DAY TRADING ZONES

CORNERSTONE REPORT

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Disclaimer:

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The risk of loss in trading commodity futures and options contracts can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. In considering whether to trade, you should be aware of the following: You may sustain a total loss of the initial margin funds and any additional funds that you deposit with your broker to establish or maintain a position in the commodity futures market. This brief statement cannot, of course, disclose all the risks and other significant aspects of the commodity markets. You should therefore carefully study futures trading before you trade.

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Introduction

Before trading, traders should put themselves into a position such that victory can be assured by substantially reducing the negative impact of their losses. Risk control is the foundation of survival for all traders. It is one of the few aspects of the marketplace over which a trader has control.

The most common error made by beginning traders is a disregard for risk control by taking overly large positions. Unreasonable expectations can cause beginners to gamble 50% to 100% of their portfolios on a single trade. Taking wild shots with a huge position is not trading, it is gambling.

Sun Tzu said "Every battle is decided before it is ever fought. "

He meant that through meticulous planning and preparation before a conflict, a general should be able to establish a position that will assure victory. When the battle occurs, it will take place against an opponent that is already defeated. This is a result of prior planning. The same methodology should be applied to trading. Successful trading is developed over time, by winning consistently and conserving capital.

This trading report from TradingEmini.com has been assembled after years of experience, hundreds thousands of dollars of gains and losses, millions of dollars of yearly trades, and thousand of hours of real live practice, trying to improve our trading process journey.

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The advantages of trading the Emini S&P :

With $2,000 you control $45,000 of value,

But high leverage can be fatal in trading

Affordability: E-mini stock index futures require one-fifth the margin of the standard S&P 500, enabling investors to control a large basket of stocks for a fraction of the cost.

***Market Driver*:** The S&P 500 Emini futures contracts are the driver of the intraday market. Recognizing intraday trends in the Emini means understanding market trends. Knowing where the smart money is going means knowing where the market indexes will be intraday.

***Diversification and lower risk*:** S&P Emini are futures contracts on the S&P 500 index. They minimize our risk of being caught by catastrophic news, accounting, earnings manipulations reports and insider trading on individual stocks.

- ***Intraday focus:*** The Emini trader focuses on the S&P future chart and symbol, avoiding monitoring and tracking 50 stocks at one time. No more extensive research and reading about company balance sheets and quarterly reports is required.

- ***Lower commission for Emini****:* Round trip commission (buy-sell or short-cover) ranges from $6 to $9 per contract depending on volume traded. Individual stocks commissions range from $9-$20 one way only.

