Learn to day-trade the E-mini S&P 500

Simple-as-123

Marshall J. Jones

I'll Show You How to Day Trade The E-Mini S&P in 60-90 Days… Regardless of Market Direction!

Simple-as-123

#1 **Knowledge:** You need to know what determines momentum.

#2 **Information:** You need timely, crucial information to help you determine when that **momentum** is the best time to make the trade, and when to get out in order to minimize your risk and maximize your profits.

#3 **Belief:** You must have a belief in yourself that you can do it. It's that belief in yourself that gets you to take action. You have to act on the first two ingredients (knowledge and information) in order to make this method work for you.

Notes: Don't Ask Questions Now…Wait Till You Read This Manual First --
I'll explain what it all means as we go along in the manual!

New to the game?

If you are not an experienced day-trader, and don't know the basics…please go to page 55

Know it all?

You might want to review the basics anyway…you just may learn something new!

Predicting the future is easy. It's trying to figure out what's going on now that's hard

Fritz R. S. Dressler
President FRS Dressler Associates

Table of Contents

Introduction

Preface

I had been trading for about five years, and had very little success with short or long term trading. I became fascinated with the idea of day trading. I was always looking for the Holy Grail and as we traders know, there is no such thing. We all spend way too much money for the hype that's out there, and with all the talk on the street about the money being made day-trading I started to look for a system or method to trade the S&P, but when I looked into the amount of margin you needed I quickly became disillusioned. I'm not in that league as it takes over $25,000.00 to trade one contract! I had heard of mini contracts and found you could trade the Emini S&P; it's one-fifth the size of the big S&P; and is traded electronically on Globex with no need to talk over the phone to a broker. Well, it fit right into my style of trading. I guess I like the action, and I don't like all that research for trading long-term positions.

I started looking at charts and watching the news on CNBC everyday. I read everything on day trading that I could get my hands on. I think, because of all the stuff I had read about, such as fundamentals, technical analysis, and all those crazy indicators like RSI, Fibonacci numbers, Gann lines, Elliot waves, Stochastics, it would be just too difficult. Then I read an article written by one of my favorite teachers, Larry Williams and a co-author Miles Dunbar, they wrote an article for Futures Magazine, "Trading Strategies For the Future… The E-Mini Nasdaq 100" and in the article, he used an indices as an indicator, and in the same magazine article another writer used a different indices as an indicator. I said to myself…*Self, why don't you use both, as an indicator* … the rest is history.

I did not have a losing trade for over a year when I first started, I was very conservative, and only went by what I perceived to be the perfect scenario to trade the E-mini. The method worked well during the big Bull Run in the late 90's. You could not make a bad trade with this method if you tried! I kept trying to tweak it and find more days to trade it. I had quite a few friends and fellow traders wanting to try it so I began to teach the method during the most volatile time of the market. The method worked, but it took patience and discipline and a bigger drawdown.

I could write a whole chapter about trying all those crazy indicators. Man, all that stuff gave me brain cloud. I tried to put too much into it. I know now, after teaching students who knew nothing about trading, that they do much better than the experienced trader who has too much emotion and indicators to look at. This method is simple, and I will attempt to show you how simple it is in this manual. I will teach you just what you need to know, no more, and no less.

Jake Bernstein said it takes ten years to develop a system or method ... we will see! As I write this we are in a bear market and it could be a whole new ballgame.

Remember the acronym "Kiss" ... Keep It Simple Stupid
Happy trading ... Simple-as-123

Marshall J. Jones
Day trader

Acknowledgments

To my wife Helen, the computer widow, who brought me my coffee each and every morning, and made sure I got the latest business news from the newspaper. For her patience, and love, I owe her a debt of gratitude. We could have been traveling all over the States, having a great time, but she never complained. Wow! … What a wife!

My daughter Renee, who took the time out of her busy day to help me proofread this manual, She holds down three jobs and has Ryan, her three-year-old son…who also tries to help me on the computer. When I'm trading, he likes to cheer me on. (I have to be very careful what I say…if you know what I mean.)

My soon to be son in law, Frank Giganti, who prods me on with his marketing insights and Sharon my second daughter, for all of her e-mail letters of encouragement and suggestions. She makes me laugh, and see the sunny side of life.

And to the rest of my family, Darlene my youngest daughter, her husband Greg and their two sons Joey, and Frankie, for their words of encouragement. And last but not least, my two sons Marshall and Michael who asked everyday, "What in the world are you doing up there dad?"

I am so thankful for all of the traders who have touched my life with their opinion, suggestions, systems, methods, testimonials, and those who took the time to trade with me live, using the live charts on quote.com, and Yahoo! Messenger. It was a blast, guys! I really learned a lot about this method and myself with you on line.

A special thanks to Thom Huntington, who helped edit part of this manual.

Let's not forget Lycos, Quote.com's Live Charts, Yahoo, and paltalk for their great Messenger, and chat room software.

It's only when we truly know and understand that we don't know ... and had no way of knowing, that we know we have to find out what we don't know.

Marshall J. Jones
Day-Trader, writer, poet, teacher, printer, pilot, marketing guru
Father, grandfather, and all around good guy
But only in my own mind!

Thought you'd never ask!

Well it's been one hell of a ride! An adventure like a Tom Sawyer and Huckleberry Finn novel, and it's not over yet.

I was born in El Centro, California, about 100 miles east of San Diego, where my family moved when I was about seven years old. My dad had bought Acme Printing Co., one of the oldest printing firms here in San Diego, dating back to around 1905 or earlier.

After graduating from high school and volunteering for the draft, I was offered a chance to take my choice of any school the Army had to offer, so looking for the big bucks ($55.00 extra per month), I chose the Army Airborne. By the way, I don't recommend jumping out of a perfectly good airplane.

I went through jump school at Fort Campbell Kentucky, and was also given a chance to attend the Ranger School at Fort Benning, Georgia. That's what I get for being gung-ho, and fortunately for me, an armistice had been declared in the Korean War.

With my Honorable discharge from the Army in 1956, and the offer to pay me to go back to school, I was able to get my commercial pilot's license, and look for a job with the airlines here in San Diego. But no luck here; all of the pilots coming home from Korea got the jobs.

Joining my Father, I managed the family printing business. I met my lovely wife, got married, and had five children. I attended San Diego Junior College, and San Diego State College (it was not even a University in those days), taking classes in business and marketing. After my father's death, I owned Acme Printing Co. and other various business enterprises for over twenty years.

I was very active in San Diego, joining various Civic organizations; San Diego Junior Chamber of Commerce, past chairman of the Aviation Committee, formed the San Diego Jaycee Flying Club, Past President of Harbor Lions, Flotilla 11, U.S. Coast Guard Power Squadron, Air Search and Rescue, Antique Air Craft Association, San Diego Aerospace Museum, and was a member of the San Diego Elks Lodge. Busy, busy, busy!

I started many various companies in the twenty years I was active in the printing business. Some of these businesses included American Traders Manufactures and Buyers (ATMAB - Anything To Make A Buck), Presto Prints of California, The Sand Box, Tattoos by Joyce, Joyce Enterprises Inc., M & J Marketing, Marshall Air, San Diego Sky Hawks Inc., and Typro Graphics.

I retired from the printing business in 1976, and formed Joyce Enterprises Inc., a corporation involved in marketing and business consulting. I was a major shareholder and served on the Board of Directors as Vice President, in charge of marketing, and product development. I also became a business consultant, specializing in product development for other start up companies.

I came out of retirement in 1986 after some bad investment decisions, and went to work as a manager of Paper Plus, a division of Unisource World Wide. I retired again after fourteen years in September 2000.

My many hobbies over the years include, backpacking, rebuilding antique aircraft, flying, boating, fishing, writing poetry, reading and watching Biography and the History channel, and last but not least, teaching day-trading.

Looking for additional income, I happened to receive a familiar mail order pamphlet in 1994. You know the one... how to get rich quick in the commodities and futures business.

I jumped right on in. Needless to say, I didn't get it. I kept looking for the Holy Grail! I read everything I could get my hands on, attending seminars and lectures on how to get rich. I spent a small fortune on books, systems, and methods by the likes of Ken Roberts, Jake Bernstein, Nick Van Nice, and our old favorite Larry Williams.

Nothing worked for me, except an education in the commodities and futures business. Still thinking that this is a possible way to make money at home, I read an article on day trading in Futures magazine. I tried paper trading some of the ideas presented in the article on the S&P; it just gave me brain cloud - way too much stuff to think about. In another article in Futures, Larry Williams and Miles Dunbar wrote about trading the Nasdaq 100 and looking at a divergence in the Dow. Another article in the same magazine written by Michael A. Mermer talked about using the Nasdaq 100 as a leading indicator for the S&P 500 futures and said it was a great day-trading vehicle. At first it did not really sink in until I started watching CNBC on television. They have those little arrows in a box showing the change in the Dow, Nasdaq, and S&P 500. A light went on for some reason and I started watching every morning, keeping my eye on the Dow and the Nasdaq. At first I was looking for the divergence, then I noticed that when both the Dow and Nasdaq were in sync, the S&P 500 followed.

Hey the rest is history!

Simple but not easy…fear and greed are your enemies; patience and discipline are your tools, practice is the only way to achieving your potential

Marshall J. Jones
Day trader

Introduction

How does it work? … Simple-as-123

There are three indices that we look at after the market opens…and through out the day, they tell me which way the E-mini S&P is going. They are not indicators in the true sense of the word, but that's what I call them.

#1 The Dow   #2 The Nasdaq   #3 The S&P 500

Nuance: We don't make a trade during the first half hour. (We let the market settle down and wait for the first reversal or momentum to build.) You will learn this by watching for the first thirty days or so; when to trade at the open or wait for an hour or two.

*Please note the word **commodity** is used herein for the most part interchangeably with the word **futures**. Futures contracts are now traded on many goods and services that are not strictly commodities in the traditional sense. The concepts, ideas, and descriptions in this manual are applicable to futures whether the underlying "commodity" is agricultural, financial, indices, industrial, foreign or domestic.*

There is no scarcity of opportunity to make a living at what you love; there's only a scarcity of resolve to make it happen.

Wayne Dyer
Psychotherapist and writer

Knowledge

c.) Books on the subject of trading futures:
Ken Roberts, Jake Bernstein, Larry Williams and Nick Van Nice (these were the guys who taught me the basics…and much more).

d.) Commodity Exchanges:
You may contact each exchange for a vast array of free publications regarding commodity trading, history, facts, and data…Most of the information for this manual was from their publications.

You should be familiar with trading futures. I have written the basic fundamentals of day trading here. Read it if you are not knowledgeable.

You can get all the knowledge you will ever need from the Commodity Exchanges, and your brokerage firm.

Things you must know:

- The Dow, Nasdaq, and the S&P (how it relates to this method.).
- How to place your order. (We use Market orders.)
- Stop loss. (We use a mental stop loss.)
- The long and the short of it. (Buying and Selling.)
- Risks. (Leverage, margin, too high, or too low.)
- Futures contract. (The calendar... The ES is every 4 quarters.)
- Trading hours for the day session (Open, 9:30 – Close, 4:15 ET)
- Open, high, low, and last. (Or price at the close.)
- Technical analysis. (You need to learn just a little bit.)
- Price bar. (I prefer a 5-minute price bar.)

The way to get started is to quit talking and begin doing.

Walt Disney (1901-1966)
Film and theme park entrepreneur

Information

How to get the information:

a.) Television on CNBC or on your computer www.cnbc.com

b.) The Internet (your ISP):

Go to www.quote.com See the chart illustration below.

Best seen on your computer, follow the instructions above the chart.

Instructions for live charts:
Use live charts, it's on the home page's menu bar and use the symbol ES01M. These letters and numbers represent the contract, year, and front month that are now being traded. This is for illustration purposes; the month and year you would actually use should be the current month, and year being traded.

Figure 1 Chart of the Emini S&P…June contract 2001.

You are searching for the magic key that will unlock the door to the source of power; and yet you have the key in your own hands and you may make use of it the moment you learn to control your thoughts.

Napoleon Hill (1883-1970)
Success writer

Belief

- Self-discipline…Follow your strategy.
- Persistence…Stay in the game. Don't quit after a few losses.
- Consistency…Follow the plan on every trade.
- Self-Control…Fear and Greed. All psychological!
- Knowledge…Understand how the market works.

Discipline:

a.) When in doubt stay out!

b.) Cut losses quickly. Winners always recognize when they are wrong and act accordingly. Losers rationalize and forget what they were really trying to accomplish.

c.) Learn from your mistakes. Have faith in what you've learned.

d.) KISS: **k**eep **i**t **s**imple **s**tupid. Do not try to learn about fundamentals. The only fundamental information I use is reports and Fed remarks that come out once in while. You can find these reports on CNBC and quote.com. Use very little technical analysis, and this method will be Simple-as-123!

e.) Attitude: Have confidence in your ability to act. Take responsibility for your own trades.

f.) Study the psychology of trading. Learn how to deal with your emotions. You win some and you lose some. But stay in the game, the next trade could be the big one that makes up for all those small losses. Ask yourself, "Am I psychologically and financially suited for day-trading?"

g.) Follow your plan. Write out your plan. The risk the reward, mental stop loss, exit target, and after you write it all down. Enter your order and proof read your order—twice. Twice I said!

h.) I am a day-trader! I am flat at the end of each day, no matter what. The most common mistake new and experienced traders make is holding losers. (Flat = HAVING no current market position.)

i.) Write on the blackboard 100 times—Discipline—

Don't cut and paste either…I'm watching!

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To profit from good advice requires more wisdom than to give it.

John Churton Collins

Your Charts…

Use what you like, but please at least take a look at quote.com's charts so you can see what I see to follow the method…after you see what I look at, then set up your platform to get the same information you need for this method.

Quote.com

These are the charts I use…I think they give you the best layout for my method.

Take heed…quote.com is not very stable as I write this manual. I hope they will continue to improve and make it a more dependable platform.

My set-up

For my charts: I use 3 or * 4 charts on my screen.

1.) 5 min. ES chart with a 10 period moving average and volume indicator.
2.) 5 min. COMPX chart with a 10 period moving average indicator.
3.) 15 min. ES chart with a MACD indicator. I use the default settings.

* Once in while I will put up a 5 min. $INDU chart of the DOW using the 10 period moving average; it can bog down your computer if you don't have a ton of Ram memory. The more memory you have for quote.com the more windows you can open up, but try to keep it simple.

I only use the default settings on quote.com indicators!

No sense being pessimistic. It wouldn't work anyway.

Logging On to RealTime Charts…

Go to www.quote.com

Click on log in, and follow the log in procedure. After you log on do the following:

Select "LiveCharts" from the menu bar. (See illustration of the home page and also the chart)

IMPORTANT Note:

These LiveCharts of the Emini S&P are only $9.95 per month plus exchange fees and are real-time.

It will support the following browsers:
Netscape 4.7 and above
Microsoft Internet Explorer 5.0, M.S.Outlook 5.0, and above

The LiveCharts applet is also supported on the following operating systems:
Windows 95/98 --Windows NT 4.0 and above, and Windows 2000. At the present time (Jan. 2002) they will not work on a Macintosh.

FAQ's (Frequently asked Questions) on the quote.com live chart site. Read these it's very, very important! It will explain most of the information in the different windows on the menu bar on the live chart.

A Little Trick

Most traders don't know this little trick…just click on the window just below the clock, there is a colored bar that says Time, Price, Info, Exch., and Size, just click on the streaming data…You should now see a new window. This is my preference on my 15 minute ES chart! I can now see the Open, High, Low, and last, also the Price information…Ask, Best Ask, Last, Best Bid and Bid. And all that stuff in the upper window, which are the meat and potatoes for this method…all right in plain sight. Watch the Emini S&P stream in real time. For only $9.95 per month plus fees!

Ninety percent of those who fail are not actually defeated. They simply quit.

Paul J. Meyer
Entrepreneur and writer

Loosen Up … I'll Save You Some Time

On the right hand side of the chart…under the colored bar labeled…US Stock Market Watch…In the left hand part of the window is the following:

Hotlists: US Stock Market Watch

$INDU	+13.71	$RUT.X	-0.67
$TICK	-186	$SPX.X	-5.34
$TRIN	0.95	$OEX.X	-3.41
$NYA.X	-1.38	$PREM.X	
$COMPX	-33.56	$TYX.X	54.73

$INDU: It's the Dow.

$TICK: It's an indicator - number of stocks trading on up-ticks minus number of stocks trading on down ticks. It's used to show strength or weakness in the market. If more stock trades occur on up-ticks…that is, at a price higher than the previous trade…than on downticks, the market is showing strength, which can be measured by the combined numbers. Values over +200 or so are bullish and –200 are bearish.

