TRADING - A LIVING THING

by David E. Bowden

We really lit your fuse with our Profit Prophet series for 1994. Of course, it is tremendously encouraging to see so many want to be involved after our Money Wizard seminars. These programs come as a result of the feedback we have had from traders over the last five years. As I said to you when writing about our Profit Prophet Teleconference, time has been my problem - especially over the last two years - but I have taken steps to keep things under control - how about you?

My Secrets of Success

I still get labelled with that “overnight success” tag in the press. It makes me smile. You could say it has been a long night, but this “time period” does give me a working knowledge of what traders need in 1994.

For those of you just starting out I must say that the very best I can pass on to you in your early days - the very essence - comes from my early days as a trader. Sure, I feel the enthusiasm you put into your letters to me, and I enjoy the humour, but in other cases I pick up the drama.

What is it really like to make it? Before I answer that, I must tell you one thing. As well as learning how to ride, you must also learn how to take a fall. This is the first thing I endeavour to teach my boys. So your first question should probably be “tell me about the hard times that are a part and parcel of making it”. I feel I am qualified to answer both aspects of that particular query.

Discipline is the first requirement of a truly excellent trader. An analytical mind helps, and a willingness to challenge the status quo also comes in there somewhere. Some of us are lacking in other areas. Perhaps we have never acquired the ability to formulate goals and objectives. I think we all need a spot of creativity every now and then for our “plans” to be born, to sprout wings, and to fly. I’d hate to think of a world where it is all planning and no flying.

In some cases, even to create a plan, we need the ability to ask questions. I am often amazed at some peoples’ lack of skill in asking the right questions. This is more often a problem for those who have traded for some time with, perhaps, limited success. That is their specific problem, but they choose to cover it up with a “know it all” approach. I have found that this approach is often a desperate plea for help. It just comes out a bit funny to start with. Underneath all this is a “sensitive new age guy”. Once you get over the problem of asking constructive questions, and you can, you must be in the frame of mind to accept the advice that is given. What you are trying to do is learn by the mistakes of others, otherwise, as they say about history, you are bound to repeat them.

When you have accomplished these skills we are ready to talk about discipline. Of course you must have discipline to follow any form of trading plan and those who trade with no plan whatsoever are destined for the scrap heap. Their capital, however much it may be, ends up in that great “Money Home” in the sky. But even with all these things going for you, you will be called upon to draw on strengths never before utilised just to stay with a profitable position - and even more of the same to close out a losing trade.

Often the press will choose to highlight a series of trades that result in a large profit for a big player. But what is it like to hold a large position for a couple of months - not just overnight? Do you know what it is like to sit bolt upright when the phone rings in the middle of the night - to believe that the worst affliction that could possibly strike the world is any news that would affect your position against the US Dollar? To go to bed each night fervently believing this?

... Then it happens. You are long the Swiss Franc against the US Dollar and some figures are released that indicate consumer confidence is way up and retail sales are strong. The phone is your alarm clock, literally. You have three calls from the States - bang; bang; bang - each one a broker. Each one carrying a large position for you which you had added to before going to bed. Now it's 3am. The markets are going against you at an alarming rate as each call is progressively worse. You have stops in place but everyone is telling you to jump ship. You must instantly balance your total position. T Bonds are weak; the S & P is roaring; the dollar is strong and each tick is eating into that profit built up over many weeks. Now it could all go - and then some. You stumble downstairs to the "War Room" and turn on the screen. You off load half of your position on the spot market right on the low of the night. It's just a spike - by the close the market is back to the openers. You have crystallised a profit on half of your position. You realise you jumped a bit quick, but the rest of your position is still in place for the big run and you have only seven more weeks until your pressure time, when you must stop and reverse the position to begin it all again. As I say, my hand never shakes when I take a profit - but only traders know this. You must walk the walk, to talk the talk.

So, what makes it all worthwhile? It must be more than money. Your family must absorb many of the blows. So make sure they enjoy the fruits of your labours. It helps to look at trading as a fun thing. Release the pressure with a bit of humour. Often your very actions look, lets say, different from those in other professions, so don't take yourself too seriously. My teenage kids often call my seminars my "Great Man Act"!

I'll share with you a little about the lead up and trading of the 1989 share market top. I had submitted my forecast for 1989 to a number of newspapers and trade journals in 1988. At that stage of the game I had no plans to be involved with seminars etc. I just wanted to prove what was possible by way of forecasts. W.D. Gann had been very kind to me and many of those around me. Because of my success, a number of the trade people I approached published my story in America as well as Australia. In the article I told of my experiences in 1987 and gave some detail on how I calculated the top for 1988. I also called for a top on 3 October, 1989 followed by a reversal and panic in the market. Late September / early October was 180 weeks and 180 months (180 degrees) from the beginning and end of the major cycles. I knew I had an 85% chance of being right under normal conditions, but as 1989 was a major year, actually my odds were much higher.

I never feel that I have to be right. My trading rules kept me safe then - just as they do now. In any case, the release of my forecast brought people out of the woodwork to the degree that it was affecting my trading time, so I changed to an unlisted phone number. Makes me laugh now when some think I was trying to cash in ... I was desperately trying to cash out. I was not paid for my stories, nor for my time talking to investors. I was starting to feel the pressure in being in the spotlight. Research Technology Corporation asked me to conduct a seminar - I agreed - and it booked out in about five minutes flat. So my career as a public speaker began in earnest. Investors, traders and institutional people flew from Japan, New Zealand and all over Australia. Nikki Jones, the owner of Lambert-Gann Publishing in the United States, flew to Sydney for the seminar. All of this was adding to the pressure of going public with my forecast.

To make a long story a little less long, I'll say that when the low for 1989 came in on 7 April, I felt better as it was basically 180 degrees or six months before my forecast date for a major top. I had called the figure of 1855 at a series of one-to-one instruction days early in 1989. These were a forerunner to the Trading Incubator which I first ran in August 1989. All of this was so vastly different from my chosen path as a trader. I started to ask a fee for my time that was in line with the quality of trading expertise I was sharing. This made me feel worthwhile, which either lowered the pressure or made it bearable - I'm not sure which! It certainly put a spring in the step of my bank manager.

Well, one week before my forecast date the market was trading at 1656 - 199 points lower than I'd called, as many "experts" kindly pointed out!! In the following seven days it rose the 199 points to top at exactly 1855. I had my stops at 1856. How did I feel? All I can say is that you only have to do a call like that once in your life for all of the work to be worthwhile. Many of you have seen my charts for that day, as I use them to illustrate my rules in my short-term trading lessons. There was a lot more drama to it than I have written here, but when it was over we celebrated as a family. We had some fun. More fun was to come as we had the crash of 1989 - or Black Friday, on Friday 13 October - more fun even yet on Monday 16. I rang some of the “experts”.

What did it mean to us as a family, because that’s so important. Pauline and the kids had lived more than twelve months with that forecast so I made sure we all had fun.

Sure the trading account looked good. I have often said that trading is the quickest way to accumulate money without a gun and a balaclava, but it can’t be just that. I crave the opportunity to use control of self, under pressure; to have a plan before I go into battle; to work out the strategies, and to have the opportunity to see the plan become a living thing. That’s what I try and “bottle” into a course or a seminar - the living thing.

The most valuable part of my trading experiences is that I have leaned to repeat my successful outcomes. In other words I can keep on doing it! That is why I give you a written trading plan - so you can too.

This gets to the very heart of what is worthwhile in trading. It’s like riding a bike - once you learn how to, you develop the knack, and you never forget. I often say for me its like being paid to play golf or to go fishing. I love conducting seminars ... the feedback from fellow traders - and I have some good ones ... the stories of success from young people just setting out ... the good humoured banter I enjoy with some of the Trading Congress attendees ... and in particular, the friendships. It’s like having the biggest family in the world - and you are an important member of it!

THE IMPORTANCE OF REFRAMING

by Dr Harry Stanton

In my consultancy work with the business community I am often called upon to work with people who have lost confidence in their ability to sell. This is usually a result of fear of rejection. Once such a fear gains a hold, a salesperson becomes so frightened by rejection that s/he finds it almost impossible to make the phone calls necessary to set up contacts and appointments. In many ways, this is similar to traders who, because of their fear of losing, cannot “pull the trigger” when their technical analysis indicates the a trade should be taken.

An approach I have found to be particularly helpful at such times is that of reframing. In simple terms, this means encouraging people to look at situations in ways differently from those they are at present using. No matter what the situation may be, it can be viewed in different ways, some of these empowering and some self-defeating. Allowing fear of losing to inhibit trading is certainly the latter.

The concept of failure may serve as an example. A trader makes an unsuccessful trade in that he is stopped out at a loss. He regards this as a failure, and feels badly about it. Several such events, all labelled “failure”, undermine his confidence to such an extent that his chances of future success become increasingly less.

However, no one makes him label his experience this way. He chooses to do so. Instead he could use the most powerful reframe there is, that there is no such thing as failure, only feedback. In other words, he considers what he can learn from his experience that will be of value in the future. He may choose to reframe his experience of being stopped out a number of times as:

• an opportunity to learn more about himself as a person and about the trading system he is using;

• the negative information he needs to have so that he can change course in a more positive direction, either in the way he handles his emotions when trading or in the way he is using his trading system;

• an opportunity to develop his sense of humour by laughing at his errors as soon as possible after making them. We need to remind ourselves that things are worth what we make them worth and, so often, we make molehills into mountains. One way of overcoming this lack of perspective is to rate the things that happen to you on an anxiety/stress scale of 1 to 10 with 10 being the most anxiety-provoking or stressful thing that could possibly happen to you. In a seminar I conducted for bank executives on stress management, one participant said his wife had died four years ago and that was a 10, the worst thing that he could imagine happening to him. Since then nothing had ever rated more than 1, even though these were events to which his colleagues had reacted with anxiety bordering on panic; and

• an opportunity to practise his techniques and perfect his performance. Consider life's events as exercises providing the opportunity for personal growth, for finding out how you handle yourself emotionally and for learning how you can manage your life more successfully.

If you reframe failure in one or more of the above ways, you cannot be beaten. Negatives can be transformed into positives, not by attempting to force them out of your mind, which most people find impossible to achieve, but by using them as signals to cue you into more empowering ways of thinking. Never underestimate the power of the words for the way you talk to yourself, for your inner dialogue exerts a tremendous influence on the way you think.

Whenever you identify such negative input, stop and deliberately tell yourself something strengthening, something positive. In other words, be your own best friend, acting as such a friend would do by supporting and encouraging yourself. As you identify the negative "I've lost again. I'll never succeed as a trader" you welcome the comment as an opportunity to tell yourself "I'll keep working, using this information and I'll get better and better. I'm a winner". It does not matter whether what you tell yourself is "true" or not, for truth is relative. Just say it, or something like it, at every opportunity. Your deeper mind, the inner unconscious mind, seems to operate like a computer, working on the programmes it is given. Tell yourself you are a loser and cannot succeed and it will believe you. You will certainly be a loser. Tell yourself that hard work is making you a winner and it will believe that too.

A way of making the positive message more powerful is one I discuss in my book The Success Factor. I call it "remaking the day." Each evening take about 10 minutes to get away quietly by yourself, relax a little, and go back over your performance. One at a time, mentally re-create things that have gone well for you. Relive them in your imagination, a number of times, congratulating yourself on these successes. Then, turn to the things that have not gone well for you. One at a time, eliminate them from your mind and imagine yourself re-doing them the way you would have preferred. Do this re-run about a half dozen times.

Because your mind does not distinguish between this imaginative reworking of your experience and the actual event, you may have made a mistake once, but now you are doing it correctly six times. The success outweighs the failure six to one, and if you regularly practise remaking your day so that it is perfect, you will find that gradually your performance becomes better and better. You are programming your mind for success and wiping away the failures.

People who have not tapped into the power of this very simple technique dismiss it as useless daydreaming. However, many successful people have no compunction about acknowledging that they frequently daydream as a means of inspiring them to achieve particular goals. In other words, they use daydreams as a form of self-motivation. Remaking your performance is just that, a way of guiding your imagination towards the objectives you see as desirable.

This technique of remaking the day is very applicable to trading. Graham is a full-time trader who was losing confidence in himself due to the number of mistakes he was making. To remedy this problem, every evening he spent a few minutes "remaking his trading performance". Firstly, he would concentrate on a few good points, such as he kept his charts up to date, he identified a support area that held, and he successfully identified a Point C as a Starter Pack trade. He took each in turn and replayed it in his mind several times, congratulating himself upon his success.

He then identified a few mistakes such as talking himself out of taking the trade, becoming negative when he saw the missed opportunity, and blaming himself for his indecision. Again, he would concentrate upon each in turn only this time he would wipe the mistake from his mind and imagine himself doing it right. The negative self-talk was transformed into positive action; the missed opportunity became the beginning of a successful trade; the self-blame became the opportunity for a quiet "well done". The secret is to catch yourself doing something right and praise yourself. Do not search for opportunities to blame yourself for doing something wrong. Make this your guiding light and you will create within yourself the power to succeed both as a trader and as the creator of a far better life for yourself.

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TAKE MORE CONTROL OVER YOUR TRADING AND YOUR LIFE

by Dr Harry Stanton

In the Spring Edition of the Ticker Tape report, I talked about reframing the term "failure" so that we regarded it as an opportunity for learning. We will take this concept a stage further now by adopting the viewpoint that every event which occurs in our lives carries with it the potential for personal growth. The process can be diagrammed in the following way.

EVENT
SELF OBSERVATION Thoughts . Feelings . Behaviour
INNER STOP
INNER SEPARATION
SELF-REMEMBERING

Self-Observation means becoming aware of how you handle the particular event. What are your thoughts, your feelings and your behaviour? By becoming conscious of what you are doing, you give yourself the opportunity to change this if you so desire. Without such self-observation you will mechanically repeat the same thoughts, feelings and behaviour over and over again even if they are very much to your disadvantage. However, when you observe yourself doing something right, this gives you the opportunity to praise yourself, something we do far too rarely. It is a far more effective approach than the usual one of looking for something we have done wrong and blaming ourselves for it.

When we observe ourselves doing something we regard as wrong, as something we would rather not do, that is where we can use Inner Stop. This is a matter of saying to ourselves “Stop. This is not something I want to do, or think, or feel.” We are taking control over the situation by exercising our right to choose how we want to handle the event.

Through using Inner Stop, we have created the opportunity to distance ourselves from the unwanted thought, feeling or behaviour by employing Inner Separation. This involves saying to yourself “This is not me. I am not like this. It is not part of me.”

Self-remembering comes next as you say to yourself “I don’t have to be like this. I can be quite different as I was then ...” and you deliberately direct your thoughts away to some past event when you behaved, felt or thought quite differently.

Let’s see how this would work out with a particular event. Recently I spent three weeks in the United States. I was teaching courses on achieving change within the compass of a single therapeutic session. Other people on the teaching faculty were great and the students were so eager to learn that it was a wonderful experience, added to the opportunity I had to dance in Waikiki both on my way to the States and on the way home. I arrived back in Australia feeling really high, totally positive and enthusiastic. Yet virtually everyone I talked to on my return was negative, critical and complaining about all sorts of trivial things. Almost without realising it, I joined in with this chorus of negativity. Then, through self-observation, I saw what I was doing and said “Stop”. I then separated from the negative thoughts and feelings, and remembered how I was in the States. By immersing myself in these memories I changed my state, replacing the unwanted critical state with one of positive enthusiasm.

Now for a trading example. You are trading the Starter Pack and receive an entry signal. However, your two previous entry signals had resulted in your being stopped out at a loss on both occasions. Because of this, you talk yourself out of taking the signal. However, if you made use of the procedure I have outlined above, you would have observed yourself thinking, feeling and behaving in this way. This would have made you conscious of what you were doing. Observing that you were talking yourself out of following your system you give yourself the opportunity to say “No. I won’t behave like this. If I am going to follow the Starter Pack system, I have to take every entry signal which accords with the rules.”

Inner Separation can then take place as you tell yourself something like “I am not like this, a person who lacks the discipline to follow the system, a person who vacillates and cannot carry through with the course I have set myself.” Self-remembering then comes to the fore as you recall a trade several months ago in which you followed the Starter Pack rules automatically and reaped the benefit of a big profit.

This is how the process works but it requires practice, a lot of practice. I remind myself every morning that I am committed to operating in this way. I do this because of the enormous benefits it has brought, enabling me to take more control over my life than I ever imagined possible. This process comes between you and life, allowing you to take control over many of the events that previously controlled you. Not that you will be able to do this on every occasion. As human beings we are far from perfect so we must just do the best we can. However, if you realise that you have blindly gone ahead and done something without observing yourself in the manner I have outlined, all is not lost. In your imagination, go back over the events, stopping the negatives, separating from them, and remembering a positive event. In this way you are using the process of “remaking the day” which I described in the Spring edition of the Ticker Tape Report.

By observing yourself, you create the possibility of replacing negative thoughts and attitudes with ones that are more positive. Another way of doing this is Submodalities, a technique I have described in The Success Factor. It is based on the idea that we should not allow our minds to make us feel good or bad in response to any picture they want to show us. Rather we can use submodalities to control the way we feel. Thus, we could think of a pleasant memory and turn up the brightness of our image to make it even better. Conversely, to make an unpleasant memory inconsequential, we could make the image dimmer, or push it well away into the distance.

Brightness and distance are two submodalities very effective in changing mood states. Others are size, colour, depth, duration, clarity, contrast, movement, and speed. You can try these out one at a time so that you might then learn which one or ones work best for you. These may then be combined to achieve even more intense changes. Thus, a pleasant memory might then learn which one or ones work best for you. They may then be combined to achieve even more intense changes. Thus, a pleasant memory might first be seen as a movie rather than a still slide. It could then be pulled closer while, at the same time, it might be made increasingly bright and colourful. Conversely, to make an unpleasant memory inconsequential, you could dim the image or push it well away into the distance.

Using this approach with the trading situation described earlier, you would think of an event when you were stopped out of the market for a loss, then identify a picture in your mind related to this. Perhaps you would see a chart of the SPI with the Point C being taken out. As you do so, describe this picture in terms of brightness, size, colour, distance, clarity, and movement. Perhaps you might see it as bright, large, colourful, close, clear, and still. This is often the way in which people see negative situations, and, by so doing, they are making the unwanted picture extremely powerful.

You then modify each of the submodalities, one at a time, in order to discover which one or ones, when varied, change the way you feel about the problem situation. They might be brightness, size, and distance. By turning down the brightness of this picture, making it much smaller, and pushing it well away into the distance, you will be able to reduce the negative influence it is having over your behaviour.

You then develop, in your mind, another picture, one in which you see yourself looking at your very profitable monthly trading statement or a SPI chart showing a successful trade. By making this picture bright, large, and close, you invest it with considerable positive power. This you use to replace the previous negative picture.

Like the self-observation procedures outlined earlier, these submodalities techniques will help you not only with your trading, but also in many other areas of your life. By manipulating brightness, size, and distance, or some other submodalities which you identify as being pertinent to you, you will be able to increase or reduce the power of your thoughts and, by so doing, gain increased control over your life.

PSYCHOLOGY AND TRADING SYSTEMS

by Dr Harry Stanton

I am often struck by a paradox when I attend and speak at Safety in the Market seminars. When the Starter Pack is described, the results quoted for it indicate that it is a winning system. For any six month period on the SPI, it would appear that the system produces a profit.

Apparently, this was true even during 1994 when some traders experienced very difficult trading conditions and recorded large losses. That is certainly strong confirmation for the view expressed by a number of experienced traders that the Starter Pack is probably the best system available with which to begin trading. So it seems that this method of trading does have the credentials.

The paradox to which I refer, then, is that some people say they lose when they actually come to trade the Starter Pack. If the figures show that this system produces a profit, the answer to this paradox must lie elsewhere, perhaps in the realm of psychology.

