

Fundamental Trading Keys

For

The Aspiring Trader

By

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"The symbol of all relationships among such men, the moral symbol of respect for human beings, is the trader. We, who live by values, not by loot, are traders, both in manner and spirit. A trader is a man who earns what he gets and does not give or take the undeserved. A trader does not ask to be paid for his failures, nor does he ask to be loved for his flaws. A trader does not squander his body as fodder, or his soul as alms. Just as he does not give his work except in trade for material values, so he does not give the values of his spirit-his love, his friendship, his esteem-except in payment and in

trade for human virtue, in payment for his own selfish pleasure, which he receives from men he can respect. The mystic parasites, who have, throughout the ages, reviled the trader and held him in contempt, while honoring the beggars and the looters, have known the secret motive of the sneers: a trader is the entity they dread—a man of justice.”

*Atlas Shrugged
By Ayn Rand*

*“This is John Galt speaking.”
Chapter VII*

The Ride of Your Life

Trading the markets is one of the greatest skills that any man or woman can develop in their respective lifetimes. Having the ability to scan the universe of stocks, options, futures, commodities, bonds, indices, and currencies and find the best and brightest opportunities for big gains each day can yield enormous financial rewards.

Are there risks? Sure, but there are also huge rewards for developing your trading skills to the point where you can easily assess the risk/reward scenario of any trade setup and then using a system of risk control to ride the momentum of the trend to profit are huge.

The top ten hedge fund managers in previous years earned upwards of \$250,000,000 each using simple methods and systems that told them when the market environment was ripe with opportunities and then helped them make the decisions on what and when to buy or sell.

Many professional traders trade their private accounts earn in excess of \$1,000,000 or more per year and do it with amazing consistency. I know of a trader that has never had a losing year in the last 8 years as of this writing while only trading 5-10 times a year with only half his trades being winners

but has still earned in excess of 100% return per year. The method the trader is incredibly simple and, in fact, he only trades it part-time.

Many aspiring traders come to the markets each year looking for their fortune in the same way that the miners rushed to California in the Great Gold Rush in America in the 19th century. Most expect immediate success but sadly many become frustrated and, even sadder, many lose all their money.

Why does this happen so often? They simply don't understand many of the fundamental keys to trade successfully.

However, once they do then they have the potential to attain all the rewards that come with having the insight as well as the skills to trade profitably. They are then on the way to having the ride of their life in the greatest game played in the halls of commerce around the world.

From Student to Mentor

My grandfather, who was my first mentor and worked for Exxon, first got me interested in the markets when he was in charge of locking in prices for the various commodities at the production plant where he was a supervisor. He would explain to me how it worked even though it all seemed like Greek to me at the time.

He would also show me his retirement accounts as well as his stock accounts where he bought a lot of Exxon stock and preached to me about finding good companies to invest in for your retirement.

Years later, while in college, I met a friend who really piqued my interest in trading options and taught me how to buy calls and puts, set up spreads, read volatility, and all the other details of advanced option trading.

At the time, I had around \$2500 I had saved from when I was in the army and managed to trade that account up to almost \$40,000. There were weeks when I was averaging over \$2,000 and, for a young college student, I was living big and enjoying life. About the time I thought about quitting college to trade full time I managed to lose almost everything.

That loss was a hard thing for me to get over and I didn't trade again for along time afterwards but the trading bug had bitten me and once that happens you never totally get over it.

I traded stocks in the fast paced 1990s and made some money but I still hadn't filled in all the pieces of the trading puzzle to find the success I had wanted until the big crash in 2000 happened. I got out of most of positions with a modest loss but still had a profit overall.

After this, I had a routine of going to work and then coming home and studying trading books, charts, analytical research, system development, etc. I didn't have much of a social life but I was a man on a mission to unlock the secrets to the markets.

Not Ready to Throw in the Towel but Almost Ready To Hang Myself with It

Those years of intensive study were frustrating and about the time when I was at the crossroads of wondering if I was spinning my wheels I met a woman who became a mentor to me as well as a personal development coach who really helped me get out of my own way as far as becoming a successful trader.

Thru working with her I came to realization that what I was doing with myself and my approach is what 99% of all human beings do each other in that we make things far too complicated. I found out that this is also a form of self-sabotage that I had to address and get past.

Once I had this realization then my approach began to change and I began to detail each component of developing a solid approach to winning at trading the markets.

Amazingly, whenever I got stuck, another mentor or coach would appear at the right and perfect time to offer me that guidance I needed. Soon, I had a working methodology that became the basis for everything that I do today.