$TRIN: In general, if the result is greater than 1.10, the indicator is bearish. A value of 0.90 or less is considered bullish.

I like to see the TICK and the TRIN both going my way when I'm making a trade. Better safe than sorry!

$NYA.X: It's the New York Stock Exchange.

$COMPX: It's the Nasdaq.

In the right hand part of the window:
$RUT.X: It's the Russell index.

$SPX.X: It's the cash S&P 500 Index (the big S&P)

$OEX.X: It's the commodity Index

$PREM.X: It's the real-time difference between the active S&P futures contract and the index. They calculate this and send it out real-time.

$TYX.X: It's from the CBOT (Chicago Board Of Trade) and is the yield on the 30 year Treasury bond.

VOLUME:
I use a simple moving average indicator on quote.com on my 5 minute ES chart; they also have a moving average and volume indicator…try it maybe it will just give you a clue when volume is effecting the market.

Be sure to watch the volume of the market carefully at price extremes. Declining volume usually means the market is not accepting these higher or lower prices and could indicate a turn. A market that is topping or bottoming out does not spend much time at the extremes, so there will be little volume at these points. I cannot stress the importance of daily volume enough. When volume is very low...you may get poor fills.

We want VOLUME!

REMEMBER:
Let the market determine the trend, and trade with the trend by buying on the way up or selling on the way down.

Patience is power.
Patience is not an absence of action; it is "timing";
it waits on the right time to act, for the right principles and in the right way.

Fulton J. Sheen
1895-1979 Clergyman

Keep A Diary If you really want to learn…

Make screen shots of your trades or print them out if your software has that feature. While paper trading, make screen shots of the chart and use the short hand below on computer post-it-notes, too show where the Dow and Nasdaq were, when you decided to make the trade.

To really learn this method in 90 days, take screen shots of the chart every 15 minutes; from the open up to 12:30 eastern time. It sounds like a lot of work but it's simple; it will also keep you focused, and you will have an accurate record of where the Dow, Nasdaq, and Emini S&P over the course of the day. Now you can go back and look at your notes and see what really took place in that time frame.

It's the best teacher and it's free! If you have the patience, take all 28 shots for the day…or use my Trade Log and Time Zone and just write the information down every 15 minutes.

Learn this simple short hand to keep your Diary up-to date:

- **Dow — d**
- **Nasdaq — n**
- **Emini S&P — es**
- **Up — + or up**
- **Down — - or dn**
- **Channel — Ch**
- **Powertrade — pt**
- **Sideways (chop) — sw**
- **Momentum — mom**
- **Number of contracts — > 1**
- **By the way — btw**
- **Double top or bottom — DT or DB**
- **Triple top or bottom — TT or TB**

This is how it should look:

7:30	**8:30**
d+25	**d+45**
n+15	**n+30**
es 1330.00 > 2	**es 1334.00 out < 2**

Interpretation of the shorthand; it should work like this:

At 7:30 the Dow was 25 points up and the Nasdaq was up 15 points, the Emini S&P was at 1330.00 and I bought 2 contracts. ----- At 8:30 the Dow was 45 points up and the Nasdaq was up 30 points and I sold both contracts at 1334.00

Note:

You need to make those screen shots at the open and then every 15 minutes. It's important! That way you can study what took place and see where you were when you decided to make the trade. Or you may see something unusual. Jot down a note and learn from it.

(Show a sample chart and note)

This is a reminder…just do it!

The minute you make the trade, make a screen shot of the chart and your order. Your trading software may have this feature to print built into the program.

Now you have a record just in case your brokerage firm posts an error on your statement.

Luck is being prepared for the opportunity when it comes.

No matter what happens, keep on beginning and failing. Each time you fail, start all over again, and you will grow stronger until you find that you have accomplished a purpose…not the one you began with perhaps, but one you will be glad to remember.

Anne Sullivan (1866-1936)
Helen Keller's teacher

The concept… when the Dow, Nasdaq and the Emini S&P 500 are all trending up or down, (otherwise known as synchronized) it can signal a time to make a trade. Waiting for the three to become synchronized can take awhile, so just be patient. What I am looking for is **momentum**. It may take an hour or so. The idea is if the **DOW** and the **Nasdaq** are both going up, the **E-mini S&P 500 will follow**. That's really all there is to it.

Here is something that is hard for most newbies (new traders) to understand, regarding in sync…if the Dow is up 50 points and the Nasdaq is down 25 points, and all of a sudden the Dow loses 25 points, that is momentum, and is really in sync with the Nasdaq. Having just lost 25 points, the numbers don't have to match, just be moving in the same direction. One of my favorite starting points is to have the Dow trading at +25 and the Nasdaq at +15, and to have both moving in the same direction…with momentum.

What do I mean by momentum? When a market is moving quite a few points in just a few minutes ***that's momentum***. You will get the gist of it after watching the market for a few days. Try to pick a time when you would make the trade. See how you did after you made the decision to trade. ***Watch out for the nuances and the Time Zones at the end of this example***.

I can't **emphasize** how important it is to keep a diary on how you decided to make this trade. Use the short hand and write down at what point each of the three indicators were when you decided to make the trade. This will help you review your entry points after you have traded for a while. How long did you hold it and at what point did you decide to get out? I print out a copy of the order activity sheet from my broker after I make the trade and I jot down a few notes to indicate why I made and why I got out of the trade. The most important notes should be why you lost. Figure it out and write it down.

Let's look at an example. The Dow is trading at 10500 and is up 50 points from the day before. The Nasdaq is up 25 points and the S&P is trading around 6 points or higher. All trending up or they can all be trending down. It's time to make a decision…let's go for it! (For those of you who don't watch the market or who do not know what I mean by up or down from the day before, or don't know what a point is…I will explain this in the back of this manual. See the index for any questions you might have.)

(Note—Watch out for all of the time zones to be avoided? listed in chapter two.)

Ok, ok! Each point of the E-Mini S&P is worth fifty bucks.
Before placing our order we must make a decision on how much we are willing to lose and what our profit target is. I use a $100.00 mental stop loss. With some brokerages, you can't use a real stop loss on Globex 2 (The computer platform used by the Emini S&P to track trades.) I'll teach you what I mean by this later in chapter two. This market has a large trading range, it can move 6 points up or down in just a minute or two. If you have a small stop loss of only 2 or 3 points you might have a tendency to get stopped out too soon. Look at your chart and see how many points each bar is in the number of points from the open of the bar to the close of the bar, give yourself this much room so you don't get stopped out before you even get started. This does not mean

you have to lose $150.00 (3 points). Risk more if the bars are longer than 3 points. The point is you have to give this trade some room. You will learn when to pull the plug.

I like to make at least $200.00 dollars a day (4 points). The market needs to move up or down 4 points, using just one contract. Buy four contracts and take home $800.00. If I see the Dow, the Nasdaq, and the S&P still trending up or down in the same direction as my trade, I'll let it ride. (See chart illustration 2.1) If the Dow starts trending too much in the opposite direction of my trade, and even though all of the indicators are in my favor (Called a pullback), I might make a decision to take my profits now. If I have two contracts I might sell one and let the other one ride. You'll get the hang of it after you paper trade this method for two or three months.

There are days when all three indicators will not synchronize and you can't make a trade, and there are days when the market will go against you. Try to take small losses and the big trades will come. Work with this method for a month or two and you will see what I mean. If you like to make high risk trades, I will teach you how to be an aggressive trader.

So why do we as future traders, care so much about the Dow, the Nasdaq and the S&P 500? … Because they are great leading indicators of the E-Mini S&P!

It is better to look ahead and prepare than to look back and regret.

Jackie Joyner – Kersee
Olympic track and field champion

Momentum

As defined in the dictionary:

1. Symbol p Physics. A measure of the motion of a body equal to the product of its mass and velocity. Also called linear momentum.

2. An impetus of a physical object in motion. b. Impetus of a nonphysical process, such as an idea or a course of events: *The soaring rise in interest rates finally appears to be losing momentum*.

3. Philosophy. *An essential or constituent element; a moment*.

Pretty much covers it! … Huh?

This is what I mean about momentum!

The measure of the motion and movement of the indicators we are looking at; that we use to make a trade…Dow, Nasdaq, and Emini S&P.
This is the most difficult part of this method to understand, and it's also very subjective. I cannot make it mechanical, as you will see when you start to paper trade.

I will try to cover how we use momentum in an example later in another chapter. Learning this skill is paramount to making the trade low risk. So pay close attention when we cover this subject. It's the key to success! Takes lot's of practice…you will see it for yourself.

Right now a moment of time is passing by!
We must become that moment.

Paul Cézanne (1839 – 1906)
Artist

This is how I do it…

I have my computer all set up to make a trade with the software on the web site from my brokerage firm. It's really quite simple! I watch CNBC for the morning news, CNBC also sends me an email after the market closes, called Money Wizard, (CNBC at cnbc.com and get Money Wizard at http://www.cnbc.com it has most of the market news, and it warns me of any reports that are coming out. I also read quote.com's home page for their point of view. Then I click on live charts of the Emini S&P on quote.com. (I use the "All sessions" in the chart type) and look to see what the night traders were up too.

At the open of trading which is 9:30 EST I look to see if I can trade the open…maybe a gap trade or I see the Dow and Nasdaq in sync and moving like a rocket. If not, then I wait for the first half hour and look for the first reversal, or just let the market settle down. You can just read the paper, and have a cup of coffee, watch CNBC, and keep your eye on the three indicators on the lower right hand side of the TV screen. When you see the Dow and Nasdaq get in sync and you think you may have an opportunity to make a trade, then go look at the chart on your computer screen and prepare your order. Just remember the concept…Simple-as-123!

(Use a piece of artwork to show what it really looks like).

Dow	^
Nasdaq	^
S&P	^

Figure 2 CNBC's illustration showing the change in points from the day before.

Nothing stops the man who desires to achieve. Every obstacle is simply a course to develop his achievement muscle. It's a strengthening of his powers of accomplishment.

Eric Butterworth
Clergyman

Trade Log with Time Zone

Make an Excel Form or whatever spreadsheet programs you use of the file on page 24.

I will send you a pdf or the Excel file on request.

E-mail me at: mjjones35@cox.net

Or try my web site: www.simple-as-123.com

Website should be up and running by Feb. 15th 2002

Time Zone and Trade Log

Date: ____________________

TIME	ZONE	DOW	NAS	ES	TRADE	B/S	EXIT	NOTES	W/L	PT's
9:30										
9:45										
9:50										
10:00										
10:10										
10:15										
10:25										
10:30										
10:45										
11:00										
11:15										
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13:35										
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14:00										
14:15										
14:30										
14:45										
15:00										
15:10										
15:25										
15:30										
15:40										
15:45										
16:00										
16:15										

Charts will go on this page

Habit is habit, and not to be flung out of the window by any man,
but coaxed down stairs a step at a time.

Mark Twain (1835-1910)
Writer and humorist

Charts go here

Almost means not quite. Not quite means not right. Not right means wrong. Wrong means the opportunity to start again and get it right.

Don't know who said this…do you?

Globex

Commodity Traders Discussion Forum

E-mini trading, General comments

Gunter Kaiserauer posted this article on the Commodity Café (A trading forum I frequent after trading hours.) Thursday, 23 March 2000. Gunter is a broker, CTA, Educator, and is active on many trading forums. (**gunter@betterfutures.com**)

"We often read comments about which brokerage house gives the better or worse fills, and slower or faster executions on e-mini contacts.

A few words of explanation:
E-mini contracts are traded on an electronic exchange. Once an order is entered into the Globex computer, only the computer decides how the transaction is being handled, and what fill you are going to get. There are no differences between having your account with one firm or another. In that respect, all brokerage firms are equal.

The computer processes the orders in the chronological sequence they were entered. Your fill should come back within 2-4 seconds, on a normal business day.

However, there are differences in other areas:
***As far as "stops" are concerned, the Globex allows only "stop**-limit" orders, not regular "stop" orders. To facilitate regular "stop" orders, another CME computer is used which stores your stop order and monitors the e-mini price. When your stop price is triggered, it converts our stop order into a market order. (Even though this process is done electronically, there is a tiny time delay involved in doing this).*

Again, once your stop order has been entered into this system, your brokerage house is not any better or worse than another brokerage house. However not all brokerage firms are approved for this set-up. Those brokerage firms, who are not approved, use a clerk in their own offices to monitor prices and convert your stop order manually. Needless to say, this takes a bit longer than a completely electronic process.

Somebody made the comments today, that e-mini trading presents no risk to the brokerage firm. This, of course, is not true. A day-trader can wipe out his account in a matter of a few hours, if he is left to trade unsupervised.

Some firms (especially the ones that let small accounts trade online) control this risk by having a clerk intercept each online order and check it against account equity and the day's earlier trading activity. Obviously, this takes away one of the main attractions of e-mini trading: speed.

Other firms, let the orders go through without interception, but control their risk exposure by asking for higher account equity.

Finally, there is the quality of the software. Not all online software works smoothly and efficiently. I have heard some horror stories to that respect, and we took in some 'refugees' from other firms, even though the other firm offered lower commissions.

Slippage on the e-mini S&P is generally less than on the big S&P. Although, from time to time the e-mini gets into an area void of resting orders. This can result in unusual distortions and unexpected slippage. The worst such case was a year, or so, ago, when Greenspan made an unexpected announcement which rattled the markets. Slippage on stop orders in the big S&P, on that day was in the neighborhood of 1200 points, whereas slippage in the e-mini was 3200 points.

The worst problem with e-mini trading is this: you don't have a broker any more who you can blame for bad fills. That leaves only one guy to blame for your losses: yourself! For some traders, this can be a devastating experience."

Gunter Kaiserauer
Broker, CTA, Educator

There is only one group of people who don't have problems and the're all dead. Problems are a sign of life. So the more problems you have, the more alive you are.

Noman Vincent Peale (1898 – 1993)
Clergyman and writer

Building A Trading Strategy…
Your Plan

Requires using technical analysis, fundamental analysis (very little) and some select indicators, e.g. the Dow, Nasdaq and the S&P 500. I call these indices indicators because we use them to find momentum to make the trade on the Emini S&P. The important factor is how to define the risk and the reward. After watching the TV for a few weeks you should have come to a conclusion of how far up or down the S&P can go in a day. If it has moved too far too fast at the open…the risk is too great for the reward. (See illustration 3.1) If it's too far down, it probably won't give you enough reward to pay for the commission and charges. It has to have room to move past resistance or below support to move any further up or down. Some other technical indicators I use are the MACD crossover, volume, gaps, and watching the trend line. The fundamental indicators might be some major news, i.e. Alan Greenspan! Fed reports about interest rates, reports on employment, gross national product, and consumer price index reports, just to name a few.

Understand why and how to use market commentary. Stay out of the market till the dust settles. Use the calendar to find out when these reports are due out, unless you want to become a gambler! Ask your broker about any market news, and what time they are going to be reported.

But be ready…if it's good news it should trend up…if it's bad news it probably will move down.

Hey we're not building a house here ya know! Hypothesize!

Choose some indicators you think may be potentially indicative of the market. By the way, the market may move very fast and then turn around and head back the other way. Look for an opportunity to get in. If this news is at the end of regular trading hours you better watch out at the open tomorrow, or the next trading day. Look for a gap move, or trade long on a day before any major holiday! It works most of time! Some people say that if the public thinks it will go up, it goes down and vice-a-versa…be a contrarian.

Choose a target price for an exit like 2 or 3 points, and a stop loss figure (I use 2 points for a stop loss, or look at the trading range to make my decision.). Don't try to get every penny out of the market; it will just cost you money. You can't pick tops and bottoms or we would all be rich. FOLLOW YOUR PLAN!

"*The wise trader never ceases to study general conditions, to keep track of developments everywhere that are likely to affect or influence the course of the various markets*."

"Reminiscences of a Stock Operator"

Edwin Lefevre

Hey … It's all in a day's work!
Let's look at my typical trading day…

This is my checklist …First thing's first

My wife brings me my coffee…I take a look at the news on CNBC and I also look at the news column on quote.com just to see if there are any Fed or important reports out today. I read the business section from the newspaper if I get up early enough…Not likely!

I leave my computer on twenty-four hours a day except on weekends (We have an energy crises here in San Diego so I now turn it off.) I keep my live charts running the E-mini S&P, using all sessions.
(See example of a live chart using all sessions.)
I get up around a half-hour before the opening bell. (9:00 o'clock Eastern time.) Which is early enough to see what the night traders were up-to. I look to see if there might be a gap up or down at the open and which way the trend is going. It could be up, down, or sideways. I am also interested in the location of the position within the trend. Is it at resistance, support, or in the middle somewhere from the day before?

