments? Did answering your phone 5 minutes after the open lead to a missed trade? These are all scenarios that you need to analyze after the session to make sure you are performing at a top level.

Once I am done with my trading for the day, I make sure to leave time for analyzing my performance that day. This is done by keeping a trade journal. There are a few different steps to correctly keeping a trade journal. First, you will want to keep a spreadsheet of all your trades taken that day. This way, over time you will have access to key statistics like winning percentage, profit factor, time of day performance, max drawdown and so forth.

A great tool that I have added to my toolbox over the past couple of years is the NetPicks Ultimate Trade Analyzer. This is a spreadsheet complete with every stat you could possibly be interested in plus equity curves and performance charts. This tool

allows you to input your trades on a daily basis and calculates your stats ongoing. A quick look at your spreadsheet will act as a guide when making any changes to your trade plan. Any change that I make to my personal trade plan has to be backed up by statistics. In other words, I have to be able to show from my spreadsheet that the change is warranted.

Step number two is to write up a quick summary of your performance that day. I'm not talking about documenting your trades here. I'm talking about jotting down a few quick notes about the day. For example, how did the market react to a specific news release during the middle of the session? Or you might have missed a trade right after the market opened because of a phone call. If any of these issues start to become a pattern, then it might be time to add a new rule to your trade plan. I even take this a step further by giving myself a grade for the day. If I have a string of bad grades for myself then I will take a day off. This is the only way I can hold myself accountable. I don't have a boss telling me what to do each day. It is up to me to make sure I stay disciplined.

While some of this might sound basic and unnecessary, I can't tell you how important it has become in my own trading. I have seen my trading become more consistent, which really takes the stress out of trading. It only takes 10 minutes a day to go through this routine but it will make all the difference in the world. If you are struggling to find consistency in your results then take a step back and make sure you are treating this like a business. Keeping a trade journal might just be the missing link to becoming the next great trader.

VOLATILITY AND MARKET TRADING RANGES *by Bob Malinowski*

There has been a lot of discussion lately in the financial press about how market volatility has dropped in recent months. The VIX, a popular measure of market volatility, is now as low as it has been in four years. Traders have seen the price of options fall, and as a result, premium collection strategies have not performed well lately. Some traders have been profiting from the low VIX by shorting exchange traded funds that seek to track the VIX, such as the VXX. In this article I will briefly explain how the VIX and VXX are calculated, and then look at the actual trading ranges of some popular markets to look for evidence of this lower volatility.

The VIX is the ticker symbol for what is called the Market Volatility Index and was first introduced in 1993 by the Chicago Board Options Exchange. Today it is calculated by using the out-of-the-money call and put options prices on the S&P 500 Index. Options prices are determined using complex models that take into account a number of parameters, one of them being implied volatility. If traders are anticipating large movements in stock prices, either up or down, then the price for all call and put options will go up. Conversely, if traders believe that the markets will experience little movement, options premiums will be lower. With all other things being equal, higher volatility of the underlying stocks of the S&P 500 Index makes the corresponding options more valuable (since there is a greater probability that the options will expire in the money) and this in turn increases the value of S&P 500 Index options.

By using a formula which weights the call and put option prices on the S&P 500 Index, a value for the VIX is calculated so that it is quoted in annualized percentage points that corresponds roughly to the expected movement in the S&P 500 Index over the next 30 days. Practically speaking, VIX values greater than 30 are associated with higher volatility, and VIX values lower than 20 are associated with lower volatility. As of this writing, the VIX is around 15, which is quite low. The VIX if often referred to as the "fear index" or "investor fear gauge", but that is actually a misnomer because the VIX is a measure of perceived market volatility in <u>either</u> direction.

Over the last several years, an impressive number of exchange traded funds (ETFs) and exchange traded notes (ETNs) have become available, increasing the number of trading opportunities for investors. One of the more popular ones for trading volatility has been the VXX, the iPath S&P 500 VIX Short-Term Futures ETN. The purpose of the VXX is to allow traders to hedge portfolios against loss due to sudden changes in market volatility, or to directly profit from speculating in changes in market volatility. Although many traders use the VXX to trade volatility, there are some important differences between the VIX and the VXX that a trader must understand. The VXX is designed to track VIX futures and provides the trader with exposure to the first and second month VIX futures contracts. This has the effect of smoothing out the moves in the VIX, and captures only about half of the daily move in the VIX. The VXX tracks what the market anticipates future volatility will be, and therefore generally exhibits less volatility than the spot VIX.

