Futures Trading Secrets Course

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About This Futures Training Program

This document is our own personal approach to **trading as a business** and outlines how to develop a trading system that generates enough profits to make trading worthwhile.

Trading is all about odds, probability, and expectancy. If you have a positive probability system, you only really lose if you do not follow the system (i.e. you must pull the trigger on all signals when you see them). You cannot "cherry pick" a system's signals, because you will never know which signal will lead to a big return.

Unfortunately, many trading systems are sold that only give indicators and entry timing signals. These only cover 10% of a complete trading system. **Money Management** and M**ental Discipline** in trading are far more important.

A 1991 Study (Brinson, Singer and Beebower) showed that over a 10 year period with 82 large pension funds that 91.5% of the returns were directly attributable to **money management**. Less than 10% of returns attributed to timing! These traders are employees and do not risk their own money (only their jobs) and thus have no real mental stress compared to you the active trader.

When trading your personal account, we maintain that at least 50% of a trading system is your mental attitude, preparation and emotional control, 40% is money management and only 10% is in the entry and exit choices. That is why we wrote this program. It is about our growth as a trader and the lessons we have learned over the last seven years.

This program will cover three distinct areas plus very specific answers to many trading questions and problems that you will encounter.

1. Mental Discipline and How to "Pull the Trigger"
2. Money Management to Minimize Losses and Maximize Profit Potential
3. Methods for High Probability Entries and Exits

We have written this training program in an outline format. It will be much easier to read, to learn and to refer back to without a lot of excess text. Each point is important and any one point may be what has held you back in the past. We encourage you to test EVERY point yourself.

The attached static charts show you signals that occurred during the day. Study these formations and patterns so you can recognize them automatically. It is easy to analyze the past. Focus on charts as signals develop and learn the early signs of impending moves at the right edge.

The CD will show you how to read signals in real time. You will see that you cannot predict the future, but you can position yourself for a high probability trade. After reviewing the video, we suggest you use the SimBroker in Ensign (or your trading platform) on both the Demo and Real Time charts until you have confidence in your self discipline.

Confidence, Patience and Discipline will lead you to a state where subjective analysis is removed and you will develop an objective method of interpretation that builds confidence in your trading. Once your subconscious and conscious minds agree on the method, conflicts and indecision are gone and you will become more profitable.

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Guaranteed Success?

There is none! There are no guarantees in life and there are none with our program. Refunds: None! We have never been asked for a refund and we would not give one if asked.... Why?

You need "balls" to trade futures. If $1,000 is worry money to you, and you are of the refund mentality then forget all about futures trading. Read No Further! Futures Trading is not for you. There is significant risk in trading futures. To make money you will need to take substantial risk.

We invested over $50,000 to learn the principles listed in this trading course.

If you can't risk $1,000 on training tools, $5,000 on equipment and data feeds and $5,000 in the market, then you had better hold on to you money, because you are going to need it!

Anyone who says this takes a few minutes a day is either lying to you or selling you snake oil. Learning to be consistently profitable will take time, study and practice. Always remember two things:.

- **An infallible system would sell for millions of dollars.**
- The past is known, the present observable, and the future is somewhat predictable.
- Continuation is more likely than immediate reversal (news spikes are the exception).

Free Telephone Guarantee

We do offer the following guarantee. All you have to do is call me at 760-931-5435 or 888-404-1212 Toll Free in the U.S., and I will be there to help. It will be the creator and originator of this proprietary trading methodology.

I am not like all those other "how-to-information" publishers. What point would there be for me to send you this trading information, and then not be available to help you understand it?

The market can be beaten for short periods of time and there are many ways to accomplish your goals if you have the right tools. We have assembled our best tools in this program and we use these same tools in our personal trading.

The course provides you with a complete set of tuned indicators and work spaces that we use in our own trading. As always, there is no guarantee that you will make money. You will have to take measured risks to win at this game.

However no matter what system you use, you still have to believe in and be able to trade the system you choose to use. For this reason we highly suggest you focus your attention on the Mental and Money Management sections of this program. They are far more important than any set of indicators, trading signal setups, or chart patterns.

Of the 5-10% of traders who consistently win, all have established rock solid mental and money management control. All have this edge. It will be up to you to study and develop the same discipline and consistency in your trading.

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Table of Contents

Disclaimer and Risk Warning ... 1
About This Futures Training Program ... 2
Guaranteed Success? ... 3
Free Telephone Guarantee ... 3
Table of Contents ... 4
Introduction: Trading Philosophy ... 8
Psychological Keys to Success ... 8
How to Become a Master Trader ... 9
Markets, Systems and Time Frames ... 10
Is it a Business or a Hobby? ... 11
Trade Philosophy ... 11
Probability of Success ... 11
Trading Within Your Comfort Zone ... 12
Sample Revenue Plan ... 12
Designing Your Trading System ... 13
Before You Start ... 13
Specific Guidance ... 14
Trading Plan Development ... 15
Trading System Evaluation ... 15
Section One: Money Management and Risk Control ... 16
Understanding Risk ... 16
Market Psychology of Highs and Lows ... 17
Four Laws of Risk Management ... 17
Money Management Systems Rules ... 17
Money Management Models ... 18
Total Equity Money Management Model ... 18
Kelly Money Management ... 18
Multiple Commodity Trading Suggestions ... 19
Designing a High Reward-Risk System for Managing Money ... 20
The Expectancy Formula: ... 20
How to Implement the Expectancy Formula ... 21
How to Produce Maximum Profits ... 21
Play with the Market's Money ... 21
Section Two: Mental Magic ... 21
How We Learn ... 22
Goals and Attitudes ... 24
Trading Visualizations and Affirmations ... 25
Zen and the Markets ... 25
Our Personal Approach to Focusing ... 26
Finding Your Personal Trading Approach ... 27
Neuro Linguistic Programming (NLP) ... 28
Basic Description ... 28
Basic Techniques ... 28
Modeling Success ... 29
Eliminating Negative Trading Habits ... 30

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A Solution for Placing the Right Trade at the Wrong Time 33
The Magic Mirror Method of Creating What You Want 34
Common Traits of Successful Traders 35
Changing Goals to Reality 35
Creating a History of Successful Trading 36
How to Change Your Habits in 21 Days of Less 37
Section Three: Trading Methods 38
Putting the Odds in Your Favor 40
Using Technical Indicators 40
Definitions 40
Reading Price Action 41
Momentum Trading Principles 41
Logic of Trends, Support, and Resistance 42
Indicator Divergences 42
Stochastic Indicators 43
MACD Indicators 44
Indicator Trading Principles 45
Consistent Candle Patterns That Work 45
How to Pick Technical Indicators 45
Using Different Time Frames 46
Creating Different Time Frame Indicators on the Same Chart 47
Moving Averages for Trend Identification 47
Stochastic Oscillator Rules for Timing Trades 47
MACD Trading System Signals 48
MACD and Dual Stochastic Divergences 48
Over-Bought Over-Sold 49
Lock Limits on the e-Mini 49
Volatility Indicators 49
Elliot Wave Analysis 50
Pesavento Patterns 50
Fibonacci Patterns 50
Trading Timing Principals 51
Time of Day Trades 51
Day of the Week Cycles 51
Day of the Month 51
Long Term Support and Resistance Levels 52
Section Four: Daily Trading Plan 52
Trading Plan Signals for High Probability Trades 52
Trading Goals and Rules 52
Pre Trading Checklist 53
Daily Schedule and Setup 54
End of Day Review 55
Futures Trading Secrets Approach 56
Chart Setup and Indicator Parameters 56
Background of Dual Stochastic System 57
High Percentage Trade Setups 58
Fine Tuning the Dual Stochastic System 59
Primary Exit Methods 59
Trading Stops and Exits 60

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Protective Stops 60
Profit Taking Exits 61
Other Trading System Comparisons 61
Appendix A: Mental Conditioning Exercise Log 62
Appendix B: Trade Planning Worksheet 63
Appendix C: Trading Log and Lessons Learned 64
Example: Friday, April 20, 2004 64
Specific Lessons Learned 64
Appendix D: Commodities Risk and Growth Calculator 66
Appendix E: Trading Rules Summary 67
Putting the Odds in Your Favor 68
Sling Shot or Hidden Divergence Trades 68
Ka Ching or Regular Divergence Trades 68
Appendix F: Charting Examples 69
Chart 1: Futures Trading Secrets Approach 70
Chart 2: One Monitor Work Space 71
Chart 3: Current Trading Work Space 72
Chart 4: Multiple Time Frames on One Chart 73
Chart 5: Divergence Signals and Ka Ching Trades 74
Chart 6: Candlestick Signals 75
Chart 7: Candlestick Pattern Turning Points 76
Chart 8: Other Significant Candlestick Patterns 77
Chart 9: Stochastic Time Frame Comparisons 78
Chart 10: Stochastic Examples by Type 79
Chart 11: Dual Stochastic Signals 80
Chart 12 CCI and RSI Time Comparisons 81
Chart 13: CCI, RSI and Stochastic Comparisons 82
Chart 14: Multiple CCI System Indicators 83
Chart 15: Multiple CCI Trading Chart 84
Chart 16: MACD Comparison of Time Frames 85
Chart 17: MACD Examples by Type 86
Chart 18: Fibonacci Retracement Patterns 87
Chart 19: Fibonacci Confluences 88
Chart 20: Pesavento Patterns 89
Chart 21: Short Term Pesavento Patterns 90
Chart 22: When to Stay Out 91
Chart 23: Pesavento Patterns and Elliott Waves 92
Chart 24: Ideal Ka Ching Entry and Exit 93
Chart 25: Ka Ching Entry and EMA Support 94
Chart 26: Reversal Patterns 95
Chart 27: Diamond Patterns 96
Chart 28: Topping Patterns with Fibonacci and Pesavento Patterns 97
Chart 29: Topping Pattern Continuation 98
Chart 30: Test of Previous Days High 99
Chart 31: Morning Gap Trading Strategy 100
Chart 32: End of Day Globex Bounce 101
Chart 33: Long Term Trend Change Patterns 102
Chart 34: End of Day Trades 103
Chart 35: Trend End Patterns 104

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Chart 36: Divergence Trades on Two Time Frames 105
Chart 37: One Day of System Trades 106
Chart 38: Profit Taking at End of Day 107
Chart 39: Triple Top Formation with System Indicators 108
Chart 40: Trading Range Strategy 109
Chart 41: System Setting Comparisons 110
Chart 42: System Setting Comparison 2 111
Chart 43: System Comparison with CCI and RSI System 112
Chart 44: Comparison of Stochastic with CCI and RSI Trends 113
Chart 45: Comparison of Stochastic with CCI Trend System 114
Chart 46: Comparison of the Stochastic with the Alligator System 115
Chart 47: Comparison of the Stochastic with Various MACD approaches 116
Chart 48: Comparison of Stochastic System with Other Stochastic 117
Chart 49: Two Time Frames in Synch 118
Chart 50: Decision Time 119
Chart 51: Triple Play, the Ideal Setup 120
Chart 52: Dual Time Frame Sling Shots 121
Chart 53: Support and Resistance with Fibonacci and Pesavento Levels 122
Chart 54: Gap Down with 10 Point Move 123
Chart 55: Three Waves and Resistance Short 124
Chart 56: Large Range Day with Pesavento Patterns 125
Chart 57: Comparison of 74T to 1 Min Chart 126
Appendix G: Reference Material 127
Getting Your Head in the Right Place 127
Trading Methods 127
Appendix H: Personal Coaching 129
Appendix I: Single Indicator, Single Time Frame Trading 130
Ergodic Oscillator and True Strength Index 130
How do we set up and indicator with little or no lag? 130
Introducing Divergences for Signals Using the Ergodic Indicator 130
A Trading System Using the Ergodic 130
Formulas Used to Calculate the Ergodic Oscillator 131
Trading Rules Using the Dual Ergodic Indicator 132
Ergodic Chart Examples 134

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Introduction: Trading Philosophy

This short course is the result of seven years of study, testing and trading stocks and futures. A complete list of reference works is attached in the Appendix G.

There are really only seven rules for profitable traders

1. Trade only with risk capital
2. Accept full responsibility for your own trades
3. Focus on one or two techniques that work
4. Properly manage your trades
5. Stay emotionally neutral
6. **Learn how to trade without the need for certainty**
7. Keeping a trade journal which includes marked up charts.

This program is designed to get you on the fast track to trading success. Most of you have searched for the Holy Grail of trading systems until you reached the same conclusions we did: the Holy Grail is the personal self discipline to follow your own trading system..

1. Your goals should be: Preservation of Capital; Consistent Profit; and Superior Returns, in that order.
2. Mental mastery is the key to successful trading. Discipline leads to consistency that leads to confidence, which leads to profits. Jim Rhon, a great motivational speaker once said, "You pay a price for discipline or regret: discipline weighs ounces while regret weighs tons."
3. There is no better computer program than the one between your ears. Learn the signals.
4. Trading is 10% signals, 40% money management and 50% discipline and execution.
5. Relying on CNBC, stock picking services, emails and faxes, automated programs or anything else that thinks for you, is a sure way to lose your capital. **"If it is to be, it is up to me."**
6. We all are looking for the **"Path of Least Resistance".** Money, water, traffic, electricity, magnetism, crowd behavior and YOU and all traders take The Path of Least Resistance. So DO NOT TRY TO SWIM UPSTREAM!
7. You only make money when you trade the market correctly. Not when you predict it.
8. You profit from sound cash management and risk control.
9. We must eliminate personal opinions and be observant.
10. We can only control our trades, not the market. We cannot be in control of the market. We must let the market tell us what to do.
11. If your system is back-tested and profitable, then your only job is to execute it properly.
12. Trade for profits over time and let the system pay you.

Psychological Keys to Success

Mass Psychology Moves the Market: Life is 90% mental and 10% physical. The round of golf I just completed was a great reminder. Financial markets are the same, driven totally by human emotion. To be a successful trader, it is necessary to have a fundamental understanding that mass psychology of fear and greed are the biggest single factor you must understand if you expect to trade profitably on a consistent basis. This emotional and psychological ingredient has absolutely nothing to do with the state of the economy, but it does have an overwhelming affect on the movement of the market.

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The first rule is that rumors are the prime movers of the market. You must realize how quickly speculation of upcoming events can change the character of the current trend. Just the mention of inflation causes investors to rush for the exits in order to dump their holdings. This fear causes a general market decline long before the economy changes. The market anticipates the movement of the economy and shows us in advance what we can expect with regard to corporate health, unemployment, interest rates and other financial trends. A crash in the market is usually psychological, not economic.

You must understand the changes produced by emotional factors in order to understand the broader, more technical movements in the market. The key is to avoid the impulse to buy at the top just because the market is up. Learn to trade on your own terms, not the market's terms.

1. Learn to accept losses as business expenses and let your approach prove your theories.
2. Don't trade for the money, trade for positive execution of your positively biased system.
3. Concentrate on and maintain your performance statistics.
4. Market Open => Trade! Market Closed => Analysis.
5. Always be in the market so you do not miss the big move.
6. Cash flow management is the key to profits, not adding more complex indicators.
    a. Pyramid positions to maximize leverage on open equity positions when you get a continuation signal such as a hidden divergence.
    b. Accumulated net profits should be used to open larger positions. Play with the market's money.
    c. Risk no more than 20% of accumulated profits on any one trade.
    d. If trading with your own money risk no more than one or two contracts at a time.
7. Trade multiple systems in multiple markets **only** after you have mastered one market and one system.
8. The right system means no surprises. **Know your rules and trust your rules**.

How to Become a Master Trader

1. Do you really want to trade?
2. Why? Examine your motives: Excitement, freedom, recognition or money? Hint: The only right answer is to make money.
3. You must match your trading method to your personality.
4. You must have an edge: If you don't know what it is then you don't have one.
5. Derive a method: The method is not important, but you must have one. This course shows you how we derived our trading method.
6. Developing a method is hard work: Keep at it and back-test extensively.
7. Skill versus hard work. Anyone can learn to be profitable, develop your talents to become a super trader.
8. Good trading is effortless: Preparation is hard work. Actual trading your system should look and be easy.
9. Money management and risk control are more important than method. Risk less than 2% on each trade and predetermine your exit **before** entering.
10. The Trading Plan is a combination of trading method with money management and trade entry/exit rules.
11. You must have total self discipline and follow your Trading Plan. This helps you with risk control and avoids second guessing and choosing which signals to take. Take them all until you change your system.

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12. You must be brutally honest and know that you are responsible for your own results.
13. Be independent: Think for yourself. Use no services, chat rooms or advisories during trading. Just use your trading system. Gather information after trading hours.
14. Confidence: Have unwavering confidence in winning. Visualize executing your Trading Plan before you ever start trading.
15. Losing is part of the game, just minimize the losses.
16. Timeouts: When you are not confident or out of synch, go play golf, swim, or run. Play until you are de-stressed and ready to focus on your Trading Plan.
17. Seeking advice, reviewing other systems or testing new ones, means you lack confidence in your Trading Plan. Do the due diligence on your own system again and prove to yourself that it works, or dump it.
18. Be patient: Do not be over eager to trade or to win back losses.
19. The importance of sitting tight on winners cannot be overemphasized. The saying "You can't go broke taking a winner." is in fact a losing strategy.
20. Build up a history of winning trades then days, then weeks, then months of consistent success.
21. Develop a **low risk idea** that will require you to have patience and exercise risk control.
22. Varying your bet size can dramatically increase your profitability. When you have a sure thing, increase the bet size and then lock in profits as the trade develops.
23. Scaling in and out of trades can increase your profits and decrease your losses if done properly. For Day Trading, we use and **"all in"** and **"all out"** approach due to the short time frames used.
24. Making money is more important than being a genius. Don't worry about tops and bottoms, worry about profits on every trade.
25. Don't worry about looking stupid and don't talk about your trading approach to anyone ever!!!!! This tends to dissipate your energy and focus.
26. Action is more important than prudence: If the trend is rolling, just get in! Catching part of the move is okay. Pull out partial profits so you feel like a winner, and don't give it all back.
27. Maximize gains, not the number of wins: Watch your equity curve go up.
28. Learn to be disloyal: Loyalty is a fatal flaw of a trader. You can switch immediately. Hope is a four letter word. As Larry Williams says, "Hope is for dopes and spinners are winners".
29. You can't win if you have to win: Scared money never wins.
30. The markets are an expensive place for excitement, recognition, or other motivation..
31. The six keys to achievement: Motivation, SpecificGoals, Planning, Being in the Now, Discipline, and a System for Measuring Progress.
32. Prices are non-random! The markets can be beaten when you have a positive expectancy based system that you have confidence in.
33. There is more to life than trading! Have some fun. Take a vacation with the family.

Markets, Systems and Time Frames

1. Adjust your trading time frame and match it to the market personality at the time.
2. Three types of markets:
    a. Trending: Always check different time frames to confirm the longer term trend.
    b. Volatile: Buy breakouts and use a volatility expansion system.
    c. Directionless Market: Use Stochastic and play the swings.
3. Trend following is necessary to never miss a big move.

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4. Always be in short or long, and always have a limit order to get in when the market is consolidating so do not miss the move.
5. Set stops that are not hit more than 10% of the time.

Is it a Business or a Hobby?

1. Treat you're trading like a business and it will totally change your perspective on how you trade.
2. Having revenue goals, overhead controls and calculating return on time and money invested will quickly help you focus on only the important issues.
3. Here is a simple income and expense statement to help you organize your business.

Gross Revenue	**Gross Wins minus Gross Losses**
- Variable Costs	Commissions and Slippage
=Contribution Margin	What many people call their profit
-Fixed Expenses	Cost of data, computers, office, books, seminars, services
-Your Salary	The equivalent salary you could earn outside trading
-Your Benefits	Include medical, vacation and retirement
= Net Operating Profit	This is your pre-tax profit
-Taxes	There are many tax benefits for trader status
Net Profit	**Is this an income you will be happy with and that will make your trading worth the time and effort?**

4. If the bottom line does not or has not added up to a positive number, you have a hobby and not a business. Focusing on a true bottom line will let you know why so few traders are profitable. Almost all traders tend to forget the overhead.

Trade Philosophy

1. Day trading the e-Mini is the focus of this program. If you choose to swing trade, the signals will just not come as fast, and the margins will be higher because you are holding positions overnight with much higher risk. In our approach, ***you are in cash every night.***
2. Choose your time frame. Our choice is a 74 Tick and 210 Tick charts side by side. We also suggest that you use a longer term chart 5-13 minute (550 or 987 tick) chart minimized to see longer trends, support and resistance and Pesavento Patterns.
3. If you do not have tick charts you can use 1, 2, 3, 5 and 8 minute charts
4. As you win consistently, trade more contracts. Multiple small contracts allow you to scale in and out more effectively than trading full size S&P contracts..
5. As you lose, trade fewer contracts until you win consistently again.

Probability of Success

The probability of your success in any particular trade or series of trades is dependent on how you use your charting program and technical indicators.

Understanding what your indicators are telling you is another key point. Study the formulas and compare the differences between CCI and a Stochastic indicator of the same length. Look at them visually as well as mathematically. Visually look at the differences between a

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normal, exponential, smoothed and weighted indicator. Study until you know what each indicator is telling you. *Refer to the CD and the Charts section for comparisons.*

Indicators are derivatives or second tiered smoothing of price action. Inherently all indicators are lagging in one way or another. It is just important to understand how they relate to price, potential future movement of price and how they are affected by past price spikes.

We now tend to trade by watching only our indicators. Watching price only, you can become hypnotized by the noise and miss the real moves. There is a section on the CD that shows you how five different MACD's move with price and how we trade them. RSI, CCI and Stochastic indicator comparisons are also on the CD and in the charts in Appendix F.

We consider the following four points whenever we are about to make a trade..

1. **The number of indicators moving or about to move in your direction.**
2. **The angle and rate of change of these indicators.**
3. **The position of the indicators above or below 50% or the 20/80% level for oscillators.**
4. **The likelihood of continuation based on approaching Support and Resistance, length of previous move and the time of day.**

Trading Within Your Comfort Zone

1. Entries can be made on limit or market orders. Limit orders often lead to missing a long run. **We prefer to use only market orders for both entry and exits.** Because of the high liquidity of the e-Mini, you can expect normal slippage of only a quarter of a point in and out with market orders.
2. Until you have total confidence in your signals and your ability to execute them without second guessing yourself, you should use limit orders and stops. Know that Stops and Limit Orders become market orders once the price is hit.
3. Observe what is happening, not why something is happening in the market.
4. Buy and sell in price areas and time periods. The markets have memory and so do the floor traders. Use this knowledge as one of your advantages.
5. When starting out, get in and get out all at once.
6. Remember: YOU ONLY MAKE MONEY WHEN YOU TAKE A PROFIT!
7. There is always another opportunity to trade. Don't overtrade just to trade. The markets move continually, so better trades are always ahead.
8. A large loss is 33% of margin, and a very large loss is 50% of margin. If you take two large losses in a row, quit for the day. You are out of synch with the markets.
9. Trade only in the direction of the major trend and have at least two or more indicators in moving in your favor. This will help you avoid the tendency to pick tops and bottoms.
10. When your account profits from the market double your account, it is okay to risk up to 20% of that profit in larger positions.

Sample Revenue Plan

The goal is to take only the high probability trades outlined in this program. Remember, you must take all signals and avoid cherry picking or your statistical advantage will not work for you. Remember that you cannot predict the future 100% of the time and you never know when the big move will occur.

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This scenario assumes that you are day trading the e-Mini with a $500 dollar margin per contract. You set stops at a maximum of 1.5 points loss cut and have commissions and slippage of $30-$50 per round turn per contract. Let's assume that you trade two contracts for a two point gain and make four trades per day.. Your gross gain is $1200 per day. Commissions are $40 and Slippage $400. Your gross profit is $760 per day and monthly is

With a scenario of $800 per day a gross gain of $14,000 and losses of $2,000 due to commission, slippage and losing trades on an average of 3 trades per day for 20 days per month is $15,200, assuming you trade every day to reach this gross profit level. If you have losing days, which you most likely will, then these numbers will be significantly reduced. Lets say by 33% to a gross of $10,000 per month.

Month	Start	Gross Profit	Expense	Net Value	# Contracts	Points/Day
1	$10,000	$10,000	-$4,000	$16,000	2	8
2	$16,000	$14,000	-$8,000	$22,000	3	10
3	$22,000	$20,000	-$10,000	$32,000	4	10
End 3	$32,000	Remove Equity	-$10,000	$22,000	Covers Past Investment	
4	$22,000	$20,000	-$10,000	$32,000	4	10

We encourage you to work out the math based on your own trading experience, win-loss ratios, and average points won per trade. See what your trading method will require in order to meet these goals. We hit lots of "singles" and a few "doubles". A "10 x Home Run" is rare.

Withdrawals should cover expenses for all data feeds, software, hardware and software as well as living expenses. Removing initial equity as soon as possible allows you to play only with the market's money. This will also often pay for your learning expenses and capital outlays. Your next equity withdrawal should cover all other capital costs. From that point on you are playing with the market's money.

We suggest you work out your own Trading Plan and limit the number of trades per day. This will force you to look for the highest probability trades. Once in a good trade, your profits may run substantially. **The goal is to trade in and out during the day, hoping to find the trade that will run.** Use the expectancy formula outlined later and work out your own profit scenarios.

If you meet or exceed your daily goal and are ahead for the week, we recommend that you stop for the day. Otherwise greed may cloud your judgment as you begin to feel omnipotent and lose big.

Designing Your Trading System

Before You Start

Emotion: Mechanical systems do not have emotion or intuition, which can be both an advantage and a penalty. **If you can't pull the trigger when you see the ideal setup then you are watching fear or greed manifesting itself**. Having a mechanical system helps eliminate those emotions, UNLESS you try to override that system because you don't trust it!

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One important thing to remember about mechanical systems is that they are really just discretionary systems that have been computerized. You are relying on the developer totally without any knowledge of how and why the mechanical system works.

If you want to design a trading system, then **every** rule or reason for entering and exiting a trade must be defined by mathematics and then it must be automated. In our opinion, writing a computer program is futile because there are too many variables. We tried and failed. Your "*Automation*" can be your ability to "*Pull the Trigger*" on every high probability signal!

Complexity: The second principle is the KISS approach (Keep It Simple Smarty). We all try to make our trading system too complex. If you cannot remember all the rules, and immediately recognize the reason for the signal, the system is too complex.

Use a maximum of five indicators and a maximum of four rules that you can immediately act on without hesitation. Having patience for setups of high probability trades is one of the secrets of success.

If you cannot write down or verbalize every rule from memory, then discard it as too complex. If the rule is loaded with "ifs" and "buts" have some candy and nuts and stop trading until you get specific rules in place.

Do It Yourself: Everyone has different risk tolerances, capital, time, and experience. Trying to "kludge together" a system is a formula for disaster. We studied all the indicators, and reviewed all the different parameters used by others to come up with our own system. We started with too many indicators and continue to drop unnecessary indicators as we become more confident.

Back Test: A successful system is one that holds its own with minor losses offset by minor gains, and puts the occasional *great* trades in the bank. You want a trading system that thrives in the market conditions it is designed for, and survives in all others. Not every day will profitable. There is no Holy Grail except the Holy Grail of Self Discipline!!

Optimization: Our recommendation: Don't optimize. Almost all indicators can be manipulated to give you any result you want. In the charts section you will see comparisons of five different MACD settings as well as comparisons of simple versus exponential, smoothed, and weighted MACDs with the same settings. We run daily tests of our general system to see how it has worked in up, down and congested markets.

Our approach is to slug it out for singles and the occasional double. Our system is not designed to hit home runs. Rather it is designed to make consistent money with as small a risk potential as possible. The average move all day in the market is 3.1 points before a reversal, so playing these swings requires that you take only high probability trades and be in the market for the big win.

Specific Guidance

1. Pick a market type to trade: Trending, Volatile, or Trading Range. All are different and no one system will work in all market types.
2. Chose a time frame and then pick time frames that are 3-5 times shorter and longer. Make sure that your system works in both higher and lower time frames.
3. Pick 4-5 indicators that work consistently in these time frames.

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4. Identify the signals that show a change in market type.
5. Write down the rules for your system. Test and adjust (do not over optimize) indicator parameters.
6. Design and write down the money management system for use with your trading system.
7. Test the system in dry runs, then trade with minimal capital exposure and keep meticulous records on all traded signals.
8. Modify your system as necessary to achieve money making results.

Trading Plan Development

1. Do a self assessment as a trader first and honestly answer the following questions:
    a. What time will you devote daily to trading?
    b. How will you keep distractions will be kept to a minimum during trading?
    c. How much time will you devote to system development and testing daily?
    d. How will you enhance your computer skills and software platform?
    e. How will you increase your market knowledge at night before you trade?
    f. What are your current strengths and how will you enhance them?
    g. What are your current weaknesses and how will you overcome them?
    h. Do you get compulsive, scared, frustrated, or are you calm, cool and collected?
    i. Can you pull the trigger when you see a signal? Do you hesitate or anticipate?
    j. Will you take time to keep a trading log and be objective in analysis?
    k. Can you take time off and walk away or are you addicted to trading?
    l. What is your edge and why will it help you in the market?
2. Trading Plan Objectives
    a. What set of indicators will give you an edge in the market?
    b. What is your win loss percentage and your reward to risk ratio?
    c. How large an account will you trade and can you afford to lose it all?
    d. What is the minimum per month you need to make this worthwhile?
    e. What is the maximum potential loss? Can you go through 10 straight losses if necessary and still have capital available to continue trading?
    f. Can you work for yourself and maintain your self discipline?
    g. How much do you expect to make this year, next year and beyond?
3. How will you trade the markets?
    a. What signals work best in liquid markets with your time frame?
    b. What are your money management stops? What are your disaster stops?
    c. When will you take profits?
    d. What trading size is set by equity at a 2% of total capital risk level?
    e. What type of market is most tradable with your indicator settings?
4. What rewards are you working toward?
    a. What is the ideal income you wish to develop?
    b. Have you accounted for taxes on your earnings?
    c. When will you take time off from trading?
    d. Have you accounted for time with your family?
    e. Do you have a hobby to de-stress?
    f. Do you have an exercise program?

Trading System Evaluation

1. To validate a system you need at least 50-75 trades in the test. You also need at least 50 ticks (overall market trades) in a bar to have a valid charting approach.

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2. What is the average profit per trade, the average loss and the percentage of wins and losses?
3. The largest winning trade should not exceed 50% of the gross profit or 25% of the net profit. Otherwise the random lucky trade factor will skew your system results.
4. What is the Expectancy Ratio of your approach? If it does not exceed 2 to 1 with a 50% probability factor, you will lose money due to variable and fixed costs.
5. If the winning percentage is less than 50% but makes money, can you psychologically trade it and take all the losses necessary to follow the system?
6. As Van K. Tharp, Mark Douglas, Bill Williams and the Market Wizards all say, you trade your beliefs about the market. What does this system expose about your trading mentality? Does your system lead to second guessing or confidence?
7. Compare your system to other types of investments. Which system has the best Internal Rate of Return with the least risk? You will need at least four times the return of a risk free investment (T-Bill rate) to make your system worth trading. This method is similar to how we rated venture capital allocation when we considered multiple deals.

Section One: Money Management and Risk Control

As stated in the introduction, a 1991 study (Brinson, Singer and Beebower) showed that over a 10 year period with 82 large pension funds that 91.5% of the returns were directly attributable to money management. Less than 10% of the return was attributed to timing.

Understanding Risk

To trade or not to trade, that is the question. Give yourself a chance to win big. However, conservative financial risk control should be the primary goal of all traders. Follow this method to limit your risk of washing out of the markets.

1. Trade the most liquid markets: T-Bonds, S&P, e-Mini or DAX. You have a 98% chance of being filled at your stop. You need at least 75-100 contracts and 50 or more trades executed in the time period you are trading to have a liquid market (the eMini averages 800,000 contracts traded per day).
2. The maximum draw down of your trading approach is extremely unreliable, since it only shows you how bad things have gotten in the past period tested. You still have no idea what will happen in the future. This is one reason that automated black-box systems' marketing materials are often deceptive.
3. Keep the risk to your equity at a fixed percentage of the account value; 1-3-5% is best. This way you could take from 20-100 losing trades and still be in the game.
4. The smaller the account the more you need to risk in order to cover slippage, commissions and trading errors. Seven percent of a $15,000 account would be $1,000 or 20 points on one e-Mini contract. We personally do not risk more than $300 on any one trade for this size account.
5. Check Fibonacci retracement levels for targets and potential retracements on all trades. These levels work both because so many traders use them and they are psychological levels where fear and greed operate.
6. Trade carefully around major support and resistance levels. We find that Pesavento Patterns available in Ensign Software will plot both Fibonacci and Support and Resistance automatically for you. You will see these indicators on most of our charts.
7. The market has "Strange Attractors" for even numbers (900, 1200, etc.) or long-term numbers (1172, 952, etc.). Search back in time on the daily charts to see where these

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levels have occurred in the recent past. These are often called "Points of Control" and occur wherever there are clusters of Fibonacci or Support and Resistance lines from past days, weeks and months.

8. Check Time of Day turning points. Lately the market has been turning on increments of 15 or 30 minutes for minor turns and on an hourly basis for major reversals.

Market Psychology of Highs and Lows

1. Every bar must make a high and low in every time frame.
2. Timing tricks: If a market is going to make a new high for the day, it will generally make the low of the day first. **A very high probability trade occurs where there is a failure to exceed the previous high/low of the day. The market will move to the opposite high or low 80% of the time.**
3. We highly recommend spending time reading about Candlestick patterns. Three bar price patterns will show the way to many trend changes.
4. Time frames are personal preference. You should base them on liquidity, draw down potential and your ability to act within that time frame.
5. **Recognize when a high or low is forming and when there are divergences in the indicators. Confirming divergences in both Stochastic and MACD indicators at the end of a long move are also high probability reversal trades, especially when you have confirmation in two time frames.**
6. Elliott Wave Patterns of 1-2-3-4-5 with a-b-c pullbacks are normal price patterns. Study this phenomenon and others like the Pesavento Patterns. **Psychologically, these points represent the maximum pain threshold for traders on the wrong side of a trade**.
7. The market often tests highs and lows twice before a break-through or a breakout.
8. Floor traders will penetrate Support and Resistance by one or two ticks to take out stops then reverse just as everyone else jumps in. Waiting for the second breakout and an indicator divergence before getting in will often yield the highest probability trade.

Four Laws of Risk Management

1. Preserve your capital. Do this by risking no more than 1%-5% maximum of your capital.
2. Be in the market to catch the big move with stops.
3. Stops are not money management; they are for capital and profit preservation only.
4. Money Management calls for increasing your bet size when you win and decrease it when you lose. Learn to size your position with how much money or how many contracts.

Money Management Systems Rules

1. Limit your losses to 2% of equity in any day, 5% in any week, and 10% in any month. **Stop trading for a day, week or month if you exceed these losses. Something is wrong**.
2. Use real stops until you have absolute control of your ability to exit a losing trade.
3. Don't get paranoid. Let the trade develop, getting out too soon on the first minor retracement before the big run will be more frustrating that taking a small loss.
4. ***Never, Never, Never add to a losing position.*** You can always add to a winning position.
5. If you make a mistake, exit immediately. No one is perfect!
6. Follow your system, or don't trade. Reconfirm your system after market hours; do not question it during trading. If you must rethink your system during market hours or you just lose touch with the market or feel out of synch, **STOP TRADING** for the day!

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7. As you make money, increase your trades. As you lose decrease trade size.
8. Do not trade thin markets that are subject to limit up or limit down risks.
9. Take only acceptable risks for your financial position.

Money Management Models

You have several choices on how to allocate your funds and provide the maximum hedge against "busting out" or losing all your capital.

1. Core Method uses a percentage of available uncommitted equity on each position
2. Total Equity Method uses a percentage of your total equity for each trade.
3. Reduced Total Equity Method is a combination of methods one and two. You start with method one and add back any profits that are locked in with a stop. Raising your stop locks in more profit, thus the ability to risk more.

Total Equity Money Management Model

We use the total equity risk method. Again we are confident in our winning percentage and our reward to risk ratio. It may not be right for you or your trading style, so be sure to do careful analysis and research before committing your capital.

1. Figure your percentage correct for your trading method (40%-60%).
2. Use a reward-to-risk ratio of at least 2.5 to 1.
3. Figure your risk percentage of equity. For your own account consider 2-3% per trade.
4. If stops are tight, then you need to risk less due to the whipsaw effect of more losers.
5. If your expectancy percentage is closer to 60% and reward to risk level is 3 or greater an equity risk of 3-5% per trade is acceptable.
6. Never add to a losing position. **If you made a mistake, Exit Immediately**.

Kelly Money Management

The exact amount to risk on a trade is the big question in all money management systems. Risking too little and your money won't grow. Risking too much and the draw-down will put you out of business. In between too little and too much risk is an area where capital growth will grow to its maximum potential.

The original Kelly Formula was developed back in 1956 to solve a problem involving random interference on telephone lines. What Kelly discovered was a method of increasing data flow while reducing random information loss.

The major problem with the Kelly formula is draw-down. If you have a system that is right 60% of the time, you could still be wrong 10 or even 15 times in a row sometime during the lifetime of your trading career. Risking too high a percentage would be disastrous. The Kelly formula implies that unless your draw-down is less than 25%, never risk more than 25% of you equity. Here is how it works.

1. Determine the margin requirement, and then add the largest draw down for your system. You should take only one contract per that total.
2. This is the Optimal Geometric Growth Formula for your account.
3. Theoretically, you will never get wiped out if you follow the rules.
4. Your bankroll will grow faster than anyone else's.
5. This approach gets you to your goal the fastest.
6. Odds are defined as the accuracy of the trading system.

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7. Probability is the outcome based on the frequency of the occurrence.
8. **If you are not trading for optimal profits, you should be in another business!**
9. Assume your worst loss has not yet occurred!
10. The Kelly Criterion is much easier to use than "Optimal F" or "Optimal Fixed Fraction".

Kelly Money Management Formula

Maximum Bet Size of Total Equity for Optimal Profits

Kelly % = Win % – [(1 – Win %)/Average Loss]
Example
K% = 0.5 – [(1 - 0.5)/2] = 0.25 or 25%

11. The best procedure when trading multiple contracts or multiple commodities is to take 80% of Kelly%, then divide that by the number of simultaneous trades to get the optimum bet size on any one trade.

Multiple Commodity Trading Suggestions

If you decide to trade more than one commodity, (not recommended for beginners), the following concepts will require at least a $25,000 trading account. You will probably not be day trading all these commodities on the same time frame. Be very sure of what you are doing before you attempt to diversify and do not attempt to day trade multiple markets.

The Futures Trading Secrets Training Course is focused on day trading the e-Mini S&P contract. Certain indicators will need to be tuned differently for these commodities.

If you want to make more money, it can be much more profitable to simply increase the number of contracts in the market that you are trading provided you have a six month positive track record. Why learn the dynamics of another market when you have just dialed one in? Remember that knowledge is power and understanding the market dynamics of just one can be extremely profitable.

1. If you insist on trading more than one market or commodity, spread your risk by trading several commodities provided they are **NOT** correlated.
2. Correlated commodities are those that move in the same or opposite directions.
    a. For example Gold and Bonds go up when the Stock Market goes down. These are anti-correlated commodities.
    b. You are not diversified if you trade all commodities from the same group.
    c. Corn and the e-Mini are not correlated. Trading these two markets will give you diversification.
3. Here is one way to diversify. There are many variations on how to go about making your trading a businesslike venture; this is simply one good way. Assuming a twenty five thousand dollar account (or multiples thereof), divide market groups into five sectors and assign 20% of your equity to each sector.
    a. The Stock Index group - (allocate approximately 25% of equity, basis margin) - Dow, S & P or NASDAQ.
    b. The "Anti"- Dollar group - (about 25% of equity) – Swiss Franc, Yen, Gold and Silver.

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   c. The Industrial and Interest Rate group - (about 20% of equity) - Bonds and Eurodollars.
   d. Petroleum complex (crude, heating oil, unleaded) and Copper (about 10% of equity).
   e. The Food group - (about 20% of equity) - Corn, Wheat, Bean Complex (beans, meal and bean oil), Sugar and Cocoa.
4. Balance contract sizes in each market so they are equal in dollar size and risk.
   a. 2 Corn = 1 Soy Bean; 2 Soy Bean Oil = 1 Soy Bean Meal, etc.
   b. You want to balance position size so price movements in each will contribute roughly the same amount to the total account.
5. Make the base number traded small enough so you can hit the trade at least three different times, either scaled in and out or for partial profits or added profits with the extra contracts.
6. Always maintain a core position in the commodity whenever the system is showing a strong trend. This makes the most money because the odds are 2 to 1 in your favor for continued momentum in favor of your core holdings.
7. Play the extra contracts based on fear, greed, profit taking, etc. to increase ROI. This is the "art" part. Play the Elliot Wave 5 or the retracement off of a high or low.
8. If trading capital is limited, limit the market sections or the numbers of trades
9. This diversification should act as a hedge as long as the core holdings are always with true momentum. The sum of all markets will be less volatile than any individual market and lowers overall risk and also lowers your overall profit potential.

Designing a High Reward-Risk System for Managing Money

You can run any numbers you want for goal setting, but we suggest that you only use the statistics and results developed in your SimBroker first. This will give you a realistic evaluation of how you see the signals and pull the trigger.

1. Use the SimBroker to learn how to calculate your possible profit and expectancy ratios, including the costs of slippage, commissions, and time delays. The SimBroker provides fills with a quarter point slippage to simulate market conditions.
2. Back testing our trading charts using a 74 tick chart yielded as much as 54 points in just two hours. We experienced an 80% win percentage with only a 1 point draw down, and a 5.4 point average win on 10 trades.
3. We suggest you carefully review and study the following formula. It will provide you with the confidence to trade any system you develop or market you choose to trade.

The Expectancy Formula:

This formula is discussed in many places and extensively in Van K. Tharp's work. Here is how to use it to your advantage.

Expectancy = (Probability of Win * Average Win) – (Probability of Loss * Average Loss)

(P w * Ave w) – (Pl * Ave l) = Expectancy Ratio * # Trades * # Contracts * Value = $$$$

An Example of a winning system with an 80% winning percentage:

(80% *5.4) – (20% * 1) = 4.12 * 10 = 41.2 * 2 * $50 = $4,120 possible profit

Example of losing system with higher reward scenario:

(40% * 10) – (60% * 1) = 3.4. * 10 = 34 * 2 * $50 = $3,400 possible profit

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A more realistic system for the average trader:
(50% * 2.5) – (50% *1.5) = 1 *10 = 10 *2 *$50 = $1,000 possible profits.