This is not really surprising as many traders believe that psychological factors are of more importance than technical analysis and trading systems in producing consistent profits in the market.

In his very popular book, The New Market Wizards, Jack Schwager put it this way:

> If there is a single theme that keeps recurring in this volume, as it did in Market Wizards, it is that psychology is critical to success at trading. In order to achieve success in life, you must have the right mental attitude.

He records the comments of several outstanding traders who, when they began trading, placed emphasis firstly upon the development of a profitable system to make trades, secondly upon the identification of a workable money-management scheme, and thirdly upon psychological self-management.

All these traders, people now at the pinnacle of their profession, said that, knowing what they know now, they would reverse this order. Their experience has taught them that psychological factors such as self-discipline and emotional control were the key factors in becoming successful traders.

Schwager also quotes the famous line from Walt Kelly's cartoon strip 'Pogo':

> We have met the enemy and it is us.

This is, he believes, an excellent one-line summation of the art of trading. In trading, as in life, we are our own worst enemies. To improve our lives and our trading, therefore, we have to look within, rather than to blame forces outside ourselves for failure.

How does this psychological perspective illuminate the paradox with which I began this article? Perhaps what actually happens is something like this.

When people begin using the Starter Pack, their first few trades may be successful. Human nature being what it is, the new trader becomes overconfident and greedy, impatient to trade more in order to make more money out of what seems like an easy game. However, the Starter Pack has many filters built into it so that poor trades (and less frequently, good trades) are eliminated. This reduces the number of possible trades, just what our overconfident, greedy trader does not want, so he or she starts forcing trades, ignoring entry and exit parameters.

The market has a way of teaching such traders, very quickly, that the game they are now playing is a very tough one. A series of losing trades will soon eliminate the early profits, placing the trader on the losing side of the ledger if it doesn't wipe him or her out completely.

Alternatively the new Starter Pack user's first trades may be losers; not an unusual occurrence. Our trader loses confidence and belief in the system, becomes fearful and too frightened of another loss to take the next trade which is, of course, a winner. Murphy's Law "Whatever can go wrong will go wrong and in the worst possible way" operates just as powerfully in the market as it does in any other sphere of human activity. Encouraged by the fact that the trade he or she was too frightened to take turned out to be profitable, the trader tries again with real money and, perhaps, is stopped out for a loss once again.

That could be the end of it. A trader may just give up or, more likely, try to second guess the system, by selecting some trades and ignoring others. This is a real recipe for disaster. The system, be it the Starter Pack or any other, must be traded in its entirety with all trades taken. If this is not done, the user is not trading the system.

In his excellent book, Trading for a Living, which I would strongly recommend to anyone contemplating becoming a trader, Alexander Elder points out that losing traders may develop peculiar fantasies about the markets. As he puts it:

> Losers buy, sell, or miss trades thanks to their fantastic ideas.
>
> The unstructured nature of the market makes it easy to develop fantasies.

The unstructured nature of the markets to which he refers is that they have neither beginning nor end. One of the most significant and potentially damaging factors relating to this characteristic is that it allows you to be a passive loser. This is something you cannot be, for example should you play blackjack or bet on horses. In these situations you have to make a conscious choice to play and decide before the event exactly how much you will bet.

Each new event is a fresh start, where the odds of winning may be determined by mathematical probabilities and the rules of the game automatically put you out after each event. The structure of the game forces players to be active losers. You cannot lose any more money than you have already lost unless you choose to bet again. In other words, you have to actively participate in order to lose. If you do nothing, you will stop losing.

However, as a trader, once you have taken a position, should you do nothing further, losses could be immense as the market runs against you. Even when appropriate money-management and risk-limiting procedures are used, you could easily lose far more than you intended to risk when overnight moves go right through your stops.

The crucial point is that you cannot control the markets. You can control only yourself. You cannot manipulate the markets and the markets have absolutely no power over you.

Therefore, the responsibility for your behaviour resides only in you. You have the freedom to structure the game inside your mind in any particular way you please and it ends only when you have decided to end it. The more sophisticated you become as a trader, the more you will realise that trading is completely mental. It isn't you against the markets: it is just you against your own inner obstacles such as fear, greed, and hope. Markets just offer you opportunity, either to win or to lose, and you need to be very good if you are to be a winner. As Elder has pointed out, markets are structured in such a way that most traders must lose money.

Elder disputes the oft-stated claim that trading is a zero-sum game in which the money lost by losers ends up in the pockets of the winners. This is not so, for both losers and winners, on every trade, have to pay commissions and endure slippage where their entries and exits are less than ideal. This makes trading a minus-sum game where, before you can make profits for yourself, you have to pay the commissions and costs that allow exchanges, regulators, brokers, market advisers, and system sellers to prosper. As Elder says, it will not be enough for you to become a better than average trader to survive. You will "have to be head and shoulders above the crowd to win the minus-sum game".

This is why psychology and its role in helping you take control of your life and your trading is so important. In The Disciplined Trader, Mark Douglas wrote:

> If the market seems mysterious to you, it's because your own behaviour is mysterious and unmanageable. You can't really determine what the market is likely to do next when you don't even know what you'll do next. Ultimately, the one thing you can control is yourself. As a trader you have the power either to give yourself money or to give your money to other traders. The traders who can make money consistently... approach trading from the perspective of a mental discipline.

It is this concept of trading as a mental discipline that I outlined in the last issue of Ticker Tape when I wrote of self-observation, of the way in which we handle events, separating ourselves from our negative, irrational behaviour. If you use the market to help you develop these skills of detachment and self-discipline, the profits come automatically.

HOW W. D. GANN HAS INFLUENCED MY LIFE...

by Nikki Jones of Lambert-Gann Publishing

"Happy is the man that findeth wisdom, and the man that getteth understanding."

Proverbs, but also the first line from a book Tunnel Thru The Air or Looking Back From 1940, by a man named W. D. Gann. At one particular moment I was quite sure this man had entered my life with one and only one purpose and that was to destroy it!!

Now, in my looking back from 1995, I consider W. D. Gann to be one of my closest associates and the greatest man that ever walked Wall Street.

Twenty years... to look at twenty years on a chart it doesn't seem like that is a great amount of time, but as always I'm getting ahead of myself.

My name is Nikki Jones and even though Mr. Gann has influenced my life profoundly, it has only been the last two years I have been willing to share him with the world.

What makes a man remembered? Certainly not the shallow trends of today, measured in appearance and fashion, but usually someone that encourages a scientific view of certain propositions that are not usually welcomed by the majority. We cannot divorce what we produce from what we are. This is the very reason W. D. Gann will be remembered and carried into history forever, as he was of the great men in his time that stimulated thought and insisted upon research.

Our technology reflects disharmony with natural laws because we ourselves are not in harmony with natural laws. The technology I see today merely reflects our own neuroses; our own drive for power; distorted behaviour patterns; violence-directed mechanisms on one hand; frantic overproduction on the other. We need to see the logic of order, in man and in nature, for ourselves and for our world. This is one of the many hidden messages Mr. Gann has left for posterity to find.

Science now tells us it cannot separate the reality of the environment from the reality of our experiences. It goes so far in fact to say there is no such thing as separateness from anything. If we create that separateness we destroy ourselves and the environment. Now how does this all fit together in the world we live in today? The same as it did for W. D. Gann. Life with all it's problems and challenges of today really isn't all different than in the life and times of W. D. Gann.

"How" we ask can I manage my life, family and follow a career that only gives me probabilities?

In my research of W. D. Gann another familiar line surfaces. "Ask and you shall receive." It is a careful blending of time and energy. This was one of the many things discovered by Mr Gann and it holds true for each and everyone of us because it is natural law. This is and always has been here for any of us that has an open mind and heart to learn. W. D. Gann was one of the great teachers put on this earth. He has left us with the opportunities to combine circumstances, such as market trading, to open the doors of life.

Market charting is only a picture of the past. This is why in "Form Reading" found on page 29 of How To Make Profits in Commodities, Mr. Gann states, "One picture is worth a thousand words".

History does repeat. Greed and desire for large gains do not change. They are inherent elements of human nature and it is the human element that beats the average man and causes losses in business investment or speculation. This is the very reason we must be aware of the delicate balance of time and energy. This is one of the valuable lessons I have learned from Mr. Gann. We all walk separate paths and one should start with oneself but never end with oneself.

I am looking forward to meeting each and everyone at the Five-Day Trading Congress, May 3-7, and sharing my stories, facts and questions with you. Until then, take care and God bless.

THE MAKING OF A “SUPER TRADER”

by David E. Bowden

If I had to nominate the one thing that has changed the lives of traders - brought them from amateur to professional, produced the super traders, it would have to be the Five-Day Trading Congress package which comes from our original Trading Incubator program.

We ran our first “official” Trading Incubator in August 1989. I called it an “Incubator” as the purpose was to hatch Super Traders in a controlled environment. The challenge was to work the process on a group. My theory was that if I educated traders sufficiently on “HOW” a relevant forecast was assembled, I could create in them the confidence to trade the call.

The exercise we completed at our first Incubator related to my call for the major top in October 1989. We drew up a trading plan together, one that worked. This is the base that we built on to give you the Five-Day Trading Congress that will be held at the Novotel Twin Waters Resort, in May of this year.

It is still a concept designed to nurture new traders, to give you a massive amount of knowledge in one short, sharp dose; to guide you through the difficult early stages of the trading process.

You may have already read the fax from Ken Gerber referring to one of my forecasts on the Soybean Contract. I drew up this forecast, but more importantly showed Ken how to repeat the process while he was in Australia for one of my early seminars. Over the years I have often referred to the Super Traders and quoted their results. These quotes are backed up with trading statements, but each of these traders started with a Trading Incubator. It’s hard to knock their results. May 1995 is your chance to join our group.

Extract from Ken Gerber Fax

... at your seminar at Buderim in Nov 1988, you were kind enough to look at the Soybean charts we brought along. It was amazing to watch you point out what caused the top of the massive 1987-1988 bull market. You were adamant about the bull run being over and assured us that any rallies would be selling opportunities.

You also made a forecast at that time (November 1988) that I wrote down because it was so unbelievable. You stated that Soybeans would be in a downward trend without a major bull run until after mid June 1993, almost five years from that time!!

Well, my hats off to you mate!!!!!

The Soybean market has made 3 attempts at a bull market since 1988, none exceeding the previous year’s high. After bottoming out in Oct 1992, it finally struggled to rally 89 cents in 6 months it topped in mid-April and started down. November Soybeans bottomed on June 16 1993, exactly at the time you forecast in November 1988, and exploded for 1.80 in 4 weeks.

Not only had you forecast the time of the bottom five years in advance, the November Soybean runs were identical to your ‘Starter Pack’ teachings...

... Keep up the good work!! You have the rare ability to be a gifted teacher as well as an analyst...

... As Always

Ken Gerber

Trading, Trading, Trading are the three main aims and objectives of a Five-Day Trading Congress. It's all a two-way street. I am happy to give you the ways and means. You must do the work - and work you hard I will. At the May 1995 Five-Day Trading Congress we give you a complete breakdown of what you will be learning on a daily basis. If the current market is causing you to scratch your head, I suggest you go ahead and pack your bags as the Five-Day Trading Congress is the place for you.

One major component that is not mentioned in our day-to-day breakdown is that we have managed to persuade Nikki Jones, the owner of Lambert-Gann Publishing Company, to fly to Australia to join us for the full five days. Nikki knows more about the life and times of W. D. Gann than anyone else on this planet. I can tell you about W. D. Gann the trader. She will share with those of us who are fortunate enough to be there, the stories of W. D. Gann - the man. I do not know when we will see Nikki in Australia again.

In the introduction to this newsletter I spoke of the workload I have had for the past seven years. You may have correctly deduced that some things are going to change. I will not be doing these seminars forever. I am booked to go to the States later this year. That would seem to rule out a November Congress. What I have to share with you is relevant to your whole trading career but much of it is based upon the market action for 1995. Make no mistake, this is a real traders year. You have seen the early signs. The market outlook section is there for you, but you have to take the initiative. What I'm saying is that you cannot win if you don't have a ticket.

We have run these seminars since 1989. They have always booked out. Bookings are taken on a first-come, first-served basis. This year we are making very special arrangements for beginners. I would love to see you there - but please, don't leave your decision to book until the last minute. Those that missed out last year were the first to book in this year - as soon as bookings opened.

Remember that the Safety in the Market Video Series is essential preparation for the Congress. The cost of the Video Series is included in the cost of the Congress. You would be wise to order your Video Series now.

GETTING INTO NICK

by Neil A Costa

No... I would be the last person to write about fitness!

The Nick I refer to is the now famous Singapore trader who has developed a Nikkei Dow trading system that has been proven in the market to be able to lose two billion dollars, give or take a hundred million or so, in a very short time. Now imagine if you took the other side of Nick's trades - you might have been disoriented with your fabulous riches initially, however you certainly would have your Barings by now!

Yes, after the Barings collapse, the fax machine ran hot with clever suggestions. Bradley

Price (featured in the Summer Ticker Tape) and Greg Burns ordered a Starter Pack for Nick - and several people speculated as to what were his trading rules.

Well, to assist you in learning what NOT to do, here is a list of the better rules for yuppy bank traders...

Rules for Yuppy Bank Traders
Charts are for wimps - real traders just hang in there.
Ignore money-management and risk-management rules - they only slow you down.
Keep doubling up - should you, spare the thought, inadvertently close out a trade at a loss.
Never use a stop-loss order - after all, it is not your money.
Never risk less than 90 percent of your account - the aim is to make big money quickly. If the 90 percent is lost on the first trade, wire London for more funds.
One huge winner is far less work and stress than 100 small winners - trade only in 1,000,000 contract lots.
Enter the trade, if in ANY doubt - the life of a trader can be shorter than you think.
Ensure that your losses are proportionate in size to your expense account balance - it's too late to bump up the expenses when they are on to you.
Let your losses run - the market must turn eventually. After all, what's a little earthquake?
Sever all links with your boss - he or she could stop your losses before you qualify for the front page of the Wall Street Journal.

(No... we were not able to deliver Nick's Starter Pack - he did not leave a forwarding address... and yes, the bold letters do make the name of a famous trader...but no, there are no prizes for guessing it!)

YOUR FIFTEEN MINUTES OF FAME

by David E. Bowden

I think it was Andy Warhol who made the famous statement "In the future everyone will be world famous for fifteen minutes". What an incisive comment for us traders. We want to get ourselves together, but often the market is like the candle flame that attracts the moth. We so want success that wisdom goes out the window - along with the folder labelled “common sense”. I call it the “I’m in too much of a hurry to bother with placing stops” syndrome.

So often we are drawn to the market like the proverbial moth to the flame. Like the moth, we are in control of our own destinies, yet many of us would rate this blessing as our greatest handicap. My early successes in the market brought me many headaches. We see that in a micro and macro of life. In the topping out of any market “pride cometh before the fall”. A little success gives us unrealistic expectations of our knowledge of the markets and the profits that are due, so we repeat the cycle of untold millions of moths. But this does not have to be the case - it is not mandatory.

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As we are in control of our own destiny we can, in effect, write our own script. That is what taking control is all about... to drink from the well of success, but not become intoxicated by its heady brew. A sense of humour helps if we are to see ourselves and our achievements as others do. We have to take life as it comes. We must roll with the punches as we learn most from our mistakes. If one does not learn by one’s losses in the market, one is not getting full value for one’s tuition fee. It was well said by Churchill that a nation must learn from history or it is bound to repeat it. When we, as a nation or as an individual, feel that success is our right and should go on forever, good planning and wisdom are no longer needed or heeded. “Who needs STOPS.” I am the first to admit that I take a bit of holding when I build up a full head of steam, as over-trading has always been my greatest shortcoming.

When we accept that the hard times are sent as a learning tool, we have one of the major building blocks for success in place.

I see investors at both ends of the spectrum. One common denominator amongst those who are consistently achieving these goals is that they tend to see problems in trading as challenges. They seek their own solutions and as a result they own their trading system. They also take full responsibility for their mistakes and accept losses as part and parcel of the game of trading. This concept was touched on in the conclusion of my Number One Trading Plan course.

Looking back over the years, having dealt with literally thousand of traders, I have come to the following conclusion - it is possible to make trading your perfect world. Taking into consideration the reservations that I spoke of in The Number One Trading Plan, we must be adult enough to accept that we will never get it right all the time. Once again, to paraphrase a famous statement, it could be said...

“the market will fool all of the people some of the time, some of the people all of the time, but it can never fool all of the people all of the time”.

They are pretty good odds. From that we can say the basic trick to successful trading is to only be in the market when you know what you are doing. When in doubt - stay out. It won’t fool all of the people all of the time.

What can we hope to achieve and what are our odds of success? I suppose another way of saying this is, what would I want for you. The best I could ask is that you get your fifteen minutes of glory. By that I mean you get it right.

Please consider the following six elements of trading success:

- One is a combination of rules and discipline;
- Two is skill;
- Three is time. As time progresses your skill will increase, but your base is always your trading plan and your discipline. Without that you have nothing.

What makes it all worthwhile? We have so many challenges. We must work so hard to do well. I suppose part of it is when we do well, we do so very well.

Here are a further three things about trading:

- Four is the money which is what everyone talks about;
- Five is the actions which so few can even describe.
- And Six is the control which is what we should be focusing on.

It can't be just the money, for before too long we can accumulate more money than we need, so if your entire act is based on making money, you may bring the entire process to a halt just because you did not have a worthwhile goal. Just making money is not enough. Doing something for someone else will drive you to far greater achievements. This does not always mean merely doling out money to a worthwhile cause. If you wish to do something worthwhile for a fellow human being why don't you donate your blood? Don't tell me you can't afford that and it could save a life. What an opportunity!

So we come to the action. It helps to make your journey interesting and fun to travel. Replace the thought of work with one of curiosity. Then work and play will mingle. Whatever I do, I love to do it with a passion. Go for it. I'm for action. Time just flies when I'm having fun, but firstly I had to develop the skill to take me on my journey. My chosen path.

The last point is the control which is probably where I'm at - I do not mean the control exerted upon others. I'm talking about a different sort of power. Control of one's self. I am happy to list my shortcomings - it's just that we don't have the space here. Over many years I have had to face them and then do something about getting rid of them, otherwise I could not have become a successful trader. Our aim should be constant improvement. I'm sure any of you who have been clients for some time have witnessed this improvement in what you do and how you do it. The Japanese call this constant improvement kaizen. This kaizen, applied to every facet of your life, will give you control. Control of yourself and what is going on about you will make the most extraordinary results possible. They happen.

How has it been for me? When I started trading I had the usual ups and downs of the beginner. I had read of W.D. Gann and his trading record so I knew what was achievable, I had a benchmark, but I surely was not doing it myself. After a series of losses I decided I had to learn how to trade properly, then have the discipline to apply the knowledge. If I could not do this, I knew that I had to give up trading completely. I was aware of the six points listed above but I had no idea of their order of importance. I had to get my priorities right.

I had the book and courses of W.D. Gann, but no instruction on how to apply his message. It was like a gigantic jigsaw puzzle up-ended on a blanket. Slowly, through constant improvement, I started to assemble a trading plan. It was based on the works of W.D. Gann, but not exclusively. I thought I needed a short time out of the market to assemble my first trading plan. The actual exercise took six months. When I went back into the market I was a baby of less than twelve months of age but my results speak for themselves. In that time I had taught myself how to forecast and trade. They are two separate issues. The thing I had most difficulty controlling after this was ego. Ego made me sure I was right and so I would throw caution to the wind. Any losses came from the combination of no stops and over-trading. The market is a great leveller.

I have spoken long and hard about the problems besetting a trader - the hard times. But it is fair to ask "What can I hope to achieve if I see it through?" On most occasions now I refer to some of my friends who have walked the walk with me. We call them the Super Traders and I don't think the name is inappropriate. But today I'll share a little of what it has been like for me. Sure I've had my dreams and dramas but I've learnt from the experience to go on to my "fifteen minutes of fame". I've seen both sides of the equation.