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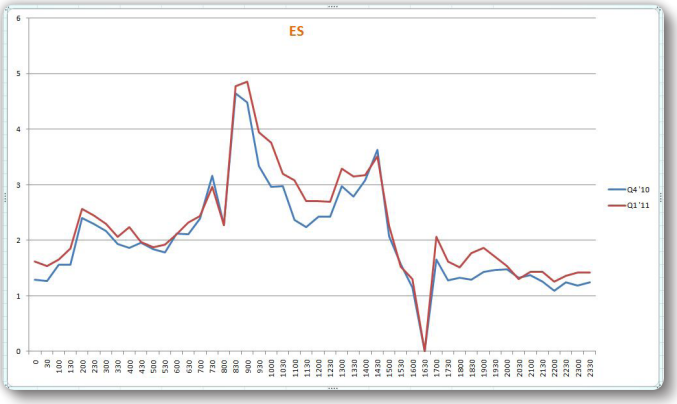
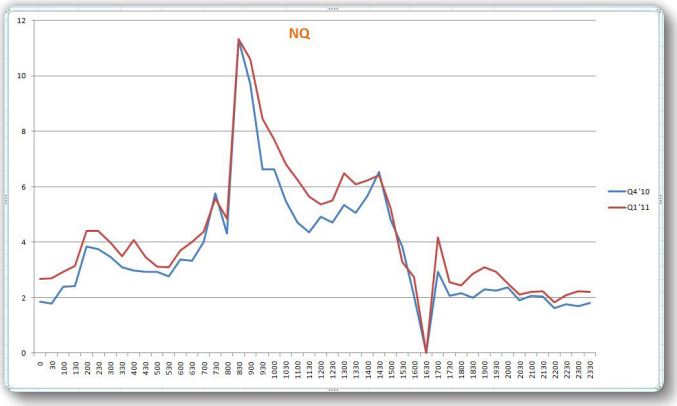
Both the VIX and the VXX have been in a recent downtrend. The preceding chart shows the downtrend in VXX over the past two quarters, and traders have profiting during this period by shorting VXX or buying VXX puts.

It is clear that traders have been expecting lower volatility, and therefore smaller price movements. One would think that this would have a negative effect on day trading, since day trading relies on price movement. In the previous issue of the NetPicks Informer, I presented a tool that I use to help in the selection of time frames. It looks at price trading ranges for various markets and can be used to locate times of the day where price moves the most. It plots the average range that price moves in each half-hour period of the day over a selected period of time. The tool can also be used to look at trading range trends over time and compare two different calendar periods. In this issue, I will examine a number of markets, and compare the daily half-hour trading ranges of the fourth quarter of 2010 with the first quarter that just completed in 2011, beginning with ES, the emini S&P 500 futures contract shown below.



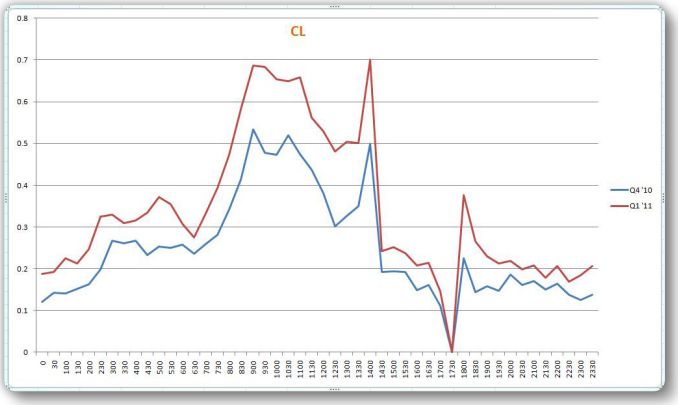
One would have expected that with the lower volatility expressed by the VIX, and lower future volatility expressed by the VXX that there would be smaller average price movements across the trading day, but this was not the case. In fact, during the first quarter of 2011, the ES showed about a half a point increase in trading range during the market hours that we would most likely be trading.

Another popular index futures contract, the NQ (NASDAQ 100 futures), also showed increased trading range during the first quarter. It was up by 1-1/2 points, or about 25% during the opening hours that we tend to trade.



The other stock indexes such as the DOW emini and Russell 2000 emini also showed increased trading ranges during the first quarter. Even though volatility was down, there were great day trading opportunities with the stock indexes.

Since crude oil has been in the news a lot lately, let's take a look at how crude oil futures trading ranges have changed. Below is a chart comparing the average trading ranges of CL between Q4 2010 and Q1 2011.



With what has been happening to crude oil prices lately, we would expect to see an increase in average trading range during the morning hours that we trade, and this is exactly what we see. In fact, the average range has increased by about 40%. Also, it is interesting to note that the period between 1800 and 1900 has seen activity lately that approaches the activity that we normally saw during the morning hours of the previous quarter. Other commodities futures also showed increase in price movement during this quarter.

What can we conclude from these examples? First, when it comes to looking at volatility, we cannot assume that if market volatility is low that we will not see good day trading ranges on our stock index futures. Remember that the VIX and the VXX provide a measure of expected or implied volatility: the VIX is a measure of expected price movement of the general stock market over the next 30 days, and the VXX is a measure of future volatility of the VIX. They do not tell us what the actual price movements will be, and certainly not at the daily level. Another conclusion that we can draw is that it is valuable to have some idea how these market trading ranges change over time. This information can help us determine what times frames we want to trade, and what parameters we may want to adjust in our system and back test before we make potential changes to our trade plan.

If you are interested in the Excel spreadsheet that I use to calculate these trading ranges, feel free to contact me at bob@netpicks.com.

LIFE IS MEANT TO BE ENJOYED *by Shane Daly*

I recently returned from a fantastic family vacation in the Dominican Republic. Punta Cana, to be exact. The white sand, the warm water, the coconut trees and some great company made this a vacation I won't soon forget. As a matter of fact, it was the first time I took my 2-1/2-year-old and 24-year-old daughters away. We also brought along their grandma and "Nona". Now that my oldest daughter is set to be married next year, this was the last time I would be away with her before she becomes a bride. I did promise her when she was 9 that we would go to Florida. We never made it. Living apart and being raised by her mom and step- dad made it a little difficult to arrange something like that.

