THE NETPICKS INFORMER

Savvy strategies for profitable traders.

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LETTER FROM THE DEVELOPER

Twenty years. Yes, this time next year NetPicks will be celebrating its 20th year in operation. Since day #1 we have always set out to provide training and systems for active individual investors.

I'm proud of the fact that our mission has never wavered. Through every market condition, one could imagine we've stayed the course and worked hard to empower you, the individual trader.

It does make me think about the many successes we've had including the incredible team here at NetPicks. The professional and high-quality training. Not to mention having called collectively tens of thousands of trades live and in real-time.

Any luck at success, however, is worth a look at failures. Which makes me think about people who have come and gone through our ranks over the years. Perhaps they get excited, buy a system and never do anything. Or they attend webinars, read some of our blogs, purchase a system only to get started and quit within hours or days.

When we trade, we identify the winners and losers and try to determine how to minimize the losers, and maximize the winners.

It's important to do that in the audience we attempt to reach with our sharing of knowledge, experience, and training.

The biggest difference maker we've found? Patience. The people who take the time to learn fully and master the training and the system. The people who take the time to step slowly into the market and practice trade. Those who place dozens of practice trades before risking "real" money. Once trading live trade the bare minimum.

These are the people who have the highest degree of success - probably approaching 100% (assuming they also trade with reasonable expectations, an understanding of drawdowns and moderate leverage)

The one greatest thing you can do for yourself and your trading success is to try and slow down a bit, try to give yourself time to absorb one of our systems.

Surely one speaks to you....forex swing trading? The NetPicks Dynamic Swing Trader. Day trading? Counter Punch Trader or Trend Jumper. Options? Options Mastery training program. Stocks? NetPicks Quantitrader. There is something for everyone, but all of these will take some time and dedication.

They all work and continue to perform but only for those with some patience, commitment and time. Nothing unreasonable but enough to make it a worthy investment of your effort.

Rather than chase the next 'hot system' only to be disappointed, commit yourself to mastery. It's a lot less daunting than you'd imagine. Typically 30 days (or less) is all that's needed with our training and systems. You'd devote that for a lifetime of rewards, right?

Great Trading,

Mark Soberman

Mark Soberman

WHAT EXACTLY IS AN ALGO? by Jane Fox

Bear with me if you can and try to get through this first paragraph. An algo or, in other words, an algorithmic trading system is the interaction between data and a fixed model (an algorithm) where the model needs the data to process its logic. A static model is used to periodically scan dynamic data resulting in a trade list – or signals. Since the model is static and the data is dynamic, the trading system performance depends on the synchronization between the model and the data. Changes to either the model or the data will result in a new system. Whew, you made it, good job!

Quant Traders Use a Model

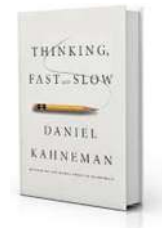
What we're saying here is that Quant traders use a fixed set of rules to determine trade timing and direction in a systematic way. On the other hand, discretionary trading is not confined to the same scientific parameters; instead, the discretionary trader utilizes intuition and "market feel" in order to make technical decisions. The human mind, however, is continuously bombarded with outside emotional influences and when discretionary traders want a certain outcome, situational influences can result in the exact opposite. It is called mind sabotage.

The discretionary trader does not always make the same interpretation of a market indicator (chart, technical study, fundamental information, etc.) or use it in the same way each time it's applied. This trader uses personal judgment to determine the value of that indicator at any given point in time.

Discretionary Traders Use Intuition

Since the discretionary trader must, per force, analyze the market(s) on a regular basis, it's said that they gain the opportunity to develop a more intuitive feeling for the market resulting in a better understanding of how it operates under given sets of circumstances. However, the most essential argument against discretionary trading, and for becoming a Quant trader, is the psychological element. Since discretionary trading is beholden to the analysis and execution performed by the individual rather than the system, it runs the risk of biases, lack of discipline, and other psychological shortcomings resulting in failure.

Thinking, Fast And Slow



In his book *Thinking, Fast and Slow*, author Daniel Kahneman explains that the human mind employs two distinctly different methods of thinking at the same time. When it comes to trading, these different ways of thinking often oppose each other, and ignorance of their existence can explain why humans are not good traders. Daniel Kahneman and Amos Tversky won the Nobel Prize for the "Prospect Theory" that uses cognitive psychology to study how people manage risk and uncertainty. Their findings are highly important in financial economics and reveal the weaknesses of us humans in investment decision-making.

