



THE NETPICKS INFORMER

Savvy strategies for profitable traders.



LETTER FROM THE DEVELOPER....

1996. That was the year I founded NetPicks. Which means we are now entering our eighteenth year in business! During the entire eighteen years, our focus has always remained squarely and exclusively on working

with individual traders like yourself, and empowering you to have success that has evaded many traders in markets that can be very rewarding.

When we started, our focus was on options. And yes, in the first year we actually FAXED our picks and analysis! Over the years we got involved in index options, then futures, and finally forex. Here in 2014 we now offer comprehensive systems and education

“...our focus has always remained squarely and exclusively on working with individual traders like yourself, and empowering you to have success...”

for the main pillars for active traders – Options, Forex and Futures. In the early days my focus was primarily on making “picks” that had high odds of success and providing those to early subscribers. Over the years we realized from your feedback that you really wanted to learn the systems – to understand the brains behind the operation and know why you were buying and selling. These days when we provide a system it also comes with considerable education and ongoing support to ensure that you are not just trading blindly... that you are also empowered with skills you can use for a lifetime.

Looking back is always rewarding and can be productive; however, it's more important to discuss what is happening going forward in 2014 for you and for NetPicks. I would like to first encourage you to provide me feedback. What markets should we be covering? Where should we be developing new products and systems? Are there areas where we are weak and need to improve? Without your feedback we are just guessing at what services you need. With your feedback we can truly customize what we provide to the exact needs of individual traders like yourself. Please do let us know.

I can tell you that we plan on continuing to expand and support our main systems and courses this year, including the PTU Trend Jumper, Keltner Bells and Premier Trader University. We have new services rolling out now including our Keltner Bells Auto Trade service and our new NetPicks Quantitrader, which you'll be hearing plenty about.

With that, we would like to wish a Happy New Year to all of you, and welcome to Year #18!

Good Success,

Mark Soberman

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A \$14.97 Value

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WHAT INDICATOR DO YOU USE?

by Shane Daly

If you could ask a successful trader one question, what would it be? I can guarantee that the majority of people would ask exactly what I used for the title of this article.

As an exercise, pop into any of the trading forums that are on the internet, head over to the trading systems or trading strategies category, and click a few links. You will quickly see that question asked near the top of the posts. For me, when people see my trading chart, even with simply bars on it, I get asked “what indicators do you use?”

Let’s get it out there....it is not the indicator that will define your success. It is neither the “secret” settings that are used nor the number of indicators that are used. That question is actually quite meaningless and will get you no closer to your trading goals knowing that information.



If I told you that trading with these two averages, I have a superb win rate with low risk and high profit potential trades, what is the logical question? If you said “how do you use them”, you would be correct! Now that is actionable information that you could start using to improve your trading!

Questions that you ask can point you in the direction of your goals or further from them. In trading, it is the same thing. Far too many people get caught up in irrelevant thoughts and

questions that do not move them closer to where they want to be. If we agree that psychology plays a big part in your trading success, don’t you think that you should laser focus on the things that matter? Ask questions that can produce actionable answers?

If you saw this chart for the first time and could ask one question, you would want to ask a question that would focus on concepts. That question is obviously about how to use what is on the chart. Let’s compare the questions:

What indicators are you using?

I am using two moving averages.

Does that help you? No.

How do you use the indicators on the chart?

Great question! Once they cross over, I am on alerts for shorts in this case. I need a bar to retrace up into the area between the two moving averages and close inside. Then, as long as there is not a moving average cross to the upside, I will look to sell stop below the previous lower bar low. Risk is defined above the swing high.

The last question is focused on information that you can run with. In reality though, this post is not about an indicator.

This post is about your focus.

There are many shiny objects that are looking to grasp your attention. In trading though, focus is everything.

- Focusing on following your trading plan.
- Focusing on following proper capital management so you are able to stay in business even after a string of losses.
- Focus on understanding that the indicator will not make you successful.

