THE NETPICKS INFORMER
Savvy strategies for profitable traders.

LETTER FROM THE DEVELOPER

Think Different.

I know, I've basically ripped that off from the advertising campaign that was so effective in re-igniting the Apple legend.

Therefore I'll change it to "Trade Different."

Here at NetPicks, we've learned to NOT follow the crowd. There's a disease out there and it's something I call Zombie Trading. The sad reality is that most traders will never succeed – but not for lack of trying. We always survey new people coming to NetPicks and the Premier Trader University for the first time, and their success percentage tends to be under 10%. At the same time, most people have put in years of time and effort, and they typically have invested in many trading tools and systems.

The problem we find is that people follow the crowd like zombies. If that perhaps describes you, it's OK. We have not hit the apocalypse and there is still time to turn back. Unlike on TV and in the movies, there is a cure for Zombie Trading.

And that takes us back to "Trade Different." What I mean is this: Try to focus on markets where the crowd is not amassed. That means if you're a futures trader, do not start with the S&P e-mini. If you're a forex trader, avoid the EURUSD initially. These markets can be rewarding, but they are advanced markets with some of the best traders in the world on the other side of the Internet. Why go up against the major leagues when you're just starting out?

We teach trading systems that are quite effective on a number of markets in futures, forex and stocks. You'll find that we usually emphasize the less publicized ones.

Other ways to Trade Different? Limit your trading to just a small amount of time per day. Use our "Power of Quitting" philosophies to "Get In, Get Out and Get Done." You'll find that treating your trading like a marathon seldom leads to profitability.

How about actually proving to yourself that in a practice/virtual mode you can trade profitably before you risk your hard-earned money? Too many Zombie Traders rush in without thought, without a specific trade plan, straight to trading with real money in hopes of getting rich quick.

In these pages (and our back issues) you'll find a wealth of information on how you can break from the zombie herds. Take time for yourself and absorb this information. You'll leave a better trader, one that is ready to Trade Different.

Good Success,

Mark Soberman

Mark Soberman

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CAUGHT IN A BLIZZARD; THE STORY OF TWO TRADERS *by Tj Noonan*

I've been getting a lot of emails lately that remind me of a short film I once saw some time ago. Four wayward travelers were lost in the mountains working their way down in search of their camp. There was a terrible blizzard that had been raging for days. The travelers were completely exhausted and had to take every labored step with caution so as not to fall in a ravine or abyss that could be hidden by thick snow. Meanwhile, the snow was coming down strong and it seemed like it would be nightfall soon.

As they trudged along, one step at a time, roped together, one by one they began to be overtaken by exhaustion. The leader, who was obviously the strongest and most resolute, tried to encourage them onward, but finally he gave in and against his better judgment, relented by allowing for a short break. Little by little they each fell asleep as the snow whirled around and came down so thick that it was impossible to see more than a few feet in any direction.

As it went, they all died. When the snowstorm passed and the sun came out, we learned that they were literally 20 feet away from their camp and if they had just persevered and continued onward a few more steps, they would have saved themselves and survived their torturous ordeal.

The other day I received two completely opposing emails. One was an email loaded with despair. A trader had tried trading one of our systems. It was clear by his colorful descriptions that he hadn't taken the time to even get familiar with the rules, let alone trade it as intended. Immediately, he trudged off on some reckless adventure and wound up lost. He had experienced some immediate losses and was in the midst of what would seem to be a hopeless blizzard without a compass, roadmap, or means of finding his way back to a safe haven. Exhausted from the experience, he told me that the system sucked and he decided to give up.

I did offer to help him figure out what was the problem and to also help him get on the pathway back to successful trading. It was obvious from his account of what had happened, that he had never bothered to do any preliminary work to establish any sort of 'edge' in the market. I knew this because when I asked him to send me his tradeplan so that I might review it and offer suggestions on how to improve it, I never heard from him again. He had entered into the live markets without any foundational work, no plan and no clue. It was like the wayward travelers stuck in their blizzard with no vision or knowledge off where they stood in relation to where they needed to get to. With absolutely zero vision this trader was doomed to fail at the first sign of trouble. Quitters always quit as losers, never as winners. He may have been so close to his camp and instead of working through his situation, he laid down and gave up. Experience has taught us that the best trades always follow the toughest. It's just how markets work. We arm ourselves with a well researched tradeplan.

