THE NETPICKS INFORMER
Savvy strategies for profitable traders.

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LETTER FROM THE DEVELOPER

Surviving the summer heat? I suppose it depends on where you're located how you answer that question. A couple of years ago traveling through Northern Europe during the summer I found myself wearing jackets and long pants quite often. Flash forward to today, living in Texas and it's a different story. 100 degrees (F) is not that unusual. Though we've been averaging a "cool" 98!

The markets have also been hot this summer. It seems like some summers we just can't wait until fall starts and trading "returns to normal" — however; this summer seems to be the opposite of that. I've been very impressed how the trading has been. Of course, we still have to work through August so perhaps I should reserve judgment.

The Counter Punch Trader has been quite a performer this summer. We've frequently seen some of our favorite futures markets (Crude Oil, Russell e-Mini, Soybeans, Dax Futures) hitting new equity highs and also putting together some significant streaks of winners. There is the occasional hiccup, of course, but as long as you stick to the "quitting" rules you'll keep any drawdown controlled.

For our forex traders you'll find we will be releasing our forex swing trading system - the Dynamic Swing Trader again in August. First time since April, so it has been a while. We'll follow that up with the Counter Punch Trader release in September. If you haven't gotten onboard either of these be on the lookout for all the details and live market demonstrations.

Which brings me to more of the longer term trade and hold. I didn't say buy and hold on purpose. No matter how we look at the markets, we still believe that you shouldn't just buy and hold on through every move of the market. Just go back to 2008 - 2009 if you need a reminder why buy and hold can be quite troubling.

There is a lot of concern now given the multi-year bull market that perhaps we are far overdue for a sizable correction and sell-off. It becomes a sport, game, gamble trying to guess when this might occur.

I also have long-term holdings that I've actually "outsourced" to money managers since I focus on shorter term active trading. Well, after a long review of my results over the years I realize I've paid a large management fee, high mutual fund fees and just basically lagged the market. Bigger declines in bear markets, slower climbs in bull markets. Got to wonder what I'm paying for right? Convenience?

For this reason, I've been working for over a year on developing an Exchange Traded Fund (ETF) trade and hold model. I will still hold my ETFs for many months at a time, sometimes over a year. However, I will also get OUT when the momentum reverses and avoid large drawdowns.

I plan on sharing this approach with all of you soon. That's my tease for this issue. You'll hear about it if you are on our list and receive our emails.

In the meantime, stay warm (as if that's a challenge), enjoy your vacation and take some time away from the markets when you can!

Mark Soberman

Mark Soberman

SIMPLE CHOP INDICATORS – PART 1 *by Will Feibel*

All markets trend in three different directions: up, down and sideways. If you use a trading system based on breakouts and directional moves then you will do well when your market is trending up or down, however you will most likely suffer trading losses while the market is trending sideways. This sideways trend is also referred to as chop, perhaps because price is chopping up and down or perhaps because it chops your trading gains into little pieces.

Some systems perform well in sideways markets, selling tops and buying bottoms, and these are termed fading systems. By their nature however their gains on individual trades can be small while trending systems can have large, home run winning trades. You could of course trade both systems; the trick however is in knowing when you are in an up/down trend and when the market is going sideways. Unfortunately though by the time you decide that the market is in chop it may already be too late. However, the earlier you can determine this, the less will be the number of losing trades.

In this series of articles we'll look at two simple indicators that will reduce the time you spend trading in choppy markets. First we'll cover a standard indicator available in all major charting platforms and in our next article we'll introduce you to the Crazzy Otto chop indicator, based on an insight from the eponymous long time trader and member.

Average Directional Index (ADX)

The ADX is found on most major charting platforms. This index measures the strength of a trend; however it does not know anything about the direction of the trend. If your market is in a strong up or down trend the ADX will be high, but if it's in a sideways trend the ADX will be low. An increasing ADX indicates a trend that is getting stronger; a decreasing ADX indicates a weakening trend. Most commonly an ADX of 20 is considered as the threshold for determining a strong or weak trend. Figure 1 shows a daily chart of the Dow Jones Industrials futures and below it the ADX with a horizontal line at the 20 level. Notice how during the choppy period from early February through early June the ADX was well below 20. As stronger trends started to develop the ADX moved above that level.

Figure 1 – ADX

The same ADX indicator and the same threshold value of 20 can be used on any time frame and can also be applied to day trading charts as shown if Figure 2. This is a five minute chart of the same futures market. I've added the rectangles to illustrate the periods where the ADX was below 20. Again this simple approach to using the ADX would have kept you from trading a trending system during periods of slow, sideways price movement but would have seen you place trades in time for the large move down.

Figure 2 – ADX Day Trading

Of course like all indicators the ADX lags price action and by the time it drops below 20 the choppy price action will most likely have already started, and the first strong trending move will already have begun before the ADX pops above 20. That's why you should never use ADX alone in your trading but instead use it in combination with other breakout indicators, or simply apply it as a filter for your trending system signals.