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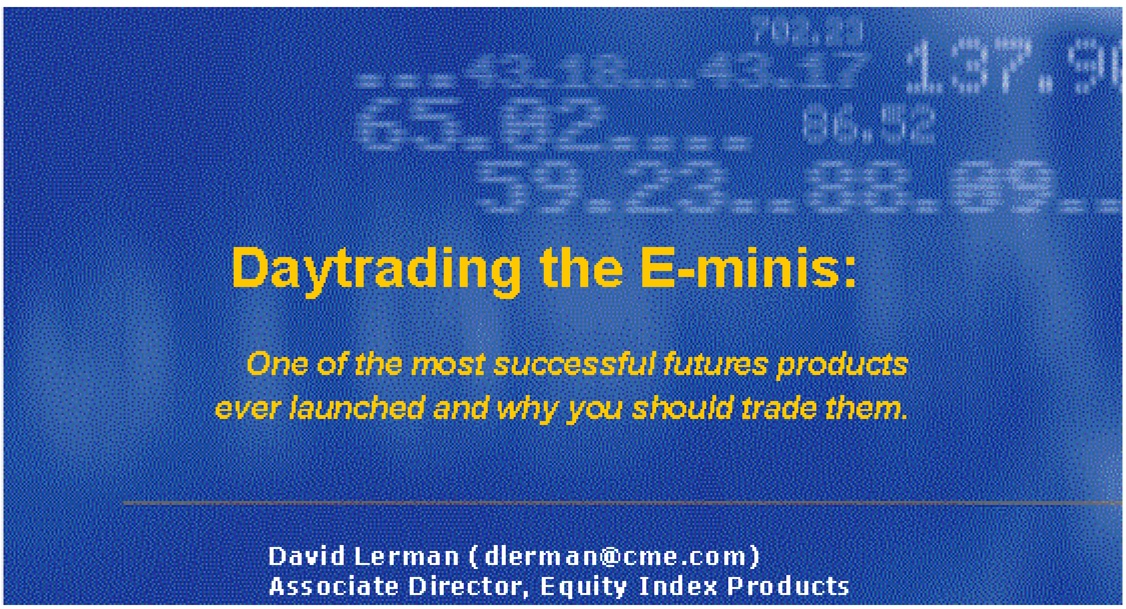
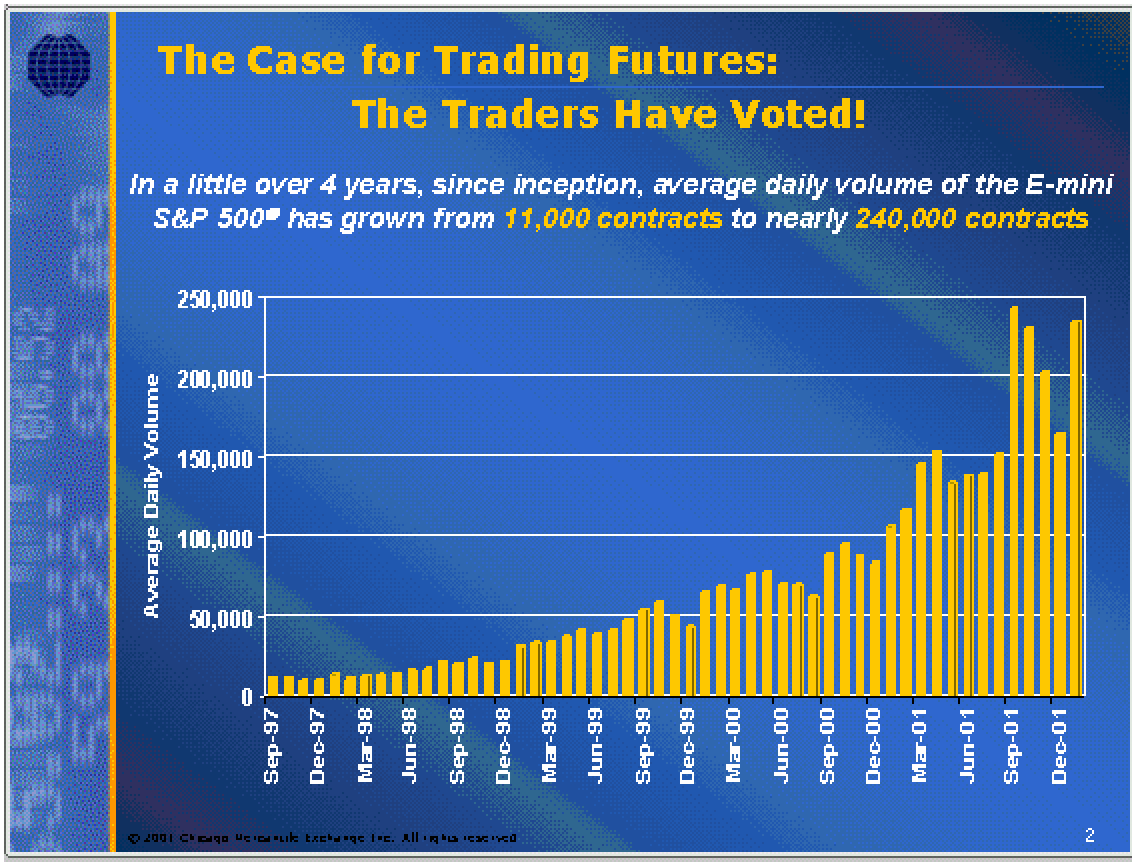
The following six slides are from the product presentation given by David Lerman, associate director, index product of the Chicago Mercantile Exchange (CME). (They are not in the order of the original presentation.)