"Experts are uniformly inferior to algorithms in every domain that has a significant degree of uncertainty or unpredictability, ranging from deciding winners in football games to predicting longevity of cancer patients. One has to accept financial markets are no exception to the rule." Daniel Kahneman

Kahneman refers to these two types of thinking as System 1 and System 2. System 1 thinking is described as "fast, automatic, frequent, emotional, stereotypical, subconscious" and System 2 as "slow, effortful, infrequent, logical, calculating, and conscious."

System 1 relies on intuition and assumptions – in the trading world, this is called discretionary trading. Whereas properly harnessed intuition can be a tremendous asset, improperly harnessed intuition can lead to overconfidence, isolation, and the creation of confirmation bias which leads to statistical errors.

Kahneman says once a plausible answer comes to mind, overriding it can be extremely hard work. When people create a cognitive bias, they develop a tendency to only believe supporting arguments while ignoring valid points to the contrary. Traders can then refuse to cut their losses by simply not acknowledging evidence that could have saved them a lot of money.

When a position does not move in an expected way, people must be disciplined enough to stick to predefined rules because of the natural human tendency to operate under the overconfidence of System 1.

Also, since a discretionary trader is relying upon his/her own analysis and not a set of automatically generated buy/sell decisions, another disadvantage is that the underlying analysis is often limited in the number of markets that can be traded. Whereas a mechanical trader can apply a system to a wide array of markets.

"The universe of trading systems is divided into two – having confidence and having faith. If you want quantifiable confidence, the kind of confidence that tells you whether or not to hit soft 17 at blackjack, whether or not to hit the blot in your inner table in backgammon, or whether or not buy a new 52 week high – use quantitative analysis. Everything else is faith." Howard Bandy

Even though here at QiT uses 100% algorithmic trading, and does not utilize any discretionary override, QiT still recognizes the advantages built into the discretionary trading model and thus continuously monitors the algorithms for system health with optimization techniques. This way we are able to stay current and adapt to market changes.

QiT models the price, volume and other technical analyses in a way that gives a huge edge over discretionary trading. An edge we can quantify with back testing. An edge you can see with your own eyes.

Each night the entire US stock market is scanned for patterns. The stocks that meet our criteria are called signals because they signal a trade with the highest probability of winning. But we don't stop there. We then use another filter to rank all the signals and only trade the best of the best. Once again, we don't stop there! Each signal we trade then uses a limit order to turn a very good trade into a great trade.

These patterns are expressed in a formula our trading system development software, Amibroker, can read so they are reproducible and can then be evaluated statistically.

The metrics QiT uses to evaluate backtest results are called the evaluators and model development is done through Amibroker with Norgate Premium Data providing our data.

GARBAGE IN – GARBAGE OUT! by Troy Nooan

In other words, asking the right questions. I am of the belief that most people trying to trade end up failing because they don't know what the right questions are, that need to be asked and answered. I have learned over the many years of working with countless traders and running a successful live trade room with a constant interaction with numerous traders in real time live market action that failure comes from approaching the session with the wrong ideas.

Today a gentleman took a couple trades in the Crude Oil Futures 377 tick chart. This is a tradeplan with ongoing long term success. I didn't even know this trader was present in the traderoom until he posted the following comment:

"Ouch! Crude just had two brutal losses in a row."

I instantly knew that this was a trader approaching his session without asking the right questions; perhaps not even asking any questions. I asked him a question though. I asked him "what is your tradeplan? Are you supposed to be taking CL trades this late in the session? We already finished our usual tradeplan today and it ended positive." There was a long pause before he finally answered, "I started late today."

This one simple and common example illustrates exactly how and why so many traders regularly fail, even with a winning system and tradeplan. It shows how a well intentioned 'would-be' trader is probably destined for ongoing frustration and a dwindling trade account.

Two losing trades are extremely common. It goes with trading. It's pretty much meaningless too, in the context of an ongoing winning tradeplan. How it fits in with random, shoot from the hip trades on the other hand, well, that's a completely different story that usually doesn't end well.

Imagine owning a different type of business. I like to think of a dry cleaning business, or a pizza shop; maybe even a hardware store. Whatever -- some sort of small business. How do you think that business is going to do if the owner or manager were to show up whenever he wanted to open for

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business? Today he shows up at 9 am. Tomorrow he opens his doors at some other random time, etc. You get the idea, right? Do you think that business has any chance of succeeding?

Trading is a business! Success comes from running one's trading business with 'best practices' and a disciplined consistency. Think about the two losses in our above example. The trader was following no tradeplan. Basically, he was closing his eyes and throwing darts in the general direction of a hazy target. Let's take this a step further though. Let's say that we were trading our tradeplan, following the rules, and the first two trades were losers. Should we quit that plan?