As I was booking the trip, I thought to myself just how wonderful it is to be self- employed. I don't mean working in my own store but from a room converted to an office in my home. I could "close up shop" simply by closing some positions and going flat. Unlike a regular job, I don't have to worry about customers being there when I return. I simply press the power button, bring up some charts, open my platform and I am back in business. That is how flexible trading can be. Even better, you can give yourself a raise simply by increasing your position sizing. This of course has to be tempered with staying inside your risk parameters. What makes it even more interesting is when you are trading a strategy that has proven itself in many markets to be a powerful strategy. The Seven Summits Trader by NetPicks is what I use for my short term trading. I expect it to perform the same way it was before I left for vacation. After all, it has helped pay for the trip. Once you have the details of your plan down, it is simply a matter of following it. It allows you to jump back into the fray without missing a beat.

Now, some may say "*Shane, you are biased. You are part of the NetPicks team*!" While I may be part of the team, it does not make a dent in my financial worth. Trading does. If this strategy did not work for me or I was not comfortable with it, I would not trade it. I want to make money. So if trading pays my bills, why spend time with the NetPicks team? Valid question and I can answer that with one word: integrity. I know that the traders on this team walk the talk. They are traders. Not **just** traders but NetPicks strategy traders. In numerous chats with the owners of the company, they find it absurd that many companies out there market, but don't trade. Not only market their strategies but also play customers for absolute fools. There are a few people who have a new strategy almost every month!! NetPicks has to compete with these "trading strategy marketers" and believe me, it is very difficult when you can't bring yourself to promise results that are next to impossible like many of the others do.

Another reason is when I make a video, a file like this one or talk to the many traders I do, it hammers home time and time again everything I need to do and believe to continue to succeed. Finally, it is paying it forward. I was doing ok until I found NetPicks, first as a customer, and being exposed to the teachings and pointers on a daily basis helped pick up my game. As a part of the team now, I hope that what I pass along helps. From the emails I get, I believe I am making a difference to some.

OK, enough of that. Let's get back to the trip.

One great thing about trading is you can do it anywhere there is internet. That said, the Wi-Fi where I was just wasn't up to par. That was fine because I trade for one reason and it isn't entertainment. It is to make money. I treated this vacation just like the normal 9-5 folks treat theirs. The big difference is I didn't have to ask permission to go. Every single day, people toss their money into the market and most fail. Part of me wants to believe you can be and do anything but clearly, the reality is, you can't. Not everybody who sets out to trade has the qualities to succeed. Can they be taught? That is debatable. I think many people are simply stuck in the 'same old, same old' mentality. They say we are all "created equal". I believe that but I don't believe we can all create the same things. I will never be a great basketball player. I will never be a 50-goal scorer in hockey nor will I ever be a UFC world champ. I may win a few fights, score some baskets or pot a few pucks but the pinnacle, I will never reach. Same with trading. You may be able to make some grocery money but making a living is something you may never reach. **Side note:** if you read forums, if someone says they are doing well, what do you usually see? People telling them to prove it or flat out calling them a liar. I don't make it a habit to visit forums or post. For me, it is negative energy with people sparring to come across as intelligent money-making machines. Some of those I have seen that have been accosted on the boards just leave. That tells me they have more important things to do...like continuing to make money. They don't spar because, I think, they have nothing to prove.

I went off again....so.....back to the trip.....

More specifically, why this article.

On the day of checkout, we were sitting waiting for the shuttle to the airport. I overheard the following, "Oh well, back to the grind". I had a quick image of the ruthless and disgusting slaughter of pilot whales on the Danish Faeroe Islands called the Grind. They were obviously talking about returning to work

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after a relaxing vacation in a beautiful place. Have you heard the expression "You create your own reality"? Describing your normal life as the grind, for me, is almost as horrific as the initial image I had when I heard them speak that word. Who wants that? I am here to tell you that it doesn't have to be that way.

Trading is a viable and realistic path to help you improve your life. Period. Full stop. I don't care what the herd on the forum boards say. I do it and know many others that either do, or are on that road. You have to surround yourself with like-minded people to have a fighting chance. People that, no matter how tough the road may be, are never ready to toss in the towel. It is not easy. It will stress and stretch every nerve and fabric of your being. The trick is to start off on the right foot, the right path, with the right people. I think the NetPicks team are the right people. If we parted ways today, I'd say the same thing. Whether it is stocks, options, crude, gold, silver, wheat, forex or futures, there is someone on the team that trades them. That puts their money on the line. I don't want this to come across a sales pitch. I will leave that to the other companies.

So...why bother typing this out?

It was sitting on the beach chair watching my young daughter play in the sand. My wife soaking up the rays. My older daughter enjoying her first trip out of the country. My mother in law who has not been out of Canada since she arrived from Italy 40 years ago. My own mother who, at 76 years old, may never get to vacation like this again. It was hearing people describe their life as a grind. All that made me feel like the dedication and sacrifice to do well, was more than worth it. I needed a foundation to even have a chance. I got it from NetPicks and the energy that is part of this company. It is my hope that those on the fence or on the losing side are looking for a kick, find a little one in these pages.

Will you rise to the top? I don't know and I don't yet know what the view looks like from there. I do know what being self-sufficient looks and feels like, though. It is possible you can as well.... if you give yourself a fighting chance.