Occasionally I saw the light at the end of the tunnel. No, it was not a locomotive coming the other way. It was success in trading. Sometimes I would think that I had it all - that I knew it all. Ego would then invariably take over and losses would follow, but each lesson was less severe than the time before. The spells of good trading were getting longer and the problem periods shorter. I found I could call a yearly top - and it would happen. The next thing was to publish a forecast 12 months in advance. Not just any forecast, I needed a good crash to get the adrenaline going and to let the general public know what was achievable by technical analysis. I wanted it all there in black and white where it could not be rubbed out.

I hope, that at least once in your life you have your fifteen minutes of fame. To do the work, complete your forecast correctly and have the market come in on your day, at your forecasted price. It does not matter who else knows or what people say. It only matters that you know that you can do it. All the hard work and disappointments disappear like a drop of water on a hot stove. Everything else pales in significance. The good part is that if you accept a program of kaizen, from that point on everything becomes easier. You are on a downhill path - but you're rolling the way nature intended. Once you have your calculations right you can do it again. You won't ever be right all the time. Remember the market will fool all the people some of the time, but you learn to recognise the times when you have the most likely chance of being correct. Once again, time becomes your friend as it brings with it skill. You instinctively know how to handle the market when you are right, and more importantly, to get out automatically when you are wrong, by way of STOPS. These things become second nature. The money and the action no longer seem important. What is important is that you know the power within yourself - self control. It does not matter what others say - you know you are there. That has been my experience.

PLAYING THE INNER GAME OF TRADING

Dr. Harry Stanton

In Market Wizards, Jack Schwager commented that among all the really brilliant, successful traders he interviewed, the one he would be inclined to choose as a model would be Tom Basso, primarily because of his laid-back but very self-disciplined mental approach.

In the interview with Schwager, Basso said that when he first began trading he placed the development of a profitable system for making trades as his first objective, the identification of a workable money-management scheme as his second objective, and the psychological self-management as his third. However, knowing what he knows now, after many years as a trader, he would reverse this order, his experience having taught him that psychological factors such as self-discipline and emotional control were the key factors in becoming successful traders.

In his eminently readable book, Panic-Proof Investing, Basso affirms that "The major difference between successful investors and unsuccessful investors is their mental approach to investing... successful investors have a state of mind that can best be summed up in the word balanced". As he points out so well in this book, when a person becomes emotional or unbalanced, the adrenaline starts flowing creating excitement or frustration, a state of mind which severely limited his or her mental choices. The successful trader will remain comparatively unemotional and detached from investing, rather looking at it as an interesting game, perhaps regarding it as a challenge or brain teaser.

To put yourself into this detached state of mind, Basso uses the technique of thinking of his trading as a movie which he is watching. That is, by watching yourself studying your charts, making out your Starter Pack roadmap and calling your broker instead of becoming totally involved in the excitement of it all, you can distance yourself from events, something I have referred to in earlier editions of Ticker Tape. Basso feels that by watching the movie of himself trading, he can see himself becoming excited or frustrated and take steps to do something about it.

Through his movie-watching techniques, Basso is participating successfully in the Inner Game. This concept was first put forward by Tim Gallwey in his book Inner Game of Tennis and has proven to be extremely influential in helping people handle many aspects of their lives, including trading, more successfully. So what is the Inner Game?

Playing sport is all about winning, about beating your opponents and enhancing your reputation by doing so. Or is it? There is another way of looking at sport which has, for many participants, brought more satisfaction than the "winning is all" attitude.

As Gallwey explains it, in any sport there are two games involved. The first of these, the Outer Game, pits us against obstacles presented by external opponents, and provides external prizes such as trophies, money and reputation. The second, the Inner Game, is played against internal mental and emotional obstacles for the reward of increased self-realisation. Every human activity, Gallwey believes, involves both external and internal barriers. There are many sources for the former. However, for the latter, there is but one source, the mind, which is easily distracted by its tendency to worry, agonise, and become upset.

A basketball player misses several shots. His shooting becomes increasingly tentative and, as a result, his accuracy deteriorates. He talks to himself in negative ways, telling himself he is a poor shooter. This virtually ensures he will continue missing. His self-talk moves from the concept of himself as a poor shooter to that of being an inadequate basketball player. In turn, his inferior performance can plunge him into such misery and despair; self-doubt about his value as a person results. Though, initially, you may feel this is an exaggeration, I am sure that almost everyone reading this article has reacted in a similar way over some equally trivial event, catastrophyizing and expanding it out of all proportion to its actual importance.

Consider how we could apply this concept to a trader, Robert, who continually attempts, with little success, to pick tops and bottoms. Every time he acts on his analysis that a top or bottom has occurred, and loses money, Robert berates himself for his poor chart analysis. After behaving in this way on a number of occasions he begins doubting his ability to analyse his charts and tells himself he is a hopeless technical trader. Such negative self-statements make him feel badly about himself, miserable and depressed because being a successful trader is an ego issue with him. He should be able to trade successfully. After all, isn't he a very prosperous businessman, accustomed to making profitable decisions. Therefore, he also should be able to analyse a chart so that the market performs in accordance with his prediction. When it doesn't it is a blow to his self-esteem and, when this happens frequently he begins to doubt his ability first as a trader, then as a capable person.

If, however, Robert was a practitioner of the Inner Game, he would behave differently.

By observing his thoughts and watching his reactions in an uninvolved manner, he would be able to see that the problem is in his mind rather than in the external event itself.

He would realise that he was creating pressure upon himself through his imagined beliefs about the harm of a particular event, such as making errors in his technical analysis. Instead of creating his self-imposed pressure, Robert would do better to practice a detached awareness of the present in which he observes what is happening without attempting to evaluate it as good, bad or indifferent.

The Inner Game involves using our inner resources so that we can become as good as we are capable of being. It is not a matter of adding qualities to a self that we see as being deficient in some way, but of freeing ourselves from whatever is preventing us from realising our full potential. We cannot, for example, acquire accuracy in technical analysis if we assume it isn't already there. However, what we can do is to encourage the expression and development of improved chart analysis, or any other quality, which we accept as already existing within us, at least to some degree. This is possible if we rid ourselves of the limitations we have created in our own mind.

This is the essence of the Inner Game, overcoming the mental obstacles that prevent us from attaining our goals. There are many such obstacles, one of the most powerful being fear. The fear of losing or of making errors will often cause us to become tense under pressure so that we make mistakes. The fear of looking bad in the eyes of others, or of not meeting expectations, both our own and others, will have a similar result.

So, too, will other inner obstacles such as the lack of concentration due to mind wandering, the absence of determination resulting in the reluctance to take valid entry signals and the self-consciousness that finds us constantly thinking about how well or badly we are trading. All these make it difficult to trade as well as we are capable of trading.

In turn, other mental barriers make there appearance. Frustration is one of the more common, as is the anger that comes after making simple mistakes. Such anger may be directed at ourselves, the market, our bad luck, or unanticipated world events, but it is often self-doubt or a general lack of self-confidence that underlies these emotional outbursts.

This can be the most damaging of all internal obstacles. Without a belief in ourselves and our abilities we are unlikely to be winners. This is particularly so if we indulge in self-condemnation, blaming ourselves for being less than perfect. Perfectionism is unattainable because being human, we are not perfect, and are most unlikely to ever be so. Yet, if we refuse to let ourselves feel good until we achieve perfection, we are going to be constantly unhappy. This is always the case when we set ourselves a goal that is incapable of achievement. Often what happens when we have such a goal is that we try too hard, constantly evaluating our performance in negative terms. Overcoming this need to evaluate is the key skill of the Inner Game, one that involves our awareness of what is actually happening in our immediate experience.

TRADING 'EASY'

TO BE SUCCESSFUL YOU MUST DO YOUR TRADING 'EASY'

by David E. Bowden

Some of my golden hours, the really productive ones, occur before seminars. I am to a degree keyed up, my mind is sensitive, I base a lot of my program on intuition as this has never failed me in the past. Just before a seminar I often mingle with traders as it is the best opportunity to absorb the atmosphere, to get the mood of my clients, old and new, find out where they are really coming from because from time to time seminars will have a major effect on their thinking. I like to talk to them at the outset so as to gauge their "first thoughts". That information helps me make my presentation just that little more in tune with what is required. It can make the day.

Out of these hundreds of conversations I have picked up at least one relevant fact. Successful traders tend to do their trading 'easy'. Sounds relatively simple but the breakdown of that simple statement could be the difference between success and failure in the business of trading. Successful traders tend to do their trading 'easy'. To demonstrate the point I will change the statement around a little. "Unsuccessful traders tend to do their trading hard". Like W.D. Gann, much of my reputation has been established by nominating exact tops and bottoms in the market but you do not have to have this degree of skill to show a profit in your trading activity. Like oysters, it's an acquired taste. Remember that the exact top and bottom occur on only two days of the year. What about the other 363?

To pin it down a little let's just look for a common example of doing it hard. OK, early in the process of trading, one is very inclined to try and enter the market right at the bottom of the trough and exit right at the top. Given that one has very little history or experience to draw on this trader has very little if any chance of executing a trade under this criterion. The trader has selected a process that basically has no chance of success. He or she will surely do it hard by any definition. Unless you get the whole thing right, everytime, you are going to feel like a failure. What you are doing is picking the hardest part of the market to enter and exit whereas an easier point would do nicely, especially while you are either learning to trade or attempting to pull yourself out of a slump. In either case I always suggest that you do it "easy" to give yourself maximum chance of overall success. Once you have a successful track record you can build on this base to achieve your goal of trading major changes of trend - just don't try and start there. Take it from me, you need a ton of backbone to trade a major top and even more for a major low in any market - but most especially the stock market.

So what should be your plan? Where should you be starting? Firstly, be deliriously happy with taking a chunk out of a strongly-trending market. That is not hard. Look for any commodity or stock whose chart pattern shows that it is currently running up or down in a series of waves or sections. They will look like stairs. Initially that is what you are looking for.

Once you have isolated a stock or market that fits your criteria, identify any entry and exit area that regularly gives you approximately 50% of the trading range. W.D. Gann said that if you can pull 25% to 50% of each swing of eight points or more a trader will make far greater profits than in any other way of trading. I believe he first wrote this in 1936 on page 132 of The New Stock Trend Detector, under the heading "Swing Trading Most Profitable". For me this is the most valuable lesson of the whole of chapter seven which is titled, "A Practical Trading Method". His thoughts remained constant as Gann suggested this style of swing trading in Speculation a Profitable Profession, which he wrote in 1954, one year before his death.

What you need is a clear-cut entry and exit plan combined with a simple pyramiding system to make your fortune - and you'll do it easily.

For the moment let someone else be the hero.

Right throughout your trading career you will find that the time of entry and exit of a trade will coincide with the greatest feeling of emotion. It gets the old ticker going so don't add to the anxiety by attempting to trade exact tops and bottoms early in the piece. Many find that they can enter by the rules but find it harder to exit in a copybook manner. This is how it has always been for me. I have, over the years, developed a mental approach of retaining a profit instead of leaving it on the table. To do this I use a progressive system of moving my stops in line with the market, especially when it is trending strongly. That means on many occasions my exit is automatic. I am stopped out of all, or at least some of my positions with my profit intact. This is doubly important if you have a pyramiding plan in action.

All we are talking about here is taking a bite-sized chunk out of the market. I would ask you to build your trading plan around this premise. It does not matter if you call these chunks sections, as W.D. Gann did, or waves as R.N. Elliott chose - the trick is to trade a safe part of each cycle. This is not hard. Gann said that 100% of the previous section was the most important range while Elliott is quoted as saying that two of his impulse waves in a five-wave sequence should be of equal magnitude. Just get yourself a method that you know and understand. In setting up the Starter Pack we recognised the level of emotion that exists at the time of entry so we set up a series of filters to help you through this difficult area. Seven of them are listed in The Number One Trading Plan. I do not advise new traders to try and execute trades right on the change of trend as they may become the main actor in the execution. My best trades are produced from an entry level of around 10% of the previous range. When I am in at around this area I have a lot of blue sky associated with the trade. You will work your way into this category as long as you are not too greedy in your formative days.

Just look for the easy part of the run - and by happy to take your profits when they occur. We will talk about time as an element later.

WELCOME TO SMARTER TRADING

by David E. Bowden

Many of our clients have come on board because they wish to oversee an investment they have already made in the share market.

This investment may be a share holding or perhaps they have put some money in a managed fund. We have noted that we seem to get more enquires during a correction than when a market is powering up. This is most likely prompted by a degree of panic that investors feel when they see their capital quietly exiting their account. The nest egg is evaporating so they feel they need some help to reverse the flow of money to that great money home in the sky.

In my opinion virtually no money was lost in the 1987 crash. The money doesn't actually disappear in a bear market. It is just shuffled around. I often think that it is returned to those who rightfully deserve it. Perhaps that's why that phase of any market is called a correction. Baring the small amount of brokerage (and it is a small amount) the rest goes to the players in the game. If you get to sell your shares at the top of any market, the buyer of that particular share is giving you an amount over and above what he or she will eventually realise for that particular parcel. The money actually goes to the seller, not into the sky.

Some investors are aware of this when they come to us, the majority are not. My original aim was to try and put a few more investors onto the right side of the ledger. Get them out of the red and into the black.

We have found that the Starter Pack is the best way to give a trader some form of control over his or her investments. Firstly it defines the trend of any market. After that it gives you a precise entry point at a relatively safe area in the market. It also lets a trader know how to handle a declining or bear market - and make money under those trying circumstances. I suppose it has made many an investor into a trader. Many traders then ask, "what's the next step?" or "where do I go from here?"

The first thing I would like to stress is that you do not have to go anywhere. The Starter Pack program is a stand- alone trading system. If you understand its principles and its variables you can say that you have arrived. You are in front of ninety percent of the private investors and more of the professionals that they would like you to think. But always remember, you are there. The one thing I would like you to do is attend our Starter Pack Seminar. At this we can clarify your thinking. We can give you the reasons why the rules are written as they are. These workshops are free for first time attendees and we run a number of them each year in the capital cities.

I have used the Starter Pack principles in my own trading since 1985. I included these principles in my first training sessions in 1988. The course was published in 1991. Most of it clearly came from W.D. Gann.

We pushed and pulled the rules considerably before it was released. Currently we are in the final throes of a comprehensive re-write of the Starter Pack. We have code named it 'The Smarter Starter Pack'. It has taken us four years, many, many workshops, and many hundreds of clients to come up with these changes. They are compatible to all of the current Starter Pack rules. I put the very best into the original course, now we will add to that.

The main changes will revolve around a basic pyramid plan that is directly in line with W.D. Gann's rules for trading the market. I originally had this as part of the Starter Pack concept but removed this section of the trading plan before it was submitted to the general public. The way it was originally written was acceptable for seasoned traders, but not for beginners. We have now developed a system that will be user-friendly, as the computer buffs say.

I believe that the Starter Pack will give a new trader the basic discipline and opportunity to be profitable. The new rules will give a trader the opportunity to maximise profits in a strongly-trending market. I know this is necessary as lately I have seen examples of traders who have not taken what I would classify as reasonable profits out of the trading situations that our own Share Price Index contract has been providing. The most common mistake is focusing on too close of a time frame. In the recent strong upswing many traders destroyed a brilliant trading opportunity by focussing on quarter-hour charts. To my knowledge all of these traders were in and out before the run had developed. You must get a decent chunk out of a run or you are basically wasting both your time and your money. The lure of closer stops pails in significance compared with the useful profits that would otherwise have been yours. Successful traders always look at the big picture.

We will also expand the section on "The Complete Trader". This will go a long way to helping you become a truly professional trader.

KEEPING YOUR OPTIONS OPEN

by Neil A Costa

Many share traders see the buying of exchange-traded options ("puts" and "calls") on shares as being an ideal compromise between trading shares and trading futures. They are attracted by the relatively low amount of capital required, the high leverage that can be gained, and the fact that they can use their existing share broker. Few who commence this journey, however, are fully aware of the potential pitfalls:

Successful options traders:

- understand the behaviour of options under various market conditions, which option series and strike price to trade under a given set of circumstances, and so on;
- consider the use of exit targets to close a trade out in the direction of the trend;
- understand market volatility and how to predict powerful moves; and
- understand market cycles, and how to anticipate longer-term moves.

Decay

Part of the price of an option is its “time” value. The longer an option has until it expires, the greater its time value. New options traders soon become aware that a share price can remain stable, while the option price slowly (and some times rapidly) decays.

Bid/Offer Spread

Most exchange-traded options in Australia are relatively illiquid - that is, they do not trade in sufficiently large quantities to result in a freely-flowing market. This is due, in part, to the large number of options series and strike prices which are traded. The price that one pays for a large choice of options to trade is the fact that the bid/offer spread can be quite large. For example, an option could have a buyer at 20 cents and a seller at 26 cents. If you bought and then sold soon after, you could conceivably pay 26 cents to buy, then sell at 20 cents. This can represent an immediate loss of 30 percent - not taking into account brokerage, decay or an adverse market move.

Brokerage

The brokerage payable on an options transaction, even through a discount broker, is much higher per dollar risked, than for a futures trade. It can represent an alarming percentage of the premium payable for traders who trade in relatively small lots.

Elasticity

Options are notoriously elastic - in the sense that after a run in the direction of the trend of, say, 100 percent, by the time the underlying share retraces 10 percent, the option can spring back, say, 30 percent. Profits can erode at an alarming rate!

No Stop-Loss Orders

Options brokers are not obliged to take stop-loss orders. Given the speed at which an option can drop when a trend changes (its elasticity), if you are not in a position to monitor a trade intra day, you can often find that a promising trade is looking a little sick in the space of half a day!

Once-Removed Charting

It is possible to construct a chart of the specific option that you are trading, however it can be very time consuming. You usually have to construct a new chart, going back a reasonable number of days or weeks, for each trade. This is because you are likely to choose to trade a different options series or strike price as prices or time moves onwards. As a consequence, many options traders chart just the underlying stock. This is much less time consuming, but it is once removed from the option you are trading.

My message here is that, yes, options can be used as a trading vehicle, sometimes with outstanding results, but learn their characteristics before you commit too much time and money to trading them.

FUTURES -the mystery unveiled

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Many new to the game of trading find the concept of trading a “futures contract” quite daunting. The following article, courtesy of the Sydney Futures Exchange, may well provide some invaluable insights. The SFE produces high-quality literature, often available at no cost, to assist traders.

For further information, please contact the SFE Marketing Department on (toll free) 1800 641 588.

What is a Futures Market?

A futures market is a place where agreements are made to buy or sell commodities or financial assets for future delivery. These agreements are know as futures contracts and can be for periods ranging from a few months or up to three years from now. By definition, a futures contract is a legally-binding agreement made between two parties to buy or sell a commodity or financial instrument, at an agreed price, on a specified date in the future. They can be based on commodities such as wool, gold or silver or else on financial instruments such as treasury bonds, stock market indices, individual shares or currencies. The quality and quantity of each contact is standardised and hence the price at which the contract trades is the only variable and is determined between the buyer and seller at the time when the contract is traded.

What is the purpose of the Futures Market?

As most investors would be aware, interest rates, commodity prices, share prices and exchange rates fluctuate often quickly and over wide ranges. Those who may be affected by such fluctuations such as investment banks, fund managers and corporations, use the futures market to insure or protect themselves from this price uncertainty. For buyers, futures markets provide a means of locking in the price at which they will purchase a commodity or financial asset in the future, while sellers can use futures to establish ahead of time, the price which they will receive for the supply of their commodity.