How to Implement the Expectancy Formula

1. Identify an entry technique that gives highest possible Win %.
2. Set a stop loss to preserve capital.
3. Identify exit(s) designed to capture maximum profit. Support and Resistance are good targets, as are confluence of Fibonacci Retracements or Pesavento Pattern line prints.
4. Trade the maximum number of times in a time frame using your SimBroker to increase your odds of profitability. The more you test, the better the understanding of the system.
5. Test the system to find the optimum stops and position sizes, plus total potential risk.
6. Additional contracts should not be added unless your first position is profitable.
7. Position sizing should also depend on time of day and day of the week.

How to Produce Maximum Profits

1. Set up a system that will give you a 20% return with a 4% draw down or a 5/1 system
2. Then trade it as if the account were 5 times as large. This will give you a 100% return quickly!
3. We do not recommend this approach until you have a minimum of six months consistent and profitable trading to your credit.
4. The greatest danger all traders face is over confidence. We know many successful traders who have "busted out" several times. So caution is advised when ramping up.
5. **We experienced a draw down of 80% before we got smarter and changed our trading style! Always plan for the worst possible scenario.**

Play with the Market's Money

1. First, risk your normal amount on a trade 1-3% until you are substantially ahead.
2. Then, use an optimal amount of risk capital (discussed earlier) with the markets' money.
3. Once you have doubled your equity, take the profit off the table and into a secure low risk account.
4. From this point forward you are trading with your profits and the markets money. Do not get over confident at this point. Continue to follow the same approach. Change nothing.
5. If you "bust out", do not add additional capital to an account until you have discovered and resolved the issues that caused you to lose your capital!

Section Two: Mental Magic

The problem for most people who have traded for any period of time is that the losses they took learning to trade are a huge mental handicap to their future success. If you could erase memories of these losses from your subconscious and act on what you have learned since beginning a study program, trading would be much easier.

One of the most important concepts we have ever come across is the concept of "How We Learn New Skills". The second concept is "How to Repair Past Psychological Damage".

This section of the Futures Trading Secrets Course will cover many basic concepts of making that change. A specific plan will be covered at the end of this section. A specific plan will be

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covered at the end of this section, and a section on how to specifically identify and handle the four major psychological hang-ups all traders face.

How We Learn

Learning can be described as a four step process that will be covered here in a systematic approach. You can think of the process as a ladder and may want to invert the following explanations so you can visualize the process (stage 1 is the first step of the ladder).

1. **Stage One: You Don't Know What You Don't Know:**
    a. This applies to the beginning trader, the beginning driver, the baby learning to walk: anyone learning a new skill.
    b. Remember when you first thought about trading? Trading looked easy. Money should fall out of the market and into your pocket.
    c. Everyone everywhere was willing to sell you the "Road to Riches".
    d. Two things could have happened here.
        i. You got lucky on your first few trades and then can't repeat them because you had no idea how to duplicate that success.
        ii. Or, more likely, you began to lose and couldn't figure out why you were losing, but you were really good at duplicating the losses.
    e. You didn't know what you didn't know and your early failures planted the idea that you were a failure at trading. What you really needed to do was learn the basic rules of a good trading system and practice with a Simbroker rather than stop trading
2. **Stage Two: You Know That You Don't Know**
    a. After trying many things, "mud on the wall", mechanical systems, the "Search for the Holy Grail" begins. We spent close to $50,000 on systems, programs, books, and software in this search.
    b. This is also why you bought this course. Hoping to find the secret. You are frustrated and angry with yourself for not being able to trade to your potential.
    c. Many people look for a quick solution, a mechanical solution that will allow them easy profits without work. This is the path to ruin and busting out.
    d. You also begin second guessing yourself and begin to play mind games and totally lose any remaining self control.
    e. The solutions found in this program that will help you rebuild your confidence and your trading account are as follows:
        i. You must learn to do one thing well. Start with the basics. As Vince Lombardi used to say, "This is a football" to his seasoned pros, you must start by understanding what one single price bar is telling you about the past, present and future of the market.
        ii. You must understand the technical indicators and whether they are leading, lagging or cover volatility. Learn what the formulas are telling you, how they change and why and how major price spikes affect the indicator at a later time.
        iii. You must learn how to use different time frames to avoid bad trades and how to see multiple time frames on the same charts.
    f. You must become familiar with repetitive patterns and the probabilities associated with future price movement. Larry Pesavento's book, "Fibonacci Ratios and Price Patterns", is excellent.

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g. The biggest job in this learning phase is one of understanding your mental states and belief systems. They color all your trading decisions and are at least 50% of the cause of your successes and failures.
   i. Your first job is to clean out your mental closet and rid yourself of all preconceived ideas and prejudices.
   ii. Next learn how to heal old wounds and erase memories of past losses. These will be discussed under the Mental Timeline and NLP section of this program.
   iii. Realize that creating new habits normally takes only 21 days of repetition. There are no short cuts. So start now and focus on what you want. See Appendix A for a tracking log to assist you with changing your habits..
   iv. You must disassociate your desire for money from learning to trade well. Assume from the beginning that you are employed by a broker and that your only job is to follow your Trading Plan. This helps eliminate emotion from the equation.

h. Practice makes perfect, and perfect practice makes **money**! Start out by using a SimBroker. We recommend using the Demo feature on Ensign, then download previous day's data and speed up the replay so your entries become automatic. Finally, use the SimBroker against the real market in real time. When you reach a 70% correct trade level consistently, you are ready to risk your own money.

   When you have consistently followed your system every day for 21 trading days, kept a log of your trades, emotions, results, entry and exits and printed out charts both before and after the trades, you will have confidence and established the two most important trading skills. **Patience and Confidence**

3. Stage Three: You Know That You Know: The Money Begins to Flow

a. You will know that you have reached this stage simply by the fact that you are having fun and looking forward to the trading day: win, lose, or draw.
b. You will have confidence in your entry and exits and your money management strategies maximize profits.
c. You can explain to anyone why you took a trade and why you exited.
d. You will have the patience to wait for the highest probability setups.
e. You will no longer hope for a turnaround, but will exit immediately when a trade setup does not work.
f. You will have the ability to teach others your systematic approach if you wish.

4. Stage Four: You Don't Know That You Know: Unconscious Competence

a. Remember when learning how to drive was difficult and filled with fear? Now you simply get in the car and drive to your destination, while listening to the radio, eating a donut, drinking coffee, and talking on the cell phone all at once (please don't drive home this way).
b. Basically you are on autopilot. Your conscious and unconscious minds are in harmony. They trust each other and the actions are very intuitive based on your database of experience.
c. You can scope out any market in seconds and know whether to trade, stand aside, or be ready for the big opportunity.
d. You can effectively scalp against the trend and make money in both directions.
e. **Warning: This final learning state can lead to complacency, over leveraging, arrogance and not following your system.** ***This is the danger zone for successful traders.***

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5. **Repeating the Cycle of Learning.**
    a. You must constantly put yourself back into Stage One. Often the market will do that for you by doing something exactly the opposite of your high percentage trade.
    b. If you are looking to trade larger contracts, a different market, or use a different indicator or setup, you should immediately return to Stage Two.
    c. Be very cautious in this transition and make sure you spend the 21 days to re-anchor the new system and habits into your subconscious mind.
    d. Do not try to become perfect. Losses will still be there. You do not need to make every possible trade to be a successful (**profitable**) trader. You do not even have to be right 50% of the time to make money (see the section on money management).

Goals and Attitudes

Here are some very key ideas on Goals and Attitudes. We spent twenty years in the sales and motivational field and have compiled this list from our experience with thousands of goal seekers, entrepreneurs and now, traders.

We offer personalized consulting services in this area if you find yours self stuck or just need a boost to "Get Off Your Assets" and get going, **call us to discuss how we can help you. 760.931.5435**

1. Move toward your goals and away from bad habits.
2. Know what you want emotionally, and then rearrange your values to be in tune with those goals and prioritize them in order of importance of each goal.
3. Ten Emotional States of Success are: Security, Comfort, Adventure, Passion, Love, Intimacy, Power, Freedom, Success, and Health. How do you feel about yourself in each category?
4. Eight Emotional States of Failure are: Fear, Guilt, Rejection, Loneliness, Embarrassment, Anger, Poverty, and Perfectionism. How many of these states do you need to correct and eliminate. The reduction or elimination of these states is necessary to improve your trading.
5. Stress is your friend if it leads to excitement and correct action.
6. Self talk determines your true emotional state. Do you beat yourself up after a bad trade or congratulate yourself on your success? NLP approaches using the Swish Pattern can work well in fixing problems of negative self-talk.
7. **Causes of Fear: Inaction is a precursor to fear.** If you cannot act, you have no faith in the system you have tested, or you are a perfectionist with the need to be right before you start.
8. **The Cure for Inaction** is as follows: Write down where you will be in 5 and 10 years if you let your fears win and if you don't take action. Another excellent technique is to go forward on your Timeline ten years and look back at all the lost opportunity if you do not move forward. Fear is momentary, regret lasts for a lifetime.
9. Rid yourself of images of disaster and lack; replace them with abundance, fun, happiness and wealth. For most this will be the most difficult task you attempt. Call us for assistance if the following techniques are not effective for you.
10. Before you take a trade, look for reasons NOT to take the trade. The mind often sees patterns where none exist (think of the people who see Elvis in a potato)

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11. After you are in a trade, look only for reasons to get out or reverse. Print out a chart and annotate the reasons and your feelings for both getting in and getting out. Did you follow your system and if not why not?
12. Update your trade log and equity chart. Then recalculate your averages when you follow your system and see how not following your trading system severely changes your averages. See Appendix A and the spreadsheet trading log for details.

Trading Visualizations and Affirmations

1. Visualize your trades like golf shots: Remember that even the pros only hit the greens in regulation about 70% of the time.
2. Your conscious and subconscious minds must be in agreement. If you "Freeze", you are not in synch with the market and you do not completely trust your Trading Plan.
3. You must believe in your trading methodology and follow it in order for your affirmations and visualizations to work.
4. Affirmations that are positive, present tense and emotional will precondition your mind to being successful. You must work out how to achieve each and prove to yourself, through back testing or a SimBroker, that you can achieve them. Here are some examples:
    a. I am a profitable, professional trader.
    b. I easily earn $1,000 per day in the markets, and often much more.
    c. I have a 3 to 1 expectancy ratio and an 80% accuracy record.
    d. I act on all the signals of my methodology because I never know when a massive move in my favor will occur.
    e. I cannot lose in a positive expectancy and probability based system.
    f. I set stops at my risk level and act on them immediately so that I never have to worry about being washed out of the markets.
    g. Each trade I make is only one of thousands that I will make. No single trade will make or break me.
    h. I am having fun at this game. It is my greatest secret how easy it is to trade well.
    i. I use money management to maximize profit and minimize losses on every trade.
    j. I let my profits run to targets and I cut all losses short.
    k. It is not necessary to be right all the time only to make money consistently.
    l. I maintain a log of every trade to review how well my Trading Plan worked.
5. After trading, I exercise and eat a healthy meal in order to improve my physical health.
6. Thoughts = Feelings = Performance
   Positive Expectancy = Calm Trading =$$$$$ Ka Ching! $$$$$$
7. Practice Ki Breathing, Yoga, or some type of meditation to get in synch with the market and have some type of instrumental music in the background (never CNBC).
8. Proceed with focused effort for less effort! No distractions. No phone calls, no chat rooms, no instant messaging. Focus only on the price and on your Trading Plan.
9. Focused practice leads to focused and profitable performance
10. Winning is the Path of Least Resistance. Trade in the Zone. Flow with the market.

Zen and the Markets

Here are a few Zen sayings that can help you relax and have fun. We lived in Hawaii and Asia for many years and found that experience both exhilarating and very calming. We hope you enjoy the thoughts and wisdom expressed here.

1. I trade therefore I am.

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2. We do not see things as they are but as WE are.
3. To find yourself, you must lose your "self".
4. No fear, trust the process. Use effortless effort.
5. The greatest warrior is the one who conquers himself
6. When I eat, I eat, when I sleep, I sleep, ***When I Trade, I Trade***
7. Meditation eliminates the Ego.
8. The ideal action is one that leaves not a split second between the urge to act and the act itself.
9. A path with no obstacles leads nowhere.
10. Expect nothing, Be prepared for everything.
11. No battle was ever won with pessimism.
12. Those who know don't talk, and those who talk don't know.

Our Personal Approach to Focusing

We have used the following techniques to de-stress and focus our minds on many tasks

A. Zen or Ki-breathing and meditation to release the hold of the ego before trading. This technique is one where you simply concentrate on the inflow and outflow of the breath. Breathe in through your nose and out through your mouth. Try to bring all your breath to one concentrated point in your lower abdomen. Hold it there then breathe out and hold when all excess air is exhaled. As you breathe, let the random thoughts come and go, but concentrate on the in and out of your breath. A useful visualization to use with this breathing technique is for you to feel as though you are inhaling the universe and exhaling it back into existence. Ten to thirty minutes is optimum.

B. Visualization of the energy and flow of the markets can be likened to watching the ocean. You have the Tide (Major Trend) the Waves (Higher Highs and Higher Lows as the tide comes in) and the Ripples (small retracements before the next wave). Cross currents and consolidations can appear as opposing winds or a stream running into the ocean. (*When I learned to body surf, there were many frustrating moments (catching the wave late and going "over the falls", missing the wave and getting exhausted in the chop.)* But the good news: once you learn to catch the wave (trend in your time frame) you never forget. Visualize setups for your trading and how you will execute your trading system in a trend day, a choppy day, or a consolidation and a reversal day.

C. Positive Affirmations before and after a trading day. Do not do them during trading hours because they become distracting and you lose focus on the task at hand. We do tend to keep music on in the background during our trading time. Our personal choices are all instrumentals. We have used Kitaro, Chuck Mangione, Andreas Vollenweider, Earl Klugh, David Benoit, 3rd Force, Acoustic Alchemy and many other great soft jazz or electronic musicians. They seem to have a calming effect for us. You may choose classical or something else. Music is the key to calm action.

D. The most important part of post trading activity is to get away immediately after you review the trading day. We know many traders who are runners, swimmers and athletes, who, like us go from a total mental environment to a totally physical one. Painting, hiking, music, sculpture, surfing, skiing, fishing, and golf are all good outlets and we rotate among most of them. Or, you can work on one of your hobbies, spend time with

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the family, or go fishing. Anything to distance yourself from the markets and have some quality time away from trading. No matter the outcome of the day, leave it and relax.

Finding Your Personal Trading Approach

1. The Approach: The past is knowable, the present is observable, and the future is intelligently guessable. The future is more than random. Futures are not complicated: You simply bet on the future direction of constantly moving numbers and the markets are just different names for different number sets that follow the laws of physics, momentum and supply and demand.

2. Treat trading like a business, but play it like a game. Remember that you trade against the wealthiest and most knowledgeable players in the world. You cannot compete against them in terms of information, speed, knowledge or staying power. You must find a way to put the odds in your favor.

3. Compare trading to a pickup basketball game at the park. There are all kinds of players with all kinds of game. Grade school kids, high school, college, and professionals. One thing is for sure, you will not steal the ball (call the top or bottom of a market) from the pros. In this basket ballgame the most important thing is to protect the ball (your equity) and get in on the fast breaks (trends) when they develop.

4. Learn to change the trading game so you can compete and learn to play well. Focus on the "What" versus "Why" and learn to see what is happening, not why it is happening. **Looking versus Thinking, Observing versus Analyzing**. Observe momentum, rates of change, highs, lows, fast and slow acceleration and volume spikes. Then trade based on the probability of continuation or reversal.

5. Don't waste time on fundamental analysis at this level. It is a waste of time, except around government reports. For short term trading nearly all supply and demand is useless and in the price already. Assume everyone knows everything before you know it.

6. Analysis is based on our need for validation and control and our need to be right. What you do is reality, not what you think about doing.. Analyzing doesn't count. It is what you do with the information, and how you act on that information.

7. Identify your time style**: *Short Term* or Long Term** and how you interpret momentum and rhythm. Do you ***Anticipate* or React?** If you anticipate, you will get better entries and exits, but this style leads to more losers because it is more aggressive. If you react you will have more late entries and exits and lower profits. It is more conservative but also more frustrating because of the money you leave on the table.

   We designed the Futures Trading Program to give you both leading and lagging signals so that you can solve either style of trading. Our "1-2-3 Go" will give you early warning, a setup signal and a confirmation signal for the highest probability trade possible.

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Neuro Linguistic Programming (NLP)

Basic Description

Developed in the 1970's by Richard Bandler a computer programmer, and John Grinder, a linguist, Neuro Linguistic Programming (NLP) has been widely used by many traders.

NLP is the art and science of modeling excellence and is derived from studying how top people in different fields obtain their outstanding results. NLP is mentioned often in books such as "Market Wizards" and the "New Market Wizards" by Jack Schwager as one of the key elements in mental discipline used by top traders.

While we are not NLP practioners, we have had over 30 years of experience in leadership positions, personal development and motivational fields and have found NLP to be an extremely practical and useful tool. We highly recommend reading the books on NLP mentioned in the bibliography in Appendix G.

NLP is a practical set of models, skills and techniques for thinking and acting effectively. We have found it extremely useful in our trading and our thinking. NLP helped us resolve past issues that sabotaged out trading for many years. If there is one section that is more important than any other in this course, this is it.

The exercises outlined here can be more fully explored in the books mentioned in the Appendix G. We encourage you to learn and practice them all. The Timeline and Swish Patterns are extremely useful as well as the process of using separate modalities to transform and eliminate negative trading experiences. Finally, we will give specific exercises to anchor correct trading patterns using a SimBroker while observing the active market in real time.

Basic Techniques

1. How to eliminate bad images and experiences
    a. The first step is to unlink your feelings from the bad experiences. This process releases negative emotions and energy from those negative experiences
    b. Next, you will link great feelings to bad experiences in order to change your feelings about the negative outcomes.
2. How to use different modalities to modify images and memories
    a. A modality is the size, color, sound, feel, smell, or any other emotional and sensory experience you have that is associated with the behavior you want to change. So start by remembering the negative image. Play it as a movie.
    b. The next step is to change any modality (size, color, sound, feel, smell, etc) from more intense to less intense. An example is to play a movie of the negative experience that you now see in slow motion and full color, with sound and on a large mental screen into one that gets smaller, turns to black and white, loses sound and just disappears from view.
    c. Or if your movie does not completely disappear, you can play movies backwards or play funny music over them.
    d. A personal favorite is to change a negative movie into a "Keystone Cops" film and have a good laugh at all the crazy things you see.

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   e. If you have trouble visualizing, put the picture or sound on your desk and think of it as a bug. Smash it with a book (hopefully not this one). When it stops wiggling put it in the trash and empty the trash.
3. The NLP principal is that you like the old picture and it has "pay value" for some reason.
   a. With respect to your image, Bandler says that "Someone else is driving your bus and you are chained to the back seat". You need to get up and drive the bus (your life) yourself.
   b. The old experience controls you, so get rid of it. Imagine saving a new computer file over an old file using the same file name. One interesting effect is that you can never again get the old file or image back without recreating it totally from scratch. **Caution: use this technique only on Negative Images and Memories. Using it on a positive memory will permanently change that as well.**
   c. Another important principle is that you have a photographic memory of the negative act. To change it, put the image in Photoshop and change it to a positive image, then save the new image over the old one using the same file name.
   d. The other thing about your perfect memory is that you learned that negative action perfectly and instantly, and you continue to repeat it perfectly every time. You have developed a **Negative Anchor** that triggers this behavior. To fix the problem, all you need to do is create a **Positive Anchor** as a replacement.

Modeling Success

1. Setting up a new **Success Model** to work from is like adding new software for your mind.
   a. You don't have to know how a car works to drive one, so don't worry about why or how this works. Just know that it does. A few quick tests and you will believe.
   b. In order to break negative anchors, you will need to re-anchor a positive experience in its place. This is much easier than you might think; since the mind cannot tell the difference between a real and an imagined experience (the brain wave patterns are identical). All you need to do is imagine the right behavior at the right time and reset the anchor that caused you to take the bad trade. One great approach is to play back the trade on the SimBroker on Ensign and take the right action. Be sure to see the profit appear rather than the loss and Anchor the Positive feeling with the positive emotions of your **Positive Anchor**.
   c. Use this systematic approach to become a model of success using visualization for your goal setting process. A complete description of this process is described in the Magic Mirror Method later in this section.
      i. First, study what successful traders are like and then think about how you would BE and FEEL if you were totally successful as a trader too.
      ii. Ask yourself or research what successful traders DO and copy those key behaviors that lead to consistently successful trades.
      iii. Because you now DO what successful traders DO. You will then BE successful and HAVE the things they HAVE.
2. How to find the modalities that work for you and how to begin changing today.
   a. Start with a positive experience and get a very clear picture of it in your mind.
   b. Once the brain has set the initial conditions begin to identify what makes the experience positive and pleasurable. Is it color, size, sound, movement, etc.?
   c. Adjust light, color, speed, depth, focus, contrast, aspect ratio, transparency, movement, distance, depth, and size and observe how the feelings change about the experience with each change in modality.

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d. Notice what modalities are strongest and are most effective in changing the experience. Make sure you keep the best of the best and discover what works for you. Some people respond to color, some to sound, and some to feelings.
e. Anchor this positive feeling of success using all your strongest modalities.
f. Create a **coded image** that will become your **anchor for success**. Some people touch their hand, arm or leg to get a physical sense of a **Positive Anchor**. Others will use a symbol or sound.

Eliminating Negative Trading Habits

1. Using the NLP Principle of Transference works to eliminate bad memories.
   a. Caution: use this technique only on Negative Images and Memories. Using it on a positive memory will permanently change them as well.
   b. You only carry memories forward if you want to. You have to recreate them every day. So flush the junk and keep the good stuff.
   c. Play the original negative scene, and then play it again with a new modality or in a new timeline order. You are assembling the image in a different order.
   d. Each replay will change how you feel, because the whole memory has changed.
   e. Running things backwards and like the Keystone Cops will eliminate lots of negative images too.
   f. Try using a microscope or telescope to change the look and feel of the experience.
2. Behavior modification system
   a. Look at the learned negative behavior as a miracle. You learned it instantly and have it memorized perfectly.
   b. If you can create a negative behavior this quickly, you can also create a positive behavior instantly. Create a positive behavior now.
   c. What you will do is eliminate the old image and insert a new one with positive feelings. If this process is hard you are doing it wrong or do not have a positive anchor set. Remember that you are simply replacing an old file with a new one.
   d. Pick a situation or habit you want to change that gives you negative results and negative feelings. Pick an easy one to start and prove to yourself that this works.
   e. Next activate your positive anchor as described above. Put a big circle around those feelings of happiness and success. Step out of the circle and put the negative habit or action in the circle and see it dissolve or melt under the positive vibes.
   f. Then get back in the circle and visualize the positive action you want and use the Positive Anchored feelings and physical cue you have previously developed.
3. NLP is a simple way to change the sequence of experience
   a. Running an experience backwards changes the sequence like taking a puzzle apart
   b. Changing the order of the experience changes the understanding we have of it.
   c. Try to become aware of your successes and find out what you are NOT noticing. Then focus on those parts to have a new understanding and more success.
   d. NLP explores the subjective experience of the process of learning, not the objective problems we have.
4. Getting stuck in a particular type of uncertainty is the cause of three major diseases including not being able to "Pull the Trigger".
   a. Seriousness: It binds you to a plan and does not give you wiggle room.
   b. Being Right: The need to be right stops your thinking and ability to consider alternatives.

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   c. Important-ness: Your ego is attached to your projected outcome and you end up defending your decisions.
   d. Let them all go away and just focus on trading well and making money.
5. Confusion versus Understanding.
   NLP can help turn confusion to understanding. Understanding leads to belief and confidence which leads to money, while confusion leads to the "Freeze" of inaction.
   a. Confusion about something is not the same as not understanding something.
   b. Confusion presupposes that you have a lot of data but the data is not organized well enough so you understand it.
   c. The first step is to remove as many conflicting or multiple degrees of freedom as possible and focus on the core idea.
   d. Then think of something you are confused about and also something similar that you understand.
   e. How are they different? What do you see, feel, hear, etc. Check all modalities.
   f. How do your feelings know to be different? In the case where you understand something you know what is going to happen and you are relaxed about it. For the confused case, you are usually tense and uneasy.
   g. Focus on the case you understand. Then transfer that feeling to the confused case. Once you have changed confusion to understanding in your mind you will have more confidence in your new skill.
   h. This process often breaks the mental block and allows reorganization of information into patterns you can understand.
   i. Finally, overlay a pleasurable experience on top of things you know then transfer the knowing and pleasurable feelings to the confused situation.
6. Changing belief systems using the "Path of Least Resistance"
   a. Beliefs act like the banks of a river and act as your self imposed limitations.
   b. Your beliefs (the banks) contain and direct the energy flow and determine the final destination of the river.
   c. Our actions follow the Path of Least Resistance and no matter how we try to change, without building a new channel for energy flow we will not change the outcome of any particular behavior.
   d. Change a belief about yourself and you change your perception of the world.
   e. Find a successful trader and replace your old beliefs with new ones that are modeled on the successful trader.
7. The Swish Pattern provides a simple example of habit control.
   a. The Swish Pattern can yield immediate results and immediate changes in your behavior.
   b. We used this technique to stop taking exactly the wrong trades. We would wait and go short at the end of a down trend or get long at the top. This was such consistent behavior for us that we almost quit trading.
8. Use this technique as many times as you need, however if you do it right just a few times, you will totally change your behavior. *You may want to try this on an annoying habit you want to change before applying it to your trading.*
   a. Have the old habit as "big and bright" in your mind and have the new behavior, habit as "small and dark".
   b. Then Swish (mentally transfer) them so that suddenly the new replaces the old as large, bright and vibrant. Then release the new bright image so that is all that is left in your memory.
   c. Repeat as many times as possible until you cannot see the old habit anymore.

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d. How you set the Swish Pattern up.
   iv. Identify the context of where you are stuck
   v. Identify the cue picture that sets you off (automatic pilot)
   vi. Create an outcome picture that is very attractive to you.
   vii. Now "Swish" the two pictures 5 times releasing the image each time.
   viii. Test: Can you still see the first image? Or test by putting yourself in the old situation. The old situation should be hard to imagine at this point.
   ix. Repeat as often as necessary to anchor the new picture.
   x. Push the testing to be sure you have changed.

9. Overcoming Limitations and how to think possibilities again.
   a. Trading is frustrating work in the beginning. It looks so easy and becomes so hard that it can virtually destroy your self image if you are not careful. If you need to rebuild your self image of success, try the following.
      i. Write down everything you have done that is an achievement, from learning to swim, to graduating from school. Make this a huge list. The bigger the better.
      ii. Understand that we are not broken; we work perfectly.
      iii. We have now what we programmed before, like it or not.
      iv. Be curious like a walking question mark and figure out why you do the things you do.
      v. What are the triggers that operate in each situation?
      vi. Once you find them change the triggers and anchor new behaviors.
      vii. Ask "How am I working now?" Not perfect? It is easy to fix with NLP.
      viii. Just apply a modality on the old movie and then play a new movie over the old one…Remember

Once you save a new file over an old one you can no longer play the old one. It is gone forever!

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A Solution for Placing the Right Trade at the Wrong Time

Many times you see a setup but hesitate (not believing in your own signals) and then when the market moves in your direction, you tend to jump in too late. As the price begins to accelerate in your favor, you tend to beat yourself up for being indecisive and losing profit.

If you give into your next urge to jump in late, near the end of the trend, you set yourself up for a loss as the price retraces just at your entry. It has happened to us so many times that we had to develop a new strategy.

If you cannot do the rational thing, you must develop a technique to protect yourself from becoming emotional and jumping at the wrong time.

The key to eliminating most of the emotion of a trade is following the next three steps.

1. Place a limit order for entry at your planned entry level based on your research
2. Place a preplanned stop loss when you place any order
3. Place a Buy/Sell stop/limit at your planned price objective
4. Consider using "Strategy Runner" or another program that does this for you.

The problem is most people will not be able to be rational and follow even this technique unless they set new **Positive Anchors.**

The other problem is that you almost always reach your pain threshold at just the point where the price reversed again and went in the original signal direction. This washout and double reversal drove us nuts until we developed the following strategy:

1. If you see a signal, believe your indicators and take the signal.
2. If you froze or missed the signal, then wait for the retracement and take that signal.
3. Do not try to catch a "Runner" or a "Falling Knife".
4. If you hesitate again, quit trading and go do something else until you calm down.
5. After a break, trade with a SimBroker to get back in synch with the market.

Waiting to calm down and observing (not analyzing) market behavior, will limit your losses and let you get in on a substantial part of the next move. If you still have trouble "Pulling the Trigger" then take some time off. The market never sleeps, there is always another opportunity, and if you wait your trading outcome is more likely to be positive.

Go back and review your trading plan, review your goals and affirmations. Then review your trading system to see that the signals would have consistently given you good results. Run through several more tests with a SimBroker on a real time basis in a real market to confirm your signals and rebuild your confidence.

Caution: Revising your Trading Plan at this point can lead to "Paralysis of Analysis" and result in even more hesitation. Spend only a minimum amount of time reviewing your previously back tested rules before getting back to your trading.

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The Magic Mirror Method of Creating What You Want

If you have ever talked to yourself, have you ever wondered who is talking to whom in there? We did and spent a long time studying psychology, philosophy, mysticism, religion and NLP. We came across the following approach in 1976 and it has been the basis for much of our success with visualization techniques ever since.

If you agree that there are two images of yourself, we are going to eliminate the negative through positive visualization experience that is like no other visualization method you may have heard of before.

Everyone says, "Get a picture of what you want and put it on the refrigerator".
"Look at it every day....." Our result, we got a new refrigerator!
(A little joke to keep you loose)

Here are the four steps to the Magic Mirror Method and why they work. We will use getting a new car in this example so that we do not put trading images that should be exclusively your own into your head before you create them.

As a basic assumption, let's say you own a 10 year old VW bug that is rusted out and you want a new Jaguar. We are going to eliminate the old picture of your current car and permanently replace it with a new picture of your new car.

1. In your minds eye, create a blank picture frame on the wall and then create a picture of the new Jaguar in that frame. (It is okay to cut out an ad to help you with the new picture).
2. Turn the static picture into a video or TV type commercial (note your mind still has the VW picture in it, but concentrate only on the TV image).
3. Now mentally get up out of your chair and get into the picture. Feel and smell the new leather, listen to the sound system, mentally adjust the seat and mirrors, pop the trunk and just experience sitting in the car as you drive down the highway. Experience the acceleration and wind from the open sun roof, smell the air and feel the sun streaming down on you.

   Pack this picture with as much emotion as you can by driving into a restaurant parking lot where all your friends are waiting to greet you for a celebration of your success. Visualize showing them the details of the sound system, the security and AC. See them all behind the wheel of YOUR new jaguar and hear their praise.

4. As you leave, you drive by a giant reflective picture window and look into the mirror. You see yourself in your new Jaguar. Then release the picture.

You have now eliminated the second image in your mind, so that both minds contain the image of the new Jaguar. While you still have the old car, you no longer identify with it. If you want to use the Magic Mirror again, you must use the exact same images, no changes for color, smell etc. Actually if you had a strong enough emotional impact the first time, there is no reason to repeat the technique on that particular goal.

Your goal has been magnetized and is coming into your reality right now.

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Common Traits of Successful Traders

We have met and studied the methods of and with numerous successful traders. Two have shown trading profits in excess of $1,000,000 per year from a small account. Below are our observations, plus characteristics outlined in their books, tapes and seminars. These traits are consistent with any professional in any field from Venture Capital (our former field) to sports and sales.

All successful traders have most, if not all, of the following traits in common.

1. Strong Motivation to succeed and be profitable (there are two types of motivation).
    a. **Toward** Motivation: Financial freedom, trading success, and recognition. All come with an overwhelming desire to make money in the markets.
    b. **Away** Motivation: Risks and distractions are minimized while trading. Stops and money management are in place to protect their equity security and safety.
2. A total belief and confidence in their ability to win, profit, and succeed.
3. Their methodology, approach and system are fully tested and in place. The type or form is not as important as their understanding and belief in the system
    a. Persistence: To keep to their plan of action.
    b. Patience: To let the plan work.
    c. Risk Taking: To load up when it is time and not before. (Must be in the plan)
4. All successful traders have an effective trading strategy in place that is:
    a. Automatic with no second guessing, but not necessarily mechanical.
    b. Congruent: Both the subconscious and conscious minds are in harmony.
    c. Visualized: As if they are already successful and act as if they are.
    d. Maintain Records: They have specific evidence to evaluate all trades Appendix C
5. Emotional Balance and Control must be in place. You must learn to,
    a. Be detached from the position like a third party observer.
    b. Watch indicators, use stops and know that you can switch positions at any time.
    c. Maintain military type control over your emotions using focused yet relaxed concentration.
    d. Visualize yourself trading. (Transfer confidence of your other successes here).
    e. Treat trading as work and how you make money, not for excitement.
6. Operating Metaphors to use
    a. It is a game, not a war. We are having fun, not battling for points.
    b. We are learning long-term strategy and tactics.
    c. We are learning money management and wagering techniques to enhance our returns.
7. **Superior traders gravitate to one approach and become superior traders with it.**

Changing Goals to Reality

1. How the mind works
    a. The Conscious mind evaluates all input and sets goals. It also notices trends, patterns and momentum. **(We use NLP Anchors to alert us to divergences and other signals and to anchor appropriate action.)**
    b. The Subconscious mind **IS** the program. If you want a different outcome change the visual picture and let the subconscious work out the details and act automatically to execute the plan.
2. Seven Steps to Success: How to get what you want
    a. Use motivation in both directions; Toward and Away Types

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b. Be absolutely dedicated to success
c. Approach the process one step at a time. Break things into manageable pieces
d. Focus only on the present. Visualize the future and dump the past
e. Do it yourself. Do not allow outside influences to interfere. Know that you know
f. Judge only yourself and compare improvements of your own performance only.
g. Create a compulsion to succeed.

Here is the best example of letting your subconscious work for you that I can think of as an illustration. Next time you are with a friend, toss them a small light object without letting them know you are going to do it. Telling them to catch the keys for example will give them a heads up and most will either catch the keys or just miss them.

Now if they had to tell all their muscles, nerve cells, and visual perception to work together on a conscious level, they would find it impossible. Just try telling every muscle in your arm to lift it to your ear. Impossible!

Our point is that you need to have your conscious mind out of the way and let your subconscious recognize your trading signals once you program them in. It is this trust that will lead to you becoming a successful trader. Without the trust between your conscious and subconscious, you will not succeed.

Creating a History of Successful Trading

The most damaging thing we have encountered in any endeavor is the problem of talking to ourselves negatively (*taking yourself to the woodshed after a bad trade*). This serves little purpose except to harm your self image and cause you to hesitate when you should be "Pulling the Trigger".

It easy to change any memories of the past into whatever you want by changing your old attitudes and beliefs. The Magic Mirror Method is essentially NLP in another form.

1. It is difficult to separate fact from fiction and there is no difference between a real and an imagined emotion. The brain wave patterns are the same.
2. So if you do not have a good history, make one up through visualization in the area where you need help. There are four steps to the procedure:
   a. Project a movie with you in it and watch what you want. Pretend you are watching a famous trader in his trading room for example.
   b. Get in the movie and watch and feel all the trades being made: Notice the massive success, and how the trader handles failure, stress, and how he patiently waits for the market to come to him.
   c. Review past success of your own to see, hear and feel the same emotions of handling everything with no fear. You are in charge and know exactly what to do without any stress.
   d. Now re-run the move and project the confidence of the famous trader and your past success into a third movie that shows you making trades and handling contingencies.
3. We took many trades with our SimBroker to validate our methods and signals, while our laptop had the active order entry trading platform. All we needed to do after we

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had confidence was use the mouse on the system that traded for real. It was an excellent NLP anchor transfer.

4. Not "Pulling the Trigger" means you are not in the game because it is less painful to watch good trades go by than take losing trades or doing nothing. You must be in the game 100% for all the big moves.
5. You must believe in your system and your indicators and take all the trades. "Cherry Pickers" lose in the long run.
6. If you are trading multiple markets, trade the strongest and weakest markets for the biggest potential moves in the least amount of time.

How to Change Your Habits in 21 Days of Less

1. **The best way to make changes quickly is to change your personal environment, trading desk, physical dress, time you go to bed, or any other physical environmental change you can think and eliminate the easiest excuse or self defeating habit first.**
2. Write down a list of what you want in order of priority. (Examples)
    a. Be a successful trader that is profitable and a cash flow machine.
    b. Follow the trading plan for each of the next 20 trades.
    c. Maintain a log of all your entries, exits, and emotions before, during and after each trade and print charts of all trades before and after entries and exits
    d. Maintain a daily equity curve.
    e. Compare performance by measuring how well you follow your Trading Plan
3. Write down a list of self-defeating habits you want to change (reverse order easiest first)
    a. I don't get up early enough to get in synch with the market
    b. I don't review my Trading Plan each night before the next trading day
    c. I rely on a chat room, news service, tips for trading.
    d. I forget to log all my trades and do not keep good records.
    e. I do not take all my Trading Plan signals and try to override my signals
4. Write down the reasons you want to reach the top five goals daily for 21 days
5. Write down the reasons you want to eliminate the five self defeating habits each day also.
6. Describe what your life will be like when you have achieved the positives and eliminated the negatives. You can visualize the change by using the Swish Pattern described earlier.

A personal example may help you here. I used to have a terrible sweet tooth and would drive several miles out of my for several Winchell's or Krispy Kreme donuts. I was always a bit overweight, but simply could not resist "those hot donuts".

One of my top goals was to complete the Waikiki Rough Water Swim which required extensive training and good nutrition. This meant NO DONUTS! The goal was stronger than the bad habit, but required daily changes in my habits. I wrote down everything I ate and how I felt after each workout. A great side benefit of the change of habit included saving money and feeling like I had control of my appetites.

Lesson Learned is to focus on the positive effect of the goal and the negative will shrink into the background. The bad habit never came back and I have completed over 20 rough water swims of 2 miles or more.

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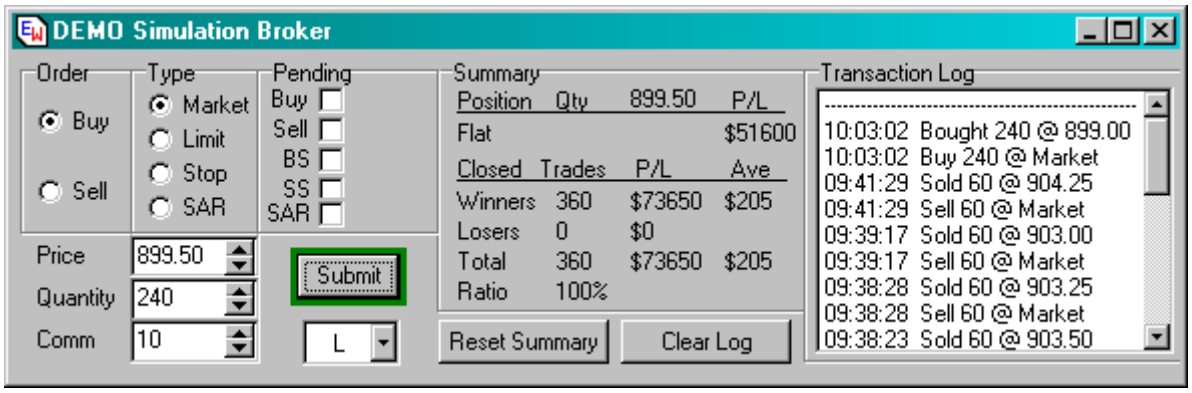
Application to trading: Use a different chair, turn on special music and go through a complete pre-trading routine that differentiates your trading from any other use of the computer in your office.

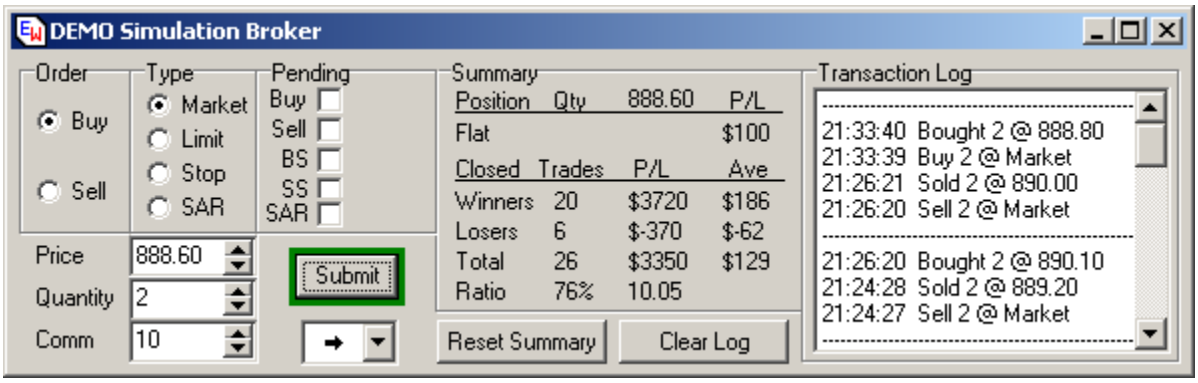
Section Three: Trading Methods

This section is designed to show you how we developed our approach, how we use various indicators in our system and how we developed primary and secondary signals to confirm our trades. We will show you how we developed all the component parts and how to interpret the signals.

This SimBroker summary shows your possible success using these combined signals trading 40 contracts at a time. Notice the 100% success factor and the 4 point average win per contract!



Here are two other examples of the kind of results you may get!



The record shown above is the type of success you should have using the Simbroker before you move on to trading with real money. If you spend a week studying and implementing the signals on past days markets at an accelerated pace and then switch to using the Simbroker against the real market with a small amount of contracts, you will find your confidence level is very high.

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The Demo feature in Ensign replays a previous day in the market. When you use this feature, we recommend picking a day you do not remember and playing the file back in at least 4 times normal speed. This will help you with just taking signals automatically and not over analyzing them.