Gaps? I only consider large gaps…4 to 6 points or better. If the market gaps lower on the opening it soon rises to fill the gap. I have an opportunity to buy at the open.

Here is a simple rule, we need one of our indicators to be on our side of the trade, and both are even better, and buy as the market rises to fill the gap, or sell the gap and wait for the downtrend to end. Try to capture 1 or 2 points. Don't get greedy. Look to see if you can keep the trade going by keeping your eye on the Dow or Nasdaq. The minute you see a sign of weakness, get out of the trade. I use Stochastics, and wait for it to form a hook…you look at it, and you will see it i'm sure.

"*The trend is your friend. It is - unless the trend is about to end.*"
So says Tom Demark President of Market Studies Inc.

Major holidays? The market usually is an up day before a major holiday. Follow the trend and sit back and wait. This may be the time to trade during the last hour. It takes practice though! Always have an exit planned.

Major news…that might affect the market? I take advantage of any big event. If it's good news, buy…bad news sell. Prepare to exit and take the trade the other way also. It always changes direction after a few minutes…Usually!!!

CNBC…check my three indicators, the Dow, Nasdaq and S&P. Are they in sync? Any volatility; or volume problems?

Opening bell: one decision every day-trader has to make is whether or not to trade on the opening. The market seeks to establish a trend or stable price level during the first half hour or so. I let the dust settle, then look for my first opportunity to make a trade. If any of the above information is going to affect the market, I take it into consideration at the open, rather than wait the first hour or two. Use the Time zones and look for reversals, after the first half hour or so.

So what do we do? Anything…Something.
So long as we just don't sit there. If we screw up, start over. Try something else. If we wait until we've satisfied all the uncertainties, it may be too late.

Lee Iacocca
Auto executive

Here are a few typical trades

12/17/99
Gap up at the open…Sold 2 contracts at 11:36 a.m. on a turn down at 1445.75 and had to wait until 2:50 p.m. to fill the gap at 1439.25 for a profit of $650.00 less commission. This was a tough trade and I had to go through a higher risk just to make the trade payoff. I let my emotions get the best of me but I was lucky I did not lose any money.

12/30/99
Gap up at the open…I missed the ride down to fill the gap, but bought 2 contracts at 11:58 a.m. at 1483.00 after it filled the gap. I took profits at 1488.75 as it looked like it was at resistance. Later in the day…1:44 p.m. I bought 2 contracts at support 1481.00 and exited at 2:13 p.m. at 1483.50, which looked like an easy $200.00. It was just a simple trend move at support and should move back up to resistance. Simple-as-123—Total profits for the day $825.00 less commission.

You need to keep your eye on the Dow and watch for any fast reversals, as that tends to affect the S&P. Do not, I repeat, do not trade gaps before any major holiday unless it is a gap down. When it gaps down, you buy when the bar penetrates the gap. Remember! Look at the risk-to-reward ratio. Plan your exit around those numbers. If the trade goes against you, get out as soon as possible. Give the S&P lots of room, at least $150.00 or use the trading range of each bar.

Gaps, gaps, gaps…If you look at an Intra-day bar chart, you will notice that on gap openings the market often trades away from the gap for the first few minutes, then quickly reverses and "fills" the gap. For example, a market that gaps lower initially may trend downward, leading everyone to believe that a downtrend is in effect. After ten minutes or so, however, the price shoots to the upside, closes the gap and reverses again. Trading lower on the day. This scenario presents two options. You could buy the opening and then sell when the market rises back to the gap, or sell as the price fills the gap, expecting the downtrend to resume. If the opening gap is not filled within five or ten minutes, there is a strong possibility the early trend may be the dominant trend of the day. Remember, small gaps don’t work well. I only trade gaps when I have either the Dow or the Nasdaq going my way.

My personal preferences for day trading…Reversals and Buying dips and selling rallies. … *But be careful of the time zones*!

Trading the trend with momentum example: I see the Dow moving up fast (momentum) it’s over 25 points and the Nasdaq is up substantially over 15 points and moving also. The S&P is 3 points higher than yesterday. Look at your chart and see where the trend is. I check my first time frame and it’s over the first hour. 10:30...If it’s at or near support then wait, and when it makes the turn up buy in at the market. Exit this trade when you reach your price point …I like to scalp 2 or 3 points. To make the decision to trade the dips or sell the rallies, we need to know which way the market is trending. If the total market…all of our indicators is bullish we only trade to the up-side, (long) and vice a versa.

Scalper – A trader who trades for small, short-term profits during the course of the trading session, rarely carrying a position overnight.

If it starts to go the other way (I only risk 2 points) you would exit when you see your mental stop loss. Don't let little pullbacks scare you though. You'll get the hang of it. Keep your eye on the total market and check the TRIN, TICK, and make sure the NY Stock Exchange and the Russell Index is on your side of the trade. Check the MACD or Stochastics. *They are all right there in front of you, and it only takes four seconds to check them out…*remember your risk point…and always remember at around the lunch hour time zone we get what I call the 12 o'clock hop or flop. If the market is up it will move down, and if it's down it will move up. It can last up to a few minutes or well over an hour and half. The commercials or brokers come back from lunch and they move the market further up or down. Be alert from 11:15 till 2:15. One other warning: try to get out of the market an hour before the close around 3:15 p.m. The probabilities of a successful trade diminish in these time frames due to the impulsive and reckless buying and selling by institutions just because they didn't get their trading done earlier.

Nuance

We always trade with the trend of the total market, what I mean by that is … If the Dow, Nasdaq, Russell, NY, TICK, TRIN and Emini S&P are bullish we only trade to the upside, and vise-a-versa. Never trade against the total trend. There is no exception to this rule. Be patient and use discipline. We never sell rallies at resistance (rallies are when the trend is at support and starts to move up towards resistance) unless the total market is in a downtrend. And vice a versa! Another safe practice is to avoid trading when the market is making the new high or low of the day unless other indicators are in your favor.

Power trading…*Being aggressive*

You will learn what Power trading is all about, it's when we are trading, and the indicators are not in sync with one another. That is "Power trading." It's when we trade at the open, reversals, or during the 12 o'clock hop, or during the close. That is Power trading…Just remember it's very risky! Probably the most risky trades you will ever make will be when you trade against the trend.

If you see the Dow or the Nasdaq out of sync (Not going in the same direction at the same time.) as an example using my shorthand:

Time:
10:15

- d+90
- n-30
- es +1

Well they are definitely out of sync…the Dow is up quite a bit, but we see it starting to drop four and five points in just a few seconds, and then it drops even more. We can then assume it's getting into sync or at least it's moving down, like the Nasdaq. If we keep seeing this movement then we have an opportunity to make a trade. We could sell one or two contracts and look for 2 or 3 points. It's a little risky and I would give the trade a small risk of only 2 points. If you see any movement to the contrary then you would get out and hope for the best. It takes practice to trade when they are out of sync or when you are trading the 12 o'clock hop.

Knowing that the market moves up if it's down during that time frame, you could wait for the market to make a double bottom or just make the turn. Take a high risk and trade the other way even if they are in sync. Once again use a small risk of only 2 points. This trade is very subjective. And takes lots of practice.

Only those who have to do simple things perfectly…
will acquire the skill to do difficult things easily.

Johann Schiller (1759—1805)
Poet and dramatist

Computer Requirements

#1 Computer:
System requirements:
Pentium II or faster, Windows 95/98/NT, or higher, or Apple Macintosh II CI (Power PC is better). System 8.6 or greater. 64 megs of ram, (128 megs is better). Color/VGA Monitor with minimum screen size 800x600 (1020x768 recommended), 56k Baud Modem, (Cable or DSL is better). Netscape Navigator 4.7 or Microsoft Internet Explorer 5.0 or greater (as new technology emerges, computer requirements are sure to change.). Check with your brokerage firm.

#2 ISP: (Internet service provider)
I don't recommend AOL…any service provider will do as long as you are happy with their service. I have had a lot of students recommend Earthlink.net (Cable or DSL is by far the best.).

#3 Broker:
Open an online trading account. I recommend a minimum $5000.00. You can trade two or more contracts, (depending on your brokerage firm) of the E-Mini S&P

Most brokerage firms usually require at least this much, but you may find one that will let you open an account with only $1000.00, such as www.proedgeonline.com (See the list of brokers I recommend in the back of the manual.)

#4 Software:
Your brokerage firm will have the necessary software to place your orders, and for your live charts I recommend quote.com…and it's only $9.95 per month plus fees. They are a little unstable as of to-date…I love the look and feel of them though, and I've been using them through thick and thin.

Patience is to keep trying…to keep trying till you get it. Discipline is knowing you get it…and the patience to make it happen.

Marshall J. Jones
Day-trader

Don’t Blame Me…
I just got here…………………!

Putting Time on Your side

By Barry and Ryan Watkins

Trading is not just a question of what the indicators are telling you, it also depends on timing. Here's a breakdown of the most opportune trading periods throughout the day.

Trading isn't just a matter of what; it's a matter of when. Your analysis can lead you to what may turn out to be a correct assumption of the market's direction But if you enter your trade too early or too late, your research won't do much good.

The stock market makes several pauses or reversals every day. Identifying likely market reversal time zones is critical to maximizing profits for short-term traders. The ebb and flow of trading throughout the day is influenced by a number of factors, including the supply and demand situation before the open, when traders typically take lunch and the need for many traders to square away positions by the end of the day.

Because no two trading day are ever exactly the same, trading time zones are general guidelines … not rigid rules. When combined with other analysis tools, they can give you a better idea of when a trade may or may not be a good idea.

In the zone

On a normal trading day, the stock market is open 6.5 hours, or 390 minutes. The trading session can be divided into approximately 14 time periods, or zones. Each of these zones can be classified according to the colors of a traffic signal.

The red zones: These are the most dangerous times of the day to trade. There are two red-zone trading periods, which comprise a total of 200 minutes, or 51 percent, of the typical trading day.

For experienced traders, the first 20 to 30 minutes of the trading session can be a very profitable time, but for less experienced traders, it probably is the most dangerous period of the day.

The yellow zones: These six time zones represent typical (and approximate) times when the market pauses or reverses. These periods account for about 14 percent of the trading day.

The green zones: While not necessarily safe, the six green time zones represent those periods when market activity follows more consistent patterns. The market will spend approximately 35 percent of each day in green territory.

FIGURE 1 S&P INDEX

1) The index makes a high around 20 minutes after the open. 2) A doji candlestick (one for which the open and close are the same) marks a reversal during the 9:50 to 10:10 a.m. reversal period. 3-4) The market bottoms at 10:10 a.m. 5) Another down move starts during the 10:25 to 10:30 reversal period. 6-7) Prices drift lower during the majority of the midday doldrums. 8) A brief consolidation period coincides with the close of the bond market. 9) Short covering closes the day with a rally.

Source: QCharts from Quote.com

Watching the clock

To illustrate the 14 time zones, we'll walk through a typical trading day. But first, it's important to remember there is no such thing as a risk-free trade. To generate a profit, the market must be moving, which also increases the risk. The largest profits usually occur during the most dangerous (volatile) times. Therefore, a market environment that is marked as red and dangerous for might be another trader's dream market. It depends on your level of expertise and trading style. Figures 1 through 3 provide chart illustrations of the various zones.

Period 1: 9:30 to 9:50 a.m. EST (red zone)

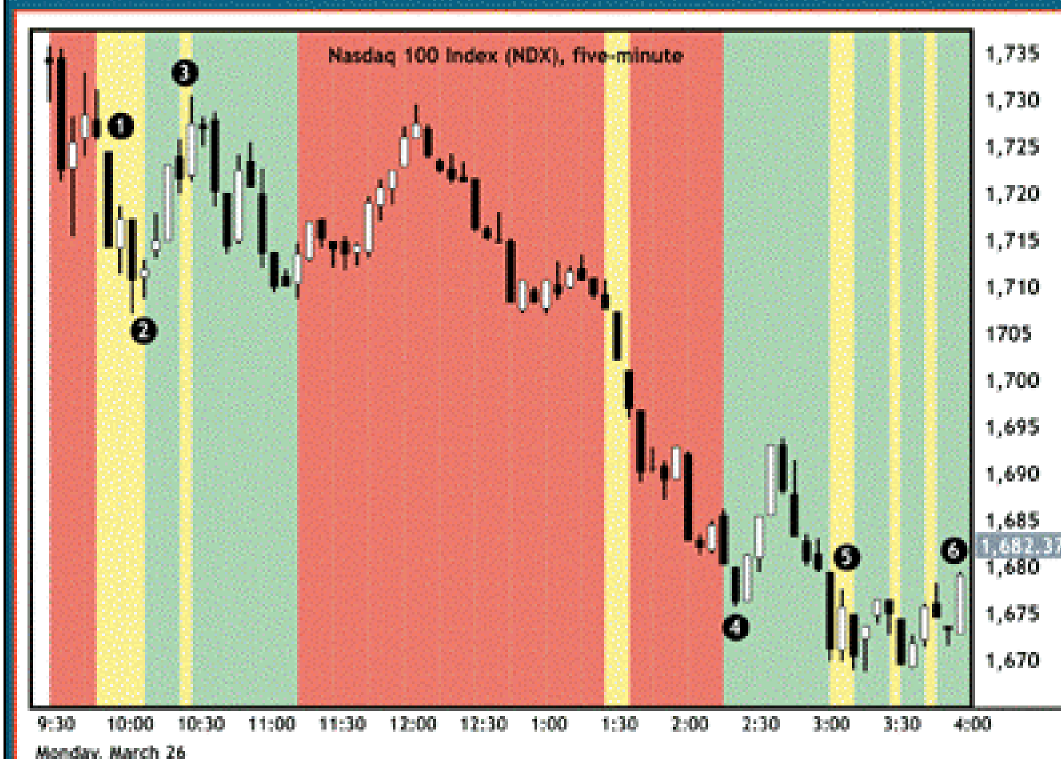
The market opening at 9:30 a.m. is the first red time zone, which lasts for approximately 20 minutes, until 9:50 a.m. EST. For experienced traders this can be a very profitable time, but for less-experienced traders it probably is the most dangerous period of the day.

The abundance of pre-market orders essentially gives the market makers and specialists "inside information" about the expected supply and demand in stock…and extreme advantage. To make the most of supply and demand imbalances, the market makers and specialists often open the stock much lower or higher, creating extremely large price gaps.

This might entice less-experienced traders to chase the stock. However, they often put on a trade only to watch the stock move against them shortly thereafter when the forces behind the early imbalance have disappeared. Depending on the volume it usually takes about 20 minutes for the market makers and specialists to fill the pre-market orders and make the most of those traders who were lured into the trap. After this period, more realistic prices should emerge.

FIGURE 2 **NASDAQ 100 INDEX**

1-2) A high is reached immediately after the open. At the end of the reversal period a doji candlestick signals the next move is likely to be up. 3) A new reversal at the 10:25 a.m. to 10:30 a.m. reversal period. 4) The midday doldrums, with declining prices, ends in an upside reversal. 5) The close of the bond market forces the stock market to stall. 6) Short covering induces end-of-day rally.



Source: QCharts from Quote.com

The professionals essentially get themselves a good price on the open and profit when the market snaps back the other way. For example, when a market maker or specialist gaps a stock higher, it's because there are more buyers than sellers (perhaps some bullish news came out before the open). When this happens, the market maker will exploit the greed and open the stock at an unrealistically high price. Once the buying frenzy has died down, the stock will typically pull back and the market maker or specialist (who shorted the stock at the inflated high price} will buy the shares back at a profit.

Period 2 9:50 to 10:10 a.m. (yellow zone)

Many of the bigger stocks (as well as the S&P 500 futures contract) often reverse around this time. Because all the opening orders have now been filled, more realistic prices based on immediate supply and demand are likely to emerge. If the stock isn't extraordinarily strong, this can be a very profitable time of the day because the initial rally sets up the possibility of a short trade.

Usually, the longer it takes for the first reversal to occur, the more pre-market orders there were. The market remains stable throughout this period it usually also remains stable until the next yellow period (period 4).

Period 3: 10:10 to 10:25 a.m. (green zone)

The first green trading zone can start during the first yellow zone as prices have reversed and can stretch into the second yellow zone, which is the next likely reversal zone.

This zone is usually one of the safest periods to trade and will generally go in the opposite direction of period 1. For example, if a stock trades higher in period 1 it often reverses during period 2 and continues down during period 3, if prices move lower in period 3 the end of this period presents and opportunity to enter a low-risk long trade.

Period 4: 10:25 to 10:30 a.m. (yellow zone)

This zone often marks a pause in a strong market, but a full reversal can sometimes occur, going against what initially seemed to be a good long position. Reverse the reasoning if the market reaches this zone on lower prices. If you're trading short-term, you should consider closing your position before the market enters this zone (but be ready to re-enter once it is over). If you're trading longer-term, use stop-loss orders to protect your positions.

