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## MAKE LOSSES A POSITIVE OUTCOME

*By Shane Daly*

It is interesting to see how individual traders approach this business. Of course there are different methods and ways to trade but I am talking about the mindset. I think that is the number one criteria that can predict the ultimate success or failure of a trader.

When I first started trading, I did hear that psychology plays almost 90% in your success. Where that number came from, I don't know but at the very least, it does highlight the amount of attention you should pay to it.

A recent email chat with a new trader made me realize how far I have personally come in my trading philosophy and psychology. We were talking about a loss that I had and she was surprised I was taking it in stride. I told her that even though there was no profit booked, it was still a positive outcome. What is so positive about a loss, she asked. I replied that it was the type of loss that I took that made it a positive outcome.

I can imagine many reading this are thinking I am crazy but let me explain.

When we trade, most (I hope) have a trade plan. Those two words "trade plan" together mean "planning your trade". Inside of planning, you plan the setup you are looking for, where you will get in and where you will get out. One major part of all of that is where you will get out and how much of your account you risked during that ride to your exit. I am assuming all of you understand position sizing and risk a percentage where you can absorb a string of losses.

You have two exits, your profit and your protective stop. We never know which trade is going to be a winner. Sure, we anticipate the entry and would like a winner but in the end, it all depends on the market and the bias of other traders. Don't go in with the expectation of a win… but an expectation of a positive outcome. Since I have planned to risk an amount that has me far removed from the risk of ruin, a loss is not such an adverse event. Where it does become adverse… to the extreme… is if I allow price to exceed my planned exit if I am about to take a loss.

**See, I expect to lose.** I also expect *when* I lose, to lose a predetermined percentage of my available risk capital. Adhering to the predetermined exit price in the case of loss leaves me an account that is still ready to take another trade. The fact that losses are just a part of trading as a win makes me believe that a loss on my terms is a positive outcome. I adhered to my plan that will allow me to "fight another day" (not that I see trading as a battle - but you get the point). It gives me the confidence to take trade after trade knowing that I have the capacity to adhere to an exit price that is suitable to account sustainability.

The negative outcome is letting fear and hope take over and taking a loss much bigger than I had planned. That is the habit of those that are destined to ruin their account.

Change your thinking to accept a loss on your terms as a positive outcome. I bet that you will have an easier time in booking those losses and moving on to the next trade without feeling gun-shy. The trader I chatted with? She taped up the sentence "Losses according to my plan is a positive outcome." She says it allows her to trade with a certain calmness. I wish that for you.

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## LETTER FROM THE DEVELOPER....

Oh, the places we'll go! As this arrives in your hands we will just be wrapping up with our first ever NetPicks Premier Trader University Road Show. That's right, we're taking it on the road! Our first set of cities includes Los Angeles, San Francisco, Dallas, New York and Chicago. Assuming we can maneuver through our throngs of adoring fans, we plan on adding other cities and maybe even a country or two into the mix over the next few months. Hopefully soon we can say "Coming Soon" to a city near you! Be sure to join us and learn everything you need to know about the PTU (starting with what that stands for).

I don't think you would be surprised to realize we are firm believers in education. Trading requires a mix of many things, and knowledge is clearly one of them. I'd like to think that after more than 17 years of developing systems and training traders from around the globe that even I have it all mastered. But just when you think you do, the market throws you a curveball. Something changes and you need to adjust. It's why you'll always find that every system we develop and publish is what we call 'dynamic.' It's probably the secret to our success all these years.

Too often we find that retail traders toil for a few years, spend a lot of money in the markets, and finally reach a point of some moderate success. Unfortunately it is always fairly fleeting. What tends to happen is that, without knowing it, they (you?) have hit a pocket in time where your approach is curve-fit (optimized) to current market conditions. The problem is that it never actually lasts, and no sooner are you feeling that you finally made it than the market slowly begins to chip away at all your gains.

If we look at the trading systems that are taught in the Premier Trader University (PTU), or with our forex swing trading program (Keltner Bells), you'll find our approach is very much dynamic. That means that the systems adjust with the markets. Targets, stops and entry points go with the flow. In particular with the PTU systems it's not unusual to have our targets be twice as much one month as they were the month prior, or for stops to be smaller than even a week prior. This all has to do with being dynamic and adjusting on the fly to the markets.

I find it's a fairly simple rule. If you're trading a market strategy that feels very fixed – meaning targets, stops, entries are always highly structured and identical – it might feel good on the surface. But the reality is that that strategy is destined to break down. I've yet to see one that can stand the test of time – they work great in pockets of time but are not sustainable.