Today, I make more money than at any other period of my life trading stocks and options without all the stress or anxiety I used to suffer from because I didn't have a plan or method that I could rely on to steer my path towards my goals. I've had weeks where I've made almost \$15,000 with just a few trades and many times averaged over \$7,000 a week trading only 3 days a week. It still amazes me at times how hard I struggled before but once you "get it" and develop your skills you have enormous potential in this profession.

Not soon after this it had occurred to me that trading can be a lonely, solitary pursuit which compounds the problem for aspiring traders because they don't have a guide or yardstick to measure their progress or correct their mistakes.

Soon, I started a blog to not only help other traders but also to put my own ideas on the line. There is a lot of honesty when putting your ideas down on the internet where tens of thousands of traders are going to view it as well as quite a few professional money managers and the side effect is that it made me much more exact about my methods while also making me a much better trader.

Eventually, I became more sought after and I started a website to offer a free newsletter to offer a basic education to beginning traders and share some of my insights.

The newsletter took off like wildfire and after the readers read both the newsletter and the blog reports there were requests to teach my methods to the public. I frowned upon the idea of it because, in my opinion, I am a trader first and wasn't sure that this would be conducive to my own trading.

I decided to screen the applicants to only work with the students who really had the willingness to do the work involved. I don't believe in free rides and I have always had a disdain for promoters who claim you can make millions in 5 minutes a day or some other nonsense like that. You can setup your trading like a professional even though you may trade part-time but you must understand as well as implement certain fundamental keys first. If they weren't willing to do a few hours of work each week then I reasoned that they just weren't ready at this stage of their trading and it would be better not to waste both our time as well as take away the opportunity to work with someone else who was willing to do what it took to be successful.

The coaching program became a success faster than I had anticipated but I had pledged only to work with small groups at a given time because I like the personal one-on-one time with a new student and I feel that it is the only way to not only impart the trading skills they need but to help them develop the mental/emotional balance and discipline they will need as well. After years of being a student I had come full circle and become the mentor.

It is my greatest satisfaction when my former students from all over the world email me or call me to fill me in there latest and greatest trade as well as fill me in what is going on in there lives.

I had become a vendor by default yet it has allowed me to meet the best and the brightest that comes into this game. It has been one of my greatest blessings to be a trading coach and, to think, I initially didn't even want to do it. Life is funny that way.

Since I only worked with a few people at a time many readers asked me to write a manual or course to help them in the meantime which I finally did. I included some of the basic setups and strategies I use so that they would have some tools to make money with in the meantime and called the manual the [Blue Collar Trading Manual](#) in reference to the blue collar work ethic that I grew up in with my family.

Now that you know a little about my background go check out my website and sign up for my free newsletter if you haven't already at www.stockoptionsystem.com.

You can also find a link to my blog postings for my market analysis and get a glimpse of some of the stocks that I looking at as well as read the free articles posted on the site.

In the following pages, you're going to learn some of the fundamental key concepts to help you avoid a lot of the errors that many traders, myself included, have had to go thru. If you're really serious about trading successfully then I urge you to take each point detailed here and apply it before you go any further.

If you find yourself lacking in of these areas then your first mission should be to resolve that before attempting to trade in real time

The Great Manic Depressive: The Markets

The markets are a lot like a manic depressive in that there are moments of incredible euphoria and then, almost in the blink of an eye, incredible feelings of despair and hopelessness. These emotional extremes are also contagious to those who are participating in the markets and as individuals suffer these extremes they eventually reach a point where they are paralyzed into inaction just as the markets begin to turn in their favor or detriment.

When the markets are healthy and the future for the economy looks bright the market is incredibly euphoric and like a manic depressive experiences incredible highs in emotional well-being that often result in caution being thrown away while riding the incredible sense of euphoria as the markets rise ever higher. Unfortunately, as night follows day, markets will eventually go down but the investors swept up in such a strong emotion as euphoria feel too connected to its source (the market rising) to ever consider that it may be time to lock in gains or protect a position. They are blind, like addicts that cannot admit their addictions they cannot admit that now is the time to leave the market for that has become their drug of choice.

After awhile, however, as the emotional high subsides in the market and suddenly it crashes as it discounts the future of the economy which faces a slow down or recession which causes an ever increasing sense of despair and hopelessness among the investors as they hold on during every decline and hope thru every short term rally only to feel their emotional well-being crash lower as the decline continues. The markets become more and more depressed to the point of no return for the investing faithful who have been bleeding losses since the crash and, in their final act of their investing death thro, they liquidate their holdings for a fraction of what those holdings were once worth.