Now imagine that you ran a pizza shop and no one came into buy pizzas today. Normally you run a business that makes money on a regular basis, but today for whatever reason, no one wanted to eat pizza. You still had to pay your employees, pay the electricity and gas, etc. You lost money today. What does that say about your business? Are you going to quit and close your doors tomorrow? You have a money making business but today, it didn't bring in enough income to meet your overhead. That happens, right? Yet the business is an ongoing success. Hungry pizza eaters from miles around are going to come in and buy more pizzas! Do I have to tell you not to quit?

Winning tradeplans take on losing trades don't they? Two losses is nothing. Winning trades do follow though, right? That's why it is a winning tradeplan. I had a session not too long ago where I was thanking the trade gods for the two losing trades I started the session with. As a result, I had to take a third trade, per my tradeplan. The third trade was a huge reversal that gained over a $1.33 in Crude Oil Futures, which equates to $1,333 of profit per contract! If I had won a typical +.22 on the first trade of the day, which I always consider a great success, I would have only made $220 per contract. I'm never going to complain when that happens but, because I began my session with two losses, I was able to catch the big homerun winner. I've seen even bigger winners follow a few losses. The winning business requires the ongoing operation of the business and not whether any transaction wins or loses. Was I nervous after the two losses? Not at all! I can see the ever growing equity that occurs by merely following the rules of my tradeplan; by opening my doors for business and executing my business transactions per my plan. Besides, knowing something about your business is probably a good idea too, right? I know that 100% perfect winners do not exist in trading and if it did, it would quickly by illegal anyway. The good news is that I don't need such perfection. Perfection comes from the imperfection, really. Trading is like fishing. If a fish gets away, you throw another hook in the water, so long as you have a productive fishing hole. If the motivation is not dying of starvation, you're going to be just fine so long as you don't abandon your attempt to catch fish.

The trade gods work in mysterious ways but the big point here is that the money is made by the results of the tradeplan, not any give set of random trades. Not trading with a plan, and taking two losses in a row, something that one should expect on a regular basis, usually results in a trader saying "Ouch!" and quitting. To me, the bigger ouch is missing the next trade, or worse, not keeping your doors open for business when the money making transactions are ready to come pouring in; not throwing your hood in the water when the fish are ready to bite.

The typical profile of a losing trader is someone who unwittingly quits the winning tradeplan after a few losses and then trades some other random chart and strategy. His dry cleaning business had no customers today so tomorrow he opened a shoe repair shop. A week later he was running a flower shop. Perhaps all three would be ongoing successful businesses if only he would just run one of them consistently and with a proven plan.

So what are the right questions? How does one not fall prey to this common theme of failure and losses? It all begins with knowing why you are trading in the first place.

Am I trading to win on every trade? If so, why? Is it even possible? How is that working out for me? Perhaps a better and more productive question to ask is 'why am I trading in the first place?' Is it to make money? If it is, and you recognize it as being so, then you are on the right pathway to success. Because the next all important question presents itself: "What is it I have to do to make money as a trader?" The answer is to trade a winning tradeplan that grows equity over time, due to the statistical edge that the plan gives you. Placing a pizza shop in the middle of a desert might not do as well as putting it in the middle of a well populated neighborhood.

If your answer of why you are trading is to prove how smart you are, or how good your pizza is, then you will get completely different results. "My pizza is so good that it doesn't matter if I put it in the middle of the Mojave Desert, people will come from miles around regardless." Or, "I am so much smarter than the market that I don't need a stinkin' tradeplan." Funny how many people think so lowly of themselves that they have to prove, to themselves, their worthiness by outthinking the market, and ultimately preventing their own success from ever happening, since they wind up realizing that they can't outthink the market. It's one of the great ironies of the trader battlefield. Garbage in, garbage out! My money is on the neighborhood pizzeria and on the trader with a proven tradeplan. Ask the right questions and then proceed to do what it takes to succeed, based on the answers.

If succeeding at trading means making money on a consistent basis and the only way to do that is by following a proven, money making tradeplan, then your pathway is made simple. All you have to do is follow it. It doesn't have to be garbage in, garbage out. I prefer to open my doors for business, fire up the oven and put the pizza in. Pizza in, pizza out. Yum! With a good winning tradeplan you could open up a chain of them.

HOW OTHER MARKETS CAN INFLUENCE YOUR TRADING DECISIONS

by James Kessick

Yesterday a very important aspect of trading came up in the EU trade room and I wanted to take the time to discuss it in a little more detail. Similar markets tend to move in a similar way, but changing the way you trade because of them is something that can be problematic if you don't consider **how other markets can influence your trading decisions**.

Level of correlation

It's really important to take the level of correlation between markets into account. Some products are **highly correlated** such as different bond products on the same yield curve (e.g. Schatz, Bobl, Bund) or different calendar months in the same market (e.g. Crude Oil). Because these markets are so correlated, there tends to be a great amount of spread trading activity. This basically means buying one contract and selling the other in order to trade the relationship between the two instead of the changing value of each market separately.