Within about 15 minutes of that email, I received another one. A trader had not only found his way back to camp, he had discovered enough detailed information to avoid the blizzard altogether. He had combined his new trade strategy with the powerful analysis tool, the UTA. He was very excited after uncovering a beautiful tradeplan and a pathway to successful trading. He had put his plan into action and was thrilled to learn that his well researched tradeplan continued to perform for him in live market conditions. He did his foundational work, established an edge in his chosen market and then formed an effective tradeplan to help him navigate the always dangerous live markets. He traded his plan and continued to enjoy the success as his plan had indicated he would. He continues to trade his plan with confidence and even if he gets stuck in a blizzard, and experiences a series of losses, he knows where his safe haven is and to not lie down and give up. He knows that if he just puts one foot in front of the other, and takes the next trade as his plan dictates, that he will find his way back to his camp and will work through the temporary set back.

Our trade data is loaded with valuable information. So many traders don't bother to mine the hidden gems within. They've got it at their finger tips. It is within their reach. But instead of taking a few more critical steps to unlock the treasure chest of knowledge, contained within their data, they just assume give up. It's easier to just lie down and die. We all know what the outcome is at that point. The sad thing is, that a few more well guided steps was all that was needed and was the difference between success and failure.

Learn how to trade before you trade. Learn how to unlock the treasure chest of wealth contained within your trade data. Do the foundational work and establish a plan that gives you an edge in the market and then, trade that edge. If you do, you'll be in a far better position than the majority of traders in the world and will have given yourself the greatest chance of success.

HOW TO PICK THE RIGHT TRADING SYSTEM *by Ron Weiland*

If you are like me your inbox is full of Get Rich Quick, The Best Forex Trading system Ever, Easy Forex EA, and this free indicator or that. I am sure that if you are new or not successful, you are looking at all of these emails and systems and not sure what to do. Hopefully, this article will give you some cold hard facts that you need to recognize before you pay one penny for a system or indicator.

1. All systems have losses
2. You will have periods of Drawdown
3. You need to test the system you have, so that you know what to expect

These are 3 of the most important factors in trading. No one likes to lose, but you will have losses, even a string of losses. You can't judge a system by the performance in a month or two. The real review needs to go back over several years. This way, you will know that after 3 negative months in a year, where you will be at the end of the year.

Drawdown is important, because you need to allocate the right amount of risk to your trading. If you trade too much, your account can not survive any negative months and therefore, you will not be trading when things turn around and grow. We always want people to start out with a low risk, say 1 or 2% of your account. This way a few losses in a row will only make a small dent in your trading capital. Remember the saying, "he who fights and runs away, lives to fight another day". In trading you fight the market every day and try and win. Some days you win some days the market wins. That is trading. The key is to win more than you lose and to be focused on your trading. Treat it like a business!

Figure 1

I am going to show you the AUDUSD on a Daily Chart and it is not one of the best performers. It did quite well last year with over 1869 Pips and this year we are over 1000 pips. What is important is that inside of the bottom line Pips is some losing months. In fact, last year one pair lost money for 5 straight months. Wow, does that scare you? I might worry, if I didn't know that those same pair always won every single year in the end. That is why testing is so important. So, let's take a look at some of the trades from Jan and Feb of this year on the AUDUSD. (Figure 1)

I put an arrow over each winning trade. It was about even 4 wins, 4 losses, but the wins were much larger than the losses. So, we made money. This is April and May where we had some very nice runs and banked a lot for the year. (Figure 2)

Figure 2

Now after a large move you can expect some chop and we got it in June and July. The market drifted lower, but always pulled

Figure 3

continued on next page

back hard. We are moving back into more profit for August and September. (Figure 3)

So, how can all of this help you? Remember to test any system you are looking at. We have tested all of ours going back many years and now forward test them. Keep a mix of markets. That way if you have a bad month on one pair or market, you might have a good month on the other. Don't be afraid of losses. If you knew that your system wins consistently every year, but not every, day, month, then you will be able to trust it and stick around for the winners.

"Don't be afraid of losses."

At NetPicks we don't stand still. We are always looking at new ways to trade better and improve performance. That is what is unique about us. We are live, in the markets every day along side of our traders. So, you know that, if we give you a trade plan and say "do this and you will be successful", then do it. You won't win every trade, nor will we, but you will win in the end and that's what counts.