Join us in any of our upcoming online live webinars or sign up for our next Road Show. We'll demonstrate just how important being dynamic is to trading… and it's not bad advice for life as well!

Good Success,

Mark Soberman

# WHEN SHOULD I BUY APPLE?

*By Ron Weiland*

Right now, Apple is asking me to head to my local mall and shell out $200 to $400 for the latest iPhone 5…. or maybe instead, I could take that money and buy an option on Apple?

I certainly can't buy a share of their stock with that $400. Now that I think about it, the last time I bought an iPhone, their stock was the same as my purchase - $400 – so I'm left wondering, is this new iPhone such a great deal? ☺

So, say you did forgo the new iPhone and instead looked to by some Apple stock - when would it be a good time to buy? Let's take a look at a daily chart of Apple to make some predictions. (See Chart 1.)

In Sept 2011, APPL was trading below $400. You seem to get some good buying opportunities when price gets close to the 200 Period Moving Average. It has really taken off with this new iPhone 5 release and broke through $700. That is almost double the price in a year!

Now that it has exploded in price and has not been back around the Moving Average since December, when would be a good time to buy? Well, let's take a look at the S & P and see if that market can give you a hint at some chances to buy the dips. (See Charts 2 and 3.)

If you overlay these two charts you will see that the S&P was below the 200 Moving Average in Sept and that it came back to the Moving Average in May and June. That would have been a great time to pick up some Apple stock or options. The S&P came back to its moving average on May 17th - also the day APPL dipped to the low of $530. Then, the S&P hit a low

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Chart 1





then back the other as the sellers return it back down. In some cases the majority of the activity happens somewhere near to the center of the balance and the volume distribution resembles a bell curve. In others cases there it can be that there is a skew to one side of the balance. But what it shows is low activity at the extremes of the range indicating that these prices are not widely acceptable.

Balances can be in the form of ranges for example or even pennants. However, the key is that the market is moving sideways, not directionally. They can be seen on very long timeframes down to very short timeframes. The thing is balances can form for a variety of different reasons and in a variety of different ways. They can form after a large directional move as the market 'rests', they can form before a highly anticipated announcement as participants are reluctant to commit in either direction or they can form if the market has priced in all currently available information. Quickly identifying when and why the market is balancing can stop you from taking trades against the probable action and create a plan of how to trade when the market breaks and starts moving directionally.

The key to understanding why balance is important is that to break balance, something must have changed. Due to the fact that both buyers and sellers are active and that one side will end up losing by the very nature of a balance, the market is building up steam for its next move. When a trending market has moved into balance, trend traders will still be buying as they hope the downward movement is merely a pullback. If the market then breaks against them, they will need to exit. Then there's the trader who will play the range, hoping to buy the bottom and sell the top of each move. When the market breaks an extreme of the balance, they will need to exit too.

There are effectively three ways in which a market can break out of balance but really only two mechanisms. The first is if the balance loses tension and a move out of it fails to create a strong directional move. It's important to note that a balance range can also extend without breaking and this is often what happens when there's not an increase in trading activity when price extremes are probed. The second is where the market tests above or below its balance and then either continues in that direction if it finds more of the same activity or if it doesn't, opposite activity steps in with some confidence in the knowledge that the first break has failed to precipitate additional activity in that direction. Often it will be the second mechanism by which the market breaks and when it does, it's pretty reliable that a decent directional move will follow. Here are examples of the three ways a market can break its balance:




As you can see in these examples, the moves following the break-down of balance can be substantial. So whether you specifically look for ways to trade a break from balance or you simply use the activity to reinforce your current strategy, identifying balance early on then monitoring the market as it moves to imbalance can help you get on the right side of the market. Sometimes, the simplest ideas can be the best.

Trade well.

There are tools that work on 'most' markets and market conditions. 'Most' is all we need to succeed! There are strategies and tactics that can be employed at the appropriate times that can give you a winning edge in the market. No matter how hard one tried to deny it, there is also a 10% art to trading and that can only be learned with live market experience, mentors and from excellent training. Remember, our job is not to worry about a few trades here and there. For sure, they will win and they will lose. To succeed at trading, our job is to put the odds in our favor on every trade, manage our risk appropriately, and then stay disciplined enough to let the odds do the heavy lifting over time, growing our account as a result. Like the casino! That is easier said than done, though. In order to do that, you have to take the time and effort to learn how, and that requires a serious investment – in YOURSELF! Based on my own experience, I can say that 90% of all traders fail to acknowledge or act upon that fact. It's no surprise then that 90% of all traders end up failing.