Other markets are correlated and the spread can be traded, **but their relationship isn't always as clear-cut**. This kind of correlation might be seen between bonds from different countries (e.g. Bund – 10yr Note) or different stock indices, particularly between those from different countries (e.g. Dax-S&P). These kind of relationships range from being quite tight in the ultra-short-term to fairly incoherent. Global economic macro drivers can move these markets together and so the relationship is stronger, but then influences much more locally specific to the individual markets can play a role.

FTSE – Europe on Thursday

This was the kind of thing seen on Thursday between the FTSE and the EuroStoxx/Dax.

Although these are all European indices, the FTSE was behaved somewhat differently due to different influences on these markets. The FTSE opened and went straight up to begin with, whilst the EuroStoxx/Dax tested lower and struggled to push higher. When one market clearly has an idea of what it wants to do but there's a reluctance from a correlated market to go with it, there's a distinct possibility for a reversal at some point. On the other hand, the markets might have **lost sync with each other**.

If you're trading one market and watching another to take your trading cues from, when there's a breakdown in the relationship it can be mildly frustrating and potentially costly to say the very least. But relationships between markets clearly do exist and to ignore them altogether leaves us susceptible to the natural inclination of looking for patterns.

So what can you do?

Identify potential drivers

If you believe that there's a **leading market**, the first thing you can do is look at what the **possible drivers** for each market will be over the course of the session and the short term. Prevailing market direction driven by global macroeconomics or political risks taking place for example, could influence both the markets that you focus on. However, information that's more relevant to local markets is likely to have far less of an effect across all the markets that you're watching.

Pre-plan what you do

You might believe that you have a good feel for how another market affects the one that you are trading. However, for the information to be useful, you need to not only understand how another market affects your own, but also **how this will alter your trading decisions**.

There might be key features of the market's movement that you believe will drag your market with it. There could be a major breakout for example or the market might have suddenly moved much further than it would normally. How

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will this then change what you do? Will you aggressively look for trades in the same direction or will you back off taking trades against the direction of the move?

Whatever you do, the most important thing is to consider the implications of how a correlated market is moving and what if any changes you're prepared to make to ensure you perform well in the market that you trade.

Trade well.

ARE YOU READY FOR BINARY OPTIONS? by Ron Weiland

Yes, I think it is only a matter of time that we will dip our foot into the Binary Options water. The good news is you can trust that if we put something out, you know it will give you the trader an edge in your trades. We will also tell you what you need to watch out for as far as bad brokers and avoiding scams in this fast growing market.

Let's first take a look at what Binary Options are.

A **binary option** is a type of option in which the payoff can take only two possible outcomes, either some fixed monetary amount of some asset or nothing at all. The two main types of binary options are the cash-or-nothing binary option and the asset-or-nothing binary option. The cash-or-nothing binary option pays some fixed amount of cash if the option expires in-the-money while the asset-or-nothing pays the value of the underlying security. They are also called **all-or-nothing options**, **digital options** (more common in forex/interest rate markets), and **fixed return options** (**FROs**) (on the American Stock Exchange)

So, let me take that definition and put it into layman's terms. You decide that a market (forex pair, stock, commodity, or Future) is going to go up or down. Then you pick the timeframe that you think it will happen. You place a Call (that it will go up), or a Put (that it will go down) and pick the time frame that you think it will happen. This could be a daily timeframe, in 15 minutes, at the end of the month or even 60 seconds.

You have decided what you think will happen with the market and the time it will happen. Now you place your bet. You can wager $5 to $2500 and if you are right you get a percentage of the bet back as a gain like 75 to 85%, plus your initial wager. Look at the picture below.

In this example, you think the EURUSD will be above or below 1.07461 at 18:45Z and that is in about 9 minutes from now. You are going to wager $25 and will win $46.25 if you are right, but if you are wrong you lose the $25 bet. So, like the definition said, you are not buying the currency, and it is an all or nothing you win or you lose.

This is how it looks once the trades are over. Yesterday, I had one win and one loss, but ended the day positive by $21.50.

So, what am I looking at to help me in my Trading decisions? We will get to that later, I still need to put fear into you and warn you about some of the many possible risks. It's not quite the same and going to Vegas and playing Roulette.

Does it scare you that most of the Binary Options Brokers are over in Malta or Cypress? What about that many of them are not regulated? The US SEC and CFTC have issued a joint warning to American investors regarding unregulated binary options. So, you defiantly want to do your homework and research the broker before you send them any money. Check the internet for customer reviews; see if anyone had any problems making withdrawals out of their account. Also, make sure you review all the terms and conditions from the broker.

