

Chapter 3:

Preparations for Success:

Before you set out to become a professional trader you need to decide on a work ethic.

The largest single reason I have found why people don't succeed is because they are inherently lazy.

They have no focus, they want to do everything the easy way!

The majority of losers go into this business unprepared, sure they think they are prepared but then something happens that they have no control over and they buckle under the weight of it.

Brokers

Losers trade off other peoples opinion's, they think the broker is qualified to advise them. Brokers are salesman working for commission, they know nothing about the markets. Anyone who thinks they do is a fool to say the least.

News Services

Another fallacy is that news services know where the market will trade today. Let's hit that idea on the head before we go any further.

News services only report what they hear from others, they are not qualified to give trading advice, 90% of them are "still wet behind the ears" and their claim to fame lasts about 5 minutes at the most.

Nevertheless, to be informed is to be pre-armed. It is necessary to follow a good news service to keep yourself informed of the fundamentals and the current psychic euphoria or despair that is prevalent in the day to day fluctuations of the market.

The news service I have been watching for the past 5 years or so is BLOOMBERG, I take it on cable and it runs in my office non-stop day in day out.

I have got to the stage where I can just about tell you what they are going to say about the current market before they do.

Just the same they do provide a good information service in as much as they are continually interviewing traders, analysts, CEO's and important people who have a say in the affairs of this world.

They are diggers, as in they keep digging out information. They are always flashing spot news on different issues across the bottom of the screen.

If you watch enough of it, it gets you in tune with the real world, that is why I watch it, not for any other reason.

As time passes you can visually see how trends develop in certain markets. Especially the stock markets.

Special Events

News services alert you to special events that occur which could shift opinion in the current market trend. They often pre-empt you to news that is to be released into a market. To be informed is paramount in this business of speculation.

Many times I have been neglecting a complex for a while and then all of a sudden the news service will say something that alerts me to opportunity. From there I go and look at my charts and do some analysis to see if it could mean something.

I don't recall how many times the most simple things the news services report have alerted me to opportunity, but they have been plentiful.

Keeping a cool head

You may have to train yourself to keep a cool head when everyone around you is losing their's. But you should never take anyone else's word for something till you double check it. More money than enough gets lost in the market for this simple reason.

Bottom Line

You need to follow a news service and stay informed to be and stay a professional trader.

Personal Office Environment

Now the next most important thing you need to be a trader is a private place to keep your tools, get some seclusion and stay uninterrupted from others who don't understand what you are trying to do, and very few people do, believe me.

The wives will hate me for this but it is true, you guys can wreck the best-laid plans of mice and men. You should not be allowed to come anywhere near us when we are trading.

You should not take any interest in what we do unless you want to help. If you want to help understand that we don't need your advice, if we do we will ask for it.

How many times in past years I can remember the drama's, I had a wife who would walk into my office and say stupid things like "when are you coming to bed", "if you want to stay up all night you won't be any good when we have to go out to Anna's party tomorrow night", " You will never be able to get up in the morning to drop Shannon at school". Stuff like that. Well I would just say, "will you get out of here! I'm busy, you are only distracting me".

So you know it never helped anything. My best years trading, when I was married, was when we had two houses, she lived in one and I lived in the other. She didn't know what I was up to and I didn't care much when I was working anyway. When we were together I gave her my undivided attention. Maybe the answer is to have an office somewhere else, but it was difficult for me because I live on the other side of the world to the markets I was trading.

Then there is the other way they have of getting to you, you could be having an indifferent day and they come along and ask you, "How much money have you made today?"

Well before you start trading from home you had better get this lot sorted out. You have to set the ground rules and make sure you apply them.

Once you get any friction between you and your partner it will affect your judgement and you will lose money. Don't trade when your mind is not on the job.

I have seen too many marriages break up because of these problems; it has probably got to be your primary concern before you set out on the journey to become a professional trader. Either that or never get married, which is probably the best advice I could give you.

My biggest problem with wives was because they were jealous of my work and the time it consumed. They couldn't understand that I like what I do and have my own private love affair with it. If I trade well I know I am in charge of my own destiny, when I fuck up I know I have to get myself under control again, it's like walking a tight rope.

Working for yourself, by yourself is a very serious situation to place yourself in. You can either do it with ease or you can make it impossible. The choice is yours.

Market Information (prices)

Every professional trader has to have market information, i.e., you have to know where the market is trading. If you are smart you will want to know where it is trading every minute that the market is open.

This means you will require a LIVE data feed.

There are numerous sources for LIVE PRICES. The “no” frills services are inexpensive and can be connected to over the intranet.

For the CBOT you can use the Dow Jones Financial Network and subscribe through the CBOT (Chicago Board of Trade) for \$9.95 a month.