The last of these sellers often result in a climatic sell off resulting in sharp move down in the markets as a violent convulsion down squeezes out the last of the investors that had been holding on. The market stands at the

abyss on death's knell causing much of Wall Street and Main Street to feel the dull pain of impending death of what they have understood to be modern day capitalism. Doom and dread is everywhere....on TV, cable financial news, in the newspapers, in the classrooms, on the cover of magazines, and in every barbershop and hair salon everyone talks of the end of the markets.

Then, as the last of the sellers receive their stocks sell slips a stirring begins again in the markets. Suddenly, volume begins to pick up and a huge rally takes place but is discounted as short-covering by the short sellers. A few days later, another rally takes place on higher volume and again is ignored. New stock leaders begin to see new levels of volume pour into their shares as big institutions and money managers begin to take positions but, still, the individual investors stay away out of fear.

Over the coming months, the pessimism of Wall Street gives way to caution with all the talking heads giving glowing commentary again about the huge prospects for the economy and hot IPO's (initial public offerings). Institutional money is still pouring into new leaders in the stock market and smaller investors begin to wonder if the rally is for real. Those that do decide they will participate but only when stocks "get a little cheaper" but they never do.

Soon, the new leaders are rocketing higher and higher while investors feel they are missing the boat and begin to buy without noticing that the general market appears to be stalling and coming under distribution. A few weeks later, as investors are now back in the market the market appears to decline again with investors caught in the crosshairs again.

This cycle is played out over and over again as the general market's manic condition creates an emotional whirl storm that investors get caught up in and allow themselves to become victim to.

Average investors allow themselves to fall victim to this cycle of extremes because they come into the market with no plan or method to trade. They buy on tips from their brother-in-law or because a stock is reputed to be a "good company". These are not plans or methods they are gambling.

The Necessity of a Trading Method

To avoid a getting caught up in the storm of violent swings that occur each day in the market a trader needs to have an approach to the market that is predicated on controlling risk while placing themselves in a position to potentially profit. By having a strategy to implement each day the trader can remain detached from the “noise” that can be experienced over the course of a trading period (different interpretations of economic reports by experts, reporters on CNBC, newsletters, trading gurus, tips, etc.).

There are three fundamental keys in a trading methodology: identifying an “edge” that can be exploited in the market, identifying a low-risk setup, and a rule based approach to managing that position to minimize risk while making the most amount of money you can, hopefully making multiples of gain of the amount risked.

Without a sound approach based on these fundamental keys an investor can find themselves at the mercy of the market’s erratic behavior and become a victim of it instead of a master of it.

Trading With An Edge

An edge is anything that a trader can exploit to his advantage to profit while trading in the markets. It can be a trend-following, price patterns, price to volume analysis, price breakout patterns, Fibonacci analysis, technical analysis, statistical research, Elliot Wave analysis, etc. Any edge that can help you gain a higher probability to make a profit can be counted as an edge.

For example, the market tends to have a long bias for stocks rather than a short bias and that bias is increased for all stocks that are over their 200 day simple moving average so you might want to concentrate on stocks that are forming buy patterns to trade. Additionally, since 70% or more stocks tend to follow the general market like the SPX you might only trade when the SPX is in an uptrend.

There are many ways to combine solid trading tools to gain an edge. A trader traded stocks in the late 90s that had a low stock float, strong earnings, above average relative strength rankings, and price patterns combined with volume analysis and managed to turn an \$11,000 account into \$43,000,000 in only 23 months!

Find an edge, or edges, which can be exploited profitably in the market and you have the first key to forming a solid method to trade.

Identifying Low Risk Setups

The second component of an effective trading method is that it has a rule based approach to identifying low risk setups.

A setup is a rule based approach to exploit an edge that is occurring within price action for profit.

Let's say that you have determined that there is an edge by trading stocks off of the support points that occur in the price action of a given stock. You decide that you will buy any reaction off of a clearly defined area of support from a stock.

Once you have defined the parameters of a low risk idea (trading off support points) you must then decide when to trade. You decide that you will buy any close over the intraday high of the daily bar that has the lowest intraday low that has reacted off of a given area of support.

For example, ABC stock is declining to an area of potential support that was established two months ago at \$70. As price declines and reaches this potential support an intraday low is made and now you have met all your setup conditions and you now wait for a close over the high of the day, which we'll say is \$73, with the lowest intraday low, which lets say is \$68. If another low is made then the high of that day is the new signal, if price declines below that low and keeps falling below this area of support then you stand aside.

However, let's say that two days later price finally closes above \$73 without going below \$68 and you buy into the stock right at the close around \$74.

Let's review the rules for this setup:

- 1) Identify a potential area of support in a given stock.
- 2) As price touches the potential support take note of price reaction at that point while also taking note of the lowest intraday low.
- 3) Once the lowest intraday low is noted you will buy the close over the intraday high of the daily bar with the lowest intraday low.
- 4) If price continues to decline thru the support area do not trade. If price sets a new intraday low, then that day's high is the trigger.
- 5) Once price is determined to close over the high of the day with the lowest low while in the potential support area buy at the close and set a stop under the stock's lowest intraday low.