You will find that most brokers what to give you bonuses (extra money), to get you to deposit more funds. Some of these bonuses are 100% or more of your initial deposit. If you deposit $1500, they will give you another $1500 to trade with. The catch is that you must make a lot of trades before you can make a withdrawal, so make sure you know the rules before you accept bonuses or risk free trades.

A risk free trade is, they will pay you back what you bet, even if you lose. This is a bonus, so it will put a restriction on your withdrawals; so again, go over all the rules with the broker before you accept them. From my experience, they did not try and hide anything and were very clear.

Also, you want to avoid all of the emails that you get about Binary Options Robots that will make money and trades for you. From what I have been able to research, it is garbage and can't be trusted. Just like MT4 Robots that will make you money while you sleep, it almost never happens like that.

Remember, if it sounds too good to be true, research then run away!

So to recap, things to do before you open an account and fund an account.

1. Make sure you Research the Broker online, check the reviews and see if anyone has had any issues.
2. Check and see if the Broker is regulated and what agency overseas it.
3. Make sure you understand any bonuses and if you take them what restrictions will that place you making withdrawals.
4. Perhaps, open a small account and don't take any bonus, then request a withdrawal of some of the funds. Make sure it works like they say it will.
5. Don't allow anyone else to trade your account! No Robots or Signal services!
6. Start very small, in Demo or only trade $5 on each trade so you get a feel for how your strategy will perform.
7. Use the Power of Quitting. Make a trade or two and be done positive for the Day.

Trading Binary Options is a lot like gambling, you are going to either win your bet or lose it and the one downside is you don't get a 1 to 1 return, remember you usually win 70 to 85% of your original bet. On the positive note, the odds are more in your favor because there is no green 0/00 on the Roulette table, just Red or Black. You can also try and stack your odds by making your trading decisions based upon some indicators that you hope will give you an edge in your trade.

The hardest part about creating a trading system to give you that edge in Binary Options trades it the factor of time. We have some incredible systems and indicators at Netpicks, so when we get a long signal…the odds are in your favor that it will hit full target or at least get to money management. The difference is, we don't know how long it will take to get to target. It might zoom up to target in a few minutes or take a half hour or longer. Time has never been a factor in our trading.

Time is the Critical difference in regular trading and trading with Bianary's. You get a long signal and so you buy a call, all the market has to do is be above your strike price. The question is, how long do you think it will take to get there? If you are right that it does go up, but you pick a 5 minute expiring option and it does not move for 8 minutes then goes to target, you were right about it going long, but missed how long it would take, you lose the bet.

You can choose many different time frames to place the bet on your trade. Thirty second, to a minute to 2 minutes. Also, they have trades ending every 15 minutes and you can't trade those in the last 5 minutes of the trade. These are the trades I look to day trade. I take the trade if I have a signal with about 6 minutes left in the trade, so that is how long I think it will take. I will show you some examples. I also like a monthly or weekly trade. You can make bets that Apple or any other market will above the current rate at the end of the month. These are called long term trades and I have about 10 of these open. If you think Gold will be higher at the end of the month on a swing trade type of signal, then you can place longer term trades like that.

Sneak Peak – Netpicks Trader Lab

So, let me show you a system I am working on and a few of the signals that have been working well for me. There is still a lot of testing. You know that Netpicks will not release a system until we have proven it out. We can't do a signal service as the trades happen fast, but maybe a live room, or we teach you and you look at the charts. We will give you all the training. Take a look at this signal.

I look to take trades with about 6 minutes left before 10:15 (every 15 minutes). You see there was a signal at 10:09 to go long, I placed the Binary Option order, my bet was that the price would be above 1.07451 on the EURUSD at 10:15. As you can see price did move higher and hit a target, but we don't care about that, just that it was higher when the option expired at 10:15. All you do is watch the chart for the signals and if they come at the right time, you place your order. You see a long at 10:02, you would not take that because you wait for a signal that only has about 6 minutes left in the option. Let me show you one more example.

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This was the same day, you see a signal on the EURUSD at 08:54 and bet that the market will be higher than 1.07725 at 09:00, you won 85% on top of your original bet.

This is a system under development and I don't know when we will release it, but I wanted to warn you about the dangers of Binary Options and brokers and some of the risks of trading. It seems to be a hot market, because people can gamble on the markets with very quick trades and open small accounts with $250. Remember, just live Vegas, most gamblers lose, so be prepared, do your homework and give yourself the edge in the Binary Options market that will keep you winning more than you lose. Remember, the Power of Quitting. If you win, take your money and run, come back and trade tomorrow. If you want more info on what is new in Binary Options, stay tuned to the Newsletter or email info@netpicks.com. Great Trading.