We haven't really talked about how the ADX is calculated and won't go into details here but you can easily find out from your charting platform's help system or by searching the internet. It was developed by Welles Wilder and is one of three elements comprising the Directional Movement Indicator (DMI), the other two being the Plus Direction Indicator (DI+) and the Minus Direction Indicator (DI-). In combination they define both the strength and the direction of the trend and we will cover the DMI in more detail in a future article.

For now remember that if ADX is below 20 you're in a sideways market and if above you're in an up or down trend and use that information to help determine whether or not you should take the next trade.

In our next article we'll cover the Crazzy Otto chop indicator.

TRADING BINARY OPTIONS ON NADEX *by Ron Weiland*

Last month I wrote an article about trading binary options. I gave you some great tips on how to select a broker and what Binary Options are. So, if you missed that you should go and read that article, then come back here.

Today we are going to look at the Nadex. The Nadex, is a Binary Options Exchange and is located in the US. Nadex stands for North American Derivatives Exchange. There are a number of compelling reasons to use the Nadex for your Binary Options trading.

First, it is located in the US and not some remote Foreign island (no offense intended). It is regulated by the CFTC (Commodities Futures Trading Commission) and funds are held in US Banks, so quite safe.

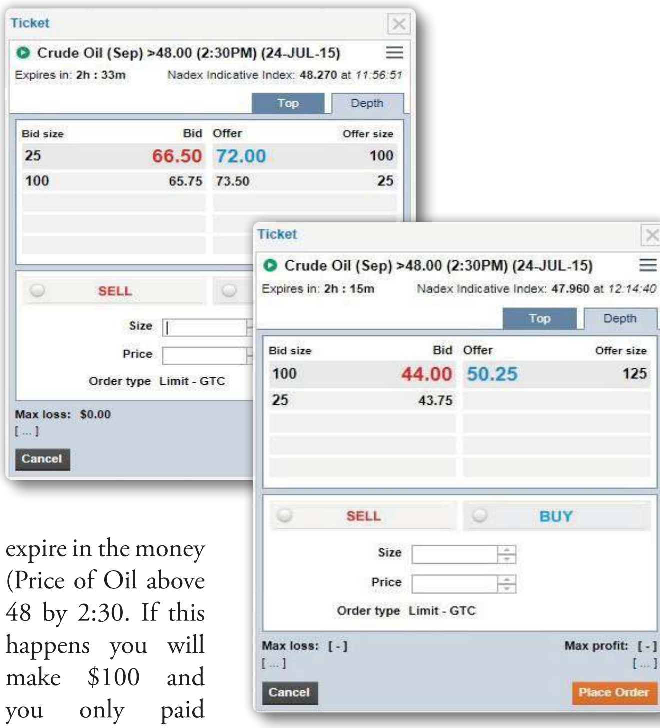
Second, they are not a broker, they are just an exchange. So, you don't have them trying to manipulate or force the market one way or another, they just bring buyers and sellers together. There is no middleman.

Let's review how price works on the exchange and the offers to buy and sell. This is also referred to as the Bid/Ask price. Just like stocks, the Bid is the price that the stock is selling for and the Ask is the price that you can buy it for. The price between the Bid and the Ask is the spread.

Now as you know, Binary Trades are simple True/False Predictions or Yes/No Guesses as to what will happen in a market at a certain time. For Example, this is what the Option on September Crude Oil is today. You will see from the Picture below that we are going to place a bet on the fact that Oil will be above 48.00 at 2:30 PM today. If you think it will then you BUY the contract. If you think it will not, then you sell the contract.

The buyers thinks that there is a 72% chance that it will (thus the offer price of 72 and the sellers think that there is a 66.5% chance that it will not close above 48 by 2:30 PM. You will also note that current price on Oil is 48.27 and there is 2 hours and 33 minutes till the Option expires. Now let me show you the prices about 15 minutes later as the price of oil has moved down to 47.96.

You can see that the Probability has changed quite a bit. Now you can buy that same Option for 50.25 that you think it will



expire in the money (Price of Oil above 48 by 2:30. If this happens you will make $100 and you only paid either $72 or $50.25 depending upon when you bought it. Now, if Oil does go down and closes below 48, then you will lose your entire bet, either $72 or $50.25.

One of the nice things about the Nadex and the exchange is that you can close your position early. So, if you had purchased the option at $50.25 and then Oil went up to say $48.30 your Option would be more valuable and you could sell it before your expiration time.

This was the Oil trade I made.

Trade Time	Avg Price	Position	Current Mkt	Profit/Loss	Position Value
07/24/15 12:29	59.09	+126	85.75	$ +3,359.00	$10,804.50

I bet that Oil would close above 48 and price has not moved in my favor, it is currently 47.94 and my position has lost value.

continued on next page

Trade Time	Avg Price	Position	Current Mkt	Profit/Loss	Position Value
07/24/15 12:29	59.09	+126	38.50	$ - 2,594.50	$4,851.00

You can see I paid an average price of $59.09 and right now if I wanted to cut my losses I could sell it at the Current market rate of $38.50. You will see that as you get closer to the expire time, the value that you can sell it for will go down if you are out of the money, as I am in this case. I am going to hold my position and hope that Oil does close above 48 in the next hour at 2:30 PM, and then I will win the bet.