There are 5 rules to this simple setup for buying off of support and all setups should be short and concise. Complex rules for trading setups only bring confusion at the moment of the trade. Simple is always better when identifying low risk setups to trade.

Trade Management

The final key to developing a working trading method is trade management. Trade management has 4 subcomponents to consider when developing a consistent approach to managing active trades.

They are:

- 1) Win percentage.
- 2) Profit factor.
- 3) Trailing stops.

4) Scaling out.

Your win percentage is simply how often your trading methodology results in a winning trade over a series of trades. This ratio will help you determine what kind of profits you can expect over a series of trades once you consider the other subcomponents that will make up your system of trade management.

The profit factor is the average win versus the average loss that you will experience over a series of trades you take while using your trading method. For example, a 3 to 1 profit factor means that for every \$1 of risk that you take with a given trading method you will gain \$3 of profit over a series of trades.

Lets take a closer study of how subcomponent 1 and 2 work together. If a given trading method/system has a 50% win percentage and a 3 to 1 profit factor, does that result in a viable trading method/system?

Let's say that you have a \$10,000 trading account and currently trade with a method/system that has the subcomponents matching above. Over the next month, the method/system generates 10 signals to trade and you take a position in each trade risking 1% of your account equity which is \$100.

The results are:

a) 5 winning trades resulting in an average profit \$300 or 3% for a total profit of \$1500 or 15%.

b) 5 losing trades resulting in average loss of \$100 or 1% for a total loss of \$500 or 5%.

c) By subtracting your total losses (\$500 or 5%) from you total winnings (\$1500 or 15%) then your net results for this series of trades results in a net profit of \$1000 or a 10% gain.

After calculating the data the answer to whether this is a viable trading method/system is yes. Even though the win percentage is only 50% it still yields a positive net result over a series of trades.

The last two subcomponents of trade management, trailing stops and scaling out.

Once a trade is initiated then a method of trailing stops can also be used as a form of trade management. For example, if a long position is established then you can set a stop loss below the lowest intraday low of the last three days, at a swing point low, use a moving average as a stop, etc. This system has its advantages because it can let you control your risk while giving you the opportunity to catch a big move rather than have just an arbitrary profit target.

The last subcomponent of trade management is scaling out. Again, as an example, let's say you initiate a long position with a 1,000 shares and you have a \$1 risk. Once the trade begins going in your direction then once you have \$2 of profit then you could sell 100 shares then move your stop to breakeven. Once your position has \$4 of profit you could sell 250 shares while letting the last 250 shares ride in the hopes of hitting a homerun and adjusting your stop under the most recent swing point low. The advantage of this style of trade management is that you can make small consistent profits at varying levels while setting yourself in a position to catch a monster move in a potentially high-flying stock.

Take some time and really consider what type of trade management you want to combine for use with your method or system of trading. Depending on which style you use will give you different net results but by finding the style you can potentially improve your net results.

Also, once you have decided on a given system of trade management it is better to stick with it. Don't fall into the trap of beginning a trade with a fixed target in mind and then decide to trail a stop. This may work for awhile in the beginning but over a series of trades it will skew your results often to the detriment of your account.

Next, let's take a look at a method I use and an example of a recent trade.

BCWMS Method

The Blue Collar Weekly Momentum Setup (BCWMS) is a pattern that I check for at the end of the week that takes about half an hour but can lead to explosive gains. It's a simple setup to look for and can be done as a standalone technique for traders who do not have a lot of time during the week to watch the markets.

At the end of the week, I look for the following:

- 1) Price action on weekly charts.
- 2) 50% move in price within a 6-8 week period.
- 3) Volume minimum 100K average over the last 20 trading days.

For example, HANS (Hans Natural Beverage Co.) had a 50% move off its low of the 2-10-06 weekly bar and within a six week trading range. This stock becomes a 5-star priority on my watchlist and I look for an entry above the high of the 1-13-06 weekly bar.

The entry is 13 cents above a pivot high of \$104.79(the high of the 1-13-06 weekly bar at the time it became met the setup conditions). I got the entry right as I met the conditions of the setup and was filled at an average price of \$105.24 on the 3-10-06 weekly bar(see fig. 1).



Created with TradeStation

Fig. 1

The stock starts a steady climb into May without so much as a hiccup and then momentum picked up and I used the daily chart to add to my position on 5-05-06 (see fig. 2).



