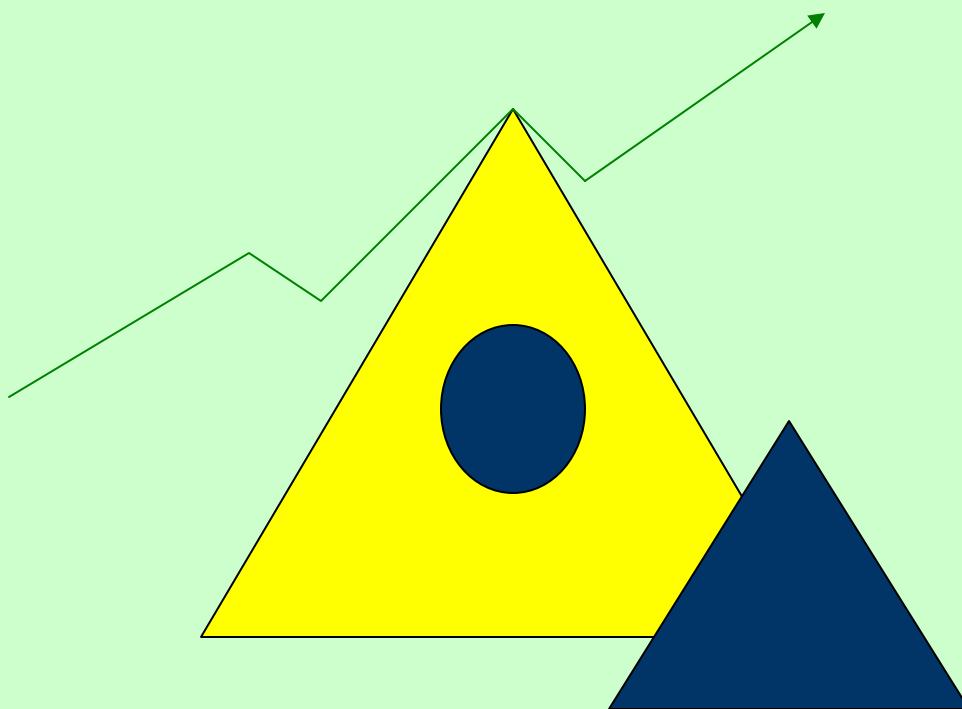


Scalping the E-mini Futures & FOREX



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The charts used in this book were created using www.prophet.net

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This is a simple and clear method for taking consistent profits out of the futures market, primarily the NASDAQ 100 e-mini, but also applicable to all liquid markets. I am going to assume that if you found and bought this eBook that you have some background or basic knowledge of trading. At the least you clearly have a desire to better your trading skills and that is the first step toward reaching your goal. If you bring that motivation and desire and apply yourself to learning and implementing this simple method you will have all of the technical trading skills required to make a living trading.

The primary focus of this book will be in the teaching of the system I use to trade the NASDAQ e-mini futures contract. I will walk you through the mechanics of the system; provide the steps I use to prepare for each trading day and outline a checklist that will help you stay focused when trading. This system is working for myself and others and will work for you too if you apply yourself. It is often said about trading that it is simple but not easy. That is very good description of this method.

There are some things that are beyond the scope of this book but critical to your success in trading. I am referring to your mental state (i.e. Psychology) and far less importantly your trading station – meaning your computer, monitor, software & broker. I will not mislead you by saying I am an expert in either of these areas – I am not. I will however tell you some of the things I have done to improve my trading mental state and recommend some books and tools that have helped me. As for the other area I will provide a resource section at the end for some of the popular software and hardware configurations as well as a list of brokers.

Now lets get down to business and learn the method...

The Tools I Use

OHLC Bar Chart or Candlestick Chart
89 Period Simple Moving Average
Keltner Channels with a 22 period moving average
MACD Histogram with 2 settings (5/34/5 & 25/170/25)
445 Period Exponential Moving Average
Stochastic Momentum (5,3) or Full Stochastics (5,3,3)

You have probably heard it said a million times that the trend is your friend. I believe this is true and the foundation of this system is based on this principle. If you follow this system you will always be following the intermediate term trend and the path of least resistance. This alone will probably automatically improve your trading performance especially if you were not doing so before.

The main tool I use to identify the intermediate term trend is an 89 period simple moving average (SMA). This period I have found works well on most time frames from

tick to weekly data. This may partially be grounded in the fact that 89 is a Fibonacci number and a little longer than the more common 50 period moving average. The basic rule is that I only take long trades when price is above this moving average and only short trades when price is below this moving average. This will keep you on the right side of the market almost all of the time.

Below is a 5-minute chart with only the 89 period SMA and volume. If you look closely at it you can see that price remains on one side or the other of the 89 for fairly long periods on this time frame as well as tests it for support or resistance on several occasions. When price is above the blue line only long trades should be taken and vice versa for shorts.



All charts courtesy of Prophet.net – the best charting service online. Visit at <http://www.prophet.net/>

Next I add the Keltner Channel with a 22-period moving average setting. This period was found to allow for a high percentage of winning trades versus losers. It also provides a mechanism to let you stay in winning trades and get out of losing trades quickly. This will be explained in detail next when I get to the trading rules. Keltner Channel are similar to Bollinger Bands in that the outer bands are based on volatility, but where Bollinger Bands use Standard Deviation, Keltner Channels use the Average True Range to define volatility. This difference creates a channel made up of three lines that almost always move in the same direction where the Bollinger Bands can all three be moving in different direction. Some traders find the Keltner Channels easier to trade. Keltner Channels are very useful when following trends but can also be used in range type trading. More can be found on the use of Keltner Channels and/or Bollinger Bands at www.investopedia.com/categories/technicalanalysis.asp. If your charting program does



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not offer Keltner Channels then a Moving Average Envelope with a 10-period moving average and envelope lines set .12% away from the 10-sma will also work.

The next tool is a MACD Histogram with the settings of 5/34/5 popularized by Dr. Bill Williams in his book [Trading Chaos](#) as an effective tool for being on the correct side of the immediate trend as well as an objective indicator for following and predicting Elliot Wave counts. I use this indicator to time our entry into trades in the direction of the intermediate term trend. To the MACD are applied one and five period moving averages creating clearly visible trade signals. This tool is very powerful when used properly and I use it in almost all aspects of my trading systems. I highly recommend the reading of Dr. Williams' book as well.



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To that I add an Oscillator for further assistance in timing trade entries. I use the Stochastic Momentum with a setting of (5,3). Not all programs carry this indicator so if this is the case with yours then you can use a Full-Stochastic's indicator with (5,3,3) settings and get pretty much the same effect. The key really is to have the settings reflect a shortened time period. I trade mostly on a 1 or 2-minute chart so you want to have a narrow focus with these trade entry filters. Let your longer termed view be handled by the 89 period moving average and our next indicator selection.



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Our last indicator is another MACD with the settings of (25,170,25) – exactly 5 times the lengths of the first MACD. It is well accepted that there is a factor of five in the markets. This means that no matter what time frame you are trading on you should use a

trading period five times greater to follow a more meaningful trend. For example if the 10-minute chart is in a clear up trend then your highest probability trades would be to take pullbacks on the 2-minute chart. This indicator will be an added filter to identify the longer-term trend as well as special patterns, which are easy to see and often indicate important turning points. I put these longer-term setting on the same chart so that everything can be seen in one place. This helps eliminate the need to flip back and forth to different screens.



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Optional Indicator

As I just stated above there is a factor of five prevalent in the natural rhythm of the markets and I frequently use an additional moving average to reflect the 89 period

moving average on a 5 unit higher time frame. To do this I simply use a 445 period average (89 x 5=445). On a 1-minute chart this indicator would be nearly identical to an 89 period moving average on the 5-minute chart. This allows me to see how price is behaving on a longer time frame all while being able to stay focused on my primary chart. The only time I get rid of this indicator is when price is far away from the moving average because my charts adjust everything to keep all indicators on the same screen and it distorts the other indicator including price to fit it all in. This happen in runaway markets only. I use Prophet.net charts and can't speak for some of the other programs so they may or may not experience this phenomenon.