THERE IS ANOTHER TRAIN *by Shane Daly*

One of the toughest events that a trader will face is missing out on a move. You have probably already had it happen to you. What I find very interesting is traders will usually feel more "pain" if they stand aside according to their plan then they would when using a discretionary "standing aside".

For this newsletter, I wanted to bring back a blog entry I made the week of March 7, 2011. While I have been toying with taking extended weekends by not trading on Fridays, skipping this day was more of a frustrated type of decision. The previous 4 days were mostly hours sitting staring at slogging price action. I will let the article speak more on this below.

Last week was a pretty muted week for the EURUSD currency pair that I like to day trade. It wasn't just me that found it to be that way. Fellow Coach, TJ Noonan, also observed that it was a "tumultuous week". It was, except for the day I did not trade, March 11, 2011. Using the full power of the Seven Summits Trader and the trade plan for the EURUSD pair that comes with it, you managed to pull out 100 pips on the Friday which, if trading one standard lot, banked you $1,000.00 minus spread. Not a bad day! To some traders, slogging through some tight range trading leading up to Friday would make it a day they would regret missing.

I am sure there are many traders who stood aside on Friday after being frustrated with the previous four days. Now, they were not great days but the week still ends on a high. That is what the SST does very well…cut your risk and even pull out some profit on tight price action.

There is a belief that traders kick themselves more for missing a winning trade then they do for taking a losing one. I can't remember where I read that but it makes sense when you look at it from a pure psychological viewpoint. Traders will sit there and think of how their account would have grown. How they would have been right (you do know that is one of the demons… the need to be right). The fact is, if you are still having pangs of regret when you miss a big winner, you are still at risk of losing it all.

There is always another train coming down the track. Unless there is removal of the tracks, you can be assured that sometime soon, another train will be rolling down the line. Trading is the same. You may miss a move - a winner or even a loser but the fact is, the market will be here tomorrow. Having a

"scarcity mentality" does not suit a trader very well. The markets won't dry up and there will always be money available behind the candles ready to join your account.

To make this point even stronger, look at the chart on page 6.

This is Sunday night (March 13) as I am writing this. This chart shows a short trade on the EURUSD (the same pair that left the station on Friday). With a 25 pip risk, I entered this trade with a high probability setup. After triggering in, price toyed with my entry a little and then dropped. At +50 pips, I closed half of the position (Blue up arrow. 2-1 reward to risk) and moved my stop to breakeven. With having a free ride now, I have another target way down the curve.

See, there is no reason to beat yourself up if you miss a trade. In fact, there is no need to curse yourself for taking a loss. Another train is gearing up to head down the line and if you follow a sound trading plan, strategy, psychological handle, there is no reason you can't be on it.

NETPICKS TRADE OF THE MONTH *by Ron Weiland*

There were so many great trades this past month that it's hard to decide which one to talk about! I recorded a video in our weekly educational email about trusting your system. I showed a swing trade on the USDCAD that with patience, paid off. Well, after 4 days of riding out this most recent trade, it paid off again. This reinforced the importance of trading discipline. Let's go over the most common reason why traders fail…

1. The Trader. Yes, you are the enemy! You watch the markets too much and feel you need to micromanage the trade. When it gets a lot of RED you start to panic and sell before your stop. Or you get the RED and finally you get some Green and so you exit with some profit, relieved that the trade is over and you managed to avoid a large loss. Then the trade moves to full target and you missed the big money!

Does any of this sound familiar? Your losses are large and your wins are small. I have been there in each of these cases, so you are not alone. Now we know why most traders blow out several accounts. What you need is trading discipline, TRUST YOUR SYSTEM and trade plan. You should have backtested your pairs and timeframes and assume that you can see a string of losses, but you also know that you'll WIN in the end if you stick to the plan and don't change the game by interfering.

I will walk you through these 2 trades, the first one was easy, but if you did not stick to the trade plan you might have exited with less than the full profit. The next one, was a test of trade psychology but I will say this: I called this trade live and walked everyone through it each step of the way. If you can find a coach or mentor and they can help you trade and stick to the plan, you will make so much more in your trading. We hear it all the time in the Seven Summits Trader Live Training Room. It helps when everyone is in the same trade and you are being told to "Hold the line, hold the line". We don't know if the trade will win or lose, but we do know that if you trade and trust the system you will win in the long run.

The first trade was a 47 Pip Short going for a total of about 140 Pips. We placed the trade the first night and did not trigger in until the next night. Then it moved to target 1 and we sold half our position and moved the stop to our original entry, so breakeven. Then next night, price action had moved up near breakeven, so you might have wanted to lock in more, but you just needed to be patient and if you were, it moved down to the full second target for a large gain. As I said, this trade was much easier than the one that followed, but each trade is important. It teaches you trading discipline and helps to grow you as a trader. You will make mistakes, but learn from them and improve your own trade psychology!

This next trade would make even the most seasoned traders sweat, at least a little. We went long on 4/12 on the USDCAD at .9636, it was a 60 pip trade so our stop was down at .9574. As you can see from this screen shot, 3 days later we are still in the trade and price action has gone only 50% to target and always seems to be closer to our stop.

Then we go into Sunday night and have a possible Stop and Reverse. Ouch, this could hurt and then will there be follow-through on the short side? I talked about it in our live room and

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told everyone exactly what to do ....Keep your stop in place and just make it a Stop and Reverse. Well, the US dollar made a

nice morning move and we hit our first Target. I advised them to go with the new second target and it hit that by 1 pip. For those that stuck this trade out and trusted the system, they were rewarded, as you can see to the left.