Fig. 2

Then on 5-09-06 the stock gaps up over 18 points from the previous days close and I sell the first position into the strength of the move at an average price of \$172.91. I average \$67.67 a share or around a 64% return in about two months.

The second position I sold on 5-11-05 at the open at an average of \$199 a share because the Fed Chairman was announcing whether he was going to raise rates or not (he did) and anyone who knows momentum stocks knows that they are high flyers but when they fall back to earth then tend to fall very, very hard. The second position netted around 39% so it gave me an overall return of 52% overall (see Fig. 3). This was one of the best trades I had in early 2006.



Fig. 3

Trading off the weekly charts lets you avoid the “noise”, or price fluctuations, on the daily chart and I have found that by adjust your stops under significant swing point lows (a system of trailing stops) it can really put you in a position to potentially catch some big moves.

This pattern was inspired by the book “How I Made \$2,000,000 in the Stock Market” by Nicolas Darvas. This book details the journey of an amateur stock trader into a consummate professional who developed a rule based approach to trading high-flying momentum stocks about 50 years ago (his background was also as a professional ball room dancer and had nothing to do with finance proving even someone in an unrelated field can beat the market with discipline and a sound method).

Notice that the setup is based on identifying an edge which in this case is a stock that has had a surge in price action within a brief amount of time combined with a rules based approach for identifying the low risk setup. The low risk setup being riding the upward momentum of the stock’s price action as it rallies beyond it’s old high and goes on to new highs. The trade management consists of trailing a stop under a swing point low with the intention of riding the stock until the trailing stop was hit. However, at the time, there was a rule in place to take partial profits in any unusual surge in strength or climatic activity while also retaining the decision to abort the trade if the general market appeared ready to sell-off.

Keep an eye out for these kinds of patterns within your stock watchlist at the end of each week while making sure the market is in a confirmed rally and you might find yourself rewarded with some huge gains.

Other Important Factors To Keep In Mind

Stock and option traders are often inundated with promotional material in the form of direct mail, seminar promoters, software vendors, and the occasional infomercial late at night that implies if you just had the secrets they contain that you too can build your fortune by trading stocks, options, and the like. However, one thing that many of the authors of these materials don’t consider is the fact that many people have jobs, families, and businesses that require your attention. While many people are drawn to the markets and sincerely have the desire as well as the will to apply themselves many of these promoters and authors are unable to understand the needs of part-time traders. This, unfortunately, leads many aspiring traders to the false conclusion that they cannot trade profitably since they are unable to

trade full-time but this doesn't have to be the case if the individual keeps certain key fundamental criteria to make money trading the markets.

First, you have to trade your own time frame. It is critical that you adopt a trading style that fits your own time frame. Don't choose to be an intermediate stock trader but then try to be a daytrader too. Part-time traders have a limited time and it's best to find an approach that complements both. By trying to utilize several different methods a part-time trader will rarely find the success that he or she is looking for. One trader that I know of was deeply involved with another business and had to stop trading short term options but adopted an intermediate stock momentum method. He only made 8 trades that year but made a 200% return.

Second, adopt a method that suits your personality. Time is typically a factor with part-time traders and many find that swing trading, trading in the intermediate time frames, and trading options can give them the potential returns they look for while fitting the methods to their own personalities. One trader I know of is a writer but trades momentum stocks off of the weekly charts. On the weekends he checks his charts, adjusts any stops if he has any positions, and enters buy orders for any setups that may show up in only 5-10 minutes on the weekend. In the last 8 years, he has never reported a losing year and in 4 out of the last 8 years has had returns of 100% +. Another trader I know of swing trades stocks on a simple pullback method he developed using a simple indicator while still working as an engineer at one of the major auto manufacturers and during his first year he reported profits of over \$200,000. Each of these traders found methods that work along with their personalities.

The third thing that aspiring part-time traders must do, as well as professional traders, is to absolutely have a system of risk control in place. It is almost universal that traders of all levels of experiences focus more on entries rather than exits. Containing your losses is going to be 90 percent of the battle for part-timers because many will not be in front of the screen and must learn how to set stop loss points, learn when to reduce or increase the size of the position, and how to use diversification to control risk. If a trader loses his capital then can't play this game and, in some instances, without proper risk control a trader can end up owing a lot of money if they traded on margin!

The fourth key that's important for aspiring part-time traders to keep in mind is to identify low-risk trades and be more selective. If there are a handful of stocks that are offering compelling reasons for a long position spend some time and research them closely to select the best one or two. Which ones are in the strongest industries? Which ones are in the strongest sectors within those industries? Which ones are the strongest subsectors within those sectors? Is there a stock that has the strongest fundamentals or gives the strongest technical setups to trade? By spending a few more minutes and examining the key criteria that you look for in a trading setup you can potentially lower your risk and raise the probability for a profitable trade by becoming more selective in identifying low-risk trades.