How does Nadex make money? They charge .90 cents per contract that you buy or sell. You are charged on each trade, both when you buy and when you sell. However, if you let your contract expire you are not charge a commission on that.

That is really all you need to know to get started with a Demo account with the Nadex. They have many training videos on the site that show you how to place orders and how to look at various markets. There are many different markets to trade, Forex, Energy, Metals, Agriculture, and Indexes like the Dow or the FTSE100.

There are also many different time frames to pick your options. Some Options expire every 5 minutes, to 20 minutes, to daily and even weekly. So, you have many different trading options available. Also, the Exchange hours for the Nadex are from 6 PM Sunday night till 4:15 PM Friday afternoon. The markets are also closed for 1 hour from 5 to 6 PM NY time when they rebalance the exchange.

In review, I think there are many advantages with trading on the Nadex. The Key is you have Safety of your funds. It is a real, regulated exchange! You have the flexibility of trading many different markets and timeframes and you are also able to sell your position before the expiration time. In fact, Oil has moved up to 48.22 and I think I should sell early and take my profit, or should I make full profit and let it ride? What do you think… take profit and run or risk it, your call!

Trade Time	Avg Price	Position	Current Mkt	Profit/Loss	Position Value
07/24/15 12:29	59.09	+126	86.25	$ +3,422.00	$10,867.50

If you want more info on what is new in Binary Options, stay tuned to the Newsletter or email info@netpicks.com. Great Trading.

TO AUTOMATE OR NOT. THAT IS THE QUESTION *by TJ Noonan*

I receive a lot of emails and inquiries asking how to put some of our longest lasting, most successful tradeplans into automation so that they can be traded by the computer, and not by the trader. What a dream that would be. Unfortunately, it doesn't work quite like that, and for several key reasons. That is not to say that we can't use automation for trading because we can. It doesn't necessarily make it easier to trade though, which is a big misconception by many inexperienced traders. It actually adds layers of complexity. What if the broker doesn't fill your order but the automation thinks you are in or out of a trade, for example? What about getting in sync with earlier setups that are still viable? These are just two main issues that can make automation more complicated than just manual trading.

The way I look at it, at least with my two latest strategies, the Trend Jumper and the Counter Punch Trader, there are THREE types of tradeplans. In response to many of the inquiries I have received, I decided to publish my response for this month's Netpicks Informer Issue. This article refers to Trend Jumper but it equally applies to the Counter Punch Trader as well. Hopefully it will clarify the differences between some of our most successful legacy plans that were created by hand vs other custom plans created with the Trade Assist (automation).

Here it is in its entirety:

Classic/Original TJ Tradeplans

Some of our most successful ongoing tradeplans were created long before the TJ Pro Plus. In fact, they were created before the TJ was even developed. The tradeplans were created with long, tedious manual effort over many, many months of research. These tradeplans continue to stand the test of time and work the same way today as they did years ago.

The TJ Pro Plus Calc can be setup to show these trades. Many of the maneuvers we do with these tradeplans cannot be completely programmed into the Calc or TA and for that matter; we still have to master the rules of the tradeplan and know when to get away from the dots. We cannot get the TA to replicate these plans. Again, think of what it is you want to do. The bottom line, and the theme I always adhere to is that 'we trade to make money,' one of the early and most important steps of the Success Guide. Also, 'if it ain't broke, don't fix it.' I am not motivated by getting all the dots to line up perfectly with these plans because they already work the way they are. Don't try to shove a round peg into a square hole by trying to force the TJ Pro Plus into something that it can't do or is not designed for.

We can use the calc to assist us so long as we have a greater understanding of the actual plan, itself. Here are five main examples (I probably forgot about a few minor ones too) why the pro plus calc or TA cannot be shoved into this peg:

1. **Getting in sync with the tradeplan's first trade of the day (ftod)**. I typically choose the setup that is closest to the market at the time of our start time. This is how we do it in the traderoom, too. The calc however, is often tracking a prior trade, a trade that is not as close to the market at our start time and therefore, one we are not

interested in. It will show us what we call 'addons' but it won't track them. Sorry! That is way too complicated of a programming job and would drive the cost up thousands of dollars so we made the strategic decision to NOT try to build trackable 'addon' or 'extra' trades into the code. That's why we always begin by introducing the TJ Standard so we can get everyone trained up on the basics of the TJ.

2. **Making small, tactical adjustments with our stops and entries around nearby chart/swing/pivot levels and/or nearby indicators like the JL, or EMA**. Remember, we are allowed to make 1 and 2 tick adjustments, sometimes 3 and rarely 4. This is part of the 5% art to trading and these tradeplans were designed with those maneuvers. The Calc and TA were not. That's one of the advantages of being an actual trader and paying attention to price action and your charts. Automation can't really do that to the degree that we can and do.

3. **Standing down for news events**. We can program pause times into the TA but keep in mind, news events don't happen every day. We have to know our stand down rules when these events happen.