Period 5: 10:30 to 11:15 a.m. (green zone)

After the market has taken a breather, it usually continues in the same direction if established during the third period.

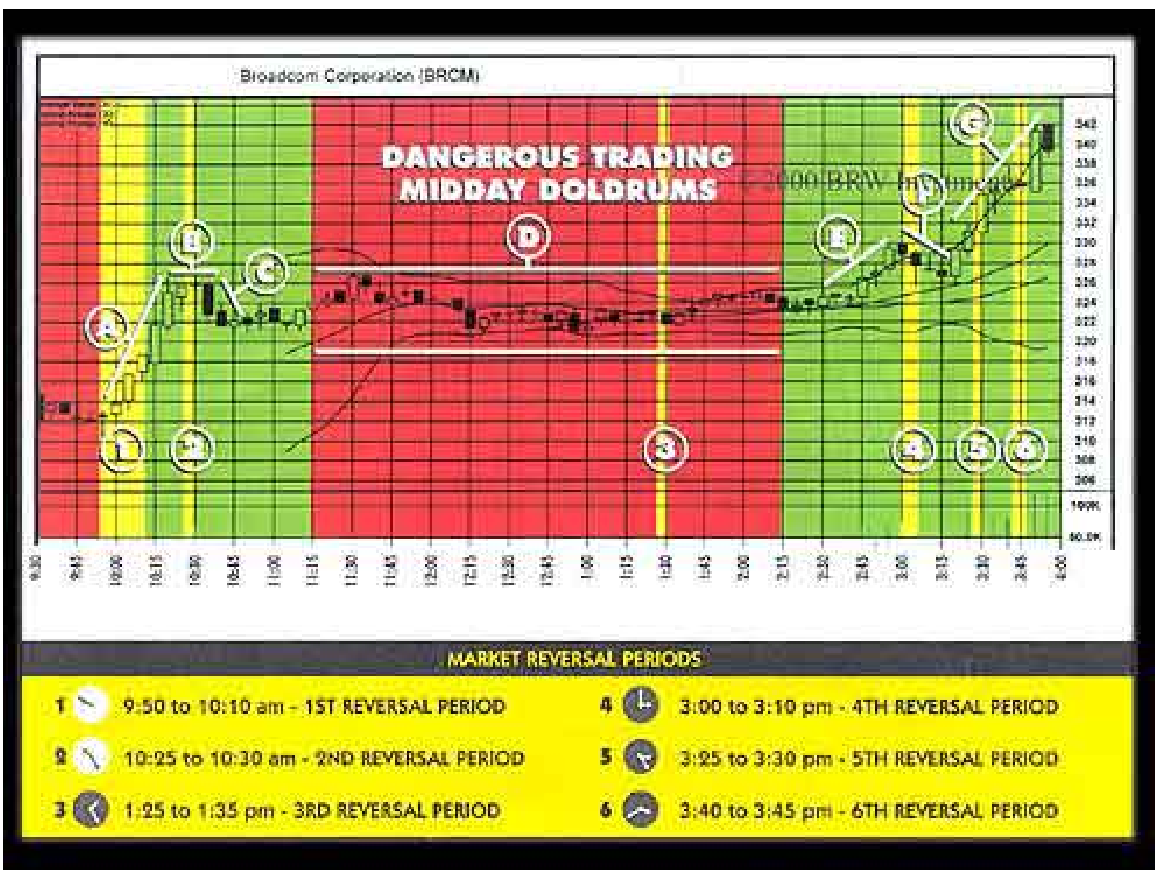
The Red Zone

Period 6: 11:15 to 2:15 p.m. (red zone)

Most traders likely would eliminate 50 percent of their bad trades if they refrained from trading during the midday doldrums.

This time zone is often referred to as the “midday doldrums” because activity dips when traders take their lunch breaks. On an up-trending day, you will often notice that prices start to sag, like air slowly leaking out of a tire. During this period prices show the least amount of follow-through because of the lack of volume.

Most traders likely would eliminate 50 percent of their bad trades if they refrained from trading midday. Instead they should monitor this period for price patterns that can act as setups for trades later in the day. For example, the lowest price before an afternoon breakdown often occurs between 1:30 and 2 p.m. EST. While this may or may not have any consequences for your trading later in the day, it still could be a good idea to mark it off, as an indication the market is behaving as it “should” Note that this time period is counted as one zone, although technically it is divided into two parts by a short yellow period (see below).



Period 7: 1:25 to 1:35 p.m. (yellow zone)

This is the weakest and least significant of the six reversal periods because it typically occurs in the middle of the midday doldrums. Volume can drop dramatically during this period; professional traders normally avoid it.

Period 8: 2:15 to 3:00 p.m. (green zone)

After the midday doldrums, this green time zone commences and continues until 3 p.m. EST when the Chicago bond market closes, This period can be very exciting to trade because it is often like a new trading day. Patterns that started to form during the lunch hours now find support from broader volume, resulting in frequent breakouts in both directions.

Period 9: 3 to 3:10 p.m. (yellow zone)

This reversal period coincides with the close of the Chicago bond market. Pay close attention during this time period reversals are common and often significant.

Reversals are often significant in the period after the close of the Chicago bond market.

Period 10: 3:10 to 3:25 p.m. (green zone)
A short period of relative calm between two significant reversal periods.

Period 11: 3:25 to 3:30 p.m. (yellow zone)
Like period 9, this reversal period is another high-probability reversal zone.

Period 12: 3:30 to 3:40 p.m. (green zone)
Another period of relative calm before the last reversal period of the day.

Period 13: 3:40 to 3:45 p.m. (yellow zone)
A major reason for this final reversal period of the day is many market makers and specialists settle their accounts for the day. Many day traders also exit their trades.

Period 14: 3:45 to 4 p.m. (green zone)
Quite often, the last 15 minutes of the day resemble period 10 (3:10 to 3:25 p.m.). Also, if the day was characterized by selling pressure, an upward hook in prices sometimes occurs right before the close {caused by increased buy-in to cover short positions).

Maintain perspective
These time zones were originally designed to indicate a high-probability reversal periods for the S&P 500 futures market, but they can be applied to individual stocks as well.

Remember, however, the time zones only are approximate indications meant to give you a "heads up" of what might happen next. Time zone analysis should be combined with other analysis to confirm price movement.

Snake-Eye Trading Method

This method applies the same techniques used by the professional Floor Traders and is based around what a 5 minute bar is indicating at any given time. It is a simple, yet very effective method of trading that does not rely on complicated, technical methodology or indicators.

Neither does it rely on or care what happened last month, last week, yesterday, or earlier today, but rather what is happening at this very moment with the current 5 min bar.

Determine this and trade accordingly

What are the professional Floor Traders doing right now?
What direction are they steering the market?
Where does the market want to go?

This trading method applies equally as well to both the S&P 500 and the E-Mini S&P 500.

Chart Set Up

Set up and refer to these three charts only, no others:

Emini S&P…5 minute bar chart:

Set with a 8 period simple moving average set at “low” and 10 period simple moving average set “high” – configured with bars. This is the main chart used to look for trade set-ups.

Nasdaq (Compx) 5-minute candle chart:

Set with a 5 period simple moving average configured with candles. This chart is used to confirm a trade set-up only, and is not to trade from.

Emini S&P 15 minute bar chart

Configured the same as 5 minute. This chart is mainly used to determine trend direction and is not to trade from.

Dow

Refer to this index to observe changes in market direction.
(If you are using quote.com's live charts, this index is in the Hotlists window in the upper left hand side ($INDU)).

For example, if the Dow is up 100 points, indicating the market is very strong to the upside, you should only be trading long positions (only trade in the direction of the trend). However, take care to regularly observe for reverse movement in the Dow index, in case it suddenly loses 30-40 points, indicating a weakening Dow and possible reversal in trend. This could now be signaling it would be safer to trade short than long (refer to the Time Zones for possible reversals periods).

Moving Averages

These are used to assist with determining the strength, weakness or neutrality of the market and which direction to play it.

When the price is trading above the 10 moving average line on the 5- minute chart, with at least one full price bar having closed above and sitting on top of the line, this indicates strength, signaling potential upside and possibly a long trade forming.

When the price is trading below the 8 moving average line on the 5- minute chart, with at least one full price bar having closed below and fully formed below the line, this indicates weakness, signaling potential downside and possibly a short trade forming.

Whenever the price bars trade above the 10 moving average line or below the 8 moving average line on the 15-minute chart, this is a stronger confirmation of direction than when on the 5-minute chart.

Similarly, a complete green candle (white on quote.com's charts) having fully closed above and sitting on top of the 5 moving average line on the Nasdaq ($COMPX) index, indicates strength, signaling potential upside. Conversely a red candle having closed below and fully formed below the 5 moving average line indicates weakness and potential downside. A closed green candle (white on quote.com's charts) split half above and half below the 5 moving average indicates a strengthening bias to the upside and a similar red candle indicates a weakening to the downside.

Trend Direction

It is important to know this at all times, as you must always trade in the direction of the trend, never against it. Trend direction is mainly determined by reference to the 15-minute bar chart and where the price bars are trading in reference to the 8 and 10 moving averages, as previously explained.

The direction in which the moving average lines are pointing on both the 5-minute and15-minute charts is a good visual reference for determining trend direction. There may be an obvious trend direction established for the day, **but short-term trend changes will inevitably occur** and will be indicated by changes in the direction the moving average lines form, either pointing up, down or sideways.

The Nasdaq and Dow index numbers also provide a guide to the trend direction and it's fluctuations.

Another indicator is that whenever the moving average lines on the 5- minute and 15-minute charts start to narrow, coming closer together; this often signals a change in direction is about to occur. This is generally followed by them widening again to form what looks like the shape of a mouth, prior to the change.

The Set - Up

To recognize a good set-up, you must first develop a "feel" for the market and the market flow. Go back to basics and literally forget all you have learned. Switch off your 1 – 3 minute charts, cast aside all of your indicators and simply watch the 5-minute bars, their behavior, formations and patterns.

Further training is required to accurately and consistently recognize the correct set-ups. However, the principal of the method relies on the current 5-minute bar's inability to take out the previous bar (or bars) high for a "short" set-up and inability to take out a low in the case of a "long" set–up.

With experience and a high degree of concentration in watching the price activity during the formation of the current 5-minute bar, the immediate, short-term direction of the market can be determined with an uncanny accuracy.

By observing and counting the number of times the current price bar pushes in it's attempt to take out the high or low of the previous bar (or bars), can provide a clue as to who is in control-the buyers or the sellers.

For example, if the price bar ticker pushes and pushes upwards at the top of the bar, failing to get any higher and is unable to take out the immediate, previous highs and then closes, it signals that it has hit ***resistance*** at this level and that the buyers are drying up and losing control. If the buyers have dried up, then the path of least resistance is down, as the sellers have now taken over control. This is a time to sell, as prices and the market are going down.

The same holds true when the price bar ticker pushes and pushes downwards at the bottom of the bar, failing to break through and getting ***support***, indicating no more sellers, so the price is likely to reverse and go up. This is a time to buy as the market reverses; gains strength and prices start to immediately increase

.

Education is hanging around until you've caught on

Robert Frost (1874 – 1963
Poet

The ratio of buyers to sellers is what determines the market direction at any given time.

If you see a possible set-up forming, never take your eyes off the bar, or you will miss the message it is giving you…you must watch it very closely. As soon as you have made the decision that it is a set-up, don't hesitate, don't wait, get in and take the trade.

Long Set–Up

To take a long trade (buy), the price bars must be trading above the 10 moving average line on the 5-minute Emini S&P bar chart, which indicates strength. At least one price bar must be fully formed, closed and sitting above on top of the line to allow a conservative trade – 2 bars for a more conservative trade.

The Nasdaq ($COMPX) *must* confirm the trade by displaying a green candle (white on quote.com's chart) that is fully formed, closed and sitting above on top of the 5 moving average line. If it does not confirm, do not enter the trade.

The Dow index should be holding steady, or increasing.

The Nasdaq ($ COMPX) is used for confirmation only … do not trade from it.

Short Set-Up

To take a short trade (sell), the price bars must be trading below the 8 moving average line on the Emini S&P 500 5-minute bar chart, which indicates weakness. At least one price bar must be fully formed, closed and sitting below the line to allow a conservative trade – 2 bars for a more conservative trade.

The Nasdaq ($COMPX) must confirm the trade by displaying a red candle that is fully formed, closed and sitting below the 5 moving average line. If the Compx does not confirm, do not enter the trade.

The Dow index should be holding steady, or decreasing.

The Nasdaq ($ COMPX) is used for confirmation only … do not trade from it.

Stop Loss

As soon as a trade is entered into, immediately place a stop loss order for whatever amount suits your personal risk tolerance. The method allows at least 2 points. This is very important for peace of mind and to limit your downside risk.

Once your trade is a few points profitable, it may be possible to move your stop to breakeven, but care should be taken to avoid being stopped out too soon and possibly causing you to miss a good run.

Exiting the Trade

This can vary and is often determined by each individual's personal experience, financial circumstances and risk tolerance. As a relatively inexperienced, student trader a conservative approach is to take 2, 3 or 4 points and button down a profit when it is there, even though the trade may go on to produce more points. You can never lose by taking a profit and in the early stages of trading; taking regular, small profits will build confidence. Experience and improved confidence will then allow you to stay in for the longer term and greater rewards.

However, the method strategy recommends that once in a profitable trade, you stay in the trade until the Nasdaq ($COMPX) signals you to come out. When in a long trade stay in as long as there are green candles (white on quote.com's charts) showing above the 5 moving average line on the $COMPX chart and as soon as a red candle forms, exit the trade.

Similarly when in a short trade, stay in as long as there are red candles showing below the 5 moving average line on the $COMPX chart and exit as soon as a green candle (white on quote.com's charts) forms.

Congestion (choppy, chop)

Chop is a very difficult market to trade and should be avoided as soon as you realize it is in this phase. Never trade a choppy market.

You can easily recognize a choppy market, as this is indicated on the 5- minute Emini S&P 500 bar chart. Whenever the price bars trade in a channel between the 8 and 10 moving averages, without seriously penetrating or staying above or below them, then the market is choppy. The price bars traverse up and down between or a little beyond the two moving averages.

Also, the $COMPX is another good indicator of congestion. The candles alternate in color, red/green, red/green and traverse from below the 5- minute moving average line to above, or to below etc.

Inevitably congestion follows trend and trend follows congestion, so whenever the market has gone into congestion, just be patient, sit it out and wait for the next trend breakout, it often provides a good move.

If you don't change today – your tomorrows will be like your yesterdays.

His Golden Rules

- Never trade before 10am EST (see yellow Time Zone)
- Never trade at lunchtime between 11.45am – 1.00pm EST
- Never trade after 3.30pm EST
- Never trade on a day when Greenspan is talking, or any major news, without lots of practice…till you learn how to trade that volatility.
- Forget all that you have learned from seminars and books – scrap all of your indicators and do not look at 1 or 3 min charts.
- Never trade against the trend. ”The trend’s your friend”, so only trade with it.
- Never trade in a choppy market - congestion.
- Never take a trade without confirming it with the $COMPX.
- Always place a stop loss order (Use a trailing stop loss).
- Never try to pick tops and bottoms – let the market tell you where it wants to go.
- Don’t overtrade, 1–3 good trades per day is enough.
- Don’t be greedy.
- Don’t have any distractions, TV, telephone, people etc. while you are trading.
- Manage your money – take all profits out of your trading account at the end of each month. This way your trading account does not grow too large and may just prevent you from taking impulsive, foolish trades due to over- confidence.

Don’t trade on half days, or when options expire…the locals will eat you up
Don’t be long after 2 o’clock

Snake-Eye

General Information

The mind- set to adopt with this method is to have patience and let the market tell you and show you what it wants to do, rather than you trying to get the market to do what you want it to do. You as an individual can never influence the direction the market will take.

"Wait for the train to pass and jump on for the ride."

This is far safer, because once the train is rolling; at least you know which direction it's going in.

As with any method or system, it's advisable to paper-trade the method or system first. Remember when you paper-trade; you should trade as if you were trading live, with your money at stake. Never take a paper trade that you would not take live, just for the sake of it, as you will make the same errors when you go live. Never paper-trade for too long.

***

This set-up was used with Trade Station Pro. I feel it's best if you can use two monitors and put your charts on one and order form and any other window you may use, like calculator, calendar, paltalk etc.

Snake-Eye

A floor trader who worked in the S&P 500 pit … selling options for over 10 years developed this method. A lifetime of experience…he is now retired and has been day trading the S&P 500 for over ten years.

He is very generous and has never charged anyone for this method.