For the stock market information Quote Com Live Charts can be run cheaply or you can use their Qcharts service for \$79.95 pm. If you want data live you will have to pay exchange fees on top of your data feed service. Qcharts has a unique EXPORT DATA feature that I use to import intraday data into my WaveTrader software, this allows me a very fast way to do my measurements of price as the market moves along. It is very important that you keep accurate note of where the market is technically when you are trading.

There are also an abundance of free services – these usually have a 10 to 20 minute delay. They are handy for researching information on complexes where you don’t receive a live feed. Future Source is the one I like.

On my website I have links to most of the free services and also links to information pages that I regularly refer to.

[http://www. Bryce-gilmore.com](http://www.Bryce-gilmore.com)

These are on my BULLETIN PAGE.

For Australian Stocks and futures I use BOURSE DATA for my live feed.

END OF DAY DATA

You will find it necessary to maintain a database of long term prices for major stocks, stock indices, futures contracts and currencies if you wish to conduct long-term Time and Price analysis.

Contracts need to be maintained in various configurations to be useful for certain types of analysis.

Australian stocks, Indices, Futures markets and some overseas are available from ALMAX INFORMATION SERVICES. Overseas futures are best from services like CSI or GENISIS in the USA.

CORRECT DATA is the lifeline to your business; all of the above services have intranet delivery services so the costs involved are minimal to your overhead costs.

Analysis Software

There are many products on the market, you can have End of Day software and still trade effectively if you wish to keep the costs down.

If you are serious you will set yourself up with an ON LINE ANALYSIS PACKAGE and then you can use the routines in all levels of time frame, eg. 1 minute, 5 minute, 10 minute, 15 minute, 30 minute, 60 minute and Daily, Weekly and Monthly.

The more sophisticated you wish to be the more money you will have to spend.

For end of day analysis I have been using my own software package – WAVETRADER/CYCLETTRADER since I first developed it in 1986. Unfortunately the code still runs on a Dostm platform and requires keyboard driven commands for operation, it runs fine out of the windows desktop and does everything I wish to do. Hence I have never bothered to upgrade it to a windows based environment.

Some popular online packages are QCHARTS, AGET, FUTURES SOURCE and CQG you can get these to run on a satellite dish system and avoid the pitfalls that sometimes occur with an intranet connection.

You should do your own research in these areas and decide which systems fit your budget. Nevertheless as long as you have instant information coming in on the contracts or stocks that you are trading you will survive OK.

SUMMARY

A professional trader needs to set himself up with all the tools necessary to stay informed of the actual market position, the technical position of the market and know roughly what the fundamentals influencing the market are.

Chapter 4:

Tools of the Trade:

Professional traders must have tools to work with, if you intend to buy and sell things you need to research the reasons why. Now that's pretty obvious to anyone. So why do so many people think they are going to make money just because they hear someone on a TV financial program recommend a stock or a commodity?

This is the major reason why markets trade outside their fair value envelope and place themselves in completely over or under valued situations.

The bigger fool theory – so long as you can find a bigger fool to buy your position at a profit you are going to make money.

That's the theory I work with anyway. Basically all you have to do is find something that is cheap and buy it, or find something that is over priced and sell it. If it is trading at fair value you just leave it alone. Simple.

So that leaves only one thing to do, research.

Fundamentals V's Technical Analysis

I believe you need to use both methodologies; hundreds of technical analysts are walking around with the arse out of their pants because they never believed in fundamentals.

Let me tell you a story about one in particular. I love this story.

Back in 1986 a newspaper in Melbourne my hometown, used to feature a few stories on technically oriented people, one was the CEO of Solo Petroleum a publicly listed company, this guy was an Elliott Wave guru or so the papers and he thought. He had been reasonably successful trading the bull market in stocks between 1982 and 1986, but you should never get brains confused with a bull market. In 1986 the market made what is now considered a 3rd wave high or a 5th wave high if you allow for extensions. The Australian \$ went into a state of collapse due to a Politicians statement that Australia was in danger of becoming a "banana republic". Through a period of about a month and a half both the stock market and the A\$ were in a decline.

While all this was going on Sykes (the CEO) liquidated all the company's investments and went heavily short the futures markets.

He was continually reported in the newspapers with his charts and opinion that the market was doomed. He was the soothsayer of the local technical world and gathered a huge following.

On the 28th July 1986 both the A\$ and the stock market bottomed. It was pretty easy to recognise and all the fundamentals told us that it was not the end of the financial markets at all.

The previous high in the All Ordinaries Index had been 1247 and the low was 1094, not a real big issue. As the market began to rise in an orderly manner Sykes was continually reported as the bear amongst bears and in the face of continual evidence that the market was not going to freefall he stuck to his technical opinion that it would. As a little more time passed and the market went to a new high Sykes was reported as still holding short. You would have thought he would have given up and taken his losses and got back on with the job. But no Sykes had convinced himself this new high was a "bull trap".