4. **Different PoQ (Power of Quitting) rules**. For the same reason as #1, there are some poq things that we do with these tradeplans that are not programmed into the TA. The TA has other, very powerful poq abilities that you can use, just not with these tradeplans.

5. **Getting in sync with a current 'addon' trade after we get stopped out of a trade, usually due to money mgt moves**. Some traders don't do this but I do and the tradeplan allows for it. We can take a 'trade in progress' if it is still viable; hasn't hit money mgt or hasn't stopped out and we still have a chance to get in at the entry price. The TA definitely cannot do this.

6. **Other things I just thought of**; avoiding certain setups like floating crossovers, getting in sync with the same floaters after a pullback, ignoring targets on very small setups which can result in huge running moves with low risk, making stop and reverse adjustments, etc. Each one of these things we do as traders and if we try to force these plans into automation we will NOT be able to get the same great results that we have been getting for such a long time.

We do the above things all the time and practice them in live trading conditions. The only way to master these maneuvers is through doing them; repetition and practice. We backtest manually with these rules so that they do become mostly mechanical but it takes the human mind to identify them and execute them properly. Trying to put all those things into code is probably more difficult than sending someone to Mars. It is far easier to just learn the skills and then enjoy the results for the rest of your trading career. Putting this stuff into code, or at least trying to, always ends up with unintended consequences.

The Pro Plus Calc and TA are very powerful in their own right. They can do countless things to develop and identify great trade opportunities. Just don't try to make it something that it is NOT. We can create (and I have) brand new tradeplans that DO utilize what these tools CAN do. The thing to remember and not mix up is the difference between NEW plans and the Original Plans. Understanding the powers of the Pro Plus toolset and equally important, understanding its limitations.

Basically, there are THREE approaches to tradeplanning with the TJ Pro Plus and/or the Counter Punch Trader tools (including the TA):

1. **Manual Tradeplans**; these have proven to stand the test of time and recover from rough periods, that all tradeplans go through. The proof is in the continued success we have with our proven plans. I just talked about this in great detail above.

2. **Plans developed purely with the TA**; This requires optimization and lots of bactesting as well as forward testing. Some of these plans prove to be very successful over time. Others need maintenance. Others still end up breaking down.

   This is a great tool to create automated tradeplans. Understand that each market, forex, futures and stocks have their unique challenges with automation but it can be done.

   - Futures; contracts expire. It is difficult to backtest with automation futures because IF you want to use 'Key Level Adjustments' (KLAs), you need to test each contract separately. This is very hard to do. Manual backtesting is easier, believe it or not. You can, however, test using continuous charts IF you turn off KLAs. Remember though, you also have to account for news events. You can set pause times with the TA but they will pause even if there isn't a news event. You can't change this! It's the way the futures markets work.
   - Forex; It is very difficult to account for spread because brokers are always changing the spread. Also, you still have to account for news events.
   - Stocks; You can't automate options trading. You have to be careful of gap opens when it comes to placing trades as well as the results that the automation will return.

   All three need to be guarded against the risk of curve fitting by over optimization. That is why it is critical to learn your skills and master the tools and techniques required for success.

3. **Plans developed with the TA and then fine tuned with manual testing**. These tend to last and stand the test of time as well. Two great examples of this are the two great 5 minute chart plans we have: EURJPY and YM.

   - The TA is INCREDIBLE for testing things that would take an eternity to test manually like:
     1. the relationship between JL and CL

continued on next page

2. the relationship between the EMAs
3. best trailing techniques
4. best time to activate the various trade mgt techniques; aka money mgt, mm
5. ATR studies
6. Etc, Etc..

Once basic tests are run, then apply manual backtesting with the discoveries made which leads to a greater understanding of your chart/tradeplan. That is exactly how I came up with the EURJPY tradeplan and the targeting scheme we use. TA gave me the JL6 and CL2 along with the EMA14. My eyeballs and actually diving into the charts click by click, showed me how and why we needed to go to 15 and 25 pip targets in small trade situations, along with adding spread. This TJ tradeplan has stood the test of time and continues to work as intended, running for nearly 3 years now.

There are those of you who will be discouraged by all of this. I understand. There are those of you who don't want to be bothered and just want to be told what to do. All you want to do is trade. I don't blame you and please understand, I get it! That is not lost on me. There is a fact about trading that no matter how much any of us try, we cannot undo that fact. Success in trading comes from a certain degree of surrender. The fact is that we are all human beings and were not inherently born or equipped with the necessary skills and required attributes of what it takes to be successful traders. That is a FACT and you all would be best served by acknowledging it and then surrendering to it. We have to BECOME traders and that requires work. Just remember, if it wasn't so, there would be no trading because it would be illegal. Think it through and you'll get it.

I am just one person. I will continue to share with the Owner's Club(s) new plans as I discover them, develop them, etc. But if I were you, I would do my best to MASTER the tools and learn how to use them to their fullest. The best tradeplans for YOU will be the plans that YOU create for YOURSELF. The reason for this, like it or not, has nothing to do with me or Netpicks. It has more to do with the prior paragraph. It has to do with the FACT that most traders fail and they fail because of THEMSELVES. As soon as a plan that I create goes through some short term hardship, nearly everyone will quit the plan because they do not fully understand it, nor its midterm to long term rhythm and cadence in the market. As soon as traders quit and run away from it will be when it goes on a huge profit run to new equity highs.