THE SECRET OF MOMENTUM *by Shane Daly*

You hear it everywhere: "Trade the trend". It makes sense, right? If the bulk of the money is into longs, why be that trader that bucks the trend and trades the opposite.

I love to Jet Ski. The roar of the engine as you gun the throttle and zip around the water like a maniac (of course keeping an eye out the others). On a calm day, I like to tour the shoreline and really appreciate the solitude. Turn off the engine and just sit. Other days though, I am like a kid in a candy store…a bull in a China shop. The best is when a huge boat is zipping by creating quite a wake behind them. Those are prime for jumping and you can really get some air if you hit them the right way. Think of the trading the trend as taking advantage of the wake left behind by the big boats. No need to roar around in circles to create your own jumping opportunity. Just wait for the big guys and tag along for the ride.

That ride though is not always smooth. In fact, unless you are right on the heels of the boat, the wake can lessen and the jumping becomes minimal.

Trade with the Wave of the Big Boys

Think of trends the same way.

Figure 1

When all systems are a go to the upside, it is a great ride. But markets don't work that way. They correct. When they correct, if all you think of is taking the trend, you will get eaten alive. The further they move away from the trend, the more patient you have to be. Really, you didn't think it was that easy did you?

Let me show you a **Forex** chart (Figure 1).

This is a daily chart and I have applied a 34 EMA to it. As you can clearly see, the **moving average** is telling you the trend is up. That would mean that on lower time frames, you will only look for long trades….**trade the trend**.

However, look at the following chart (Figure 2).

Figure 2

This is **over 3000 pips of retracements** in what shows an uptrend on the daily chart. If during this time on the lower time frames you were trying to get long into the trend, you got eaten alive. Sure you may have scalped out a few but the risk of a reversal, if you went short or the continuation of a move away from the trend continued, you lost money.

Enter the Momentum Picture

So, what are we missing? We are missing where the **momentum** is. You see, you can have a trend to the upside however the momentum is a different story. Trend is the general direction of the market you are trading…think of it as a trend in price. Momentum though is different and is all, well, momentum trends and although many times trend and momentum are on the same side, other times, they are opposite. Where do you think the higher probability trades are? Of course…when momo and price trend are going the same way.

I wanted to show where the momentum changes to the downside while the uptrend remains intact. The moves on the previous chart coincide with the momentum reversal of the indicator pictured in figure 3.

See? It is not very difficult to ascertain where momentum has shifted and make sure you notice that it is only 1-3 bars shy of the extremes of the turns. The overall uptrend has not been violated but understanding the momentum behind the moves can keep you away from bad trades.

If it can keep you from bad trades, can it do the opposite? Can it get you in trades that have a higher probability of going in your intended direction? You bet it can.

To avoid cherry picking, I am going to use the first time the momentum diverges from the price trend.

Trading Chart Setup

The overall trend is up but the momentum on the higher time frame has turned down. This will make long trades on the shorter time frame risky at best. We have to keep in mind that the overall trend is UP and have an idea where price may turn back to the upside. Off the daily chart, we have a resistance area that was broken through (it is off to the left of this chart). Price often tests these areas so not a bad place to keep in mind. It is also the 50% retrace from the pivot low that is just off this chart. (Figure 4)

Figure 3

So what can we do? As long as the momentum from the higher time frame is short, we can grab shorts as long as we keep in mind and keep informed about the state of the daily momentum.

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Keep Trading Simple

In order to show how simple (but not easy) trading can be, I am going to simply trade pullbacks into the same EMA as

Figure 4

used before to show trend. I will only take the trades when the momentum, shown below, turns back into the momentum from the higher time frame.

I will also only take the trades when the **momentum shifts** near or above the top dotted line in the momentum window.

Furthermore, the trigger to get the trade going will simply be a break of the low of a candle that appears after the momentum shift.

Targets? Pivot areas off the chart I am looking at. (Figure 5)

What you see is four trades. 3 winners. 1 loser. 60 pips or so of profit after spread cost of 2 pips.