I remember when I got into trading and was deciding how to approach the markets; my question was about how to get on board the trend. How can I get involved in the action and, knowing that most people lose how to keep my risk low? Once

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY TRADING ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN, IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL TRADING PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM

ONE OF THE LIMITATIONS OF HYPOTHETICAL TRADING PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL

RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CAN NOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL TRADING PERFORMANCE RESULTS, AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS

PAST RESULTS OF NETPICKS IS NOT INDICATIVE OF FUTURE PERFORMANCE. THE MONTHLY AND COMPOSITE ANNUAL RESULTS SHOULD BE VIEWED AS HYPOTHETICAL. IN REALITY, THE RESULTS DO NOT REPRESENT THE TRACK RECORD OF THE METHODOLOGY ORIGINATOR OR SUBSCRIBERS. THIS ALSO MEANS THERE IS NO GUARANTEE THAT ONE APPLYING THESE METHODOLOGIES WOULD HAVE THE SAME RESULTS AS POSTED. SINCE TRADING SUCCESSFULLY DEPENDS ON MANY ELEMENTS INCLUDING BUT NOT LIMITED TO A TRADING METHODOLOGY AND TRADER'S OWN PSYCHOLOGY, WE DO NOT MAKE ANY REPRESENTATION WHATSOEVER THAT THE ABOVE MENTIONED TRADING SYSTEMS MIGHT BE OR IS SUITABLE OR PROFITABLE FOR YOU

I understood the concepts that I wanted to use to approach trading, I then set out to find how to make the concepts come alive.

I can honestly tell you that I never system jumped. I worked through things and if I was not “getting it”, I moved on to something else. My questions were all related to the concepts in my trading.....that was my focus.

In this post, I attempted to get across that while questions are

good, the focus should be on actionable information...something you can run with. Ask question in relation to concepts and that can actually even propel you into developing your own trading system. Even people that use an incredibly successful trading system such as Trend Jumper and Keltner Bells have added/subtracted a few things to suit their needs. They understand what their needs are because they have focused on the important questions that will empower their trading. They have tweaked it to suit their needs and they can only understand their needs because they focused on what mattered.

VOLATILITY CONSIDERATIONS FOR SWING TRADING

by Bob Malinowski

Swing traders often choose stocks to trade because, in addition to the thousands of publicly traded companies available, a growing number of exchange traded funds (ETFs) are also available. These ETFs trade just like corporate stocks, and stock exchanges now offer the opportunity to trade a wide variety of other markets, including commodities, currencies, indexes, leveraged and inverse instruments, as well as foreign markets. For the purpose of this article, “stocks” will include all these instruments that trade like stocks. Successful swing traders use a disciplined approach to trade a back-tested system, and often select a small number of stocks to trade from the thousands that are available.

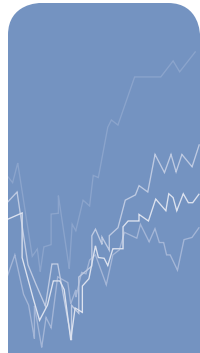
There are a number of factors to consider when selecting which stocks to trade. A couple of obvious considerations are price and liquidity. Price is important because it determines the number of shares or option contracts that can be traded in order to commit the desired capital and allocate the appropriate risk. Liquidity is important for determining the ease of trade entry and exit, and for reducing transaction costs associated with bid/ask spreads. But another often overlooked consideration is volatility. Since swing traders expect to be in a trade from a day or two to a few days to a few weeks, the expected move a stock is very important. Volatility provides a measurement of how much a stock price moves, and is important because it gives us an indication as to whether or not our price targets and stops are reasonable and our risk parameters are acceptable for the period of time we expect to be in our trade. This article will examine a couple of metrics used for measuring historical and future volatility.