The SimBroker feature is also a key part of setting positive anchors in your mental approach to the market. The SimBroker will not allow you to cheat. It puts in both commissions and slippage, so you get an accurate feel for the market. You cannot reverse a mistake without actually reversing the trade and suffering the consequences. **So practice, practice, practice!**

The other feature about the SimBroker is that you can apply it to the real market in real market time. After you get sufficient experience after market hours, you can then use it on the market in real time. Again, you must trade as if it is real money. Double reversing and loading up to offset losses only cheats you out of true practice.

After you have a week of success with at least a 60% success rate and profits every day, then you will be ready to risk your own money. If you get overly anxious or scared, try a few trades and then go back to the SimBroker. We usually only trade an hour a day due to the concentration required.

Another good technique is to leave the market up and every time you walk into the room, look at the charts and decide whether to go long, short or wait. Take the first trade signal you see using the SimBroker and then exit at the first exit signal. Then walk away and come back in an hour and do the same thing. This quick trade experience will help you remove both fear of pulling the trigger and also sharpen you eye for the right signals. Soon all this will become automatic and you will have internalized all the signals.

Be sure to keep a trade log or print out the log and charts for every trade just like you will do with your real-time, real-money trading.

The principals and guidelines outlined in this technical section and summarized in Appendix E are illustrated with selected charts in Appendix F. We have found that visual references work far better than excessive verbiage. We will not spend excessive time on discussing the basis of indicators. If you need help in this area refer to any excellent book on technical analysis.

Our principal chart setups will be illustrated in Appendix E and are also included with this course as templates and work spaces for Ensign. These chart settings are the primary basis

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for our system. We recommend trading only signal setups with multiple time frame confirmation and multiple indicator confirmation. For those of you in a hurry, refer to the one page list of trading signals.

As part of the education process, we will provide three trading approaches using a MACD and MACD Histogram, a Stochastic on Stochastic, and a Multiple CCI System. All will use multiple time frames for confirmation with additional confirming signals of Support and Resistance, Fibonacci Retracements and Pesavento Patterns. You will discover that all are nearly identical, so the choice will be yours.

The Templates provided are the ones we use now. We no longer use the Dual CCI system it is shown for information only. Our preference is the Stochastic on Stochastic with a MACD, and a MACD Histogram backup. See Charts 1 and 2

Putting the Odds in Your Favor

How do you calculate the probability of success in any particular trade? No one can predict the future or the next price bar. That decision, especially on the eMini is made by tens of thousands of traders, both in and out of the market. Price at any one time is an agreement on price and a disagreement on value (because each party to a contract has a directly opposing view of where the market will go next).

The odds of the price moving in one direction or the other starts at 50/50. Even if all you are doing is guessing, you can still win the trading game using smart money management. All you have to do is control your losses to 1 point for every win of 2 points. This is the reason for understanding money management and risk. Is this the best approach? Not really, but it can and does work. The following sections will show you each piece of the puzzle and then the whole approach is summarized in Appendix E.

Using Technical Indicators

Indicators are only a roadmap telling you where price MIGHT go and the indicators are a noise filter for the price chart. Before you begin with indicators, you must understand Price Action first. When you can read a three bar or three Candlestick chart, and correctly understand where the next price bars should open and close, you will be will on your way to being a trader.

Definitions

Throughout this session and in the charts, you may see both tick chart and time references. On the e-Mini, a 74 tick chart is roughly equivalent to a 1 minute chart, a 210 tick chart is roughly equivalent to a 2 or 3 minute chart and a 550 tick chart is roughly equivalent to a 5 minute chart.

We use tick chart bars because they are constant number of trades and you do not need to interpret volume separately. A tick chart moves faster with higher volume and slower with lower volume. If you have both put a 210 tick and a 2 minute chart with volume chart side by side on your system and compare how they are similar and how they are the same.

You may also find some charts with parameters slightly different from our recommendations. This program evolved over time. The final indicator setup evolution is listed in Appendix E. Feel free to experiment with these parameters yourself. As stated earlier, almost any signals will work as long as you understand what the indicators are telling you.

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Reading Price Action

The first and most fundamental skill that all traders should learn, and many bypass is how to read the price action in any one bar or a series of bars. We recommend you spend a significant amount of time on this subject. It will not be covered in depth here other than to recommend that you read "Candlestick Charting Explained" by Gregory L. Morris. Morris' book is an easier to understand than the classics, "Japanese Candlestick Charting Techniques" and "Beyond Candlesticks" written by Steve Nison. Both Nison books are excellent and should be reviewed.

Morris also compares Candlestick patterns with combinations of technical indicators and shows how they work together. We look for five specific Candlestick patterns on our longer term charts. They are not as accurate on short term tick charts, but give excellent confirmation signals on 3 and 5 minute charts, or on 550 and 990 tick charts.

Momentum Trading Principles

1. A body in motion tends to stay in motion. This is the definition of momentum.
2. Any time you see a single contract sale you cannot tell what will happen next. Prices fluctuate.
3. Momentum is a function of previous price movement made up of direction, speed and intensity.
4. Momentum is different in different time frames.
5. Outside forces of Power, Force and Energy act upon the market to make it move.
    a. Power is the amount of capital and credit sitting outside the market and available at any time to buy or sell a given contract at any time.
    b. Force is the desire (emotion) (thought) to buy or sell at a point in time.
    c. Energy is the translation of these two into the prices and chart patterns.
6. The Balance of Power Moves Prices! Volume usually moves first, then momentum and finally price. Bill William's book "Trading Chaos" has an excellent explanation of this phenomenon.
7. **How new information affects the market.**
    a. It is not the actual facts or even the news itself that affects the market.
    b. It is the traders' interpretation of the news and,
    c. The traders' presumption and expectation of how the news will affect other traders' actions that moves the market.
8. Price Action is like a river of speculative energy fed by thousands of tributaries made up of traders from all over the world.
9. The original source of a price change is extremely difficult to identify. Thus the Chaos Theory's popularity.
10. **All information, both fundamental and technical is contained in the current price bar**. Everyone's interpretation and emotion shows up in that one bar! Current momentum gives you a hint of where things are going in the immediate future.
11. Price Movement is caused by the slightest imbalance in the Balance of Power.
12. The Physics of Price Action: is made up of constant contraction, expansion, stability and instability.
    a. **The market constantly tries to find a stable price and is constantly testing previous highs and lows for support and resistance**.
    b. Price trends to erupt and tries to find a place where supply and demand are balanced based on the current news and traders' reaction to it.
    c. Watch the stability of price in a low volume environment.

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d. Watch how your first clue to price changes comes from increase volume (or speed on a tick chart).

Logic of Trends, Support, and Resistance

For a market to be in an up-trend, price must take out **Resistance** levels and also fail to break previous **Support** levels. For a market to be in a downtrend, it must break **Support** levels and fail to take out **Resistance** levels. This is the definition of trend. Therefore, to go long or short a market depends on whether price is breaking through or failing at support and resistance levels. See Chart 53.

The law of inertia or mass in motion shows that (except for major news spikes) the market, when trending, cannot just stop on a dime. For a market to turn off a bottom or turn off a top it first has to "put on the brakes". The market has built up inertia and momentum during a trend and requires a consolidation before moving in the opposite direction.

Price failure indicates a change of trend. Price failure occurs in an up-trend when prices fail to take out a previous resistance level. Price failure occurs in a downtrend when prices fail to take out a previous support level. See Chart 30

A matching price level of any support or resistance point is a FAILURE, not a confirmation of support. Half point attempts to push through a support or resistance level is also a failure until it is confirmed with a push through of 1 point or more. Floor traders will often penetrate support or resistance by a few ticks just to grab stops before reversing again. **Be cautious at these levels.** Continual failure of highs and lows will lead to triangles and diamond patterns. See Chart 27

Certain momentum indicators will show what the trend is on any time frame, although we use the 210 tick and the 74 tick charts for our primary analysis.

- **The Stochastic Indicator is a measure of overbought or oversold, but the setting of 28-14-1 also allows the slow %K Stochastic to show the trend or medium momentum.**
- **When combined with a short term Stochastic of 5-3-3 (smoothed), you will have an excellent visual representation of the market's short term and medium term momentum and trend.**
- **Using the MACD with settings of 7-28-7 is also a measure of trend and momentum.**
- **The MACD Histogram will show the acceleration or deceleration of the price action one to two bars earlier than the MACD and will mirror the Short Term Stochastic indicator.**
- **We use the Stochastic on Stochastic as the primary momentum indicator and MACD is secondary in importance. Together they help confirm one another. If these are in conflict, we stay out or get out.**

Indicator Divergences

Regular Divergences in an up trend (higher highs/higher lows) compares the higher highs in price with the highs in the indicator. Note that both Stochastic and MACD have a lower high while price has a higher high, a signal the trend is getting weak. See Chart 36. The indicator is

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telling you with regular divergence that the trend is getting weak and the potential for a change of trend is there and to trade accordingly.

Regular Divergence (RD) is best used at the test of a previous high or low and what most traders call a double or triple top/bottom. **Regular Divergence can also be seen as the Ka Ching Trade.**

In an up trend, you may see 3 or 4 higher highs in price with 3 or 4 lower highs in the indicator or 3 or 4 lower lows in price in a downtrend with 3 or 4 higher lows in the indicator. This pattern is called 3 Humps, 3 Mountains or 3 Indians, or the Classic 3-part Elliot Wave. See Chart 33. **Look for a Head and Shoulders Pattern in the indicator with the price rising. On the last shoulder, it is a good time to exit the trade or reverse your position.**

Hidden Divergences (HD) are best used in trends for continuation trades with the trend. A high percentage of hidden Divergence trades will move at least to the last swing high/low, thereby giving you a way to calculate your risk/reward for the trade. If there aren't enough points between the signal and the last swing high/low, then it will usually be best to pass on the trade. **A Hidden Divergence is also Sling Shot Trade.** See Chart 52

After three waves up or three Sling Shot trades, you should be extremely cautious. A trend change and a Ka Ching trade is a high probability. Make sure you check multiple time frames to see it the trend will continue or reverse.

Regular Divergence:

- Higher highs in price and lower highs in the oscillator which indicate a trend reversal from up to down.
- Lower lows in price and higher lows in the oscillator which indicate a trend reversal from down to up.

Hidden Divergence:

- Lower highs in price and higher highs in the oscillator which indicate a confirmation of the price trend, which is down.
- Higher lows in price and lower lows in the oscillator which indicate a confirmation of the price trend, which is up.

If the higher highs or lower lows are in price but not the oscillator, then the direction of price is likely to reverse. This is Regular or Classic Divergence and can be used as a confirming indicator for a reversal entry. See Chart 36. **We look for both a Short Term Stochastic and MACD Divergence to confirm a trend change. Additional indicators to confirm include Support and Resistance Levels, a Pesavento Line prints or a Long Term Moving Average is hit.**

Stochastic Indicators

Stochastic refresher: The stochastic oscillator consists of two lines: %K and a moving average of %K called %D.

The basic stochastic calculation compares the most recent close to the price range (high of the range - low of the range) over a particular period. A basic five-bar stochastic calculation is the difference between the most recent bar's close and the lowest low of the last five bars divided by

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the difference between the highest high and the lowest low of the last five bars. The result is multiplied by 100.

The formula for this calculation, which is %K, is:

%K = 100*{(C_t-L_n)/(H_n-L_n)} *where*

C_t = the most recent bar's closing price

L_n = the lowest price of the most recent *n* bars

H_n = the highest price of the most recent *n* bars

(for a stochastic calculated on daily bars, the default is five bars)

The second line, %D, is simply a three-period moving average of %K: **average (%K, 3)**

Because this basic "fast" stochastic calculation is very volatile, an additionally smoothed version of the indicator, where the original %D line becomes a new "slow" %K line and a three-period average of this line becomes the "slow" %D line, is more commonly used.

The stochastic can be made to reflect longer- or shorter-term price movement and to be less or more sensitive to small price fluctuations by increasing or decreasing the number of bars used to calculate %K and/or increasing or decreasing the length of the moving average used to calculate %D. For example, a stochastic using a 10-bar %K and a three-bar moving average for %D [stochastic(10,3,3)] would be shorter-term and more sensitive than a stochastic using a 20-bar %K and a five-bar moving average for %D [Stochastic (20, 5, 3)].

Like any other indicator that we have found, it will not stand alone as an entry and exit tool for a trading system. It can be used very successfully as part of a trading system. Try using a combination of two Stochastic together and see what you can see: Test these combinations [9, 3, 3 and 35, 10, 1] or [7, 3, 3 and 21, 10, 4). **We use [5-3-3 and 28-14-1] and use only the %K lines.** Make sure they are overlaid on each other so you can see the crosses and pattern combinations. This approach allows you to see multiple time frames on the same chart. We combine the Stochastic combination with the MACD approach outlined below. See Charts 41 and 42

MACD Indicators

All moving averages are lagging; however, one interesting way to avoid a time lag is to properly pick the time frames of the indicator for the time frame you are trading. The MACD can also be leading in certain uses. The MACD Histograms measures the acceleration or deceleration of momentum and leads price action.

Without getting too technical, all you need to do is pick a short term average that is exactly ½ the length of the period you are checking. A 10 day moving average and a 10 day momentum calculation will virtually eliminate any time lag with the MACD Histogram.

Using a combination of a long and short moving average when calculating a MACD system will yield excellent results with very little time lag. We suggest you try this yourself. Overlay a standard MACD setting of 12-26-9 with a 5-34-5 (popularized by Bill Williams), a 3-10-16 and a **7-28-7 MACD (Simple) that we use** and see what relationships you can develop. See the charts for an example. See Chart 16.

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Another choice is to use simple, exponential, smoothed and weighted MACD averages. You will find as we did that some are too sensitive, some are too slow and some are just about right. See Chart 17. We prefer the Simple MACD based on the typical price of price bar (H+L+C)/3.

Since the MACD is already **double smoothed**, most of the jerky movement of the price action is gone and true price movement and momentum are made easier to see. Also the lag time can be moved to within about two bars of the actual turn in the market. We do not want to pick tops or bottoms, but do want to get in for the 80% of the trend in our trading time frame.

The MACD Histogram is a great indicator for identifying the change in momentum. The Histogram represents the difference between the Slow and Fast Moving Averages. A great deal of information is contained here. We prefer to use both the MACD and the MACD Histogram. As you get better at analysis you will see that the MACD Histogram changes direction one to two bars before the MACD and very nearly at the turn of prices.

Using MACD divergences between the price, the MACD Histogram and the price also yield excellent results. We normally look only at a MACD Divergence. The position of the MACD average line is also an excellent indicator of medium term trends, and its position above or below the mid point gives information on whether the trend is up or down.

We highly recommend you use the MACD indicator in conjunction with a Stochastic Combo and several longer-term EMA's to get a complete picture of trends, momentum and acceleration of momentum. See Chart 47 for a comparison of settings.

Indicator Trading Principles

Consistent Candle Patterns That Work

1. Significant patterns for predicting the next three to five time bars on a 210 tick chart or a 2 minute chart. Candles are more predictable on a time chart, because volume is somewhat included in the candle on a time chart.
2. **Reversing Patterns: Hammers, Hanging Man, Engulfing, Harami, Morning and Evening Stars, and Tri-Stars**
3. **Trend Confirmation: 3 White Soldiers and 3 Black Crows, Kicking**
4. **Trend Slowing: "Tweezer" Tops and Bottoms, Spinning Tops**
5. For a summary of important Candlestick patterns we use, see Charts 6, 7, and 8.

How to Pick Technical Indicators

1. Always use a combination of Leading and Lagging Indicators in your approach.
2. Use a maximum of five indicators of different types, but with similar time frames. Choosing one indicator from each category below works best.
    a. **Trend Indicators**: MACD, ADX, Moving Average Systems.
    b. **Volatility**: These indicators measure the magnitude of day-today price fluctuations: Bollinger Bands, Envelopes, or Keltner Channels.
    c. **Momentum:** These indicators measure the speed of price movements MACD, and MACD Histogram, Stochastic, Relative Strength, William's %R, CCI, and RSI.

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d. **Cycles**: Many securities and especially commodities, indexes and currencies have cyclical patterns. Fibonacci Retracements and Fibonacci time cycles and Pesavento Patterns (discussed later).
e. **Market Strength**: Each Indicator incorporates either volume or open interest: Volume, On Basis Volume, Money Flow, Advance Decline, TRIN, TICK and TIKI:
f. **Leading Indicators.** We only use TICK and TIKI on our quotes page to measure overall market strength but we do not chart these.

3. **Price Action and Price Patterns:** Use candlesticks, to measure inside and outside bars, gaps, turning points and reversals. Certain Pesavento Patterns also are good indicators of turning points. These are more meaningful on longer time frames.
4. Avoid using indicators using the same data. If all your indicators only use price and calculate a smoothing function, then the co-linearity will give false signals. Each indicator will give redundant signals and give you a false sense of security.
5. Since most indicators are simply variations of the same principle, find two or three indicators that you understand and use them in your trading system.

Using Different Time Frames

1. We are constantly reminded to "Always trade with the Trend!" The question is which trend? The trend is determined in a time frame 3-5 times longer than the one you are trading currently, so be sure to keep an eye on longer time frames. See Charts 4 and 5.
2. Look for long-term support and resistance on the 13 and 30-minute charts or during trading, expand the 550 Tick chart to show three days of data. If you use the Pesavento Patterns in Ensign, these are plotted automatically for you. A confluence of two or more support or resistance areas is a strong signal.
3. If you look for volume climaxes on both sell and buy systems, you will see these on time charts only. Tick charts will move more quickly with higher volume. See Chart 57. One excellent signal for possible changes of trend is an area of high volume and little or no price change (a Doji in Candlesticks terminology). On tick charts this will be a series of Dojis with no price change.
4. Fibonacci retracement work! 38% retracement represent early profit taking, 50% is a normal retracement and 62% indicates a short-term reversal. Use these levels as short-term position accumulators in direction of trend. See Chart 18.
5. **Pesavento Patterns have shown that retracements to 0.707 and 0.841 are great indicators of a trend change and a 1.414 price change from the previous high or low is a good long term target for an extended move. If that Pesavento line prints we exit with our profit or if not in the market, well look to scalp a retracement.**
6. The Dow usually leads the e-Mini by 1 minute. The Dow usually tells the story as the overall sentiment of the market. If Dow and NASDAQ are in gear, jump aboard, if in opposition, and then look at a mixed market scenario with not as much movement. If you have the capability, overlaying the DOW, COMPQ and the SPX as a line chart combo will give you a quick indicator to see what is happening to the overall market. To avoid having another chart, we use a quote sheet showing current prices with color indicators to show market direction for each index..
7. **Your choice of time frames determines your draw down risk. Shorter times will mean less risk and longer means higher draw down risks. The choice is based on your risk tolerance.**

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8. Standard time frames of 5, 15, and 30 minutes are available on all charting systems. The Pros tend to use 2, 3, 5, 8, 13, and 30-minute periods.
9. If you have access to tick charts, we have used 55, 74, 133, 210, 343, 550 and 990 in conjunction with a 1, 3 and 5-minute time frame. See our setups for 74, 210 and 550 tick charts for our standard workplace setup. We have a daily chart of the Dow for overall market movement, resistance and support levels. We also check a daily chart of the eMini before the market opens using only the Pesavento Template.

Creating Different Time Frame Indicators on the Same Chart

One of the most confusing aspects of looking at multiple time frames is that two time frames will almost always give you conflicting signals. An excellent technique is to put two or even three time frames on the same chart. It also helps if you use Fibonacci time ratios of 1, 2, 3, 5, 8 and 13 minute time frames. You can also use multiples of tick charts like we recommend of 74, 210 and 550 ticks.

Seeing different moving averages for different time periods can help you determine longer term trends while looking on a shorter time frame for entry and exit signals.

1. To plot a 10 minute, 20 period moving average on a 5 minute chart, you use a simple formula: **10/5 x 20 = 40 periods (we recommend using exponential moving averages)** See Chart 4
2. You can also use this process with MACD, Stochastic and other indicators. This is the key to our high probability trades. The chart templates and our work place setup are automatically set for the optimum multiple time frames and indicators..
3. The confluence of indicators all in the same direction on multiple time frames is **THE KEY to High Probability trades**. Wait for these situations to present themselves to you.

Moving Averages for Trend Identification

1. We use a 49 period EMA and an 89 period EMA to show the overall trend.
2. Most major retracements will hit the 49 EMA and reverse, bounce between the 49 and 89 EMAs and then move in the new direction. These patterns are the Ka Ching trade patterns. See Chart 35
3. We look to take trades only in the direction of these two EMA's using Sling Shots.
4. You can also use a very short term 25 period Least Squares Moving Average (LSMA) of the price (LSMA can be duplicated with a Regression channel average) to identify short term trend changes. **The LSMA is the orange line on the charts**
5. The LSMA can also be used for quick Counter Trend Scalps as well.

Stochastic Oscillator Rules for Timing Trades

1. **We use a combination Short Term Stochastic (smoothed and price point of [H+L]/2) of 5-3-3 for short term and a Long Term Stochastic 28-14-1 (smoothed and price point of [H+L]/2 for long term crosses (use in conjunction with the MACD system).** See Charts 9 and 10 for how we picked these settings.
2. We use the 210 Tick chart as our principal time frame.
3. Tick Charts gives better entry and exit signals. The 210 Tick (2 minute) chart show you how far the trend can go.
4. Use the longer term charts to time your increase in contracts for extended trend runs using Sling Shot Signals. See Chart 11.

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MACD Trading System Signals

Traditional MACD and MACD Histogram trading systems use the following rules. We use the MACD and MACD Histogram as a secondary confirming indicator in our trading system to identify trend changes and Ka Ching trades.

The videos will show you how you can get conflicting signals based on the timing signals used by various approaches. We prefer to use the **7-28-7 MACD Simple and Histogram (with price point of [H+L+C]/3)** in our approach.

1. When to go long and when to exit
    a. If MACD is below 0 and the EMA is above 0 go long. This is a retracement during an up trend. See Charts 16 and 17.
    b. Exit when MACD crosses MACD-EMA from the top down.
2. When to go Short and when to exit
    a. Go short if MACD is above 0 and the EMA is below 0 go short. This is a retracement during a downtrend
    b. Exit when MACD crosses MACD-EMA from the bottom up.
3. Look for 3 Peaks or Three Valleys that includes a price divergence (left side of the chart on the MACD). See Chart 18. This is a great signal for a retracement and is confirms a Stochastic Divergence and Ka Ching trade.
4. Big Profit Mode when the 49EMA trend, the MACD and MACD-EMA are going in the same direction.
    a. The strongest sustained moves up occur when Trend is up and MACD-EMA is up and > 0.
    b. The strongest sustained down moves occur when the Trend is Down and the MACD-EMA is down and <0.
5. **We look for Regular Divergences (at the end of a long run) in the MACD with respect to the price as a key secondary indicator for turning points after a long trend.**
6. **Momentum Summary**
    a. Momentum measures the underlying strength or weakness of the market.
    b. When in doubt believe the MACD, not the price.
    c. Divergences occur when the price reaches previous New High/Low but MACD does not reach New High/Low

MACD and Dual Stochastic Divergences

1. Divergences are a good method to determine when trends are about to change and also to confirm continuation moves. See Chart 5 and Chart.
2. Bullish Divergence between the indicator and the price: The Short Term Indicator (SI) traces a higher bottom while price traces a lower low. As soon as short term indicator turns up, BUY. Best Buy signals come from first bottom below the 20 levels and next one is above the 20-reference line. This is our **Ka-Ching Trade Long**. See Chart 51
3. Bearish Divergence, Prices reach a new high, but SI does not, Sell as SI turns down. Best Sell signals when first top is above the 80 levels and the second below it. This is our Ka-Ching Trade Short. See Chart 26.
4. We use the same Divergence indicators on the MACD. The MACD will be about two bars behind the stochastic signal. When you have Divergence with both indicators, you have a very strong signal.

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Over-Bought Over-Sold

These are not good signals in strong trends: because logically, there is no ultimate value that determines an overbought or oversold situation. Again, longer or different time frames will give different readings. So it is best to rely only on the time frames you are trading.

1. In Trending Markets, watch the MACD EMA line and the Longer Term Stochastic line directions: These lines represent the Intermediate Term Trend for that chart. **Take trades ONLY in the direction of this Intermediate TREND**. Buy or sell on the dips and peaks of the shorter term indicators.
2. The shape of the bottom determines the strength of the rally to follow. Deep and wide implies a weak rally to come. A short, narrow and shallow bottom implies a stronger rally may be on the way.
3. Topping patterns are less distinct. See Charts 28 and 29.
4. **For continuation signals, look at trend on a longer time scale, then wait for shorter time scale to indicate overbought or over sold signal and take a trade in the direction of the longer-term trend.**
5. General Rules: Do not buy when overbought and do not sell when over sold if both long term stochastic lines from different time frames are at an extreme. Look for a counter trend trade.

Lock Limits on the e-Mini

Lock Limits are in place as market circuit breakers and places where trading will be suspended for periods of time from 10 minutes to an hour or more. We have only seen these instituted on the e-Mini twice in our trading. Everything stops and you just have to wait. Our advice is to be flat in the market near these limits, because moves out of a lock limit are unpredictable. These limits are based on Net changes in the S&P and occur on negative days. Details on lock limits can be found at the CME site.

Volatility Indicators

The volatility indicators, Keltner Channels and Bollinger Bands, can be very effective as a channel indicator and trading approach in flat markets. In our opinion the Keltner Channel is much more stable and easier to use than Bollinger Bands because Bollinger Bands tend to get skewed by large spikes or large range bars.

If you want to use Keltner Channels with any of these systems, use an 8 period EMA with a 1.3% Standard Deviation Channel.

1. **We no longer use these indicators in our short term trading approach. The signals are excellent, but we continually try to simplify our setups and signals. You may find them helpful to identify longer term trends.**
2. **For Keltner Channels, use 1.3 standard deviations about an 8 period EMA give price range for 92.5% of all prices.**
3. Wide bands indicate volatility, narrow bands below a 1.3% width indicates a sleepy market ready to erupt.
4. Price moves from one side to the EMA or all the way across. Outer bands provide support and resistance for price moves. (News spikes are an exception)
5. Buy in the lower half of the channel of a rising channel, and sell in the upper half of the channel for profits.
6. Closes **outside** the Keltner Channel are a **continuation** signal, not a reversal signal!

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7. Prices tend to walk up and down the outside band and use the moving average as support and resistance.
8. Penetration of the 49 or 89 EMA by the Keltner Channel usually signals a trend change for that time frame.
9. Use divergences, Stochastic and MACD for confirmations as always.
10. When no trend is place, you can trade the trading range if the difference between the upper and lower Keltner bands exceeds 4 points.
11. **The 25 period LSMA serves well as a substitute for Keltner Channel average.**

Elliot Wave Analysis

1. R.N. Elliot tried to explain the repetitive patterns of the market and developed a trading methodology based on these patterns of trader psychology.
2. All markets are fractal in nature, meaning that patterns repeat on all time frames.
3. Observations show that when trends reverse there is a 1-2-3-4-5 type pattern where 2 and 4 are retracements in the 38% and 50% range. See Chart 23
4. The 3rd wave is usually the biggest and the 5th wave is usually the smallest.
5. Always check a higher time frame for confirmation that you are not trading counter to the longer-term trend.
6. Following this pattern an A-B-C pullback usually occurs as a trend is slowed.
7. Occasionally, there are 9 period trend continuations. This can occur 15% of the time.
8. **We watch for Elliot Wave Patterns but use them only as a means to seeing potential target prices and for setting risk analysis stops. The Pesavento Patters automatically print these levels on Ensign.**
9. **A Head and Shoulders Pattern will often develop on the MACD in an Elliot Wave Pattern. The right shoulder is what forms the Regular Divergence.**

Pesavento Patterns

We were introduced to Larry Pesavento and his approach to Fibonacci and other market ratios early in 2002. In addition to the standard Fibonacci ratios, Larry has identified several other very useful numbers based on √2 and its inverse that come up repeatedly in retracements.

Pesavento Pattern Critical Numbers

Ratio	Source	Calculation	Reciprocal
1.000	Sqrt of 1	"1/1	1.000
1.272	Sqrt of 1.618	1/sqrt 1.618	**0.786**
1.414	Sqrt of 2	1/sqrt 2	**0.707**
1.618	Phi	1/phi	0.618
1.732	Sqrt of 3	1/srt 3	0.577
2.000	Sqrt of 4	1/sqrt 4	0.500
2.236	Sqrt of 5	1/sqrt 5	0.447

Watch 1.414 and 0.707 ratios versus 0.618 and 1.618 since they come up more often than the 0.618 in retracements.

Fibonacci Patterns

1. Consolidations occur in the middle of a trend at very specific levels base on Fibonacci ratios. See Charts 18 and 19.
2. The significant levels for Retracements are: 23%, 38%, 50%, 62%, 100%
3. The significant levels for price targets are: 127%, 162% and 262%

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Trading Timing Principals

Time of Day Trades

1. Three Trends of the Day
    a. 9:30 – 11:15 Major Move: Reversals are likely to occur at 9:35, 9:42, 9:54, and 10:30 - 11:15. (Look at early AM portion) See Chart 23
    b. 11:15 – 2:15. A slow period: Moves are subject to manipulation due to the low volume; Reversals are likely to occur at 12:00 and 1:30.
    c. 2:15 – 4:00 Continuation or Counter Move depending on Mid Day Price Action; Reversals likely at 2:20, 3:00 (a likely top or bottom) and the 3:30 breakdown. See Chart 34
2. Last hour of the day will see an acceleration of the trend and then a period of covering positions by the pros. These bounces can be the most productive of the trading day if you have patience to wait for them. Divergences in multiple time frames are the setup.
3. At the open, watch the 24 hour Globex. The market will test the high and low of the overnight and then test the close of the previous day.
4. At the 12-15 minute point traders will attempt an early reversal and big counter moves.
5. On trading range days traders will often change directions every 15-30 minutes.
6. At 10:20 +/- 5 minutes, the overall long-term trend resumes for about 90-120 minutes. All of the 1-hour waiters get anxious and jump in. Watch for tape painting again by the Floor. The Floor usually gives a head fake in the wrong direction first.
7. Lunch time 11:45-1:15: The Pros leave for lunch and the games begin by the second team. Believe very little of what you see; however this is usually a counter trend move with low volume and big spikes. We opt out during the noon hour, however, some new movement can occur around 12:45, so set an alert to check.
8. Afternoon: 1:20 – 3:00 Reaction to the lunch action and the market usually resumes the trend again or starts a wider trading range. NOTE: at 2:30PM the odds favor a sell-off due to the impending close of the financial markets. If selling does not occur, then watch for a very big bounce up.
9. Late afternoon: Stay out, unpredictable. Just go swimming or running. This period has a Buy Bias. If a trend starts at 3:00PM it will usually continue until 10 minutes before the close. We do not recommend exit **Market on Close** orders as a tactic. Review the Chart 34 and Chart 38 for End of the Day Trades.

Day of the Week Cycles

1. Monday Blahs: Usually morning selling or buying with afternoon reaction. Market is searching for new directions and reacts to over the weekend news.
2. Tuesday Turnarounds: Reversal of Monday or Friday trends or actions.
3. Wednesday Continuation: Reinforces Tuesday or can be a Doji Day.
4. Thursday Jumpy: Continues Tuesday and Wednesday with PM Sell off.
5. Friday ends with a Whimper: Resets for Monday and resolves the week.

Day of the Month

1. **Contract Rollover Days** when contracts move to the next quarter. Third Thursday of the month in the last month of each quarter. March, June, September and December.
2. **Triple Witching Days** when options expire are usually very volatile. This is our golf day.

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3. CAUTION on Third Friday of every month is Options Expiration and the Pros push to cut losses. The market is usually choppy, so stay away unless you are following the Tick Charts.

Long Term Support and Resistance Levels

Support and resistance are used to gauge the range of the day and to locate obvious potential turning points in the market. You should review a medium term and daily chart with Pesavento Patterns to locate these levels. See Chart 20

1. Previous Days Close
    a. Pivot Point is (High + Low + Close)/3. We use this setting rather than the close, on each bar as well because is represents the most representative price
    b. Trend Reaction Numbers are: Low = 2x Hi and High = 2x Lo
    c. Always mark the Globex High and Low on your chart for reference in early trading. You will often see tests of these numbers in the first hour of trading.
2. Weekly Support and Resistance
    a. These provide reliable Price Envelopes for buying and Selling
    b. From the Daily Pivot look to sell at Previous Hi, Globex Hi, Rally High
    c. From Daily Pivot look to buy at Previous Low, Globex Low, Decline Low
    d. Daily and Weekly Retracements, look for standard Fibonacci Retracements and confluences of daily and weekly retracement on the current chart.

Section Four: Daily Trading Plan

Trading Plan Signals for High Probability Trades

1. Trade expectancy should be at least 3 to 1 with 6 to 1 possible on sustained moves or trend days. **The goal is to trade in and out with small wins and losses, but you are positioned so you hit the big move.**
2. Set up Fibonacci Retracements for previous week and previous biggest move and look for clusters of support and resistance. See Chart 19
3. Remember Trending Days occur only 15-20% of the time.
    a. On these rare occasions, prices may move in 9 continuous waves. See Chart 33.
    b. In that case, look to buy on dips or peaks in the MACD and Slingshots, when the signal line is on the **opposite side of zero**.
    c. Use a regression channels here to confirm trends and watch for channel breakouts of larger corrections. See Chart 40.
    d. Always watch the Time of Day for obvious reversal points.

Trading Goals and Rules

1. Follow your trading plan religiously. Your plan is your trading edge.
2. Take only high percentage trades. Use the Intermediate Trend (Long Term Stochastic and MACD lines) and trend reversals for the best moves. Continuation trades (Sling Shots) occur with the Long Term Trend if there is one (use the 49/89 EMA).
3. In an obvious trading range, trade off the oscillators, Short Term Stochastic and MACD Histogram.
4. Initial goal is 6 points per day on two e-Mini contracts in two to three trades per day.

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5. After 10 days at 70% confidence level, you may want to increase to a 10-point goal by trading 3 contracts instead of two. **The secret is to increase contracts within your comfort zone, not trying to squeeze more points out of one move!**
6. Stop points are set at 1.5 points maximum when on the 2-minute chart; 1.5 points on 74 and 210 tick charts. Remember that tick charts are smoother and easier to trade.
7. Raise stops to lock in profits after initial profit runs on a Third Elliot Wave.
8. Watch and do not wander when in a trade. When the market is slow, it is building up energy to move. Quiet times are where the opportunities reside. **PAY ATTENTION!**
9. **Cut losses short, and let profits run. What this really means is to: Take the loss when you reach your stop loss point and watch the longer term charts to stay in longer for bigger profits.**
10. The market will always run further than you think, so watch the longer time frame to keep you in longer. This is the key to bigger profits.
11. Be quick on the draw in both the entry and exit when you see a setup.
12. Move stops (even if they are mental) to protect breakeven first and then protect profits.
13. Continue to move stops to protect profits as market moves in your direction.
14. Never move stops if in a losing trade. Take the loss and look for a better setup.
15. Always set disaster stops **before** entering a trade.
16. **Allow no distractions! No Phone Calls. No Chat Rooms. Allow nothing to distract you when you trade. It is your pattern recognition skills that are the key to success, not waiting for someone else to tell you what to do. This is the reason we do not run a real time chat room. We do not want to be distracted. We need to be focused to see the opportunities.**

Pre Trading Checklist

1. Check the daily chart to see major support and resistance levels and trends.
2. Check the previous day's price action: Inside day, outside day, up or down, gaps. Big days usually lead to slow consolidations; several slow days lead to a big day.
3. Review the Globex overnight and put in the high and low. Use the 74 tick chart for the last hour. *Using tick charts over the entire evening will give you very smooth charts. Use them if at all possible*. Review how the Globex tests the previous one hour close of the last day.
4. Review the INO.Com reports for the overall market sentiment. Signup is free and you can get some great information here. Also review any of your Broker's S&P Report for support and resistance to confirm your expected levels. Review Ed Downs Signal Watch on general market conditions. Newsletter is free.
5. Research what major reports that will affect the market: FOMC Fed Interest Rate meetings, Purchasing Managers Reports, Consumer Confidence, Housing, Employment, and Quarterly Earnings. Do not trade ahead of these reports.

   Also assume that people know about the contents of the report early. Price usually goes in the wrong direction to cover positions. Big spikes have an 80% chance of recovering at least 62%. Breakouts are possible in either direction and it takes 2-3 decreasing waves for spike to settle down into a new trend. It is not illegal to trade on Insider Information in the futures market, so be very careful here.

6. For major long term trends, know the Lock Limit Points for your market.

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7. The first 12-15 minutes the market searches for limits and has high volatility. We normally stand aside until some clear directional signals are given.
8. Watch for the testing of yesterday's high or low and look for other possible targets including yesterday's close.
9. Gap Open if using minute charts **(Note if you use Tick charts there will be no gap)**: Fade the gap and watch for a 12 minute reversal. See Gap Charts
10. No gap: Look for continuation of yesterday, unless there is a large GLOBEX moves. See Charts 30 and 31 for details of how to trade these. Also See Chart 54
11. Watch for trading to close the gap or test the highs and lows of the GLOBEX. These turns occur very close to +12 and +24 minutes. On our charts that is 6:42 and 6:54.
12. Remember that the Open is often within 10% of the high or low of the day 90% of the time.
13. Identify Trend Days from weekly chart and how the first hour price action traded.
14. There are 20-30 points available per day. Pick your spots, but be in the market based on indicators you indicators and your intuition. Do not try to pick tops or bottoms unless you have coincident multiple time frame signals with strong divergences.
15. Use the 74 tick chart or 1 minute chart for the first 90 minutes and the last 90 minutes.
16. **Be aware of news spikes. Prices are susceptible to long or short covering and will nearly always bounce to an 80% recovery point after the initial 2-3 minute run**.
17. Spikes shake out with a series of 3-4 decreasing waves that may set a new trend or continue this trend. **Note that stops do not help you in spikes**. ***Your stop will almost always get filled at the top or bottom of the spike.*** Be patient and wait for a rebound.
18. Spikes with the trend tend to continue; spikes against the trend tend to fail.
19. Check for price patterns: Holy Grail Trades, Retracement levels, Elliott Wave, Fibonacci Targets and Pesavento Pattern completions. See Chart 27
20. Check Longer Time Frame (a factor or 3-5 longer) to make sure you are not doing a counter-trend trade against the longer time frame trend. If you do keep close stops.
21. Check for different time frame Fibonacci confluences as major support and resistance.
22. Mechanical systems (buy or sell stops) tend to kick in around 10:20 – 10:30 for breakouts of Globex and first hour trading ranges. Traders tend to paint the tape in the opposite direction first to fake you out.
23. **Review time turns: 9:42, 9:54, 10:20, 11:45, 12:45, 2:00, 2:30, 3:00 and 3:30.**
24. Review Elliott Wave Retracement principles, 38%, 50%, and then 62% near the top. Buy on first retracement after a trend change or channel breakout. Be alert for the key Pesavento Patterns at .707 and 1.414. These are high probability trades.

Daily Schedule and Setup

1. Be up 1 hour early, eat, shower, meditate, relax and warm up on the SimBroker.
2. Review one online newsletter for general direction and reports and see if your signals agree or not. **Reminder: Do not get locked into predictions, look for similarities only and rely on your own intuition and interpretation.**
3. Assume that people know early about price reports so **be prepared for anything**.
4. Check the news for major world events and overnight markets' reaction to news.
5. Reboot your computer, then log into Ensign Software or your trading platform and data feed and refresh all data as necessary.
6. We recommend eSignal Data and Ensign Software as our platform of choice
7. Set up laptop or another computer as a backup and review contingency plans for Internet and power outages. Have backup feed on Quote.com; Live Charts set on 5 minute bars

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8. Look at price targets for the day on a daily and a daily chart with the Pesavento Pattern. Also check INDU and COMPQ to see if they may be in synch or out of synch.
9. Put in the Globex High and Low for the first hour to get an initial target range for early morning trading.
10. Set charts on 74 and 210 ticks [1-3 minute time frame if you do not use ticks] including Globex to see early momentum and include the in a side-by-side workspace.
11. Later, plot the High and Low of the first hour.
12. Set the any Support and Resistance indicators based on Globex initially and on the first hour later.
13. If a gap occurs at the open, set up the Fib 50% in the middle of the gap to verify daily range and prepare to fade the gap.
14. Watch the first 30 minutes. No trading unless obvious move under way. Watch for the 12 minute reversal of trend and another 12 minutes later. If you see a good signal take it at these times. If the signal is not clear, wait.
15. Watch the 10:20 time frame (beginning of program trading) closely for another reversal of trend into the main direction of the day. **Caution: traders will paint the tape in the next ten minutes to suck you into the wrong direction.** The market tends to follow predictable behaviors depending on the times of day, days of week, and at certain government reporting times.
16. Dead time 11:45 – 12:45; new moves start at 12:45 – 1:15 and another move at 2:30 due to close of financial markets. A 3:00 PM move often occurs due to end of trading as everyone gets settled. See Chart 38.

End of Day Review

1. Review the day against any projected price action by others to see how accurate their projections were. Compare those projections to your trading signals, support and resistance, etc. You should gain confidence in your own signals using this process.
2. Review trades to see how well you conformed to your Trading Plan. If you followed your rules and still took a small loss, that's okay. If you got hammered because you broke your rules, go back to square one, review your rules and commit to following them.
3. Record all trades, with reasons for entries, stops, profit taking and exits. Record both signals by using diagrams, and record your emotions on the chart too.
4. Log financial results and check your equity curve. It is not how often you win, but how much your equity grows that is important. Use the spreadsheet on this disk.
5. Lay out a study plan for weak areas. Do not try to develop a new Trading Plan unless you have no faith in the current one. Just improve you knowledge in this one area.
6. Get set up for the next day by reviewing Trading Plan and system signals. Visualize trades and emotions.
7. If you are using Ensign Software, utilize the Demo Symbol to test your trading skills after hours or on days you are not trading. You can also download and trade any previous day with the Demo feature. Just be sure and pick a day that you haven't memorized.
8. Remember that today is only one trading day in thousands. So no matter the result, if you followed your system, then you are a **Winner!**
9. Check that all of your trades agree with the broker's account. They do make mistakes. Be sure that you have no open contracts and that all trades were recorded properly.
10. Maintain your tax records and your trading log. Print and annotate charts of all trades and all exits. **See the attached Excel Spreadsheets**.

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11. **Always give yourself a reward for a winning week and larger one for a winning month. Don't forget to send us a testimonial!**
12. If you are sick, emotionally stressed out or have family obligations, walk away; don't trade. These times are the most dangerous and will cause you the biggest losses.