He prefers to remain anonymous.

My observations on this method for what it's worth

It's very similar to my method …Simple as 123.

I like the 4 chart set up just a little better, and I like to use candles on all of the charts. My suggestion is to try both for a month or two and see which one gives you the best trades. Pay close attention to the Time Zones and wait for the turn.

The best trade of the day
First reversal between 9:50 – 10:10 plus or minus a few minutes.

Warning for inexperienced traders … the first half hour, lunchtime, and the last 30 to 45 minutes of the trading day should be avoided. Never trade when there is major news broadcast or Fed. Report. Never trust your charts, constantly check to make sure you have current data. It's best to be in a chat room with traders who are watching the same thing you are. If you are going to make a trade check and ask someone where the ES is trading.

Like any method or system it takes practice, confidence, discipline, and patience.

More charts

"Develop a healthy mindset"

The following statements show a healthy mindset that will support success:

1. The market gave me the opportunity.
2. I accept full responsibility for my winners and losers.
3. A good trade is one that follows my rules, regardless of whether it is profitable.
4. Some of my trades lose money and that's a normal part of any approach.
5. I realize that taking losses is normal and thus I must be financially and emotionally prepared for them.
6. Changing my method during drawdown phases is dangerous and I must avoid the urge.
7. The market does not know me personally and therefore I do not take winners or losers personally.
8. I do not get overly excited about winners or down over losses. Balance and perspective is key.

Nick Van Nice
President, ctsTrader.com

Something to ponder …. Author Un-known

At the beginning of a trader's career, he has many handicaps working against him.

- The first is simply not having enough knowledge.
- The second is lack of experience in the application of the knowledge that he should have.
- The third is the lack of experience in managing one's own emotions.
- The fourth is the lack of risk and money management techniques.

Several of these handicaps can be improved by paper trading and/or using back-testing methods. Managing one's emotions when cash is on the line must be learned on the job. It is easier if the trader has made adequate preparation and has confidence gained from successful testing of his trading method. However, in reality, most people never test their methods and simply plunge into the market unprepared. If a trader takes this route at the beginning of his career, only one thing can help him survive until he proves out his method - Risk and Money Management. Before superior performance can be obtained, a trader needs to learn how to stay in the game.
"Most traders fail because they allow themselves to take big hits. You need to take small losses to protect your account. You need to stop losing money before you can make money."

Trivia…The Emini S&P 500 futures contract

Ticker symbol: ES
Contract size: $50 X index
Tick size: .25 index points ($12.50 per contract)
Contract Months: March, June, September, and December.

The Emini S&P 500 futures contract was spawned to allow investors to participate in trade of the benchmark S&P 500 futures at a lower margin required. The S&P 500,long the benchmark for stock market indication with its representation of many sectors of the market, has been a popular contract among speculators of stock trade by index.

With its point value at a high X`s price of the index, it has been out of the reach for smaller speculators with its considerable high margin requirement. Hence the introduction of the Emini S&P 500. Electronically traded, It has a point value X`s index of $50 as opposed to the S&P 500`s $250 X`s index value.

This means a lower margin is required to participate in trade with the Emini S&P 500 than with the S&P 500 and here is an example. If the S&P trades at a 1300 index level, then its point value is X`s the index, putting a holding of the contract at $325,000 of leveraged futures. At $325,000, the performance bond, or margin as more commonly known will be greater and this is out of the reach of many speculators or investors.

The Emini with a $50 X`s index at the same index level trade of 1300 would leverage $65,500 of holdings, requiring a much lower margin required with a broker since the Mini is 1/5 the size of the S&P 500.

For more complete information on the Emini S&P 500 contract visit the Chicago Mercantile Exchange’s website by clicking the link below. There is a complete Emini S&P 500 resource center.
www.cme.com

The S & P 500, or Standard and Poor's 500, is an index used to gauge the overall health of the market, similar to the Dow in some ways. The S & P 500 consists of 500 companies selected because they are judged to be leaders in their respective businesses. The S & P has become so well respected in the market, a company's stock value may increase simply because it was added to the S & P 500. Small wonder, considering the S&P 500 returned 181.30% over a five-year period, including reinvested dividends.

The way stocks are chosen for the S & P 500 is a bit mysterious, and not a lot is widely understood about the selection process, but the companies are predominantly United States companies operating in a wide range of businesses. Fundamental analysis plays a role in selection, as does availability of stock on the open market.

For information on the S & P 500 as well as all the other S & P indexes, take a look at The S & P web site.

Pivot Points

The calculation for the new day are calculated from the High (H), low (L) and close (C) of the previous day.

Pivot point = P = (H + L + C)/3
First area of resistance = R1 = 2P - L
First area of support = S1 = 2P - H
Second area of resistance = R2 = (P -S1) + R1
Second area of support = S2 = P - (R2 - S1)

Basically, at the end of any trading day, the trading floor is a wash in the blue sheets of paper that a popular service uses to print pivot points. They are very widely used by floor traders and short-term traders.

The simplest application of it is that the pivot is the trend point! Above the pivot, the daily trend is up. Below the pivot, the daily trend is down.

Many floor traders believe that markets will trade between levels. For example, if the pivot is crossed to the upside, they feel the market should go test R1. If R1 holds, the market should go back down to the pivot. If R1 is violated to the upside, then the market should go to R2. ... you get the idea?

Pivot points can also be used on weekly and monthly data as well. Many traders will use R1 and S1 as breakout points. Buying trend continuation above and below R1 and S1 respectively.

Both Futures Magazine and Technical Analysis of Stocks and Commodities have run articles on the application of these points.

For shorter-term traders these points may be very valid, simply because they are so widely followed... sort of self-fulfilling, kind of like Fib numbers.

****

For day-trading:
H is yesterday's high
L is yesterday's low
C is yesterday's Close

P (Pivot line) is calculated (H+L+C)/3
This is considered the dividing line. Cross it from below and R1 is your first ceiling.
S1 is first level of Support (S)
S2 is the second level of support
R1 is first level of Resistance (R)
R2 is the second level of resistance.

IMPORTANT: This must be used in conjunction with historical support and resistance.
NOTE: It is sometimes recommended to add Yesterdays Mid point and an additional factor in Pit Pivot work. i.e., The Mid point, or the Pivot Point are the "pivotal areas".
--
P.S. In the pit they are said to recalculate this mess again at about 11:00, using the mornings High, Low, and Close. Then, while the big boys eat their lunches the guys who got in wrong drive the market all over the place trying to hit stops! It's pretty amazing to watch the price go right back under/over the Pivot Point (wherever it was after the 11:00 recalculation) once the BB's come back and put things "aright".

BB’s = Big Boys

At 3 o’clock the BB’s are the Bond Boys

Rightbraintrading…the OBV Trade

On Balance Volume…what does it mean?

This tool represents a running sum of volume in each interval. If an interval closes up from the previous interval, the volume during that interval is added to the running sum. If the close of an interval is down from the previous interval, the volume is subtracted from the running sum.

Here is what I know about the obv divergence trade on the E-mini S&P 500

1. Use a 3 min chart

2. Have obv as an indicator

3. Draw a trend line across the first 3 peaks or bottom 3 valleys of the day on the obv indicator, do not use peaks or valleys from the previous day and if opening bar creates a peak/valley you can use that one.

4. When the trend line is broken on a closed bar situation, you would buy/sell at market with a 2 pt target/3 pt loss. The targets will be measured from the open of the entry bar.

This trade had 27 in a row, 1 loss then another 18 in a row according to John and Steve at: www.rightbraintrading.com or on paltalk chat room on Business and Finance @Rightbraintrading.

This trade should capture the initial counter trend move of the morning, only take the 1'st trade of the day then close down chart and wait till next day.

Try it just for fun … on paper only please!

I was seldom able to see an opportunity until it ceased to be one.

Mark Twain (1835 – 1910)
Writer and humorist

OH! …But first you need to know the basics:

Basic Training:

If you are not familiar with trading futures, I have written the basics on trading information here. Read it if you are not knowledgeable. Most of this information can be found at the different commodity exchange sites for free. Or you may write to them, and have them send the information to you. It's all free so what do you have to lose! See the list of exchanges noted in the manual.

History and Origin:

When civilization began, trading started. Bartering for different commodities has probably taken place since the beginning of time. Coined money appeared sometime between 800 B.C. and 700 B.C. Soon after that, instead of bartering as a means of business, coined money was used. Eventually trading had to be done on the basis of future delivery, as a merchant would sell out his complete stock, but still had customers waiting to buy. The merchant would then take a partial payment and guarantee delivery at a future date. This type of transaction probably was the beginning of the present day futures contract.

For nearly three hundred years, commodity futures contracts were used. Merchants and processors of food would bid for a farmer's crop before or after planting. Both parties involved were protected and would not have to fear drastic price changes during harvest or delivery that would alter the normal course of their business. Modern day commodity futures markets still offer this protection plus other important uses to be discussed in this manual.

Commodity Exchanges:

What is a Commodity Exchange? A Commodity Exchange is an organized market of buyers and sellers of various types of commodities. It is public to the extent that anyone can trade through member firms. It provides a trading place for commodities, regulates the trading practices of the members, gathers and transmits price information, inspects and governs commodities traded on the Exchange, supervises warehouses that store the commodity, and provides means for settling disputes between members. All transactions must be conducted in a pit on the Exchange floor within certain hours.

Futures Contract:

What is a futures contract? A futures contract is a contract between two parties where the buyer agrees to accept delivery at a specified price from the seller of a particular commodity, in a designated month in the future, if it is not liquidated before the contract reaches maturity. A futures contract is not an option; nothing in it is conditional. Each contract calls for a specified amount and grade of product.

The average trader does not take delivery of a futures contract, since he normally will close out his position before the futures contract expires. As a matter of fact, a survey conducted by a leading exchange has estimated that less than 3% of the contracts traded are settled by actual delivery. (Usually those contracts are in the metal futures.) Futures contracts are traded on different exchanges. We are only interested in the Chicago Mercantile Exchange, which handles: Live Cattle, Fresh Eggs, Live Hogs, Lumber, Russet Potatoes, Pork Bellies, Plywood, Stud Lumber, Feeder Cattle, Fresh Broiler Chickens, S&P 500 Stock Index, S&P 100 Stock Index, and the **E-mini contracts**. Take a look at www.cme.com lot's of good information at their site on the web.

The Hedger and Speculator:

A hedger buys or sells a futures contract in order to reduce the risk of loss through price variation. A short hedger sells (And I don't mean how tall he is!) a futures contract to protect the possible decline in the actual commodity owned by him. A long hedger (And I don't mean his length!) purchases a futures contract to protect the possible advance in the value of an actual commodity needed to be purchased in the future. (Hint: Futures.)
As a speculator we don't need to be concerned with what a hedger does.

A futures speculator is like a speculator in any other asset. He seeks to profit from price changes. The speculator is an important factor in the volume of future trading today. He, in effect, voluntarily assumes the risk, which the hedger tries to avoid, with the expectations of making a profit. He is somewhat of an insurance underwriter. The largest number of traders on any commodity exchange is the speculator. In order for the hedger to participate, he must have continuous trading interests and activity in the market. This trading activity stems from the role of the speculator, because he involves himself in the buying or selling of futures contracts with the idea of making a profit on the advance or decline of prices. The speculator tries to forecast prices in advance of delivery and is willing to buy or sell on this basis. A speculator involves himself in an inescapable risk. Speculators, or traders, assume the price risk that hedgers attempt to lay off in the markets. In other words, hedgers often depend on speculators to take the other side of their trades adding depth and liquidity to the markets.

Many people are attracted to futures market speculation after hearing stories about the amount of wealth that can be made trading futures. While there are success stories, the number of big-time traders is not unlike the number of superstars in professional sports. Many people strive for the top, but few ever reach it. At the same time, many people have achieved a more modest level of success in futures trading. The keys to their success are often hard work, a disciplined approach, and a dedication to master their trade. If you intend to follow this path, this method can help you get started.

Now, can you be a speculator? Before considering entering into the futures market as a speculator, there are several facts that you should understand about the market, and also about yourself. In order to enter into the futures market, you must understand that you are dealing with a margin account. Margins are as low as 5 to 10% of the total value of the futures contract, so you are obtaining a greater leverage on your capital.

Fluctuations in prices are rapid, volatile, and wide. It is possible to make a very large profit in a short period of time, but it's also possible to take a substantial loss. In fact, surveys taken by the different exchanges have shown that 80% of the individuals speculating in commodity markets have lost money. This does not mean that some of their trades were not profitable, but after a

period of time with a given sum of money they ended up being a loser. This has been a well-established fact for some time now. The 80% lost by the public, funnels into the pockets of the 20% who are able to profit at trading. Study, learn a system, or method, use discipline, and be one of the 20% who trade successfully.
Now taking you as an individual, let us see whether you have the characteristics to become a commodity trader. Number one, and most importantly, is that you do not take money that you have set aside for your future or money you need daily to support your family or yourself.

Number two, and almost equally as important, is that you must be willing to assume losses and be willing to assume these losses with such a temperament that it is not going to affect your everyday life. Money used in the futures market should be money that has been set aside for strictly risk purposes and if this money is not risk capital, then your methods of trading could be seriously affected, because you cannot afford to be a loser. If, for any reason, you are uneasy with a position that you are holding, it's better to liquidate it now. If, prior to the time of buying or selling a contract, you are not sure that this is the right step to take, do not take it. To protect yourself against this hazard you should pre-decide on every trade exactly now much you intend to lose. If you are in a winning position, be conservative as to how you add additional contracts or pyramid your position. If you think this is the perfect trade then buy the extra contracts now. Don't build an upside down pyramid.

If you take the time to paper trade and learn this simple method you can be one of the few who succeed. It's your money; if you give it to a broker, kiss it goodbye. Most of the losers have never traded their own account or knew any thing about technical analysis, let alone what a futures contract really is. Study the charts; learn how to measure the risk and the reward; use the discipline to take small losses. There is a saying that you let your profits ride, but liquidate your losses fast.

If at this point you feel that you are ready, both financially and mentally, to trade commodities, the next step is to begin the actual mechanics of trading a futures contract.

Know when to tune out. If you listen to too much advice,
you may wind up making other people's mistakes.

Ann Landers
Syndicated columnist

Using Support And Resistance

If you look at the chart (use the one on live charts at www.quote.com See illustration.) if the trend is at the top near resistance wait till it pulls back, or if our three major indicators are all trending down sell at resistance. If it's at support and the indicators are trending up buy in.

Risk-To-Reward Ratio

In any trade, you should always know your risk/reward ratio. How much are you willing to risk? What's your upside? What you think you might make? What's your downside or the amount you might lose? How much of your trading account should you risk on any one trade?

Although no one can control which way the market is going, we can usually control our risk. If you don't control your risk in trades, you won't be around very long to have to worry about it.

Hey! That was important or it would not have been in bold face type.

Here is an example:

The S&P has gained too much at the open, or in the first one or two hours. Anything over 10 points just may be too high. If the distance from resistance is only three or four points (A $150.00 to $200.00 move) it does not give you enough reward compared to the risk. Let it pullback at resistance and now see if you have enough room to make a trade, before it pulls back again. Remember if the total market is up, we only trade to the long side. And vice a versa.

Good Advice

Never risk more than 2% on any one trade if you have a small account less that $10,000.00. Remember this … if your account is only $5,000.00, you may have to risk up too 4 points which is $200.00 or you may get stopped out in a volatile market.

Preparation through steady practice is the only honest avenue to achieving your potential.

Chi Chi Rodriquez
Professional golfer

Using Technical Analysis To Forecast Prices

#1. Charts:

Charts are the major tools of the technical analyst. While traders can organize and analyze market data in any number of ways, the bar chart is most common. With this method we use a 5-minute bar or candle chart from quote.com's live charts of the Emini S&P, and look back in time on the chart to see how high and how low the prices had been in say the last two or three days. (You can do this by clicking on the TIME arrow and use the 30-minute or click on the 60-minute time frame.) I have a screen shot here if you don't have a computer.

Figure 3 quote.com's 60-minute chart showing the last 13-days (Thom we need to see the whole chart)

#2. Chart Formations:

The study of technical indicators is quite extensive, and certainly encompasses much more detail than can be provided in this manual. However, it's possible to introduce you to the most universally accepted interpretations of price pattern behavior here. Following are the formations I use to find my risk to reward ratio:

Up-trend:

A sequence of higher highs and higher lows.
Connecting the low end of the price bars draws a trend line. For day-traders this may take and hour or so after the open to form the trend. You can look at the chart and see where the trend was the day before. Major trends are usually accompanied by increases in volume and open interest.