Understanding how different types of charts work, their strengths and weaknesses, as well as the many different indicators and indicator combinations and settings, knowing the best times to trade and not to trade, using the correct money management strategies, and understanding yourself are all keys to success. Never forget that you are trading against traders that DO know this. Do YOU want to succeed? Make sure that you do, too. Knowledge is power in the war of trading. My best advice is to not take any shortcuts and to invest in yourself with solid training, live chart time, and lots of practice. Learn what the best trade tools are, and then learn how to use them. Learn when to use them. Learn how to put the odds in your favor on every trade you take and then be comfortable in the knowledge that YOU have put yourself in the BEST position to succeed. You can WIN the war of trading.

## BALANCES ARE THERE TO BE BROKEN

*By James Kessick*

Any auction is pretty simple really. There are lots of nuances to complicate things but the fundamentally important factors are straight-forward. First of all there are two types of market participant- buyers and sellers. Then there is the degree to which these buyers and sellers are motivated by current price or market behavior. For example, a buyer might believe Apple is too cheap at a certain price and therefore place a bid at that price hoping to take advantage of what they believe to be an over-extension lower. A potential seller of silver might be holding a long position and decide that if the market breaks quickly lower (maybe due to the impact of monetary policy changes, for example) then they must exit that trade. But what an individual market does is the sum of its parts. As such buyers and sellers can be poorly matched with the majority viewing current pricing as too high or too low or they can be well matched overall where buyers and sellers are somewhat balanced. Where there is a mismatch there is an imbalance or a trend. Where participants of each type are roughly equal in strength, there is balance or a range. Markets move back and forth between imbalance and balance. What I'd like to expand upon here is the balance aspect of an auction.

What a balance shows you is that for whatever reason, buyers and sellers have become temporarily matched in strength. The market moves one way as buyers step in and

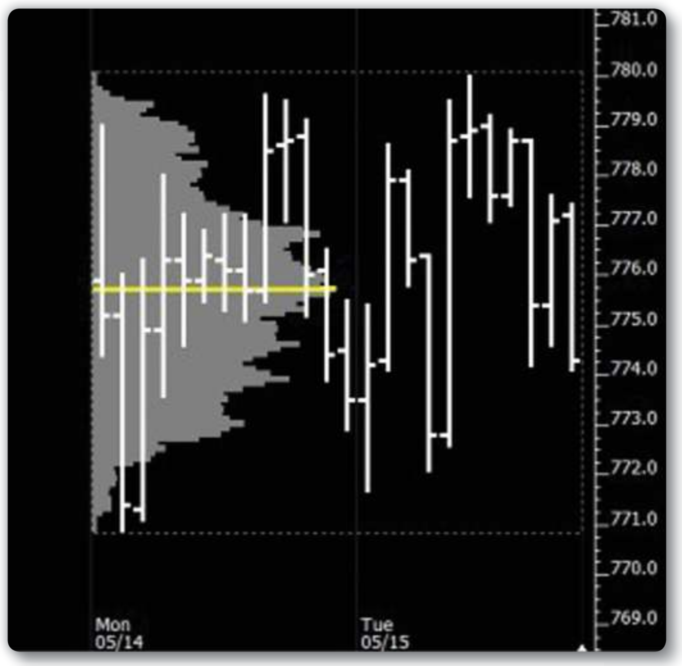






Chart 2


Chart 3

on June 4th of 12500 and AAPL traded just below $550.

Unfortunately, the S&P also moved away from its moving average, which is problematic. But we can use a Fibonacci retracement tool and draw lines from AAPL's recent low to its new high today. I'll show you that in the chart below.

So taking all of this into account, I would predict that if AAPL gets back down to a 50% (Yellow) retracement from the low in July to the high in September, you have a good chance to pick up some of this stock.

But of course, you could always just go out and buy the new iPhone 5 instead (and throw away all of your other chargers)!

Bottom line is that Apple knows how to make money and in my opinion, it is high time you start profiting from them too.

Good Trading!

## FROM STAGE FRIGHT TO STAR

*By TJ Noonan*

I have been calling live trades in a trade room for over 4 years. When I think back on the entire experience, it boggles my mind to think that I probably have called over 15,000 live trades; each individual trade, burdened with the weight of responsibility I felt for all my members in the trade room, and the uncertainty and self-doubt, wanting to creep in and influence each and every decision.

I will never forget the very first day -- the very first trade even -- that I had to call LIVE! Leading up to that moment, I had tried to anticipate how I would feel and how I would react when the first trade signal appeared. What I anticipated paled in comparison with the reality of what I felt.