THE EXISTENTIAL PLEASURES OF PROGRAMMING TRADING SYSTEMS by Will Feibel

All of my previous articles have covered technical analysis of trading charts and some basic programming techniques that anyone can apply to create custom indicators. In this article I will step back and talk about why I think every trader should learn how to program trading systems. There are several reasons:

Building – If you played with Lego's or Meccano sets as a child then you experienced the joy of building something out of many small parts. Pushing around your Lego car or lifting a toy with your Meccano crane gave you a sense of pride and accomplishment. Programming a trading system is very much like that. You start with a concept from the system designer, you're told the basic elements that compose the system and then you flesh it out into its simplest elements, factor in the possible interactions between them and finally assemble your programming tools to build a program that (hopefully) does exactly what the designer envisioned. That final outcome can be dots or lines on a screen or actual trades that get executed through your broker's servers but in the end it's the grownup version of your old Lego starfighter. Unlike the starfighter however, your program assists you and/or other traders in maintaining discipline in trading and achieving profitability. Another way of looking at it is that like for a carpenter or a cook the end result of your work is something that exists in the real world, not just a punched time card.

Creating – Every design that you are given as a programmer, whether it's you own idea or someone else's, is an opportunity for creativity. You need to imagine a new thing, something that has never been built before, and come up with a creative way of making it real. The more unique the design, the greater the need for creativity from the programmer. This may take the form of a completely new approach to automating a trading task, or a new, more useful way of presenting the system information to the trader. I suspect that what the programmer experiences is not that different from what Van Gogh felt as he painted that starry night.

Solving – Closely linked to creativity is the puzzle solving aspect of programming a trading system. If you're a discretionary trader then your brain is assimilating a huge amount of stored and visual data as you look at a chart. You see patterns and sequences without necessarily being consciously aware of what you're doing. As a programmer you need to deconstruct those insights and determine what is at the bottom of them and see how to put together all those elements of perception into an assembled whole. As you get deeper into the task of writing your code you're also constantly figuring out how to use the capabilities of your programming language to accomplish a specific trading task. And at times you're trying to determine how you can combine coding techniques that you've used in the past to create something completely new and different. This puzzle solving aspect of programming is very similar to the process of assembling a jigsaw puzzle or solving a crosswords puzzle, and just as rewarding.

Learning – As a programmer you're constantly learning and keeping your brain challenged. That takes the form of learning more sophisticated tools provided by your programming language of choice or learning entirely new programming languages, each with their own syntax, structures, advantages, and limitations. And the more languages you learn the easier it becomes to learn the next one, much as happens with spoken languages. This learning can also come from looking at the work of others, perusing their code to learn new techniques and improve your own efficiency and effectiveness. This constant learning keeps the programmer's brain active and alive.

Meditating – When you are deeply immersed in programming your trading system you lose all track of time and of all the small interruptions of daily life. You enter what some might call a Zen state or a sense of deep meditation. The world disappears and you are alone with your code, immersed in the task at hand. You don't even notice the passage of time and when you finally complete the task you emerge feeling refreshed and proud of what you have accomplished. This is the same feeling enjoyed by any craftsman or artist upon completing the object of their craft, be that a cabinet or a sculpture or an exquisite meal.

Any of these aspects could be the subject of an entire article. My hope though is that I've convinced you to give it a try. Programming may sound like a complex task, but it is no more complex that cabinetry or painting or learning to play a musical instrument. And the rewards of doing it well are just as satisfying. Go ahead, give it a try.

LEARN TO PROFIT FROM CHOPPY MARKETS WITH OPTIONS TRADING

by Mike Rykse

What is the one market condition that drives traders crazy? For most, the answer to this question is the dreaded choppy market. It could be the slow choppy market like we see during the summer months when many markets just sit in a tight range. Or it could also be the wild choppy market where we see big moves back and forth with no follow through in either direction. Regardless of which type of choppiness we are seeing, these stretches can cause major headaches for traders trying to generate profits on a consistent basis. Fortunately for options traders there are trade types that actually thrive in these choppy conditions.

One of those trade types is called an Iron Condor. While the name might sound complicated, the trade is actually really simple to put on. The first thing you have to do when looking at an Iron Condor is to take yourself out of that mindset of picking whether the stock is going to make a big move up or down. For many traders, this is a new way of thinking because we are all taught to try and find the stocks that we think are going to make big moves. Instead, with an Iron Condor we are going to try and create a profit window that we need the stock to stay inside. The stock could go up, down, or sideways and we can still make money as long as it stays inside of our window.

The Iron Condor's profit window is setup by selling an out of the money call spread and an out of the money put spread at the same time. By selling these two spreads we are trying to box the price into that profit window. While this might seem complex and risky it is actually a fully hedged position meaning we know what our maximum loss could be if the trade moves against us.