An example of the use of a futures market could be a corporation who intends to borrow funds on a short-term basis say, in three months time. The corporation’s risk is that interest rates may rise between now and the time when the borrowing is scheduled to take place. To protect themselves from an increase in borrowing costs, the corporation can sell bank bill futures which expire either on, or soon after, the date when the borrowing will occur. Should interest rates rise, bank bill prices will fall which will generate a futures profit. This profit can then be offset against the increase in borrowing costs.

Sydney Futures Exchange provides the market where transactions of this kind can take place on a daily basis. As buyers and sellers are exchanging contracts rather than the underlying commodity itself, it is possible to deal on the futures exchange without ever seeing or handling the commodity or instrument concerned. Indeed only a relatively small proportion of contracts traded actually result in delivery. The overriding majority are closed by participants taking an opposite position in the market to the one originally held. Futures contracts to buy are cancelled by contacts to sell while contracts to sell are cancelled by contracts to buy. In this way, most participants use the market primarily as a price setting mechanism rather than as a means of giving or receiving delivery.

Users of the Futures Market

In any futures market, users can be broadly categorised into two distinct groups. The first of these are known as hedgers. Hedgers are risk avoiders who use the futures market as a means of obtaining price insurance. Hedgers make up the vast majority of those who use the market and it was their need to manage price risk which inspired the creation of futures markets. The other user group are know as speculators. Unlike hedgers who utilise the market for price protection, the speculator participates in the market with the aim of making profits by correctly anticipating futures price movements.

Though their role is often misunderstood, speculators are crucial to the efficient operation of the market as their willingness to assume risk provides the means by which hedgers can transfer their risk. Their consistent quoting of both buying and selling prices also increases liquidity and depth and enhances the process of price discovery.

Trading Hours

Trading takes place at the Exchange on Monday through Friday with the trading floor open between 8.30 am and 4.30 pm. After this time, trading is then transferred onto the Exchange's after-hours screen dealing system, SYCOM. SYCOM, or Sydney Computerised Market, operates on standard personal computers located in the offices of SFE Floor Members. These computers are linked via dedicated telephone lines to a host computer at SFE with orders being matched on a price and time priority basis. SYCOM operates between 4.40 pm and 6.00 am (7.00 am during Australian summer time) and in so doing, allows customers in Europe and the United States to deal in SFE's markets during their normal trading hours. SYCOM has played an important role in the globalisation of SFE's markets and has allowed SFE to establish international connections to other exchanges in New Zealand and New York.

THE TRADERS' DEVELOPMENT CYCLE

by Neil A Costa

No one can truthfully claim to be a student of Gann theory if he or she does not appreciate the fact that history repeats... that is, that price and time move in cycles. It is reasonable to take this a step further, and say that one can analyse the development of a trader along the lines that one would begin to analyse price and time cycles.

At our August Back to Buderim weekend, the annual gathering where previous attendees of the Five-Day Trading Congress meet to exchange ideas, one trader's contribution was to share the stages he has gone through from the time the idea of trading first appealed to him, to where he is at the moment. In the interests of preserving his anonymity we will call him Chris. C, and yes, if you can spell his long surname, you know him!

Chris drew a diagram of the stages he has gone through in becoming a trader. The diagram resembles the "Seasons of a Trade" diagram in the new Smarter Starter Pack. A modified version is as follows:

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It is possible that some, if not all, of the following will sound familiar:

1. Idea Season

The idea season is the first season. For people who have never traded, it is the initial thought that they would like to trade. For experienced traders, it could be an idea for adding an additional trading indicator, such as Time by Degrees.

2. Optimism Season

This is the period when the decision is made to act. Information is gathered on the system or indicator, and the benefits of the system or indicator become obvious. We tend to become very enthusiastic about our new system - often unrealistically so - unduly focusing on its positive aspects. At this time we attempt to come to grips with the system or indicator, however we often do not test it as rigorously as we should.

3. Pessimism Season

The Pessimism Season is when we first act on our new system or indicator and do not get the results we had hoped for in the Optimism Season. As is often the case with human emotions, when we perceive that something is not giving us the instant gratification we had anticipated, we tend to only focus on the negatives, and thus become unduly pessimistic.

Some people give up at this point. These are the people who, regardless of how good and proven a system has been, and subsequently turns out to be, will throw the system away after three losses in a row.

4. Intellectual Season

Those with the determination and ability to persist then enter the Intellectual Season. This is the “back to the drawing board” season where they go back to first principles, studying every aspect of the theory of the system, and back-testing it rigorously and critically - often for the first time. All of this work is usually ultimately rewarded, however if an extreme is reached in this season, it is in trying to be too definitive - that is, in trying to reduce all aspects of the system to black and white, when in trading, allowing for a little grey can often enhance profits in the long run.

5. “Bringing Into Being” Season

The final season is the season for balance. If you have persisted through all of the above seasons, you should now be in the position where you have mastered the technical aspects of the system or indicator, have back-tested it rigorously, and you fully understand its strengths and weaknesses. You can now trade it in a relaxed manner, and derive consistent profits from it by accepting that it will produce both winning and losing trades, but that by taking every trade, over a reasonable period of time, the winning trades should exceed the losing trades in both number and dollar value. At this point, you feel that you have made it... only to then get another bright idea about another indicator... and so on.

[Thankyou Chris for your most worthwhile contribution. I hope that I have not distorted your original message in my attempt to broaden its scope!]

WHY DO MOST TRADERS LOSE?

by Dr Harry Stanton

During a ‘trading more effectively’ seminar in the USA, a questionnaire was given to participants asking them to decide on what they thought were the most typical errors committed by traders. The four main reasons were these:

- lack of confidence;
- lack of a trading plan;
- poor execution of trades; and
- fear of loss paralysing decision making.

It is interesting to note that all four of these reasons for losing could be avoided with the adoption of a reasonably successful trading plan. With a method such as the Starter Pack, the issue of confidence becomes far less important. This is true only if it is followed implicitly with all signals given. If the plan is followed exactly according to all the rules, whether traders are confident or not is irrelevant. They just enter the market when the Starter Pack says to enter the markets and exit when the appropriate stops are hit or the target attained. Naturally, after the system proves itself to be profitable, traders will take these actions more confidently but that will not affect their results as long as they stick to the rules. For confidence is a double-edged sword and often, after a few wins, people become carried away with their own success, ignoring the money-management rules and over-trading is a sure recipe for disaster.

Obviously the second point, the lack of a trading plan, is covered by using the Starter Pack as is the third point, execution. If the rules are followed as set out, the entry and exit points are clearly specified. Any good trading system should do this. If they do not establish entry and exit points clearly, they are most unlikely to be successful as the psychological factors of fear, hope and greed will prevent success on the part of their users.

Which brings us to the fourth point, fear of loss. Even the best trading plan in the world is not going to be able to avoid this one. Plans having a 60 percent success rate, which is a pretty good track record could, under the laws of statistical probability, have up to 12 consecutive losses. That would not only increase the fear of losing to virtually unmanageable proportions, it is also likely to destroy confidence in the system entirely. Such a continuous run of losses is exceptional, particularly with the Starter Pack which has a better than 60 percent record, but the statistics say it could happen. However, the chance of survival as a trader is far greater with a trading plan than without one and, under most conditions, the fear of loss is more manageable when you are using one.

Jake Bernstein, writer of many books on trading and an experienced trader in his own right, reinforces many of the points made above when he talks of the five main blunders. He has stated that of all the things that can go wrong in the market, he suspects that about 80 percent of them occur as a function of the trader's psychology. These seem to be universal among traders. These errors are immensely costly, serious, totally absurd, common, yet are simple to understand.

The first blunder is not taking a loss at the right time. This is a point David has stressed repeatedly and readers of Gann's books find this reiterated time and time again. The market is always right and no matter how brilliant our technical analysis may be, it is simply lines drawn on charts. It is not reality. The market is reality and it will do what it has to do irrespective of our belief that it should do something else. Thus it is essential to establish a point at which you must accept your analysis has been wrong and that you have to cut short your loss before it assumes disastrous proportions. So all good trading systems incorporate, in their exit parameters, specific points where a trade must be quitted.

This requires some action on your part as a trader, and as a rule, people find it easier to do nothing than to do something. The act of taking a loss requires unpleasant thoughts, unpleasant actions, and unpleasant negative consequences. Using stops to protect capital is fine in theory but in practice it can be a cause of great frustration, as a series of relatively small losses steadily erode capital. There is, unfortunately, no perfection in this world. Still, most successful traders come down on the side of using stops as the lesser of the two evils.

Bernstein states that the second great blunder is not acting on signals. Human beings have a great propensity to second guess the trading plans they use. After a couple of losses they might hang back and decide to let the next trade go because that might lose too. When it proves successful, they take the next signal. That could be the loser. The law of averages tells us that no matter how long a run of losses may be, there is no way of knowing whether the next trade will be successful or unsuccessful. If we chose to take some trades and not others, we are not trading the system at all. Of course, it can work the other way too. A series of wins leads to forcing trades which really are not there and this is just as great a problem. As Bernstein asks: why have a system if you don't use it?

Closing profitable trades too soon or too late is the next blunder Bernstein lists. This one comes about through fear and lack of confidence. In failing to act on buy and sell signals generated by your trading system you leave yourself open to the errors of chasing the markets, waiting for prices to retrace, panicking and buying or selling too late. This particular blunder is caused by feelings of insecurity about the potential of your trading system. Again, use a trading plan with clearly defined targets, and stop points for early exits if this is necessary, can be helpful here. When you chose not to stick to these parameters, you make your decisions on emotional rather than systematic or logical grounds. If your system has had a few successive losses, you can become insecure about its profitability and thus take any sort of profit as it appears. Conversely, unrealistic expectations that one winning position can compensate for a series of previous losses leads to staying in too long, losing the profit that was there through a reversal.

Blunder number four is acting on extraneous information. This means you should not consider any information that is not the direct result of signals or indicators derived from your trading system. If you listen to and act upon advice from different sources it puts you in a position of not learning from the results of your trades. The worst learning results from profits which are made in spite of unsystematic behaviour and listening to too many opinions.

Trading with insufficient capital is the last blunder on Bernstein's list. Trading with limited capital makes for a nervous trader. Probability theory indicates that traders who begin with sufficient funds and follow a conservative money-management approach increase their chances of success. It is important to begin with your entire starting amount, placing those funds with your broker, whether you use them or not. In this way you know exactly where you stand with the percentage of your risk capital you have allocated to trading. Without such a specific money-management plan most traders will not survive. Only a certain percentage of capital should be risked on any one trade, so a succession of unsuccessful trades will still leave you in the game. Risking too much on one or two trades that look so good can easily lead to wipe out. David has said on many occasions that many of the trades he thought were sure winners were the ones that turned out to cost him dearly.

TIME FOR A CHANGE

by Neil A Costa

Futures traders are faced with the prospect, at regular intervals, of having to cease plotting data of a contract at or close to contract expiry, and commence plotting data of the new contract. This sometimes causes some confusion and frustration. (Wipe the smile off your face, share traders - I find adjusting data for rights issues and stock splits more annoying!)

If you are a futures trader, the following points may assist you to make the transition smoother, and hopefully, more profitable:

1. Most data vendors supply you with data until, and including, the last day of the contract. This is acceptable, but not our preferred way of doing it. We prefer to make the change to the next contract when the volume for the next contract exceeds the volume for the current contract for the first time. Higher volume can be equated to higher emotion, therefore, given that we are really charting mass emotion, it follows that we change contracts when the volume changes. With the SPI, this tends to occur in the last few days of a contract's life. Sometime, the current contract remains the higher volume contract until it expires.

2. I place a symbol (like a copyright symbol ©) on my chart the day I begin to

plot the new contract. This reminds me that any gap that may result was not tradeable.

3. Be careful when trading around the change of contract time. If a trade has been taken late in a contract's life (say the last few days), you should get your broker to 'roll it over' into the next contract if you believe that the trade has the potential to keep going. (If a contract only had, say, three days to expiry, I would prefer to trade the next contract, thus avoiding the need, and cost, of rolling the contract over.) Be very careful with contracts which do not have provision for cash settlement. You could find yourself with a lawn full of pork bellies!

4. If you are trading the Smarter Starter Pack, try to compare apples with apples. By this I mean that if your Point A occurs in the current contract, and your Point B occurs in the next contract, recalculate your Point A using the next contract's data, otherwise you could get an artificially large or small reference range.

5. Treat chart patterns on their merit. For example, last year the SPI had a double bottom consisting of one low on the last day of one contract, and the other low on the first day of the next ontract. This proved to be an excellent double bottom trade, yet a number of traders missed it because it involved bars from two different contract months! Remember - when you are trading patterns such as double tops and double bottoms, it is the pattern on the chart that is important. Other traders will be ready to trade it - you should be too.

6. Finally, watch for fast moves immediately after a change in contract. It is a bad time to be indecisive or complacent.

STRESS AND THE TRADER

Dr Harry Stanton

As is true of all the 'Back to Buderim' meetings, at the August 1995 get-together participants spoke of the methods they were using in their trading. One gentleman talked of his frustration's of losing even when doing the 'right thing', of using appropriate technical analysis tools only to be stopped out again and again despite his analysis being correct as the market moved in the direction he had predicted. He continued to outline his current, profitable method of trading which included very loose stops and averaging down when he felt his analysis was correct. These are two of the cardinal sins of trading against which we are constantly warned, yet, in this case, the trader in question had turned a losing performance into a winning one.

I quote this experience only to emphasise a very, very important point about trading and about life in general. Just as there is no one 'right way' to trade, there is no one 'right way' to live your life successfully. Each of us has to find our own best way, one that suits us as individuals. To trade successfully, you must find an approach that suits your personality, one with which you can feel comfortable. This may not be the way the 'experts' tell you but it is likely to work best for you. As many experienced traders have said, psychology is the most important factor in trading success, this being reflected in your ability to discipline your emotions so that you trade in a controlled, objective way. This factor is, many believe, of more importance than the system you use or the money management methods you employ. You are not going to be able to achieve this emotional discipline with an approach that, no matter how 'correct', makes you feel uncomfortable. However, when you do find a way of trading which seems to fit your personality, you are likely to be less stressed and therefore more in control of yourself psychologically. In fact, how you handle stress in your life will make a tremendous difference to your success or otherwise as a trader.

In my Stress Management seminars, I often begin by asking participants to list the things which cause stress in their lives and to identify for each one where the distress occurs, who is involved, how frequently it takes place, and whether they feel they have any control over the situation. They then identify those distressful events to which there seems to be a remedy and those which they would most like to resolve. The most important outcome of this exercise is that participants realise that they are largely responsible for their own stress.

Apart from flood, famine and war, we create virtually all our stress by the way we choose to think about the events that occur in our lives. This is not easy to admit. Nor is it easy to accept responsibility for doing something about it. In fact, it has been said, somewhat cynically, that one of the main reasons for marriage is that we need someone to blame so we can avoid taking responsibility for our own actions.

Today, stress is the fashionable object of blame, the means by which we can avoid admitting that we are creating our own problems. Stress is assumed to be something external, malignantly waiting to pounce upon us, rather than to be something internal, a function of how we choose to react to the events in our lives. We find it difficult to separate 'what is', that which actually occurs, from what we are adding to 'what is.' Thus, at work, your boss brushes past you without answering your 'good morning' This is the 'what is', this is the event that actually occurred. Now, it is quite likely you will spend the rest of the morning worrying about why your boss is displeased with you. Has he found out about your latest blunder? Why is he no longer friendly? This is what you are adding to the situation and it is the way you create your own stress. You don't know why your boss is off-hand, and all your worrying and fretting is not going to change anything. In fact, it probably has nothing to do with you at all. Perhaps he has had harsh words with his wife, or the traffic has been bad, or his stomach is playing up. You just don't know. Yet, you impose great stress upon yourself by adding fears, anxiety and frustration because of the way you interpret his actions.

This scenario, repeated on many occasions, is likely to create a chronic stress problem, one you will blame on your boss, the work environment, your spouse, the media, or something else. Rarely will you look inside yourself to discover the real reason why you feel so strung out. If you do accept your own responsibility for your state, the solution is within your grasp. Take more control over the way you think. Either you take such control or you are at the mercy of any thought that comes into your mind. If you think thoughts such as: 'I will not trade until I am sure I will not make a loss' and act as if this is true, you impose great pressure upon yourself, virtually ensuring that you will never actually trade. Similarly, thoughts like 'the market is out to get me' or 'nothing ever seems to work out the way it does with my paper trades' creates stress within you if you actually allow yourself to believe them. But you don't have to. Thousands of thoughts come into your mind every day. They may be true, partly true, false or totally irrelevant. However, they can exert an influence over your life if you accept they are true and act accordingly. If you accept as true that the market is out to get you, you will feel victimised, resentful, frustrated, and stressed. But the market doesn't care about you as an individual. It simply is. So your thought is wrong. You have allowed a false thought to make you stressed. If you can give a thought the power to do this to you, you can also withdraw this power.

Imagine you are sitting in a cave watching a waterfall outside the entrance. Think of this cascade as your thoughts, a constant, never-ending torrent, from which you are separated by being back in the cave. You watch the thoughts flowing past at a distance, but, just as you don't have to get wet in the waterfall until you choose to, similarly you don't have to involve yourself in your thoughts unless you want to. Why choose to involve yourself in thoughts which will create stress within you unless, by so doing, you can improve upon the situation? This is rarely the case. Usually all you achieve by worrying and fretting is to make yourself and everyone around you feel bad.

Stress is disadvantageous for you as a trader because it interferes with your emotional separation from the markets, a separation that allows you to step back and watch your thoughts about trading before you decide which ones you will allow to influence you. There are many unknowns in trading such as:

Should I stay with my system after four losing trades?

Should I wait a little longer and thereby miss a profitable trade or jump in now?

Should I use a wide or tight stop?

For each of these questions and countless others raised daily when trading there is no correct answer. Regardless of the choice made, the outcome of that specific decision is unknown. Stress arises when one has to make a decision between two or more choices and the outcome of either choice is unknown, or, having made a decision, stress arises when you have no control over the outcome. Since each of the above questions requires a decision, and since the decision is based on unknown outcomes, a trader continuously faces stress.

One method of improving this situation is to take the Ultradian break. Some research evidence indicates that approximately every hour and a half, human beings experience a sort of 'let-down' for about a quarter of an hour. During this time we tend to fumble over words, make mistakes, find it difficult to concentrate and become more forgetful. If you attempt to work through these 'let-down' periods, you will become increasingly stressed and your data analysis will become more fraught with error. Therefore, it is helpful to lie down or relax in a chair, notice which parts of your body feels most comfortable, and then relax into that comfort which will spread automatically to other parts of your body. Then tune into your breathing, heartbeat or pulse. Feel its rhythm without attempting to change it. Simply go with it, then let your mind wander to a favourite fantasy, image or restful idea. Alternatively you might like to use this peaceful time to review some real life experiences that are comforting and positive.

The Six B Plan is another straight-forward technique to alleviate stress.

Breathe - take 2 deep breaths.

Beam - smile broadly.

Body relax - let go tension in jaw, brow, neck, shoulders, stomach, hands.

Body balance - stand tall, look up, smile, stretch arms up.

Brain - talk to yourself in positive, encouraging supportive ways.

Back - step back and detach yourself from thoughts, feelings, etc. See them pass like movies on a screen.

Jake Bernstein also had some thoughts about how stress might be handled more effectively. His prescription included the following steps:

Stop excessive stress before it starts. eg. take regular vacations, work a reasonable number of hours per day.

Don't try to trade every market. Attempt to specialise in certain markets. Try to become an expert in a few things.

Don't try to catch every move. It is not possible to catch every daily, weekly or monthly move. Specialise in one or two time perspectives.

Don't set your goals too high. eg. first focus on avoiding losses, then on increasing equity, and lastly on making a lot of money. Too many people try to do it the other way round.

Don't take the market home with you. Begin each day fresh.

Find a way to vent stress and pressure. eg. regular physical exercise.