The fifth factor for part-time traders need to have is an edge. An edge is any trading technique, method, or tool that gives that trader an advantage that can be exploited for trading profitably. An edge can be how a trader reads charts, studies price/volume relationships, selects stocks to trade, a system of trade management, or reads price patterns. One very famous swing trader uses technical analysis, chart patterns, and volume studies to trade. He only risks a 1\$ or 2\$ a trade but earns up to \$8-12 on winning trades with a 74% win percentage.

The sixth factor is learning how to be at peace with the inevitable losses that come from being involved with the market. When we are young we learn how to exist within a structured environment thru a series of rewards and punishments. In your home as a child, your parents would reward your good behavior and punish your bad behavior. As a result, you learned your boundaries and how to exist within that structured environment. When aspiring traders come to the market, however, they find that there is no structured environment and that the rules they learned when they were young no longer apply. The keys listed here are to help you survive and eventually prosper but you must relearn your own behavior in order to find the success you seek in the markets. If you can learn to love your losses while sticking the rules of trading you have set up for yourself then you are on your way to financial success. But if you lose sleep at night or in a constant state of anxiety because you fear taking a loss or have experienced a loss then you need to stop trading till you find the kind of peace that successful traders have come to understand that losses are just part of the business.

Finally, the last key factor for successful part-time trading is developing self-awareness. Every trader, beginner or professional, must be aware of personal weaknesses that may impede trading success and make the appropriate adjustments. From my own experiences, observations, and research, I have come to the realization that all traders experience confusion, frustration, anxiety, and the pain of failure. Self-discipline, determination, and self-control are key attributes one must have or develop within themselves in order to reach the pinnacle of success they seek in trading or any part of their life. Fortunately, these key attributes are not inborn but can be learned and strengthened much like you exercise a muscle which becomes stronger in time. You only have to spend some times developing your self-awareness and then once you have a grasp of your strengths and weaknesses you can create a plan to take action on them. This is fundamental for you to be at peace with the daily swings in the market as well as your own emotions in dealing with the market.

Trading Psychology & Self Concept

“Our doubts are our traitors, And make us lose the good we oft might win, By fearing to attempt.”

-William Shakespeare-

You have to have a positive psychological outlook to give you the mental and emotional balance to be successful. One of the most important discoveries of the twentieth century psychology was the discovery of the “self-concept”. The self-concept is the master program of one’s life. It is the bundle of beliefs that you hold about yourself and the world at large. It determines your reality in that you always see the world through a screen of prejudices formed by your belief structure. It is the belief structure that predicts your performance and behavior in every area of your life. You always act in a manner consistent with your self-concept, consistent with the bundle of beliefs that you have acquired from infancy onward. If you change one of your beliefs at a subconscious level you change your reality.

It is common in trading that two traders given a winning system to trade will often not get the same results. One trader may hesitate and/or hang on to a trade too long or exit before the system will give a exit signal. The other trader may execute the system perfectly and even if he has a few losing trades is able to take it in stride because he can “see” himself trading successfully and “believe” in himself that he will be successful.

Ed Seykota, one of the world’s greatest traders, observed a trader that would self-destruct after building his trading capital up to \$250,000. What do think his self-concept was revealing about himself? Maybe he had a fear of success? Maybe that he couldn’t get his family’s attention and love without a tragedy? Maybe he couldn’t see himself with that much money and making dumb trades and losing it was his way of not dealing with it? This is common with winners of the lotteries. Winners often blow their money within a few years because they can’t see themselves as rich on a deep fundamental level.

Fortunately, a person can change their self-concept to be self-empowering instead of self-limiting.

There is a direct relationship between how well you do anything and your self-concept in that area of your life. You perform as well as you believe yourself to be in whatever you do. You can never be better or different on the outside than you believe yourself to be on the inside.

Whenever you feel good about yourself and are doing well at your job, or in your relationships, or at a sport, you are demonstrating a positive self-concept in that area.

It seems like new information is discovered about something every day. And the topic of stock options, option trading is no exception. Keep reading to get more fresh news about stock options, option trading.

Whenever you do poorly or feel inferior or clumsy, or behave badly in some situation, your negative beliefs about yourself are being demonstrated in your behavior.

What makes change positive change possible is largely subjective, not objective. Whatever negative beliefs you hold in your self-concept are largely false but if accepted subconsciously can be very self-limiting nonetheless.

As soon as you begin to identify, question, and reject self-limiting beliefs and replace them with new self-liberating beliefs, your old beliefs lose their power over you and your true potential becomes limitless.