All charts courtesy of Prophet.net – the best charting service online. Visit at <http://www.prophet.net/>

So now you have had a good look at all of the indicators I use for trading this system. My primary trading screen will look like one of the last two charts above and I

rarely skip around to other configurations. It may look like a lot for a single chart but it really is quite simple. In fact you could probably get rid of half of it and be fine I just like the settings and I am used to it. Being on the correct side of the 89 period moving average is the key. The rest is used for confirmation and high probability trade entry in the direction of the 89 period moving average.

Lets go over the specific rules now.

Trading Rules

By design this system is a scalping system but I also use it to capture much larger profits. The entry rules for both methods are identical. The difference lies in the exit method. For the scalping method I enter my target exit order immediately after I enter my protective stop. For the larger trend trades I use a combination of the Keltner Channel and the 89 period moving average to help stay in the trades for longer periods. That being said lets go over the entry and exit rules for the scalping system first.

Long Trades

Conditions required for trade entry - in sequence:

1. Price is above or testing the 89 period moving average on the one minute chart.
2. Price is within the Keltner Channel or closely above or below it. * Important - If price is below the Keltner Channel wait for the next trade unless there is a very clear positive divergence between price and the MACD (5/34/5) or it is testing either one of the 89 or 445 period moving averages. If price bar body is overlapping the upper Keltner Channel it is probably still a safe play but stick to your stop rules. It is always best to wait for it to come back and test inside the Keltner Channel.
3. The MACD (5/34/5) Histogram is below zero
4. The Stochastic Momentum is approaching or below -40. For the highest probability trades wait for it to go below -40, however it will not always make it that far especially in strong trends.
5. The 1-period moving average of the MACD turns back up in the direction of the trend and crosses the 5-period moving average of MACD.

At this point you would go Long on the open of the next bar provided price is still within or very closely above or below the Keltner Channel and enter a maximum stop in one of 3 places.

1. One tick outside the lower Keltner Channel
2. 1 tick below the 89 or 445 period moving average if they are directly below the Keltner Channel
3. 3-pts below the trade entry point. Never set your stop further than 3-pts away using this system and try to keep it tighter using the first two choices when possible. This will help you cut your losses short and stay in the game for a long time to come.

- For this scalping system your profit goals should be modest with and emphasis on making several quick and small trades. I usually set my scalp trade exit orders immediately after I enter my protective stop in order to eliminate most of the emotional tendencies that naturally occur when trading. I set my exit price between 1.5 and 3-points above my entry price.

Below is a picture of what all this looks like on a typical trade.



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Short Trades

Conditions required for trade entry - in sequence:

1. Price is below or testing the 89 period moving average on the one minute chart.
2. Price is within the Keltner Channel or closely above or below it. * Important - If price is above the Keltner Channel wait for the next trade unless there is a very clear negative divergence between price and the MACD (5/34/5) or it is testing either one of the 89 or 445 period moving averages. If price bar body is overlapping the lower Keltner Channel it is probably still a safe play but stick to your stop rules. It is always best to wait for it to come back and test inside the Keltner Channel.
3. The MACD (5/34/5) Histogram is above zero.
4. The Stochastic Momentum is approaching or above +40. For the highest probability trades wait for it to go above +40, however it will not always make it that far especially in strong trends.
5. The 1-period moving average of the MACD turns back down in the direction of the trend and crosses the 5 period moving average of MACD.

At this point you would sell-short on the open of the next bar provided price is still within or very closely above or below the Keltner Channel and enter a maximum stop in one of 3 places.

1. One tick outside the upper Keltner Channel
2. 1 tick above the 89 or 445 period moving average if they are directly above the Keltner Channel
3. 3-pts above the trade entry point. Never set your stop further than 3-pts away using this system and try to keep it tighter using the first two choices when possible. This will help you cut your losses short and stay in the game for a long time to come.

6. For this scalping system your profit goals should be modest with an emphasis on making several quick and small trades. I usually set my scalp trade exit orders immediately after I enter my protective stop in order to eliminate most of the emotional tendencies that naturally occur when trading. I set my exit price between 1.5 and 3-points below my entry price.

Below is a picture of what all this looks like on a typical trade.



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It is important that you first decide and accept the type of trading you will be doing. It can be very frustrating scalping trades if your mind is focused on the big winners because very often scalp trades turn into big winners after you take your modest profit. This is not an area you want to have conflict. One technique that I use is to base my trading style on any given day or week on the market conditions. If it is a strongly bullish or bearish period I am more comfortable letting trades run longer (I will go over some of the tools I use to read the market conditions later in this book). Or if a significant

bottom has been put in or major support level positively tested I will let trades run. Lastly, if I have satisfied my daily or weekly goal early from scalping then I will be more likely to let trades run for a longer intra-day period. I find it helpful to think of my trading as a larger scale campaign where no single trade is required or allowed to make or break it. I look at my trading in groups of 10 to 20 trades, or about a week to week and a half. I set modest daily goals and grind away at them little by little and once they are taken care of I will let larger trades develop. Many will say this is the wrong way to do it but it works for me. What I am suggesting is that you find out what works best for you and run with it. It is largely dependent on personality.

I have shown you how I scalp with this system, now let me show you how I capture the larger gains using the same set-ups.

Capturing Bigger Moves

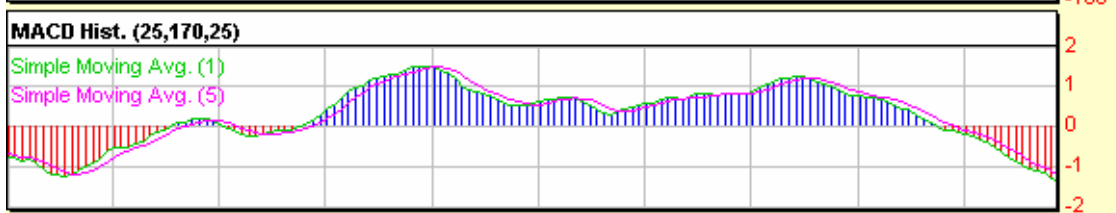
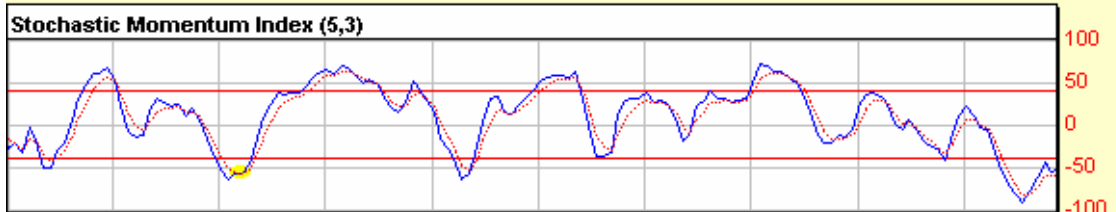
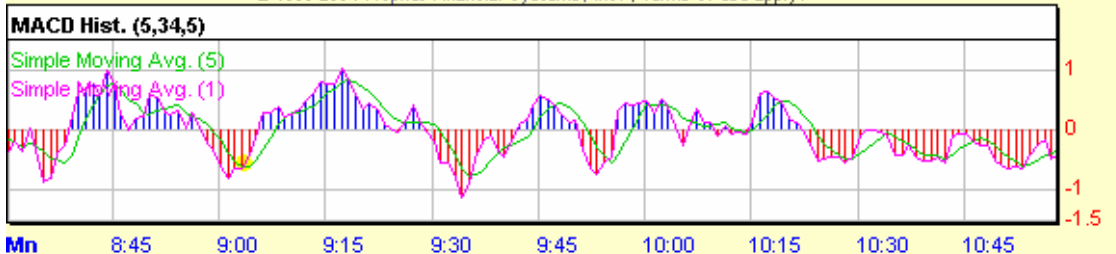
It is really quite simple. Trade entry is the same for both long and short trades but when it comes to the exit you need to use a little more subjectivity. First of all you will set your stop-losses in the same manner since you want to always be protected and you will not know whether the trade will work out or not. When I have the intention of letting a trade run for a bigger gain I will frequently just use the 3-pt stop regardless of where the trade starts in relation to the Keltner Channel or 89 period moving average. This is to allow the trade a little room to get started and with the acceptance that I may lose the 3-pts right away if I am wrong. I feel fine with this because like I said usually my daily or weekly goals are met before I allow myself to get subjective and try to capture the bigger moves.