Futures Trading Secrets Approach

Chart Setup and Indicator Parameters

1 **Short Term Least Squares Moving Average:** 25 periods or use a Regression Channel with 25 period average and use average only. Shows the very short term price direction.

2 **Two Smoothed Stochastics**: 5-3-3 (STSI) and 28-14-1 (LTSI) superimposed over each other in order to see two time frames of the indicator simultaneously: this is the key to this trading approach. We use the (H+L)/2 for an average price in any one bar and a smoothed stochastic in each case. We now use the %K lines only for each indicator in order to minimize extra lines on the charts.

3 **Simple MACD:** A 7-28-7 Simple MACD showing both lines and a MACD Histogram using the [H+L+C]/3 as the price point and if possible on your system shows the MACD and Histogram with rising and falling colors bars which will enable you to see changes in the acceleration of momentum. We use green for rising and red for falling to remind us to watch for a trend change. Also note that the MACD averages are factors of four longer than each other.

4 **Exponential Moving Average (EMA):** 49 and 89 EMA. Their use in major trend changes will be discussed later. See Chart 41 and 42 We have found significant price action patterns for trend changes around these averages. Study Chart 33 for price bouncing off the 49 and then the 89 before a big trend change.

5 **Trend** is important and defined chiefly in these ways --Higher highs with Higher Lows (up trends), or the direction of the MACD slow line, LTSI Stochastic or EMAs moving up. Determination of trend is made on the higher time frame and is not subject to strict rules. EMA's will be slower to change direction and are most useful to gauge the strength of longer term trends. When the two EMAs (49 & 89) are horizontal or close together use only the **No Trend Signals**.

6 **Time Frames:** The common chart combinations, we use are the 74 Tick, 210 Tick and 550 Tick charts although other combinations are sometimes used based on volatility and range. Entries are usually based on 210T using 74T to finesse both entries and exits. Just always trade in the direction of the 210T as a minimum. An even stronger trade is in place if the 550T is also moving in the same direction. You can substitute 1, 3 and 5 minute charts if you like for the Tick Charts. *With time only charts you will need to keep an eye on volume as well as price.*

7 **Buy/Sell Zones** are defined as below 20% (buy) or over 80% (sell) on Fast Stochastic. .

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Background of Dual Stochastic System

This is the system which we currently use in our day trading. The goal is to get two or three trades per day on the e-Mini. We have observed up to 35 points available using 6 trades in a day. Depending on the number of contracts traded, that can be a significant return on time invested.

You can actually take as many or as few trades as you want once you get used to seeing the signals and understanding how accurate they are. We find that investing 30 minutes to get in synch and then trading for about an hour is our limit of fully focused concentration. We then take a break, mostly during the market quiet period from 11:30 – 1: 15, and come back for another hour or two of intense (relaxed) concentration. We always use a simulation broker to warm up for our first trade.

> *Our approach to trading is similar to golf or shooting or any other sport based on mental attitude and concentration. Golf is mostly walking before you take a shot followed by short periods of intense concentration during the shot. Ever notice the difference between someone like Sergio Garcia who over thinks a shot and Tiger Woods who just hits it? Also, if you don't hit a few at the range first you will not score well at golf, but over thinking gets you in trouble. A warm up period with the SimBroker set at 2-4x speed will help you eliminate false starts in the market.*
>
> *Probably the best sports analogy is this. Too many traders want a perfect "Holy Grail" type system with no losses and big wins all the time. If you look at Tiger Woods, currently the world's greatest golfer, he only hits the fairways or greens about 70% of the time but recovers with fantastic shots. Knowing how to recover effectively and not let the last bad shot bother you is the key to longer term success in trading.*

It takes SERIOUS work to become a professional athlete or a professional (read profitable) trader. If you can't do the study, practice, log keeping or emotional control work, just quit and do something easier.

Our personal goal is to get between 6 (on slow days) and 10 (on active trading range days) points per day using a two contract program. Notice I did not say trend days (trend days occur only 15% of the time). At the tick level, there are at least 40-50 points per day in intra-day trends even in flat days. By following the rules of this approach you have a very low probability of any big losers. You can easily grab 2-3 points per trade with no more than a 1-2 points at risk (assuming that you can act immediately when entry and exit signals occur). If your system is even 40% accurate you can still make money with those types of results. Review the Expectancy Formula.

The failure rate on trades with this approach is very low, especially if you use the twin time frames and only trade in the direction of the trend in the higher time frame. Carefully review what both time frame charts are telling you. Since one is a three times longer time frame, you should use the short time frame for entry and exits only when the larger time frame also gives you a signal. See Chart 51 and 52 for a dual time frame comparison of signals.

These trades will be defined as the Ka Ching Trade. It is the first pullback after a trend reversal.

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High Percentage Trade Setups

The system is used to get in and out at the optimum point possible on trend reversals and trend continuations after retracement.

> **This is not a mechanical system**. It is a trading method. Experience with the indicators used and pattern recognition skills are far more important than trying to devise rules for every contingency.
>
> **General Rule**: If the Lower Time Frame (LTF) and Higher Time Frame (HTF) signals are at odds, pass on the trade! It is as simple as that.

Setup Number 1: A **Sling Shot Trade** uses Hidden Divergence on the LTF when both the Slow and Fast Stochastic are pegged high or low to identify trend changes on the HTF. These will be very high percentage trades.

> **A Sling Shot Trade** is a visual signal that highlights a low risk and tradable pullback within a trend (this is also described as a Hidden Divergence). Continuation reentries do not require the Fast Stochastic to be in buy/sell zone as long as Slow Stochastic and MACD are still in the same direction as the trade.
>
> For a long entry, the Fast Stochastic will dip and turn back up while the Slow Stochastic remains relatively flat near the top of the range. Since the two Stochastic indicators are on top of each other, this will look like a Sling Shot being pulled back. The higher the time frame, the more powerful the **Sling Shot**. Sling Shots appear more often on the lower time frames. **Sling Shot** entries should be taken only with the trend, but never counter-trend. See Chart 11**.**

Setup Number 2: A **Ka Ching Trade** occurs when the middle time frame (the one you are trading with the trend) begins to move in a different direction and then has a short pullback that creates a divergence on the Short Term Stochastic. This is an extremely high percentage trade and, depending on the trend, can lead to 5 points or more as the trend changes. . See Chart 33 Trade of the Day.

> Enter on every **Ka Ching** formation. A **Ka Ching** is a pattern that is made by the 5-3-3 Fast Stochastic combined with the 28-14-1. See Chart 11
>
> Enter in the direction of the Long Term Stochastic whenever the Fast Stochastic has created a Sling Shot like movement, but falls short and creates a divergence on the Short Term Stochastic. Entry may be made using 74T chart to gain better entry point, but this is not mandatory. Don't enter until evidence of movement in the desired direction is seen. This entry can also be taken when there is no distinct trend, but almost never countertrend.
>
> To enter on the apparent reversal of a significant trend requires Stochastic and/or MACD Divergences, or other evidence of reversal such as lower high or a higher low. The longer and stronger the trend, the clearer and convincing the Divergence must be. Divergences

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on both Time Frames are very strong signals and should be taken unless there are Time of Day (TOD), Major News or Government Report issues pending.

Setup Number 3: A **No Trend Trade** occurs during periods of consolidation and (the EMAs are relatively flat) when there is no trend, a simple Bollinger Band Technique used as a secondary system with the Fast or Slow Stochastic will generally get you 2-4 points on each trade as well. This additional indicator usage is described earlier because of the lower probability of success. We do not often trade these setups. See Chart 40.

Fine Tuning the Dual Stochastic System

1. Look for Divergences on the 74T near a retracement on the 210T for major turn on the 210T and the 74T. Also check your MACD and MACD Histogram for Divergences. These will occur less often and later, but are strong additional confirming signals. See the Divergence Review for additional details. See Chart 48
2. After a 74T Stochastic Divergence at a top or bottom, the 210T will usually turn also. Note that both the Slow and Fast Stochastic need to be pegged near the top or bottom for these signals to be valid. This is the beginning of a longer term trend change. See Chart 51.
3. For trend changing retracements, price turns at the 49 EMA and 89 EMA during a major trend change are very good target prices.
    a. The Down Trend will retrace to the 49 EMA then pull back.
    b. The next wave usually goes to or through the 89 EMA and retraces back to the 89 EMA. Sometimes this can occur twice.
    c. This bounce back up off the 89 EMA is the beginning of a major trend shift. If it does not occur, then you are in a trading range or in for a resumption of the previous trend. See Charts 28 and 29
4. One of the best times of the day to see this effect is after a High of the Day or Low of the Day has been reached and a major trend change is taking place.
5. The other time is in the last hour of the day. Many people advise against trading the last hour, however, we have found very smooth short term trend moves and predictable retracements occur in the last hour.
    a. If you think in macro terms, there should be a sell-off at the end of the day because everyone wants to be flat, especially on Friday. See Chart 38
    b. If there has been a significant trend day, there will be significant profit taking by big players in the last 30 minutes of the day (either long or short).

Primary Exit Methods

1. Exit methods require the use of price action combined with the indications from the Slow Stochastic and MACD on the 210T to prevent early exit based on momentary hesitations or small retracements. If the retracement is large, then you will have a Ka Ching or a Sling Shot trade. Also consider support and resistance factors, chart patterns such as waves, and Time of Day. See Chart 11 .
2. ***One of our key indicators using Ensign is that when a Pesavento Line prints on a chart this is an excellent signal to exit the trade and lock in your profits.***
3. Try never to risk more than 1.5 points in a trade on ES or 5 on NQ. We do not personally use stops other than a disaster stop 5-7 points away in case of loss of power, phone, or another 9/11 type incident. **Be aware** that in these cases even your stops will not protect

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you in a fast market. Stops and Limits become market orders. You may get filled near the bottom of the pile. Our experience with these big spikes is that 90% of the time they retrace at least 62% of their former value. **So try not to panic.**

Trading Stops and Exits

Stops and exits are possibly the most important part of your trading system. Having a sense of security about your trade or at least a defined loss point based on your trading plan and money management system will go a long way toward reducing your emotional responses to trading.

You should have a predetermined place to cut your losses. You may get stooped out only to see the price take of in your direction. If this happens too often your stops are too close. If your losses are too big, your stops are too loose. Not having a loss now and then leads to perfectionism and the potential for large losses later. So take your losses, but at predetermined places.

By getting stopped out you have preserved most of your capital so you can continue to trade. **Preservation of capital is your primary goal.** You always have the ability to reenter the trade, but make sure it is based on one of your signals, not an emotional response to avoid missing a move. By taking your losses, you have eliminated the frustration of not being disciplined. While you can trade without stops, you are gambling with your money in the market and damaging your discipline and attitude. Having a predetermined stop is not only prudent, but also shows you are treating your trading like a business.

While we trade with only mental stops now, we have developed an "iron clad" discipline over many years and take our losses no matter what. A loss in this case is a WIN for our system, because it was a defined loss according to our rules.

The other issue that determines your stops is the time frame you use. We recommend the mid time frame of 210T with a 74T and 550T for balance on either side. Which time frame to use is always a question and most new traders only use the lower time frame without letting a high probability trade develop. Learning to have patience and wait for the 210T setup will definitely improve your results. In the FTS program we recommend that you keep your stop loss at no more than 1.5 points. The following guidelines can help you determine your stop loss point.

Protective Stops

Placing a Hard Disaster Stop far away from the market will give you piece of mind. You will know your maximum loss in case of all kinds of disasters, including loss of power, loss of phone, market crashes and other unforeseen events.

1. One of the most common ways to determine your stop loss is to use the preceding price bar or the price bar you were filled on. Which one is used is only a matter of preference.
2. If you are entering a long above the high of the previous bar, you may:
   a. Use the prior bar stop and place the initial stop 1 to 2 ticks below the current bar
   b. Use the current bar stop and place the initial stop 1 to 2 ticks below the current bar
   c. You may use a combination of both by using the prior bar, and then if the risk is too high for your rules, instead of passing on the trade, see if the current bar method puts you in the risk level.
   d. For a trading range market, the stop can be at the extreme of the range or at the H/L of the breakout bar.

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   e. A runaway price creating a long bar gives you greater risk so use a set stop 1.5 points.
3. The reason we do not use stops and only use market orders in our system of day trading is for speed and simplification. The risk is there of a runaway bar, but if you have discipline and are quick, you can mitigate that risk. You will almost always only lose ¼ point on a trade.

Profit Taking Exits

1. We use Pesavento and Fibonacci levels for targets and exits. Multiple PP and Fib lines usually represent support and resistance. We recommend taking at least half of your profit at this point and moving your hard or mental stop up to within 1 point on this signal.
2. Price targets can also be identified with price patterns. Some examples are the Head and Shoulders patterns, Triangles, and Wedges. The Head and Shoulders pattern on the MACD is an excellent profit taking signal when the price reaches the right shoulder.
3. Trailing Profit Stops can use the prior bar or two bar H/L as a place to hold your stop. If the trend is strong, let the price run more than if it is weak.
4. One technique it to drop to a lower time frame and use the LMSA. When the price closes on the opposite site of the LMSA, look to take profits or move your stop up to within a point.
5. You can also use the last swing high for shorts and last swing low for longs. This technique is especially effective in a long trending market. You will be taking additional positions using Sling Shots as the trend progresses. Keep moving your stops as the trend continues.
6. Finally, many charting programs have a study called a Parabolic Stop. Experiment with the settings that are appropriate for the time frame you are trading. Make a visual inspection to see that you would preserve your capital and your profits before using this method.
7. **Our personal approach is to use the Logic of the Markets approach. That is the market continually searches for a fair value and tests previous highs and lows. If you have a failure to break through a low, then the next logical stop is to test the most recent significant high**.
8. If you are using Time Charts rather than Tick Charts, then a large volume spike with little price movement is reason to exit. This is usually an indication that traders are taking profits or switching sides to take advantage of a move in the other direction. In most cases the eMini moves a maximum of seven points in one direction before turning back to test a previous high or low.

As you can see there are many methods to take profits. We attempt to get three points per trade and exit whenever we have reached that goal unless there is an obvious reason to stay in. In a long trend, we may enter and exit several times rather than

Other Trading System Comparisons

Chart comparisons of other trading systems or other indicator settings are given in Charts 43 to Chart 48. Review these carefully and see why we chose the settings we did.

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Appendix A: Mental Conditioning Exercise Log

1. Have I reviewed my long and short term goals?
2. Did I eat right yesterday and have I had breakfast?
3. Did I exercise yesterday?
4. Did I get enough sleep?
5. Have I meditated or completed relaxation exercises?
6. Do I feel ready to trade?
7. Have I reviewed my trading plan?
8. Have I reviewed my money management plan?
9. Have I reviewed my trading signals and stop settings?
10. Can I write down all these rules on trading, money management, signals and stop settings from memory?
11. Is my schedule clear of stressful meetings and family commitments?
12. Is my trading desk setup and ready?
13. Are all my backup systems and procedures in place?
14. Have I filled out my Trade Planning Worksheet?
15. Did I use a SimBroker of other method to review yesterday's trades?
16. Did I completely fill in my trading log and write down all my emotions and lessons learned (See Appendix C for an example)?
17. Do I have confidence with my ability to act decisively?
18. Do I have any doubts or questions on my entry and exit signal?
19. Am I planning on having fun and funds in a low risk environment?
20. Are all potential distractions removed (phone calls, etc)?

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Appendix B: Trade Planning Worksheet

Yesterdays Price Action:

Open _____ Globex High _____

Close _____ Globex Low _____

High _____ Week High _____

Low _____ Week Low _____

Major Fibonacci Retracement Confluences:

From Yesterday _____ _____ _____

From Last Week _____ _____ _____

Resistance Levels R1_____ R2 _____ R3 _____

Support Levels S1_____ S2 _____ S3 _____

Lock Limits L1_____ L2 _____ L3_____

Disaster Stops Hi_____ Lo _____

Reports for Today: _____ Time _____

Reviewed Briefing.Com, _____ Ino.com _____ Brokers Notices _____

Contract Roll Over Date _____ Options Expiration Date _____

Computer Rebooted _____ Backup Computer Online _____ Backup Phone _____

Brokers Phone Numbers Toll Free _____ Direct Line _____

Trading Account Number _____

Trading Platform User Name _____ Password _____

Trading Software Phone Toll Free _____ Direct Line _____

Data Feed Phone Number Toll Free _____ Direct Line _____

Internet or DTN Number Toll Free _____ Direct Line _____

Catastrophe Contingency Plan Reviewed?

Trading Goal for Day: Points _____ Total Trades _____

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Appendix C: Trading Log and Lessons Learned

Example: Friday, April 20, 2004

1. Two trades for a combined loss of $300 + $36 Commissions with virtually no slippage
2. Three questions come to mind after closely watching today's session
    a. What do I want? Some how I seem to be guessing at exactly the wrong spot. Always trying to out guess the system.
    b. Why don't I follow the signals? The attached graphs show that the signals were correct yet all of my trades were taken at exactly the wrong spot!
    c. How do I make myself take the systems signals?
        i. Quite cherry picking and waiting too long.
        ii. Believe 100% in the signals as back tested.
        iii. Set an NLP Trigger for action on high probability trades
3. I was not necessarily nervous today. I exited the big loser right at my 2 point stop. The market turned back in my favor toward a winner in another ½ point.
4. This turn was from a signal from my system to go short and the short I entered was at a long signal.
5. If I followed the signals I would have a 5.5 point winner rather than a 2 point loser.
6. I am still trying to pick tops and bottoms and need to wait for the second signal that almost always comes after a divergence of price and indicators
7. My attitude is OK. I learned a great deal today by analyzing my trades and recording my observations.
8. After the loss, I was scared to take another trade because my personal loss limit for the day is $300.
9. I did miss one terrific signal (explained on the charts that would have reversed the day to a $400 winner. Again fear of loss overcame hope for gain.
10. Spend time reviewing the charts and anchoring the positive signals it gives. Look at every signal.
11. And second spend the night studying NLP to set good anchors for proper trade execution

Specific Lessons Learned

1. Look for a Sling Shot on the 210T when both STSI and LTSI pegged at top or bottom.
2. Then look for the second Sling Shot and Divergence on the 55T. Both the MACD and STSI should be in a Divergence setup.
3. Get in on the Buy/Sell Zone (BSZ) for a medium term reversal, then
4. Watch the LTSI on the 210T until it is near the BSZ. This will keep me in longer.
5. You may get HD along the way and you can either exit at the convergence of the STSI and LTSI in the BSZ on the 55T and
6. Wait to play the 55T STSI Sling Shot if all indicators are up/down on the 210T and not in the BSZ
7. Final Exit will be when the when the 210T STSI and LTSI are pegged in the BSZ.
8. Begin watching the 55T for signs to exit and usually look for the RD and the LTSI pointed down near 50%
9. Other Key Indicators: Watch to see where the price is in relation to the 49 and 89 EMA's. These indicators are good retracement targets after two or three waves up.
10. Always wait for the STSI to hit the BSZ before entering any trade.

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11. If the 210T STSI is diverging and the 55T is in the BSZ with the LTSI in the middle and moving in the Trend Direction, then Buy/Sell. Momentum carryover will only be 1 point against you.
12. On the first move after a 55T/210T pegged top should be cautious and wait for a retracement to enter in the direction of the new trend.
13. Candle Tails on the 210T are good indicators of tops and bottoms. Do not trade them, but watch the indicators and use them as confirmations.
14. A flat hesitation in the 55T during a 210T trend usually means another big leg up unless 210T LTSI and STSI are pegged high
15. With this approach you can play the last ½ hour of the day with confidence. The large amount of MOC orders will almost guarantee a 3-7 point drop even in an up-trend day as everyone wants to get flat for the day.
16. Six Charts are attached to this report with trading notes.
17. **Change short term time frame to 74 T for smoother action**.

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Appendix D: Commodities Risk and Growth Calculator

There are four Excel Spreadsheets included with this program.

1. The Trade Performance spreadsheet allows you to maintain all of your trades on a monthly basis and calculate all of your performance statistics.

2. The Commodities Calculator is set up so you can calculate risk reward ratios for various commodities if you decide to trade multiple markets. The second spread sheet shows you various growth scenarios for various account sizes and growth factors.

3. The Money Management spreadsheet includes the Kelly Money Management System, maximum risk and probabilities for each. The second worksheet allows you to play with probabilities and test the concepts for yourself.

4. .The Trade Log allows you an easy method to compare your trading strategies against the Futures Trading Secrets Approach

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Appendix E: Trading Rules Summary

Focus is on the 210Tick (2 minute chart)

1. During regular volume, always use the 210T as the main time frame.
2. For counter trend scalps us the 74T only and hold closer stops.
3. Wait for the first pullback on the 74T to take the most conservative trade.

Enter in the Direction of the Trend (LTSI, MACD Ave, EMA)

1. When the 74T STSI is in the BSZ trade in the opposite direction after a price move.
2. Continuation entries do not have to be in the BSZ if the MACD and LTSI agree.
3. Stay in a trade based on the 210T STSI and the 210T MACD.
4. Add additional contracts based on 74T Slingshot signals.

Trend Reversals

1. Trend reversals occur when BOTH the STSI and MACD diverge with price. The best divergent signals occur when both 74T and 210T are coincident, and
2. Two or more Pesavento lines from above and below print simultaneously.
3. The last bar to print closes on the opposite side of the LSMA is another confirmation, or
4. You have a Higher High and Higher Low after a down trend. Or a Lower Low and a Lower High after an up trend.

No Trend

1. The EMAs are parallel, are close together or they are flat.
2. Trade the 74T using the STSI as it crosses up (buy) or down (sell) from the BSZ

Sling Shot Trades:

1. Definition: The STSI is out of phase wit the LTSI when the LTSI is pegged in either BSZ. There will be more signals on the 74T but stronger signals on 210T.
2. The STSI and MACD and/or MACD Histogram show divergence from the BSZ as RD.
3. Price has switched sides on the LSMA for a short time and returned to previous side.
4. Take all these trades up to consecutive 3 times, they are 85% accurate.

Ka Ching Trades

1. LTSI and STSI are pegged in BSZ. Last STSI retracement does not reach back to the BSZ and creates a divergence.
2. Trend Change Questions. Did MACD and LTSI rollover? Has STSI peaked and turned?

Definitions

1. STSI = Fast Stochastic (5-3-3), smoothed, (H+L)/2. We use %K only.
2. LTSI = Long Term Stochastic (28-14-1), smoothed, (H+L)/2. We use %K only.
3. BSZ = Buy Sell Zone on Stochastic Charts 20/30 and 70/80 levels (we normally use 20/80 only.
4. MACD = Simple (7-28-7) plus Histogram, (H+L+C)/3 for representative price.
5. EMAs = 49 and 89 EMA, (H+L+C)/3 for representative price. Use on all charts.
6. LSMA = Least Squares Moving Average or a Regression Channel (average only) 2 standard deviations with a 25 period moving average. Use only the center line.
7. PP = Pesavento Pattern settings of 300 and 1 for use on all charts.

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Putting the Odds in Your Favor

How do you put the odds in your favor? We have developed a seven point plan called the **1-2-3 Go Formula** that will give you up to an 80% probability of a favorable trade. Remember that there is the science and the art. This is the Art part of trading. Here is exactly how we look at the charts and what we look for in the order of importance when we consider whether to trade one of the FTS setups. If you have an FTS trade setup, then you have a 50% chance of being right plus adding all the points below will give you a high probability trade.

Sling Shot or Hidden Divergence Trades

1. Are you trading in the direction of the EMA's (assuming they are not horizontal) = +5%
2. Are you between previous support and resistance and between a Pesavento/Fibonacci ratio (no Pesavento Line has printed)? = +5%
3. Has the MACD Histogram reversed and is it moving in the direction you want to trade?=+5%
4. Has the STSI moved from the Buy Sell Zone (BSZ) and has it reversed toward the direction of your trade? =+5%
5. Is the LTSI and the MACD moving in the direction of the trade? =+5%
6. Are the same signals (coincident Sling Shots) showing on two time frames in the same direction as your anticipated trade? =+5%

Do you believe the signals and are you willing to trade on the probabilities of continued movement? (Probability is now 50% + 30% = 80%) This signal can be used in trends on the time frame you are trading. Be cautious if this is the Third Sling Shot in a row, the market often turns here after three Sling Shots or three Elliot Waves.

Ka Ching or Regular Divergence Trades

1. In a down trend the piece had a Higher High and a Higher Low = +5%
2. A Pesavento Line will print at a support and resistance level or a multiple Fibonacci level of previous market action. =+5%
3. Did the MACD Histogram reverse and is it moving strongly in the direction you want to trade (at least 2 bars) =+2%
4. Has the STSI moved from the Buy Sell Zone (BSZ) and reversed back toward the BSZ, and does it then reverses again toward the direction of your intended trade? And has the LTSI started to move out of the BSZ in a new direction? (the Ka Ching Formation) =+3%
5. Has the MACD formed a Regular Divergence with the price? =+2%
6. Are the same signals (coincident Ka Chings) showing on two time frames in the same direction as your anticipated trade? =+5%
7. Do you believe the signals and are you willing to trade on the probabilities of continued movement? (Probability is now 50% + 22% = 72%) This trade is riskier than a Sling Shot because it is a counter trend trade. There are two opportunities here, one on the shorter time frame and one on the longer time frame. The longer time frame has less risk, but often you miss half of the potential move.

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Appendix F: Charting Examples

The following charts outline both our total approach to trading as well as show you how each element has been built into this systematic approach. Our intent is to show you that adjustment of indicators does very little to alter the overall trading signals so some of these examples have other indicator settings.

You can also see how our approach has evolved over the past two years. The first several charts and the last five or six use our current settings. The Ensign Software Templates and Work Spaces are included with this training course. These templates are not meant to be opened individually. Read the instruction with this program. If you have any questions about installing them, please feel free to contact us toll free at 888-404-1212 in the U.S. or 858-457-3434 for outside the U.S.

In the simplest possible terms here is our outline of how we trade and what primary signals we take. We use all the other indicators as secondary confirming signals.

Use the expansion feature in Adobe Acrobat to expand the charts to full screen size. If you print these charts, you will not get the full impact and the resolution will not be as good as you would like. You will find the videos are produced with a loss-less player for full resolution.

All of our charts are in Pacific Standard Time, three hours later than market time.

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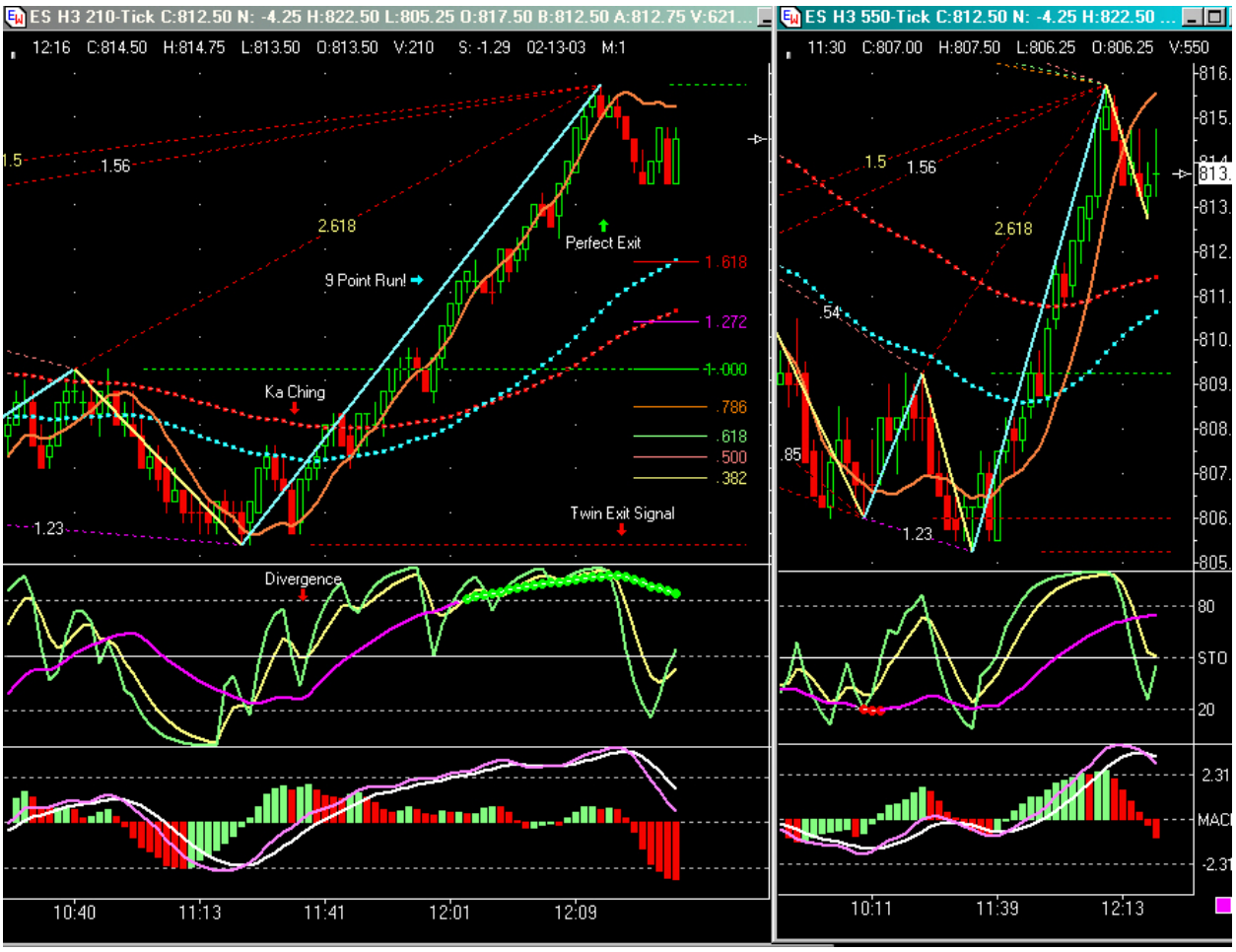
Chart 1: Futures Trading Secrets Approach



We recommend that you study this chart carefully. There are signals from the Short Term Stochastic on the 210 Tick Chart (divergence and Ka Ching Trade). The exit is taken with the coincidence of the MACD Histogram turn and the Short and Long Term Stochastic all have headed down.

The other thing to consider is that all the Pesavento Patterns have also printed at the top, including the retracement (yellow dotted line on the 550 Tick chart) and this has been a substantial 9 point run. Logic as well as the Pesavento Patterns it is time for profit taking or a retracement.

Do your see how using the 210 tick chart, which is approximately a 1-3 minute chart depending on the volume, can be a very effective way to day trade the e-Mini? Be sure to notice that the MACD lags the price; the MACD Histogram is closer to the price changes but slower than the Short Term Stochastic (5-3-3).

The MACD and the Long Term Stochastic show the intermediate trend and the longer term EMA's lag significantly. Waiting for retracements against the longer term averages and using the short term indicators is our basic approach.

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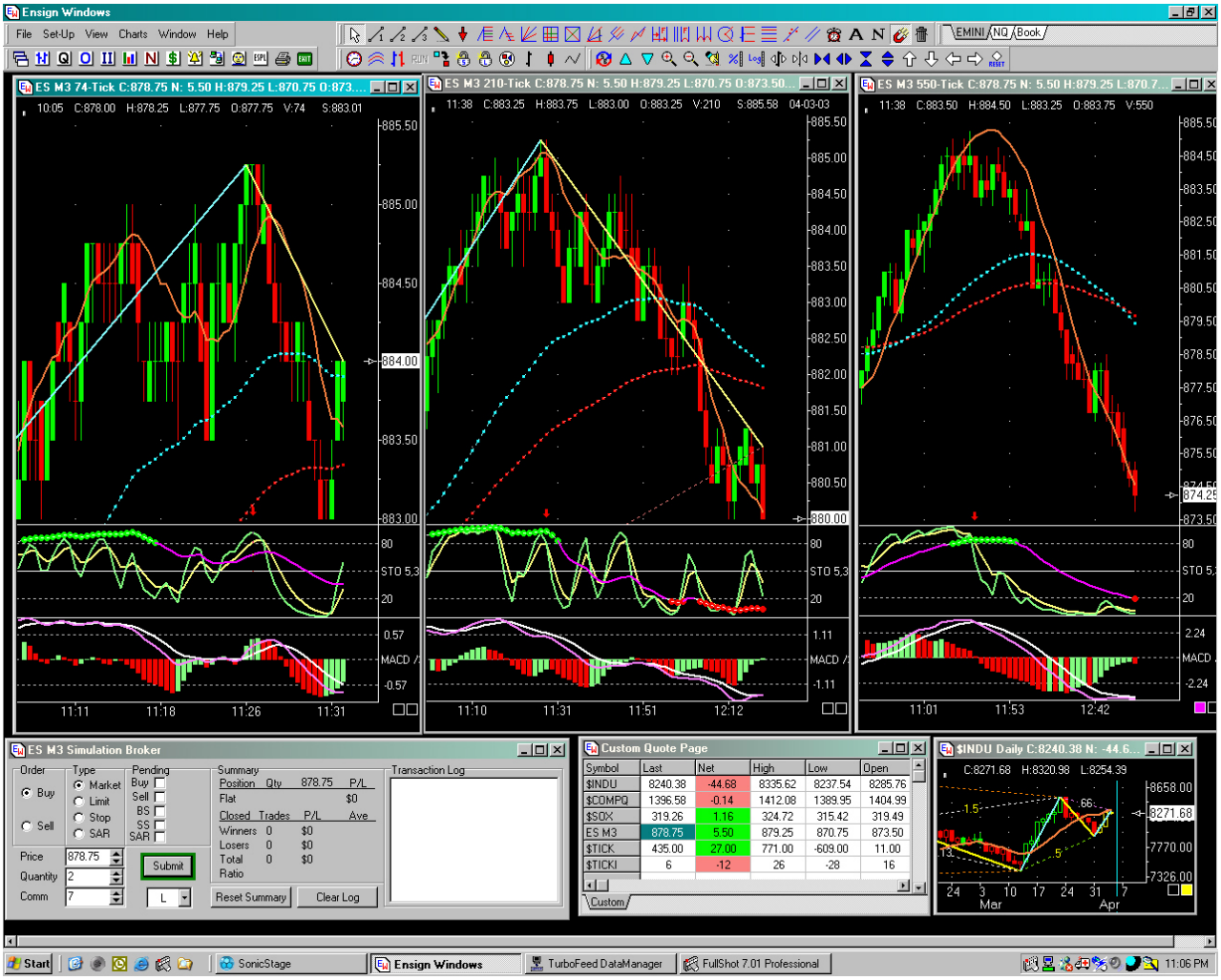
Chart 2: One Monitor Work Space



Expand this image to 150% for details. This is a typical trading setup for a one monitor system. We know some traders who have as many as 7-10 monitors. We find that focusing on the e-Mini, one monitor and only two or three time frames that are factors of 3-4 different from each other, helps us focus on the business at hand. We try to focus primarily on the 210 tick chart, but find that we often get our best entries on the 74 tick charts.

The Demo feature of Ensign is an excellent way to practice trading without risking money initially. You can download any previous day of real data for the ES, NQ or any other commodity or stock and then have the Demo feature replay that days data in either real time or in speeds up to 10 times real time. We use the faster times to make sure we *don't think* too much, but *act* on the signals we see.

With the SimBroker, you cannot cheat and undo trades. If you take the signal, it will record every trade plus slippage. You can reverse quickly if you want to, and you can take additional trades as add-ons too. Implementing the money management strategy with the SimBroker is an excellent way to improve your results. This was a particularly profitable practice session. It took us about three months of practice to achieve this result.

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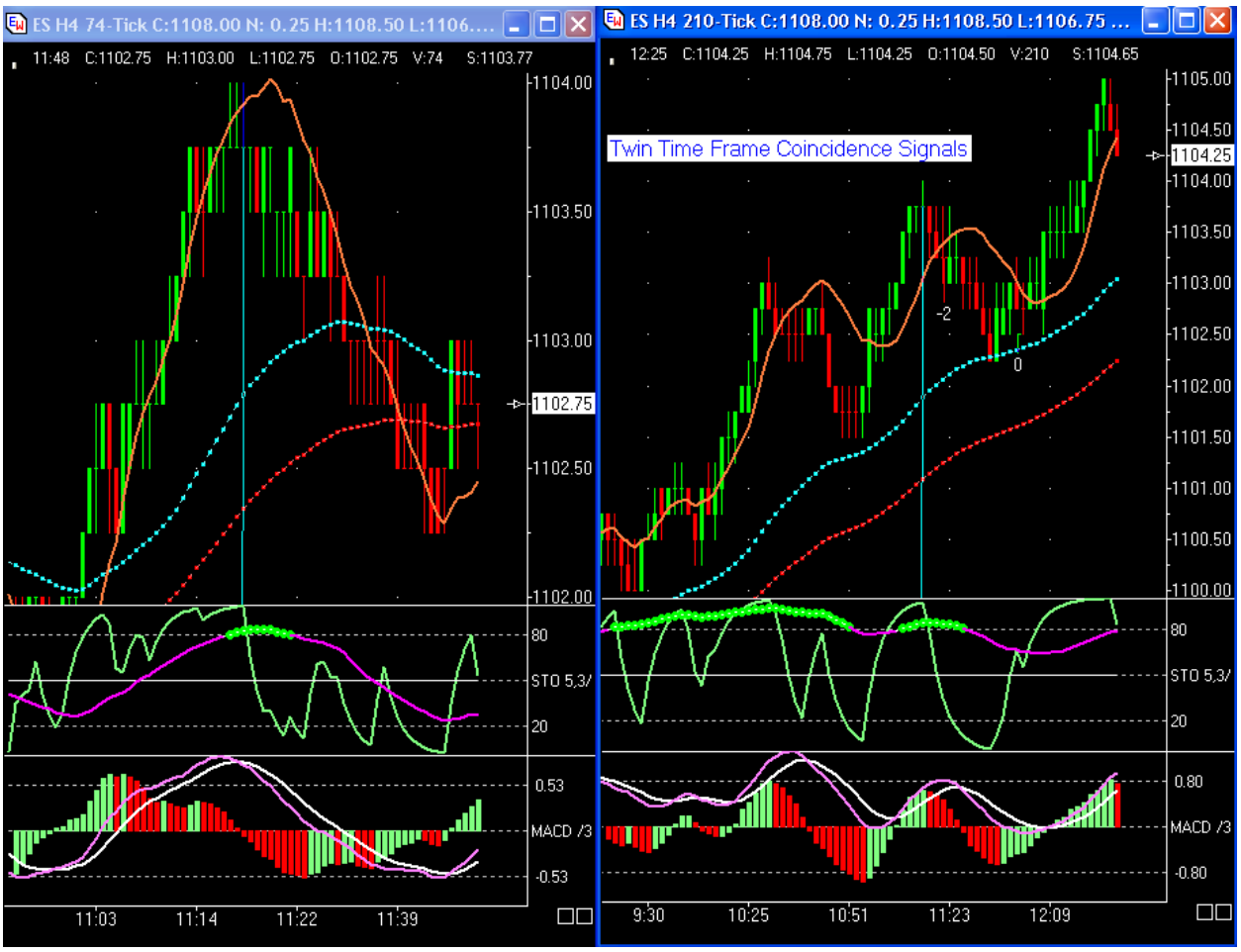
Chart 3: Current Trading Work Space



Expand this chart to 200% to view details.

From the workspace in Chart 2, this is the portion where we primarily focus our attention. Besides the three timed tick charts at 74T and 210T. The Blue vertical lines show an idea long exit or a two point counter trend short trade. We opted for the short trade based on the previous pullback and the MACD Divergence on the 210T. Also the trend had been in place for some time so the possibility of a Ka Ching trade existed.

When the price hit the 49 EMA it was a good time to exit and look for a reversal signal. The price had moved up significantly and had the possibility for a trend change. When the price advanced again and he STSI moved above 50% it was time to get in long again..

We will have included a copy of our templates and our workspace to valid purchasers of this program. We only ask that you do not share these settings with other traders as they are copyrighted intellectual property when used together.

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Chart 4: Multiple Time Frames on One Chart

Putting moving averages from multiple time frames on the same chart helps you see what is happening in a higher or a lower time frame. Using multiple time frames to compare trends, reversals and trading range breakouts can be very helpful to a trader.

Here is the formula to calculate a 20 period moving average from the ten minute chart and put it on your five minute chart.

To plot a 10 minute, 20 period moving average on a 5 minute chart, you use a simple formula:

10/5 x 20 = 40 periods (we recommend using exponential moving averages)

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Chart 5: Divergence Signals and Ka Ching Trades

Here is a quick way to pick up 5-10 points in an hour or less. This day followed a large trend day. The next day is often a consolidation with range trading opportunities. As you can see the EMAs are close together and flat. This is the point where the market will "Thread the Needle" with price oscillating around the EMAs. The Ka Ching signals still work when used in conjunction with the divergence signals. The MACD are more reliable than the Stochastic Divergences, only they are a few bars slower. Use them both for confirmation..

Notice the divergence in both the Stochastic and MACD along with the Pesavento Line print at the top of the run. You had a small divergence at about 7:56 but no PP line so you could have exited the trade there as well.