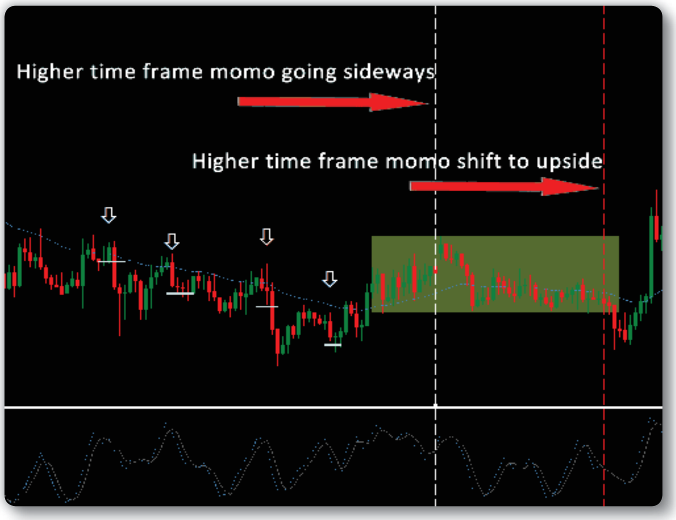


Figure 5

This chart also tells a story. We see price break above the EMA and never pull away from it as seen in the green box. Shorter time frames lead the higher ones and soon after, the momo on the higher time frame goes sideways. It then turns to the upside back in the direction of the trend.

We are going against the trend on the higher time frame so we must keep our expectations in check. You can, if you choose, stand aside any short setups and wait for the turn on the higher back in the direction of the trend.

I hope this adds something to your trading knowledge. You can use this information even if you already trade a system/method. It is just another cog that may keep you consistent and on the path to a profitable trader.

STRATEGY OPTIMIZATION *by Will Feibel*

Automated strategy optimization allows us to test hundreds of scenarios with relatively little effort, especially when compared to the time it would take to test manually. Every input to the automation is a variable that can be tested, and as the number of inputs grows the number of possible value combinations grows exponentially.

Consider the simple strategy we developed two issues ago. It was based on price closing above or below a moving average with a one bar confirmation of the cross for entry. For exits we used a simple fixed $50 target and $20 loss per 100 share trade. There were three components to the strategy: two moving average cross automations (one for long and one for short trades), and the exit automation. Each of these in turn had two major input variables. For the moving average cross these were the length of the moving average and the number of confirmation bars, while for the exit automation it was the size of the fixed profit target and the size of the stop loss amount. For this discussion we'll only focus on the two moving average cross components.

The temptation and what seems easiest to us is to simply set an optimization range for each input and then let the computer run the tests. This can quickly get out of hand however. Assume we wanted to test every moving average length between 2 and 20, that's a total of 19 tests for the long combined with 19 tests for the short moving average, or 19 X 19 = 361 different combination tests. Then if we're testing the number of confirmation bars from 0 to 5 that's an additional 6 tests for the long and 6 for the short, giving us a total of 19 X 19 X 6 X 6 = 12,996 separate tests. That may not seem like much but on my computer it took over three minutes. Now imagine if we wanted to combine this with an optimization of the exits, we could quickly end up with hours of computer testing.

Having the computer run tests for hours is not a problem in itself, we could easily let it crunch overnight. The problem is

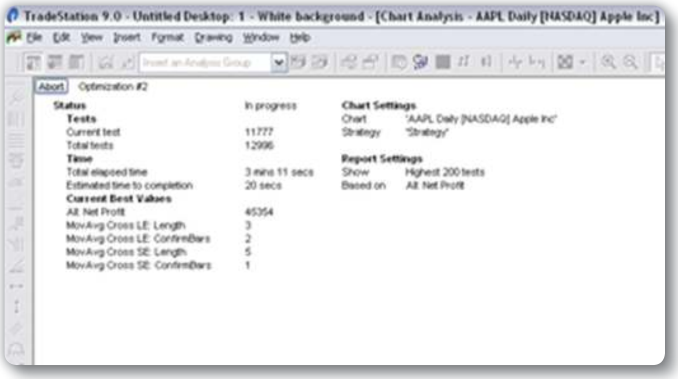


Figure 1

determining what to do with the results. The more inputs we combine, the greater the odds that we have curve fitted the results, meaning that we have identified the unique combination of input values that maximizes the result for a specific set of historic price bars. These curve fitted results unfortunately don't perform well when carried into the future.

The following chart shows the Net Profit for different input combinations in our 12,996 tests.