Developing good trading skills about stock options, option trading is useful but one of the best ways to improve your success is to spend an equal amount of time developing mental/emotional skills to bring your trading to new heights. Indeed, developing those skills will bring success into all aspects of your life.

Fear & Greed In Their Proper Context

Fear and greed have their place in trading. In and of themselves they are not "bad" things. They are parts of us that actually have good intentions. If you do something stupid like not getting out of a trade because you are afraid to take a loss it's because that fearful part of you doesn't want you to lose your money and feel bad about yourself personally, for example, because you lost money. It may be trying to protect your self-esteem but it expresses itself irrationally by not getting out when you should.

Likewise, the greed part of you is trying to positively support you in making as much money as possible so you can take the kids to Disneyland, take the wife on the cruise she has dreamed of going on, or buying the home theatre system you want for your home for your family to enjoy. But if greed is too strong it causes you to stay in a trade too long or ignore your exits so you can just "make a little more" and you may lose whatever profit you made or worse it makes you stay in a trade to make back the money you lost in the past because it wants to support your self-esteem by helping to get your money back.

All traders play these games in their hearts and minds as we try to succeed at this game. And fear and greed can help but only in their proper context.

There was an interesting thing that happened one time with my wife. I had positions in BHI and HAL and she would come into my office every once in a while to peek over my shoulder and see what was going on. The last few

months she has been more and more interested in what I do with my trading and likes to check and see what I am involved with.

On Oct. 15th, 2005 both stocks were still drifting in the morning and she walks in and asks what was happening. When I told her, she made a face and seemed antsy for something to happen. An hour later both stocks began to rally really hard and it looked as if they would signal exits if they held their highs till the end of the day. When she walked in and saw how much money was made she got really so excited. She became so happy and began to ask if she could get this or that for the house and I told her yes, of course she could get it, no problem. She left and she was busy going through catalogs and around lunch time she came back into my office to show me the stuff she picked out.

She glanced over at the monitor and saw that both stocks were now starting to drift lower. All the light in her eyes began to dim and she forgot about what she was going to show me and began to ask me why my positions were going down. I explained that I didn't really know.

She walked out and then almost walked right back in and began to fire off questions like, " Don't you have an exit? Why don't you get out now? What's making these stocks go down? Maybe you should get out now before something bad happens? Why don't you sell some of your position and take some money out?"

Both stocks sold off their highs and closed lower for the day and my wife was just crushed. She hardly spoke that day, you could see just how bad she felt. She was almost in tears. Later, I hugged her and explained that everything she was feeling I have felt. I think all traders have been there. She responded with, "I really hate trading. How can you stand it?"

The next day both stocks rallied and I got my exit signals, my wife is happy again and shopping for the house with a vengeance.

The moral of the story is if you're looking for the market to make you happy or your happiness is dictated with how well your positions are going, you're going to be in trouble. Again, you have to put everything in its proper context and take care of your own emotional well being to support you in whatever you do.

Now, I am not perfect and I am susceptible to emotional/mental extremes as the next guy but it's my highest goal to put everything in its proper context and achieve better balance to help me with my trading and my life.

One of the greatest tools to help you develop that balance and keep your direction in your goals, integrate your setups in order to lower your risk, and keep everything in its proper context is a trading plan.

Trading Plan: You're Compass for Success

A trading plan is your outline for how you're going to approach this business in order to be successful and profit from your efforts. It will help you organize your trading setups and give you a guideline as to how to approach your business while focusing on minimizing risk by establishing rules for you to follow over differing conditions.

Decide what markets you're going to trade. Are you going to be a stock trader and/or options trader? Are you going to trade the Forex or the e-mini indices markets?

Detail the trades that you take, the setups used, whether the target was hit, if the target was missed but the trade was profitable, whether it was a breakeven trade, if the trade was a loser but the price exited was different from the stop price, or if the stop was hit. This is important because it will reveal which setups are outperforming others at differing times which will help you decide whether you want to trade a larger position in that setup over another one or if you should have a preference of one setup or another one due to performance.

What setups will you use? When I started getting serious about trading my goal was to trade setups that had a high win percentage with a high profit factor while based on different types of price action (ie: momentum, pullbacks, price breaks, etc.). This is hard to do because such setups don't trade very often so I set out to learn and/or develop several setups that would give me the highest probability of success while also giving outsized gains.

If you are using several setups can they be integrated effectively? If you are using 6 or more setups you need to take a look at how often each one signals a trade and if they setup often and, if so, is there a way that you can be more selective? Can you screen them for the strongest possibilities? How much capital are you going to allocate to each setup? How much risk are you going to take on at a given time? If you have 10 trades where you risk 1% of your account on each one can you handle a potential 10% loss in a worse case scenario? If not, then make adjustments.