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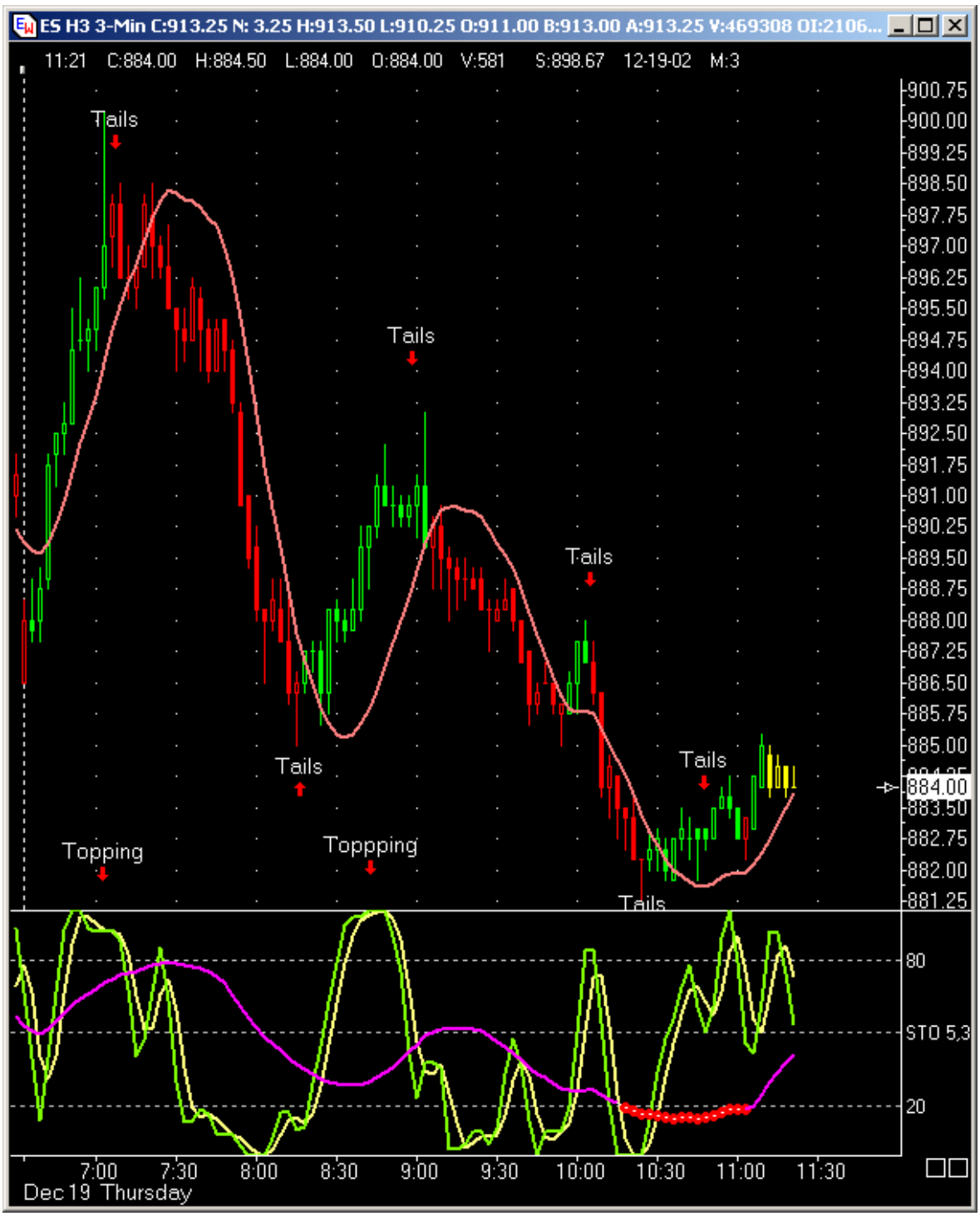
Chart 6: Candlestick Signals



How candles can assist you in identifying tops and bottoms. Candles are not as effective if using short term tick charts, but with timed charts they can be an effective secondary indicator.

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Chart 7: Candlestick Pattern Turning Points

Using **Candlestick indicators** alone can be a trading system. Combining candlestick patterns with the SOS and MACD tuned indicators add significantly to the accuracy of your trades.

If you set up your workspace to have two tick charts, 74T and 210T side by side with a 3 minute chart, you will see how the timed charts present better candlestick signals because they contain the volume component into the candle. *If you rely on candlesticks only on tick charts, you will get many confusing signals.*

Using a **combination of a tick chart and a timed chart** will help you confirm trading signals and give you greater confidence in your trading. Try comparing approaches and see which best suits your trading style.

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Chart 8: Other Significant Candlestick Patterns

Remember to look for these patterns on timed charts only. Notice how the candles show significant patterns at the exact turning points of the Short Term Stochastic, set at 5-3-3.

This 550 tick chart is long enough that candle patterns are more effective. The 550 tick chart is roughly equivalent to a five minute chart.

We have a 550 tick chart on the far right of our screen for reference.

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Chart 9: Stochastic Time Frame Comparisons

Here we can see how traditional overbought and oversold crossing signals in the classic Stochastic Cross type trading systems is highly dependent on the time frame of the indicator used. Too short and you have too many trades. Too long and you will be late on all moves and miss most, if not all, of the profits.

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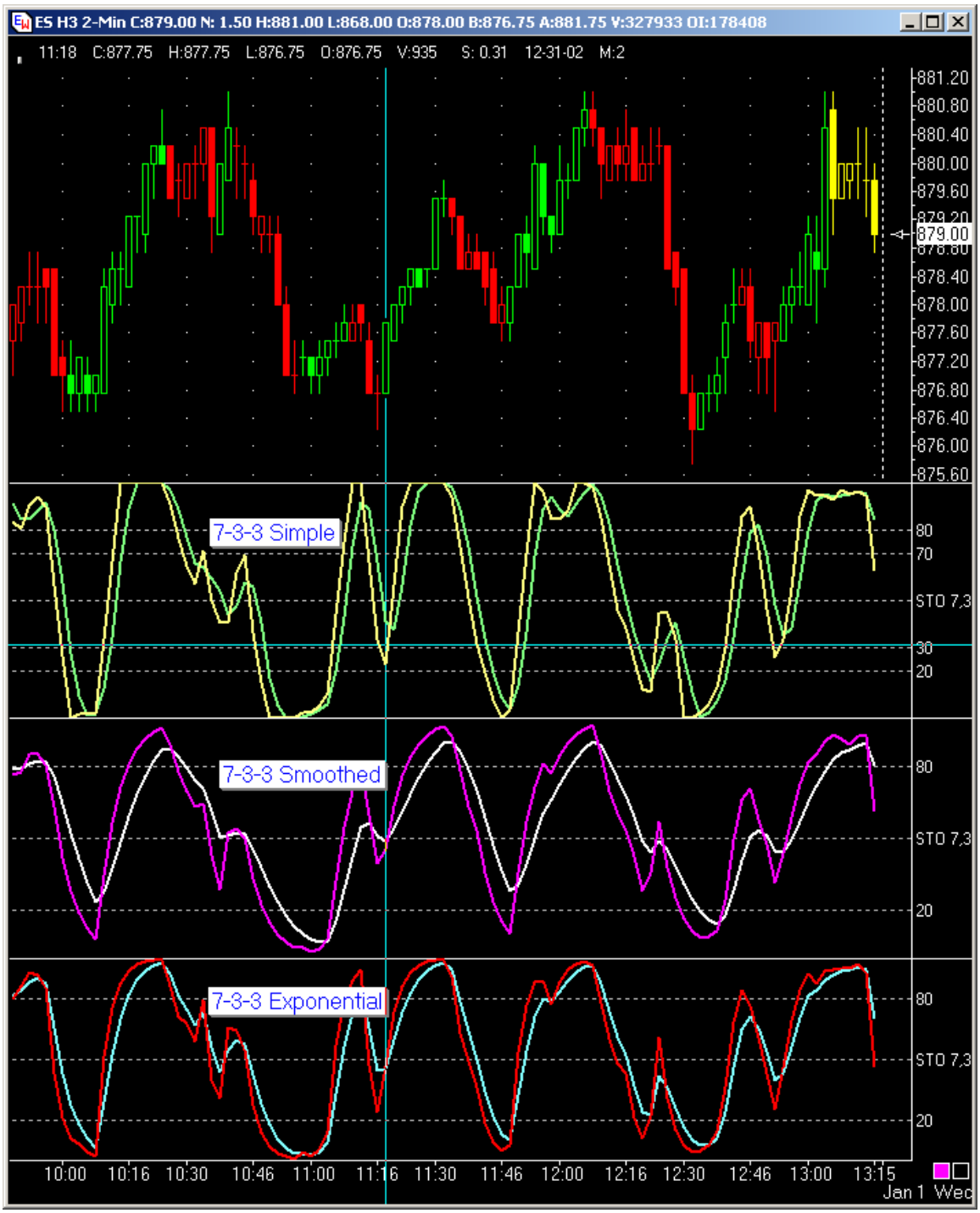
Chart 10: Stochastic Examples by Type



Here is a comparison of **three different types of Stochastic Indicators.** While there is very little difference in the major turning signals. What is evident is how deep the retracements or moves between the 20 and 80 levels are less drastic on a smoothed Stochastic than on either a simple of exponential stochastic.

All cross the 20/80 line at the same location, we have found through looking at many formations that we prefer the smoothed averages better. We use a 5-3-3 rather than the 7-3-3 shown here.

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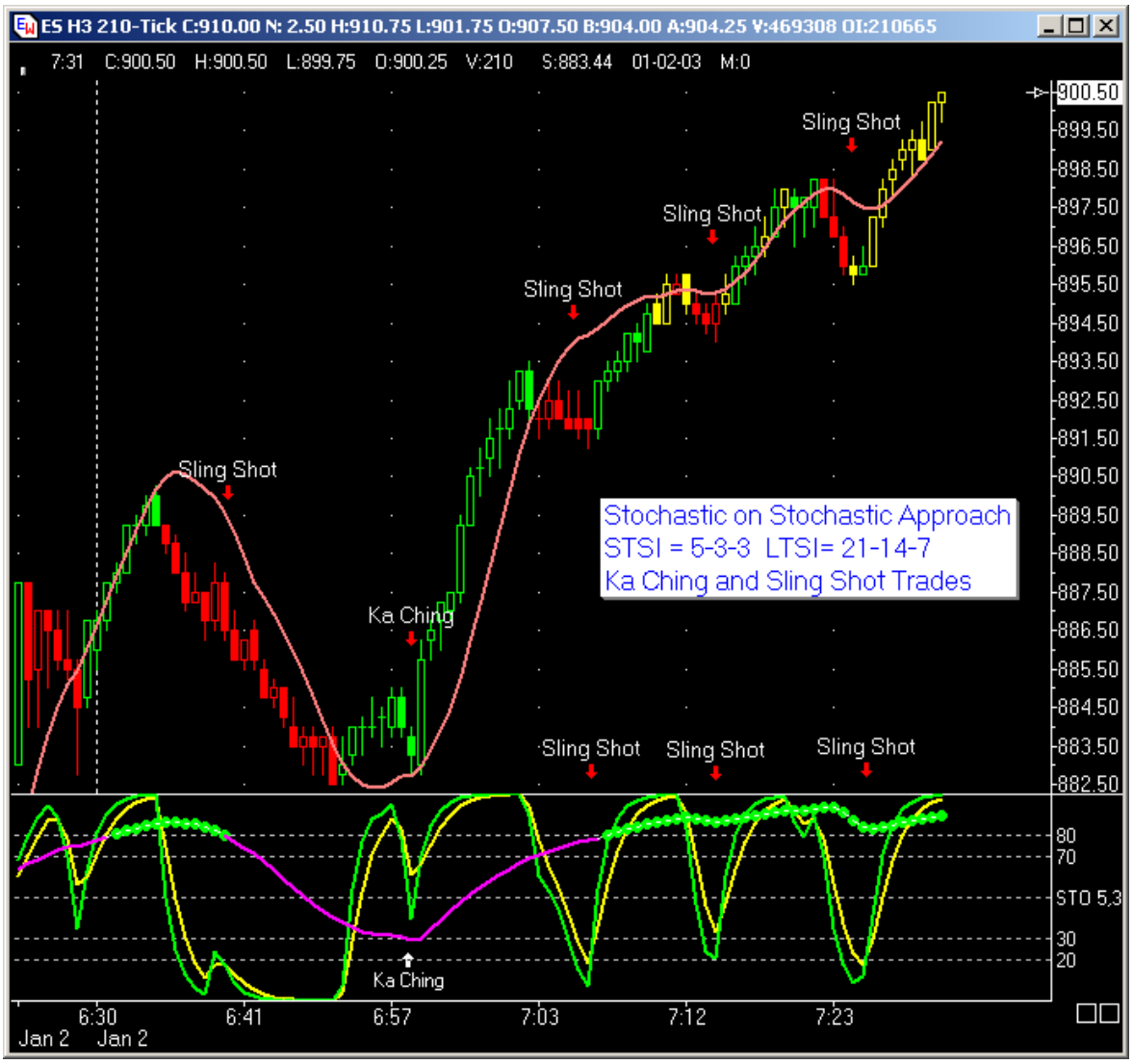
Chart 11: Dual Stochastic Signals



In this diagram, you can see the basic use of a **Short Term Stochastic (STSI) of 5-3-3** and **Long Term Stochastic (LTSI) of 28-14-1** working together. The LTSI shows the medium term trend and keeps you in the trade longer. Using our approach, you will use two time frames to watch an even longer time frame where the LTSI here is the STSI on the next chart. ***The first Sling Shot on the Chart is miss-labeled and should be a Ka-Ching Short***

You could trade just from this 210T chart alone by watching the point where the LTSI is flat or just starting up and the STSI has been above the 70-80% Buy/Sell Zone (BSZ) and comes down but does not cut the LTSI. This is our **Classic Ka Ching Trade** setup to go long**.** We believe this signal to be at least 85% correct and trade it continually. Another less obvious Ka Ching Short trade occurs near the time of 6:38.

The other STSI dips and heads back up to the LTSI pegged above the BSZ. These are called a **Sling Shot** or Hidden Divergence trades for continuation or add-on trade signals in a trend.

Use *Caution taking the 3rd Sling Shot. It can often turn into a Ka Ching Short Signal.*

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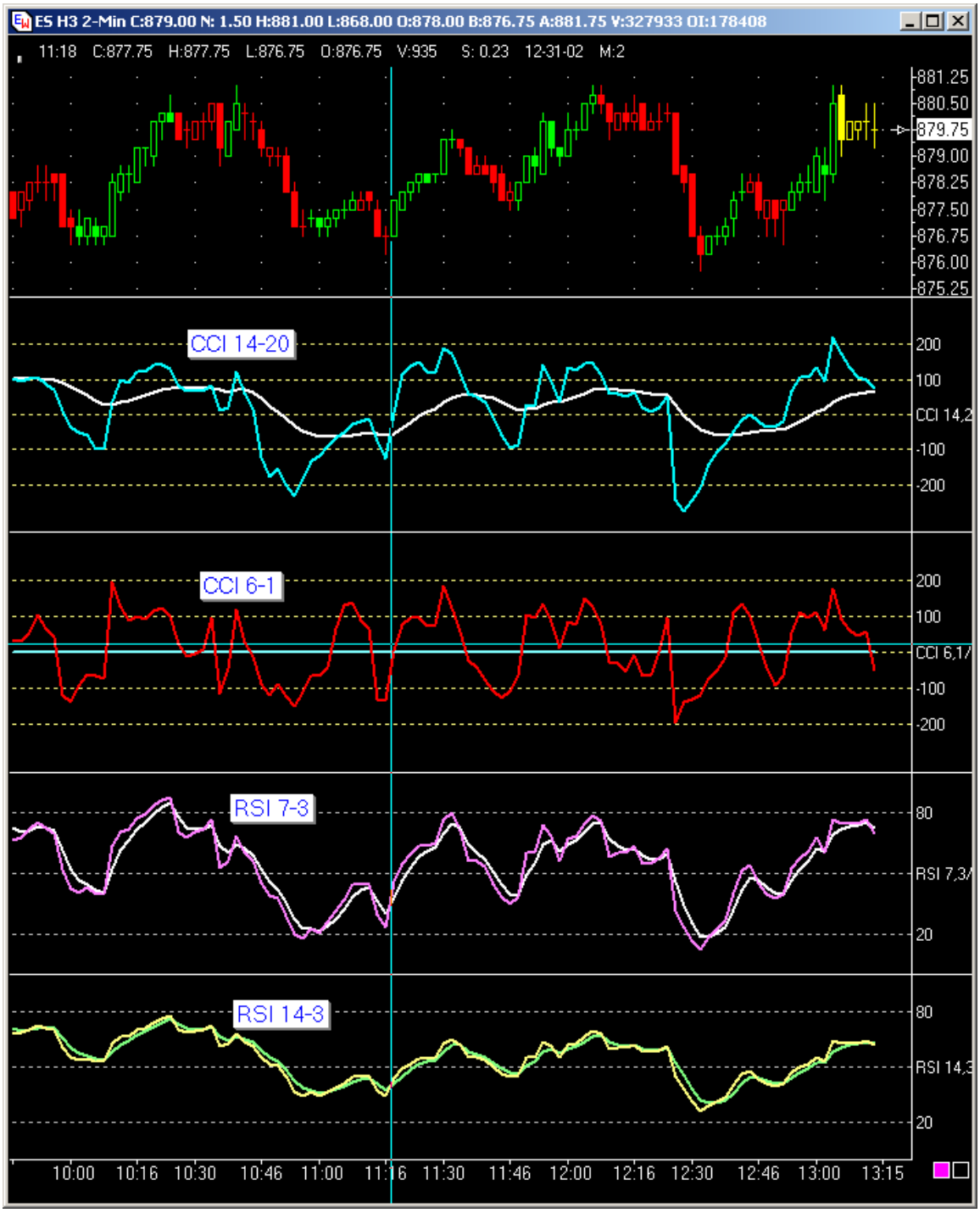
Chart 12 CCI and RSI Time Comparisons



Here is a comparison of various Commodity Channel Index and Relative Strength indexes on the same chart. As you can see, both are quite close in the way the indicators represent price. We find these signals too difficult to trade, but show you the comparisons for training purposes. There is also a short video clip showing how these signals develop in real time.

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Chart 13: CCI, RSI and Stochastic Comparisons

The above chart shows the use of a 10 period RSI, a 14 period CCI and a multiple Stochastic Crossing system. If you look closely, you will see that all indicators give virtually the same signals at the same time.

Why use multiple indicators? Look at 8:50 AM and see if you can accurately identify divergences that can be used for add-on trades or change of trend changes. Confusing isn't it? Using the price and three different formulas to smooth the price you get conflicting signals. This is why we suggest using a simpler approach.

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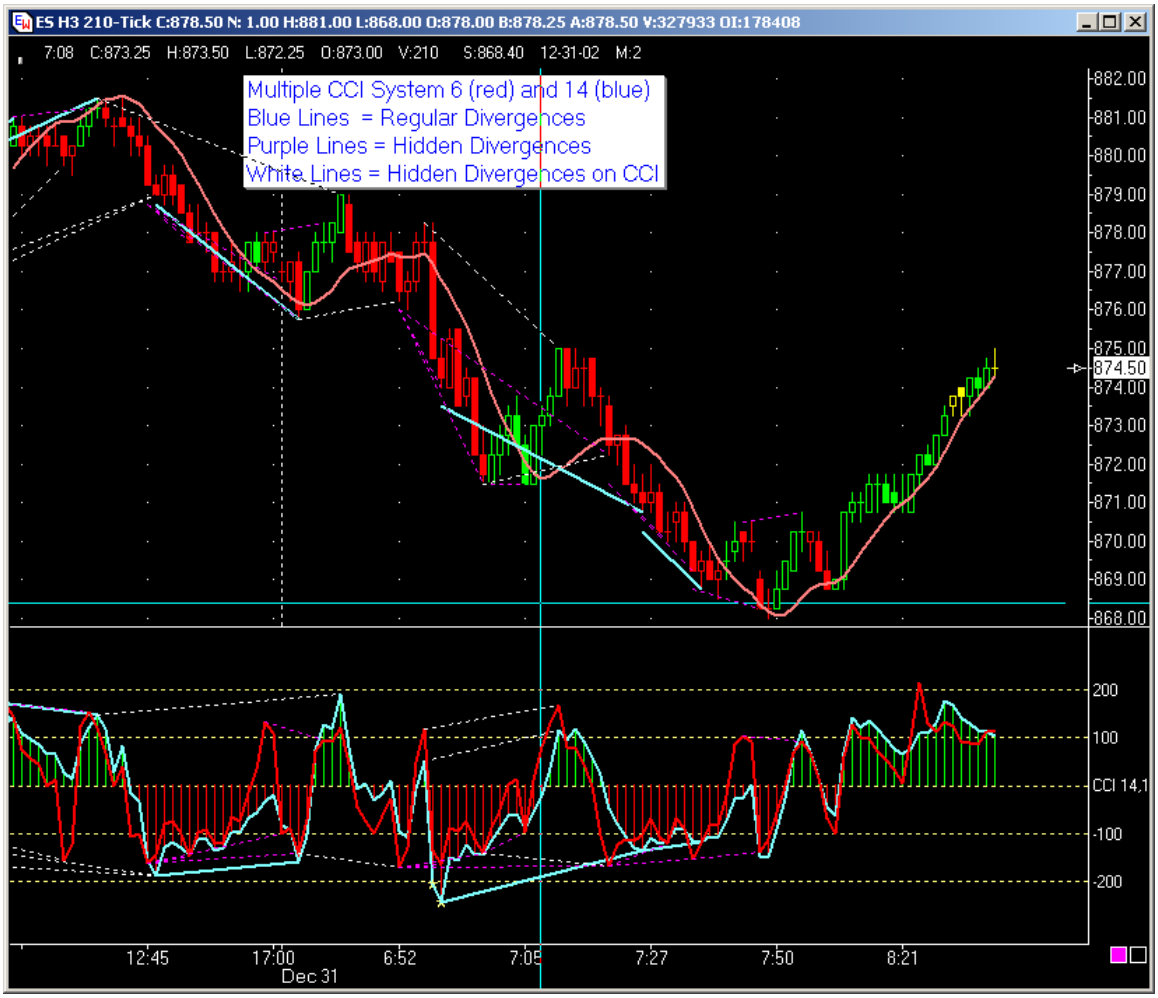
Chart 14: Multiple CCI System Indicators



On this chart we have set up the CCI (14) and Turbo CCI (6) trading system chart used by some day traders. **The Ensign Chart automatically calculates Divergences (regular and hidden).** Trading is based on a combination of CCI-14 levels (100 and 0 crosses and rejections), as well as where price closes with respect to the Least Squares Moving Average (LMSA), usually on the three minute chart.

While an effective trading approach, there are many whipsaws and confusing Divergences that may lead to large draw downs. Check out the two divergences at the7:05 -7:40 time frame. While both are a classic divergence, taking the first one could have led to a 2.5 point draw down (greater than our recommended 1.5 stop).

Multiple crosses of the 14 and 6 CCI lines also lead to many whipsaws. Using the LMSA as a secondary signal here will also get you into trouble. These signals are just to difficult to trade in a fast moving market, so we chose not to use them.

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Chart 15: Multiple CCI Trading Chart

Here is the same trading system using the CCI and the signals you would receive in a longer up trend. *This is a continuation of the previous chart*. You can see the Double Divergence signals in the down trend and the "W Bottom" turn where the CCI 14 and 6 match directly with the price.

The challenge with this system, in our opinion, is that as the trend gets underway how do you tell whether you will have another retracement down or a continuation signal up. One key is that you have a Higher High and Higher Low at about 8:58. But, you are also getting Regular Divergence Signals here as well as some Hidden Divergences too.

Regular Divergences are shown in blue and **Hidden Divergences** (like Sling Shots) white dots on the 14 CCI. The CCI-6 divergences are shown as purple dots.

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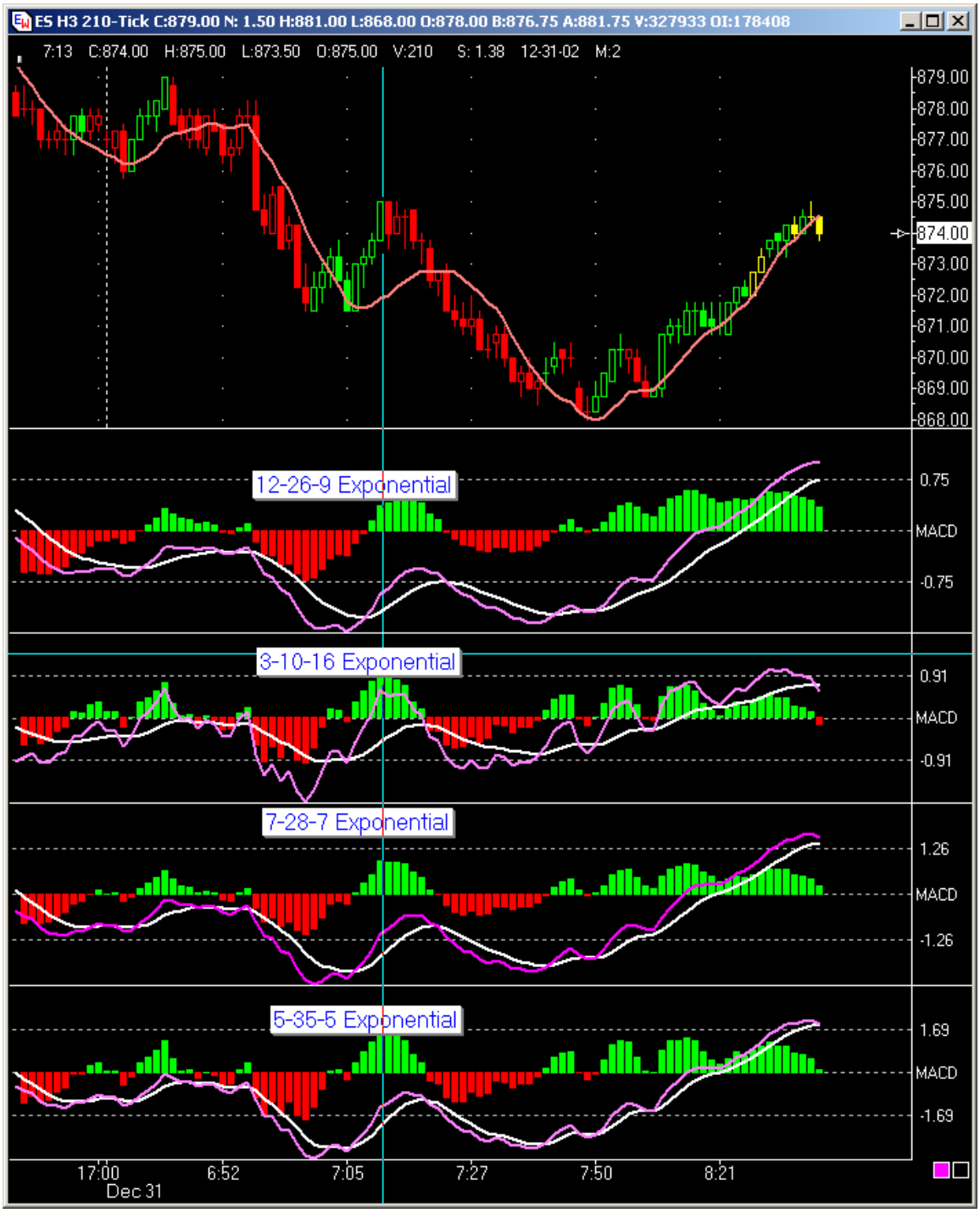
Chart 16: MACD Comparison of Time Frames



This chart illustrates the various signals that are generated from the same chart by various MACD settings. Classic trading strategies are to trade on crosses of the MACD by its moving average, and by zero crossings. Divergences in either the MACD or the MACD Histogram are also useful. **The shorter time frames give larger swings.** We use the 7-28-7 MACD and Histogram in our combination trading system to confirm the Stochastic on Stochastic signals..

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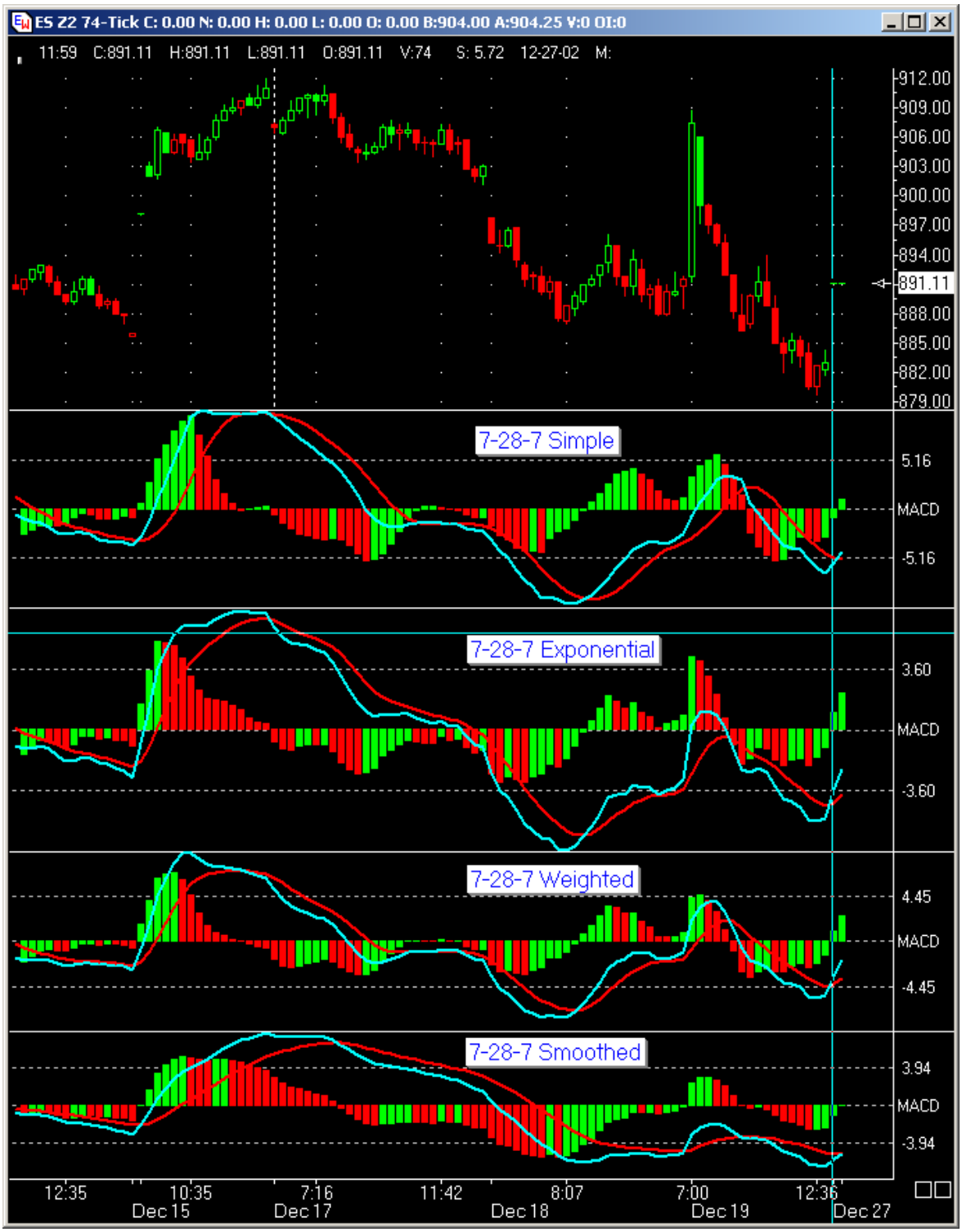
Chart 17: MACD Examples by Type



Here are four ways to show the same MACD and MACD Histogram. Notice the differences in MACD crosses and zero line crosses. It is no wonder that many people discount the MACD system as too lagging to use in trading. We use the Simple MACD {[H+L+C]/3} for our trading system because of this slight lag. It keeps us from jumping in too soon.

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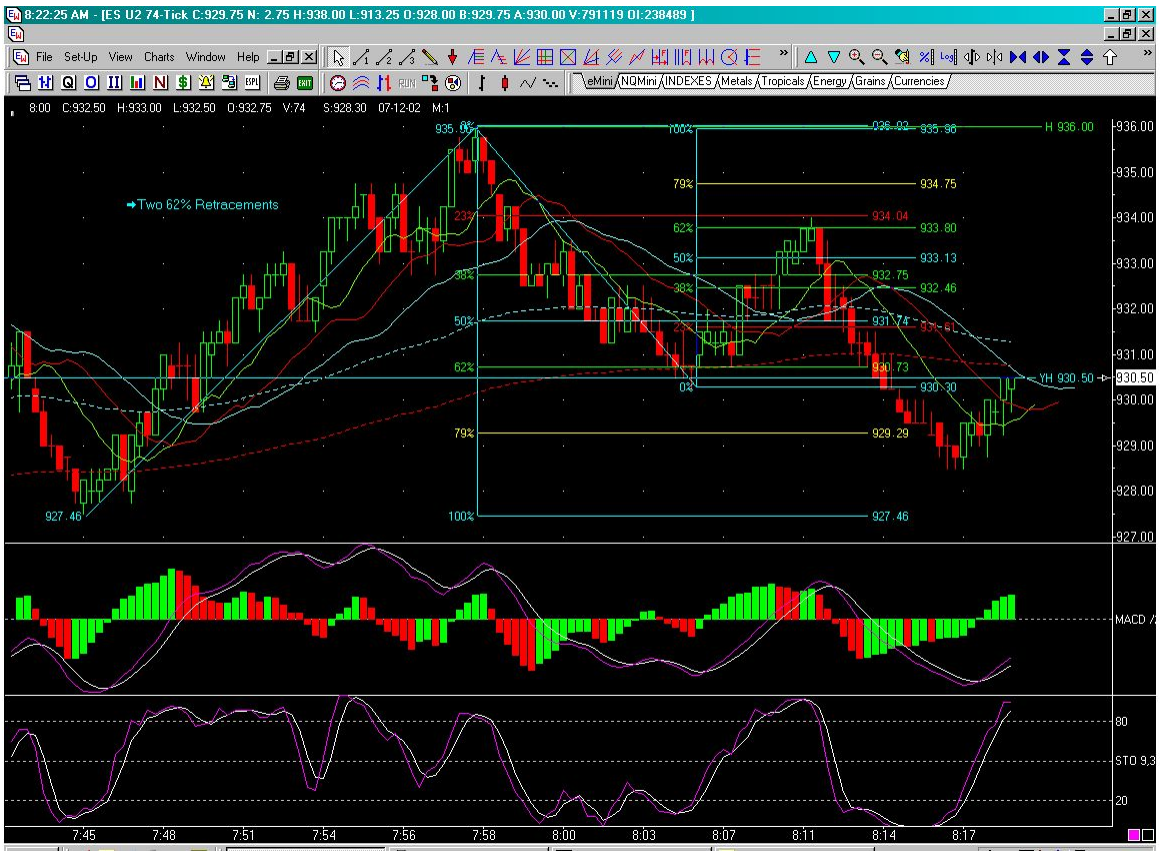
Chart 18: Fibonacci Retracement Patterns



To see the detail in this chart expand it to 200%.

This chart shows two 62% retracement. One is the retracement of the up trend. The second is the retracement of the retracement! We see this pattern often in topping patterns. Notice the Lower Low and then Lower High signaling the change in trend

The second retracement is a failure and retest of the previous high. At the time we made this chart and trade, we were not yet using the double stochastic system or the Pesavento Patterns for confirmation.

This chart was also discussed in an editorial comment by us in **Active Trader Magazine**, where the editor stated that *Fibonacci ratios did not work in for trading*. After looking at the chart you can see why we wrote the rebuttal.

Look at the MACD "3 Mountains" pattern just before the topping pattern. This "Head and Shoulders" pattern on this indicator is a very high probability signal that you are about to get a trend reversal as the third mountain drops off. Notice also the divergence on the Short Term Stochastic. This signal was good for at least 6 points.

We traded this setup using the MACD and a Stochastic 9-3-3 before we moved to our current approach. We were still very profitable using just this setup.

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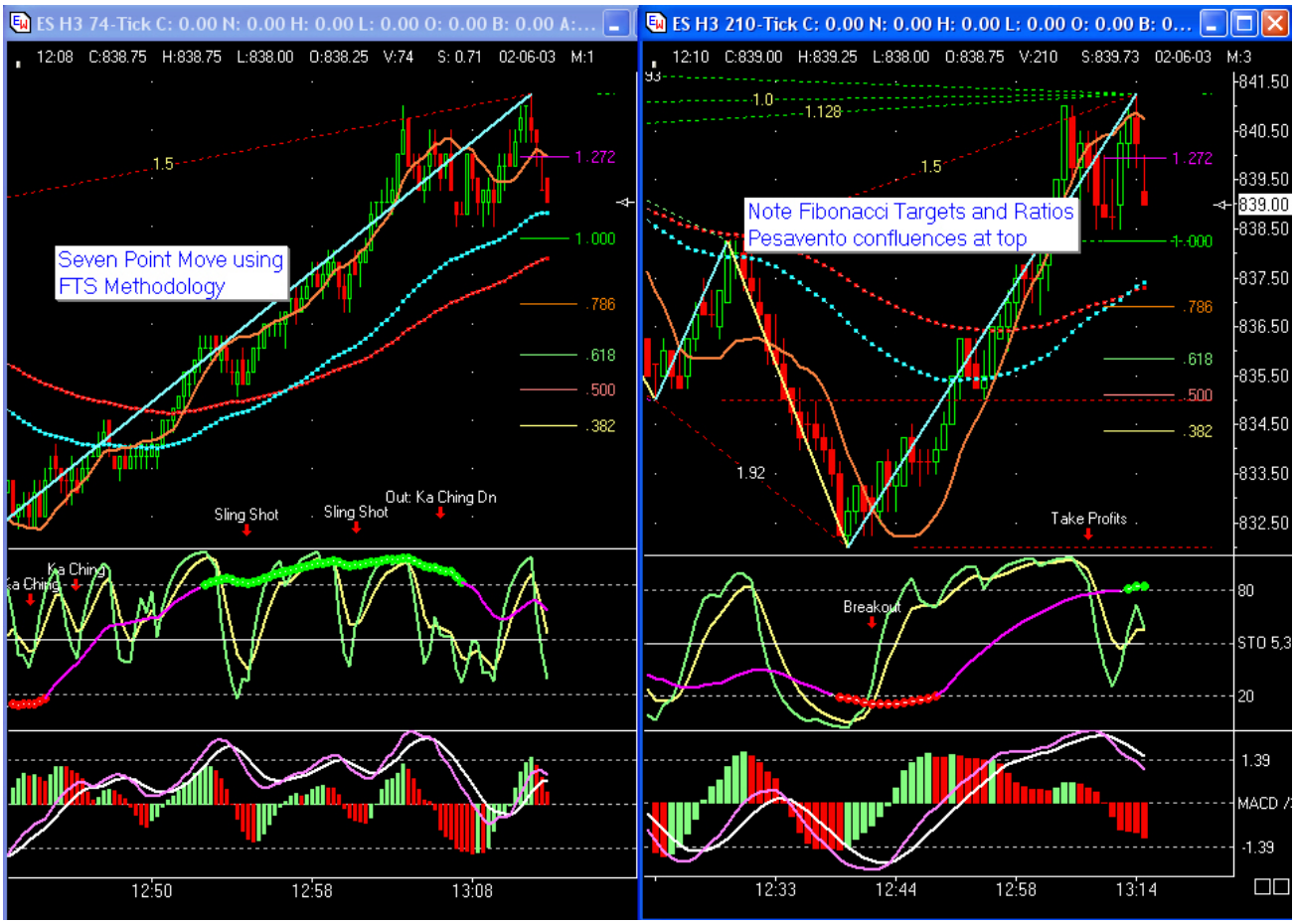
Chart 19: Fibonacci Confluences



You will often find confluences of multiple Fibonacci retracement levels at trend changes, major support and resistance levels. One of our key secondary indicators is use of Pesavento Patterns. When there are multiple Fibonacci or Pesavento lines, we take this as an indication to exit or as a minimum tighten stops or take profits. The next few charts illustrate this principal.

Observe how the Ka Ching trades on the short time frame get compressed into a very smooth STSI on the longer time frame. Watching the 74T will get you in trouble initially, so be cautious and wait for a solid signal on the 210T.

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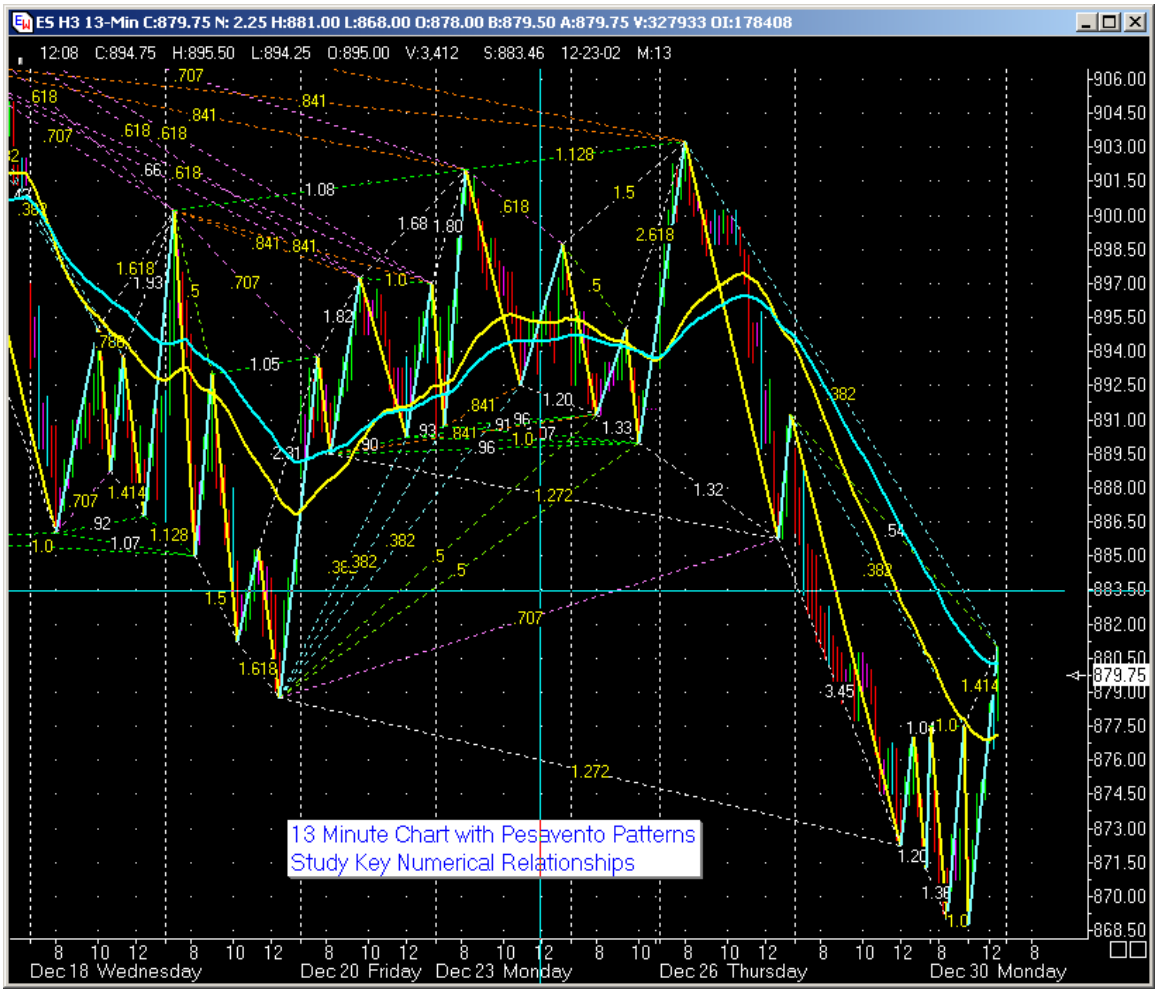
Chart 20: Pesavento Patterns



Pesavento Patterns as shown on this 13 minute chart calculate support and resistance as well as Fibonacci and other ratios developed by Larry Pesavento. Recognition of certain repetitive patterns in price and indicators will help your trading significantly. Here are the key numbers used in these ratios.