First, let's define volatility. Volatility is a measure of the relative rate at which the price of a stock moves up or down over a specific period of time. It represents the amount of uncertainty about the magnitude and direction of the price change of a stock. A higher volatility means that a stock price can potentially move over a larger range of values, and that the price of the stock can change dramatically over a short time period in either direction. A lower volatility means that a stock's price does not fluctuate as dramatically, and we can expect smaller price changes over a period of time. Traditionally, high volatility stocks are considered “riskier”, but swing traders often seek out these stocks with the expectation of achieving higher returns. There are a number of ways to measure the volatility of a stock.

One measure of the volatility of a particular stock is its beta. Beta measures the approximate overall volatility of a security's returns against the returns of a relevant benchmark, usually the S&P 500. For example, a stock with a beta value of 1.0 has historically moved 100% for every 100% move in the benchmark. The SPY has a beta of 1.0 because this ETF attempts to exactly track the performance of the S&P 500. A stock with a beta of 1.2 has historically moved 120% of the move of the S&P 500. Conversely, a stock with a beta of 0.8 has historically moved 80% of the move in the S&P 500. Betas can also be negative, and can even have absolute values greater than 100%. For instance, a double-leveraged ETF that attempts to track the inverse of the S&P would have a beta of -2.0. In this case, with a 10% drop in the S&P we would expect the price of this ETF to rise by 20%. Stock betas can provide a useful guideline for selecting stocks to swing trade, and swing traders tend to select stocks with betas greater than 1.0 (such as most tech stocks), but beta alone may not always be useful because the correlation to the relevant benchmark may not be consistent: stocks with a positive beta can still fall when the S&P rises. Also, some stocks may exhibit volatile price swings, but do not correlate well to any benchmark index. Another issue with beta is that the correlation to the S&P 500 (or other index) can change over time, and since beta is based on historical data, it may not accurately reflect future price moves.

Another measure of a stock's volatility is its historical volatility and its implied volatility. These values are not dependent upon a benchmark, and are calculated using only the price of the individual stock. The time frame that is most often used is one year, and is therefore referred to as annual volatility. (When no time frame is given, the volatility of a stock refers to its annual volatility.) Volatility is a mathematical statistic that is determined by measuring daily changes in stock price, and calculating the annualized standard deviation of these daily price changes. In statistics, one standard deviation represents approximately 68% of the area under a bell-shaped curve. As a measure of stock volatility, this represents the range that we can expect the closing price of a stock to be 68% of the time at the end of one year. Historically, the volatility of the stock market is roughly 20%. This means that 68% of the time we can expect the stock market

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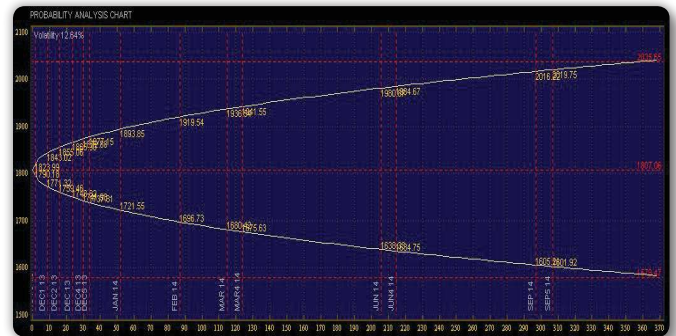
to move up or down 20% a year or less. Individual stocks can have historical volatility higher or lower than the average for the stock market. As of this writing, Apple (AAPL) is trading for \$540 and its average annual historical volatility is approximately 30%. This means that using historical averages, there is a 68% chance that one year from now the price of AAPL will be within 30%, or \$162, of its current price, or \$378 to \$702.

As traders we are well aware that stock volatility changes over time, going through periods of high and low volatility where price range may expand or contract. Annual historical volatility can also be calculated using recent price activity, allowing us to calculate annual volatility based on shorter time frames, typically one month. Right now AAPL is trading with an annual volatility of 19%. This means that looking at the recent month's activity, if AAPL continues to trade with the same volatility that it has recently, then it can be expected to be within 19% of its current price one year from now: up or down only \$102. However, in February AAPL was trading with an annual volatility of over 55%, almost three times what it is now. At that time it was trading for \$480, and if it continued to trade the same way for the next year, then by the end of one year it would have had expected move of \$264.