Once a trade is entered the process switches to trade management. If the trade goes your way you want to let it run as far as it can go. If the market is not trending that will not be very far and you may be forced to take the loss eventually or cover for a smaller profit.

The temptation will be there always to just cover and move on. That is why it is important to accept the risk and let it go when you are trying to capture the bigger moves. Remember, a 3-pt loss can quickly be made up but a 20-pt gain will require a little time to replace. If you catch the market at a point where it is beginning to trend it can very easily run all day and never get near your stop. It happens all the time.

As the trade moves further away from your stop start to trail it and protect your profit. You still need to allow some room but if you get a fast move and want to be sure to hold most of it just continue to move your stop up one tick outside the opposite Keltner Channel or with the 89 period moving average. Be sure to close your position before the end of the day. If price accelerates quickly above or below the Keltner Channel in the direction of your trade you can close your position when price starts to stall out in order to keep most of your profit. Typically the NASDAQ futures will make three pushes or waves up before switching directions. Take your profits if you see the trade has made those three pushes above or below the channel.

Moves of 15 to 20 points or more are common with this strategy and if you have the temperament and capital to ride a few losses now and then you may be happy just following this portion of the system without scalping. The quickest way to increase your odds of getting on a good trend move is to raise your time frame a little. Instead of trading the 1 or 2-minute charts use the 5, 7 or 10-minute charts and you will experience a lot less noise. Below is an example of a long intra-day trend move as described above.



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The market started strong that day after testing the prior day close and I was able to buy the first OS level of stochastic after price retraced back into the lower levels of the KC channel testing the 89-sma from above. Entered once MACD Turned up and risked 1-pt below the lower KC channel line. I was able to trail it all the way up for a 14-pt gain. I chose to let it go even though it was Monday due to the early strength.

Using the 25/170/25 MACD to find meaningful turning points

Elliott wave theory has been a popular way of attempting to time the market for years now and especially lately. The method was really popularized in the late 1970's by Robert R. Prechter in his book [*Elliott Wave Principle*](#). Since then there have been hundreds of books released that cover the subject to some degree. The basic idea of Elliott Wave theory is there are a series of five waves up or down depending on the case followed by three correcting waves in the opposite direction. In addition the waves of one time frame are a sub series of wave cycles on a higher time frame. I will not go much further into it than that because it does not serve my purpose for bringing it up but the principle challenge when using Elliott wave analysis is getting the wave count correct.

Dr. Bill Williams in his book [*Trading Chaos*](#) outlines a novel way of taking the subjectivity out of counting the Elliott wave series. I highly recommend that you read that book in full. He uses an indicator that closely approximates a MACD Histogram with the settings of 5/34/5 along with a five period moving average applied to the MACD. These are the same settings I introduced earlier in this book when going over my system. This indicator is designed to help you count the waves. Divergences between price and the MACD usually indicate that the fifth wave is complete or nearly complete and a consolidation or change of trend is likely to occur. The trouble I often have when using this indicator on the one minute charts I often trade is that it can get pretty choppy and hard to keep track of. This could partly be due to the fact that the MACD is not an exact representation of the Indicator Dr. Williams describes. To alleviate this I use a MACD with settings five times greater than the 5/34/5 settings called for. I use the optional MACD mentioned earlier with the settings of 25/170/25.

This serves two purposes. First the action is so much more clearly seen. Secondly the higher settings for the MACD allows me to see and follow the trend on a time frame five times higher and in fact see turning points a little earlier than if I were focused on that time frame directly with the 5/34/5 settings. This may sound confusing but if you understand what I am saying you will see the significance and power of adding this indicator to your toolbox. The divergences are very easily seen and allow you to set up and get ready for a trend change or three wave counter trend cycle. In order to strictly follow the rules of this system you would wait until the trend changes and the short-term MACD turns positive and ticks down as the stochastic approaches or becomes over bought. This being said, the MACD with 25/170/25 settings can be a very good trade entry system unto itself when used with the 5-period moving average of MACD - especially following divergences. Below is a good example of how I use this indicator in my system.



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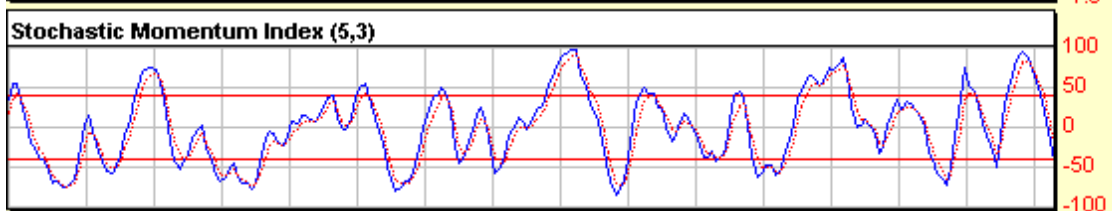
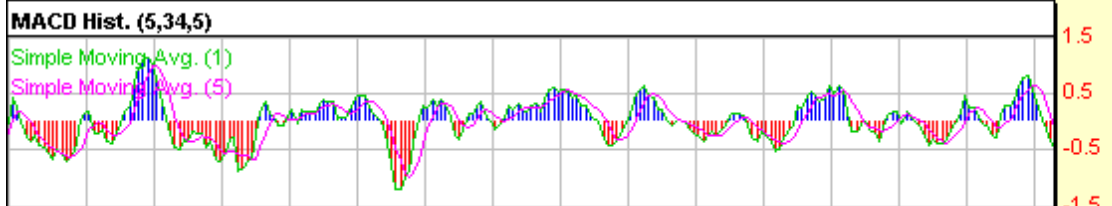
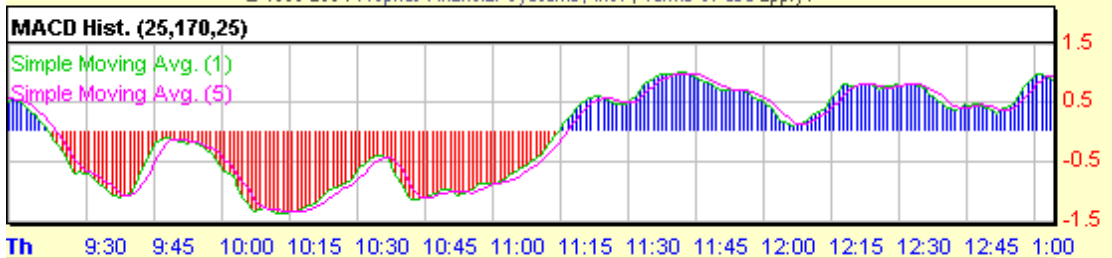
If you look at the five wave move up starting around 9:45 and ending at 10:56 and the longer term MACD you can see the divergence that marks the end of this five wave move and a change of trend. After waiting for the pullback in the short-term MACD and Stochastics I was able to enter my trade in the direction of the new trend with a very close stop and capture a 3-pt gain.