So let's walk through an example to show how this trade is setup from start to finish. This is an actual trade that was taken in our Options Mastery training room. Back in late February we were looking at TLT which is an ETF that tracks the bond market. In looking at the chart, we took the opinion that TLT had already made big moves both higher and lower over the last few months and there was a good chance that we might settle into a choppy stretch. So we started to look at creating a trade that would allow us to profit from that choppy stretch.

When setting up the Iron Condor, we knew we had to sell an out of the money call spread and an out of the money put spread at the same time. When we sell these spreads we are actually collecting premium to put the trade on. That premium that we are collecting for placing the trade is the maximum profit potential. In our February trade we decided to sell the March 133/134 call spread and the March 125/124 put spread at the same time. For the call spread we were selling the 133 strike call and also buying the 134 strike call to hedge it. On the put spread we were selling the 125 strike put and also buying 124 strike put to hedge it. Notice on both spreads the difference between the strike prices is $1. Our goal on these types of trades is to collect as close to 40% of the width of the strikes as possible. So in this case we were looking to collect around .40 when putting this trade on. We actually collected .37 when placing this trade so we came very close to the ideal .40 that we were looking for.

The 37 that we collected for placing this trade represents our maximum profit potential. Remember options represent 100 shares of stock so our maximum profit on this trade is $37 per spread. While this might not seem like a lot of money the capital required to make this trade is only $63 per Iron Condor (the difference between the strikes minus the premium collected). So we could put this trade on 10 times and still have only $630 of capital at use. The $63 capital requirement to put this trade on also represents our maximum loss if this trade moves against us.

TL T Iron Condor	
Symbol:	TLT
Trade Date:	25-Feb
Sold to open:	March 133/134 Call Spread
Sold to open:	March 125/124 Put Spread
Premium Collected:	.37 or $37 per Iron Condor
Max Profit Potential:	$37
Max Risk:	$63
Capital Required:	$63 per Iron Condor
Profit Window:	133.37 - 124.63
Bought to close:	.11 or $11 per Iron Condor
Profit:	.26 or $26 per Iron Condor

Earlier we mentioned that an Iron Condor is a trade that creates a profit window which we need the stock to stay inside. So what does the profit window look like on the TLT trade? First we start with the strike prices of the options that we

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sold. In our example this is the 133 call and the 125 put. We take these strikes and also factor in the .37 that we collected for putting the trade on. We add the .37 to the strike price of the call option to get 133.37 and we subtract the .37 from the strike price of the put option to get 124.63. These two numbers (133.37 and 124.63) represent the break even points of the Iron Condor. Or in other words, they represent the boundaries of our profit window. In order to make money on this trade all we need TLT to do is stay between 133.37 and 124.63. TLT could move up, down, or sideways it doesn't matter to us. We just need it to stay inside of the window. You can see this demonstrated on the chart below.

One of the big obstacles that options traders face is time decay. Time decay is the amount of money you pay to own the option each day. When you buy an option the time decay is working against you. In our Iron Condor example, we are selling this position to open the trade. So in this case the time decay is actually working for us. We are making money each day the stock stays inside of our profit window. We can also make money on this trade if the stock moves up, down, or sideways meaning there isn't the pressure there on us to pick market direction. Finally because we sold this position to open the trade, in order to close it we have to buy it back. The goal is to buy it back cheaper than we sold it for so we can pocket the difference. The perfect scenario for us is to get TLT to stay inside of our profit window and then profit from the options getting cheaper through time decay and also a potential decrease in volatility.

The great part about this trade is that we are giving ourselves so many ways of being profitable. We don't have to decide of TLT is going to go up or down. So like we just covered, we could actually be completely wrong on market direction and still make money. Not a bad scenario to be in.

In our example TLT we were actually wrong on our assumption that it was going into a choppy stretch. After placing this trade, TLT continue to make big moves. It originally made a move lower and then higher as you can see on the chart. So it didn't get choppy but we did stay inside of our profit window so we were able to close the trade out for .11 and book the $26 profit per spread. That's close to a 70% return in just a few weeks and the stock didn't even match up with our original assumption. Not a bad way to get paid.

The key to successful trading is to be involved with markets and products that give you the flexibility to make money in all types of market conditions. Over the past 13 years of trading I have learned that markets don't always move for us. Those choppy stretches will come at some point. The neat part about options trading is that you can still make money during these stretches. Profiting from choppy sideways markets isn't a problem when trading options and that's not something you can say about any other product. Take the time to learn strategies like the Iron Condor so you can continue to grow your account when we get into those nasty choppy markets.