This is all well and good, but how does this help us trade AAPL or any other stock for that matter, and what good is annual volatility if we are in trades for at most a few weeks? There is another measure of volatility that we can use that makes use of the stock options pricing, known as implied volatility. The options pricing model requires a number of inputs in order to determine the fair price of an option: current stock price, option strike price, days to expiration, interest rates, dividends, and future volatility. At any point in time, all of these inputs are known with certainty, with the exception of future volatility. But since stock options are traded every day in an efficient market, the price of the option determines what the future volatility must be. This is why future volatility is also known as implied volatility: it is implied (calculated) based on all the known inputs plus the actual option market price. The advantage of using implied volatility, instead of historical volatility, is that historical volatility looks only at the past. Implied volatility, as reflected in the option price, lets the marketplace estimate or predict the expected price swings based not only on history, but on all known future events such as earnings announcements, Fed reports, FDA announcements, or other news of concern to traders of the particular stock.

Implied volatility can be found on most broker platforms, and is usually calculated for each option expiration cycle because it is based on the price swings expected by the time the option expires. It is always displayed as an annual number, even if the option is expiring in only a few days. This is why you often see options expiring in a few days with a very high implied volatility right before an earnings announcement – the expected daily price swings are very high on an annualized basis compared with those options expiring in further out months. Traders can make use of these numbers by calculating the expected volatility of a stock for the particular time frame of interest, usually much shorter than a year. The key is knowing which option expiration cycle to select, and how to calculate the implied volatility for the shorter time frame. The best option expiration cycle to select would be

the one that has the fewest number of days to expiration that is at least equal to the number of days of interest to the trader. For instance, if a trader is interested in being in a trade for at most 5 days, then it would make sense to look at an the implied volatility for an option that is expiring in 8 days, not the one expiring in 36 days. Most of the time, this is the front month option, or possibly a weekly option. Next, we need to calculate the expected move for the shorter time frame. Since volatility is a statistic calculated using a price that follows a Gaussian random walk, the width of the distribution increases as time increases. However, rather than increase linearly, the volatility increases with the square-root of time. This means that the expected deviation in price after twice the time will not be twice the distance, but will be closer to 1.4 (square root of 2) times the distance. (Time has to quadruple for the expected price deviation to double.) The following chart illustrates this relationship showing the current expected price range for the SPX starting at a value of 1800 with an implied volatility of 12.64%:



Notice that at the end of one year, the expected range of the SPX is about 228 points up or down (0.1264×1800). At the end of six months, the expected range of the SPX is about 162 points up or down ($0.1264 \times 1800 / 1.4$).

We can easily calculate the expected implied volatility for any time frame by dividing the annual implied volatility by the square root of the ratio of the number of days in a year (365) to the number of days we are interested in being in the trade. For instance, for a month, this would be the square root of 12; for a week, this would be the square root of 52; and for a day this would be the square root of 365. The following chart shows the approximate value to divide annual implied volatility in order to get the implied volatility for some shorter time frames:

Time Frame:	Divide By:
1 year	1
6 months	1.4
3 months	2.0
2 months	2.4
1 month	3.5
1 week	7.2
1 day	19

This can be very useful for a swing trader to calculate expected price ranges, particularly around news events when implied volatility can rise dramatically, and can be used to assist in

managing expectations. For instance, let's say that you are holding a position in a stock right before an earnings report, and the implied volatility of the front month or weekly option rose to 120%. Knowing this, the trader can make better decisions concerning stops, targets, or whether or not to be in the trade altogether. A one day move in this stock is expected to be about 6.3% (120/19).

Stock swing traders often look only at technical analyses tools and indicators for placing and managing trades, but it can often be very beneficial to look at implied volatility, even if we never trade options, in order to see what range of price swings have been priced-in by the options marketplace. This is particularly useful as we approach important news events, but can be valuable at any time.