This pattern repeats itself frequently and has a high reliability or preceding a cross of the 89-sma, which signals a shift in trend direction as far as trading the system goes. I really like to see this pattern develop because the result is so regular, however in strong trends

this pattern will often not play out. In strong trending markets any MACD settings can show many divergences and oscillators will remain overbought or oversold for much longer periods and should be avoided. In this case make sure you are going with the trend. That should always be the case if you use the 89 and/or 445 period moving averages as trend filters and only trade on the side of them. Below is another good example of the five wave cycle on the longer term MACD with clear divergences. I did not trade this day.



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Using timing as part of your edge

The Advantage that you have as an off-floor small private trader is the low overhead of both your business and lifestyle. Compare the typical individuals monthly required living cost of \$2000-\$5000 to the average professional trader in Chicago, New York or Los Angeles. Many of these traders, especially the successful have monthly expenses in the tens of thousands. Not to mention the fact that many of these traders trade for institutions that have minimum quotas that they need to meet. This creates a lot of pressure for these traders to produce.

They are forced to trade many times per day to meet these minimums. This creates a potential edge if you develop your patience and skill. It does not take a lot to make a living in terms of number of trades per day or week. If you concentrate on taking your trades at select times of the day and use that structure to help you stay focused, then it will keep you out of the grind competing with the floor traders and other pro's where they have the advantage of size, experience and being able to buy the bid and sell the ask.

For example, waiting for a divergence at the end of a five wave cycle before entering a trade gives you a high probability trade that will repeat itself three to five times per day on a one-minute chart. Being aware of the market structure and taking a system trade in the other direction following a move like this will likely allow you to trade with the pro's rather than against them. If you can regularly take two to three small chunks out of these moves you will be able to make a living trading. I am not talking about picking tops or bottoms here. I am talking about staying focused and recognizing when the trend has come to an end and getting in once the new trend establishes itself. This is usually a matter of watching for those meaningful divergences since most trends end with a divergence in the longer-term MACD and also watching the buying/selling activity. Keep an eye out for Doji's after a divergence and see if the selling stalls in a downtrend and price begins to flatten and trade inside the previous bar's body. When you see this start to watch for large buys going across the tape and get ready to find a safe place to enter using a system trade. When you see that price has steadily been working its way down and never getting above the upper Keltner Channel line then the price pokes out above the upper Keltner Channel line then you know that there are high odds that the structure is changing and a pullback into the Keltner Channel gives you a good trade entry provided the other system requirements are met.

Take the time to make a schedule based on the time you have to devote to your trading and look for structure patterns that repeat themselves in that time frame. Then make a commitment to trade only in your allotted time and become a pro in your time zone. I usually only trade the first and last hour and half. Using time to your advantage will help keep you focused and contribute greatly to your success.

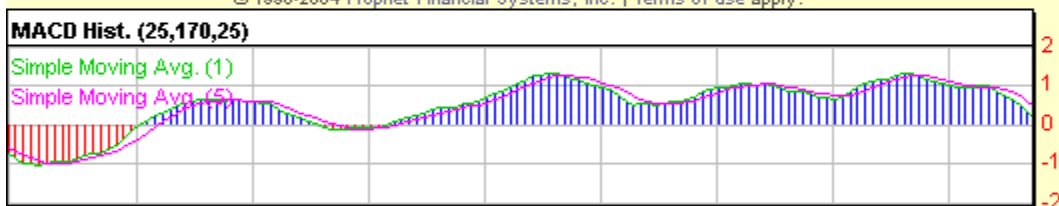
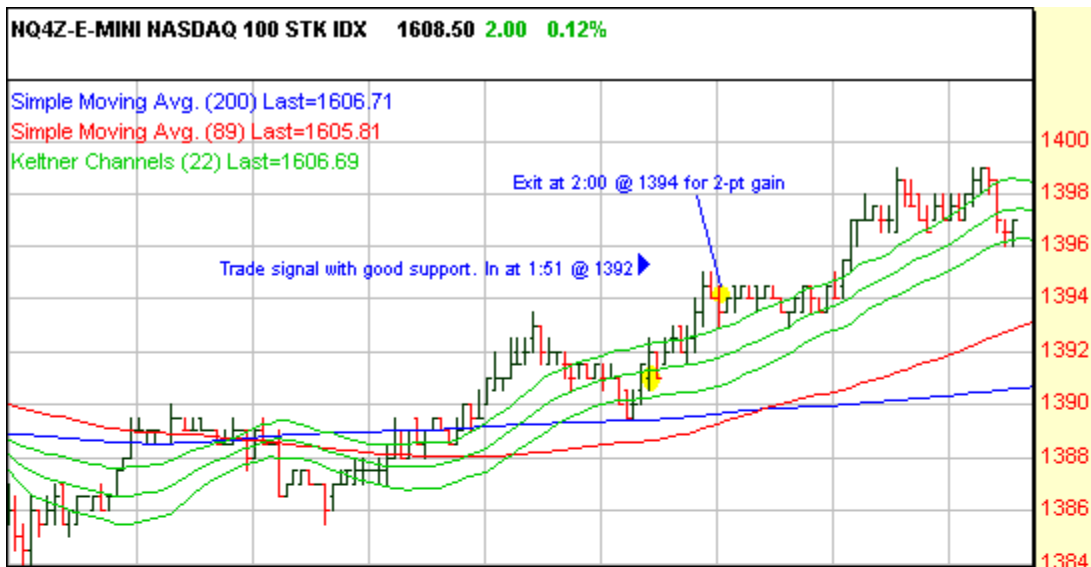
Sample Trades

In this next section I will go over some sample trades. First a few scalp trades then a few longer term day trades.

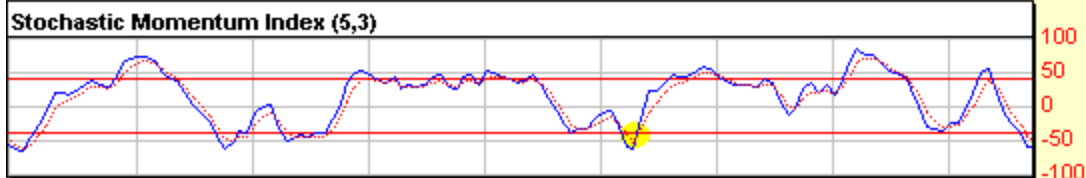
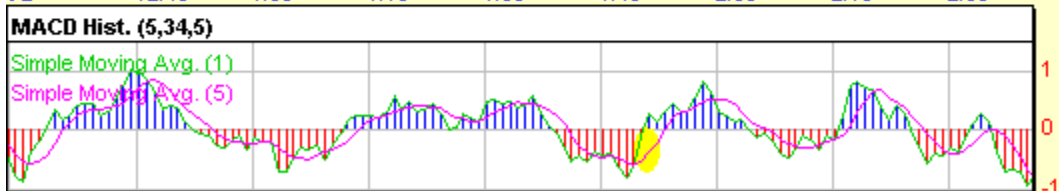
Scalp Trades



All charts courtesy of Prophet.net – the best charting service online. Visit at <http://www.prophet.net/>
 The Market switched from an up trend to a down trend around 1:30 as the slower lunch period ended and turned into a sell short signal when stochastic went into over bought territory and the short-term MACD turned below its 5-period moving average at 1:51. Trade was entered at 1:52 and closed out for 1.5-pt scalp at 2:01. Stop was placed at 1470 ½ a point above the upper Keltner Channel line.