ALL tradeplans go through hardship. If I created the plan, and you did not go through the Steps to Success Guide to take full ownership of the plan, internally, you will not understand it and will end up quitting right before it moves to new equity highs. The tendency is to chase performance and to move onto something else. The cycle will repeat and the end result is losses, losses and more losses. People are not immuned to this. Good traders are. Good traders only become good traders by hard work. You are not born that way. IN fact, most people are born to be horrible traders because it is so counter intuitive to what we have learned in order to survive.

If YOU however, create the plan on your own, based on your own self analysis, you will inherently acquire the foundation of belief and understanding you will need to succeed and work through the short term setbacks. You will begin to run your trading as a business and ascend to the higher level perspective that is necessary for success. Trust me on this. You cannot just talk yourself into believing a tradeplan. You have to take ownership internally and that requires the work it requires. Whether you're trading Trend Jumper, Counter Punch or any other strategy, this is a TRUTH that 99.9% of everyone cannot avoid or hide from because you are human. (That is not a scientific number; it might be off a few ticks.) But you get the point.

If you are one of those people who want everything done for them, you just want to trade and nothing else, well, I believe I have you covered. Stick with the tried and true ongoing successful Classic Plans. I am still skeptical that YOU will succeed, even though the plans DO succeed. You will probably still fall prey to the trappings of being human and chasing performance, the first signs of short term trouble.

If on the other hand, you are one of those people who has a driving desire to succeed in a universe where most do not, then I hope you will understand that you have to recalibrate your internals and evolve into being a different kind of species altogether; **a trader**. This happens with hard work, just like anything else that is worthwhile in life. The Steps to Success Guide is ONE way. Perhaps there are others. These Pro tools empower you IF you learn how to use them and how not to. You still have to become a trader though.

CHARTING THE RIGHT SESSION TIMES IN FUTURES *by James Kessick*

One big issue that I've found frequently comes up when talking to traders, is when they are tracking market behavior they fail to differentiate between primary sessions and overnight sessions for futures products. Now of course, it can be useful to chart a 24-hour or full electronic exchange session. However, charting the right session times in futures for the primary session of the market you are trading can go a long way towards **figuring out what it's trying to do**.

Why non-primary hours are different

Non-primary or "electronic" trading hours have two major differences to the main session for an instrument. The first is that because a futures product is a contract traded on an underlying market (for example a stock index future on a basket of stocks), any trading going on in the future when the underlying market is not fully open is going to be a proxy to the real market. In other words, the trading that goes on in futures outside of primary hours, **isn't always going to be an accurate reflection of what the underlying market wants to do**.

The second point is that the volume traded is generally much lower in the electronic session than it is in the primary session. This tends to result in either **far tighter trading ranges** when interest is lower or **accentuated moves** due to the thinner book when there's something that needs to be priced in. Another really great example of this is in sessions where the market is open but there's a major holiday somewhere in the world. Many times there's very little movement, but sometimes the thinner market leads to significant directional movement.

Masking the important activity

As a result of these differences, what you see on a full session chart has the potential to mask important technical features of a market. Which moves have happened as a result of changes in the price to the underlying market for example, are likely to be far more indicative of future movement and yet it might not be **immediately clear which these are on a full session chart.**

The actual volume traded is also likely to have an impact on your charts. If you use volume profiles, although the additional less important data is far smaller in comparison to the primary RTH data, it will still have an impact on the overall distribution calculated by your platform.

But perhaps of greater impact is felt by traders who use either tick or volume-based charts for their timeframe which in turn is used to generate setups. Many trade plans used in Trend Jumper and Counterpunch use tick charts for example. The result of using overnight data is that setups have the potential to be **artificially large** due to the fact that markets can move directionally on far fewer trades/less volume outside of their primary sessions.