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- Trading the Forex EURUSD, USDJPY, USDCHF Intraday

HOW TO START TRADING FOREX AND MAKE MONEY AT IT

By Ron Weiland

I would say that I get about 2 or 3 emails a week asking, "I am new to Forex Trading, do you all teach me where to start?" Well, that is not our primary mission, as we teach you how to use our trading system and trade the markets. We teach you about how to back test and build confidence in your system and self. We do have a fantastic guild that teaches you all about what Forex is and how to get started. I will get you that fantastic free training at the end of this article.

So, how can you start trading Forex and actually make money? If you believe all of your emails, and what most people think the answer is, then you want an EA (Expert Advisor). Yes, you want that magic robot that you can turn on and let it make money every day and night and you don't have to do anything. Don't fall for that, most all of them don't work and will cost you money. If you think you want to get one of those. Make sure you can return it and then run it on a Demo (not live money) account and see what happens.

OK, so a Robot is not the answer, then what is? Well start your Education and journey with a company and product that provides live training and trading. You also want a system that is very simple and easy to understand. A system that gives you exact entries, stops and targets. That seems easy to understand. Yes, it does, but most systems are complex and some don't use stops, they can have very large draw downs and try and ride out the trade to get a high win percentage. It looks good on paper, but not a good way to trade.

Most traders also want to Day Trade. They have been told that is the best way to make money in Forex. You sit in front of your computer and place trades off of very short time based charts, like a 1 minute or 5 minute chart, even a 15 minute chart. The problem is, for most traders, they work and can't sit in front of their computer for hours at a time either at 2 AM in NY or 8

AM in NY. They try and take very small trades called scalping. The problem with scalping is you have to deal with the spread (difference in the buy and sell price). So, If you are going for very small trades, your trade costs (think of it as commissions) will be very high. Remember, if you are lost with spread and pips, I will give you the basic training forex link at the end.

If you can't day trade, then the best and easiest way to trade is Swing Trading. Swing Trading is where you look at longer time charts, like Daily Charts and only look once at night or once each morning. These are larger trades, not going for little scalp trades, so the spread is not a factor and you don't have to watch these trades all day. So, it works without you. You don't need to look at your computer every hour and worry about every tick up or down in the market. This is how you can trade easy, and make money In Forex.

I will write more about Swing Trading Verses Day Trading in another article. What I want you to get out of your time with me today is:

1. Swing Trade is Easier than Day Trading
2. Use a system that is very Simple to Understand
3. Don't fall for Robots or Automated Systems
4. You want Exact Entries, Stops and Exits, easy rules to follow
5. Offer live training in the markets to help you learn

We do offer all of this at www.premiertraderuniversity.com/trendjumper

Also, I promised to give you an entire basic forex course. So, if you are new to forex and want to learn what it is all about, watch this fantastic basic training on forex. Then get with us and learn more about our systems. www.netpicks.com/forex123/

CUSTOM INDICATORS IN TRADESTATION

By Will Feibel

In the last two articles we looked at TradeStation's built in strategies and how to mix and match them to create simple custom systems. Another tool that we can use is the custom indicator functions. These custom functions do not create automated systems but they can be used to plot custom indicators and identify special conditions on the price chart.

TradeStation has three types of custom indicators, matching the three primary types of analysis technique:

- Custom indicators are used to plot numerical values on a chart based on a formula. This would be similar to indicators like moving averages or oscillators, except that you define the formula.
- Custom PaintBars are used to paint individual price bars when a certain condition is met. An example would be painting in blue any price bar that has a larger range than the seven preceding price bars.
- Custom ShowMe is similar to the custom PaintBar in that it identifies bars where certain conditions are met. Instead of painting the bar however, the custom ShowMe lets you specify where to place an identifying marker (typically a dot) on the chart. As an example you could use the custom ShowMe to plot a dot one average true range (ATR) above the high of the bar if the current bar has a higher close than the seven preceding bars.