Tu 12:45 1:00 1:15 1:30 1:45 2:00 2:15 2:30



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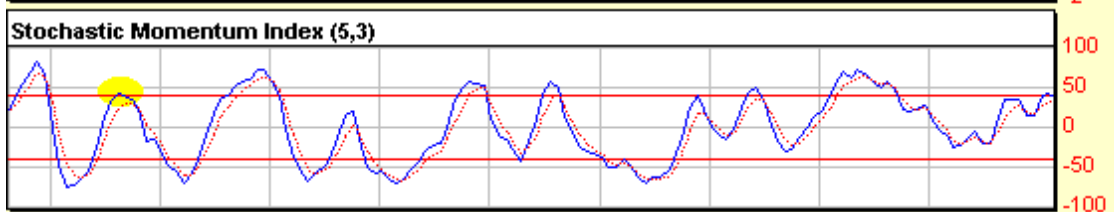
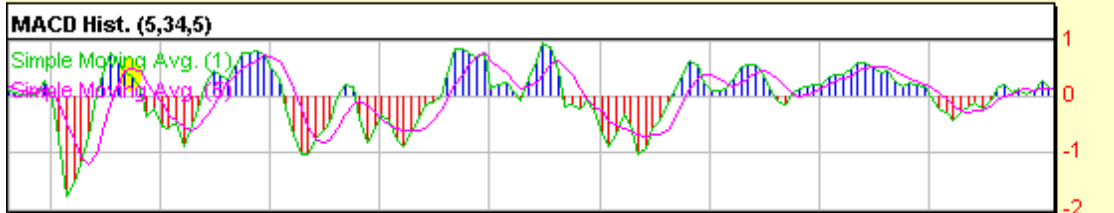
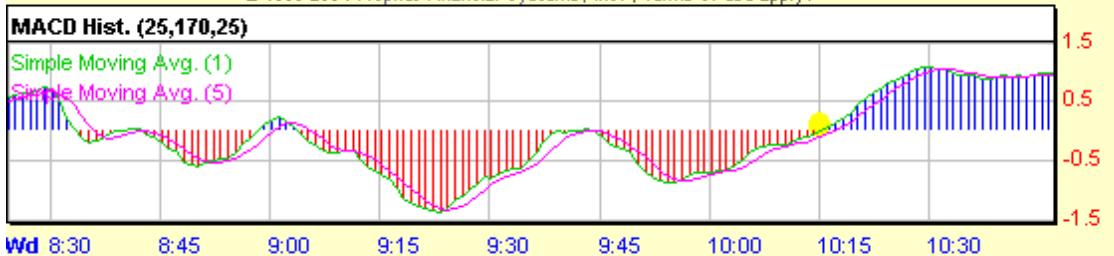
All conditions for a Long Scalp trade were met at 1:51 when the MACD turned up above its 5-period moving average while stochastic was in an oversold position. Trade was entered at a price of 1392 with a stop just below the lower Keltner Channel line. This provided for a low-risk entry and the trade quickly move my way. I took my 2-pt profit at 2:00 as a divergence formed on the LT MACD. This trade could have been trailed up for a greater gain but I usually scalp until I have met my weekly goals then I let trades run. I am sure most professional traders would disagree with that philosophy but it works for me and allows me to pay my bills first and then grow my account and that helps me keep things easy in my head. You might want to try things different and I recommend you do what feels right to you as you are learning the system but be sure to go back to the rules if you fall into trouble.



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This is an example of a losing trade. On this day the market was really choppy and in-between an up and down trend. The 89-sma was sideways and price action was mostly between the 89-sma and the 445-sma. I decided to enter a trade to the long side after the short-term MACD made a new high then pulled back to signal a trade signal at 10:22. I used a 1-pt stop which fell just below the 89-sma and was stopped out at 10:30. When the range is really tight this can sometimes happen. As long as you keep your stops close you will avoid much pain and be able to get some wins once the range expands. This is something to look out for when both trend filter moving averages are almost sideways. You could switch to a different system in these cases but they don't usually last long and are usually associated with low volume which you may not want to be trading in anyways.

Longer Term Day Trades



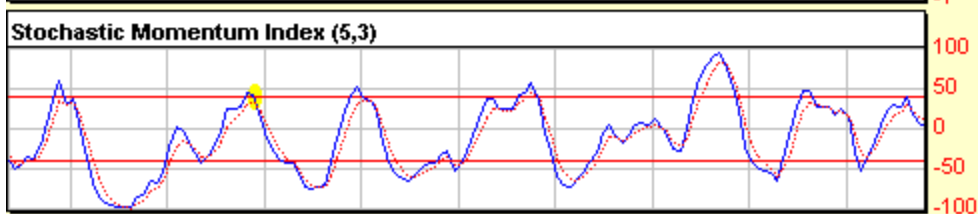
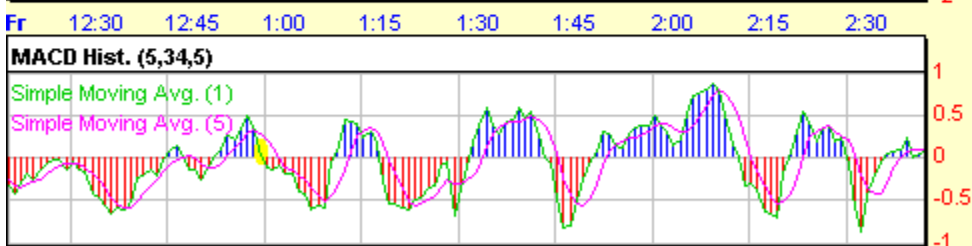
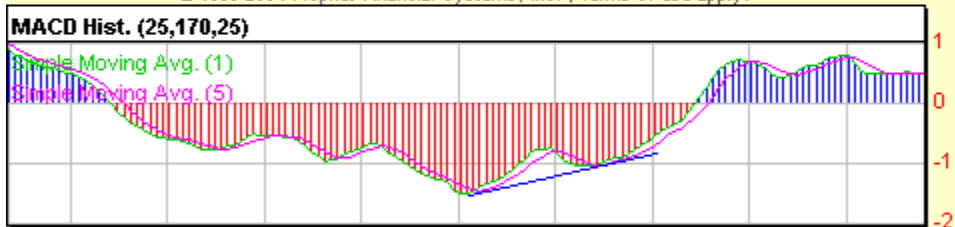
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The market gapped lower this day and I sold the first pullback into the Keltner Channel. Everything set-up for a low-risk entry with the 89-sma directly above. I used the 89-sma as a trailing stop level and was able to close the trade out for a 12-pt gain after the LT MACD completed its divergence on wave five in the down cycle. In these strong trend days the 89-sma is often the best choice for a trailing stop. When the market gaps and

fails to reverse you can usually get in early for a good ride. Just wait for things to set-up in a way where you can keep a tight stop before entering.



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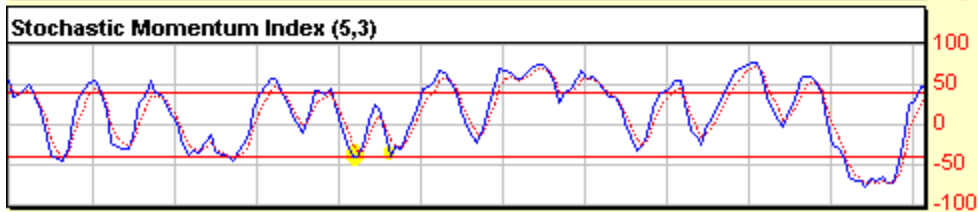
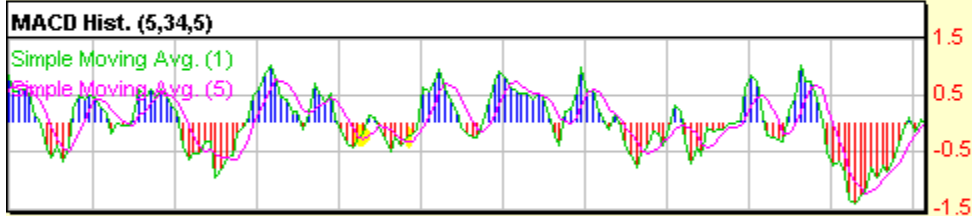
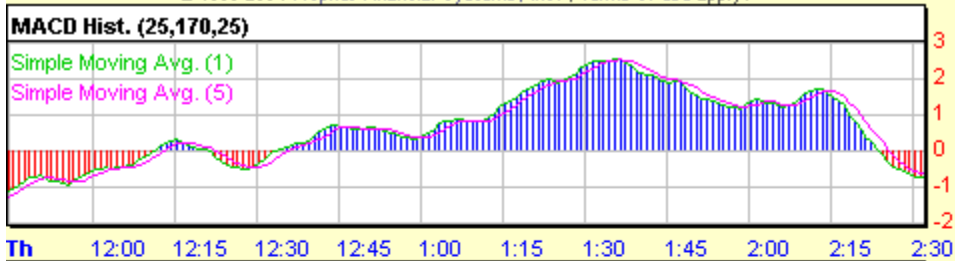