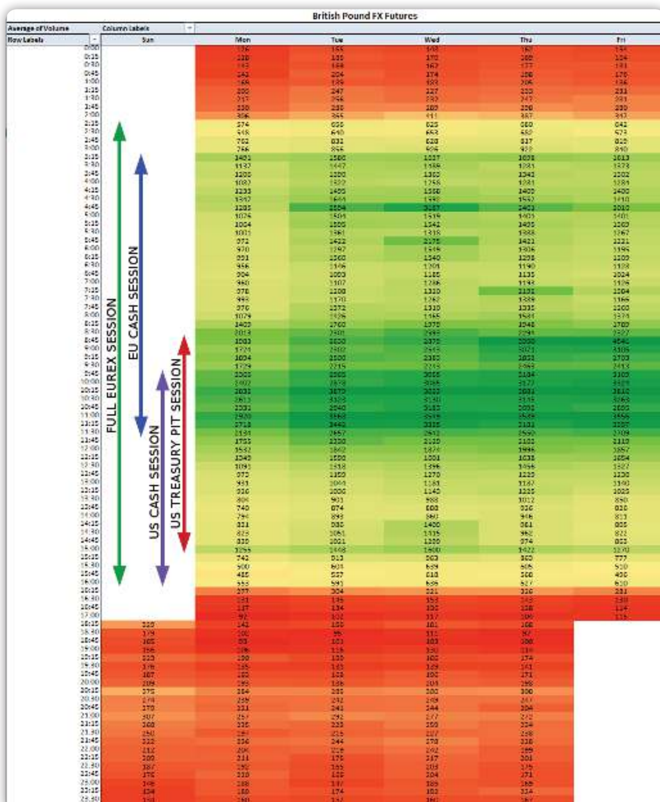
Additionally, it's easier to identify session derived extremes in price, which **markets are likely to retest and respect** in the future. Although it is possible to find indicators on some platforms that allow you to specify the times for the open/high/low/close you wish to have automatically drawn based on, it's far more common to only have the option to show this for the current session. Fortunately however, most platforms do allow you to change the session displayed.

Selecting your session

Selecting the correct primary session is usually fairly straight forward. You can look at the product's exchange webpage where it often gives the pit or open outcry session. You could also find the information for the primary session by doing a web search on the primary market hours for the underlying market. For example, the E-mini S&P 500 (ES) is a US stock index product. The primary market hours for the NYSE are 9:30 am-4:00 pm EST and so this is the primary session for the ES (although 9:30 am-4:15 pm EST are frequently used).

When looking at Forex futures it's not quite as straight forward. You could chart sessions based on the hours of the major Forex centers globally (from forexmarkethours.com):

But equally if you were to do a volume analysis on a product (I've used the British Pound futures here) you might see that there's a more relevant time window to use that spans across several of these.



Charting the Right Session Times in Futures

Many traders still don't differentiate between primary and non-primary market sessions in futures trading and it's my belief that they are missing a trick with this. If you don't already do so, why not at least take a look at primary session only futures charts as a way to compliment your technical analysis.

Trade well.

WISDOM OF A TRADING LEGEND *by Shane Daly*

I personally find the stories of traders such as those found in the Market Wizards books such an enjoyable read. Even better are the stories from those that were in the trading trenches long before we had the technology that we do today.

Even many of the popular trading indicators of today were not in use back when many traders were making serious bank trading. The popular MACD made it's appearance in the 70's while Bollinger bands saw the light in the 80's.

A lot of what these indicators show was seen by these traders just by looking at a price chart.

This is a far cry from traders of today who often times have charts with so many indicators that price bars are impossible to see.

I find the "old timers" quite inspiring and the trading wisdom they pass along is unmatched.

Which brings me to Richard Donchian.

Wisdom Of A Trading Legend

Donchian started dabbling in trading during the late 20's and he lost money during the crash of 1929 just like many other traders. The difference was that he didn't just quit. He went onto the study of technical analysis where he eventually developed an approach that is in use today, trend following.

His system was based on moving averages but unlike many who dabble in trading today, he had trading rules and guidelines that dictated how he traded.

Over the next several trading posts, I am going to highlight some of guidelines and thoughts that Richard Donchian had that I have found immense guidance from over the years and as I continue to develop as a trader. Some of them you have probably heard of, perhaps tried and discarded *(jumping from concept to concept is a plague in this business)*, and others that may be new to you.

Trading wisdoms from Richard Donchian were published in the early 30's and have stood the test of time.

1. Breaks of trend lines

When trend lines that run counter to the major trend break, these are often great signals to take a position and are also often used to exit positions for those that trade counter to the major trend.

This chart shows the major trend using a trend line that is to the downside. During a trending move, we can expect pullbacks against the major direction and trading these pullbacks is a very popular method of trading. These pullbacks can be classified as mini-trends inside of the bigger trend. The issue becomes when is the time to enter?

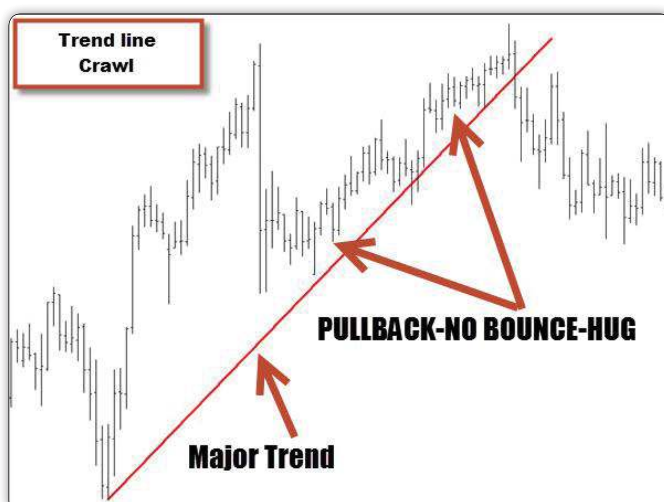
Using trend lines that highlight the move back can show when price violates the smaller term move in an effort to resume the major move. Traders may place positions when the trend line break occurs or, by using a smaller time frame, they wait for a pause and a small range in the price action and enter their position inside of that. Stops are usually placed just outside the extreme of the pullback and just outside of the noise of the market.