There were over 60 people in the trade room, all there to try out our brand new service. To say I was nervous would be a gross understatement. Do you know what it feels like to go on stage and sing a solo in front of all your friends, family, peers, strangers… an entire audience of people? With the curtains open, the bright spot lights shining on your face, nowhere to run or hide; the music starting – all of a sudden you have to open up your mouth and SING!! Act! Play the role for which you were casted.

Some say there is nothing more frightening. Surveys have shown that the fear of being on stage in such a situation is scarier than death itself. That's exactly how I felt when the first trade setup appeared on my very first day of

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calling a live trade room. It didn't feel right. A queasy feeling descended upon me and I could feel the bright lights blinding me, everybody in the audience hanging on every syllable that came out of my mouth. The reason I can make such a comparison is because I was the one who won a lead role in my 8th grade operetta and I experienced having to sing on stage in front of the entire school, family, and friends. I couldn't eat or sleep for a week leading up to opening night and believe me when I tell you, I probably would have preferred facing the Grim Reaper himself, as opposed to being in that situation. Five minutes before curtain call I was frozen and felt as if I wanted to vomit. My first day calling live trades was déjà vu.

When the curtains opened, something deep inside took control and I lost myself to the part I had to play. By the time it was over, I was receiving a deafening applause from the audience and the sensations I was feeling were simply indescribable.

Well, in contrast, **my first called live trade was a loss**. In fact, we ended up losing 17 ticks on the Russell eMini that day. The next day, half the members from the day before were gone. There was NO deafening applause for me that day.

We went on to win over 150 TF points by the end of the year, on single position trading. Those that stuck with the trade room, were aptly rewarded. I can't blame those that ran for the exits though, after that first day. They had **no big picture perspective**. All they knew was that they ended up negative on their first day, and in their mind, I had failed the audition.

Ironically, on my one-year anniversary, to the day (April 21) we actually won 17 ticks on the TF. Instead of being down by 17 ticks we ended that session, one year later, UP by 17 ticks. Go figure!! The Trade Gods certainly have a warped sense of humor. All jests aside though, it was a real 'forest from the trees' story and reinforced the big lesson that we always harp on, which is to focus on the trade plan that gives you an EDGE. SEE the Big Picture. Trade from a higher-level perspective.

The following year, the Russell eMini (TF, although it was ER2 at the time) won nearly 200 points and in fact, following a simple money management plan that we tracked on the blog during those days, resulted in a 400% gain for the year. I was proud of that, considering many a Wall Street career is built on 10% annual returns.

That was a real eye-opener. Then, markets changed and so did our tactics. What continued though, was that the trade plan's edge kept delivering the goods; two steps forward, one-step back, two steps forward, one-step back. By merely leaning on the system, and NOT worrying about the curtain opening, the bright lights; the outcome of the next trade or how people would think and feel about the result of the trade, I was able to shift the pressure to the trade plan itself, and consequently, off of my shoulders, so long as I accurately followed the plan. Losing trades were NOT my fault. Winning trades were NOT to my credit. The responsibility landed on the trade plan itself and the individual trader's ability to execute the trade plan appropriately.

I had been working on my own trade system and actually began using it in the trade room on my 2nd anniversary hosting and moderating the trade room. What I had learned in front of live charts, calling live trades for two straight years, not just in the TF, but also the YM, NQ, ES, and some Forex, cannot be understated. Moreover, the countless webinars, books, trainings, research, back testing, forward testing, interactions with the other NetPicks coaches and a group of excellent traders from the trade room contributed to my continued success. In fact, it was the sum of all those ongoing experiences that ended up becoming my own trade method.

One of the main things I learned, generally speaking, is that you need to have a broad perspective and a toolbox with high quality tools. Markets are ever shifting and infinitely challenging, yet there are profit opportunities that present themselves, each and every day. The trick is figuring out how to take advantage of them and having the right tools at your disposal, when you need them.

You also have to have the knowledge, belief, confidence and physical ability to know how and when to use the appropriate tools, and perhaps equally as important, when NOT to. You might have the newest and most powerful hydraulic nail gun in your toolbox, but if you haven't taken the time to learn how to use it, it can be very dangerous. You might end up shooting yourself in the big toe, or worse!

I'll never forget the metal shop instructor when I was in high school. He was missing fingers on both hands. Ironically, his son, Jake, was also missing fingers. I made a mental note to myself, "don't take metal shop!!" I took a film-making class instead and to this day, I still have all my fingers. That was a good trade decision!

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