All charts courtesy of Prophet.net – the best charting service online. Visit at <http://www.prophet.net/>

This trade was signaled while the price bar was entirely outside of the Keltner Channel so I waiting until three bars later when it fell back in. Trade entered at 1:03 at a price of 1442.50 with an initial stop at 1445. Trade ran for over an hour before the LT MACD diverged and price popped out the other channel hitting my trailing stop at 1435.50



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This is actually two trades. The first went right against me and was stopped out for a 3-pt loss on the same bar that signaled a new trade which led to a 16-pt gain. Sometimes this happens and you can see how important it is to not dwell on the loss and take the next trade. The second entry was much better as it allowed for a lower initial stop of 1.5-pts and was easily trailed until the negative divergence at the end of the day.

Daily Preparation

This is probably the most essential part of successful trading. Actual trading only lasts a few minutes following this system when scalping but the after hours prep work is what will get you in the right state of mind and help you prepare a road map for the coming day. Sure you could just show up at 8:30 and start taking signals and most of the time probably do OK, but if you have a road map of what the market is likely to do then you can use your patience and wait for high probability setups to occur. In addition you will have an enhanced focus regardless if your roadmap actually pans out. In this section I will describe how I go about getting ready for the next day and provide you some of the tools I use in the process. These tools will be a part of the Excel worksheet included in your purchase. Feel free to use it any way you want.

Step 1. Go over the current day

You need to go back over the current day's trade and determine how well you followed your system. Start at the beginning of the day and walk through to see if you took all the trades you were supposed to or not. If not determine why and make a vow to correct the problem. Don't beat yourself up for your trading ever. Just recognize that we are only human and mistakes happen. Focus on what worked and resolve to do more of what worked and less of what didn't. Record all trades in a journal and write a short bit about the day and your emotions and attitude while trading and what you did well and what you need to work on. The things you need to work on be sure to include in your practice trading. In order to practice trading you need to forward walk through a series of trades in the same manner that you will do so in real time. With this system it is easy to do since all the tools are on one page as opposed to other systems that use many different time frames. This is an important step because it will help you develop familiarity and confidence with your system. If you are unable to do this with your charting service you can always try www.prophet.net or another service out there that allows you to do it. Some charting programs allow you to playback the whole day such as www.ensignsoftware.com. I cannot over emphasize how important this step is.

Step 2. Calculate the Support/Resistance and PIVOT Points for the next day.

Open the Excel worksheet that came with this book and click to the NQ Primary tab. This sheet contains the daily Open-High-Low-Close data for the last few years as well as the formulas to calculate the traditional floor traders Support-Resistance and Pivot point levels. These levels don't always work and many traders completely discount them while others swear by them. I have found that they often act as temporary support and resistance levels and the PIVOT Point does draw price towards it regularly. It is amazing how often it happens that after the close I look back at the chart of the day and see how price used every line as support or resistance so there must be enough people using them to make them count still. I don't use them for trade entry as much as to have a guideline of where price is trading in the scheme of things and for drawing up my stops when price approaches them while I am already in a trade.

So now that you have the sheet open plug in the current day's Open-High-Low-Close data and drag the formula boxes from the previous day down in order to fill the output for tomorrow's levels. Be sure to drag it all the way over to the P-5 column. There are four columns in addition to the support/resistance/pivot columns. These are a 3-day SMA of the Pivot and a 5-day SMA of the Pivot. Plus two columns that measure the difference between the Pivot price and the 3 and 5 period SMA's of the Pivot price. These can help point out times when the Pivot price is at a very extreme level and could be reaching a top or bottom. Those two columns are not a part of this system but they could be very useful if you develop a feel for them. I use them in order to find day's in the past that had similar results in order to see how the market reacted the next day.

Step 3. Transfer the Results to the worksheet with the tab labeled Game Day.

If you click on the tab called Game Day you will see the data that needs to be transferred from the NQ Primary tab. I am not an Excel expert so I have not figured out how to make this all automatic and if you know how I would really appreciate the trick. Anyhow, transfer the information over including the last three days of the Pivot moving averages – both the 3-sma and 5-sma. You need to do a copy and paste special (values only) for that one. There is also an area where you can take notes and write your plan for the next day.

Step 4. Place PIVOT Points on chart if you have that capability. Print out worksheet or copy to a piece of paper otherwise.

Now is the time where you should add the S/P and Pivot levels to you chart if you are set-up that way. You should also add the prior day High-Low-Close levels. If your charting program does not allow you to draw lines then use a printed copy of the Game Day worksheet and keep it in front of you while you are trading.

Step 5. Determine the PIVOT Trend Bias

I learned this step from an article by Jayanthi Gopalakrishnan in *Technical Analysis of Stocks and Commodities* magazine and have used it ever since in my trading. Using the Pivot point and the two moving averages of the Pivot point to determine a bias for the next day's trading direction helps to keep you focused on your set-ups in the direction of the prevalent trend. The way to do this by examining the relationship between the Pivot and the two MA's. If the Pivot is high than both MA's then only plan on trading from the long side. If the Pivot is below the two MA's only plan to trade to the down side. By placing all these figures on your Game Day worksheet you will have quick access to your daily bias. There is actually a cell on the worksheet for you to input the bias. I use UP, DOWN and FLAT for mine. FLAT would be times when the Pivot is just about equal to the MA's.

Step 6. Determine the probable follow through direction if any.

Follow this link to the Yahoo! [Market Overview](#). On the left side of the lower portion of the page is the Advancing and Declining Volume data. Over 80% percent of the time if the advancing or declining volume is between 60 & 80% the market will move at least 7-pts from the close in the direction of the winner (Advancing Volume or Declining Volume). So if today was a day where Advancing Volume ended at 65% and

the market closed up for instance, tomorrow the market will rise at least 7-pt's about today's close at least 80% of the time. If tomorrow the market opens down a few points you can be thinking to yourself that there is a good chance that the market will stabilize and at least test the prior day's close and possible at least 7-pt's beyond that and look for opportunities to apply the system in the direction of that bias.

Now, what sometimes happens is that the 7-pt level will fall right near one of your S/R levels and you should tighten your stops up as you get close to one of them. Obviously if there is major market news that runs contrary to this bias the market will gap down and this may not play out. Don't get caught like a deer in the headlights expecting the market to go up 7-pts over yesterday's close when it's dropping like a rock. Find a spot to get on the fall and profit that way. That is the danger with too much market analysis. It can build expectations for the market to do what you want it to do and it never will. It will do what it does and it's your job to try and make a living taking whatever the market gives you. If all your homework points to an UP bias and the market tanks you should step back and wait for things to slow down a little and for a trade to set-up in the direction of the trend. Don't try and pick bottoms or tops expecting it to go the way you thought it would. Just wait for things to set-up and take your little chunk. If the A-D Volume bias is a very high number (greater than 85%) there may be some follow-through early in the day but it usually signifies a possible short-term cooling off period is coming. Smart money may sell into a rally in the morning as the less smart money buys whatever news created the strong demand the day before. At least 7 times out of 10 when the market has an uncharacteristically strong move in either direction a range day will follow. Sometimes more than one day. You should take these days into account and plan on sitting it out or using a range system unless the range is wide enough to use this system. The best bet is waiting for the afternoon when the range often expands or the trend resumes.