So the message is clear. Do everything you can to reduce the level of stress in your life and your trading. By doing so you will live better and trade more successfully.

FORECASTING THE SPI - HISTORY JUST KEEPS ON KEEPING ON!

by David E. Bowden

In March of 1995 we ran a seminar called the One-Day Mini Trading Incubator which was part of our Profit Prophet series. Perhaps you were part of that program. Some of the points covered on the day were... constructing a relevant forecast; constructing a working long-term trend indicator; turning a profit from the tradeable effects that governments and elections have on share markets. (I think we could also classify that as relevant); geometric charting and squaring Time and Price; Time by Degrees; and, Gann's Permanent Squares.

As an adjunct to the last topic, I said I would show you how to construct a square specifically related to a particular market. On the day, those of you who were in attendance, will remember I used the "square" or number 256 and illustrated how the number related to our Australian All Ordinaries Share Price Index contract. I showed you how the market actually gave you the number, you did not have to go and manufacture it.

I covered approximately three years of market movements, illustrating how 256 gave the trader a series of major pressure points. At the time the market had just put in a major low of 1793 (256 x7 = 1792) on Wednesday 23 November 1994. The swing top previous to this had occurred on Monday 24 October 1994. The top on that day was 2050 (256 x 8 = 2048) so you had both the square of 256 and Time by Degrees (approximately 30 Calendar days) working.

To make things easier to comprehend and to get traders focused, I actually wrote to every attendee after the seminar and suggested that they select and study just one number - 256. I also supplied on the day the time pressure points for all of 1995. I can't help but wonder how many took that advice to heart and did some research on 256 and Time by Degrees? Were you one of those individuals? If you were you would have done well in 1995.

This is what you would have seen unfold in 1996. So far, (and I emphasise so far), we have had significant highs in both January and February of 2319 and 2322 respectively. You could have done a lot worse than take your profits at 2304 (256 x 9). What seemed more apparent to a number of traders was the target price of 2311, being the 2055 (256 x 8 = 2048) November 1995 low plus 256. This time the square was a maximum of 18 points out which has been it's biggest error since the November low in the year 1992. The market was outperforming the forecasts, but I wonder how many of us can claim the same accuracy?

In writing this article I am placing before your eyes a number of November changes of trend. For 1991 it was the yearly top. In 1992 it was the low; 1993 the top; 1994 the low and of course a significant low for 1995 occurred on 1 November. This brings us to the importance of anniversaries in trading - and in our own lives.

I have given you a brief run down on November changes in trend. January is even more consistent. Can I be so bold as to ask you to have a look at its track record? It's one way for you to learn. While doing this exercise I suggest you pay particular attention to the dates of 16 and 17 January and their 180 degree counterparts 17 and 18 July. Watch their relevance to both stock and oil prices. Those dates are of course the anniversary of the Gulf War and at about that time of the year you will see Saddam Hussein jump up and make a noise - just like he did this year (1996) on 17 January. I always watch for it as my birthday falls on 18 January. (Thanks for all those cards and good wishes.)

You should celebrate your own anniversary as it is a very important time. It's the day you joined us on this planet. It is the first day you were listed on the Big Board.

We send out birthday cards to all of our clients. You are all special and we want to celebrate with you.

We also have a little party in the office when any of the staff has a birthday. Here are the days we will be celebrating for each of the staff.

Me___________18 January

Diana________8 February

Soxy_________1 May

Pauline_____6 July

Christine___30 July

Chris________17 August

Dan__________1 September

Jason________19 September

Neil_________13 October

Susie________6 November

If you would like to join us give the office a ring on the day before the event. If you can't make it send a card or give the crew a ring.

It's a special day in our lives, but if you want to be smart watch for squares, anniversaries and Time by Degrees in the stocks or markets that you trade.

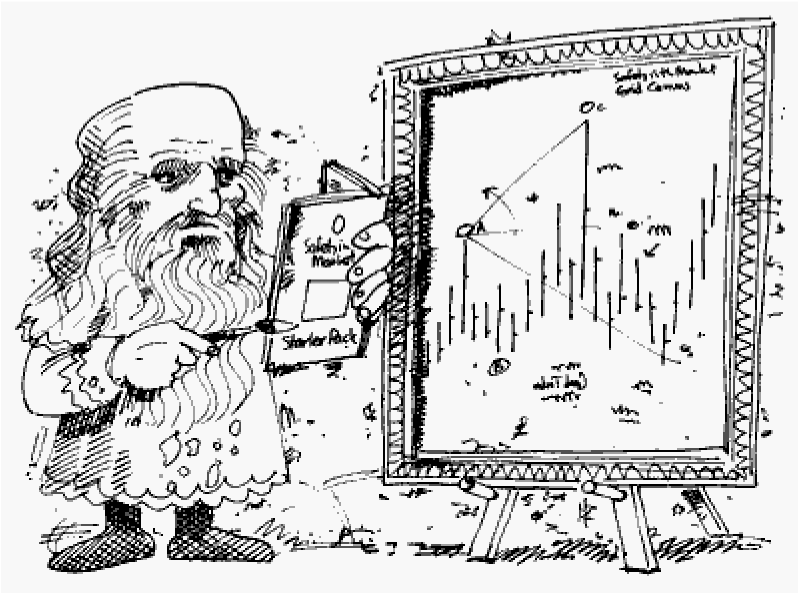
Best of luck

David E. Bowden.

GETTING INTO THE HABIT OF STUDYING THE MASTERS

- it's all in proportion

by David E. Bowden



The Bible says that what has been, shall be again. Indeed, this statement is the basis of every forecast I have ever made. If history did not repeat, then forecasting in particular, and technical analysis in general, would not be possible.

It has been my experience that history also tends to repeat when it comes to publications on technical analysis. The vast majority of modern-day books on trading and investment are based on the works of a few true masters who analysed and traded the stock and commodities markets in the early decades of this century. An example of this is where Gann instructed traders to always look at the big picture first - the monthly chart, then the weekly, then the daily. In recent times this important principle has been repackaged as “three dimensional analysis” and “triple screen trading”.

I have found that by studying the works of these masters, my market analysis and trading skills have been developed on a rock-solid foundation. As you would be aware, it was the books and courses of W.D. Gann which inspired and influenced me most. The Smarter Starter Pack is based on the principles documented by Gann in the early part of this century - principles which apply to markets every bit as much today.

You may not be aware that in my opinion, the second-most influential master of that era was a gentleman by the name of Tubbs. Tubbs’ Law of Proportion, a clearly-defined action and reaction theory of how markets move, influenced the development of the Smarter Starter Pack. Indeed, in The Number One Trading Plan I quote Tubbs when he discussed the relationship of moves saying “aggregates and individual stocks tend to run on half, two-thirds, three-quarters of previous moves”. Does this sound familiar?

Since writing The Number One Trading Plan I have been able to obtain a copy of Tubbs’ Stock Market Correspondence Lessons. This rare, in parts almost illegible course, is a classic in its field. There is no doubt in my mind that Tubbs, like Gann, was a true master.

Get in the habit of studying the works of the masters. They understood that one could not make large profits, consistently, from trading with some “holy grail” method. They knew that the big profits were made by those with a good market education - and they gave you that education. It was their way of giving back a little in exchange for everything that the markets had given them!

THE KEY TO UNLOCKING GANN'S SECRETS

by Neil A Costa

W.D. Gann firmly believed that one had to work hard to master the key skills required for successful technical analysis and trading. Indeed, in his books and courses he stated that if someone were prepared to work hard, he would reveal all of his discoveries to them.

I have never had any trouble accepting this principle. Indeed, in my early days of studying Gann's books and courses, I would take every opportunity to read the book or course in question, summarise it, then type my summary. I would often repeat this process with the same book or course several times, ending up with more and more detailed, and progressively better understood, summaries.

This was certainly an excellent approach to learning Gann theory, and I still use the same technique today, however it never gave me the "feel" for how Gann analysed and traded. Indeed, it left gaps in my knowledge in areas where I had not fully understood precisely what Gann was getting at. (If, at this point, you think that I am obviously a bit "thick", try reading some of the more obscure sections towards the end of the W.D. Gann Commodities Course!)

My knowledge of Gann theory finally took a quantum leap after attending David's first Number One Trading Plan Seminar in Sydney some years ago. David had advised me to read 45 Years in Wall Street, as he was planning to base the entire seminar on what many argue was Gann's best book. I did. I not only read it several times, but summarised it carefully and felt very comfortable with it.

At the conclusion of the seminar David asked me what I thought of the seminar, and I recall saying that the seminar was excellent, however I was surprised at how little of it was based on 45 Years in Wall Street. David laughed. He then said "you obviously haven't found the key to unlocking Gann's secrets"! Fortunately for me, David went on to reveal the key.

The key to unlocking Gann's secrets is to understand the theory of what Gann is saying in his books and courses (this is still the first step) but to then work through the trades he describes. I used to get to Gann's long, boring (to me at the time) sections where he describes trades and skip 20 pages at a time! I was missing the important bits!

Today I tackle these sections in a systematic manner. I plot any data I can on MetaStock, and print as large a calendar-day chart as possible. I then follow each trade in detail, step by step, marking any key points on the chart, and making notes of any concept I had not fully grasped previously. Not only did the size of my summaries increase immediately, but my "feel" for what he was saying improved immensely. Most importantly, I could see how he used to put the various concepts together.

If you are determined to master Gann technique, read pages 33 to 38 of 45 Years in Wall Street, and concentrate closely on what Gann is saying. (Drawing a rough chart of this period certainly helps the comprehension process.) I am confident that as you work through what he says, you will not only understand exactly how you should use the percentage of high and low prices to calculate support and resistance levels, but you will also gain a feel of how Gann integrated time cycles into his analysis and trading.

Finally, do not be perturbed about the possibility that too many people will unlock Gann's secrets, thus destroying a good thing. The simple fact of life is that few people will ever go to the trouble of doing the work. We live in a "quick fix" world - hard work is not an attractive option for many people.

AT LAST - GANN AND ELLIOTT BECOME FRIENDS!

by Neil A Costa

For many years dedicated Gann analysts have treated Elliott Wave advocates with great suspicion! Indeed, the humour has been flowing thick and fast between the camps!

- Have you ever been to one of David's seminars and, when a white board pen didn't work, hear David say "it must be an Elliott pen?

- When I was in Singapore recently, K.K. Tang made reference to Elliott Wave Theory while introducing me to a group of Singapore's professional traders. He gained a good laugh from the Gann enthusiasts present (and some cold, hard grimaces from the Elliotticians) when he referred to Elliott 'Waive' Theory.

- I must confess to being guilty of answering the question "Does Elliott Wave Theory work" with the response "Oh yes, Elliott Wave Theory works - after the event."

In reality, Elliott Wave Theory is largely consistent with Gann Theory. Elliott said that markets move in a five-wave (three impulse waves) pattern in the direction of the trend. Gann said that markets move in the direction of the trend in three or four "sections". Both Elliott and Gann agreed that two of the three impulse waves (those in the direction of the trend) will tend to be equal in both time and magnitude.

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PLAYING THE TRADING GAME

by Dr. Harry Stanton

In an earlier Ticker Tape I referred to the Inner Game of Trading which is played against the internal mental and emotional obstacles we create which interfere with our performance by encouraging us to worry, agonise, and become upset. The importance of this game to the trader is illustrated in the following comparison of top and average traders.

THE INNER GAME OF TRADING
What is it that causes most traders to behave in this self-defeating manner which stops them from playing this game of trading more successfully and achieving what they want? One possible answer would embrace the obstacles that exist within their own minds.

MOST TRADERS	TOP TRADERS
Identify market signal...	Identify market signal...
Confused, anxious, or inconsistent reaction...	React automatically with confidence...
Feel 'bad' (angry, nervous,hesitant) about the trade.	Feel 'good' (confident, high self-esteem) about the trade.

COMMON INNER OBSTACLES
• Failure to realise that you can control only yourself, not the markets. • Failure to realise that you alone are completely responsible for the outcomes of your actions. • Inflexible perception.. • The unstructured nature of the market. • Losing the edge. • Your beliefs.

It does appear so obvious that it is only yourself that you can control, not the markets, yet it is equally obvious that most traders do not behave as if this were so. Just as you do not have the power to control or manipulate the market yourself, the market has no power or control over you. The responsibility of what you perceive and for your resulting behaviour is totally yours. Because of this, you are free to structure the game inside your mind in any particular way you please because it is you alone who decides whether the game begins or ends. That means, if you are behaving in a way that is not getting you where you want to go, you will have to change this inner structure.

As you gain experience as a trader, the more you will realise that trading is primarily a mental activity. It isn't an Outer Game of you versus the markets, but an Inner Game of you against the obstacles thrown up by your mind. Instead of looking at other traders as competitors against whom you must battle, you might prefer to think of them as giving you the opportunity to profit from their divergent views of future market direction. This is comparable to loving your tennis opponents for the opportunity they give you to draw on your own inner resources and become the player you are capable of becoming. So,

too, the markets offer you, the individual trader, the stimulation which can enable you to become as good a trader as you are capable of being.

Once you accept that you alone are completely responsible for your actions, you can assume control over your own trading behaviour. It is not the market that creates the ways in which you see it. Rather, it serves as a mirror, reflecting what is going on inside of you at any particular time. A rally, for example, has no objective meaning in itself. It is you who provides this meaning, depending on whether you are long, short, missed a profitable trade or stayed out of a losing trade. The way you perceived the market was a creation of your own mind. From the myriad of alternatives available, you choose one.

Probably the most fundamental of the difference that distinguish winning traders from those who lose is that the former know they are responsible for their results while the latter think they are not. To win consistently, it is essential you accept complete responsibility for results you produce. So, although you may not be able to control what the markets do, you can control the way you perceive them so that you become far more objective, far more detached.

This is so essential because of the no beginning and no end characteristic of markets. Unlike gambling on horse racing, where you make a deliberate decision firstly as to whether you will play and secondly exactly how much you will bet, the market encourages you to be a passive loser. With horse racing, each new race is a fresh start, one in which you cannot lose more than your bet. The rules of the game force you to be an active loser in that you cannot lose more money than you have already lost unless you make another bet. You have to actively participate in order to lose and, if you do nothing, you will stop losing.

Trading is very different for once you put on a trade, you have to actively participate to end your losses. If you do nothing, your losses can accumulate until they are far more than you can afford. In fact, even if you practiced sound money management and used a stop, you could still lose more money than you intended to risk when overnight moves go right through your stop. It is hard to accept your responsibility here for, despite doing what the experts have told you is the right thing, you have still been badly hurt. That is why we tend to blame the markets rather than ourselves and why options have become so popular. Though they have the disadvantage of time decay, the risk is limited so that a purchaser knows the maximum amount that can be lost.

There is no objective reality “out there” recognised as such by everyone. For each of us, our reality exists within our own minds. When putting on a trade, the way the market seemed to you was actually the way you created it in your own mind. By using particular indicators in your technical analysis or by choosing certain fundamental data upon which to concentrate, you chose one particular way of looking at the market out

of all the available choices and alternatives.

You cannot change the market. What you can do is change yourself so that you are more likely to perceive what it may do next with increased clarity and objectivity. When you put on the trade, you had certain beliefs about future market behaviour. What you need to do, if you are to trade in an objective, balanced manner, is learn how to release yourself from the expectations that the market should behave as you predicted. Releasing yourself from the tyranny of your expectations will provide elbow room, allowing you to shift your perspective to capitalise on whatever opportunities exist in the market now, as if you did not already have a position. If you focus only on market information supporting this position, you are making life very difficult for yourself by

limiting your awareness.

Because trading is a minus-sum game set up in such a way that it is very difficult to make money, to be successful, we need some kind of an edge.

WE NEED AN EDGE

To create a winner’s edge for yourself is actually a function of your beliefs for your

beliefs tend to affect your behaviour quite strongly. Unfortunately most peoples’ beliefs are negative rather than positive in that what they cannot do is given more weight than what they can do. In the next issue of Ticker Tape we will consider in some detail how you can become aware of the beliefs you hold which are influencing your market behaviour.

THE IMPORTANCE OF YOUR BELIEFS

.	WINNER	LOSER
Patience	Waits for opportunities based on well-thought out game plan	Little planning - reacts according to personal whim
Discipline	Sees the big picture: responds deliberately	Emotional, anxious, often confused about what to do.
Strategy	A great deal of planning: limits losses lets profits run.	Little planning: does not rely on consistent methodology.

FROM AROUND THE RIDGES

by Neil A. Costa

One of the definite benefits of being General Manager of Safety in the Market Pty Ltd is the regular opportunity I get to talk with people from all parts of the globe. I am regularly sent newspaper clippings and trading articles which are informative, amusing (and sometimes unprintable). In turn, I can often assist people when they are looking for, say, a hard-to-find book, or whatever.

1. I received a quotation from Brad V. which seemed to sum up what trading is all about for many people:

> Successful people are dreamers who have found a dream too exciting, too important to remain in the realm of fantasy and who, day by day, hour by hour, toiled in the service of their dreams until they can touch it with their hands and see it with their eyes.
>
> (Source unknown.)

2. On a lighter note, Peter (Pee Wee) W. sent a quotation by US futures analyst Ken Fisher:

> Wall Street has a uniquely hysterical way of thinking the world will end tomorrow but be fully recovered in the long run.

3. And Andy G. sent a newspaper clipping, accompanied by a note which suggested that David's mythical orangutan may not be that far away from predicting a top or bottom of the All Ordinaries. The chimpanzee (Karolina) apparently earned a 10-percent return on a three-month investment, having selected five stocks on the Warsaw stock exchange. Karolina finished ahead of a major broking house and outperformed treasury bonds!

Now before you race off and purchase a second-hand, reconditioned, but "as new" chimp, I should point out that Karolina did not use fundamental analysis or technical analysis - she simply chose five tangerines from more than 70, each bearing the name of a stock. At least she didn't choose a lemon!

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4. Finally, John A. faxed me a photograph taken on the Bruce Highway south of Rockhampton in Central Queensland. The sign simply read "BULL MARKETS AHEAD". Like all dicey forecasts, no time period was attached, guaranteeing that the forecast will come true - eventually.

(Of course, if you have ever been to Rockhampton, you would be aware that the sign was really referring to bulls of the Hereford or Brahman type, not the ones that wrestle with bears. For further information, read the Rockhampton Morning BULLetin.)

If you have any "gems" of an informative or humorous nature, and you would like to share them, I would love to hear from you.

Happy trading!

SUCCESS OR FAILURE IN TRADING?
A MATTER OF BELIEF...

by Dr Harry Stanton

To a very great extent, what we believe controls our behaviour. We can choose to hold beliefs that strengthen us as traders or we can choose to hold beliefs that weaken us as traders. Unfortunately, most of us have negative rather than positive beliefs, focussing primarily on what we cannot do rather than what we can do. In this way we limit ourselves, preventing ourselves from using our internal resources and potential. Often we do not make even the minimal use of such powers, mainly because our negative beliefs get in our way, preventing us from exploring the powers we have to improve our lives and our trading.This can be illustrated in the following diagram which contrasts two different sets of beliefs about the market - one is limiting, the other empowering.

BELIEFS ABOUT THE MARKET	
UNIVERSAL BELIEFS	
LIMITING	EMPOWERING
The markets are rigged. The market doesn't let you win.	The markets provide an opportunity. The market exists to give me profits.
BELIEFS ABOUT YOURSELF	
LIMITING	EMPOWERING
I'm an idiot - how could I have made such a stupid trade?	Everyone makes mistakes; I'll just focus on the next trade.
RULES TO LIVE BY	
LIMITING	EMPOWERING
If the market doesn't do what I expect it to, then I don't know anything.	If the market doesn't do what I expect, then I may need to re-analyse.