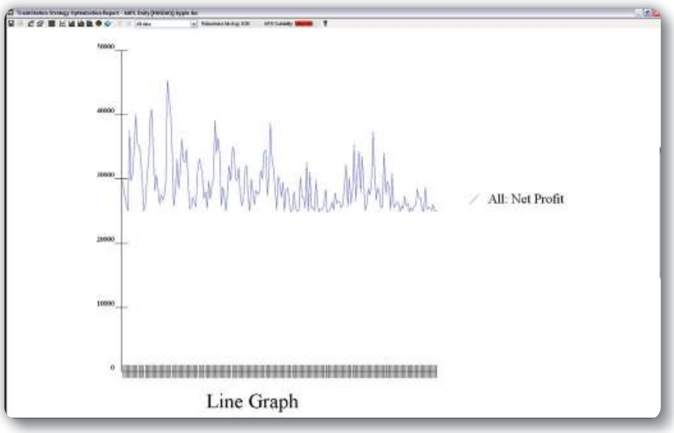
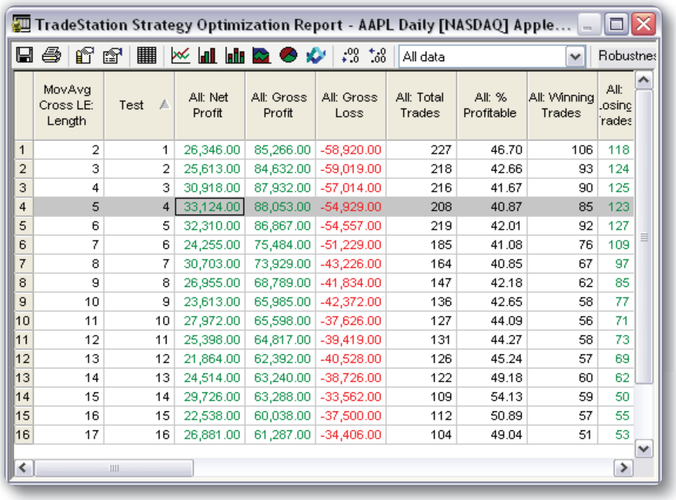


Figure 2

The good news about this chart is that it appears every combination of input yields positive results. However we cannot discern a clear pattern of areas of profitability. Those spikes show that slight changes in any of the four input variables can cut the results almost in half. We could pick the optimal value (the highest spike) but see the strategy fall apart going forward.

Instead of testing all or a large number of inputs in combination I suggest you test each input individually. For starters this will drastically reduce the total number of tests that need to be run. By testing each moving average length and each confirmation bars value individually the total number of tests becomes 19 + 19 + 6 + 6 = 50 tests. And adding the fixed target and stop tests would only increase the total number of tests slightly.

The second benefit of running the tests individually is that we can now better judge the stability of the test results. The following table shows the optimization results for one of the moving averages' length.


TradeStation Strategy Optimization Report - AAPL Daily [NASDAQ] Apple...

	MovAvg Cross LE: Length	Test	All: Net Profit	All: Gross Profit	All: Gross Loss	All: Total Trades	All: % Profitable	All: Winning Trades	All: Losing Trades
1	2	1	26,346.00	85,266.00	-58,920.00	227	46.70	106	118
2	3	2	25,613.00	84,632.00	-59,019.00	218	42.66	93	124
3	4	3	30,918.00	87,932.00	-57,014.00	216	41.67	90	125
4	5	4	33,124.00	88,053.00	-54,929.00	208	40.87	85	123
5	6	5	32,310.00	86,867.00	-54,557.00	219	42.01	92	127
6	7	6	24,255.00	75,484.00	-51,229.00	185	41.08	76	109
7	8	7	30,703.00	73,929.00	-43,226.00	164	40.85	67	97
8	9	8	26,955.00	68,789.00	-41,834.00	147	42.18	62	85
9	10	9	23,613.00	65,985.00	-42,372.00	136	42.65	58	77
10	11	10	27,972.00	65,598.00	-37,626.00	127	44.09	56	71
11	12	11	25,398.00	64,817.00	-39,419.00	131	44.27	58	73
12	13	12	21,864.00	62,392.00	-40,528.00	126	45.24	57	69
13	14	13	24,514.00	63,240.00	-38,726.00	122	49.18	60	62
14	15	14	29,726.00	63,288.00	-33,562.00	109	54.13	59	50
15	16	15	22,538.00	60,038.00	-37,500.00	112	50.89	57	55
16	17	16	26,881.00	61,287.00	-34,406.00	104	49.04	51	53

Figure 3

It becomes very clear from this that we have a wide range of profitable values but that there is a clear peak in profitability for lengths of 4, 5 and 6. Any of those values would be a good pick, and we choose the middle value not because it has the best result (although it does) but because it forms the center of a stable profitable range.