Ratio	Source	Calculation	Reciprocal
1.000	Sqrt of 1	"1/1	1.000
1.272	Sqrt of 1.618	1/sqrt 1.618	**0.786**
1.414	Sqrt of 2	1/sqrt 2	**0.707**
1.618	Phi	1/phi	0.618
1.732	Sqrt of 3	1/srt 3	0.577
2.000	Sqrt of 4	1/sqrt 4	0.500
2.236	Sqrt of 5	1/sqrt 5	0.447

Watch 0.618 and 1.618 ratios versus 1.414 and 0.707 which appear more often on the e-Mini than the generally accepted Fibonacci numbers.

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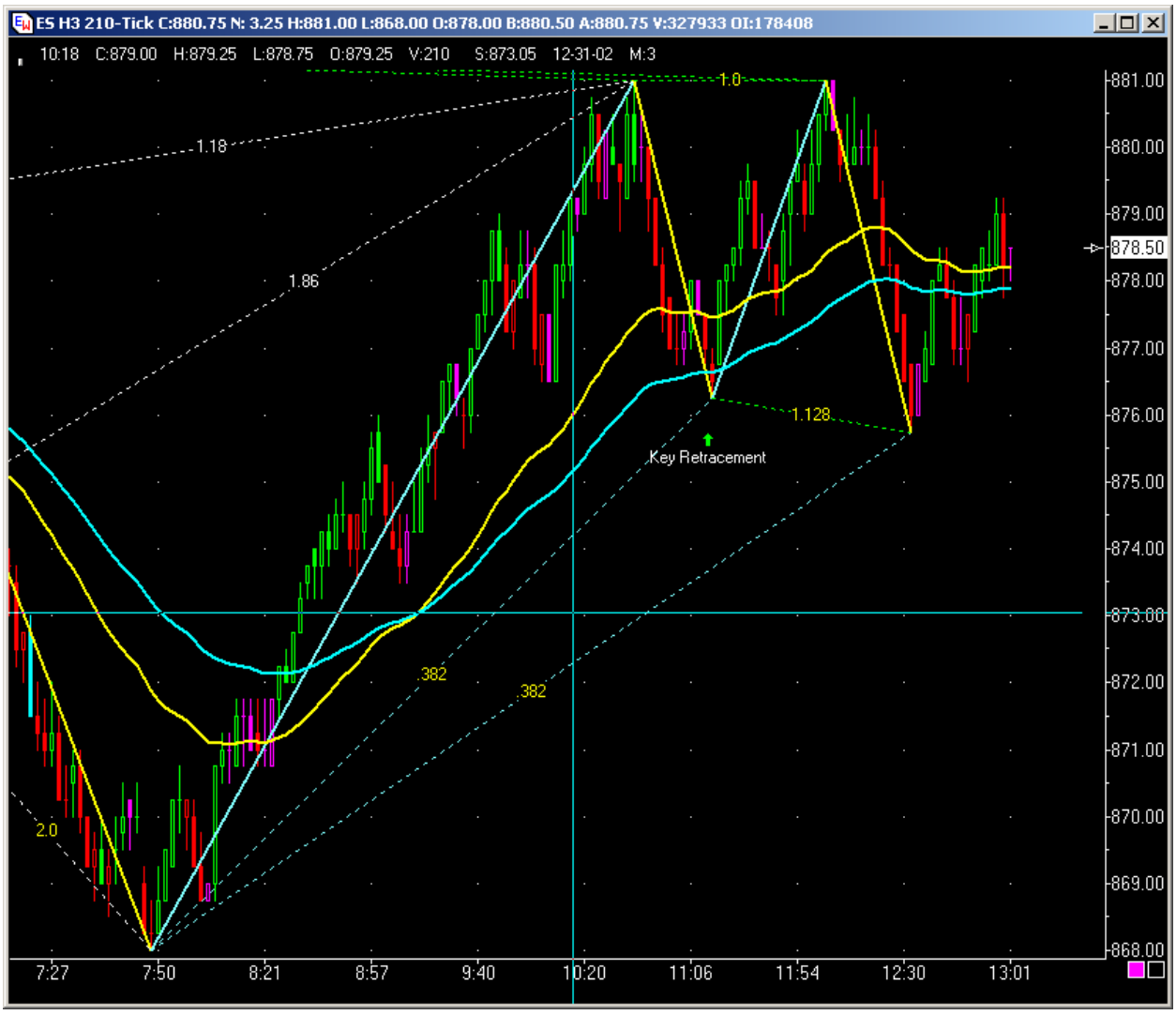
Chart 21: Short Term Pesavento Patterns



This 210 Tick chart uses only **Pesavento Patterns** and shows how effective they are in drawing both Fibonacci relationships (both retracements and projections) and the **Pesavento Pattern** numbers based on the √2 and the inverse (1/√2 to figure retracements, High/Low tests and failures and other patterns.

We use this indicator (as a secondary indicator) to let us know when we are **approaching critical price levels**. Our trading approach is to watch when we get one line. If we get two or three lines printing, we will almost always exit, as this has indicated reversal or profit sharing over 80% of the time. **We lock in our profits at every opportunity**. **We can always reenter.**

This is a typical topping pattern with a double top formation. Study the ratio numbers shown. The settings are the key. We use settings of 3 and 1 in Ensign. This gives you 30 minute major moves. We suggest you buy and read "Fibonacci Ratios with Pattern Recognition" by Larry Pesavento to more fully appreciate the use of this indicator. Check out Chart 23 for the predecessor for this up move.

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Chart 22: When to Stay Out

After a big drop, the consolidation patterns can be tortuous. If you missed this run and then tried to trade either a retracement or a continuation, you would, like most traders, feed the market a substantial amount of cash.

When you see Stochastic patterns like these, with the Long Term Stochastic hugging the midpoint line, it is time to go away and come back in an hour or in another day. As you can see from the long term moving averages the price is cycling back toward them, but in very unpredictable ways. We would not even attempt to trade at the right side of the chart until some direction is again established and a first pull back has occurred.

The pattern most likely to be forming is a triangle or diamond. Neither is easy to trade until at least three significant legs of the triangle have formed. Our video training program shows how to trade a formation with a diamond or triangle.

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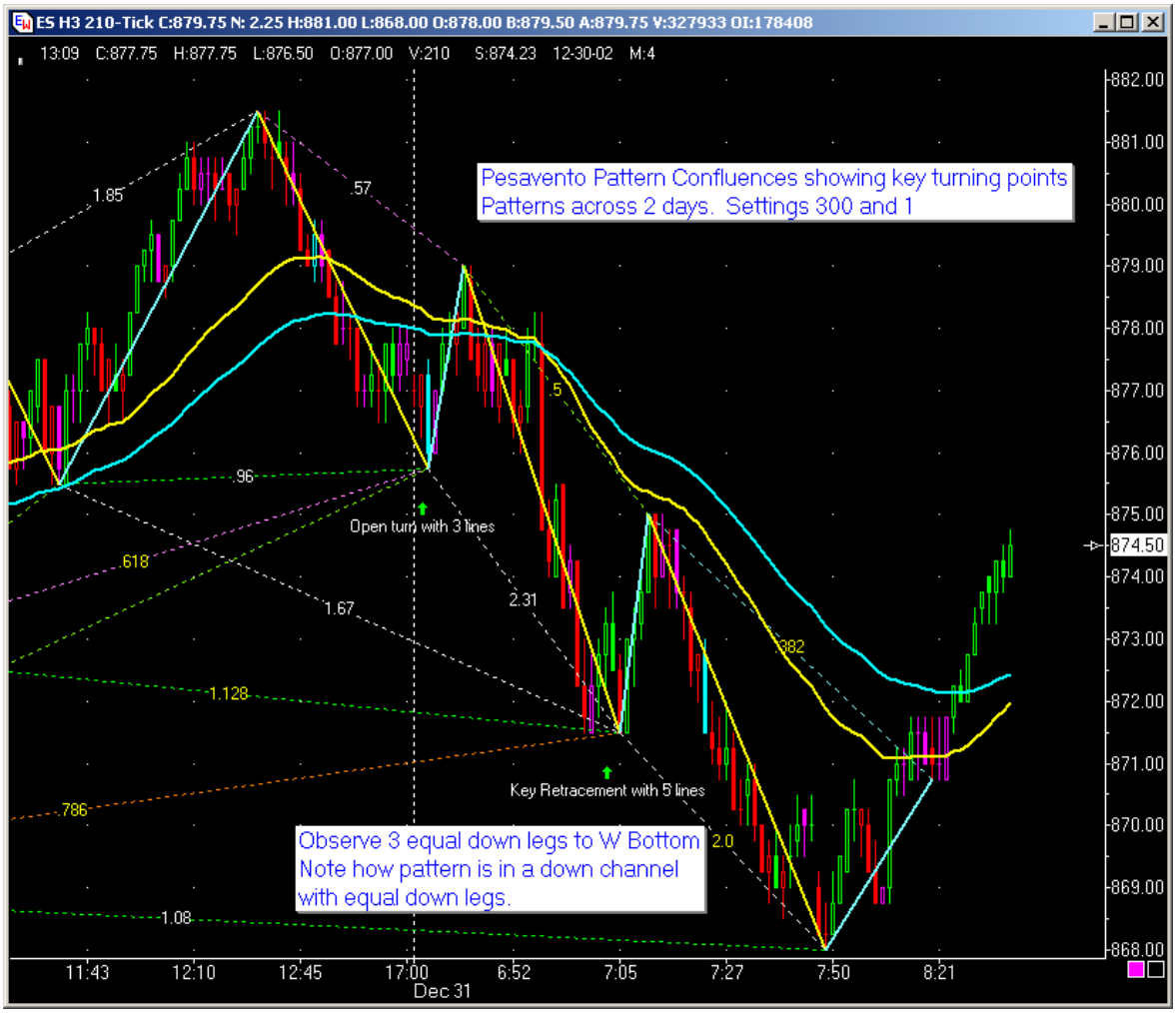
Chart 23: Pesavento Patterns and Elliott Waves



We show **Pesavento Patterns (PP)** in this chart to show you how you could trade using only this indicator if you reversed on each major confluence of lines as they appear at key retracement levels..

The chart above is a good representation of the **Elliott Wave pattern** as well. This chart is also the predecessor of the Chart 21. Run a quick calculation of the profits available on these two charts using only these signals. Our calculations show approximately 43 points on the ES contract simply by taking these simple reversal points.

Would you be able to trade all these signals? Probably not all, but at least **75% are very clearly tradable**. When using these signals in conjunction with the rest of our approach, the odds of success increase significantly.

Pesavento Patterns do most of the work for you. If you notice the right edge of the chart, a line has not yet been drawn. Would you reverse at the 871 level or stay in the trade? If you only use PP, you could be nervous. There is an art of using PP alone. Using them with the indicators on Chart 21 shows how accurate they become with confirmation signals.

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Chart 24: Ideal Ka Ching Entry and Exit

This chart has the ideal setup for both entry and exit. The entry has a MACD Divergence forming, a Ka Ching STSI signal for a counter trend trade. First target is the 49 EMA (blue dots) then the 89 EMA (red dots). Either of these could have been taken for an exit, however the MACD and LTSI continued down and the EMAs were now negative, so we stay in the trade.

The Exit signal at the bottom is based on several factors. First the Pesavento Line prints, and the STSI cuts up through a LTSI pegged at the bottom. Also the MACD Histogram and the MACD also turn up. A six point run is a "triple" in our book, so take the money and wait for another signal.

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Chart 25: Ka Ching Entry and EMA Support

Here we have a Ka Ching entry on the far left with a substantial MACD Divergence. EMA's start trending up and they are increasing their spread. All signs point to a nice run. Also the MACD stays significantly above the zero line. Now it is appropriate to play all the Sling Shots along the way. At approximately 10:25 we would have taken profits and then waited for the support at 10:51 by the 49 EMA. The MACD divergence could have sent us short for a few points; however, with the strong trend it is better to wait for a lower high, which never developed. At support on the 49 EMA, going long was a high probability trade, especially with the little hook in the STSI at around 11:45.

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Chart 26: Reversal Patterns

This chart has a **Ka-Ching Short Trade** on the Dual Stochastic at approximately 8:47. You can also see a Classic MACD divergence pattern on the MACD as well. The MACD pattern is one we use frequently to confirm the Stochastic Divergence.

As the price declines through the 49 and 89 EMAs and then after the 49 crosses the 89 these averages become resistance.

This chart also illustrates the principal of a **"Measured Move".** The declines for one hour and seven points and then retraces 38%. The price then declines for another hour and another seven points. At the end of this move, you see three Pesavento Lines print at 11:31 followed by a slightly higher low which signals the end of the down trend.

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Chart 27: Diamond Patterns

On this 3 minute chart, you have an ideal 8 point trading range setup running over two days. Study the relationships of all the indicators to identify the Ka Ching trades. Triangles normally have breakouts equal to at least the maximum range. In this case, one could set Buy and Sell Stops a few ticks outside the triangle area to buy at 933.00 and sell at 929.00.

We tend to wait for these breakouts and prefer to take the first retracement after the breakout. This is higher probability with less risk than the triangle breakout play.

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Chart 28: Topping Patterns with Fibonacci and Pesavento Patterns

You should be able to notice the gradual rolling over of the price as it reaches the top of a pattern. The last retracement formed a lower low, but a lower high has yet to be printed. The double stochastic has a divergence and the CCI has dropped below 100. You should be cautious and hold tight stops here. Trying to force additional points out of this trade would be a low probability trade in our opinion.

The key thing to study here is the Pesavento Pattern and how it shows the formation of a narrow price channel with repeating high and low gains.

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Chart 29: Topping Pattern Continuation

Did you see the Ka-Ching trade at 10:40? Go back and review the previous chart. Remember that we were looking for a lower high after the lower low at 10:40. Once that solid green bar printed and the Ka-Ching Short was in place you had a solid 4 point trade setup.

The other issue we are point out here is the change in colors. See how modifying the multiple Stochastic colors gives you brain freeze? Good idea to set the colors and leave them alone.

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Chart 30: Test of Previous Days High

We use Tick Charts for all sessions in order to understand the *overnight sentiment* of all traders. In this example, there were many converging Pesavento Lines at the end of the previous day and overnight. The 550 Tick chart compresses most of the overnight activity, so you have smoother indicators.

What you cannot see is that the previous day was a trend day up until profit taking late in the day which continues overnight. Thus, we immediately get a retest of the previous day's high. When that fails, you get confirmation of a test of the previous days' close. When that too fails the rest of the day stays in a tight consolidation range.

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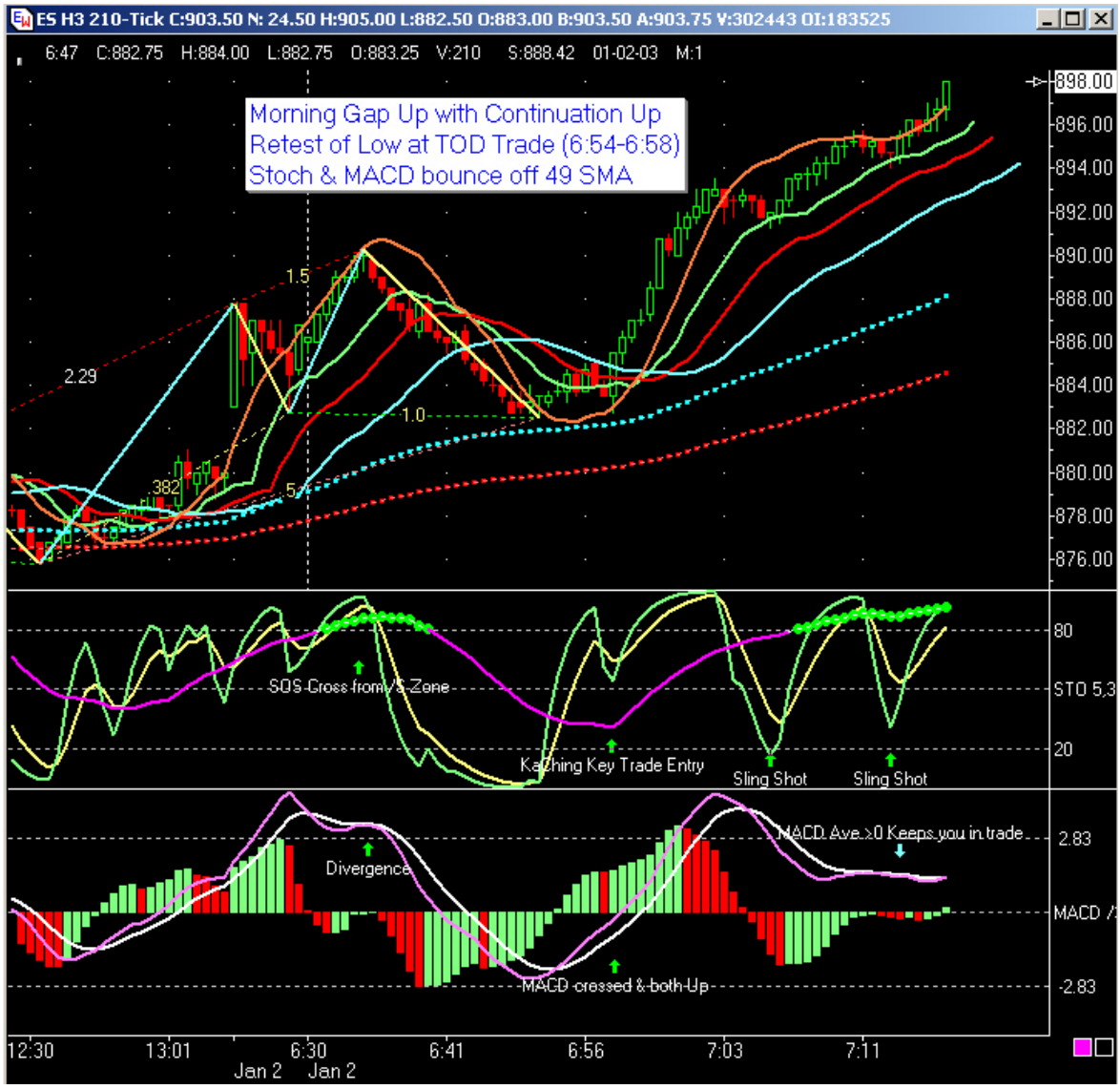
Chart 31: Morning Gap Trading Strategy



Trading gaps can be very profitable. This gap was created in the Globex overnight by international news. See how the market comes back and tests the low before moving higher. Again, using the Dual Stochastic and the MACD in conjunction with the longer term moving averages and Pesavento Patterns would have kept you on the right side of the trade.

The **Ka Ching Trade** long signal gave you a potential 14 point profit in only 15 minutes! If you also added contracts during the Sling Shot you could have added another 8-10 points.

You can also see why we no longer use the Alligator Lines of Bill Williams. They lag far too much. If you want to use a very short term moving average use the LMSA (orange line).for guidance. Also note how a large gap affects the short term moving averages.

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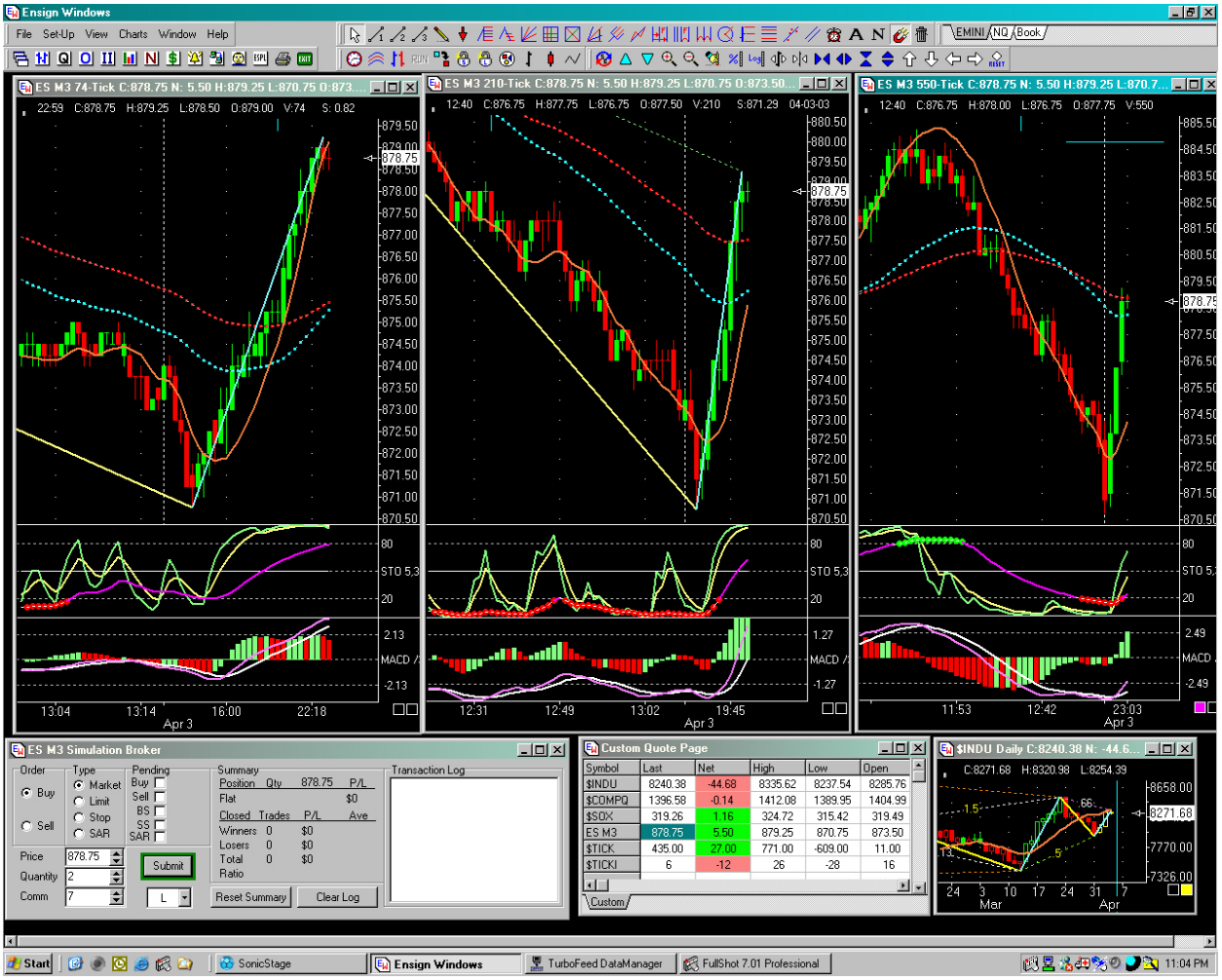
Chart 32: End of Day Globex Bounce



Expand this chart to chart to 150% for a better view.

This three chart combination shows why we use the 74, 210 and 550 tick charts for confirmation of each other. As you can see the 74T was not exactly insightful, but the 210T and 550T each showed movement at the bottom of this long down trend.

When ever you get a pattern on the Double Stochastic like that on the 550T, you have a very strong signal for change. Also study how the 550T is very smooth compared to the 210T which has several slingshot in a row. After the third Sling Shot on the 210T, you should become very cautious and look for an exit or as a minimum lock in most of your profit.

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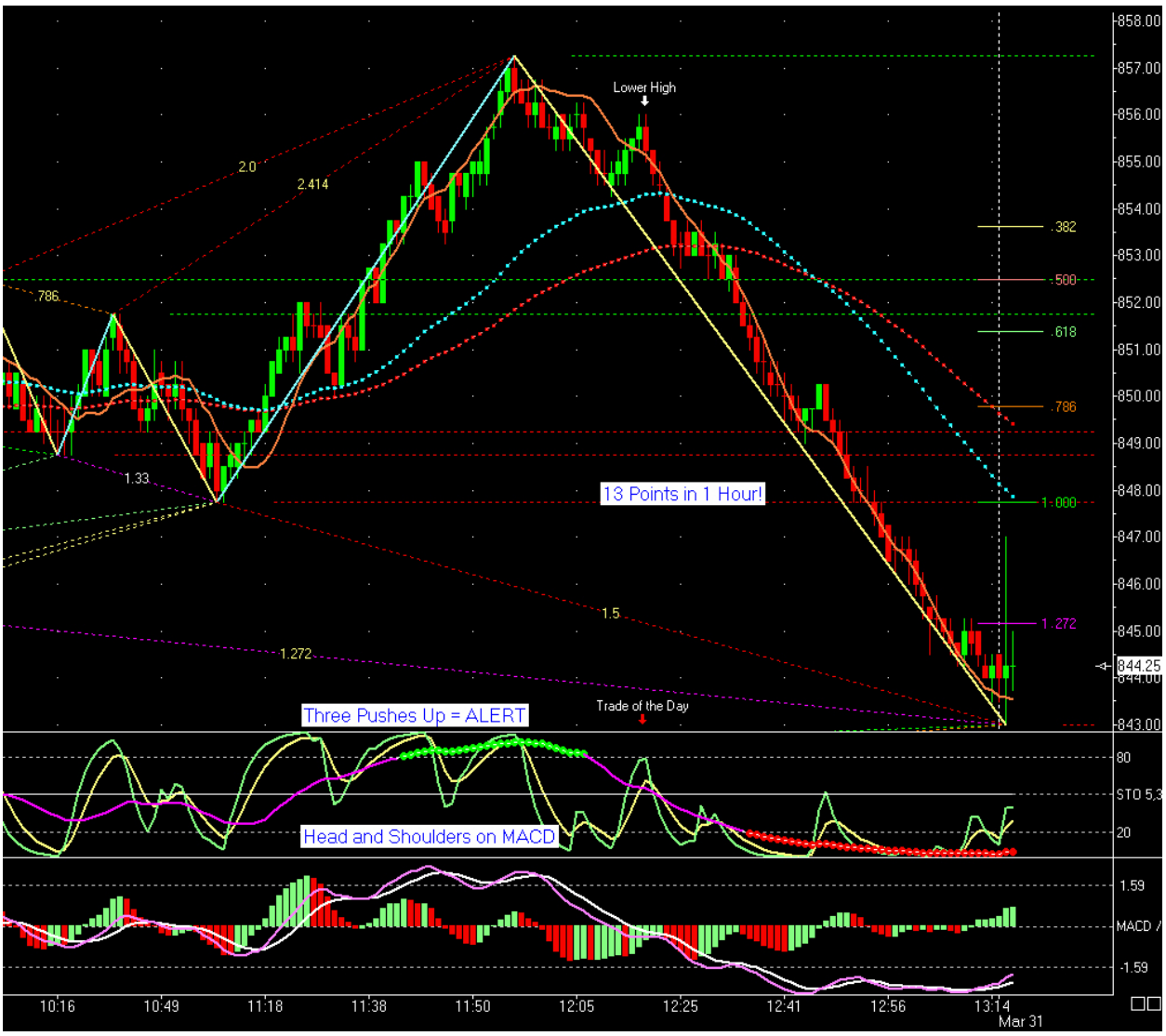
Chart 33: Long Term Trend Change Patterns



To view this chart, expand to 150% of normal size.

This chart shows two excellent short term trends of 9 and 13 points. Moves this large are rare, but the FTS system is designed to catch them. You might not have caught the entire up trend until the dip at 11:38 on the **Ka Ching Trade long** as price bounced off the 49 EMA. The key signals for the top turn were the three humps on the Short Term Stochastic and the MACD as well as the MACD Histogram Divergence. If you waited for the Lower High at 12:25 as the ideal entry point, the Short Term Stochastic turned down through the Long term Stochastic.

Once the price has moved above these EMAs, the next two signals should be taken in the direction of the major trend. **Sling Shot Trades with the Dual Stochastic approach are profitable in either direction.** Always use the MACD to confirm the medium term momentum. In most cases the MACD will be very close to the long term Stochastic in each time frame.

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Chart 34: End of Day Trades

At the end of a long trend day, most traders will cover in the last hour. In this chart we were waiting for short covering and a bounce. The resulting five point move went right to the 49 EMA, which is always a good target. Check out the next chart to see how price reacted later.

Our trades this day are shown with the white arrows. You can see several small wins and losses initially, but we did finally get it right at 11:46 for the down trend from 918.00 and then caught the end of the day bounce (lucky reversal entry).

This is and excellent example of an end of the day bounce caused by Market on Close orders and professional profit taking.

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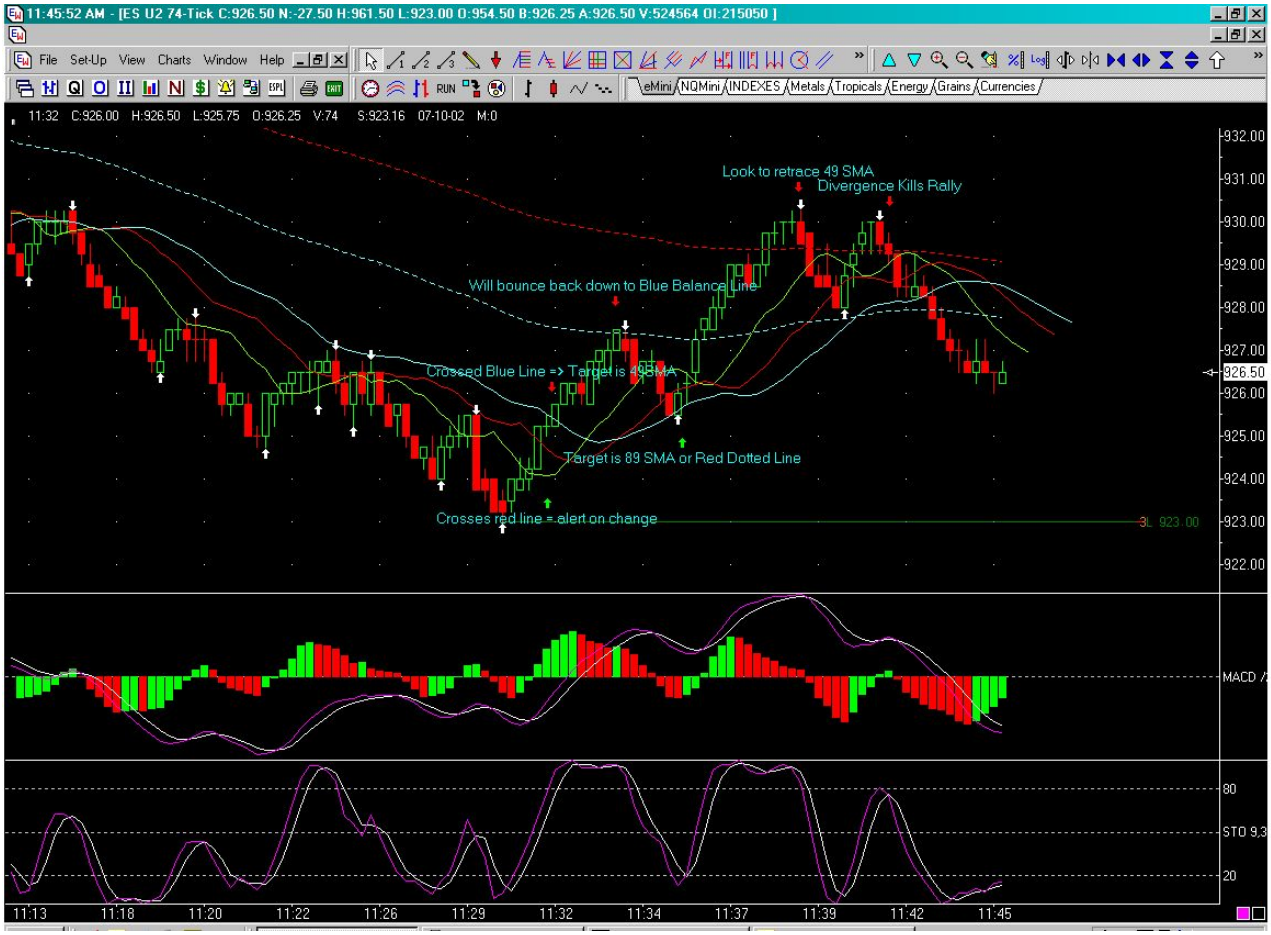
Chart 35: Trend End Patterns



This is a very short term reversal that shows how price reversals tend to seek the 49 EMA then the 89 EMA. If the price had bounced above the 49 EMA at the right hand side of the chart, a continuation long had the highest probability. Since is bounced below, the odds of a trading range or consolidation became the highest probability.

There is a great deal of information on this chart. Compare all the indicators and review the relationships we have outlined in this training program. Look especially at the MACD "Head and Shoulders" and the MACD Histogram and Stochastic divergence at 11:42 for the potential failure of this tend change

The three lines referred to are the Alligator as developed by Bill Williams. The averages are Green= 5 Bar EMA moved 3 bars into the future: Red= 8 bar EMA moved 5 bars into the future; and Blue= 13 EMA moved 8 bars into the future. The Blue line represents the balance point for this time frame and shows how the trend changed. We no longer use these averages,

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Chart 36: Divergence Trades on Two Time Frames

This is our best entry technique. You must be patient and wait for the signal. If you were not long during this run, you will be kicking yourself and almost always go short at the second pullback (Sling Shot long on 210T). Notice there is no divergence at that point on the MACD, the MACD Histogram, or the Fast Stochastic.

You must **wait for the Slow Stochastic to peg itself to the top sell zone** then wait for the Fast Stochastic Divergence with a confirmation from the MACD Histogram. In this trade you could easily have picked up 9 points on this pullback.

If you had taken the long on the initial Ka Ching trade at the start of the run and added contracts at both Sling Shots on the way up, your point total could have been as much as 38 points before you reversed on the divergence. Total possible points for this 30 minute move, 45 points.

Study this chart very carefully. Memorize this setup and understand how the Price, SOS and MACD interact. This is THE KEY ELEMENT of our method.

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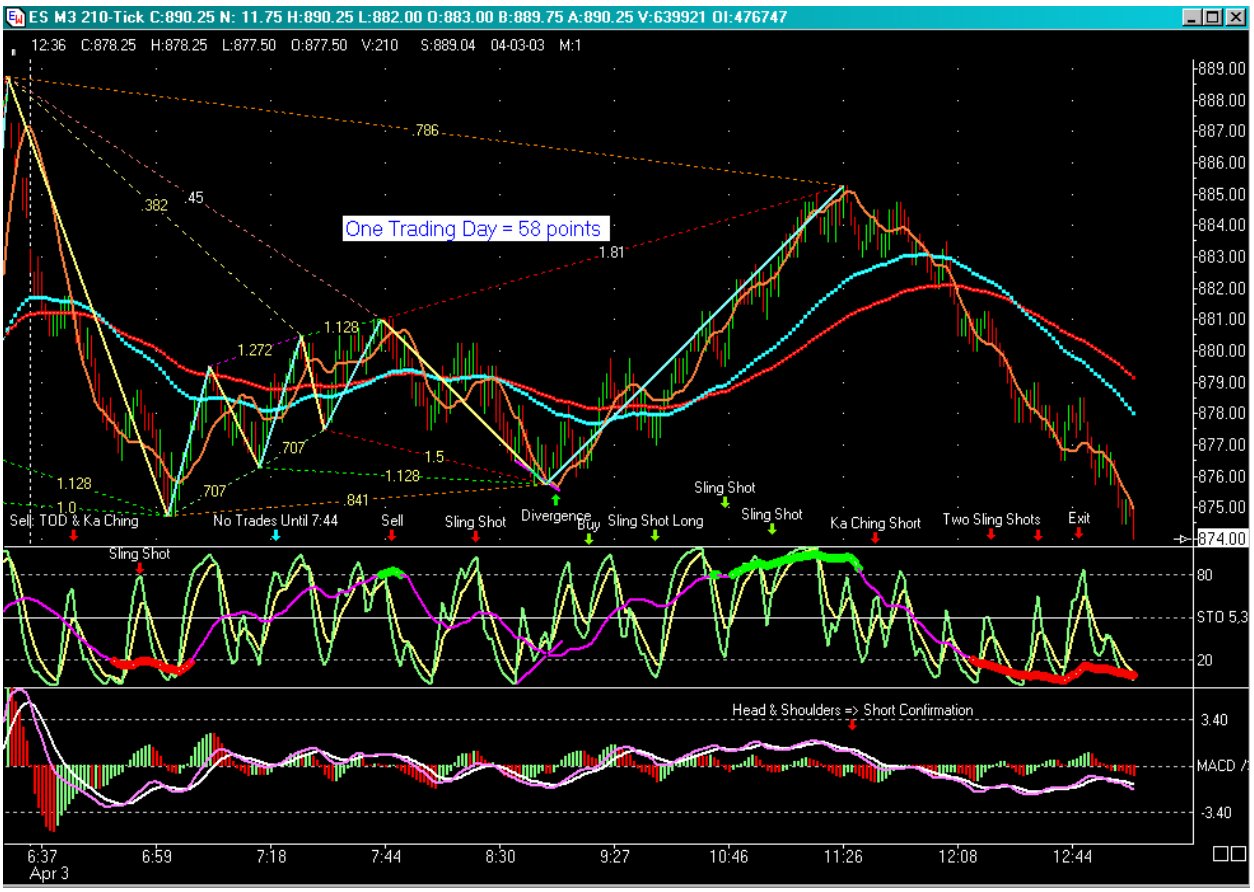
Chart 37: One Day of System Trades



Expand this chart to 150% for a better view.

This chart illustrates the entire system trading approach using Divergences, Sling Shots and Ka Ching trades on the 210 tick chart. In order to execute all of these trades **you need a quick trigger finger and the ability to recognize patterns on the indicators as well as price action.**

These trades are easy to see after the fact. The trick is being able to recognize them as they develop, analyze their potential and execute them based on probability for success. The only way to do this effectively is to review hundreds and even thousands of charts until your subconscious mind and your conscious mind know instinctively what to do.

Are there any guarantees? Of course not! Start slow, be patient and wait for the right setup Know that losses are part of the business, and do not over trade. Use the SimBroker until you are absolutely sure you can execute the proper trade perfectly. Then risk your money, and make it fun. Treat this like competing in a video game tournament with the best players in the world, and your equity is your entry fee. **Prize money is paid to those who can control their emotions and follow their systems.**

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Chart 38: Profit Taking at End of Day

Here is another example of the profit taking that often occurs at the end of the day. After a long up trend day, as shown by the 49 and 89 EMA, there is a 9 point drop at the close. This action is often caused by Market on Close orders where professionals take advantage of the public by selling early.

This chart was captured before we completed our SOS approach. If you look closely you will see the Divergence on the short term Stochastic as it develops near the topping price. Other indications of an upcoming correction are the continual divergence on the MACD compared to price and the MACD Histogram being slightly negative during the last run up.

Using the Alligator signal at 898.5 you would also have exited the long and gone short at about 897.5. Since the chart is a Tick Chart based on all hours, you can also see the continuation of momentum after hours. Again the **All Sessions Tick Charts** give you an absolute edge when trading the e-Mini contract.

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Chart 39: Triple Top Formation with System Indicators

How would you trade this formation using our approach? Would you trade the short term chart only or play the divergence trade on the second top on the 210T? How would you react to the retracement to the third top? And finally, when would you go short for the big run down?

This chart is a difficult one to trade. The pressure to do exactly the wrong thing is high. One hint we can give you is that it is approximately 3:00 PM market time. All of our charts are Pacific Time.

Our approach was to consider the longer time frames. We had a big up trend day, after four losing days. We knew of profit taking, but the trend was so strong that we did not take any counter trend trades until the third top failed to take out resistance and divergence was fully evident. Notice the formation on the longer time frame MACD and MACD Histogram. This was the real key to taking the short on the third top.

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Chart 40: Trading Range Strategy

Divergence Tops or Bottoms and Sling Shot Longs or Shorts during a trading range can be very profitable. This is the final chart showing our setups and trading method. By now, we hope you have an idea of what to look for, even in a flat market. We use the 55 Tick chart when the market is slow, but even in this case, the swings are 3-4 points with larger moves of 5-7 points.

This type of market is exhausting to trade. Two lessons learned. We used to get frustrated and leave. When we came back the market had moved significantly one direction or the other. Just know that it is building up steam for a move and **the first move is often in the opposite direction of the real move.** Study the divergence. The market went high and failed before the down swing.

The second lesson is that if you get whipsawed and are out of synch, just shut down for the day and walk away. There will always be better trades. If today is a narrow range day, then a bigger move is sure to be in the cards. Patience is the key to trading success.