The dichotomy is between positive and negative ways of thinking. If we choose to hold the limiting beliefs, they will work against us, keeping us locked in place, unable to tap into our inner resources. In this way, we really prevent ourselves from doing many valuable things of which we are perfectly capable. Unless we modify our beliefs in a more positive direction, we handicap ourselves in the game of trading to such an extent that we have little hope of winning.

However, before it is possible to transform limiting beliefs into those that are empowering, you need to identify your current beliefs both about your life in general and about your trading in particular. Once you know where you are now, you can decide to do something different. Honest answers to the following questions relating to your trading will provide a guide, allowing you to identify what you currently believe about the market and your attempts to trade it successfully:

What do you believe about yourself that is detracting from your trading? What beliefs about yourself could you adopt to improve your trading? Which of your current beliefs about the market undermines your trading? Which five "if ... then" rules currently control your trading behaviour?

Once you have the answers to these questions, you are now in a position to compare your existing beliefs with those of market winners and losers.

WINNERS BELIEVE...
Money is not that important. The profits will automatically flow if I follow my trading rules. Losing is part of the process. Trading is a game; it is fun. I know I can win. There is no such thing as failure. Every setback provides me with new market information and experience. IF I am to be a successful trader, THEN I must be patient. IF I get stopped out, THEN I have learned something important. IF I am a disciplined trader, THEN I will constantly apply my trading rules. IF I take a loss, THEN it is a normal part of the process.
LOSERS BELIEVE...
Money is the most important thing. Making money is more important than trading well. I must not lose any money. Trading is a serious business. I have to trade well to pay the rent. I know they are going to get me; I'm going to lose again. IF I'm patient, THEN I will miss the market.

IF I get stopped out of the market, THEN I'm unlucky. IF I apply my trading rules, THEN I won't be able to adjust to sudden market moves. IF I take a loss, THEN I am a loser.

Most of us spend our lives trying to change what is in front of us, the "real world" of outer reality, to suit the make-up of our inner environment, our inner reality. That is how people try to handle relationship problems, blaming the other person and believing he or she must change if things are to improve. It is much more effective, and far easier, to change the way we think about what is out there in the "real world". By changing our perception, our beliefs about how the world is working for us, we change our reality. If we decide that "any single trade is inconsequential because it is only one of the next thousand trades I am going to make", this belief is likely to be of great value to you because of its power to reduce anxiety and help you trade more calmly. Once you accept such a belief, it exerts control over how you process information in the following way:

BELIEF
PERCEIVED INFORMATION CONFIRMS BELIEF
COURSE OF ACTION
EXPERIENCE

Because our beliefs control what we pay attention to, this perception influences how we behave. As a result of the course of action we adopt, we experience things in a certain way, which, in turn, feeds back to support us in our belief. It is a closed system, one which is very valuable to us as traders if our beliefs are producing increased equity.

Believing in the essential triviality of any one trade may help us achieve this success through creating a sense of detachment and emotional discipline, a mental state that is characteristic of winning traders. On the other hand, we need to be open to new information that could lead to new experiences. Unless we have such openness, we are condemned to continually re-experience the closed-loop of our beliefs. So, install those beliefs that seem likely to facilitate your trading success while, as an on-going process, observe yourself in order to increase your openness to new information leading to other beliefs that might be even more helpful.

THE ROAD TO SUCCESS

by Neil A Costa

People are attracted to trading for a number of reasons:

- Trading provides the opportunity to make considerable sums of money.

- Traders can choose when and where they trade, thus having considerably more control over their lives than in many other occupations.

- Experienced full-time traders can complete their analysis, and set their trades and their stop-loss orders, in a matter of hours, and thus have plenty of time to enjoy leisure and other activities.

Unfortunately, when many commence trading, they do so with the intention of making their fortune on their first trade. They often trade with too little capital and no proven trading system.

Those who succeed in trading soon realise that trading is an endeavour based on probabilities, not certainties. Their next trade may be a spectacular winner, or a small loser. (It should not be a big loser, as we always cut our losses by using stop-loss orders.) Unfortunately, we can never be sure in advance. Clearly, if I knew in advance that my next trade would be a losing trade, I would not take it or any other losing trade. Oh, if only it were that easy!

One of the keys to profitable investment and trading is to make consistent profits over time. This is not difficult if you have:

- acquired a proven trading system, such as the Smarter Starter Pack,

- paper traded your proven system for a sufficient period to ensure that you are totally familiar with the rules and the subtle variations that will occur from trade to trade. Indeed, probably the most important reason for paper trading a new (to you) system is to convince your subconscious mind that the system works consistently over time. This gives you the intestinal fortitude to keep following the system with confidence when you encounter the inevitable few losses in a row which every system eventually produces.

- evaluated your actual trading. Trading is as much a psychological endeavour as it is a technical endeavour. We are not machines that can automatically place orders and manage trades without emotion. Indeed, a legitimate criticism of paper trading is that it can give one a false sense of security, as paper trading is performed in an environment free of the greed and fear generated by favourable and adverse market moves.

Of the above keys to becoming a successful trader, it is the evaluation step which is generally the one many people avoid - yet without it, it is very difficult to isolate, objectively, bad trading habits and, of course, to take action to eliminate them. Some traders avoid this crucial step for a number of reasons - trade evaluation lacks the excitement many traders crave; it forces traders to confront their own trading inadequacies; it even forces traders to consider taking responsibility for their own actions, sometimes for the first time.

If you are serious about your trading or investing, why not make a Christmas resolution to perform a detailed analysis of your trading every, say, three months. The process is not arduous, and indeed becomes more and more enjoyable as you see yourself becoming a better and better trader. The steps are easy:

- Keep excellent records of each and every trade you take. If you have a computer program such as MetaStock, you may consider attaching a small chart to the record sheets.

- Get in the habit of rating your trades on a scale of 1 to 10. Also, put a big green tick through the trading record sheets of trades where you followed the rules perfectly - regardless of whether the trade was profitable or not. Remember, the key is to be an excellent trader - the profits will follow automatically. Similarly, put a red cross through the trading record sheets of the trades where you failed to follow your rules.

- Every three months place these sheets into two piles - the green and the red piles.

- Take the green pile and relive these well-executed trades. You may care to do so while listening to some light music. Condition yourself for further success.

- Take the red pile and analyse the records in detail. Look for patterns - are you consistently exiting a trade too soon? Are you failing to obey your money-management rules?

- Take immediate action to eliminate bad trading habits. Your goal is to increase the proportion of your trades that rate a green tick.

This may sound complex, however it is not. The key is to get into good trading habits right from the start, and your success will be inevitable.

THE GAINING OF WISDOM

by David E. Bowden

The most frequent question I am asked is, “Which is the best book for me to buy to learn about trading?” or “Which book did you find most valuable when you first set out to learn how to trade?” Given that Christmas is an excellent time to read and learn, I’ll talk about the books of W.D. Gann, and the best way for one to work his or her way through them.

There are two points I want to make right at the start. There is no doubt that Gann’s best books were the later ones, How to Make Profits in Commodities, if you plan to trade futures, or 45 Years in Wall Street, if you are a stock trader. Now each book does contain a mixture of both stock and commodity trading but, as their names imply, they cover different areas of trading. Why do I rate them as being the best? Over the years, W.D. Gann, like most of us, learnt more, so the later books contain his later thoughts. He also became a better writer, or at least he learnt to express himself more clearly.

But if you want to do the job properly, here are some suggestions for the novice trader. Start with Gann’s first two books Truth of the Stock Tape (first published in 1923) and Wall Street Stock Selector (first published in 1930), which are today published together under the one cover. By doing it this way, working your way through his books in the order that they were written, you will appreciate the growth of understanding that he experiences. It will be the same for you. You will then know the whole story. Quite naturally, in his later books, he did not repeat all of the lessons from his earlier editions. He took it for grated that you had learnt the earlier lessons entirely. You must remember that these books were written over a period of thirty years.

So my advice is to start with the Truth of the Stock Tape and follow this up with the New Stock Trend Detector published in 1936. When you understand the wisdom contained in these early editions, I suggest you then progress to How to Make Profits in Commodities, and then round your knowledge off with 45 Years in Wall Street. (I have written Study Guides for each of these books to assist you to master the key concepts, should you purchase them through Safety in the Market.)

Your next step, and this is only for those who have made a definite plan to become a self-supporting professional trader, is to consider purchasing either the W.D. Gann Commodity Course or the W.D. Gann Stock Course. Neither is a light read, but the truths contained in these courses have stood the test of time in the markets for over sixty years. Studying these courses is a long-term project usually associated with attending a Trading Congress/Incubator. Getting involved to this degree should always be your decision and taken in your own time.

Of course Gann is not the sole repository of market wisdom. There have been many good books written by various writers over the years. We only stock the ones that are still in print and have been beneficial to my trading career. Here are some of the books that fit that category.

The Investors Quotient was a major factor in my coming to grips with the emotional hurdles I experienced, and continue to experience in trading. This book should give you the where-with-all to draw up, what I would call an “emotions” pressure chart. You can create your own psychological trading plan. This will prevent you from being sucked into the vortex or black hole of consensus that builds as a trend emerges. When a market is approaching a major top, every fibre of your body will be urging you to get in there and buy. At the major top or bottom the public is always wrong and being aware of this phenomenon will give you the insight and courage to profit from the mistakes of others. The Investors Quotient is a must for those who lack the discipline to follow a well written trading plan. Isn’t that all of us? Jake Burnstein often draws on the experiences of Jesse Livermore in the Reminiscences of a Stock Operator. If, by the way, you have not read Reminiscences of a Stock Operator, do yourself a favour and buy a copy for Christmas. It is the best book ever written about gifted, geared up, top traders. Though it is written in another day and another place it proves that emotions remain the same. And it is emotions, not facts, that give us our booms and busts. Trust me, it’s a great read.

The Futures Game, Who Wins, Who Loses & Why? Another of my old favourites which for many years has been out of print, has now been re-published in a soft-cover edition. This book was originally published in 1969 under the title The Commodity Futures Trading Guide, an apt title if ever there was one. This classic, covers a broad spectrum of the market. The chapters on Risk/Reward and Money Management are worth, many times over what you pay for the book. It’s a must read!

If you want to add Mark Douglas’s, The Disciplined Trader, to your list you will have the start of a well-balanced library. The Disciplined Trader is a nineties approach to the basics of trading psychology laid out originally in The Investors Quotient. It is a softer approach to the same problems that we face, not just in trading but in life in general.

I hope this lot has got you thinking. When you think of the books that are rejected by publishers every day you realise that any book is the best thoughts of our best thinkers. They are a condensation of the wisdom they have acquired in a lifetime and we can buy that for less than $100.00! Sounds like a bargain to me! It is so little to risk compared to the possible reward that I would classify it as a great trade. You are risking a little to gain a lot.

WHY DO WE FORECAST?

by Neil A Costa

There is an old Wall Street saying that “top and bottom pickers go broke”, and in many cases, this is true. In the strong bull market in Australia in 1987, and last year in the United States, many traders lost large sums of money by shorting the market at every sign of weakness, thinking that “this is the top”! Unfortunately, strong bull markets have a tendency to hang in there longer than many traders imagine, and by the time the market is ready to make its ultimate top, and to give excellent trading on the short side, their capital has dissipated. Such markets are best traded by using trend-following systems such as the Smarter Starter Pack.

When many traders first learn to forecast, they attempt to apply all of the techniques in such a way as to generate a detailed road map of the market. For example, they will determine that on 2 June the market will bottom at 2556, then run up until 21 July to 2669, then back down until 30 July to 2590, then up to...

Regrettably, for most, this exercise is an exercise in frustration and futility. When the first date does not produce the change of trend that is anticipated, the trader is left feeling confused and betrayed by the market. He or she often then misses obvious and easy trades, while anguishing over what went wrong. There is no doubt in my mind that the desire to pick every top and bottom, thus to trade with absolute certainty, is the goal of many. Unfortunately, as they say in the classics, it ain't that easy!

A far more sensible way to approach forecasting, at least initially, is to use the various techniques you have mastered to determine pressure dates - that is, the days when there is a high probability of a change in trend. Mark these dates clearly on your chart, giving due emphasis to the techniques that work the best, such as Time by Degrees. Watch also for clusters of pressure dates. Both quality and quantity are important - I would prefer to see a 180-degree Time by Degree date than two or three minor day counts aligning. At this point in your analysis, do not attempt to determine whether the market will make a top or a bottom on that day, and certainly do not worry about the likely price of any change of trend which may result!

This process may give you, say, three pressure dates of quality to watch each month.

[Picture]

As the market approaches a date, then and only then, use your daily bar chart to determine whether the market is running down (and is thus likely to produce a bottom on that day) or up (and thus likely to produce a top on that day). If you plan to trade into the pressure date, this will tell you whether you should be entering the market on the short side or on the long side.

One day before the pressure day, you should go on red alert. We always give the market a day on either side of a significant pressure date. Watch for signs of a likely change of trend, the day before, the day of, and the day after the pressure date. If no change of trend occurs in this so-called three-day "window of opportunity", we deem the pressure date to have failed.

If we get a change of trend on one of the three days (usually on the pressure date itself), we then examine the price of the high or low that the market has made to determine if it is significant. The resistance card you make after studying The Number One Trading Plan comes in very handy here!

The more significant the pressure date is, and the more significant the price of the high or low, the more significant (and tradeable) this particular setup is. Also, the faster the market runs into a pressure date, the better.

Your final signal for a trade entry is either using the "openers" rule, if you wish to minimise your risk; or a strong close, using both the "close" rule combined with your knowledge of reversal patterns; or a confirmation of a change of trend on your swing chart. Clearly, the more time you give the market to confirm the change of trend, the more likely you are to be right, but the price you will pay for this extra confirmation is more points risked on entry.

Can you see that by approaching forecasting in this manner, you are not trying to pick every swing top and bottom. Quite the opposite - you are merely watching dates where there is a high probability for a change in trend. Regardless of your system for entering and exiting trades, a knowledge of these pressure dates and prices can only help your trading. I am often amused by traders who completely close their minds to the value of such forecasting, yet as soon as a weather forecaster says that there is a 90-percent chance of rain, they are the first to run for their umbrella! Forewarned is forearmed.

THE FIFTEEN MINUTE SOLUTION
by Dr Harry Stanton

There are many ways of feeling good and there may be even more ways of feeling bad, according to the beliefs and rules you live by. Unfortunately, it has been my experience that people are generally better at the latter than at the former. When I am working with clients well launched into their tale of woe, going back over the past and dredging up everything that has been and is wrong in their lives, I will sometimes interrupt them asking them to tell me something really good that happened in their lives, something they feel wonderful about. Simply doing this will change their state, but I will then use a technique I call the 15-Minute Solution to enhance the great power of that positive memory so that it completely overshadows the negative material. This technique is not only very quick, it is also easy to learn and my clients can then use it to alleviate a wide range of problems, including those affecting their trading.

The 15 Minute Change Technique
The ingredients of this piece of magic, drawn primarily from Richard Bandler's book, Time for a Change, are as follows:

THE SWITCH
ANCHOR WITH 'THIS'
INSTALL BELIEF
TRANCE INDUCTION

The Switch
The first step of the 15-Minute Change Technique is the switch. You begin with a picture, in your mind, of an unwanted behaviour which is made large, colourful and bright. You might, for instance, "see" yourself reading a report in the financial press and panicking because it suggests your current position was wrong. A more desirable behavour is pictured in black and white, occupying the bottom right-hand corner of this first picture. You might, for example, see yourself reading the same item, smiling gently to yourself as you accept the likelihood that your position is a good one because it is not supported by the "news".
As quickly as possible, switch the two pictures, changing their size and colour. After this switch, the two pictures are reset to their original format. Continue this process until you are unable to reset the pictures. The small black and white picture of the unwanted behaviour is then moved up high to your left, down to the lower left, placed on edge and spun like a top. As it spins it is made grey and dim, shrinking down to postage-stamp size. It is then moved up to your right, placed a few inches or centimetres in front of your face, shifted to a similar distance over your head, and again shifted to the same distance behind your head. As it is moved further and further behind you, it finally reaches a point where it disappears. The wanted picture is made small and gradually expanded until it becomes life size. At the same time, the colour and brightness is turned up to reflect the very bright future that lies ahead.

Anchoring with "THIS"
The second step of the 15-Minute Change Technique is anchoring with "this". The technique follows the Switch procedure; the "wonderful feeling" memory will be the positive picture of you feeling good about relying on your own analysis untroubled by contrary news reports. With closed eyes take the picture associated with this experience and make "this" bigger, make "this" brighter, make "this" more colourful; intensify "this" in every way. Thus the feeling is anchored by the verbal anchor of "this". A kinesthetic anchor, say placing together the

thumb and first two fingers of the non-dominant hand, could also be used. Then think of some negative situation where you behave in ways about which you feel uneasy and, with each situation, close your eyes on whatever it is. As you do, feel “this” and trigger your kinesthetic anchor. It is quite likely that you will no longer find these situations so negative. They could even become enjoyable.

Install Belief

The third step of the 15-Minute Change Technique is to install the belief. Think of something in which you absolutely believe. “Tomorrow the sun will rise” could be such a belief. Now think of a belief that could or could not be true, that is, a doubt about whether you could dismiss the “expert” opinion in the financial news so easily as our trader mentioned above. The two beliefs, one certain and one doubtful, are considered one at a time and the differences between them observed. In particular, note the position in the mind where each of two beliefs is located and ascertained. Is one directly in front and the other up to the left? Is one up high and the other lower down? Their brightness, distance, clarity, colour, size, shape and movement are identified and the differences between them noted. If voices, sounds or feelings are involved, these differences are observed also until both the unquestioned belief and the doubtful belief are clearly distinguished from each other. The doubtful belief is slowly moved away into the horizon until it hits a point. Then it is pulled back very quickly into the position where the strong and powerful belief is located and the doubtful belief is made identical to the strong and powerful belief in terms of size, colour, brightness and closeness. This must be done very suddenly so it seems to slot into place with a physical impact.

Trance Induction

The fourth and final step of the 15-Minute Change Technique is trance induction. Extend your arm out in front of you with your thumb sticking up into the air. Focus all your attention on your thumbnail. Observe how your eyes change focus, blinking more frequently, as your arm and thumbnail is gradually brought closer to you. At some spot before your hand reaches your face, you will find your eyes wanting to close. Let them do this, take a deep breath, relax, going all the way down into a trance. Your hand is to remain where it stopped, in a lifted position. This hand and arm then sinks down only at the speed that you are ready to learn something of great importance. You also recall your very good feeling from the Switch. With each breath you go deeper and deeper, enjoying the process of knowing you can learn from your unconscious mind whatever is necessary to solve your particular problem. As your hand moves down slowly, your unconscious mind will spread your good feeling through mind and body as you really learn about going into a deep, pleasant trance. When your hand settles on your lap you will have learnt whatever you needed to know to handle the situation that was bothering you. This all might seem a little strange to readers unused to using their unconscious minds, or those who regard trance states as odd or unusual. Actually, it is harder to stay out of a trance state then to go into one. Each day we drift in and out of trance when, for example we drive a car and cannot remember the last 10 kilometres, or we become so engrossed in a book that we do not hear the door bell, or, when playing sport, we concentrate so hard on what we are doing that we are unaware of distractions. All that I am suggesting is that it can be helpful to take some control over this process so you can use deliberately-induced trance to help yourself. The mind accepts suggestion much more powerfully under such conditions. This enables you to feed in positive material relating to your trading so that you are more likely to behave in ways that produce profits than in ways that produce losses.

OVERHEARD DURING THE JUNE TELECONFERENCE
by David E. Bowden

David Bowden during the June 1997 Teleconference:

... Talking about his prediction published in the Melbourne Age (and later in the Spring '96 Ticker Tape)

Firstly, I'll refer to the paragraph of the article "The much prophesied big collapse in Wall Street is a way off. When it does come it will not hit the Australian market as the '87 crash and the local market is in for a sustained resurgence from March". Now, what I want to say first is that through most of last year I wasn't in all that gloom-and-doom stuff. And certainly any big collapse that they talk about is a few years off yet, as far as I'm concerned.