If you have a 10% drawdown in a month will you continue to trade or will you reduce the size of your risk for the rest of that month? If you have a 20% drawdown in a month will you stop trading or continue trading? If you take a 30% drawdown in a month will you continue trading or will you take the next 6-8 weeks off? Know now how to deal with drawdowns in advance or you may find yourself susceptible to a psychological need to “get it all back” which leads to compulsive decisions that can lead a good trader down the path of ruin.

What rewards are you going to give yourself when you hit a trading goal? I am personally a big believer in rewarding good performance and if you are following your setups to the letter and hitting your performance goals then you need to figure out a way to reward yourself. If you hit your quarterly goal then buy that home theatre system you’ve always wanted. If you’ve been following your setups to the letter then take half your profits and take that vacation to Spain. This game is about money and by rewarding yourself then you help remind yourself as to why you do this.

If your goal is 100% annually and you hit your quarterly goal of 25% within six weeks are you going to take the rest of the quarter off or continue trading?

When I first started my trading plan it was barely a page but now it’s more than 12 pages. I am constantly working on integrating new concepts and preparing for unexpected scenarios so that if the unexpected does happen then I don’t need to think about it because I’ve already planned for it and put it in writing. The markets can move incredibly fast at times

These are some of the questions to ask yourself when you begin to develop an effective trading plan but once you do then you have a compass to reaching your trading goals.

The following are several factors you need to consider:

- A. What market? What size?
- B. Capital \$\$
- C. Order entry, scaling into positions, methods, exiting
- D. Drawdown rules, shutdown, reevaluation
- E. Profit rules, \$ per day goals
- F. Analysis of every trade, weekly, daily, how often
- G. Grade card = rate each day, grade A – F to score your performance
- H. Personal life, problems that could reduce 100% focus
- I. Environment, physical setting, is it conducive to trading?
- J. Order processing, reporting, clerical, is it excellent?
- K. Rewards for performance i.e. vacations, etc.
- L. Punishment for failure – criteria to gauge, when do I quit?
- M. Educational pursuit – how do I keep advancing i.e. gurus, advisory letters, books, proprietary, etc.

Go through each one of these steps and write out a description of how your going to approach and organize your trading activities.

Final Thoughts

In closing, let me add that I can't stress enough that you reread this manual over several times in order to gain a full understanding of the critical success factors highlighted and detailed here. Many people who come into trading begin diving into learning new entry techniques and complicated strategies

because some of what is written here is so boring. These same people usually end up broke within a couple of years believing that they “gave it there all” when actually they never gave themselves the opportunity to succeed.

Trading doesn't just require a set of technical skills but it also takes a degree of mental and emotional discipline to follow a course of action that will over time give you the potential for outsized gains.

By taking the time to fulfill each of these keys you are putting the odds on your side and giving yourself a real chance for success in this field that can literally change the course of your life and the people you care about most.

I hope that you gained something out of these pages and if you decide that you need or want some intensive training on how to take your trading to another level contact me bill@stockoptionsystem.com and ask for an application to my coaching program. If we both think that we can work together and we decide to go forward together then we'll work together closely over several months with an extended period of one-on-one counseling.

Together, we'll study an approach to trading which includes the following:

- Why without a sound approach based on these fundamental keys an investor can find themselves at the mercy of the market's erratic behavior and become a victim of it instead of a master of it.
- A method that trades when the market tells us it is safe to get trade, when to be cautious, and when to step aside.
- When the general market gives the signal that it's safe to participate it also reveals the strongest stocks that are likely to emerge as the leaders to take the general market to new heights.
- It will also be revealed how to read price action and how it correlates with volume to give a clearer picture to help a trader know when to buy, when to hold, and when to sell.
- As price ebbs and flows over time it begins to make up patterns that can be exploited for profit; some of these patterns are well known but

misunderstood while some other price patterns are not known as well but can yield great gains if one will take the time to learn them.

-Finally, this method seeks to return a minimum of \$4 for every \$1 risked while revealing some insights as to how to raise that multiple even higher if one chooses.

-An approach to using options for consistent gains each month.

-A system for trading market turns on the S & P 500.

-A system for gauging whether the market is under accumulation or distribution plus a plan to capitalize on both.

-Practical technical analysis for real trading, not theory.

-Studying how changes in money management affect the net result of your trading methods

-How to setup a trading plan like the professionals do.

-And much, much more.

Finally, let me wish you the best of luck in all your pursuits and I wish the best for all of you and your families. I pray you find the success you are looking for and that it finds you as well!

Good Luck & Good Trading,

Billy Williams

www.stockoptionsystem.com