So, what I want everyone to do is, go back to your trade plan. Review it, make sure that you are following it and that you are not bending the rules or modifying it on the fly. Every system will have losses and they are part of trading, but it is how you work through those losses and get to the other side with all the gains.

Thanks and hope to see you all in one of our live training rooms for some coaching...we all can use some!

WHY TRADERS LOSE *by Mark Soberman*

That's an odd name to an article in our NetPicks newsletter, right? Typically, you would assume we should focus on what it takes to succeed in trading and how it can be achieved. However, much value can be obtained if we also understand why so many traders lose. And, without question, the number of losing traders overwhelms that of those who are succeeding.

A recent article in the *Los Angeles Times* pointed out that the major forex brokers see 80% of their accounts losing money in the prior quarter, which means that their actual losing rate is even higher. When we survey people new to NetPicks, typically the number of people losing ranges from 88% - 92% at the time when they first come to us.

I actually feel it's a positive to have high numbers of losing traders. That might make little sense considering we're in the business of training successful traders. But I realize, for those of us who are successful, there has to be others that struggle. It's a reality of trading. Not everyone can get it right, and if it were so easy, as the cliché goes, everyone would be doing it. They clearly are not.

Let's understand, though, a few of the mistakes losing traders make – and how we should all commit to avoid these. Let the 88% - 92% lose - we want to be on the successful side.

You are probably familiar with some of these if you've listened to us over the years. Most of it is worth repeating because honestly, most still have a hard time following these mantras.

1. Look for a 65% Winning Percentage. We call it "two thirds/one thirds" – this means the odds will always be in your favor to win on a trade, but you are accepting the fact that if you go for too high of an accuracy level (80%, 90%, etc…) your risk levels will be unacceptably high. I've seen plenty of people trade with 90%+ win ratios, only to wipe out weeks or months of gains with outsized risk. This "two thirds/one third" has ruled the day for us for many years. Sure, it sounds great if you could have success 80% of the time or more, but it's not going to last. I'm giving you a goal and an objective that can stand the test of time.

2. Accept reasonable average win to average loss ratios. I know, constantly you read about how you should risk $1 to gain $3, etc. It sounds so great on paper but in reality I don't know many traders who really, truly succeed with that. It just sounds good to say but tends to be unachievable for most. A closer reality? Reward/risk ratios from as low as 1:1, which is perfectly acceptable, up to about 1.5:1. Which means $1.50 target for $1 risk. And that's at the top end of the scale. With rule #1 above, a simple $1 risk and $1 reward can work beautifully. Too often people think they can get that 2:1, 3:1 or better, but then their winning percentages fall too low – well below that 65% we discussed above. It's simply asking too much of markets that are volatile and they'll do their best to shake you out.

3. Embrace the Power of Quitting. If you've been with us for any length of time, you know what this means. You have to find a way to stop overtrading. You should only trade during the 'prime time' of the market you are tracking and always have your quitting point. For us when we day trade, it tends to be 2 winning trades + positive results = Quitting Time. If we get two winners but are still negative, we continue until we reach a hard stopping point, which is always time-based. For example, most US futures markets tend to be valid to trade the first 2-3 hours, then fall into a rut and are not worth the effort. Crude oil futures work well from 8:50am EST – 10:30am EST and even if we're not positive, that is our hard stopping point. This will make your life so much easier, plus smooth out your equity curve considerably. This applies to ALL day trading in particular – forex, futures and stocks. Swing traders, you need to limit your trades as well.

4. You must accept regular losing trades. This ruins more traders than almost anything else. People hate to be wrong. You will be wrong – a lot – no matter how good your strategy performs. If a single trade is that tragically important to

you, you find yourself sweating, cursing, pacing – then you are simply way over-leveraged or need to do a lot of soul searching before you continue. You need to look at successful trading as how you did over 50 trades, 100 trades, or much more. One trade, two trades, etc. means nothing win or lose. Remember, all markets get streaky – good and bad. You have to be able to outlast the whims of markets you cannot control.

5. Can you trade your system correctly 25 times in a row? I can almost guarantee you that virtually none of you have traded whatever system you're trading, in a demo mode (but live in the markets), 25 times in a row following your rules perfectly. If you're anything like me, who has time for that, right? However, it's another recipe for disaster. You simply must demo trade, without putting real funds on the line, and do it 25 trades in a row without error. It's no problem to have losing trades. The point of this exercise is that I guarantee you have not mastered the trading rules by watching a video or reading a book. Until you start to train your mind and develop some habits and instant instincts, you will lose money. If you can get through 25 trades following the strategy as documented, you are ready for real money. Most will never follow this. Ask yourself, do you want to be the 8% -12% who succeed or do you want to be the masses who do not?

Next issue I'm going to cover more difference-makers between successful traders and losing traders. Yes, your strategy matters. We feel we provide you with exceptional training and strategies. However, we can arm you with these tools, but you still need to execute. It's important to acknowledge and even confront what stands in the way of success. Trading is not a simple exercise, but with work and determination you stand to possess a skill that can be used for life, from anywhere in the world, and completely within your control. It's hard to put a price on that.

SQUEEZE OUT THE CHOP *by Will Feibel*

In our last issue I introduced several indicators that can help us determine if we are in a trending or consolidating market. In this article I'll focus on one of those indicators, the Bollinger Band Squeeze. I'll recap the components of the Squeeze, describe the rationale behind the indicator, and present an approach you can use to develop a customized Squeeze indicator.