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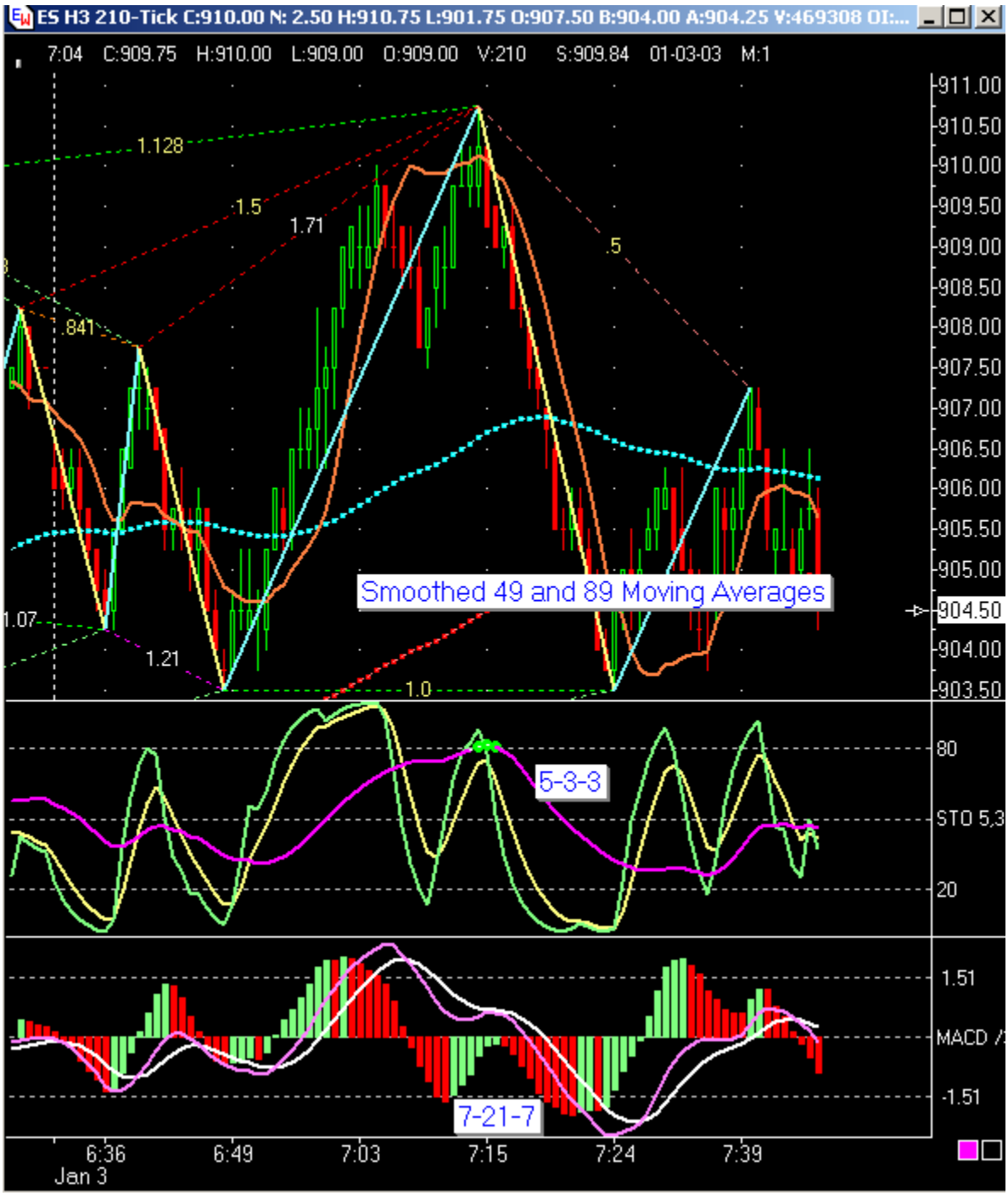
Chart 41: System Setting Comparisons



Compare this chart with the next chart. Ask yourself which settings are easier to interpret. Often it will be an individual choice. We elected to use a 7-28-7 MACD and 49 and 89 EMAs for our final system approach. These two charts just show you how signals can change and how we let our approach evolve. In both cases we elected to keep the Pesavento Patterns.

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Chart 42: System Setting Comparison 2

Notice how the longer term Stochastic nearly matches the MACD step by step. These settings are too co-linear to be of much help with any confirmation signals. The 49 and 89 EMA lines are nearly parallel. When this occurs, look to trade only the Short Term Stochastic swings. The Head and Shoulders pattern on the Short Term Stochastic at the right of the chart signals a potential downside breakout. Since both the MACD and the MACD Histogram are negative and increasing their downward slope, probability favors further downside movement.

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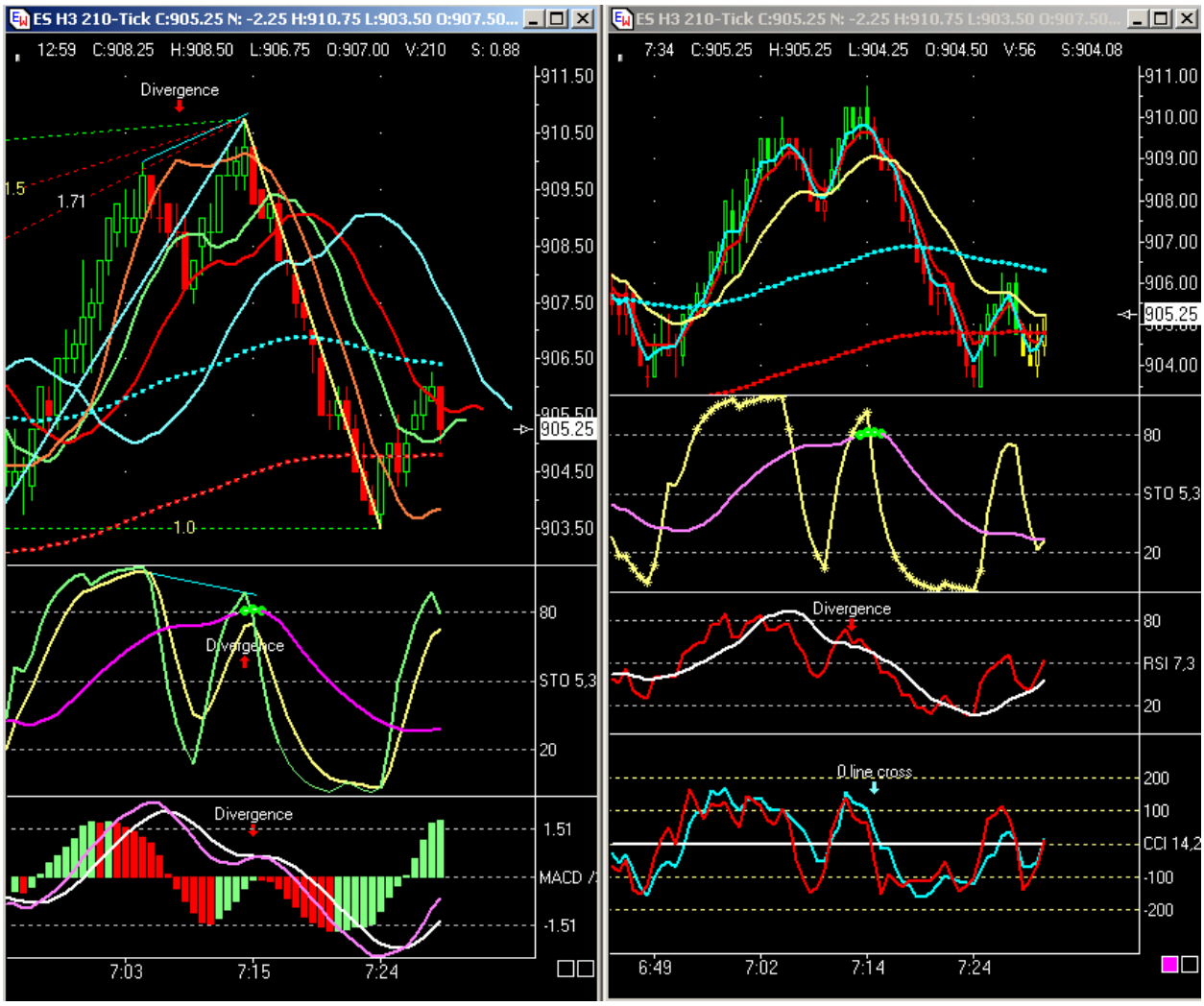
Chart 43: System Comparison with CCI and RSI System



This chart compares the Future Trading approach to the RSI and CCI systems. As you can see both give credible signals.

The RSI tends to mimic the MACD and the dual CCI patterns mimic the Stochastic (although more raggedly) This ragged feature of the RSI-CCI systems, while technically giving you a one bar advantage on price changes leads to more whipsaws and in our opinion is more difficult to trade effectively.

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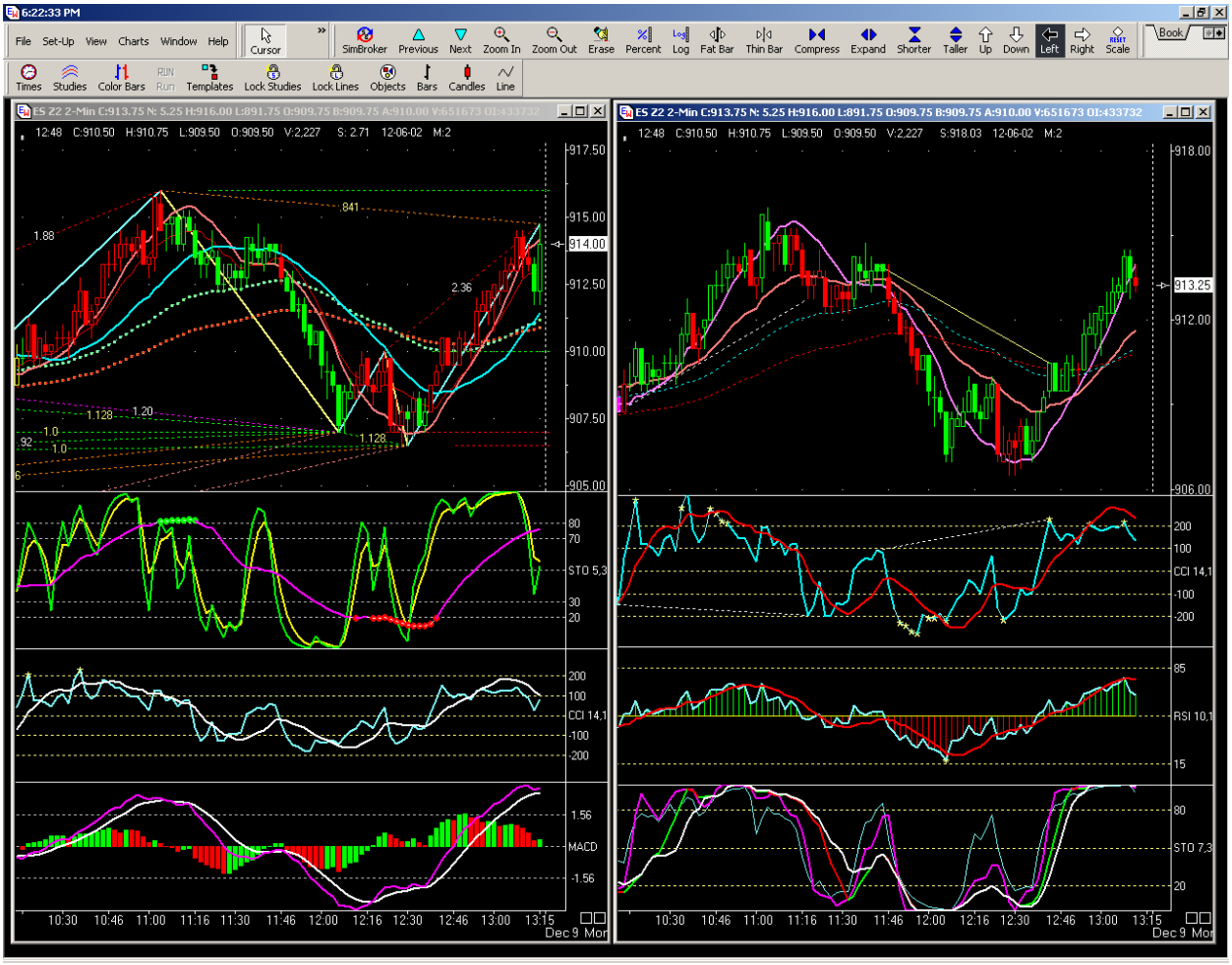
Chart 44: Comparison of Stochastic with CCI and RSI Trends



This comparison uses different stochastic settings and different RSI and CCI settings than the previous chart. As discussed before, you can drive yourself nuts trying to optimize. Just pick something that works consistently and impress the signals so deeply in your mind that you have no question about what to do and when.

You also eliminate emotions of fear and greed. **You are now trading in the Zone!** As a test we suggest that you use the SimBroker and trade using only the indicator(s) of your choice without the price. You will be amazed at the confidence you will develop in your indicators.

One other hint about conditioning you mind. We used all kinds of colors and combinations in developing the system we now use. We found that changing the colors on any indicators, the way candles were shown and our desktop caused us to be less effective for a significant time after the change. The reason, is that you essential burn in pathways of recognition and any change requires you to re-burn those pathways.

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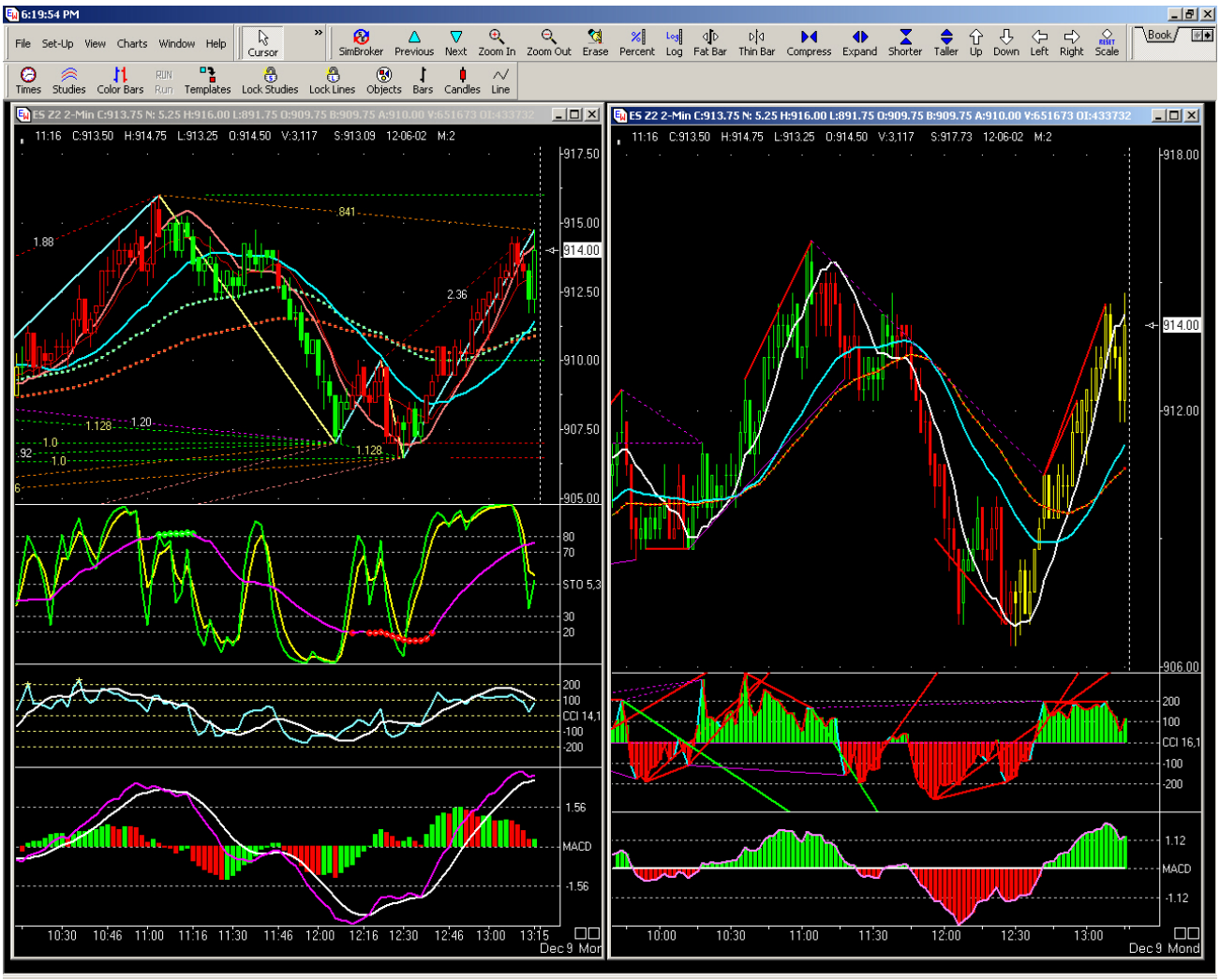
Chart 45: Comparison of Stochastic with CCI Trend System



The chart on the right uses a 16 period CCI with trend lines on the indicators and a simple 3/10 Simple Oscillator (similar to a 3-10-16 MACD).

If you look closely, you will again see most of the same signals on each chart. Here is a word of advice. When you finally SEE how your system tells you when to trade, **DO NOT CHANGE ANYTHING!** Not colors, size, periods or anything, because you will force your mind to reinterpret everything again from the beginning.

Once you finally get an approach that you like, do not search for anything else because it sends you all the way back to stage one of the learning processes and drops you out of the "Zone" where you can function in automatic.

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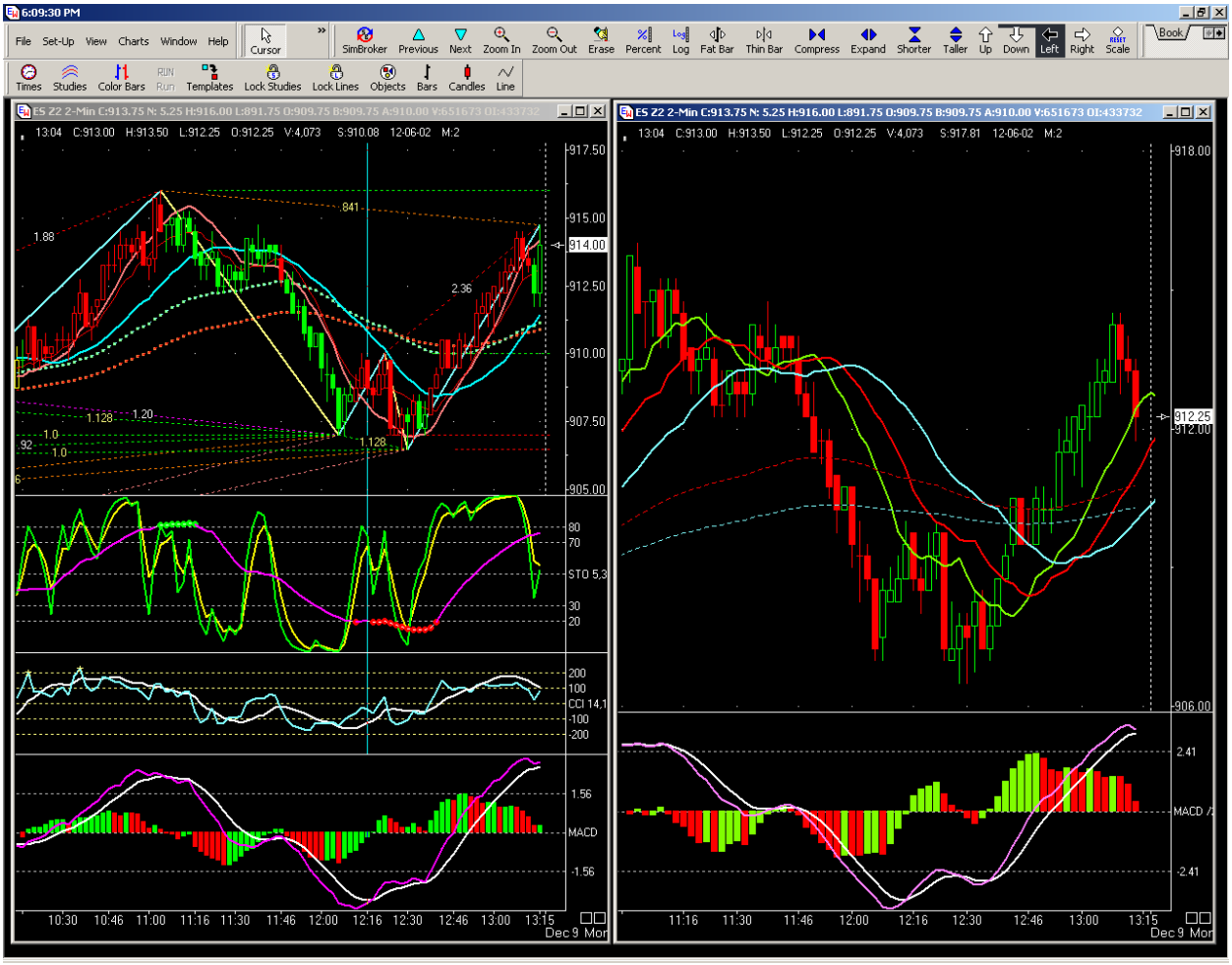
Chart 46: Comparison of the Stochastic with the Alligator System



Compare the use of the Alligator Moving Averages with those on the left. The left chart uses a 25 period regression channel average and a 34 period EMA. The right hand chart also uses a smoothed MACD versus and Exponential MACD.

Trading the Ka Ching and Sling Shot rules would provide you with substantially more profit than the pure Alligator system, unless you only traded the MACD Histogram signals on the right hand chart.

The multiple Pesavento Pattern convergences on the left hand chart gives you a great heads up on potential trend change that is not evident on the right hand chart.

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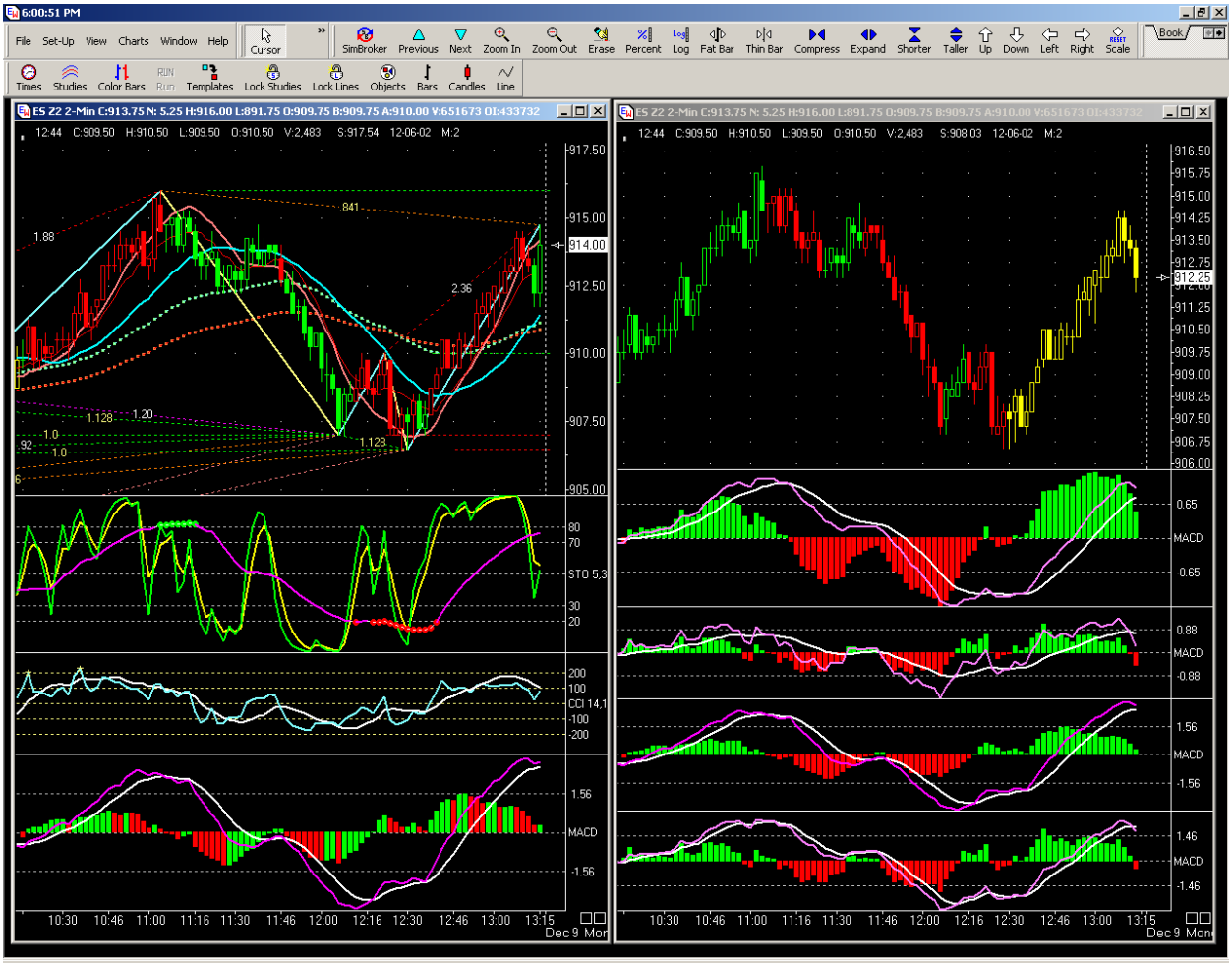
Chart 47: Comparison of the Stochastic with Various MACD approaches



Expand this chart to 150%

Carefully check the divergence of the MACD on the left hand chart and how it coincides with the Double Stochastic cross. The setting of 7-28-7 gives the best signal

You can also see how the CCI system is difficult to interpret.

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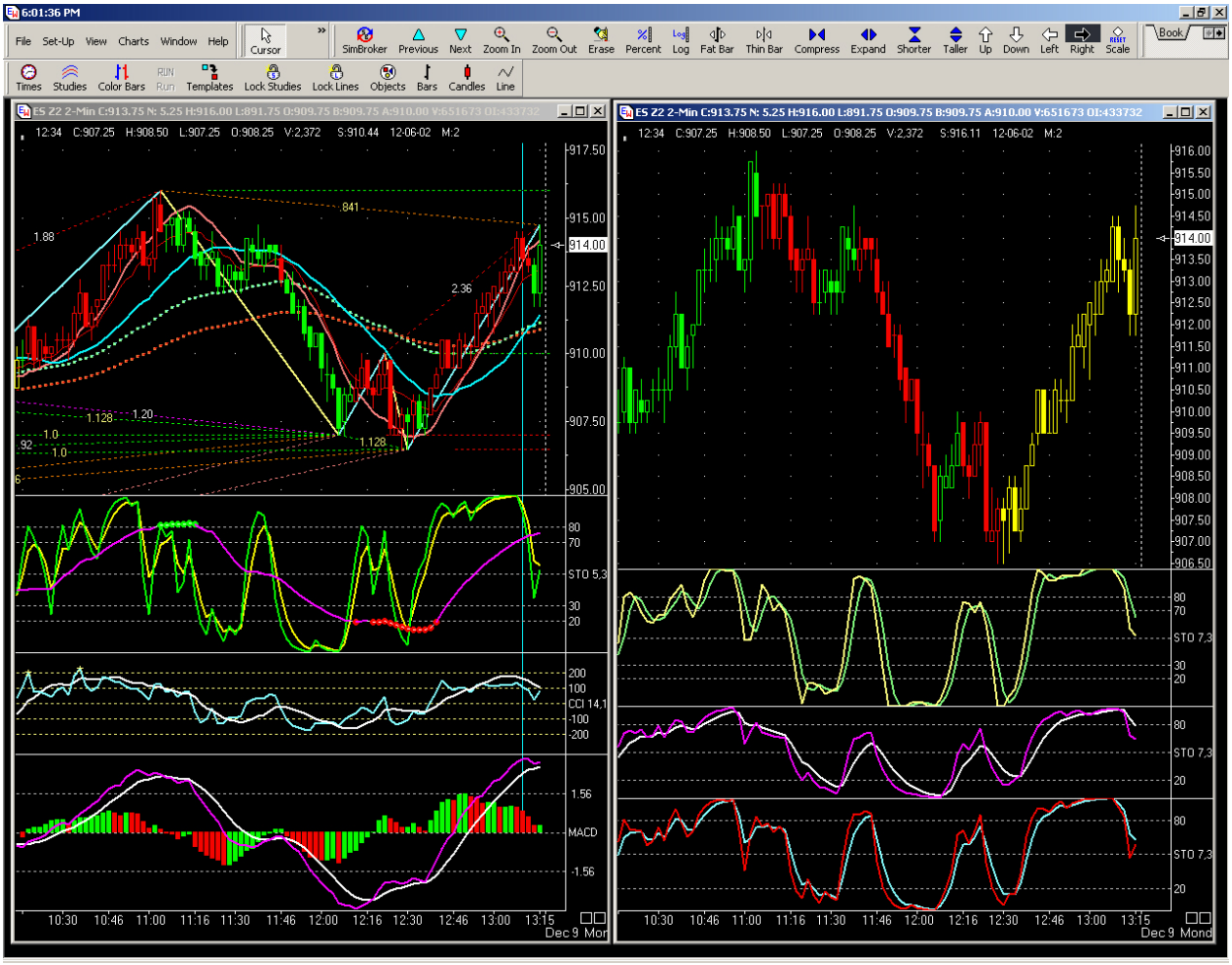
Chart 48: Comparison of Stochastic System with Other Stochastic



As you can see from this chart, the comparison of various stochastic indicators, simple (top right), smoothed (middle right) and exponential (lower right), are all very similar. Using the dual stochastic of a Long Term (purple line, top left) and the Short Term (green and yellow lines, top left) gives you a much better understanding of short and medium term trends.

Again we consider the 49 and 89 EMAs as long term trends on the time frame, the LTSI and the MACD as medium term trends and the STSI and the MACD Histogram as short term price action on each chart.

Understanding how to play these three different momentum or trends on one chart is a key factor in our program. Remember that with two time frames, the LTSI on the shorter time frame is roughly equivalent to the STSI on the longer time frame.

On the left chart, note the MACD divergence toward the right hand of the chart, plus the dual stochastic pattern (there is only a small divergence there) but the signal to change direction is definitely there. The Pesavento line printing was a wakeup call to watch for the divergence.

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Chart 49: Two Time Frames in Synch

This combination of 210 and 550 Tick charts shows the perfect setup for a pullback after an up trend. Notice how the 210T Long Term Stochastic was pegged at the top of the chart (green highlights). Several entries present themselves on the 210 tick char that allow you to get in at the 873.00 level short.

The ideal exit to preserve profit is on the 210T where the Long Term Stochastic (red highlights) is cut from below by the 5-3-3. This is also apparent by the Long Term Stochastic on the 550 T when it pegs itself below the 20% level. This is why we look for convergence on multiple time frames and then take signals from the 74T chart.

Drawing lines on the indicators is an excellent way to see what is really happening. Watching only the price can be hypnotizing. Try trading with only the indicators and see how you do. Be sure to use the SimBroker first.

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Chart 50: Decision Time

Short or Long? No one can predict the future. But based on what you have learned, how would you trade this setup?

The conflicting signals are both MACD Histogram and Dual Stochastic have all started up. However, the price is bouncing between the 49 and 89 EMAs, and there is only a 50% retracement which could go to 62% or even 70.7%.

We would wait on this trade until we get a **definitive signal** from the **Short Term Stochastic** because the **Long Term Stochastic** has not reached the **Buy Zon**e and this could be a **Short Sling Shot trad**e. We would also be monitoring the 74 Tick chart.

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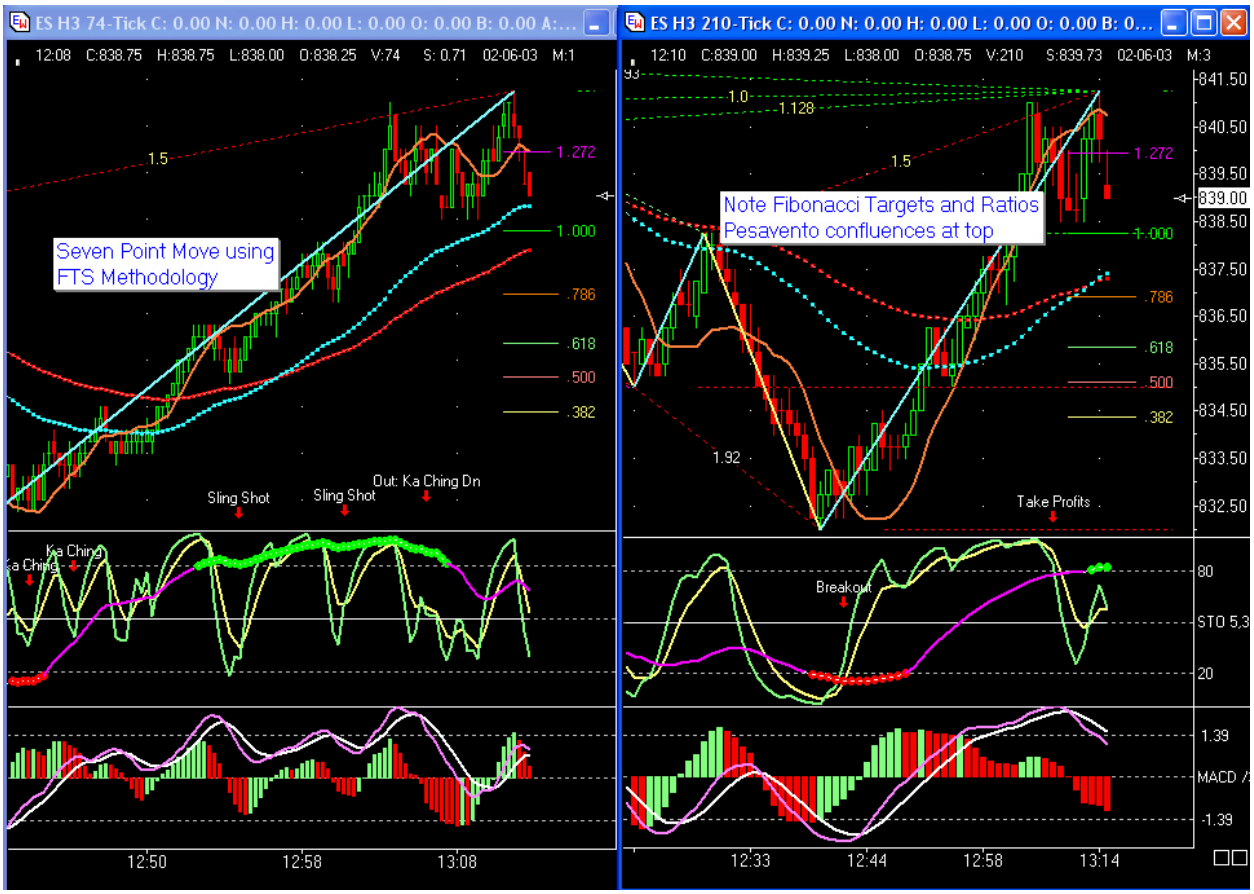
Chart 51: Triple Play, the Ideal Setup



Taking any of the **Ka-Ching** trades on the 74T chart, while both the LTSI on both charts was pegged below the 20% level, was a high percentage trade. There is no guarantee that the market would have made this long run, however, watching the LTSI and the MACD lines and MACD Histogram on the 210T would have kept you in.

Aggressive traders could have added contracts on at least two of the Sling Shot trades on the 74T and multiplied their profits significantly.

The 74T gave plenty of warning that a top was approaching. The 210T SOS and MACD Histogram also gave you a heads up. This trade was worth between 6 and 12 points depending on whether you played the Sling Shot trades for add-on profits or just stayed with your original entry.

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Chart 52: Dual Time Frame Sling Shots

This side by side chart should be studied in detail. It gives you the comparison of a sling shot trade on the 210 Tick and how it looks on the 74 Tick. Understanding these relationships is the key to our system.

You should also notice how the 49 EMA acts as support on the 210 Tick after the trend has changed. The MACD has a small divergence but not significant enough to get out right away. The far right of this chart gives us reason to take profits because of the three pushes up, the divergence on the SOS and what looks like a divergence on the MACD. We would expect the price to test support at 987.5 before moving higher. If price breaks down, then wait for a lower high before going short.

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Chart 53: Support and Resistance with Fibonacci and Pesavento Levels

This chart is designed to show you how the Pesavento and Fibonacci numbers interrelate with support and resistance. While the SOS signals are right on the money, you can gain an advantage by also watching the support and resistance levels for the day. Remember that the market is always searching for balance between supply and demand and it also continually tests support and resistance. Study this chart carefully on how the price action is affected by previous levels. You can also turn on the Support and Resistance, and two Fibonacci ratios on the Pesavento Pattern chart object. Just open the Pesavento Pattern chart and experiment with the settings. I think you will see why we use the settings we do. Too sensitive and you get too many lines. Too few and you don't get accurate signals.

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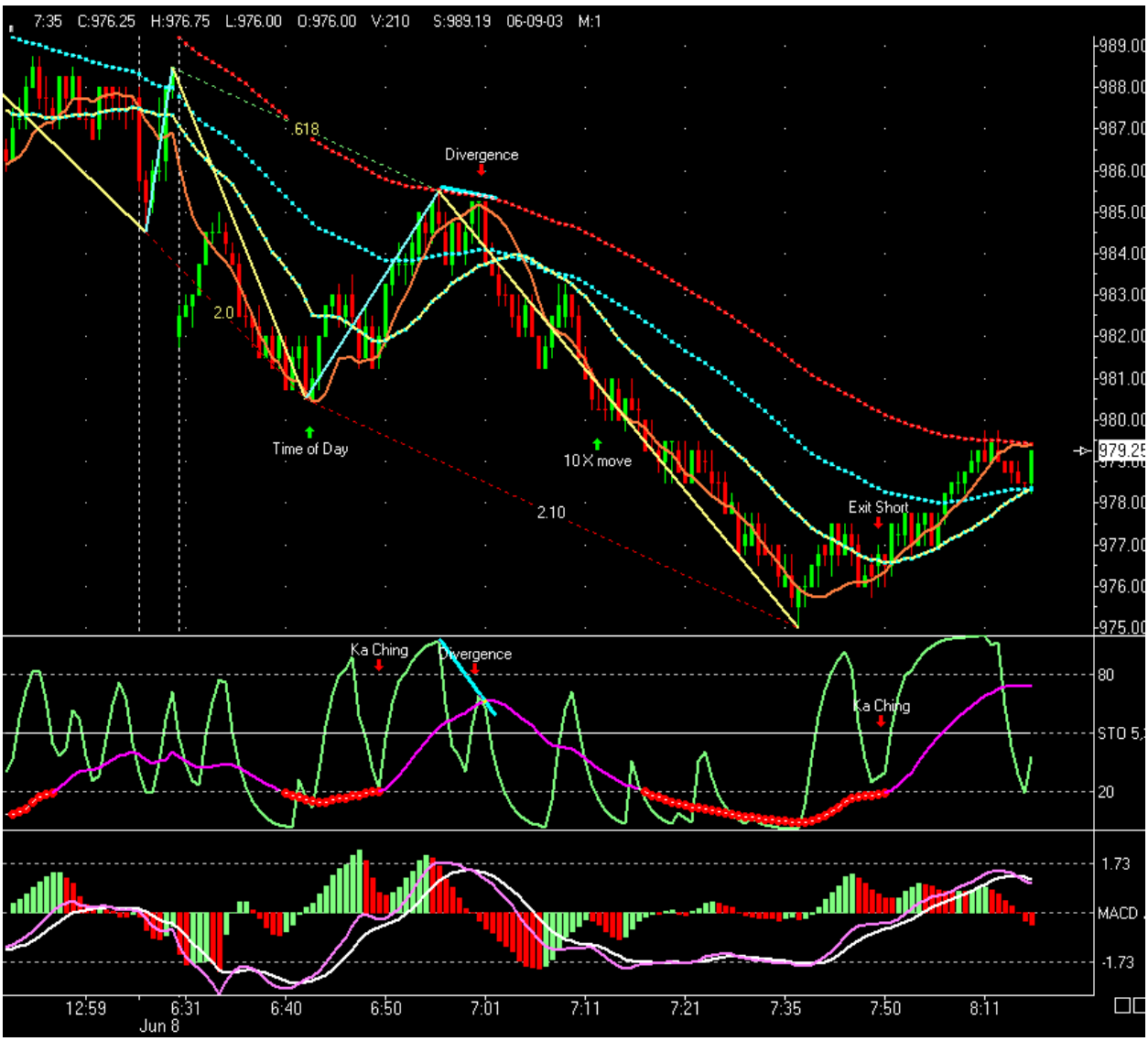
Chart 54: Gap Down with 10 Point Move



Two charts today show the early morning Time of Day (TOD) trades where price tends to turn at +12 and +24 minutes. Following the 24 minute time frame a great divergence and an 89 EMA resistance line test setup a 10 point runner short. You can also see the divergence and the Ka Ching setup.

We are always cautious when the price approaches either of the EMAs and always look for divergences. In this case you had a divergence on the STSI but not on the MACD. This is not an ideal signal, but turned out to be a great trade because all lines were down except the price.

You should also notice the Ka Ching setup at the end of the run for either an exit signal or a short-term, scalp against the trend.

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Chart 55: Three Waves and Resistance Short

Here is an excellent example of how an up trend changes to a down trend. Notice the topping pattern on the SOS with the three mountains, then the Ka-Ching Short signal. You also have the MACD declining continuously, but notice how the SOS signal is very accurate.

You can also see the small profit taking area after 10 points. This move is unusually large. The average major move is about 7 points. We picked the exit at the bottom based on all the Pesavento lines printing, the fact that this was a resistance level based on a 2 day low and the length of the move.

Finally, you can see that the Bears were not done. Look carefully at the resistance point. Look at each bar and how you got an early signal down, then a big green up bar and finally the next big down bar. This would show up as a Ka-Ching short on the 74 Tick but is barely visible on the 210. This was also a six point retracement to the 45% level and when the second attempt to rally failed, you have an 80% chance of continued down movement.