The final part of this step is to quickly look at the Daily, 60-minute and 30-minute charts to get an idea of what their trends look like. Look for where the LT-MACD is in terms of the 5-wave cycle. Has a divergence been made? Is there a Doji formed on the daily? Was there a narrow range bar inside the previous day? Has price just closed outside the opposite KC channel? These are all things to keep in mind as you get ready for the next day.

Step 7. Identify big earnings or economic reports due and the times they will be released.

Use the following two links to identify any important news or earnings items schedules for the next day:

<http://biz.yahoo.com/c/e.html>

<http://biz.yahoo.com/research/earncal/today.html>

These links can obviously change but you can find them on the finance page at <http://finance.yahoo.com/>.

Step 8. Visualize the next day's activity.

This is the last and most important step and could be the most challenging initially. Without giving a lot of background I will walk you through the steps I use and then discuss them after.

Take a few minutes to look at the Monthly, Weekly, Daily, 60-minute, 30-minute, 5-minute and finally a 1-minute chart in that order. Next find a cozy place to sit. Then close your eyes and sit straight but relaxed with your feet on the floor. You now need to take about two or three minutes of deep steady breaths through your nose and into your lower stomach. Start with a 3-5 second inhalation and hold it for an equal 3-5 seconds and follow it with a deep exhalation for 3-5 seconds and then hold that to end the cycle for 3-5 second. Repeat the 3-5 second cycle a few times and then increase the length by a few seconds. Do this up to a point where you are very relaxed but still alert.

Next picture yourself at your trading desk watching the market as a trade is setting up. Try and see yourself from over your right shoulder from behind so you can see the monitor as well. Notice how relaxed you are and how you have your worksheet in front of you with tomorrow's date in the right corner with hi-lighted and the room is quiet and free of distraction. There may be some peaceful music in the background. Now see yourself getting ready to take your first trade of the morning. You know the system, you have used your checklist and everything looks just right. You see exactly where the trade will go after you execute. Your stop is close and you are confident. Without hesitation as the slower MACD turns in the direction of the trend you click the button to execute the trade. You place your stop and exit order. Notice how your posture stays comfortable and relaxed. Within minutes your trade is closed for a profit as the trade went right where you saw it. See yourself log the results of the trade on your worksheet.

Now take a few more breaths and let your mind run blank for a minute. Then, without speaking externally, ask yourself "what tomorrow will look like?" Allow your mind to see the beginning of the trading day on a chart. Whatever it shows you let it flow and do whatever it naturally does. It may not do anything, especially in the beginning but if you are really relaxed and keep practicing this over time you may start to see a chart and it may flow or it could just be already fully displayed. If you do not see anything do not force it. If you do see something follow the trail along and point out to yourself where you will take trades. See where it finds support or resistance. Let the process happen quickly. Do not try to memorize or recall the chart.

Now, take a few quick deep breaths and open your eyes and proclaim to yourself –"So it shall be."

I know this sounds freaky but it can be very powerful if you can reach this point. I usually see the chart really close up and often just the first few hours. The point is not to actually see the future. It is an exercise in engaging your right-brain to draw out what naturally comes to it when you ask the question. To further enhance this process you can take a sheet of paper and using a pen in your left hand trace the image of what you see as a line graph. I will understand if you skip this last step, trust me I know it may sound crazy, but I will continue to do it because it automatically creates a sense of confidence, intuition and calmness about the day to come that usually carries over to the opening bell. I often repeat this whole process several times per day and directly before the open.

If you find yourself having a difficult time reaching a relaxed state where you can comfortably visualize try looking up while you are breathing with your eyes close.

Step 9. Tying it all together

So now that you have finished your homework you have a completed Game Day worksheet and you have mentally rehearsed trading your system the way you plan to. It is time to stop thinking of trading completely for the day. Let your mind go. Spend time with your family. Take a walk. Run your other business. Do whatever, just don't think of trading at all - especially on the weekend.

You can only focus on trading consistently for a certain amount of time in the way that you need to. The idea is to prepare like crazy and then keep it simple. Stay well grounded and you will be less likely to put an over bearing amount of importance on your trading. There is nothing more stressful, except perhaps War, that I can imagine than **NEEDING** to make money in the markets to feed and shelter your family. It is so much of a dynamic and psychologically demanding business that if you make it any more complicated than it already is you are only stacking the odds further against you.

Focus

Trading requires more focus than just turning on the screen and taking a signal trade. That *is* the attitude you should have. See the signal take the trade but it should come from a 100% focused mindset. A sort of relaxed alertness is what you should strive for. That sounds like an oxymoron but it is a truly possible goal. Use the breathing techniques from your daily homework to reach this level. The result of taking system trades in this focused mindset will not matter to you. Use the trade set-up matrix on your Game Day worksheet to stay focused on the system and walk through the trades. Use this in your practice as well so that it will become second nature. The matrix has a column for each of the steps of the system.

1. Identify the trend with the 89-sma. Is the close above or below the 89-sma?
2. Is the Stochastic indicator OB/OS?
3. Is MACD 5/34/5 below zero for up trends or above zero for down trends?
4. Did MACD 5/34/5 turn back in the direction of the trend and cross its 5-sma?
5. Is the price above, below or inside the Keltner Channels? For up trends it should be inside or slightly below or only slightly above. The body of the bar should definitely lie inside the Keltner Channel. Vice versa for down trends.
6. If all conditions are met - record the action taken: Buy Long or Sell Short.
7. Record the time of entry.
8. Record the entry price.
9. Record the stop price. (Max 3-pts)

10. Record the exit price.
11. Records the exit time.
12. Record the trade result.

Another thing I do to stay focused on trading it to hi-lite the major swing points on the current trading day's chart using the drawing tool in my charting program. This allows me to see the structure and waves of the market more easily. When these swing points are hi-lited it is easy to see when divergences form and the price stops making higher highs and lower lows. It also helps to stay interested when a trade is not setting up.

Remember the goal is have a valid system, to believe in it, and then to execute it with the focus being on the process rather than the result or risk. Risk is inevitable. Losses are inevitable. Do not get caught in the destructive mental trap of thinking you can avoid losses. The sooner that you can except this fact and trade in a focused strategic manner – the sooner you will be able to reach your goals.

Focus on a simple strategy such as the one I have described in this book and become a pro at it. Beginning traders are plagued with the tendency of fighting a trend. That is what keeps professional traders in business. By following a trend following system on a short-term time frame you will have plenty of opportunities to stay with a trend rather than falling into the trap of picking tops and bottoms. Of course on range bound days playing the tops and bottoms may be the best bet and I wont discourage you from using another system for those times. But if you are not already trading successfully you should narrow your focus to a single type of trade and get really good at it. It will simplify the whole process. There are hundreds or thousands of ways to make money in the market. You couldn't possibly know them all so why not start with one and add another once you have perfected it. There is always a big temptation to switch around to other methods when you begin trading and those who continually do hardly ever make it.

Dealing with Losses

When I was younger I hated flying. I couldn't stand the thought of being out of control and plunging to the Earth. I would have very vivid images and it made it very difficult for me to get on a plane and yet I had to do it regularly. Then on one flight I had a turning point. As I sat in my seat getting ready for take-off I accepted the fact that I might die but the odds were against it so I just relaxed. I figured it would be quick and painless and I wouldn't know the difference. Anyhow, after that I didn't have a problem flying. It actually became fun.