Components

Bollinger Bands measure the movement of closing prices around a moving average. The standard deviation of this movement is calculated and lines are plotted a fixed number of standard deviations above and below the moving average. This is a very popular indicator and can be used in both breakout and fading strategies.

At its core the Bollinger Band indicator measures volatility of closing prices. The bands expand as volatility increases and contract as it decreases. Typically the bands are drawn 2 standard deviations around the moving average, which means that statistically 95% of the closing prices are contained within the bands.

Keltner Channels are similar to Bollinger Bands in their appearance and usage. The average true range (ATR) of price bars is calculated and the channel lines are drawn a fixed number of ATR's above and below a moving average of closing prices. Because the ATR tends to remain fairly consistent, the Keltner Channel does not change much in size.

Similar to Bollinger Bands, the Keltner Channel can be used in both breakout and fading strategies. Typically the channel lines are drawn 1.5 ATR's above and below the moving average, and the normal interpretation is that price is overbought or oversold as it approaches the lines. An advantage of the Keltner Channel over Bollinger Bands is that it reacts more quickly to price changes, and as trends develop the channels begin sloping up or down with little lag.

The Squeeze

Whenever market volatility decreases we see the Bollinger Bands tighten while the Keltner Channel remains relative constant. As volatility continues to decrease the bands will eventually move inside the channel lines. This means that, using the typical default values, 95% of the closing prices fall within 1.5 ATR's of the moving average, and that is what constitutes a squeeze.

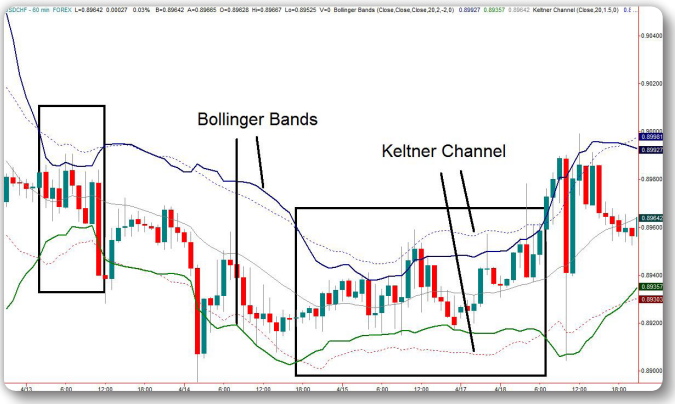


Figure 1

Figure 1 is an hourly chart of the USDCHF. The Bollinger Bands are the solid lines, the Keltner Channel the dotted lines. The rectangles highlight the areas where the bands are contained inside the channel. Note that during these periods price chops around in a narrow range until a breakout movement eventually ends the squeeze. If you are a day trader presented with this information you may decide to sit on the sidelines until the squeeze is over.

continued on next page

The squeeze can be applied to any instrument and any time frame. Using the default values for the indicators (2 standard deviations, 1.5 ATR's and a 20 period moving average) we get the results we see in Figure 1. You can experiment with these values to suit your own views of what constitutes choppy periods, but the defaults are a great place to start.

Of course the squeeze is no holy grail. It has two limitations. The first and more serious limitation is that it's a lagging indicator. It will only tell you that you're in a squeeze after the consolidation has already started, and it will tell you that the squeeze is over only after the breakout move has already taken place. The second limitation is that the squeeze is not a directional indicator. When the squeeze is over you it doesn't tell you in which direction price will move, you'll have to determine that from the price action itself or by combining the squeeze with other directional indicators. This is not much of an issue if you're trading manually but does have an impact if you develop an automated strategy.

The Squeeze Indicator

Although simple in concept, it can get a bit confusing staring at all these bands and channels on the chart, especially if you have other indicators plotted on your chart. To help reduce the clutter you could develop a separate indicator for the squeeze and simply remove the Bollinger Bands and Keltner Channel from the chart.

Both indicators are symmetrical, meaning that the upper and lower bands or channel lines are the same distance from the moving average. That means that we can focus on only one side in developing our indicator. In our case we'll just consider the upper lines. The basic formulas we need are:

Bollinger Band = Moving Average + (Number of standard deviations X Standard Deviation)

Keltner Channel = Moving Average + (Number of ATR's X ATR)

Or if we translate this into pseudo code:

BBUpper = Avg(close,period) + (BBDevs X StdDev(close,period))

KCUpper = Avg(close,period) + (KCDevs X ATR(period))

The squeeze is calculated by taking the difference between these two values:

Squeeze = BBUpper – KCUpper

Which simplifies down to this:

Squeeze = (BBDevs X StdDev(close,period)) – (KCDevs X ATR(period))

StdDev and ATR are basic functions included in all major charting applications (the names will vary by platform, just dig a little), while BBDevs (number of standard deviations), KCDevs (number of ATR's) and period (length of the moving average) are your input values.