In this article we'll focus on the first of these, the custom indicator.



Figure 1 – Custom Indicator

To use a custom indicator in TradeStation use the Insert/Indicator... menu and select the Indicator tab in the Insert Analysis Technique window. Scroll until you find the Custom 1 Line indicator and place that on your chart. Figure 1 shows the default inputs for the custom indicator and its plot. The key item in the inputs list is the Formula: $\text{Close} - \text{Close}[10]$. Let's take a look at what the elements mean.

- Close is the closing price of the price bar used in the calculation. Close can also be abbreviated simply as C or c.

- Close[10] is the closing price from 10 bars prior. If you wanted to calculate the price of the prior bar you'd use Close[1], to plot the close from 5 bars ago you'd use Close[5]. Note that for the current bar you can use Close, as above, or Close[0], meaning the close from zero bars ago. You can also use the abbreviation C[10], C[5], C[0], c[10], c[5], or c[0].

The default formula input is therefore telling TradeStation to plot the difference between the close and the close from ten bars ago. This is actually the formula for the basic momentum indicator which you'll notice if you overlay the built in Momentum indicator, with a period of 10, onto the same chart.

It's easy to build additional indicators using a few of the other built in words. In addition to Close[n] you can also use Open[n], High[n], Low[n], and Range[0] for example, along with the simple arithmetic operators +, -, *, and / for addition, subtraction, multiplication, and division. Two other useful formulas that you can incorporate into your custom indicators are:

- Simple moving average function Average(Value, Period) where value is the number being averaged and Period is the length over which it is being averaged. For example Average(Close,20) will plot the 20 period simple moving average of the close.
- Exponential moving average function XAverage(Value, Period). This is similar to the above except that it will plot the exponential moving average.

Let's say you want to plot a simple indicator that compares the average range over the last ten bars to the average range over the last twenty bars. Maybe this can give you an indication of whether or not the market is entering a period of consolidation where the range would typically contract. The formula you could use is $\text{Average}(\text{Range},10) - \text{Average}(\text{Range},20)$. If the result is a positive value then the recent range is greater than the longer term range, and a negative value would indicate that the recent range is smaller than the longer term range and the market is probably consolidating.



Figure 2 – Custom Range Oscillator

Figure 2 shows the resulting custom indicator, and indeed it would appear that it's positive during the more active early trading session and negative during the later morning session and lunch time.

You can also change the style and color of your plots by using the built in features of all TradeStation indicators. You may decide that it will be easier to interpret the custom range expansion/contraction indicator if it's plotted as a histogram. In that case simply open the Format Indicator window for the Custom 1 Line indicator and click on the Style tab. There you can change from the default line type graph to a histogram. Figure 3 shows how this will look. It's still the same information but it's easier to tell positive from negative values and you could even look at divergences between the price chart and the histogram.



Figure 3 – Custom Range Expansion/Contraction Histogram

It is also possible to combine more than one indicator on a chart. You probably noticed that TradeStation also has Custom 2 Lines, Custom 3 Lines and Custom 4 Lines indicators, and they do exactly what you'd expect them to do, they plot two, three or four lines simultaneously. For example you could use the Custom 2 Lines to plot a channel that's one average range above and one average range below the price bars as shown in Figure 4.



Figure 4 – Custom Average Range Envelope

Or perhaps you'd like to plot a set of four moving averages to help determine the direction and strength of the trend. Figure 5 shows how to do that with the Custom 4 Lines indicator.



Figure 5 – Custom Moving Average Fan

You can create some very sophisticated indicators by harnessing the power of built in functions available in TradeStation. To learn more about what's available click on the Dictionary button in the Inputs tab of the indicator which will open up the EasyLanguage Dictionary window. In that window click on the Category tab and select User Functions in the Category window. From there you can scroll through all of the functions that could be incorporated into the custom indicator, with more help available through the Definition button. Figure 6 shows how the Dictionary window looks.