To become successful at trading you need to have similar beliefs about taking losses. This is not a perfect example since flying as a passenger on an airplane is a passive activity and trading requires very active involvement on your part. But the mental exercise is similar. Taking losses when trading is inevitable. If you are going to be a successful trader you will realize this early and accept it. If you try to avoid it you will get caught up with some painful emotions that will leave you in a constant state of doubt

and fear. You will find it very difficult to pull the trigger on your trades when you should and you will end up pulling the trigger at the exact wrong moment because all of your attention and focus is on not losing. The problem is that your subconscious mind does not understand the “not” part of that statement and will only deliver the “losing” portion. That is just the way our brains work and we can’t escape that anymore than we can escape losses. Focus your brain instead on following the rules and seeing opportunities. You can focus one thing at a time so do yourself a favor and make that one thing a positive thing that leads toward your goals and you will begin to see remarkable results in your results. Not just in trading but everything you do.

The best way to handle losses is to realize ahead of time that there is a possibility that you will experience a loss on any given trade and accept the fact. Use stop loss orders at all times to protect yourself from adverse market reactions. Don’t use mental stops. Practice your trading every day as much as you can and take every signal trade within your rules until you can get a feel for the system and an idea of what losing trades look like. Don’t try to avoid them just get used to them and move on to the next trade. When I first started trading I had confidence trouble after losing trades and would often not enter another trade that day so I could psych myself up and make sure my system was working ok.

What I found was that I usually hesitated on my entries or completely didn’t see a signal because I was focused on my opinion of what the market should do instead of looking for opportunities in what it was actually doing. I kept trying to pick turning points instead of getting on board a trend. This was a major obstacle for me I was so sure that I was right and unfortunately a lot of the time I was. I say unfortunately because it made me keep doing it.

Then I developed this system to help me stay on the side of trend. But even after I developed this system I still had trouble trading after taking a loss. I realized that my focus was not on my trading so much as the money in my account and it was killing me. The last thing you or I should be focused on when trading is our accounts. Through a lot of hard soul searching and discipline I was able to begin focusing on some of the right things when trading. I started thinking only in terms of opportunities and the signals of my system. I don’t even think in dollars at all now. Only points – and I completely separate points from dollars unconsciously in my head. I also learned that when I am not thinking of my account value it is not as hard to take a trade after a loss. I think of my trades as a collection of trades that cover the whole week rather than letting one trade make or break everything. I keep my losses small so no individual trade hurts so bad. I have a ritual where I write down everything that I am thinking and doing when I trade and about specific trades. This helps me talk out the loss in a manner of speaking. It also helps me stay in a concentrated focus and flow. I recommend you do the same if possible.

I also practice trading a lot like I mentioned before and this helps me learn how to stay focused and act quickly when the time comes to enter a trade. I probably practice at least five days worth of trading everyday and it helps me become more comfortable with losses. In fact it is a rare day that if I take all of my system signals that I have a losing day. I am talking about the same system I am showing you in this book. That does not mean I don’t have losing trades. I do and you will too. The times when the consistency of the system breaks down is when I try and pick and choose the winners and avoid the losers. I rarely do this anymore especially in real-time trading but I do sometimes when I practice.

When you are trading keep in mind that the market is only presenting information to you. It is neither out to get you nor to make you rich. It is a source of information that you can use to make money or lose money. Think of the market as a source of actionable or non-actionable information. This will help control some of the emotions that are naturally enhanced when trading. If the market presents the information that you identify as a system signal you should enter a trade, set your stop, know your exit plan and then monitor both the trade and your feelings.

The quickest way to determine if you are in line with the market is to enter a trade and get stopped out immediately or to quickly make a gain. If either of these two things happens the market is just presenting you with more information. Using the system I have described to you, if you are stopped out then you should know right away that there is a high probability that the trend which you were attempting to follow is either ending or requires more consolidation on a higher time frame before continuing. More than likely a divergence between MACD and price has just occurred prior to the pullback where you got in the trade.

Structure your business properly

There are several good reasons to set up a legal entity for your trading business. This is true whether you are a part-time or full-time trader – beginner or long time pro. Forming an trading entity gives you a vehicle for creating earned income which is required in order to deduct health insurance premiums. Or start and deduct pretax contributions to a retirement account such as a 401K plan.

The preferred type of entity is a Single Member LLC (SMLLC) according to www.Greentradertax.com, a very reputable group of CPA's and Tax Attorneys who are the leaders in trader tax planning and entity formation services. A SMLLC is particularly popular due to its flow through tax reporting. This means that your trading profits or losses are reported on your individual tax return using an attached IRS Schedule C as apposed to having to file a completely separate return such as in the case of a Corporation or Partnership. Another Schedule C is used on which you report a management fee. This fee is also reported on the SMLLC's Schedule C as an expense. The result is a net wash effect but at the same time creating your earned income.

This is the structure that I chose for my trading business and have found that it works well and keeps everything clear. You can set up your own SMLLC for as little as the State fee's for your particular State if you do it yourself. Or you can use a service that helps set up entities such as BFI Incorporated (www.bizfilings.com) for around \$300. Finally you could use a professional such as www.greentradertax.com for up to \$700. The great thing about Greentradertax.com is that they give you full consultation and they prepare all of the documents for you, including the Articles of Organization and documents to open a trading account in the name of your business. They also are experts in trader tax law.

Conclusion

I hope you have been able to get something out of this book to help further your quest in becoming a successful trader. I know that if you follow this system along with developing your trading mind that you can make a living trading and have all the freedoms that come with it. I know this because I am doing it. Start with the [Progressive Flow Exercises](#). That is the best way to get up to speed on the system. Then I would recommend that you paper trade this system and practice after hours for as long as it takes for you to develop a sense of confidence in it. For that matter I would recommend you do that for any system you trade. Treat it like a business and go a couple of weeks in real-time simulated trading before switching to live money, and be sure not to underestimate the mental part of trading. Remember this system is not time frame or instrument dependent. The examples in this book were mostly on the 1-minute NQ but the concept applies to all instruments and time frames. For specific details on applying it to the FOREX market [click here](#).

It has been my great pleasure to provide this information to you and I wish you nothing but success in your endeavors. Please feel free to contact me anytime after market hours if you have questions or need further clarification. My email is below and I encourage you to contact me if you wish. Be sure to refer to your welcome email for details on how to get to the live trading room. Keep things simple and always strive for self improvement in your trading and all aspects of your life. Good Luck to you!

Ryan Watts
tradesmarthelp@yahoo.com

Recommended Trading Resources

Computer Workstation:

The only thing I would say is to get a reliable system with at least one large monitor and a fast Internet connection. Always have a back up connection to your broker. Either by phone, dial-up Internet, Mobile Internet or Yahoo! Messenger. The first link below goes deeper into system guidelines and the others are good places to find computers.

<http://elitetrader.com/ha/guide/index.cfm>

<http://www.dell.com>

<http://www.ebay.com>

<http://www.amazon.com/exec/obidos/redirect?tag=daytradesmart-20&path=tg/browse/-/565098>

Brokers & Charts

www.interactivebrokers.com

www.ampfutures.com

www.sierrachart.com

www.ensignsoftware.com

Trading Systems

These are trading systems or method for reading the market that compliment mine very well. I have great respect for these traders and their methods.

www.balancetrader.com by Frank Butera

[FOREX Trading Strategy](#) by Quantum Globe, Inc.

Trading Books

There are too many books to name but I will just name a few that I will always have and refer to.

[Trading for a Living](#) by Dr. Alexander Elder

[Trading Chaos](#) by Dr. Bill Williams

[The Book of Five Rings](#) by Miyamoto Mushashi

[Trading in the Zone](#) By Mark Douglas

[The Holy Bible](#) – Any question you may have can be answered in here somewhere.

Trading Music

There is a direct connection between the tempo of music and your state of mind. Music with 50-65 beats per minute will help you stay in a relaxed mindset which is optimal for trading. I will list four CD's that I use for that purpose and a mind programming product that could change your life if used regularly.

[Mozart Adagios](#)

[The Ultimate Four Seasons-Vivaldi's Greatest Hit](#)

[Simply Baroque](#) – Yo-Yo Ma

[Music for Zen Meditation](#) by Riley Lee

[The Neuro-Programmer](#)