Now that's the first part. I go down about two or three paragraphs. "On the markets near-term outlook he offers no hope. It's not going to be any good until March (1997)." Now that article was written in July (1996) as you can gather. And we had just hit the low of the year.

"This weakness will culminate around October, November with what I call a mini-crash or crashette. When it's on we won't call it a crashette. When the Dow drops a hundred and fifty points everyone panics. There's going to be a bit of that in October or November. That's as bad as I expected the Dow to get, a series of 150 crashes."

I tell you, a lot of people then say to me how do I do it? Well, I'll tell you why I said October, November… because most crashes or crashettes come in October or November. A few put their nose into December, but it's rare.

If we look at 1986 we had all of that insider trading stuff released in November around the 14 or 15th. That was when Ivan B. admitted to insider trading and we had a lot of drama in the market in 1986, I think it was around Monday the 14 or 15th. That is when he got into his trouble. I know because I was trading it. That was 1986. In 1987, of course, we had the low. We had the crash in October and the low of the year in November. 1988 was

drama time in October, November and a bit of December. In 1990 we ran down to the 1991 low, so once again we had a bit of drama in December.

You go through the years, the high of the year was November 1991, the low of 1992 was November. Certainly, the low of the year for 1994, and it was a pretty savage low, was November. But that's why I said October and November - it's around that time that you get a bit of shattering in the market. Certainly the 1994 low was accompanied by the collapse in the bonds. That was the time of the year that you get it. This time (1996) it ran over to the 3rd of December, but the market had it's 150 point drop.

... On our market's relative strength to the Dow

Our market is strong, as the Dow dropped again around the 14th of April but our market didn't drop with it. Also, the Dow dropped about 10 percent and we only dropped eight percent in the last correction. Now that's the first time we've done that in about five years. If the Dow usually drops about five or six percent, we usually drop about eight percent. So there's a bit of strength coming up.

... On our market's likely future

As I said in the Melbourne Age article "Getting into the second quarter of 1997 we are going to have a strong year and after that I expect a pretty good run, and for it to last for about two years".

As I said in the article, we've got about two years up, in real time. Until some time around Christmas of 1998.

I'd watch October - November this year, but I think it'll be strong until 1998. But then we could have a bit of a grinding down - now that could easily go for 18 months to two years.

TRADING ISN'T EASY?

by Dr Harry Stanton

Human beings have a tendency to complicate things. Yet, that which works in life is usually pretty simple. Trading is an example, for it is really very simple. Either you enter a trade or you do not. If you choose to enter, then your choice is between buying or selling. The difficulty may lie in having to make this decision or it may lie in subsequent decisions relative to how the market subsequently trades. But we do not need to complicate the basic process with such difficulties. Making a mistake in the futures market is simple to correct. You just get out with a small loss! Where we complicate this procedure is through what we add to it. The secret is distinguishing between "what is", the state of the market, and what we are adding to "what is" such as fear, greed and hope. It is these emotional and psychological changes that take place within traders that really determine whether they are successful or unsuccessful, not the decision among buying, selling or staying out of the market.

Until you recognise that your own psychological profile is the most important element in your performance as a trader, you are not likely to achieve much success. It is important to understand that a market is nothing more or less than what you perceive it to be, and that how you choose to operate within this perception will determine the results you get.

Trading is primarily a voyage of self-discovery, with its main value residing less in the riches it is supposed to bring, but rather in what it teaches us about ourselves. More than any other activity I can think of, trading highlights our personal strengths and weaknesses. Hopefully, it helps us overcome the latter, particularly our unwillingness to take losses when the market tells us we are wrong. This is probably the area in which people experience the most difficulty in their trading.

As Howard Abell, writing in Technical Analysis or Stocks and Commodities (September 1996; pages 71-73) expressed it, trading is easy if we enter the market when we recognise a set-up that we have been waiting for and exit, with a small loss, if the market doesn't do what we expect it to do based on whatever set-up we are using.

We can, in fact, look at trading as a metaphor for life or, more usefully, as an indication of how we handle our lives. Our attitude to risk, profit, and making decisions in trading would give an indication of how we do these things in other aspects of our lives. In other words, as you trade, so do you live. If you are unhappy about how you do trade and live, you need to modify your attitude and by so doing modify your mental state.

As a starting point, ask yourself what is the main problem in your life? For most people, the answer to this question, lies in the way you think. You have two choices - thinking in ways that strengthen you, or thinking in ways that weaken you. Your choice of thought processes is really a reflection of how you play The Inner Game. This is a game you play against the obstacles you set up in your own mind, which prevent you being as good as you are capable of being.

Probably the most common of these inner obstacles are fear, lack of confidence, indecision and greed. There are, fortunately, ways of overcoming these, one of them relating to the way you speak to yourself. When plagued by negative, weakening thoughts, we are usually told to force them out of our minds, to make our minds a blank or "don't think about it". Though well-intentioned, such advice is useless. Most of us cannot do these things no matter how hard we try. However, what we can do is change the way we talk to ourselves, whether it be about trading or some other activity, and by so doing reduce the stress we impose upon ourselves.

Don't exaggerate the significance of problems. We produce irrational beliefs by using inappropriate words such as 'unbearable' to describe minor events such as being unable to speak to our broker immediately we ring. More appropriate words would be 'inconvenient', 'unfortunate', 'annoying'. Words such as 'unbearable', 'intolerable', 'catastrophic' create anxiety and stress within us whereas the milder words allow us to continue thinking more rationally.

Avoid words indicating demands. We impose stress on ourselves and on others around us by using words such as ‘must’, ‘should’, ‘ought to’. Our broker ‘must’ always be available to talk to us immediately, the market ‘ought to’ go down because our analysis says that is what ‘should’ happen. By using words such as ‘I would rather the market do what my analysis indicates is probable’ and ‘I would prefer my broker to be available when I call’ you will remove most of the stress and pressure, permitting thought to be more flexible and oriented towards constructive problem solving.

Avoid the labels “good” and “bad”. Labeling implies unrealistic absolutes. Actually, it is very rare for anything to be completely black and white. Shades of grey are far more common. When we judge, criticize or moralise, we create stress within ourselves as in “the broker is incompetent”. If you are unable to change things or people, then accept them as they are. ‘The market is loaded against me’ is a thought that might be quite true but the market is not going to change because you think it is morally wrong for it to be loaded against you. Either accept that the market is a minus-sum game designed to extract money from you and do the best you can with it, or stop trading.

Never underestimate the way you talk to yourself. The following exercise illustrates the power of your words:

Choose some aspect of your life towards which you know your mental attitude could be improved and, keeping this in mind, write down and complete the following sentences…

“It’s difficult for me to...”
“I hope that...”
“If I ... then...”
“I’m going to try to...”
“I can’t...”

When you have done this, take a moment to consider what you have written. Notice how the sentences reflect your attitude about the situation. Now rewrite the sentences, amending the first few words as follows:

Replace “It’s difficult for me to...”
with “It’s a challenge for me to...”

Replace “I hope that...”
with “I know that...”

Replace “If I ... then...”
with “When I ... then...”

Replace “I’m going to try to...”
with “I’m going to...”

Replace “I can’t...”
with “I won’t...”

Notice which of the changes makes you feel more positive, as if the second version releases new energy into the situation you describe and suggests a new way of looking at it. Resolve to make these changes when you speak about yourself in future, consciously interrupting your own negative language and replacing it with positive language.

You need to be your own best friend, talking to yourself in ways that strengthen you. When friends come to you for help, you support and encourage them. Treat yourself in the same way. If you are talking to yourself in negative ways, use each negative as the cue for a positive. Saying “Another losing trade. Am I ever going to get this right?” is unlikely to do anything but make you feel miserable. It will certainly not stimulate improvement. However saying “Another losing trade, but I did the right thing here. My stop got me out with a small loss once the market showed me I was wrong” will be much more helpful. Remember, there is no such thing as failure; only feedback. If you can learn from a losing situation, you have not failed. You have used feedback to provide the basis for an improved performance next time. Maintain such an attitude and you will be a winner and will steadily enhance your self-image as a competent trader.

TRADING ISN'T EASY?

Part 2

by Dr Harry Stanton

Last time I wrote of the most important choice we make in our lives - thinking in ways that help us or in ways that hinder us. I outlined some ways in which we can use words to change our thoughts and attitude. Now I'd like to consider how we might use images to do the same thing.

Probably the most important thing is to think of what we desire, not what we fear. The way we think today will determine our future. It is so easy to fill our minds with thoughts of what we do not want - losses, mistakes, 'the world is against me', 'I'll never be anything but a loser' - instead of the thoughts we do want - success, good decisions, 'I can do this', 'I am a winner'. We are what we think. If we recognise we are thinking negatively, we should then realise it is just a thought and thoughts can be changed. How? There are many ways, but one of the best is through the use of submodalities to take more control over our mood state.

When we have a thought it always has some image, in some form or another, attached to it. We can manipulate this image so that it exerts more or less influence over us. We could, for example, think of a pleasant memory and turn up the brightness of our image to make it more powerful. Conversely, to make an unpleasant memory inconsequential, we could make the image dimmer, or push it well away into the distance.

Brightness and distance are two of the submodalities most effective in changing mood states. Others likely to work well are size, shape, colour, and clarity. Try changing these one at a time so that you might learn which one or ones are best for you. They may then be combined to achieve even more intense changes. Thus, a pleasant memory might first be seen as a movie rather than a still slide. It could then be pulled closer while, at the same time, it might be made increasingly bright and colourful.

Graham, who had worked as an engineer for most of his life, was casting about for something to do in his retirement, which was only about six months in the future. While speaking with a friend who did some part-time trading on the stock market, he became infected with his friend's enthusiasm and decided that trading seemed to be just what he was looking for. He read a number of books on trading and attended several seminars advertised as providing the expertise necessary for trading the market successfully. He also paper traded for some time, telling himself he would commence in earnest once his retirement was finalised.

Once he had retired, Graham established an account with a broker, and he set up his study for trading with a computer and the appropriate software for technical analysis. However, when the time came, he found he just could not actually pick up the telephone to enter the trade. Whenever he identified a trade which met the rules he had worked out for himself, he talked himself out of doing anything. In other words, he lacked confidence in his ability to trade successfully. He continued to talk with his friend and a couple of other acquaintances who did some trading, he read books, attended seminars and, through his computer, accessed various financial information news groups.

Unfortunately, several of his trading acquaintances had become badly unstuck on a particular trade and the horror stories they told further eroded his confidence. In his mind, he had this thought of financial ruin; of all the money he had accumulated being lost to the market. Yet, he felt trading was something he at least wanted to try.

As I worked with Graham, I had him think about the weakening thought of financial ruin and identify a mental picture associated with it. This turned out to be an image of himself living in poverty. He described this picture, visualising it as being close to him, large, bright, sharply focused, and colourful. By seeing it in this way, Graham had made it extremely powerful. He then varied each of these submodalities, that is, distance, brightness, focus and colour one at a time, in an effort to discover which one or ones would diminish the power of the picture and
of the thought.

First he shrunk the picture. This helped a little. Then he pushed it well away into the distance, experiencing an instantaneous effect of its power being reduced. After bringing it back close, Graham made the outlines fuzzy and unfocussed, a change which also helped him feel better. Turning down the brightness achieved nothing, nor did removing all the colour and making it black and white. Placing a frame around the picture also led to a considerable reduction
in its power.

The variations that worked best for Graham were shifting the picture out of focus, pushing it well away into the distance, framing it and hanging it on the wall. By doing this, he reduced the power of the particular thought to upset him. Immediately he replaced it by another thought which brought him peace, a time when an engineering project which he had planned had won a national award. The picture accompanying this thought was brought up very close, sharply focused and had no frame around it.

The pattern discovered by Graham with this particular undermining thought is generalisable. That is, it will allow him to modify any thoughts that bothers him, giving him control over the effect they will have upon him. When I spoke with Graham five months later, he told me that he had been able to initiate trades without any difficulty and was moderately successful in terms of his profits exceeding his losses. In other words, instead of being controlled by the negative thought of failure, he had now assumed more control over his thought process, choosing to think in ways that empowered, rather than weakened, him. Of course, Graham may not have been able to 'see' a picture in his mind accompanying the worrying thought. Some people are unable to do so, though not as many as it is popularly supposed. In this case, he may have heard an internal voice. Should this have been the case, whenever he was contemplating putting on a trade, he would, perhaps hear the voice of his father telling him that he had no head for money, or that he always was doing the wrong thing financially, or some other negative message parents give their children. Graham, as a result of having internalised these messages, could easily believe he would never be good at anything that had to do with money. As long as he allows that voice to remain as it is, it will continue to affect his life.

To change the focus of control from the inner voice to himself, Graham would give his father's voice definite characteristics such as volume, speed, accent and distance. These he varied, one at a time. Pushing the voice well away into the distance seemed to reduce its power somewhat, but none of the other submodalities appeared to be particularly effective. The change, according to Graham, that really did make a difference, was to make his father sound like Donald Duck gargling underwater. The result was so ridiculous that Graham could no longer take the negative messages seriously and the power of his father's voice to influence his behaviour was removed.

Should Graham neither 'see' pictures or 'hear' voices, he might experience a feeling. Whenever the point came for putting on a trade, Graham might become aware of a feeling of absolute dread. Using the same pattern as that outlined above, I would have Graham describe the feeling. Let's say he located it in his abdomen, experiencing it as black, heavy, cold, circular in shape and quite large. He would then be able to shift the unpleasant feeling outside his body, change the colour to a pleasant green, warm it in front of the radiator, compress it into a cube and throw it out the window.

It's all about changing something unwanted and negative, into something wanted and positive. By making such a change you reduce the power of the external environment to influence your inner environment. By changing submodalities as I have outlined above, you change the thought and feeling so that it is no longer the same. Once you have done so, it can no longer influence you in the same way.

PLAYING IT "SAFEST"

by Neil A Costa

W.D. Gann was, in my opinion, the greatest market analyst of all time. When one reads modern books and courses, even those critical of Gann, one can inevitably trace any sound underlying theory back to the writings of Gann, despite the fact that he wrote much of it some 70 years ago!

On reading Gann's books and courses, one can sometimes find what appears to be contradictions or minor inconsistencies. One such apparent inconsistency is his use of the word "safest". Nevertheless, if W.D. Gann wants to use the word safest in more than one context, I'm prepared to accept that this gives me two bites at the "safe" cherry!

Essentially, Gann teaches that there are two safest places to buy (and sell).

[Picture]

Firstly, Gann says that the safest place to buy is the first higher bottom. (By the time the first higher bottom has formed, the upward trend has become established, but it is early enough in the new upward move to have a good expectation of a profitable trade.)

Secondly, Gann also says that the safest place to buy is when a market crosses a previous top (or previous tops). (His arguement here is that the market has demonstrated its inherent underlying strength by overcoming the selling pressure which occurs at tops, and thus is also likely to have a good expectation of a profitable move.)

My point is that if one seeks to "catch Gann out" grammatically, one can by pointing to the above inconsistency. Alternatively, one can accept that he is saying that there are two excellent places to buy, and to profit accordingly.

It should be noted that the second "safest place to buy", as described above, is a little trickier to trade in 1997 than it was in Gann's day. This is because there are more technical traders today than ever before, and as a consequence there are a higher proportion of stop-loss orders placed above previous tops. As a result, a much higher proportion of these so-called "breakouts" fail - that is, the market fails in its upward move and heads back down into its old trading range. The solution to this problem is to look more closely at other indicators of market strength (such as volume), and if necessary, to give the market more time to clear the old tops. This can slightly reduce your profits, but can increase the safety of this "safest" trade.

[Picture]

Finally, remember that the market does what it can to communicate with you at all times. A false breakout, that is, a slight move above old tops and then a move back into a trading range, tells us that the market had an opportunity to break out upwards, but that the selling pressure was such that the upward move could not be sustained. In other words, the market is really showing its underlying weakness, not strength, at that time.

MARKET SENTIMENT

by Neil A. Costa

Amateur traders tend to focus their emotional energy on their present trade. As a consequence, they tend to lose sight of the big picture. Professional traders, on the other hand, think in terms of the next 100 trades, say, and commence their analysis by focusing on the big picture. This is why the Smarter Starter Pack encourages you to maintain and study weekly charts, in addition to daily charts.

One form of big-picture analysis is the analysis of market sentiment – that is, whether or not the vast majority of traders are bullish (believing that the market has a long way to go on the upside) or bearish (believing that the market has a long way to go on the downside). Extremes in the market sentiment can be very valuable in alerting a trader to a possible significant top or bottom in the market.

In the United States, there are a number of firms which produce market -sentiment charts. Some do this by polling newsletter writers, and plotting the percentage of newsletter writers who are bullish, on a simple chart. With enough data, they can soon determine the levels where market sentiment reaches extremes – usually around the 80% and 20% levels. It may surprise you to learn that when 80%, say, of newsletter writers are bullish, the bull market trend is likely to end soon. Similarly, when market sentiment reaches the 20% level, a significant market bottom is usually imminent.

Graph

Near market tops, people who have never traded before in their life are being lured into the market by the news of how much money their friends and relatives are making. They typically start conservatively, make some money, and invest more and more. Some mortgage their homes to finally make some big “easy money”. All of this buying pressure fuels the market’s upward move.

At major market tops, the vast majority of traders are extremely bullish. By this time most investors are well-and-truly seduced by rising market prices. Other events, such as share issues, new company floats, takeover bids and so on, all add fuel to the fire. They cannot see the early-warning signs that the market is losing momentum.

At the top, the vast majority of traders are fully invested. Given this, you must ask the question “who is left to buy, and thus sustain the upward trend”? Professional investors recognise when a market is overheated, and sell. Once this selling pressure exceeds the buying pressure, the market has only one way to go – down. In fact, once people finally realise that the party is over, panic selling often occurs. Eventually, amateurs still holding losing investments finally throw in the towel and sell their shares – they have suffered enough pain from what was to be their once-in-a-lifetime, get-rich-quick scheme. This final burst of selling usually occurs near market bottoms, when gloom and doom is the prevailing mood. The professionals are more than happy to buy their shares at rock-bottom prices.

1987 was the last time Australia experienced a strong, sustained bull share market. 1998 could be much the same. If so, stay attuned to the market sentiment. The early signs of the imminent strong bull market are already there – an increase in the number of new, and large, share floats. The best example was the Telstra float, which was labelled the “mums and dads float”. Remember, nobody rings a bell at the top of the market!

HOW TO SELECT MARKETS TO TRADE

by Jason Sidney

The type of market you require depends heavily on the type of trading strategy you will be using. The Smarter Starter Pack will show its best results in a trending market, so that's the type of market we should look for.

There are other factors we must also consider before selecting our market. For example, gaining easy access to our data each day is something many people tend to overlook. The newspaper is one of the cheapest forms of daily data on a day-to-day basis. This is fine for Australian markets, but if you have an interest in overseas markets, the figures will often be two days old and usually only list the closing price. To get adequate data, you will need to purchase your data from a data vendor, or direct from the overseas exchange(s) via the internet.

Clearly, if you are just starting out, sticking to Australian markets and using your daily newspaper makes lot of sense, and of course if you want to get really "high tech.", consider getting your paper delivered!

Another consideration is whether or not you want to trade shares, options or futures.

High volume is also of extreme importance when selecting a market to trade. High volume gives the market liquidity, which makes it easier for you to get in and out of your trade. It also means that you can buy or sell at a price close to where the market was trading when you placed your order (that is, there is less slippage).

From a learning point of view, the Australian All Ordinaries Share Price Index (SPI) is a good market for beginners who wish to trade futures.

A chart of the SPI is always maintained in my office, so if you choose to chart it we will both have a market in common. If you ever get stuck on how to handle your swing charts or have a technical question, we can help you.