Down-trend:

A sequence of lower highs and lower lows.
The downtrend line is drawn along the tops of the prices. Again, a major trend will typically show increasing volume and open interest. (See the info on open interest below.)

Top:

Indicates the probable end of an up-trend.
A double top is a strong indicator that an up-trend has ended. We sell on a double top because we think it can't move higher.

***********Show a chart of a double top*******

Bottom:

Signals the probable end of a downtrend.
Again, a double bottom would be considered a strong indicator that a downtrend has ended. (With a bottom we buy because we think it will move back up.)

Traders watch for these and other patterns in order to position themselves for impending price movements. For example, assume you saw a top formation taking shape. You may choose to go short (Sell) in anticipation of a downward price movement.

The technical analysis methods introduced here barely scratch the surface of charting techniques and technical trading systems. Numerous other complex methods have been developed. I am only listing patterns that I use with this method, just to keep it simple. Don't assume that you must learn every technical trading technique in order to use this method. This may be overwhelming to you at first, but after a few weeks of paper trading it will start to make sense to you. Most commodity exchanges have a manual showing you the many different types of patterns. You can e-mail the Exchanges and they will send the manuals to you. A list of Commodity Exchanges is available in the back of this manual.

#3. Trend Lines

Using technical analysis to forecast prices we attempt to predict future price direction by looking for an established pattern of the trend when it reaches either support or resistance. But keep your eye on the Dow or Nasdaq, as they are our leading indicators that will show you in advance when that trend will come to an end or just keep right on moving.

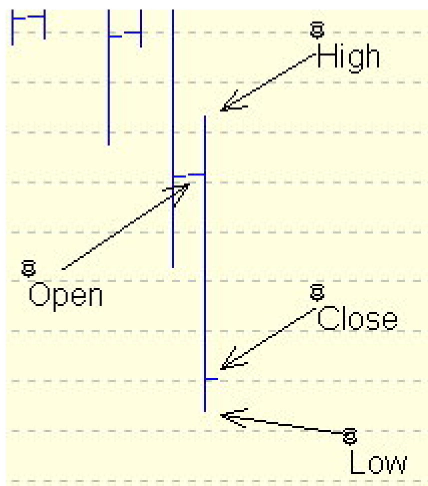
#4. Support and Resistance

When you look at a chart, you will see price bars. Price bars consist of a vertical line or bar that extends from the highest to the lowest price of that time period. If you look closely at a bar, the highest price is at the top of the bar and lowest price is at the bottom of the bar. The opening price is a

See illustration on next page

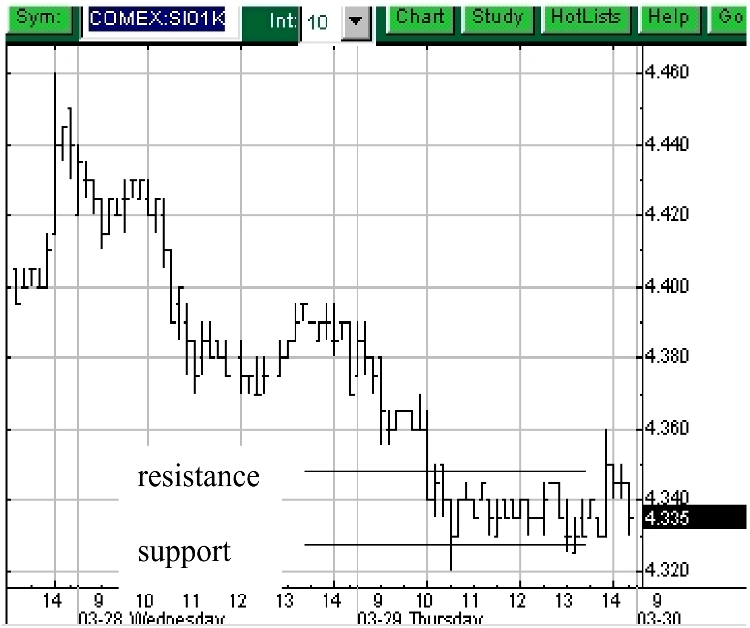
Horizontal tick mark on the left-hand side of the bar, and the closing price is a tick mark on the right hand side of the bar. These bars are moving from left to right on the chart and create the pattern we call a trend line that is either moving up or down.

Price bar



You will succeed if you believe it can be done; if you're willing to work hard while being smart about it; if you're willing to surround yourself with great people who will challenge you every day; if you're willing to take on the naysayers as a challenge; and if you're willing to strive for excellence while recognizing each day is and opportunity to learn.

Amy Love
Publisher



You can recognize these patterns by drawing a straight line on the chart at the top of each price bar.

Stop the line when it heads in a down or up-trend. Sometimes prices get choppy and it's not trending up or down. The object is to sell when the trend reaches the top of the channel (This channel is created as prices move during the time frame we are looking at. It creates a trend moving up or down, usually about ten or twenty cycles.). Or buy it when it gets to the bottom of the channel. We use a five-minute time frame with this method. You may find a different time frame that you like instead. After trading for a few weeks you will be able to pick the one you prefer (See Time Zones and formations on page***.). We are using the chart to identify price support and resistance, to identify our risk to reward ratio, and too indicate whether we are going to buy or sell the market.

#5. Volume and Open Interest

On most chart programs you can find an indicator called "volume" and some programs show the open interest. Volume is the most frequently cited statistic in reference to a futures contract's trading activity. Each unit of volume represents a contract traded and includes both the long and the short side of the trade. Volume is typically quoted on a daily basis.

On quote.com's Study menu you will find the Moving average and volume indicator, I use this off and on with other indicators during the trading day. It gives me a chance to see the volume and also see where we are in the trend using a simple moving average.

Open Interest on the other hand, refers to the number of futures positions that remain open, or un-liquidated, at the close of each trading session. Open Interest is the total number of futures contracts of a given commodity that have not yet been offset by opposite futures transactions nor fulfilled by delivery of the commodity; the total number of open transactions. Each open transaction has a buyer and a seller, but for calculation of open interest, only one side of the contract is counted.

By adding the dimensions of volume and open interest, you can learn more about the collective bullish or bearish sentiments of a market. Volume and open interest are considered confirming indicators, providing clues about how much strength is behind a trend. For example, if volume and open interest increase with prices, it is considered a healthy sign of a solid bull market.

Volume and open interest figures are often used to gauge the level of commercial participation in a market. For example, if a contract experiences relatively low volume levels but high open interest, it is generally assumed that commercial participation is high. This is because commercial hedgers tend to use the markets for longer-term hedging purposes.

Hedging – The initiation of a position in a futures market that is intended as a temporary substitute for the sale or purchase of the actual commodity. Also, the sale of futures contracts in anticipation of future sales of cash commodities as a protection against possible price declines, or the purchase of futures contacts in anticipation of future purchases of cash commodities as a protection against the possibility of increasing cost.

They put their trades on and keep them until they're no longer needed to manage a given risk. Conversely, high volume with low open interest tends to indicate more speculative activity; this is because the majority of traders prefer to get in and out of the market on a daily basis.

Watch the clock around one o'clock eastern standard time for the commercial trades to take place, especially on the Dow. If it starts moving fast, up or down, and you can catch it fast enough, you could have a pretty good opportunity to trade.

#6. Risk Reward Ratio

To determine our risk, we need to look at a chart and find out where we are in relationship to support or resistance. If we are at a top we need to wait for a pullback. In other words, let the market come back down a little to at least the amount of reward we are looking for. At $50.00 a point and a reward of $200.00 per contract we need it to pull back four or five points. That will give us enough room to make some profit. If we are at support we need to figure out how much lower it will go. When the market turns bullish we buy one or more contracts. (Work with it.) This is where a futures chart comes in to play. I will show you an example of what the charts looked like on the good and the bad trades. Show charts

Hey! We're not building a rocket ship here…it's not that difficult. It just takes a little practice…Simple-as-123. Follow the plan… The indicators are very powerful and it works.

#7. Time

Intraday charts are available in many time frames such as one minute, five-minute, ten minute, thirty minute, and sixty minute, daily, weekly, and monthly. (More about these later in the manual.) Each vertical line represents one full bar for each time frame. The top is the high, the bottom is the low and the tick mark on the left is the open, and the tick mark on the right is the closing price for that time frame. On a day chart the bar is all of the action for the day, including the open, the high, the low, and close. I use the ten-minute time frame for this method. You can experiment with different time frames while you are paper trading and find one that gives you the best outlook. Or, I sometimes look at all of them when I am ready to make the trade…what the heck, it doesn't cost anything and one of the indicators may show you a different look.

#8. Terms

Lingo, jargon, slang, - you know trader's vernacular ………..(Vernacular…God, I love that word.).

Long means the same as buy (not how tall you are). We think the market is going to go up.

Short means the same as sell (not how short you are). We think the market is going to go down. Everybody asks me how can I sell something I don't own? It's rather simple really! If you think the market is going to go down you sell. You don't have to own it. It's just a term the exchanges use to describe that you want to short the market…Hey I didn't make up these terms…I'm not making this stuff up you know.

Bullish (Everybody is buying.)

Bearish (Everybody is selling.)

Gaps A pattern that occurs when the opening price trades higher than its previous close. It's possible to have a gap right in the middle of the trading day, although it's rare. Gaps are a powerful pattern. If the market gaps up, it usually trends up for a while then comes down to fill the gap. If you recognize a gap up, sell. If it gaps down buy. Wait for the turn to make the trade. Liquidate your position when the market turns back the other way, or only try to scalp two or three points. You need to practice trading gaps…your screen shots will teach you all you will ever need to trade gaps. Decide if you want to get in again as it heads the other way. They don't always work…but they beeeen berry, berry good to me!

MACD Moving Average Convergence Divergence -- This indicator line is plotted by subtracting the value of one exponential moving average from that of another exponential moving average. Another exponential moving average (called a signal line) is then drawn on top of this.
Interpretation — The simple rule is to buy when the signal line crosses above the indicator line, and sell when it goes below it. It's a little slow for actual trading, but will give you a head start in identifying a change in the trend. I use it when the market is just trickling up or down (when there is no momentum).

I will mention Stochastics here because you will ask me about it later.

Stochastics:

Is an oscillator like MACD. Play with it. See if you can get a feel on how it works while paper trading. There are many other technical indicators. However, for this method keep it Simple-as-123. All of the indicators I use and have mentioned here are free and on the live charts on the Internet at www.quote.com. (I use Stochastics on my open gap trades.)

All of the indicators except the Dow and Nasdaq are under the menu heading, **Study**
Try them all; it's free!

#9. Types of Orders:

Please remember, that with this method I suggest using Market orders.

There are many different ways to enter orders into the futures markets! Your decision about which type of order to use will depend on your trading objectives and your brokerage firm's rules. Ask your broker about any restrictions using Globex 2.

Because of the speed of electronic trading I use market orders for this method.
(Place a 2 point stop loss order after you place your market order at least till you gain confidence using market orders.)

Following are some of the most regularly used orders for trading futures:

Market Order

The most common type of order is the market order. If you enter a market order, you simply state the number of contracts you want to buy or sell in a given delivery month. You do not specify price since your objective is to have the order executed as soon as possible at the best possible price. When the order is filled, it's usually close to the price that it was trading at the time it was placed. In a fast market, however, the price could be considerably different. *Example: Buy 1 December E-Mini S&P 500 at the market.*

Limit Order

(Remember we only use a Market Order with this Method.)

A limit order specifies a price limit at which the order must be executed. In other words, it must be filled at that price or better. The advantage of a limit order is that you know the worst price you'll get if the order is executed. The disadvantage is that you can't be certain that the order will be filled. (Please note that with certain brokers, Globex 2 does not accept limit orders. But check with your broker to make sure.)

Example

*"Buy 1 December E-Mini S&P 500 1040.25 OB." (The OB designation is added to the limit price to signify **or better**.)*

Stop Order

Stop orders are not executed until the market reaches a given price, at which time they become market orders. They are normally used to liquidate earlier positions. With my method I use a trailing mental stop. Just keep track at what point you want to get out if the trade moves against you.

Stop orders can also be used to enter the market. Suppose you expect a bull market only if the price passes through a specified level. In this case, you could enter a buy-stop order to be executed if the market reached this point. One variation is a stop-limit order. With this type of order, the trade must be executed at the exact price (or better) or held until the stated price is reached again. If the market fails to return to the stop-limit level, the order is not executed. Be sure and check with your broker first to see if you can use this type of order electronically.

Using Mental Stops

I prefer mental stops to get me in and out of an order! Many traders prefer mental stops for protection. I think most traders feel that by having a stop loss order, they are vulnerable to a run on their stop, and in many cases, they are correct. If you use mental stops, you need to be aware of the amount of slippage that occurs from the time you decide to place and order until you receive your flash fill.

Keep a record of the number of times you wish you had used a stop loss order, or you were happy with your decision to use the market order. Use the one you feel most comfortable with. Market orders will defiantly cost you some additional slippage. Prices can move very rapidly against your position and with no stop in the market your trading account could suffer accordingly.

In any event, if the amount of slippage that occurs between the time you decide to make a trade, and the time to get your fill is comfortable for you, as it for me, then by all means use mental stops. If you are emotional, easily distracted, or have other interruptions during trading hours, I advise against using mental stops.

Position and Price Limits

In order to maintain orderly markets, futures exchanges typically set both position and price limits. A position limit is the maximum number of contracts that may be held by a market participant. While position limits apply to both hedgers and speculators, a hedger can expand his limits if he meets certain criteria.

Price limits, also called daily trading limits, specify a maximum price range allowed each day for a contract. Typically these limits can be expanded under special provisions during periods of extreme price volatility. Further, price limits are frequently lifted during the delivery month of a futures contract. The daily price limits are set by the exchanges. Always check with your broker for current information.

One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared.

Merlin Olsen
Retired football player and announcer

Identifying the Contract and Trading Month

All futures contracts have been assigned a unique one or two letter code. This abbreviation, or ticker symbol, is used to identify the contract on quotation vendor machines and on the price boards located on the trading floor. Trading floor personnel process all transactions through their member firms, and the clearinghouse also uses the codes. Because futures contracts are standardized by predetermined delivery months, a set of one-letter month codes is also used. To identify the precise futures contract you want to trade, both the contract and month codes must be specified as well as the year.

Month Codes

These are the only months we need to worry about. We only use these 4 quarters to trade the Emini S&P.

- **March ..……… H**
- **June ………… M**
- **September ……U**
- **December …… Z**

If we were trading the December 2001, E-Mini S&P 500 ESZ01
Please note, each brokerage firm may use the codes in a different layout, for example on quote.com they use ES01Z….my broker uses ESZ01. ESZ01 stands for E-Mini S&P 500 December 2001.

Last Day of Trading:
Trading can occur up to 8:30 a.m. (Chicago Time – 9:30 Eastern) on the third Friday of the contract month. Contract specifications are subject to change without notice. Check with your broker to confirm this information.

Yea, Yea, Yea (You knew that any way right?) … Right!

Yesterday is history, tomorrow is a mystery, today is a gift.

Eleanor Roosevelt (1884 –1962)
First Lady (1933—1945)

Equipment:

Equipment is constantly changing so be sure and check with your provider on the latest information.

Minimum System
Requirements set up by most brokerage firms are as of Jan. 2002:
Pentium PC or Faster, Windows 95/98/NT/2000, and above.
Or – Apple Macintosh OS 9.0 or higher, Color/VGA Monitor with minimum screen size 800x600 (1024x768 recommended), 28.8 Baud Modem (56K modem recommended), Cable or DSL is preferred. Netscape Navigator 4.7 or Microsoft Internet Explorer 5.0 or higher.

Please note quote.com at the present time does not support Macintosh. Keep checking and complain to quote.com if it's your preference as it is mine!

The Perfect Set Up If You Can Afford It
If you trade for a living, you may want to consider having two computers and use one for back up on a separate line, with a different Internet Service Provider.

During high volume you may experience down time or worse, get locked up (computer crash). If your live charts freeze up, you can look over at your back up and it could save what you spent for the back up system, maybe more! Buy a used, bare bones system, for your back up. Hey! It's your money you're playing with, you can't be too careful.

You know far more than you know you know.
Never ask, "Can I do this?" Ask instead, "How can I do this?"

Dan Zadra
CEO / Creative Director, Compendium

But First You Must Open An Account

It's Simple-as-123! The first important factor is to decide which brokerage firm will afford you the best service. You need a state of the art electronic trading system, one that is designed specifically for futures traders. Because you will be trading electronically on Globex, your most important question would be how stable is their trading platform. Then you will need to find someone who will take care of any problems (your broker) you may have with your order, or that may arise from errors and Internet connections.

If you are going to be a day trader, you should be with a discount brokerage firm. Scalping requires as small a commission as you can get, without sacrificing speed and service. My suggestion would be to find a firm with an exemplary reputation and an Account Executive you feel confident with. Round turn should be around $10.00 to $12.00.