2. Trend line crawl

I didn't have a better way to describe this guideline and it expands upon the trend line breaks that were just covered. This time we are getting a heads up that the trend may be about to turn. This is applicable to micro trends all the way to the long term position trading trends.

Price pulls back to the trend line and to see the trend stay intact, **we would expect to see price bounce away from the trend line**. In the one hour chart below, what happens tells a very important story.

- Pullback
- No strong bullish interest
- Price is hugging the trend line



It takes about 3 days and price is not showing much momentum to the upside as price simply trails up the trend line. Price breaks the trend line with what appears to be momentum and after a valiant fight, the bulls lose the battle and what you can't see on this chart, price plummets.

Often times what can happen especially on the longer term trend lines is there are so many stops set under every low/high, **that stops can cascade when the trend line breaks**. When that happens, many people are caught on the wrong side and their exiting their trading position just adds fuel to the already gassed up price move.

The astute trader can make some huge gains in a short span of time when this occurs.

3. Let the profits run and cut the losses

This one is not new for anybody but many traders do the exact opposite.

Being in a profitable trade can be exciting but often times traders will take the profits without having a planned exit strategy. Perhaps it's the fear of losing. Perhaps it is the excitement of turning paper profits into realized gains. Whatever the reason, taking profits outside of a risk reduction strategy or a set exit is a big reason why many traders never make a fraction of what the market is willing to give.

Adding to the problem is having a trade go against you and instead of taking action to limit losses, traders hope the price will return. Sometimes it does and you can exit for scratch. Often times it does not and your predetermined stop loss is forgotten as you hold on only to see your loss become a multiple of what you intended.

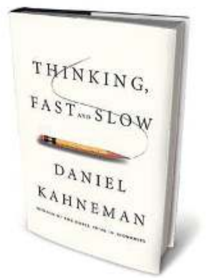
We know letting winners run is important and the question is when do you take profits? There are a multitude of ways including patterns and trailing stops but you have to find one that fits you as a trader.

The trading systems the Netpicks offers actually come with predetermined profit exits (plus stop losses) so it does take the guesswork out of the all important question…**"when to exit".**

This is just some of the trading wisdom that I have found useful from Donchian and in the future, I will expand on a few more that you may find of interest.

ALGORITHMIC TRADING IS THE ~~BEST~~ ONLY WAY TO GET A GRIP ON YOUR EMOTIONS *by Jane Fox*

As all traders know, it is extremely difficult to be consistently profitable trading. The #1 reason we fail as traders is because we struggle with our emotions and end up trading with the general market sentiment. While the herd mentality/feeling can and most of the time feels like the proper (logical) way to look at the market, trading with the "herd mentality" is the silent killer.



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.

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."

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.

"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

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.

continued on next page

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.

"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 to buy a new 52 week high – use quantitative analysis. Everything else is faith." Howard Bandy

Algorithms don't have emotions. A trading program doesn't get depressed if it loses. It doesn't have a mortgage to think about or kids that might go hungry if daddy blows out in a convergence trade.

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.

HOW TO CUT DOWN ON SCREEN TIME USING MARKET INTERNALS

by Mike Ryske

One of the biggest transitions a trader can make is to go from a day trading approach to becoming a longer term swing trader. This is an issue that I have had to deal with over the years in my own trading. When you are actively trading the markets from opening to closing bell it's not difficult to have a pulse on the market. However, when you stretch things out to a swing trading approach it becomes more difficult to get a feel for how strong or weak the market is. As a swing trader, I typically come in to check the charts 2-3 times per day for a total of about 20 minutes per day. While this is great for me as I can get on to other things throughout the day and still stay active in the markets, it can be tricky to keep a good feel for what the market is doing. To remedy this, I now use a market snapshot approach using a few simple tools.

As a swing trader...I now use a market snapshot approach using a few simple tools.

When logging into my trading computer I have a few different workspaces loaded up. The first workspace has the charts of all the names on my current watch list of products that I trade on a regular basis. These charts have all of the PTU Options Mastery indicators loaded up, which tell me where to get in and out of trades. The second workspace is what I call my Market Internals workspace. If you have been trading the markets for any length of time you know that it is not enough to just look at the values of the big index products to see if the market is up or down. Often times, there is more going on under the hood than those numbers indicate. To further gauge the strength of the market, I use 5 tools that can be found in most charting platforms. **You will find a link to a pre loaded shared Thinkorswim workspace below that you can click on and take a look at these tools.*

Before I get into the details, I will point out that I do not place or manage trades based on these tools. They are simply there for me to stay up to speed with what is going on in the overall market without being glued to the computer screen all day long.