The SPI is also a good barometer for the share market, and can help you determine the overall health of the market. If you chart or invest in shares, this is also a good market to watch.

It is also good advice for you to commence your trading in an Australian market. Brokerage is higher on overseas transactions; most overseas trading occurs during the Australian night; and accounts are usually maintained in US dollars, so exchange rate considerations affect your profitability.

If you want to trade the overseas markets, you would have to consider purchasing an appropriate computer software program and paying a data supplier to download data via your modem each day in order to obtain daily data. Pagers and other "live" data sources can also be used for overseas markets.

Here in Australia, good futures contracts to trade are the Share Price Index, the three-year bonds, the ten-year bonds and the 90-day bank bills. To date the futures contracts based on individual shares have been liquid, however the recently listed Telstra share futures may prove to be a good trading vehicle if they trade in sufficient volume.

If you are a stock trader, your choice is much wider. My advice is to talk to your stock broker, and ask him or her to recommend four or five shares which are performing well as trading stocks.

SHORT SELLING

by Jason Sidney

To sell short is something that is mainly done in futures markets, but is available in some shares in Australia. Short selling basically allows you to make money in a downward-trending market. This is something that confuses a lot of beginners, who think in terms of the share market, believing you can only make money in a upward-trending market.

One of the main questions people ask is, “how can you sell or make money from something you do not own”?

The easiest way to explain this is for you to realise that the orders you give your broker to buy or sell are merely orders that change their roles depending upon the sequence they are given in to allow you to enter or exit a position. It is the first order to buy or sell that tells the broker whether you hope to profit from the market going up or down.

The recent fall in the Australian stock market has resulted in many people assuming, wrongly, that you cannot make money in a falling market. In fact, you can, and often at a faster rate than in a rising market. As they say on Wall Street, “The market goes up by the stairs, and comes down by the elevator”. An example of an excellent short trade is a Smarter Starter Pack trade in mid-October, where the SPI trade made more than $8,400 per contract in a few days!

To explain this in more detail, let’s go through a simple trading scenario:

> Based upon your analysis you believe the SPI is due to go up. You telephone your broker and place an order to buy a contract to enter the market. The broker rings you back and tells you your order has been filled and that you bought one contract.
>
> Immediately upon your order being filled, a deposit (currently $4,000 per contract for the SPI) is withdrawn from your account and lodged into a separate account with your broker. This deposit is there to protect your broker from any fluctuations that go against you, from the price that you entered the market. You now will make or lose $25 per point per contract from the price you entered the trade.
>
> On the completion of your trade, you exit your position by instructing your broker to sell one contract. Your deposit of $4,000 is then returned to your trading account, along with any trading profit you have made from your trade, or minus any loss you have incurred. (Government charges, brokerage and exchange charges are also deducted at this time.)
>
> The thing to note here is that even in a long trade, you never actually owned the contract you were trading; you merely placed down a deposit to handle any losses you may have incurred.

So armed with this new knowledge, let’s examine a short trade.

Based on your analysis, you now believe the SPI is due to go down. You decide to enter the market and place a sell order with your broker. Immediately upon your order being filled, a deposit is withdrawn from your account and transferred into a separate account with your broker, to handle any fluctuations that may go against you from the price you entered the trade.

You will now make or lose $25 per point per contract from the price you entered your trade. On completion of your trade, you close out your position by instructing your broker to buy one contract. Your deposit is then returned to your trading account, along with any trading profit you have made from your trade, or minus any loss you have incurred. (Government charges, brokerage and exchange charges are also deducted at this time).

The profit or loss you made from the market (ignoring brokerage, and so on) was (Selling Price - Buying Price) x 25.

FORECASTING - THE POWER OF TIME

by David E. Bowden

In early 1996 I wrote an article called "The Power of Ranges", this was based on Lesson Eight from Number One Trading Plan. This time I will attempt to give an outline of how I see the Share Price Index trading throughout 1998. I suppose we could call this article "Forecasting - The Power of Time".

To get the most out of this piece, it should be read in conjunction with the first story as in that I spoke of both price and time. Although time is more important than price, never forget price is your first lesson. As in most things, it pays to get your first lesson or "base" right before you move on.

To sum up the first lesson, I said that you should always look at your minor and major range. The ranges we were looking at were a minor range of 256 and how that developed into a major range of 1027 or approximately 400% (256 x 4 = 1024). This range occurred from the major low (1341) 16 November 1992 and the major top (2368) on 4 February 1994 (2368 - 1341 = 1027). So now to take that lesson a little further, our next major low (1793) occurred on 23 November 1994. If we add our major range (1027) to our major low (1793) we get a target price of (1027 + 1793) = 2820.

This was the same technique that I used to call the top at exactly 1855 which fell on 4 October 1989.

Our all-time high (so far), that occurred on 2 October 1997, came in at 2827. I can accept that you say, "that's okay with hindsight", but I first put this calculation through for a major high early in 1995 - and what's more I never changed my mind. I'd also like to add a little more, for confirmation that price targets can be established well before the event.

In my Number One Trading Plan course I gave a lesson on calculating the prime number for the Share Price Index. This Prime Number came out at 2832. There was only one number - 2832. It is worth noting that the high of the December contract came in at 2835 on 25 September 1997, then made a lower top of 2827 on 2 October. So on a continuous chart we call the 2 October top the all-time high, while on a contract chart, which is often called a Gann (or seasonal) chart, we would call the 25 September 1997 high the all-time high. The mid point between the two tops is 2831. This was printed on page 106 of Number One Trading Plan in 1996.

Spi Chart

We have sold thousands of them. I'm not writing this to puff up my ego. It's dangerously over inflated already. What I'm saying is that it is possible to come up with the right figure and stick to it. I firmly believe you should get a working knowledge of price before you move on to time calculations.

You don't need to be a rocket scientist or have an I.B.M. mainframe to be successful, but you do need a working knowledge of how markets operate, as they tend to repeat and you start with price. You get on top of that before you move on to time. We will move on to time now.

The October tops of 1989 and 1997 were anniversaries. In the March 1996 article I devoted one paragraph to time. In that paragraph I mentioned the significance of November for our Share Price Index contract. I stated that November produced the top for 1991, the low for 1992, the top for 1993, the low for 1994 and a significant low for 1995. The point I made was the importance of anniversaries. To prove my point the high for 1996 came in at 2432 on 26 November 1996, during one of our major seminars. That was basically on the anniversary of the 1994 low. For 1997 the market double bottomed on 19 & 25 November at 2435 and 2437 respectively, the same price as on the anniversary in 1996. This was an excellent buying opportunity, but I wonder how many of our rocket-scientist traders, with their fool proof computer trading programs, recognised it as such. It's not really all that complicated. The run up from 25 November to 6 January (another anniversary) was 375 points. That's over $9,000 per contract. Anniversary dates are where you start your time analysis. You don't need Pluto squaring with Neptune and the sun coming up from the west on a lunar eclipse!

It is from watching anniversaries that you learn the flow or rhythm of the market. These rhythms are often referred to as cycles. First you must learn to recognise them – to be aware of their existence. You should look at them as a friend, for they are your way to make money. If you get your thinking, or cycle, in tune with the market, your decisions seem to flow.

The by-product is that you can make a lot of money. If you go against the rhythm or trend of the market you are "out of wack". You must have a way of analysing the trend, and just as importantly, knowing approximately when the trend will end. If you either go against a trend when it is occurring, or stay on after the change has occurred, you will get crushed.

We recognise trends by way of price and time.

To establish the trend by price alone we use swing charts. Higher tops and bottoms means that the trend is up and conversely lower tops and bottoms means the trend is down. We should establish the minor range by measuring the first range out from a major top or bottom. Next you check the volatility or violence in the market. If volatility is high, price targets will be exceeded and the subsequent correction in a bull market will be a panic reversal. I call them crashes and mini crashes. You can tell all of this by careful attention to ranges. You start with the daily high and low. If you are not getting big range days you will never have a strongly trending market. In other words you won't make much money. If any trader tells you that he or she has just made a killing, what they are actually saying is that they have found a strongly trending market. When you know that much you can go on to "time".

As I said earlier, you start by looking for changes of trend around the anniversaries of major tops and bottoms. You have them marked on your chart for possible changes of trend. Next you will divide the year from anniversaries into halves, quarters and thirds. That's as far as you go for a start in natural time. After you have a working knowledge of the effect of time on the market, you will start counting the days between bottoms and tops. You can even go so far as to draw a swing chart using the days of a swing as the count. What you are looking for here is the balance and over-balance of time. This simple calculation will tell you when price and time targets are going to be met, or in some cases blown out the window. It is another way to rate the market.

A way of combining the two elements of time and price on a chart is to draw an angle. I use angles to tell me if a market is weak or strong. A simple trend line drawn from the absolute bottom to the absolute top in a bull market should be placed on a new low, once the new low has been established.

From this angle you can compare the strength or weakness of the second leg. Once again this will give you forewarning if price and time targets are going to be met. It helps you rate a market - you do not need any more than good charting-paper, a basic geometry set and a couple of pens and pencils.

That will certainly enable you to test your skills. In some countries the law states that you must include a disclaimer saying that previous success is no guarantee for future performance. I go along with that, but I'd like to add that previous failure is less of a success indicator, so I heartily endorse some time being spent testing your trading plan because it helps to know if your theory works in practice. Don't look for something that works always, but at least be assured that it works sometimes.

So now as a backdrop to my call for the Australian share market, we will scan my call in 1996, the time of the last article. Some complained that I did not back up my last lesson with a forecast based on its contents. I mean, with all the money they pay me for these articles, it's the least I can do...so here goes.

In September 1996 The Age published a lengthy interview under the heading "No Need To Panic, Says Guru". The reporter, Ian Davidson, actually caught me on my mobile phone as I drove home, and we spoke for about forty minutes.

Here are some of the extracts, though you need to read the whole article to get the proper perspective. It was recorded in late July, when the general market was still very nervous. There was still panic in the air.

I said that the market would not be a buy until March 1997. "Getting into the second quarter of '97, we are going to have a strong year and, after that, we are going to have a pretty good run that I expect to last for about 2 years". I said that this applied to the U.S. markets and Australia. I also said in June 1996 that the "Tiger Stocks" were running out of steam, and that Australia would be the new flavour of the month.

To be fair I also expected, as I said earlier, the Australian market to go lower. I expected a "mini crash" for the Dow in October – November, because that's what it usually does. This occurred on 3 December in 1996. I also said that the overall market would continue to make higher tops for approximately two years. The only way I would have changed my mind on that call was if the 1997 low took out the low for the past year.

So now how do I see the Australian market in 1998? As I said in the Safety in the Market Summer 1997-98 Ticker Tape I think it's going up. That was a tough call in November 1997. Here is the basis of my thoughts.

Firstly, you must look at the predominate sentiment. Most commentators are negative or at least cautious, so that means it is probably a good time to buy. By Christmas this year if the market goes up everyone will understandably be totally bullish, so it will be time to sell out and go short. I would also watch Wednesday 6 January or Thursday 7 January 1999 - because that is an anniversary.

The thing about major tops is that they are the ultimate temptation. I mean, it feels so easy, and so right to buy them. The closer to the absolute top, the easier it is to rationalise your purchase. That is why so many traders lose so much around major tops - and to a lesser degree major bottoms.

I suppose, as usual, some analysts will sit on the fence and run with a forecast long after the event. I first gave this forecast in January 1995. I have not changed my opinion in that time. I will change my mind when the facts change. The mini-crash in October 1997 did not alter my view; in fact it only strengthened it. As I said to my traders in November 1997, I will have to see the October 1997 low of 2210 taken out before I would call the market down. So far, that low has not been tested so far in 1998.

Currently the market looks to be building momentum. All the "Mums and Dads" are flocking in, as is witnessed by the Telstra float. Next we have the negative gearers, who will be followed closely by the doctors. It's a worry, but 1999 will see the reversal and panic in the market that some are predicting for today's market!

Remember, the market will do whatever it has to do to fool 90 per cent of the participants. Just make sure you are not on the wrong side of the ledger for 1998 – 99, because when it's all over a lot of money will have changed hands.

FEAR IS THE KEY

by Dr Harry Stanton

In his interesting book, Trading without Fear, well-known American trader Richard Arms, describes the market as being delicately balanced between fear and greed. He suggests that those traders who succeed in making money are the ones who are able to identify fear and greed in others and act upon this information for their own benefit rather than succumbing to these emotions themselves. As he puts it: "When everyone is greedy, that is the time to be afraid, and when everyone is afraid, that is the time to be greedy".

To avoid becoming the prisoner of these two very powerful emotions, we require knowledge both of ourselves and of other people. Through self-observation we become aware of our own fear and greed. Lacking such self-awareness we have no hope of controlling these emotions within ourselves. Just as importantly, if we do not observe other traders and financial "experts", we cannot acquire the knowledge we need to exploit the existence of fear and greed for our own profit. Fear and greed can become our friends and allies once we are able to recognise how their excesses lead others into error. We can make profits on the basis of such observation as long as we are able to avoid the devastating effects of these emotions in our own trading.

Of course, it is easy to write about controlling fear and greed. It is something else to actually do it. One approach I have found useful with my clients is to make use of unconscious mental processes. Like many other psychologists, I believe that up to 90% of our behaviour is controlled unconsciously and that relatively little remains under conscious control. I have written extensively about ways in which we can influence the unconscious part of our minds, both in my book, Let the Trade Wins Flow, and in previous articles for the Ticker Tape. To help my clients make use of their unconscious minds in controlling emotions, I would talk to them in the following way using fear as a particular example:

> "I am going to ask you to do something that may be quite difficult, something you may not even want to do but which will help you achieve the peace of mind and emotional control you want and deserve. Over the next few weeks, you will need to find a way to make fear your best friend and truest ally. Since it is always with you, just below the surface of your mind, it must have some of the wisdom of your unconscious mind, and with determination, you can discover how the fear could help you learn some things about yourself you could learn in no other way. I do not know what those things are or how you could learn them. That is up to you and you have to discover them in your own way."

Should greed be more of an issue with a particular trader I would substitute it for fear in the above example. Usually I make the suggestion to my clients while they are in a relaxed state but the effectiveness of the message does not really depend on that. It is simply a way of saying that people have powers within themselves of which they are presently unaware and that, as a result of my suggestion, they will become more aware of such powers, being able to use them to make improvements in their lives. Though I have focussed on fear and greed here, the method can be used very successfully with a wide range of emotions and problems.

Though fear and greed are normally viewed in a negative light, these emotions do not necessarily have to have such connotations. We can chose, if we so wish, to view greed as a term that simply describes an emotion that drives people to invest. Conversely, we can describe fear as an emotion driving people to liquidate their investments. I think this is a useful way of defining these two emotions for it enables us to view them in a more detached manner than is usually the case.

If there does exist a key to investment success, it might well be the ability to remain emotionally detached from trading decisions and outcomes. Many traders and those who write about trading affirm this to be the case, believing that such detachment is achieved only through confidence and knowledge.

The necessary knowledge is to be attained through thought, study, hard work, and experience. However, these same traders and writers, are a lot less forthcoming on how the confidence part of the equation might be obtained. In Let the Trade Wins Flow, I explain a number of ways in which to overcome this omission and instil increased belief in yourself and your own capabilities. One of these is the Confidence Circle, a method quite easy to implement, yet one that produces a positive result far greater than might be expected.

To make use of this technique, go back in your memory to a particular time when you felt abundantly confident. Relive the moment, seeing what you saw and hearing what you heard. As you begin to re-experience that confidence and feel it building, imagine a coloured circle on the floor around you. As the feeling gets strong, exhale as you step out of the circle, leaving those confident feelings inside the circle. Now think of a particular time in the future when you want to have the same confidence. As you begin to think about that specific future time and place, step back into the circle and spontaneously feel those confident feelings again. To test whether this has worked, think of that specific future time. You'll feel some of that confidence as you do.

The confidence gained in this way, coupled with the knowledge derived from your reading, attendance at seminars and discussions with other traders, will help you to handle fear and greed in the more detached manner that is a defining characteristic of many successful traders.

Editor's Note: Doctor Stanton's Let the Trade Winds Flow is available through Safety in the Market. It is a very popular book.

SO WHAT REALLY GOES ON AT THE BROKERS OFFICE?

by Warwick Aubin

As a trader it's important to understand the workings of a brokers office. It's important because you want to get the best price possible and to ensure that your order is executed the way you want it. You don't want any confusion over what you want the broker to do for you. That is, you want your order to be done exactly as you want it to be transacted. You want to ensure that you know exactly what your broker's responsibilities are, and what you as a trader need to monitor. So, lets take a hypothetical day in a broker's office to see what happens.

This is the scene in a broker's office just before the SPI market is about to open - the

Dow Jones has fallen 200 points during the night, much to the surprise of the majority of traders.

Because of the large move in the US market and because it surprised most investors, Australian traders are scrambling to understand what caused the fall, and what price the SPI is likely to open at. This means that the broker's office is being inundated with calls with traders wanting to know what is going on. Some will be very nervous as their trades are going to be in a very unprofitable position; they will be seeking advice on what they should do. Emotions for some traders are running high; giving accurate and clear instructions can get blurred at a time like this… a time when it is essential to be most accurate!

The broker has a specialised dealing telephone system that can handle 20 simultaneous

incoming calls. The phones are running hot, the traders who are unprepared are ringing in at the last moment. The brokers have been very busy as they advise clients and take orders. They need to place the growing list of orders to the Trading Floor as soon as possible. The broker needs to do this so that their clients receive the best fills possible. Remember, the first orders placed get the first price traded, and you can imagine that particularly after an unexpectedly large movement overnight there are numerous orders to buy and sell at market or at a specific price. If you place the order early you are going to get best price, on very volatile days this can mean hundreds of dollars difference if you are trading multiple contracts.

As you can see, the busiest time for a broker is just before the markets open. It is the only time during the day when there is a large build up of orders. It is a time when many traders are ringing in to find out what happened overnight; where SYCOM traded; where did the Dow finish, and so on.

During the day there is a continuous flow of telephone calls, with traders ringing in with new orders; checking where the market has traded; amending existing orders - trailing the stops; the broker reporting filled orders back to traders. With so many calls, traders need to be very precise when placing their orders and in keeping track of their exact position - how many long or short they are; and in ensuring that they cancel any orders which are no longer valid.

This last point about cancelling orders needs some more explanation. Many traders place a stop loss after they enter a trade. Say they buy a contract, the market heads up and by the afternoon there is a healthy profit, in fact the trader decides to grab it, and instructs the broker to sell one. However, in the euphoria of the moment, the trader neglects to cancel the stop. What happens if the market turns around and heads back down to the stop? The trader will end up selling one that they probably didn't really want. Now a broker will always try to monitor situations like this, they would endeavour to ring the trader and mention that the stop is still active and then question the trader if they still want to keep the stop active. A broker will never automatically

cancel an order; they do not have the authority to do so. Therefore it is important that a trader be very specific and cancel any orders they no longer want. A quick way of doing this is for the trader to say "sell one at market and cancel my sell-stop order".

Paperwork is not the most exciting part of trading, but it is a record of all your transactions. You need to check your contract notes to ensure that all your trades are correct - the right number of bought and solds at the correct prices. If there is a mistake, call your broker.

Summary

- Place your orders as early as is reasonably possible.
- Always keep a close eye on your position. You need to know if you are long (bought) or short (sold) and exactly how many lots.
- Check off your trading statements. If there is any inconsistency call your broker.
- Your orders are only active for the session in which you place them. If you place an order during the day and it is not executed during that day, it expires. It is not placed onto SYCOM nor is it automatically placed the next day.
- The broker will use his or her best endeavours to report back any completed orders, however it is vital that traders check at the end of the day if they have not heard from their broker.
- If you place an order, make sure you cancel it if you no longer want it active.