PATIENCE WITH A TRENDING MARKET by Shane Daly

Imagine being able to pinpoint the exact turning point of any **trending market.**

Imagine being able to ride that change of trend all the way to the reversal in the other direction.

It would certainly be an incredible event that would no doubt make you a lot of money.

The reality is though that you can't do it with any consistency and those times you nail the turn, trust it was probably luck.

Go Against The Trend

Many people still try to attempt it though and you can try by limiting your risk. There's an obvious point where you know you are wrong and that is where the stop would go. Those losses will add up though and the death from a thousand cuts will bleed your account dry.

Patience in trading is often talked about and after a recent conversation with someone entering the trading world, I wanted to put an example together on how I look at patience.

I am going to use Forex as an example because I much prefer to swing this market, use higher time frames to do so, and this pair was brought up to me by a trader. Unlike intra-day trading, swing trading is an arena where you must exercise patience or you may catch yourself going the wrong way in the face of a trending market.

Trending Markets For Swing Trades

In a swing trade, I look to capture a clean swing in a trending market.

Why trending?

Markets move in an impulse/correction pattern and an intact trend will have the impulse move larger than the corrective move. As well, if in a counter-trend play, abrupt ends to the correction especially with a large influx of buying/selling pressure may not give you enough notice to reduce risk or take profits.

In reversals of trends, rarely will we get a V shaped turnover as many trends end with a consolidation period. Seeing this formation and the details on lower time frames can give you hints as to the intention of the big money.

Here is a portion of the daily chart of USDJPY.

After many months of consolidation, this pair broke the high of 2013 in Sept 2014 and hit the high in Dec. The pullback is the largest pullback in price but not time since the breakout. It's obvious that after such a long run up, there are people looking to short the first opportunity. Not the cleanest of pullbacks which should alert you to the **possibility that a reversal of trend may not** be in the cards.

You can see where there was attempted violation of an area that supported price and price was rejected back in the direction of the trend for about 500 pips.

Those that were looking for a reversal had the next day put in a rally of 200 pips. You can imagine that those shorts had to take action to protect themselves.

As an intra-day player though, there were probably some good opportunities depending on how you approach your day plays and which "trend" you decide to trade.

While this bounce may have been an opportunity for intra-day players or shorter term swing traders, I look at higher time frames.

This is a portion of the weekly chart in the same date range which showed the bounce. If not already long on the daily, what does this weekly show you?

- **Decent strength in the buying pressure**
- **The attempt to drive price lower was sharply rejected.**

Does it give you any indication that the uptrend is in any danger?

No.

Which direction still has the higher probability of not only seeing the resolution but also larger moves? The uptrend.

Chat About Trend

Let's head to a chat I had with the trader that actually prompted this article.

This trader had positioned himself long in the direction of the weekly by playing a move after the bounce. He bought a pullback after the bounce around 117.00 by dialing into the 60 minute chart.

The issue he is having is that price has gone into a range after he scaled out and he is wondering if he should position himself short.

I am not one to tell anybody what to do with their position and maybe shorting is the right play.

But I see this on the weekly:

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PATIENCE WITH A TRENDING MARKET CONTINUED FROM PAGE 11

- **Price is taking a breather and working off the upside move.**
- **Price will coil and break to the upside.**
- **Multi-week strong run up in price.**

That would be my working plan and would look for patterns to get me into the pending move off daily chart patterns if I traded this pair.

However in trading…you have to be ready to just go with the flow:

1. **It is not beyond reason that price could rocket to the downside and never look back.**
2. **We could also see price break to the upside out of this pattern and then be overtaken by selling pressure.**

This would obviously have me curbing any sort of position to the upside in this market.

For now…..patience in allowing what was the trending market direction to continue is needed if this was my plan.

Many traders will not sit and wait for whichever market to show its hand but instead will rely on assumptions to get them into the market against the trend. Assumptions usually don't work out in your favor.

- **Big run up would equal overbought and primed for reversal. SHORT**
- **Too long in consolidation would equal lack of buying interest. SHORT**
- **Price divergence would equal reversing move. SHORT.**

I have found patience was one of the hardest things I have had to accomplish in trading. Not just in entering trades but also holding trades that have not been invalidated but are just not moving. Swing trading though demands patience and patience pays off when you let the market tips it's hand and you just go along for the ride.

To end this, here is another part of the weekly chart from the middle of 2013.

A. **Price had rallied from Sept 12 (77.12) and capped in May 2013 (103.72).**
B. **Price broke to the downside (93.76) and then formed the same pattern as we see now.**
C. **Price broke to the upside and capped at 121.84 where we find ourselves now.**

Is a swing trade short really in the cards right now or is history going to repeat itself? Have patience and let the market show the way.