After making a decision on the brokerage firm that would be best for you, contact them and have them send you the necessary forms to fill out. Fund your margin account that you feel comfortable with. I feel that $5,000.00 is best for beginners, because it gives you some room to lose, without wiping you out psychologically. Yes, you can start with only $1,000.00; use only one contract and keep you risk down to $100.00 or $150.00 per trade. Remember to only trade with risk capital and be aware of the risk of losing. Start slowly, be conservative, and only trade perfect scenarios.

In a moment of decision, the best thing you can do is the right thing to do.
The worst thing you can do is nothing.

Theodore Roosevelt (1858-1919)
26th U.S. President

Glossary

At The Market:
Orders entered to buy or sell *"At the Market"*, are executed immediately by the floor broker at the best obtainable price. On Globex the computer processes the orders in the chronological sequence they were entered. Your fill should come back within 2 – 4 seconds, on a normal business day.

Bearish And Bullish:
When market conditions suggest lower prices, and prices are trending lower, a BEAR market is in existence. Conversely, with higher prices forecast and prices moving upward the situation is termed BULLISH.

Bid:
An offer to buy a specific quantity of a commodity at a stated price that is subject to immediate acceptance.

Blue-Chip Stock:
Refers to the common stock of a nationally known company with a long record of profit growth and dividend payment and with a reputation for it's management, product, and services. Good examples of blue-chip stocks are the stocks of the companies listed in the Dow Jones Industrial Average or the Major Market Index.

Broker:
A registered representative paid a fee or commission for acting either as an account executive or floor broker who is given the responsibility for the acceptance and/or execution of an order.

Brokerage:
A fee charged by a broker for execution of a transaction; an amount per transaction or a percentage of the total value of the transaction usually referred to as a commission fee.

Buy In:
A purchase that will offset a previous short sale. Covers or liquidates a short position.

Buy Or Sell On Close Or Opening:
To buy or sell at the end or the beginning of the trading session at a price within the closing or opening range of prices.

Cash (Commodity):
The physical commodity as distinguished from Futures Contacts based upon the physical commodity; the commodity as acquired through a cash market.

Charting:
The use of graphs and charts in the technical analysis of futures markets to plat price movements, volume, open interest or other statistical indicators of price movement. *See also Technical analysis*.

Clearinghouse:
An agency connected with a commodity exchange through which all futures contracts are reconciled, settled, guaranteed and later either offset, or fulfilled through delivery of the commodity and through which financial settlement is made. It may be a fully chartered separate corporation, rather than a division of the exchange itself.

Close:
A period of time at the end of the trading sessions at which all orders are filled within the closing range.

CME:
The Chicago Mercantile Exchange.

Commission:
The fee paid for buying and selling commodities in a futures or cash market.

Commodity Futures Trading Commission (CFTC):
A federal regulatory agency charged and empowered under the Commodity Futures Trading Commission Act of 1974 with regulation of futures trading in all commodities. The commission is comprised of five commissioners, one of whom is designated as chairman, all appointed by the President subject Senate confirmation, and is independent of all cabinet departments.

Commodity Trading Advisor (CTA):
A person who, for compensation or profit, directly or indirectly advises others as to the value or advisability of buying or selling futures contracts or commodity options. Providing advice indirectly includes exercising trading authority over a customer's account. Registration with the Commodity Futures Trading Commission is generally required.

Contract:
The unit of trading in commodity futures. A futures contract specifies the exact grade, amount, and month of delivery of the commodity.

Contract Month:
The month in which a futures contract may be satisfied by making or accepting delivery.

Cover:
To offset a previous futures transaction with an equal and opposite transaction. "Short-Covering" is a purchase of futures contracts to cover an earlier sale of an equal number of the same delivery month; "liquidation" is the sale of futures contracts to offset the obligation to take delivery of an equal number of futures contracts of the same deliver month purchased earlier.

Day Trader:
Speculator who takes positions in commodities and liquidates them prior to the close of the same trading day.

Dow Jones Industrial Average (DJIA)**:**
It is also referred to as "the Dow." The Average is calculated using a formula and the common stock prices of 30 major U.S. industrial companies listed on the New York Stock Exchange. (In 1999 they included some Hi-Tech companies as well.)

E-Mini S&P 500:
The e-mini market is 1/5th the full size of the S&P 500, the e-mini offers many investors a market to trade without the full point risk value of the full size S&P 500. For every point in the e-mini, the profit or loss is $50.00 per full point per contract. If you buy one contract at $1225.00 and sold that contract at $1231.00, your profit on this trade would be $300.00 minus commission fees. (Please note that all trading in the E-Mini S&P 500 will occur on GLOBEX

Federal Reserve System:
A quasi-governmental organization of 12 regional banks and a governing board of directors. The Federal Reserve Bank has several discretionary powers over the volume of credit in the United States. The system seeks to actively manage the U.S. economy through utilization of its powers, which are limited to influencing monetary variables.

Flat:
It means that you have closed your account for the day…no open trades. (After you close for the day call your brokerage firm and make sure you are flat.)

Floor Broker:
An individual who executes orders on the trading floor of an exchange for any other person.

Floor Trader:
Members of an exchange who are personally present on the trading floors of exchanges to make trades for themselves, also referred to as **Locals**.

Fundamental Analysis:
An approach to market behavior that stresses the study of underlying factors of supply and demand in the commodity, in the belief that such analysis will enable one to profit from being able to anticipate price trends. *Contrasted with Charting*.

Futures Contact:
An agreement to later sell or buy a commodity of a standardized amount and standardized minimum quality grade, during a specific month, under terms and conditions established by the federally designated contract market upon which trading is conducted, at a price established in the trading pit, or any electronic trading platform.

Futures Price:
The price of a particular futures contract is determined by open competition between buyers and sellers on the trading floor of a commodity exchange.

Globex 2:
Electronic Trading and Order Routing. The CME's (Chicago Mercantile Exchange) electronic trading system provides access to CME products around the clock.

Last Trading Day:
Day on which trading ceases for the maturing (current) delivery month.

Leverage:
The potential to increase financial gains as a percentage of an investment. In futures trading, one speaks of the leverage afforded by margin deposits – *often representing only 5 to 10 percent of the market value of the futures contact* – made as performance bonds. Leverage gives a trader the benefit of price movement on the full contract.

Nasdaq:
The National Association of Securities Dealers Automated Quotations system, created in February 1971. It is probably the third largest stock market and fastest growing in the world.

S&P 500:
Standard & Poor's 500 Composite Stock Price Index: A market index composed of 400 industrial stocks, 20 transportation stocks, 40 financial stocks, and 40 utility stocks. The S&P 500 is one of the most widely followed of the market indices, and is widely used as an indicator of stock market trends and for futures trading strategies. The S&P 500 futures are called derivatives because they are derived from the actual underlying stock. The S&P 500 Futures Contract trades on the Chicago Mercantile Exchange, completely independent of the S&P itself. The contracts expire quarterly. When you see the screen on CNBC, it is always the most current contract, the one closest to expiration. It's referred to as the "front month." So, in late December, after the December contract expires, the front month is the March contract. A day before the March contract expires; June becomes the front month and so on. (You can learn more about futures contracts on the Chicago Mercantile Exchange Web site.)

Open higher or lower:
On CNBC The three indicators use a green up triangle and a red down triangle, which indicate where the points were compared to the day before, e.g. the DOW indicates 10500 with an up triangle, if you see 25 under the 10500 it means it's 25 points higher than yesterdays close. Which must have been at 10475 when it closed the day before. (See illustration. Use a shot from the TV. Or a piece of art work.)

Margin:
An amount of money deposited by both buyers and sellers of futures contracts to ensure performance of the terms of the contract i.e. the delivery or taking of delivery of the commodity or the cancellation of the position by a subsequent offsetting trade. Margin in commodities is not a payment of equity or a down payment on the commodity itself but rather is a performance bond or security deposit.

To trade in the futures markets, you will be required to post a performance bond margin to ensure your performance against the obligations of the futures contract. Minimum margin requirements represent a very small percentage of a contract's total value. For example, my brokerage firm's margin is $4688.00 per contract. The E-mini S&P futures contract is $50.00 times the index. If for example, the S&P 500 Index futures contract is trading at $1400.00, the value of one contract is $70,000.00. Futures exchanges set minimum margin levels, brokerage firms can and often do, require a larger margin than the exchange minimum.

Check with your broker and find out what the margin is for day trading. It's usually about half!

When you first place an order, the amount you must deposit in your account is called initial margin. Based on the closing prices, your account is then debited or credited each day you maintain your position. For example, assume you bought 4 e-mini S&P contracts at a price of $50.00 per contract and posted initial margin. At the end of that trading day, the market closed up 4 basis points. As a result, the market has moved in your favor $800.00. This amount will then be credited you your account and is available for withdrawal. Losses, on the other hand, will be debited. This process is called marking-to-market.

Subsequent to posting initial margin, you must maintain a minimum margin level called maintenance margin. If debits from market losses reduce your account below the maintenance level, you'll be asked to deposit enough funds to bring your account back up to the initial margin level. This request for additional funds is known as a margin call.

Because margins represent a very small portion of your total market exposure, futures positions are considered highly leveraged transactions. This can be an attractive feature of futures trading because little capital is required to control large positions. At the same time, a bad trade can accrue losses very quickly. This is why successful traders must develop a sound trading plan and exercise great discipline in their trading activities.

Margin Call:
A call from a clearinghouse to a clearing member, or from a brokerage firm to a customer, to bring margin deposits up to a required minimum level.

Newbie:
Some one who is just starting out…a new trader, beginner.

Just food for thought!

Just thought you may enjoy some of these notes to myself!

Claiming trader status…a letter from a fellow trader

Marsh,
In the evening, I caught some of your discussion about taxes. There are 2 categories of tax status for traders. One is called "trader status". If you claim trader status, then you are basically claiming that you trade as a business and don't have any normal wage income. As a business, you are eligible for all the normal business expense deductions (computer, data-feed costs, etc).

Further, all your income is capital gain/loss. There are *big* advantages to claiming trader status.

The other option you can file for is called "mark to market". This is the option that lets you deduct more than the $3000 capital loss for the year. Unless you're losing a lot of money, the mtm election is not useful. Plus, the mtm election is one-way. I.e. once you claim it, you have to do a ton of paperwork to go back on it.

All this is caveat emptor. Here are some websites to learn about it yourself. The trader status election would save you a lot of money I believe.

I'm not endorsing any of these sites. But they do have good information.

www.traderstatus.com
www.tradersaccounting.com
www.greencompany.com
www.fairmark.com

-Jeff

You may not know all the answers, but you probably won't be asked all the questions either.

Hey…this sounds important!

Best risk/reward conditions prevail following an extended period of sideways movement after a decline.

****

Never think you can always anticipate the market reaction to any news announcement. Stocks have been known to rise following bad news, fall after good.

****

Don't get caught in the middle of a trading range. Buy/sell the outer limits of the range, otherwise wait for a breakout from that range before acting.

****

If the price trend is down prior to an important announcement, an advance can be expected following. Conversely, if the price trend has been up, a sell off is likely following an important announcement.

****

As long as a market is acting right, don't rush to take profits.

****

Bear markets have no supports and bull markets have no resistance.

****

When time is up, markets must reverse.

****

" Aim to be fearful when others are greedy and greedy when others are fearful."
Warren Buffett

****

First you have to learn the rules...watch how it works by applying what you've learned...no your limitations and use discipline, patience, and consistency

****

Quote of the Day

I do not think that any civilization can be called complete
until it has progressed from sophistication to un-sophistication,
and made a conscious return to simplicity of thinking and living.

- Lin Yutang

I think this was from Buda?

- Awaken new powers -
- Have happy relations -
- Heal past mistakes -
- Handle difficult people -
- Dismiss confusion -
- Be protected always -
- Live above troubles -
- Conquer anxiety -
- Know true love -
- Stop Stress -
- Solve problems swiftly -
- Give life true meaning -
- Be at ease -
- Succeed with others -
- Live above troubles -
- Feel good always -
- Make life make sense -
- Know what to say -
- Stop energy thieves -
- Make right decisions -
- Own your own life -
- Banish shyness -

Do not dwell in the past, do not dream of the future,
concentrate the mind on the present moment.

Buddha

Reflections...

When I look into a mirror I have nothing to fear because looking back at me is whom I can be. Simply look in the mirror and you will see the person responsible for getting you where you are today. We seldom look inward to find solutions within ourselves. After all, your present thinking and actions (or lack of action) have created your present circumstance. If you continue to think and act in this manner, you will keep getting the same results. This is not to say you have control over every single event that comes into your life. You don't. But you do choose your response to each event...although you may not think of your responses as "choices" because they are ingrained habits, which have become automatic over time. Even if your past choices have been poor ones, you can still change. The best way to bring about change is through awareness...by recognizing your bad habits and becoming conscious of your fundamental beliefs. Your beliefs create your reality. When you make positive changes in your belief system, a corresponding positive change will take place in your level of achievement and fulfillment. Recognize that success is not something that randomly happens to you; it is not an accident. Rather, success springs from within you. It begins with the attitude and is achieved through persistent action. Simply look in the mirror, smile and tell yourself, i'm going to have a great day!

That's at least a start.

Trading Simple-as-123
Marsh

I look great for my age ... almost life like!

DISCLAIMER

Important Risk Warning:

The information presented in this manual is for informational purposes only. Investment in futures involves a high degree of risk, your investment may fall as well as rise, you may lose all your original investment and you may also have to pay more on the original amount invested. Consult your broker or advisor prior to making any investment decisions. Past or simulated performance is not a guide to future performance.

Or write to:
Marshall J. Jones
6214 Lake Athabaska Place
San Diego, CA 92119-3523.

You will succeed if you believe it can be done; if you're willing to work hard while being smart about it; if you're willing to surround yourself with great people who will challenge you every day; if you're willing to take on the nay-sayers as a challenge; and if you're willing to strive for excellence while recognizing each day is and opportunity to learn.

Amy Love
Publisher

The following is a list of things I still have to write about yet.

CHARTS

ABBREVATIONS

PROOFREADING

USEFUL WEB SITES

INDEX

ISP CONNECTIONS

ACTION PLAN CHECKLIST

NARROW SIDEWAYS CHANNEL

POWER TRADING

Art work, charts etc.

(get copyright permission and trademarks noted in the manual)

Private Lessons

There are those who feel they need a mentor and want one on one lessons. The following is a list of what I cover and a whole lot more in a Paltalk chat room one on one, The lessons are for one week, or ten half days and includes the manual and or CD/DVD when it's finished. I also offer continuing support via e-mail, or assistance when I'm in my chat room on paltalk.

Free access to Simple-as-123.net website for students.

Cost

$1000.00 … or form a group not to exceed 4 for the same price. (Example 2 for $500.00 or 4 at $250.00 per person) If after the first day of training you are not completely satisfied with my teaching style or method, you must let me know you don't want to continue. I will then return your check in full.

> On going support with the purchase of the method is included till you understand and demonstrate you can trade using this method.

Part Time Lessons Cost

$100.00 … 9 a.m. till 12:30 p.m. EST

If you just need help regarding certain issues like recognizing momentum, power trading or other aspects of the this method, or working on individual mental situations to help you strengthen confidence. You may just want to observe my trading techniques for half a day. You can pick the morning session or afternoon session.

If after your first lesson you want to continue, I will apply it towards a whole week.

See Study Guide on next page.

STUDY GUIDE

Things we will discuss; but first this list is not in any particular order. Please review and send me back anything you are fully familiar with. I don't want to waste your time on stuff you already know.

1. How the clock works on quote.com
2. Charts…the tools, drawing lines, indicators (moving average) etc.
3. Money management…risk only 2% rule
4. Trailing stops
5. Time Log
6. Time Zones
7. Entry, exit
8. Risk, reward
9. The big picture
10. Candles
11. Order types
12. Support, resistance
13. Pivots
14. Using a stop loss order
15. Market orders
16. Taking the best trade of the day
17. Analysis
18. Recording your trade
19. Phone at the ready (crash)
20. Volume
21. Bollinger bands
22. Bars verses candles
23. Risk capital (over 80% lose)
24. Momentum
25. Noon day doldrums
26. Break out…when do we take the most risk (risk/reward guide)
27. Counting Bars…why we need to know
28. Intra-day…Change in trend. How to use it. (Staying with the trend here and now)
29. Gap trades…When will they be in our favor
30. Warnings to remember…Expires on the third Friday of the month.
31. Fed reports...how does affect the mkt.
32. 50% retracements...when it's likely to occur.
33. Consolidation...what it looks like and what affect it has on the trade.
34. Learning how to keep frustration to a minimum.
35. Streaming data window, how to use it affectively.
36. Time and Sales window, how to use it affectively.
37. Tick and Trin...does it help?
38. Head and Shoulders, flags, (pennants)
39. Ideal long set up.