Whenever the Bollinger Bands are outside the Keltner Channel, the Squeeze indicator will give you a positive value; whenever

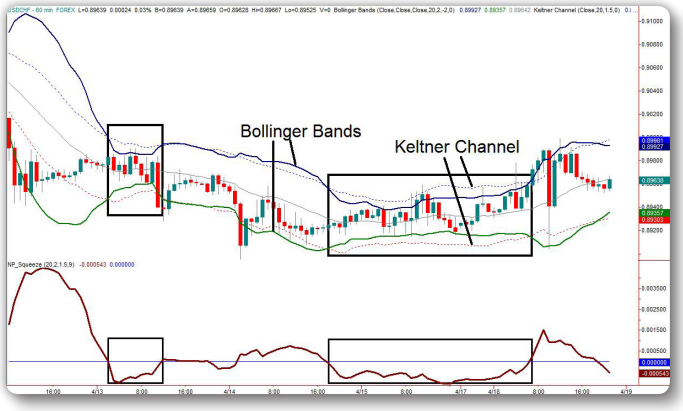


Figure 2

they are inside the Keltner Channel, the Squeeze will give you a negative value. Figure 2 is our original USDCHF chart with the Squeeze indicator added. I highlighted the areas where the Squeeze goes negative. Notice how they coincide with the Bollinger Bands moving inside the Keltner Channel on the price chart. You may also consider displaying the Squeeze as a histogram instead of a line, which I find makes it easier to read. You can see this in Figure 3.

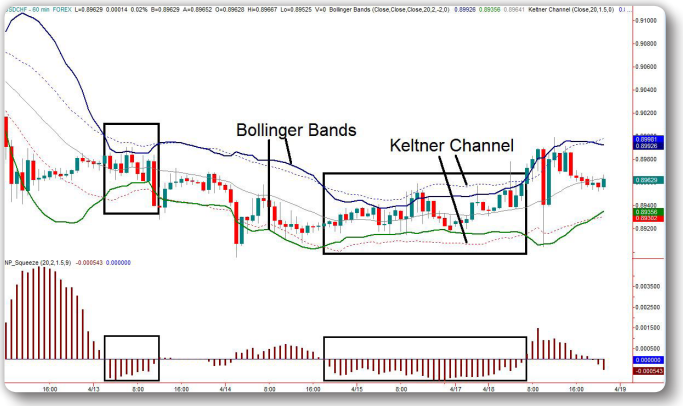


Figure 3

Application

As I stated earlier, the Squeeze indicator is not a holy grail. It is instead one more tool for your trading arsenal to help you stay out of choppy trading periods. Use it as a filter in conjunction with other indicators, or use it as one of several setup indicators. You can apply it directly to the chart that you're trading, but I have found it to be extremely effective when applied to a higher time frame chart. For example, if you are day trading on a five minute chart, apply the Squeeze to an hourly or four hour chart and use that as your chop indicator. You will miss out on some winning trades, but consolidation on higher time frames typically yields very choppy trading on the lower time frame.

I also encourage you to develop your own custom squeeze indicator for your platform. It does make it easier for you to identify the squeeze and will clean up your main chart. Plus, once you've developed the code you can build on it, maybe reformulate it as an oscillator, or build on it to develop a simple trading system that will be uniquely your own.

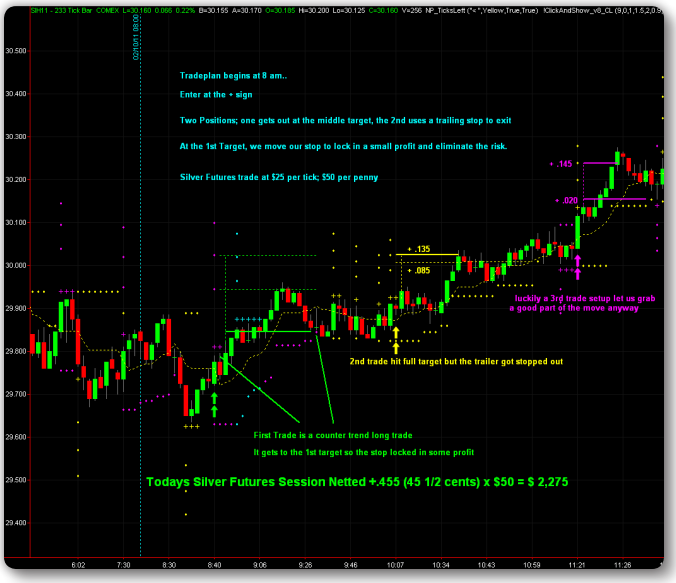
ANYONE TRADING SILVER? *by TJ Noonan*

You hear a lot about gold these days and for good reason, for sure. And while I wouldn't knock the gold bugs, I think that silver is worth looking at. It has been a very profitable and consistent trade. I like following a 233 tick chart with the trade method I use but the problem is, that the risk parameters could be quite large so if one isn't adequately capitalized, it becomes too dangerous. Even the winningest trade strategies go through their tough sessions and you have to have the trade capital to get through the losses or you won't be left standing to take the next trade which, at the very moment you throw in the towel, will inevitably begin the next 10 trade winning streak. Murphy's Law, right?

BUT, there is a solution. You can successfully prosper from the nice price action in the silver market by using silver ETFs. AND, you can get good leverage by trading options in those markets. That's what I've been doing lately and I love the results. But instead of daytrading, I'm using a 195 minute chart to put on short term swing trades. Below are a few screen shots of three different ways to trade silver.