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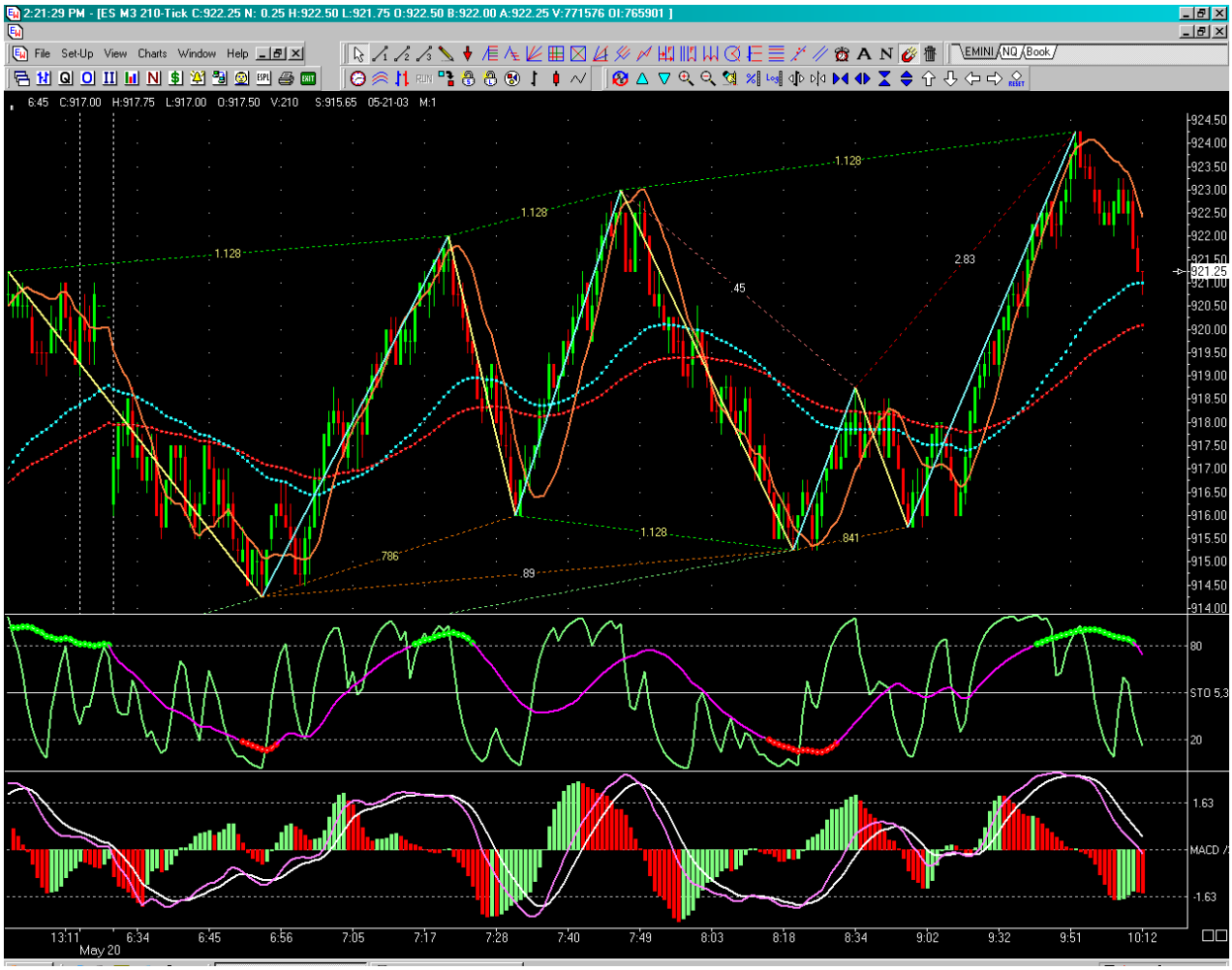
Chart 56: Large Range Day with Pesavento Patterns



See if you can pick out the ideal moves. There is a terrific Time of Day move in the morning coupled with a divergence on both the SOS and MACD that is good for six points. The resulting trading range is good for two more high probability trades of 6-8 points each. If you were to look at the 74 Tick Chart, these moves would be very smooth and the entry and exit signals would coincide nicely with the 210 Tick shown here.

The afternoon move starts during lunch, but you have a very clear signal to get in long, based on two higher lows and the SOS and MACD confirmations. Finally, there is an ideal Ka-Ching trade at the end of the last move. It is shown by the divergence on SOS indicators.

Trading range days like these are where you should make the majority of your money. Since the previous day had been a large uptrend, you can see the consolidation as indicated by the intertwining of the EMAs. When you get in this scenario, play the short term stochastic and look for divergence.

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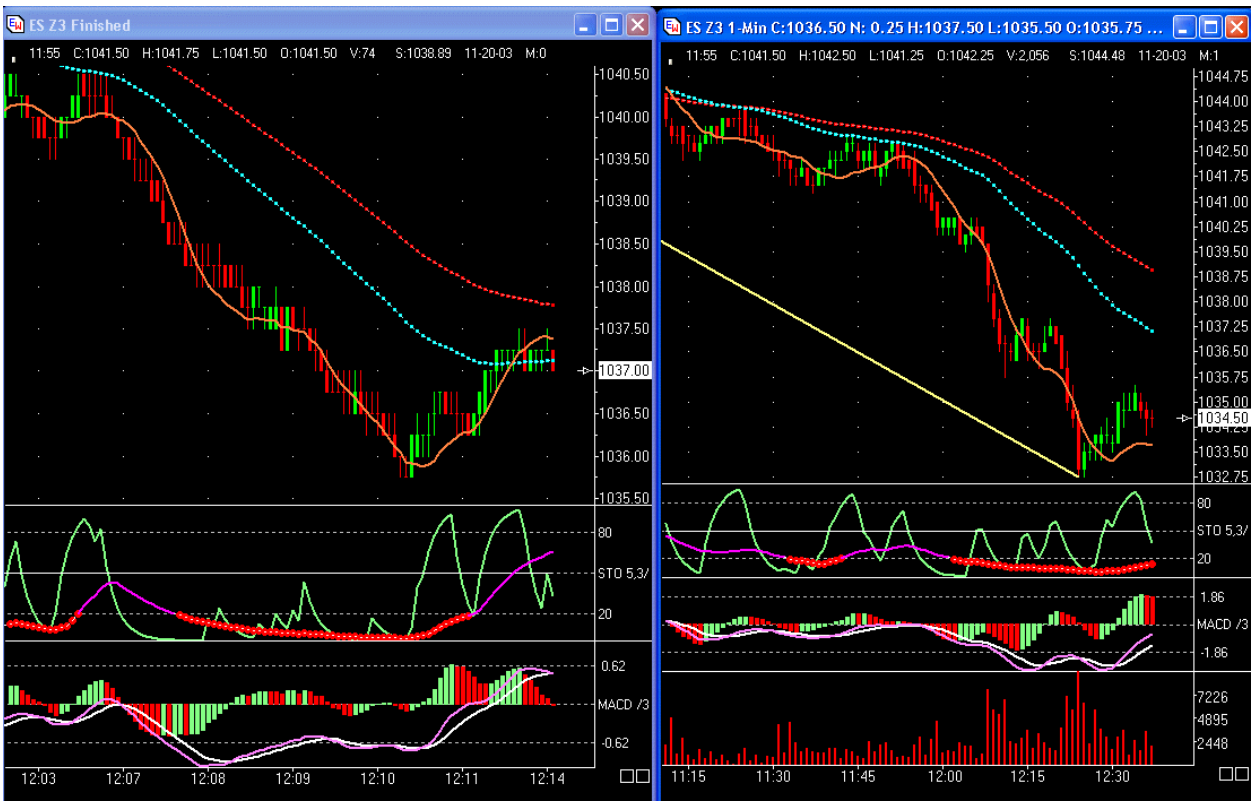
Chart 57: Comparison of 74T to 1 Min Chart



Here you can see how a 74 Tick Chart compares to a 1 Minute chart. These do not quite cover the same time period; however, by comparing the even flow of the Ticks (constant volume of trades) with the time chart, you can see why we use the smoother 74and 210 Tick charts.

Also compare how the Stochastic and MACD indicators give a much more direct picture of the price action. And offer clearer signals on profit taking.

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Appendix G: Reference Material

Getting Your Head in the Right Place

1. "Trading in the Zone", Mark Douglas. If you do not read any other book, read this one! **Lesson Learned: How to overcome fear of "Pulling the Trigger.".**

2. "Trade your Way to Financial Freedom", Van K. Tharp: This book talks about positive expectancy, entries and exits, as well as the Neuro-Linguistic Programming Techniques to use in trading or any high-performance activity we suggest that you play Van's trading game to test what you have learned from the book. **Lesson Learned: You do not to have to be right to make money, that expectancy ratio; position size and opportunity to trade determine your financial success, not entry signals.**

3. "Investment Psychology Explained", by Martin J. Pring. Excellent book about the mind of the trader and winning and losing. Needs to be read every few months to keep your head in the right place.

4. "Against the Gods", Peter Bernstein. A book about risk, probability and game theory. Gives you a whole new perspective on trading risk and reward scenarios.

5. "Using Your Brain for a Change", "Frogs Into Princes", "Reframing", Richard Bandler and John Grinder and "Change Your Mind and Keep the Change" by Steve and Connirae Andreas. **Lessons Learned: These are the basic books on Neuro Linguistic Training and they will definitely help you remove negative, self sabotaging habits and re anchor positive behaviors.**

6. **"**NLP: The New Technology of Achievement" and "Success Mastery with NLP", audio cassette programs by Charles Faulkner and Robert McDonald. Published by Simon and Schuster provide 4 hours of excellent techniques to help your trading.

Trading Methods

7. "Trading for a Living", Dr. Alexander Elder: The best basic course on technical analysis. Be sure to get his workbook and tests. Take the tests until you can pass it with a 90% score. His latest book Trading Room spends more time on trading system approaches. **Lesson Learned: the Basis and Basics of Technical Analysis.**

8. "Intelligent Futures Trading" and his new book, "Trading Day By Day: Winning the Zero Sum Game of Futures", by Chick Goslin. This is a no nonsense, and low key book on momentum investing in the futures market, and the basis for much of my trading philosophy. Chick has taken a $10,000 account to over $1,000,000 in the past and has been trading for over 30 years. **Lesson Learned: How to set up your own system and develop loaded trades on multiple time frames.**

9. "Fibonacci Ratios with Pattern Recognition", Larry Pesavento. Excellent book on repetitive patterns in the market. **Lesson Learned: We use this pattern recognition**

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system in our Ensign Trading Software to identify, Support and Resistance, and retracement points and targets.

10. "Candlestick Charting Explained", by Gregory L. Morris: A much easier read and also has correlation studies and analysis of candlesticks and western indicators such as Stochastic, MACD, RSI and Momentum. **Lesson Learned: How to identify turning points or potential turning points in the market**.

11. "Trading Chaos" and "New Trading Dimensions", By Bill Williams. A complete explanation of chaos theory and the underlying order of the random markets. **Lesson Learned: How to interpret price action, volume effects, acceleration and momentum on prices.**

12. "The Master Swing Trader", by Mark Farley. An excellent book on short-term trading techniques and what he calls the "7 Bells" that alert you to loaded trades. **Lesson Learned: How to identify and trade high potential trades and the key times of the day for Day Trading Market Timing.**

13. "Day Trader", Jake Bernstein. Excellent explanation for day traders and signal ideas. Helped confirm our developing system. **Lesson Learned: You can develop a consistent entry and exit system just from technical indicators.**

14. "Trading as a Business", Charlie F. Wright. Written for Trade Station owners on system writing and testing. Excellent outline of how to set up Trade Station systems and optimize them. **Lesson Learned: Treat your trading like a business.**

15. "Trading with Oscillators", Mark Etzkorn. Describes how to pinpoint market extremes, divergences and how to fine tune your oscillator settings: **Lesson Learned: How to use multiple oscillators to act as both lagging and leading indicators of momentum and trend.**

16. Guide to Trading Systems", by Bruce Babcock. This book, while dated, gives an excellent analysis of the various trading system position sizing techniques for both winning and losing streaks, as well as identifies strategies to minimize draw downs. **Lesson Learned: It is the money management that determines your long term success or failure as a trader**.

17. The Trading Game", by Ryan Jones. An excellent book on optimum position sizing. Sometimes difficult to put together, but excellent explanations of the how and why of various strategies. **Lesson Learned: It is the money management that determines your long term success or failure as a trader**.

18. Many other traders including all the traders who have posted charts systems and settings on the Ensign website. And especially to Howard Arrington for his excellent program and continually updated program; Ensign Software is the best in the business bar none.

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Appendix H: Personal Coaching

Futures Trading Secrets offers training sessions for individual traders who are interested in intensive immersion training in our methods. **This course is for intermediate or advanced traders only.** This exclusive package includes:

1. Your three day private session covers advanced techniques in mental control, money management and risk control with side-by-side work in real time market conditions that will ingrain our signals into your trading pattern.
2. Your will receive our complete training course on CD to study for several weeks before you begin the private tutoring.
3. There will be tests on the program before you arrive to check your understanding and progress. Also please notify us in advance of any special situations and questions you want to address.
4. Free training consultations by email and private chat room after the training to discuss your trades, money management and mental issues as required.
5. You will receive follow up emails of how our signals worked in the market at the end of each day for six months following completion of your private session.
6. Training will take place in my home office in Carlsbad, California during market hours.
7. Or, if you would rather have us come to your home office (additional travel expense will be required).
8. Bring your computer and we will fine-tune it for you and install all the templates we use for trading, all our indicators, setups, entry and exit signals. (see equipment requirements)
9. Fee for the training is $3,479 payable in advance by personal or corporate check.

For more information to schedule a private seminar, you can call me us Toll Free at 888-404-1212, 760-931-5435 or e-mail **seminars**.

Final Thoughts

Swimming is one of my passions, and trading is a lot like swimming for me. Reading about swimming or watching swimming is not swimming. There is simply nothing like a nice cool refreshing swim where you can take long slow powerful strokes. You can feel the water separating into a wake behind you as you glide straight down the pool. The more relaxed you are the smoother and faster you swim and with much less effort than those who thrash about.

Trading can be effortless and stress free too. Like a rough water swimmer, you learn to go with the tide, use the current to your advantage and catch the waves for fun and profit. The ocean or the market is your partner not your enemy. Both are more powerful than you and, yet a great swimmer or a great market trader can feel the flow and know when and how to navigate safely.

The power and confidence necessary to master the markets come from daily practice, training and awareness of both the right and wrong things we do. Trading daily inoculates you against the fear of failure and allows you to get comfortable doing the uncomfortable. Trading without knowing the future is just like swimming without seeing the bottom.

Good luck and good trading!

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Appendix I: Single Indicator, Single Time Frame Trading

With this version of the program, we have added a single indicator, single time frame trading program. We continue to test this approach in an effort to simplify the trading approach and rule. In this case we will use the Ergodic Indicator that is only available, to our knowledge on Ensign Software. We emphasize that this approach has not been fully tested under all conditions, but does look extremely promising.

Ergodic Oscillator and True Strength Index

1. We make money on changes in price.
2. Momentum shows the speed of the price change.
3. Acceleration of momentum shows the change in momentum.

How do we set up and indicator with little or no lag?

1. Moving averages of prices always introduce lag
2. The longer the moving average the longer the lag
3. A single moving average of the momentum acts entirely differently
4. The longer the moving average of the momentum the LESS lag is introduced
5. A long moving average of momentum (the first derivative of price) is an excellent representation of price with **no lag** because it includes all the available data.
6. The type of moving average doesn't matter. For proof see a calculus textbook.
7. The shape of the price or the moving average of the momentum is identical to the price, but the scale of movement is not.
8. The result is a double smoothed indicator with nearly zero lag, because the short term average is responsible for any lag.
9. These properties are useful in controlling the shape of trending momentum curves that are not available on price curves.

Introducing Divergences for Signals Using the Ergodic Indicator

1. By using a long term moving average and a short term one, we can generate divergences for trading purposes.
2. Normal calculations use a 20 and 5 set of averages. We use 7-28-7 for reason related to Gann, Elliot and Da Vinci and the trading cycle.
3. A divergence using a double smoothed indicator, signals an imminent price change to either a flat market or a reversal of trend.
4. Since the Ergodic is not normalized (limited between +100 and -100 it acts as both an oscillator and a trend indicator.
5. A secondary indicator must be used to fine tune entries and exits so that we always stay on the right side of a trend move.
6. Our objective is to identify trending markets with respect to momentum. Turning points in momentum precede turning points in price.

A Trading System Using the Ergodic

1. Enter or hold a position only when the slope of ST Ergodic Signal Line has the same slope as the LT Ergodic

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2. Exit Alert with a Pesavento Line Print
3. Exit after ST Ergodic Crosses LT Ergodic
4. A divergence of ST Ergodic is a strong Reversal Signal
5. Re enter in opposite direction after ST Ergodic and its Signal Line crosses.

Formulas Used to Calculate the Ergodic Oscillator

True Strength Indicator (TSI) a True Momentum Indicator

$$TSI(close,r,s) = 100*\frac{EMA\{EMA[mtm,r],s\}}{EMA(EMA\{|mtm|,r\},s)}$$

Numerator

mtm = close [today] – close [yesterday]
(one-day momentum)

EMA(mtm,r) = r-day EMA of the momentum

EMA(EMA(mtm, r),s) = s-day EMA of the EMA(mtm,r)
(double smoothing of momentum)

Denominator

mtm = close [today] – close [yesterday]
(one-day momentum)

EMA(mtm,r) = r-day EMA of the momentum

EMA(EMA(mtm, r),s) = s-day EMA of the EMA(mtm,r)
(double smoothing of the absolute value of momentum)

Ergodic Oscillator

Ergodic (close, r) = TSI (close, r, 5)

Signal Line (close, r) = EMA[TSI(Close, r,5),5]

The Ergodic is a double smoothed TSI with one EMA smoothing fixed at five price bars. A further smoothing by a fixed amount of five price bars produces the Signal Line.

Note we use two Ergodics with the following parameters using 7 and factors of 4:

Short Term Trend: = ST Ergodic (7-28-7) Smoothed
Intermediate Term Trend: = LT Ergodic (28-112) Weighted
Long Term Trend = EMAs 49 and 89
Pesavento Pattern Setting = 2 and 1

You can also double smooth other oscillators such as Stochastic, RSI, MACD and others. Our research shows the settings for Ergodic TSI to be the optimum for our purposes.

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This approach has yielded some exceptional results for the week of July 18-23 and August 3-8 2004.

July18-23 there were 78 trades averaging 3 points each for 234 total points.

August 3-8 there were 67 points averaging 3.41 points per trade for 228 total points.

These trade setups included every trade signal for the entire day. Profitability could be improved by trading only the morning and after noon. Only 5 percent of the total trades resulted in a 1 point loss.

Trading Rules Using the Dual Ergodic Indicator

1. Trade in the Direction of the Long Term Ergodic
2. Enter on a ST Ergodic Cross by its signal line and After a Pesavento Line Prints
3. Exit on a Pesavento Line Print AND a turn on the ST Ergodic
4. When both the Ergodics are above or below the zero line, trade only long or short unless you have a divergence of the ST Ergodic. Then take the counter trend trade.

Review the charts and check out this approach. We have included the Ergodic Template for your convenience. We find that using s 133 Tick chart is a good compromise for a single time frame. Here are some of our back test results

#600 Back Test Results ES U4

Account Balance $	9,450.00	Winners	183	92%	$	9,660.00	Average Win	$	52.79
Market Value $	0.00	Losers	17	8%	$	-210.00	Average Loss	$	-12.35
Today's Change $	1,632.50	Total	200		$	9,450.00	Average Trade	$	47.25

New | Edit | Delete | Columns | Buttons | Close

	Pos	Quantity	EntryDate	EntryPrice	ExitDate	ExitPrice	Profit/Loss	Balance	Notes
1	S	1	07-22-04	1090.25	07-22-04	1089.00	$ 57.50	$ 57.50	09:58
2	L	1	07-22-04	1089.00	07-22-04	1087.75	$ -67.50	$ -10.00	10:00
3	S	1	07-22-04	1087.75	07-22-04	1087.25	$ 20.00	$ 10.00	10:03
4	L	1	07-22-04	1087.25	07-22-04	1089.75	$ 120.00	$ 130.00	10:03
5	S	1	07-22-04	1089.75	07-22-04	1089.25	$ 20.00	$ 150.00	10:23
6	L	1	07-22-04	1089.25	07-22-04	1089.50	$ 7.50	$ 157.50	10:29
7	S	1	07-22-04	1089.50	07-22-04	1088.75	$ 32.50	$ 190.00	10:30
8	L	1	07-22-04	1088.75	07-22-04	1089.25	$ 20.00	$ 210.00	10:30
9	S	1	07-22-04	1089.25	07-22-04	1089.00	$ 7.50	$ 217.50	10:31
10	L	1	07-22-04	1089.00	07-22-04	1089.75	$ 32.50	$ 250.00	10:32

Testing varied based on using the open of the next bar after the signal or the close. Virtually all tests showed positive results even with low winning percentages. The test above is for just trading the LT Ergodic turns and the test below is taking all the turns on the ST Ergodic without looking at the LT Ergodic. The 4 to 1 win to loss ratio is what made even this approach profitable.

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#600 Back Test Results ES U4

Account Balance	$	2,558.51	**Winners**	80	38%	$	4,630.52	**Average Win**	$	57.88
Market Value	$	0.00	**Losers**	131	62%	$	-2,072.00	**Average Loss**	$	-15.82
Today's Change	$	0.00	**Total**	211		$	2,558.51	**Average Trade**	$	12.13

New | Edit | Delete | Columns | Buttons | Close

	Pos	Quantity	EntryDate	EntryPrice	ExitDate	ExitPrice	Profit/Loss	Balance	Notes
1	S	1	08-02-04	1105.92	08-02-04	1105.83	$ -0.50	$ -0.50	15:58
2	L	1	08-02-04	1105.83	08-02-04	1104.50	$ -71.50	$ -71.99	15:59
3	S	1	08-02-04	1104.50	08-03-04	1103.75	$ 32.50	$ -39.49	00:02
4	L	1	08-03-04	1103.75	08-03-04	1103.17	$ -34.00	$ -73.49	06:52
5	S	1	08-03-04	1103.17	08-03-04	1103.42	$ -17.50	$ -90.99	10:10
6	L	1	08-03-04	1103.42	08-03-04	1103.17	$ -17.50	$ -108.49	10:10
7	S	1	08-03-04	1103.17	08-03-04	1103.17	$ -5.00	$ -113.49	10:12
8	L	1	08-03-04	1103.17	08-03-04	1102.83	$ -22.00	$ -135.50	10:13
9	S	1	08-03-04	1102.83	08-03-04	1102.75	$ -1.00	$ -136.50	10:15
10	L	1	08-03-04	1102.75	08-03-04	1102.42	$ -21.50	$ -158.00	10:18

The settings in Ensign for this test are given below

Alert Properties Window

Select Data: Study Value
Study Value: ERG 28,89
Field: Study Value
Bar Offset: 0
A

Conditions
- [x] A above B
- [ ] A below B
- [ ] A equals B
- [ ] A cross above B
- [ ] A cross below B
- [ ] A AND B
- [ ] A OR B
- [ ] A AND Not B
- [ ] A only

Select Data: Study Value
Study Value: ERG 28,89
Field: Study Value
Bar Offset: -1
B

OK | Cancel | Delete | Delete All
- [ ] Use as Default
- [x] Close Only

Copy Tab

Marker
Location: Chart | Position: Top Row 2 | Show [x] TRUE | Show [x] FALSE

Message
Show [x] | Auto Remove [ ] | Momentum Crossing | Text | Panel

Sound
- Silent
- Beep
- WAV
- Copy to Clipboard

Browse
WAV file: Wave Path

Trading System
Action: Stop and Reverse | Quantity: 1
Price: Open | Commission: 5.00

Default | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14

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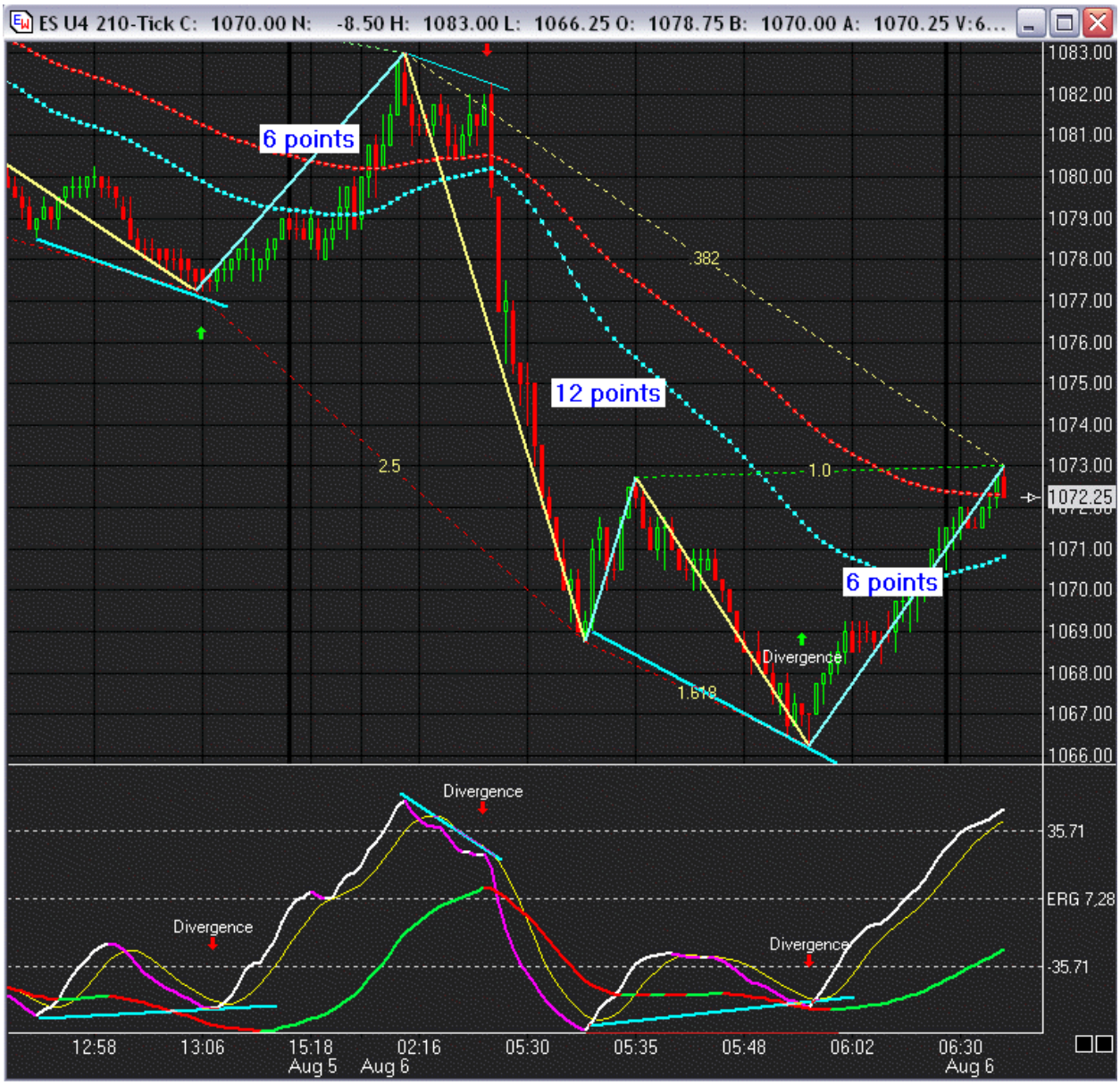
Ergodic Chart Examples



The hidden divergence in the middle of the chart shows you how the ST Ergodic can give you continuation signals. The LT Ergodic is far below zero because of the downtrend and indicates the retracement. But as soon as you get a turn on the ST Ergodic, you need to look for the continuation of the trend, especially since the LT Ergodic turned negative and just bounced off the zero line.

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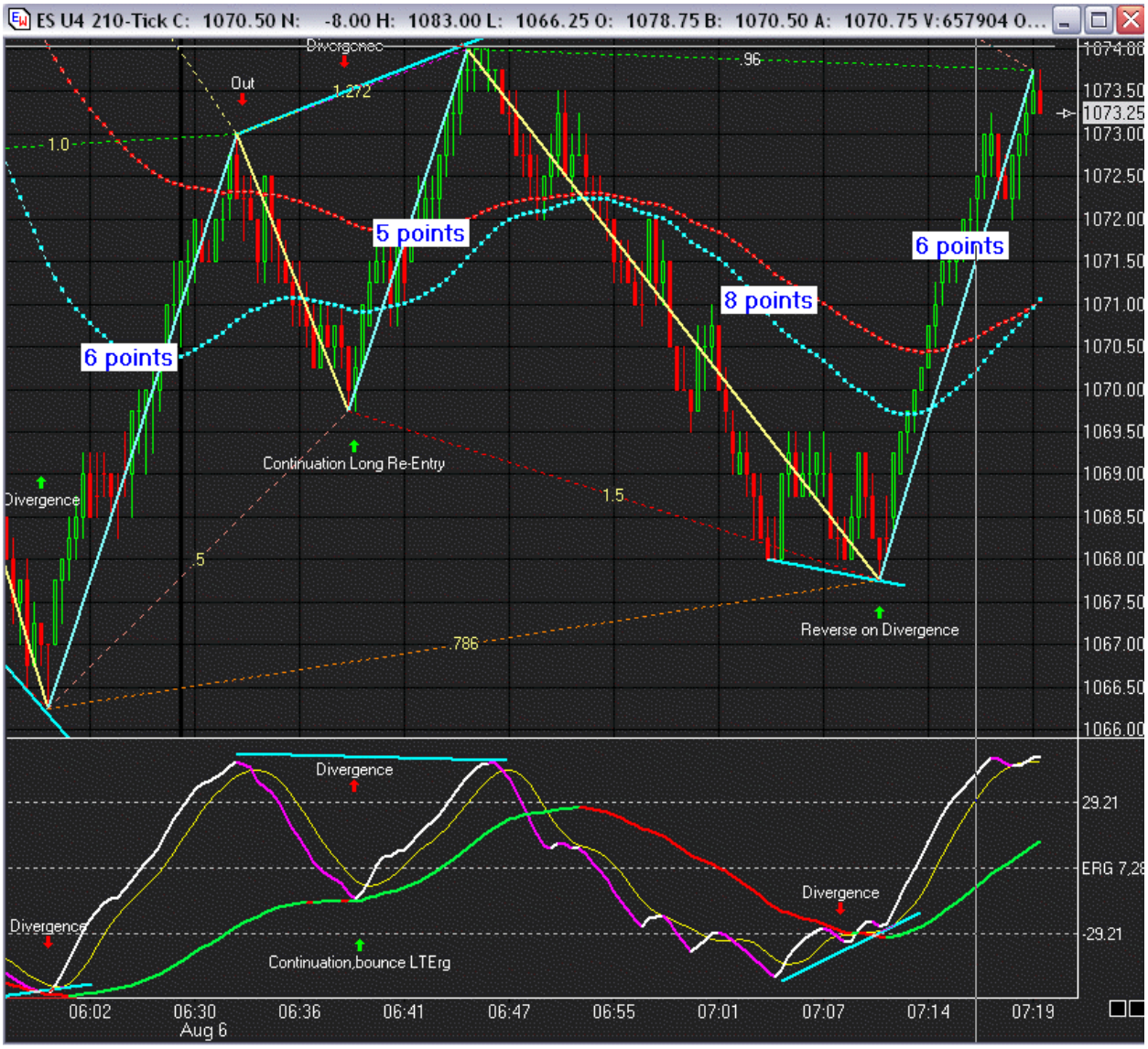
Chart Continuation



This chart is a continuation of the last chart that was in a large downtrend. You can see that trading the ST Ergodic with its signal (yellow) line can be very profitable. You could also have played the other retracements at 6:36 AM.

Later in the day another divergence forms at the double bottom and you are off for another 6 point run. Not every day will be this great. But patience and discipline will help your trading.

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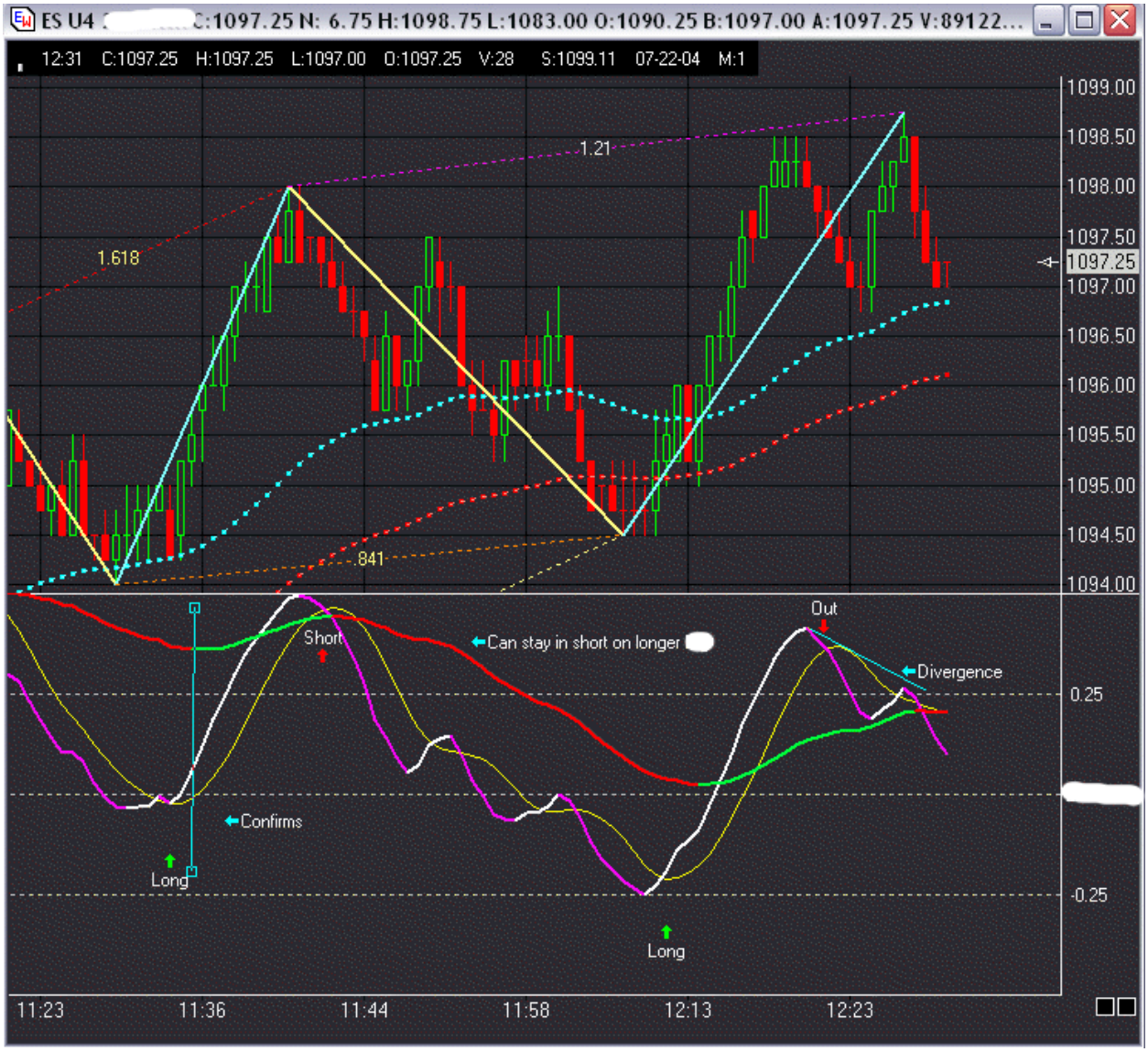
Finally, here is a typical chart in a consolidation range using the Dual Ergodic Indicator setup. Notice how you can use both LT and ST to get in and stay in. The other interesting thing about this chart is the three pushes down in the middle of the day. Watch for these formation. This pattern appears often with this indicator.



The next chart is a continuation of this chart. Can you guess what happened with the divergence?

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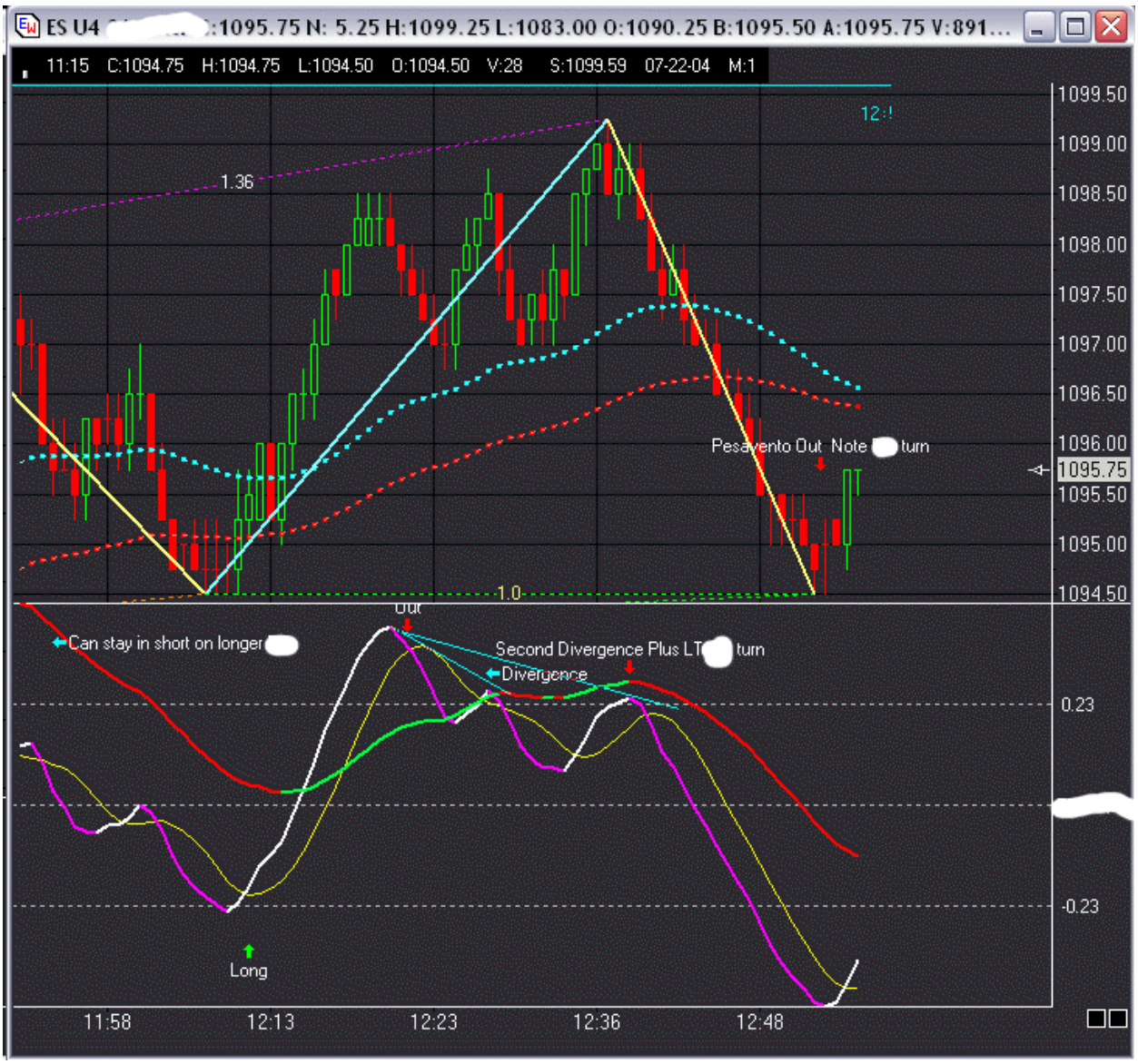
Triple Top Divergence



Notice that even if you got in at the first divergence, you might not have gotten stopped out at the real peak. In any event even if you did get stopped out for a 1.5 point loss your next entry would have given you a 5 point win with a net 3 points.

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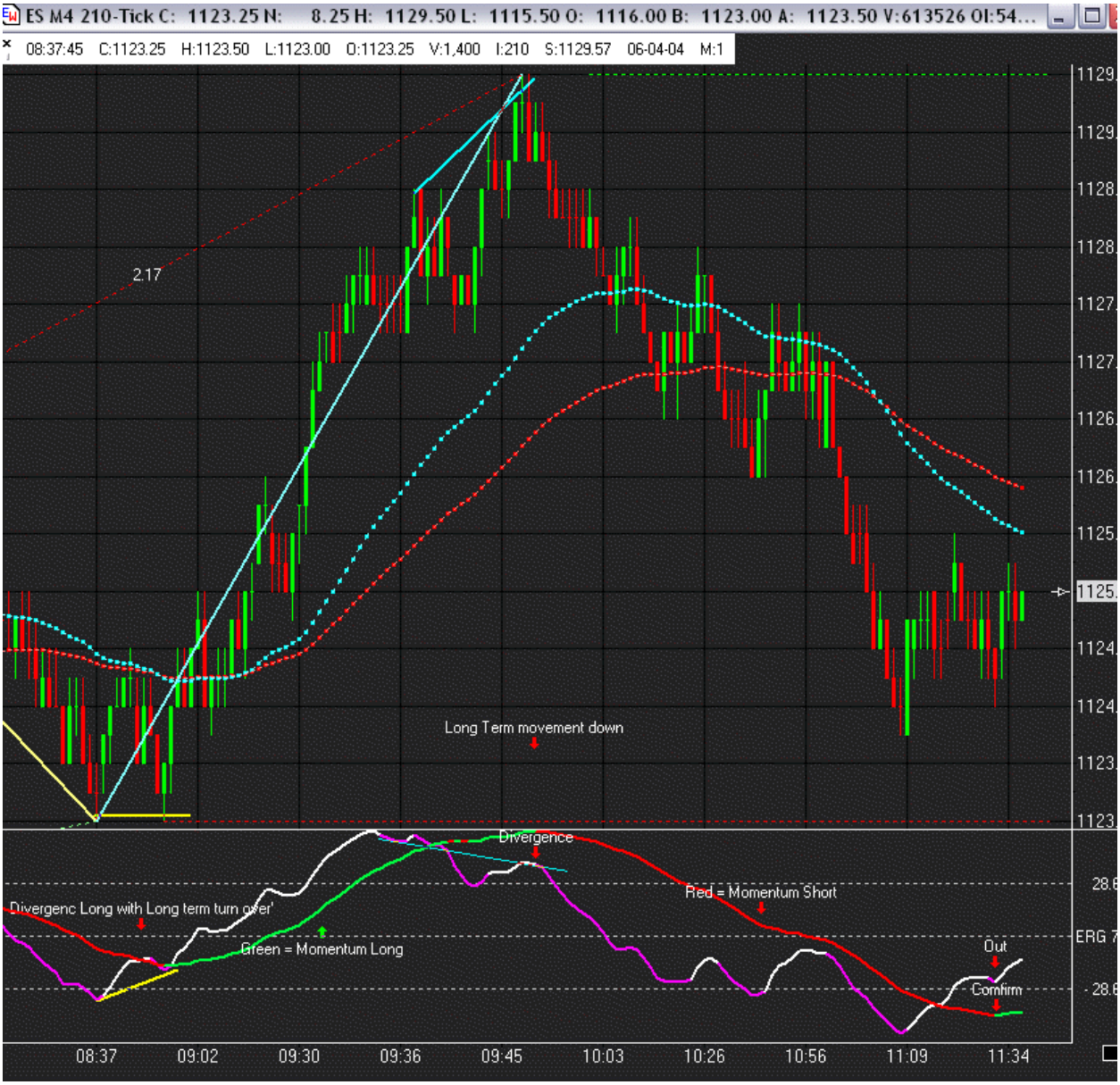
New Template Initial Test



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