The first tool that I use is a chart that plots the amount of volume going into stocks that are positive on the day versus the amount of volume going into stocks that are negative on the day. In Thinkorswim this can be looked at by using symbol $UVOL-$DVOL (see chart below). This gives me a ratio that helps me gauge how strong the move is for that day. For a strong trending day to the upside I want to see this ratio at least 2:1 positive. This means we have 2x the amount of volume going into names moving higher on the session when compared to volume going into names moving lower. The opposite is true for a weak session moving lower. In that case I want to see at least a -2:1 volume ratio meaning 2x the amount of volume is going into stocks moving lower on the session versus volume going into stocks moving higher. This ratio helps lay the groundwork for me to see how strong the move higher or lower has been that day. Typically if we see a volume ratio of +/- 2:1 that means we are in a strong trending day where it's going to be difficult to get a big reversal.

The second market internal that I look at is called the Advanced - Decline line. In Thinkorswim this can be looked at by using symbol $ADVN-$DECN. This chart shows me how many names are moving higher and lower on the session on the NYSE (see chart below). This value is shown on a price chart and is constantly updated throughout the day. When this number is +/- 1000 that means the market is in a strong trend for the day and is going to be difficult to get a reversal in the market. For example, if I come in for my lunch time update and see the S&P 500 down 15 points, that immediately has me thinking the market is getting beat up that day. Is that really the case? By taking a quick look at the Advance - Decline line I can get a better view of how strong the selling is. If this ADVN-DECN value is at -1500 then that tells me there is strong selling across the board. If that value was only -500 then that tells me the market is lower but it's more of a mixed market at the current time. If the value is only +/- 500 then it's not going to take much to get the market to reverse in the other direction.

The third market internal that I look at is the NYSE Tick chart. In Thinkorswim this can be looked at by using symbol $TICK. This is a tool that tells me at the current moment in time how many stocks are trading on an uptick versus how many stocks are trading on a downtick (see chart below). I track this on a 15 minute chart throughout the day. This is a very short term indicator that is handy for day traders but it can also be a powerful tool for someone like me who is trying to quickly see if we have hit any extremes throughout the day. What makes an extreme on the NYSE Tick chart? I have a few price levels market on the chart to easily read where we have been that day. I mark the 0, +400, +800, +1000 levels on the upside and -400, -800, -1000 on the downside. If we reach +1000 on the upside that means 1000 stocks on the NYSE are trading on an uptick at that moment. A -1000 reading tells us 1000 stocks are trading on a downtick at that moment. When +/- 1000 is hit that indicates a near term market extreme. When we hit these overbought or oversold extremes we will often times see the market pause or pullback slightly. When you get multiple extremes of +/- 1000 that indicates a very active market. On a day when we are stuck between +/- 400 that indicates a very slow indecisive market.

The fourth tool that I use is a 5 minute chart of the SPY with a few indicators on it (see chart below). I load up a very basic pivot point indicator that can be found in most charting platforms. There are no custom settings being used for the pivot points. I also load up what is called the VWAP. This looks very much like a regular moving average but it's much more than that. The VWAP is the Volume Weighted Average Price. It is calculated by dividing the dollar value of transactions by the average volume. The VWAP can often time act like a magnet attracting price towards it. When we get extended away from this level often times we will see a retracement back towards it. On a slow moving day you will often times see price action hug this level throughout the day. The 5 min SPY chart helps me take a quick snapshot to see where the market has been that day and also help me form an opinion on where it is going. The pivot points and VWAP level give me an idea of support and resistance levels that might influence things going forward.

The final tool that I use is the VIX which is a gauge of the overall volatility in the market. We look at volatility quite a bit as options traders because we want to know if options are cheap or expensive. A VIX in the 11-13 range is an extreme on the downside, meaning there is very little fear in the market and as a result the options are very cheap. In this case we will be buyers of options premium. A VIX reading in the 20-25 range is an extreme on the upside, meaning there is a lot of uncertainty

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HOW TO CUT DOWN ON SCREEN TIME CONTINUED FROM PAGE 11

in the market and as a result options are more expensive. In this case we will be sellers of options premium. The VIX helps me form an opinion on how long I expect to be in trades for. A high VIX will typically mean very short term trades with holding times of 1-3 days. A low VIX reading will in many cases lead to longer term trades of 2-3 weeks.

These tools, when used together, help me quickly take a look at the overall strength or weakness in the market. I can take a look at these charts and in 60 seconds have a feel for what I have missed that day by being busy with other things. Like I mentioned earlier, I am not looking to trade based off any values or trends off of these charts. They are strictly used for me to get a quick pulse on the markets. They help free up my schedule so I don't feel pressured to be in front of the screen all day. Swing trading is hugely beneficial for me because I'm in and out in 20 minutes a day but I also have to realize that I'm going up against traders that are looking at the markets all day. So it's important for me to use tools like the Market Internals workspace to dig in and see what's really going on in the markets instead of just looking at the overall Index values. . Start using these simple tools in your own trading and I think you will be surprised how much better your understanding of market strength will be.

If you are a Thinkorswim user I have included a copy of my fully setup Market Internals workspace here: http://bitly.com/TOSInternals Type this link into your browser and it will allow you to load up the workspace with the settings that I mentioned above. If you have any questions on this feel free to send me an email. Mike@netpicks.com.