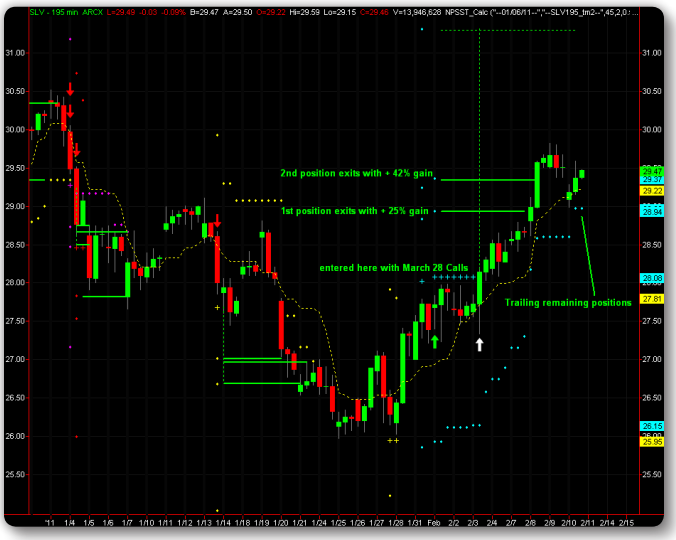
The first screenshot is a recap of today's 233 tick chart. It was very profitable as it usually is BUT, each trade required a considerable amount of risk, at $50 per 1 cent move in the contract. To trade this strategy safely and with responsible risk allotment, you probably need a $50,000 account. Otherwise, you'll find yourself trading with scared money when you get a few losses and scared money is DEAD money. Lost money!

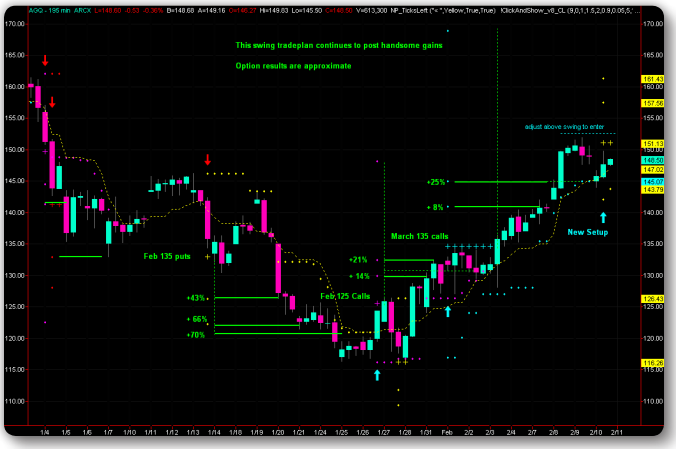
The 2nd chart, SLV (iShares Silver Trust), is a trade that I am currently in. It is a swing trade strategy that I like to trade with 4 positions. But rather than trade the shares outright, I am trading options with the nearest 'in the money' option to the entry price of the trade, as it is shown on the SLV 195 minute chart. I have already exited two positions and am letting the remaining positions play out until the trade ends. This strategy has won over 72% of its trades over the past two years. And, with options, you have great control over your risk and position size.



The 3rd chart is another Silver ETF, AGQ (ProShares Ultra Silver). This one also has won a very handsome 72.6% over the same two-year period. Makes sense, right? This one trades at a completely different cadence however. I wanted to show this chart because there is a new trade that has set up and may trigger in soon. I would make a small adjustment to get above the swing level, however. This one is a much higher stock price but with options, using the same strategy as I'm using with SLV, this is a very profitable strategy. Because there is so much time left with March options, the percentage returns are not as great as they would be later in the month. You could get better returns with February options but you might have to roll them over to March if the trade doesn't conclude in time. This setup could cancel but for now, the setup is valid and will be confirmed if the trade triggers prior to cancelling. We'll see.

Regardless, silver is a market worth trading. It is steady and profitable. Check it out.





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GOT BOB? *by TJ Noonan*

In a recent Seven Summits Trader blog post, I wrote about a GetBob trade that was forming on the iShares Silver Trust ETF, SLV. It had just set up and triggered in. Today, we exited fixed positions at both the 2nd and 3rd targets and are now trailing the remainder of our position with guaranteed profits locked in. I personally GotBob (got back on board) using May 42 call options.

The entry was at 42.67 so I bought slightly in the money calls. The price for each call option was 2.24 each. I exited my first position when SLV hit its middle target at 43.56. That's a .89 gain on the straight ETF (stock), which is a 2% gain. Not bad for a quick trade but if you bought 100 shares per position, you'd have to commit a bunch of your trade capital. Still though, if you could make 2% on every trade, you could conceivably trade yourself to riches. Check out the options result though.

I exited my first position when the ETF hit its middle target. My options were then worth 2.75, which was a .51 gain. It's a smaller gain points wise, but consider this. Each option only cost $224 to control 100 shares vs $4,267 for 100 shares of the ETF itself. When I exited with a $275 proceed, $51 profit per option, my percentage return on my invested capital was 23%! That's over 200% better and a 200% better use of my capital from a pure ROI (return on investment) basis.

The story gets better though. I exited the second 3rd of my position at the 3rd target of 43.93. The option sold at 2.90 (I actually exited a few pennies below the full target when it stalled at 43.90. I'm a firm believer of 'trading for profit' and not fighting over a few ticks). The 2nd position gained 29%. I tightened my stop on the 3rd, trailing part of the trade as per my tradeplan, to give the remainder a chance to hit a homerun. I have profit locked in no matter what, and in spirit of the SST, I have a pure risk free trade that is live and still going.