We perform similar tests for the length of the second moving average and for the number of confirmation bars for each moving average. When I looked at my results I found that having one moving average with a length of 6 and the other with a length of 5, but both using 1 bar confirmation yielded the best outcome. However, setting both to a length of 5 yielded results that were just slightly less but greatly simplified the strategy. I could now draw a single moving average on the chart and base long and short trades off the same line.

Was this an optimal value combination? As it turns out it was also the third most profitable outcome of the 12,996 tests run. What was more important however was that it was a combination that I could trust to be robust and stable. And it was one that could be implemented with ease.

In summary, although strategy optimization can be used to find the one optimal combination of thousands of values, that combination may be over optimized and curve fitted. Instead test each input separately and identify stable value ranges that will yield robust test results for you.

SUCCESS? continued from last page

None of these steps are very difficult to complete. However, taking this simple approach to evaluating your trading results can lead to huge dividends heading into the rest of the year. Often times as traders we overlook the basics, like keeping a trade journal or finding a trade partner, but in many cases it's those basics that hold you back from reaching your goals of becoming a profitable trader. We are heading into the best time of year to trade so take some time to evaluate your trading so far this year to make sure you are set up with the best odds of success.

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AS WE HEAD INTO THE BUSY TIME OF YEAR TO TRADE, ARE YOU SET UP FOR SUCCESS? *by Mike Rykse*

As we transition into the busy fall and winter months for trading, it is important to evaluate your trading performance for the year so far to date. The summer months can be tricky to trade because we are typically stuck in a low volume environment. This year was no different. In fact most of 2013 has been characterized by low volume moves. The story of 2013 has been the slow grind higher for most of the year. As we head into fall, I do think we will see a pickup in volatility and volume which should give us some good conditions to trade in. However, before we ramp our trading up into the end of the year it is important to take a step back and evaluate our performance so far. As I went through this process myself, I started to think about all the important factors to keep in mind.

First step for me is to evaluate my overall trading results. The important part to this step is to evaluate your trade journal and start to take a look at how successful you were following your system. Were you able to stay disciplined to your system and trade plans? Have your system and trade plans been profitable? If you answered yes to both of these questions then you are looking great heading into the fall months. If you noticed that you haven't been as successful as you would like to be, then start to work through what changes need to be made in order to improve your results. The best way to do this is to strip everything down to the basics. Take away any filters or rules that you have added to your system and just trade the system as it was originally designed. In a lot of cases the layers and filters that we add into a system don't necessarily improve results, they just make things more difficult to trade. This can lead to a drop in overall results. Make sure you are also putting steps in place to stay disciplined to your trade plan. This means keeping a trade journal every day to track your performance so you know what areas need improvement.

Step two is to evaluate the markets that you are trading. At times, traders get locked into the same markets for no other reason than those are the markets that they have always traded. The problem with this is that markets change. I'm a big believer in being slow to change but that doesn't mean I never change. There are so many good markets out there to look at that you really don't want to force a given market to work if there are better options out there. If you aren't happy with your results, you can also look to see if there are any changes that could be made to your current markets that could improve results. A simple change like going for a bigger or smaller target could make a huge difference in results. Or how about starting at a different time each day? This can also make a big difference in your bottom line. The key to step two is to make sure you are trading a market and a time frame that you can trade with confidence. Sometimes making a few small changes to your system can mean all the difference in the world when it comes to increasing your profits.

Step three is really important for all traders to consider. That is to find either a trade coach or a trade partner that you can work with. It can be extremely valuable to have someone there to run ideas by throughout the day or week. That person can also be there to hold you accountable to your system and trade plans. In trading we don't have a boss to answer to so it is important to put those steps in place to make sure you are making good decisions in your trading. It is important to select this person carefully. In my own experience, I like to work with traders that I know are smarter than I am. I want to learn from people that are better than me. In trading, the minute you think you have mastered things is the minute the market will start to hurt you. By having someone around to teach you new things or introduce a new market or idea, you are increasing your odds of long term success. I like to run new ideas off other traders because in a lot of cases that second opinion can give you insight that you have never considered. Having a trading partner is so valuable in my own trading because even though in my case we both have very different approaches to the market, I know he is there to hold me accountable to my system.

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