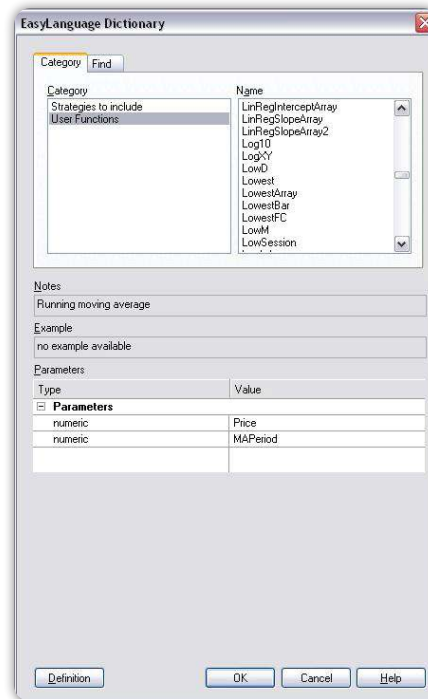


Figure 6 – Dictionary Window

Don't be afraid to experiment. You can't break TradeStation by using the custom indicators, worst case you'll make a mistake in the inputs and get an error message. It's a terrific way to quickly test out ideas both historically and real time in the market. Once you have fleshed out and tested your ideas you can then go the next step and create a program that incorporates them. So go ahead and put your ideas to the test!



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TAKE WHAT THE MARKET GIVES YOU

By James Kessick

If you're an active day trader, the chances are high that you'll trade a small number of products or you'll exclusively trade a single product. By doing so you'll have the benefit of learning product specific characteristics and becoming more in tune with market context. But there's a possible downside to this too – sometimes markets move about a lot and sometimes they are painfully slow. Whilst in itself this shouldn't be an issue, for many aspiring traders it seems like a Catch-22 situation. When markets are particularly slow it seems like there aren't enough opportunities available for them to learn and develop their skills, but if they try to find trades where there are none they will often find themselves taking losses and more importantly, having negative learning experiences such as fighting the market. Learning to take what the market is willing to give is a skill in itself.

A Cocktail of Issues

Both the urge to trade and the assumption that there won't be many opportunities can give rise to a number of struggles that can define a trader if they're not careful. At the most basic level, your p/l is likely to be adversely affected. Losing money or missing out on profits in a way that is contrary to your plan can have a negative psychological impact on a trader. Particularly with over-trading, emotional energy can quickly become depleted. This is stressful, demotivating and can cause a trader to take the wrong lessons away from their losses – and this has the potential to create major obstacles over an extended period of time. But also missing opportunities that should have been taken in accordance with your plan, either by not being focused on trading or because the other trades you've already taken have pushed you to your daily loss limit, can be mightily

frustrating. Fear of missing out can then cause you to second guess the market.

In addition to p/l and psychological issues, a hugely important issue that people often forget about is very simply about understanding the efficacy of a strategy. Taking trades outside your plan “muddy the water” and make it harder to assess the efficacy of a particular strategy. Of course it is possible to manually tag each trade you take with the strategy it's using in your trade journal/log, but many don't do this. Having the chance to assess a strategy on its own merits is crucial to being able to develop it and your own trading skills. Even if you do have a way to differentiate trade types, you'll find it harder to pick apart over-trading or keep a log of trades you didn't take.

Que Sera, Sera...

The solution to this issue like many others in trading is a change of mindset. When you sit down to trade, you must believe that markets provide an endless stream of opportunities and you cannot always predict when the next one is likely to be. So you must allow the market to determine the frequency of opportunities that it advertises to you. Not forcing trades and trying to find ones where there are none, but also staying focused enough to catch the ones which do occur even in quiet markets, will allow you to remain in tune with the markets and on track with your trade plan. Accept that the market will give what it wants to on any given day and is rarely the same from one day to the next. Finally, if you are learning and are hungry for trading experience, make sure you focus on the trades that you do take in order to learn all you can from them.

Trade well.