Next thing I read in the papers is that Sykes has called an annual general meeting of shareholders of Solo Petroleum to vote on the futures positions the company was holding. By the time of the meeting the market was trading around 1400 and Sykes had put on more short positions. The shareholders got to vote and elected to stay with Sykes' opinion, saying we have come this far with you we will stay till the end. They were told that if the All Ordinaries traded above 1500 they would lose everything; admittedly at that time they were underwater for half the company's assets.

Well as if you didn't know the market continued to climb and sent Sykes and the Solo Company broke. The market continued to climb and eventually reached a high of 2312 before the crash of 1987.

On the day of the crash Sykes was pictured in the paper standing outside the Melbourne Stock Exchange. In an interview later in his 1 bedroom flat above an old disused gas station, the walls were plastered with charts with Elliott Wave Counts all over them. Sykes said, "I told you the market would crash and it is going to go down even more". Of course it didn't and we all know what it has done since.

The sad part about this story is not only did Sykes ruin his life he also made a complete fool of himself. And since 1987 every time the share market goes into a sharp decline the newspapers run around looking for him so they can take a picture of him outside the stock exchange. The last time I saw an interview with him was in October 1997 when the market fell out of bed for 3 weeks.

So the moral to this story is: -

Don't just use technical analysis to make your trading decisions, use both technical and fundamental evidence to support your view of the market.

If Sykes had looked around him and saw that everything was normal it would have been impossible to hold the view that sent him broke. Trouble with him was he got in so deep he just kept digging.

Fundamentals

I don't need to try and describe these to you at length because you can learn all you like by watching the BLOOMBERG or looking up the facts on the intranet.

Technical Analysis

Now technical analysis is a more complex subject and I don't intend to rewrite everything I know about that in this book, as I already have done that in my previous manual **Dynamic Time and Price Analysis of Market Trends [C] 1998 Bryce T. Gilmore.**

But there are 4 things we need to observe about the technical aspects of a stock or futures contract we are intending to trade in.

These come under the headings: -

Pattern – Trend - Price - Time

Using these tools we can determine direction, support, resistance, overbought and oversold.

Once we establish some parameters we can then inspect things like commitments of traders reports, open interest levels, crop conditions, stock carry overs, expected usage.

For stocks we can determine the PE ratios, previous earnings, expected earnings, dividends paid and the future prospects of the company.

When all is said and done we have a lot of ground to cover if we want to stay ahead of the game. But the work is necessary if you want to be successful.

If you don't want to do the work then the best thing to do is invest your money in a fund or multiple funds with a proven track record. Reason being they will do all the work for you and you can go and play golf every day.

Charts

Charts are the main tools used by the technical analyst.

A chart gives a descriptive picture of the price activity over time; the data can be manipulated to produce technical indicators that explain the trend position. The market swing highs and lows can be measured for price and time duration between them to establish the existing price and time cycles. The future is only a repetition of the past in some way so all these approaches prepare you for the future.

The thing about charts is they mean a lot of different things to a lot of different people. Learning how to read a chart takes time but it also takes time to become a doctor of medicine.



Charts are the most descriptive tools we have, to be a professional trader it is almost mandatory today that you learn how to read them.

When the opening bell rings at the exchange the professional traders have the current support and resistance levels of the market indelibly imprinted in their minds and they will buy and sell at those levels while they hold and move on to the next one if they don't.

Traders are predictable; they work from support to support, resistance to resistance probing for stops as they go. Once you know their habits you know how to trade because all they are doing is taking money from the careless and uninitiated.

Occasionally markets get into long trends and keep moving in the same direction, you can tell the strength of the trend by the way the daily ranges trade. It all comes down to knowing what the traders in the market are doing to know what the future holds.

Most traders have a very short time horizon so to take full advantage of their behaviour we need to study short-term charts, by this I mean charts in shorter time intervals. The 2-minute, 5 minute, 15 minute, 60-minute charts provide all the information you need to trade. The daily charts reveal all the information you need to know to understand the position of the system traders.



If you know what you are looking for it is easy. When it doesn't appear easy you don't trade. Simple.

The professional traders best opportunity to profit is when he can recognise situations that have everything in their favour. Why trade when you don't need to, that's hard work. Why not wait for the opportunity when the risk is diminished and then you can trade with a minimum of risk.

The whole secret to making money from the market is taking advantage of opportunities. Learn to recognise them, if they don't exist just sit on the fence and research. If you can develop the patience to do this you will make heaps. As soon as you start shooting off the hip you will end up underwater.