40. Mental stops

Please email me any questions you may have when you check off this list of things I want to cover in our first lesson. Like I said if you are already familiar with some of this stuff I don't want to waste your time…we can cover what you are most unsure of.

Let me get you going so we can concentrate on how to keep this simple as 123.

Just skip over any of the stuff you know.

1. How the clock works...first of all remember it's the clock on Quote.com's free or it's basic $9.95 charts that I'm referring. If you click on the default window of the streaming data window, you will get another window to pop up. I keep that particular window up on the 15 minute ES chart. I keep the streaming data window up on both the ES, and Compx 5 min. charts. The clock that is displayed there is at EST, and it's also on the streaming data window, that clock is showing you the time and sales data. I use it to make sure we are not getting delayed data; they have to be in sync! You must keep and eye on it during the day to make sure you have live data. THIS IS IMPORTNANT.

This is all basic stuff, but I will go over it anyway, what the heck it's free, and you might learn something.

2. By now you should have explored all of quote.com sub menu items, as follows: Refer to attachment, Picture 4. The first is a small down arrow button; this is used for selecting any charts you have selected during the session. (Note, that if the chart locks up the default selection is the only thing that will be there). The next menu window is where you type in the chart symbol you want, hit the Submit button or click the return or entry key. Next button is the chat time frame, as you know I use the 5 min. chart and remember the default is the 10 min. chart. If you ever lose data and refresh the chart you must re-set it to 5 min. next is the Help button, you should use this when you have a problem with the charts or you just want to find out something. Support on quote.com in almost non-existent. Next button is the chart style, click on the sub menu and select candlestick, that's the one I like...you can look at all of the styles that are available and you can see the difference, but who cares! While in this sub menu you can also select the draw tool. You can experiment with this tool like any draw software you may have played around with ... I use it draw trend lines, support and resistance lines, about every 30 minutes or so. If you can't figure out to make it work let me know. The Price Scale is something I have never used, so I can't help you there. The All Sessions (24 Hour Chart) is something I use before the open, when you click on it you will see what the night traders are up to. You can look at this each morning before the open and get a feel on how volatile that session was. (Use different time frames to get a feel for it) This will take sometime for you analyze and I don't think I need to cover it at this time. The Enable Ambiguous Excgs. Is nothing I use either. I don't even know what it's about to be quite frank with you. You can check it out if you think it will help you. The Export Chart menu is not much good either...It does not show the US Stock Market Watch window or the Time & Sales window. It's best to use a software program to grab a snapshot of the whole chart. The other data

in that sub menu I don't feel is of any value, I guess if you wanted to know the Time and Sales to HTML may help you if you were paper trading and wanted to know exactly what it was when you called the trade, but just know I don't even think about it. I have the time and sales data on my trading platform when I take the trade anyway. The HotList menu is not for us either, it's for stocks. The Study menu is of great interest, I click on them all every once in awhile, and I like to see a confluence of them going my way. If the market is highly volatile you wont have time though. We just use the Moving Average or Moving Average and Volume on both 5 min. charts, and MACD on the 15 min. ES chart.

5. Time Log. The value of the Time Log is to be able to go back after the close and see how the Dow and Nasdaq moved the ES. Just keep the log up to date every 15 min. (make any notes within that time frame if something comes up …like if the dow was at +25 at the beginning of the 15 min. and moved down to minus in 5 or 10 min.) That way you can look at the chart and understand what happened. THIS IS A MUST, IF YOU WANT TO LEARN THIS METHOD. You must keep this log and study it after the close each day. You should be able to cover over each bar and tell me where the next bar will be at.

7. I will go over with you live…about entry and exit. Just remember this – we use a 2 point stop loss; you may want to use an actual stop loss order instead of a mental one. You will have to experiment with it while you are paper trading. The entry is somewhat subjective. I can't make it mechanical. I will try to show you live where and what I look at to enter the trade.

8. Risk and Reward. Try to keep in mind, where is the reward is at…are we at the high or low of the day? That would be high risk and we don't really know what the reward might be. If we are looking at a breakout or a reversal we should be able to see what the risk (resistance) and what the reward is (support). We use a 2-point target, but take what the market will give us. I will go over this when we are watching …you will just have to gain experience and confidence.

9. The Big Picture. I use the US Stock Market window to show me what the total market is doing, are they all in sync or what. We have the data for the Dow, NY, Nasdaq, and Russell, even the Commodity index. If all of these are in sync we have a safer or lower risk trade. That is the big picture!

12. Support and Resistance. We must learn to recognize where support and resistance is at, at all times. I will try to cover this, and in my own opinion. This is somewhat a subjective area. There are many ways to figure out where there is support and resistance. I suggest that you find articles you can read on the subject on the web. Study it well!

13. Pivots. Pivot numbers can show you key timing points. You can use the pivot calculator that is on the web site or just call your broker and get them from him. As you know I don't use them, but I am becoming a believer. So…I suggest you take the time to study them. I will try to cover more on this subject in an up-date in the manual. They should help you pinpoint entry and exit prices in fast moving markets. Day traders love to know key intra-day turning points, and pivot numbers reveal just where to look. The trading floor has been using the pivot numbers for years. They work because the floor expects them to. If you know what the floor or what the locals

know, you can finally work with the floor instead of against it, this often puts your trading with the so-called “locals” and gives you a better target so you can hold on through the pullbacks.

16. Taking the best trade of the day. I feel the best trade of the day is the 10:00 o’clock reversal. I will cover this trade and all other types of trades we use, such as reversals, breakouts, buying dips and selling rallies.

17. Analysis. You must analyze every trade you make…especially the ones that don’t work. I will try to cover with you the ones I call, and why the trade worked or did not work. THIS IS A MUST!

18. Recording your trade. When you take a trade be sure to make a snap shot of your actual trade. I can on my platform from Man Financial. I take a snapshot and keep it with my trade record and chart that I make at the end of the day. That way the brokerage firm cannot give me a statement that does not jive with my actual trades. Hey it happens! This way you can prove what actually took place. They can and do make human errors of the entry on your statement. Be sure you reconcile your statement each day.

20. Volume. I will go over this when you are on line…On the 5 min. ES chart use the Moving Average and Volume indicator. There is enough liquidity on Globex to make a trade anytime of the day, so we really don’t have to worry about the volume to make a trade, but I will show you where volume picks up and you should see the volatility pick up to look for an opportunity to make a trade, it’s a big clue.

21. Bollinger Bands. You may like them versus the Moving Average indicator. Bollinger bands give you the best of both worlds. You can find an article on the subject on the web. I think they are worthwhile. www.BollingerBands.com.

22. Bars vs. Candles. The quote.com chart defaults to bars. I like the candles they are like a searchlight when we get a pullback; use candles, that’s my preference! One thing about bars is…you can sort of see the entry, high, low, and exit point, a little more clearly, because of the tick mark. Look at both and use the one you like best.

24. Momentum. This is the heart of the method and also the most subjective. We must learn to spot momentum and pull the trigger when see it. We will have many opportunities to see mom when it happens during our sessions.

We will go over all of this as we are watching together; this will just give you a head start. Hope it helps you!

Let me know if you have any questions after reading this so we can concentrate

Prosper,
Marsh

<u>Notice of Disclaimer</u>

The material found in this method is for educational purposes only. Due to the high leveraged nature, there is considerable monetary risk associated with trading commodity futures. The output generated from this method is intended for people to "paper trade" only. No representation is being made that any commodity trading account will, or is likely to, achieve profits or losses in any particular fashion. In fact, there are frequently substantial differences between hypothetical commodity trading performance results and the actual results achieved by most traders. You could lose all your money and more trading. No recommendations or claims of monetary gain or loss using this method are being stated or guaranteed. Past performance is not necessarily indicative of future results. Account sizes will vary, along with ancillary costs such as commissions and slippage. Marshall J. Jones who developed this methodology is not a broker, CTA, or registered individual. Use at your own risk.

Signature ________________________________ Date ____________________

Printed Name ____

Release of Liability and Secrecy Agreement

I hereby agree to release Marshall J. Jones of any liability associated with this trading method.

I agree to **NOT** divulge any part or section of this trading methodology to anyone. This includes discussion about, or questions on, the method in any and all commodity trading chat rooms or forums except the Simple as 123 chat room. No material in this method may be reproduced in any fashion. Violations of this Secrecy Agreement are punishable by law.

Signature ________________________________ Date ____________________

Printed Name ____

<u>Guarantee</u>

If after the first day of training you are not completely satisfied with my teaching style or method, you must let me know you don’t want to continue. I will then return your check in full.

On going support with the purchase of the method is included until you understand and demonstrate you can trade using this method.

Time Zone and Trade Log

Date: ____________________

TIME	ZONE	DOW	NAS	ES	TRADE	B/S	EXIT	NOTES	W/L	PT's
9:30										
9:45										
9:50										
10:00										
10:10										
10:15										
10:25										
10:30										
10:45										
11:00										
11:15										
11:30										
11:45										
12:00										
12:15										
12:30										
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13:00										
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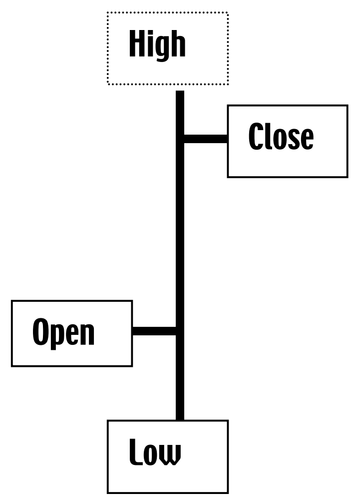
13:25										
13:30										
13:35										
13:45										
14:00										
14:15										
14:30										
14:45										
15:00										
15:10										
15:25										
15:30										
15:40										
15:45										
16:00										
16:15										

The Bar Chart

Each black vertical bar is a price bar, and represents four important price points from a given trading day: open, high, low and close.



Testimonials

Marsh:

Just wanted to drop you a note about the lessons so far. In one sense, I feel like I have made some progress during the lessons. But on the other hand I feel like I am more confused on certain things. For example, with the time zones. I have read that article 5 or 6 times now and I think I understand it. But you said that article was written more for stocks, and the es differs slightly. For example today, you mentioned a reversal that frequently occurs at 11:00am, but that is nowhere in the article. I realize you have picked up many things yourself over the years from studying and playing the markets, and that is really what I am interested in. If you feel the es has different reversal time zones based on your experience, then I would rather learn those than I had learn the ones in the article. Again, I realize these times are not rigid and can fluctuate or not happen at all, but if you were writing an article on time zones in the es what would you write? That is what I want to learn.

I like the way you teach. By that I mean you are always offering commentary on what you are thinking as you see the markets unfold. At first it was hard for me because you are mentioning a lot of things and I am trying to pay attention to you, look at the charts, remember when to write the dow and compx #'s in my trade log,etc. Yesterday I found it hard to keep up with everything, but today was better and I am sure every day will get even easier as I adjust to the pace and learn to handle more things at once. I don't want you to take this as I think you are covering too much too fast. That is not the case at all. It is more a case of me just adjusting to be able to handle and process a lot of tasks at once. In fact, the more information on things you can give me the better. I am constantly taking notes on what you are saying. Sometimes it is the little things that you have learned through experience and share with me that help me out. Please give me all of the information you can. If you have some specific strategies you use , then please share those with me also. I realize that trading is not a very structured thing and a lot is subjective. But I am a very orderly person and feel I will be more successful if I have a structured trading plan(as much as possible) and follow specific trading strategies. For example, the snake method is very structured, You take a trade if a happens, then b confirms, etc. That is the way I learn best. If we take things in steps...for example: on the 5 min chart we are looking for ...... to occur. Once that occurs, then we are going to look at compx for confirmation. Once in the trade we are watching a, b, and c if ..... happens we get out. Sort of work out scenarios on things we are looking for. If any of those things occur, then we do this. We enter the trade only after .... has happened. I hope you understand what I am trying to communicate.

Overall I am very pleased with the lessons. I think you are a great teacher. My problem is I want to learn everything in one day, and that is not going to happen. I can promise you that I am 100% committed to this. Like I mentioned today I am going to do my part with the studying, keeping trade log, etc. I just hope you will continue to be patient with me as I learn. Even though I have read many courses on commodity trading, this method in many ways is different from what I have previously learned. Most everything I previously read was geared towards long term trading. This is my first experience with day trading. The method is simple, but does take time to get a "feel " for what is going on. As each lesson passes, I think I am getting a better feel, but I obviously still have a long way to go.

Take care-----JK

Trading Double Tops and Bottoms --

Warning – This technique is in it's developing stage…papertrade only

Dear Marshall,

I would like to describe the method I use to trade double tops and double bottoms. I will share this with you step-by-step. First, I will describe "double top and double bottom". I will describe only the double tops because the opposite is true for the double bottoms.

A double top is when two candles, side-by-side, are equal at the top. The wicks of the candles can be different in length as long as the bodies are equal. However, if the bodies are unequal yet the tops of the wicks are equal, they are also considered a double top. If you are using a bar chart, the bars must be equal at the top and likewise at the bottom. If you have more than two tops and they are equal at the top and at the bottom, the leading edge of the third candle is the direction of the move. For example, if two candles are equal at the top and also at the bottom, how do you know which way it is going to go? If the third candle, sets up at the bottom to make the third bottom; then, the move would be to the long side. Only the leading edge of the candle can be considered to the previous candle.

Now, please keep in mind that not all double tops and doubles bottoms work to the satisfaction of the trader, but 80% of them usually do make money.

The methods are:

1. Trading every double top and double bottom through the day
2. Take only the tops at the highest points of waves and the low points of valleys
3. If you want to make your trading even tighter with less chance of error, only take either the top or the bottom in the direction of the trends. Once a trend up is established, take only double bottoms. If the trend is down, take only double tops. This will lessen your chance of losing.

My particular style is a scalper, so I only look for one point once I enter the trade. One may vary the amount of your target to suit your trading style; however, I think you will find that there is the usually only one point behind a double top or a double bottom if you are playing method 1. If you want more points out of a double top or a double bottom, you would play only method two and three.

Next and the most important of all, is knowing how to tell when to get in and out of trades. Having the $compx scrolling price window and the Dow scrolling price window, you can view at least twelve prior prices. Since the Dow and the compx are the driving force of the E S, one must know at all times where the Dow and the compx are going because where the Dow and the compx go so goes the E S. In order to trade with the least amount of risk, one must only trade when the compx and the Dow are moving in the same direction. If you are in a trade, the same thing holds true, it will help you know when to get out of the trade. If you see the Dow go in reverse three numbers, get out! If you see the compx go in reverse two numbers, get out!

It is wise to enter the trade when there is less than a half a point on a new candle if you are trading method number one and taking only one point.

One of the most valuable lessons I learned...is that we all have to learn from our mistakes, and we learn from those mistakes a lot more than we learn from the things we succeeded in doing.

Ann Richards
Former governor of Texas

Trading The Moving Average

Strategies:

Set up on the 10 minute ES candlestick chart with a 10 period Moving Average line. You can use the 5 minute chart for entry and after you have 2 points, switch to the 10 minute chart.

Using the method to make a safe entry

1. We don't trade during the first hour.
2. Our Magic Numbers; Dow +25 Nasdaq +12 or holding.
3. Caution at highs or lows of the day.
4. Enter after the second candle is above the moving average line. You must have confirmation from the compx chart to take the trade.
5. Option on #4 if there is momentum…risk if the first candle is 3/4 over the line on the entry of the second candle above the line.
6. Risk 2 points after entry; …or the candle crosses back over the line. See nuances.
7. Exit, when you have your target, or stay in the trade till it moves back over the line. See nuances.
8. Once you have a 2 point gain place the stop to breakeven, or + 1/4 point to pay for the trade. Target 6 points or stay in the game till it crosses back over the line.

Nuances:

Time zones, and momentum are a key factor to take a safe trade. Try to feel the pulse of the market, so you can stay in the game on pullbacks or reversal time zones. Use a trailing stop if you feel a pullback coming…this is not mechanical, but subjective, don't be greedy. Count candles, so that you can gage if a pullback may take you out of the trade…if so, use a tight trailing stop to lock in your profit.

This strategy will not work in a choppy market (white candle, red candle, etc.) You may have to wait till after you have an established trend. Use the 15 minute chart and MACD to see the trend direction clearly.

A break below the Moving Average; use the opposite strategy to short the ES.

Look at these charts and try to see how you could have stayed in the game.

Charts go here….