For the newbies who have not read and listened to the entire presentation I strongly advise studying it at: http://www.cme.com/ and click on the link to the Chicago Mercantile Exchange free online seminars.




The Case for Trading Futures:
The Traders Have Voted!
In a little over 4 years, since inception, average daily volume of the E-mini S&P 500 has grown from 11,000 contracts to nearly 240,000 contracts
Average Daily Volume
250,000
200,000
150,000
100,000
50,000
0
Sep-97
Dec-97
Mar-98
Jun-98
Sep-98
Dec-98
Mar-99
Jun-99
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Dec-99
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Jun-00
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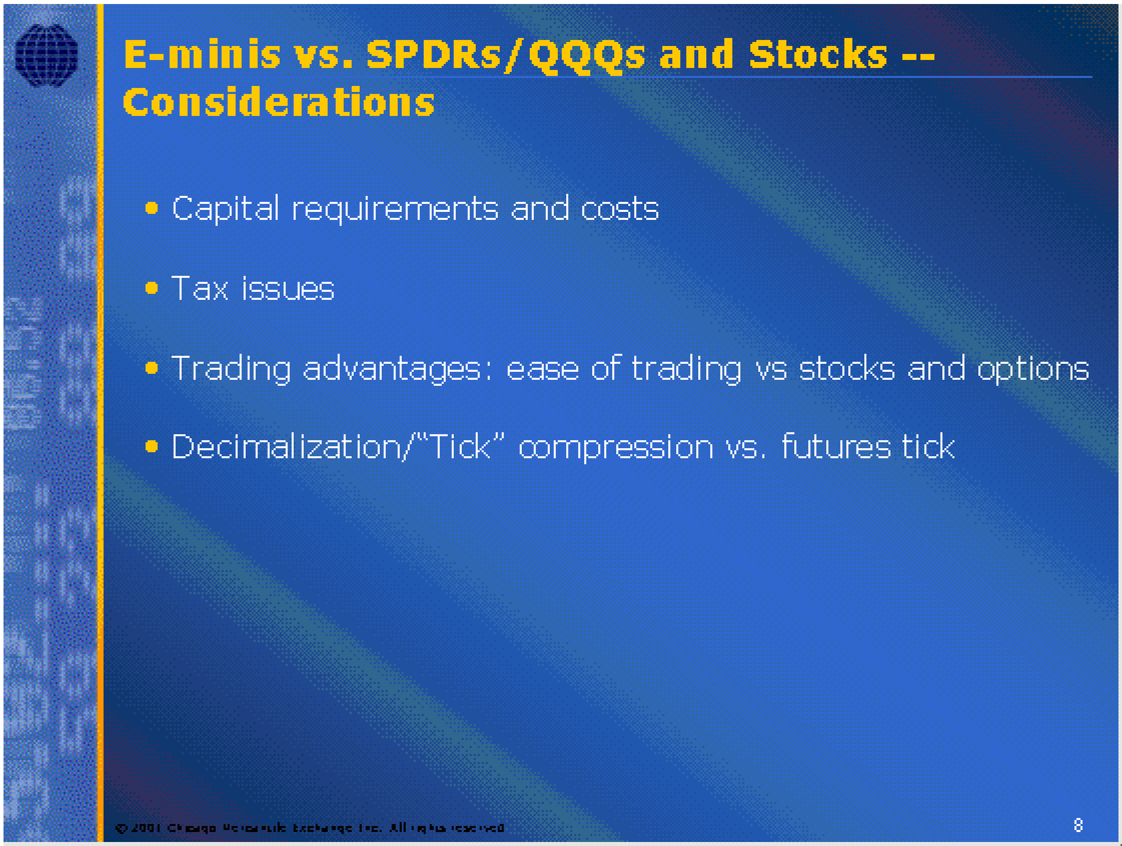
Mar-01
Jun-01
Sep-01
Dec-01
2



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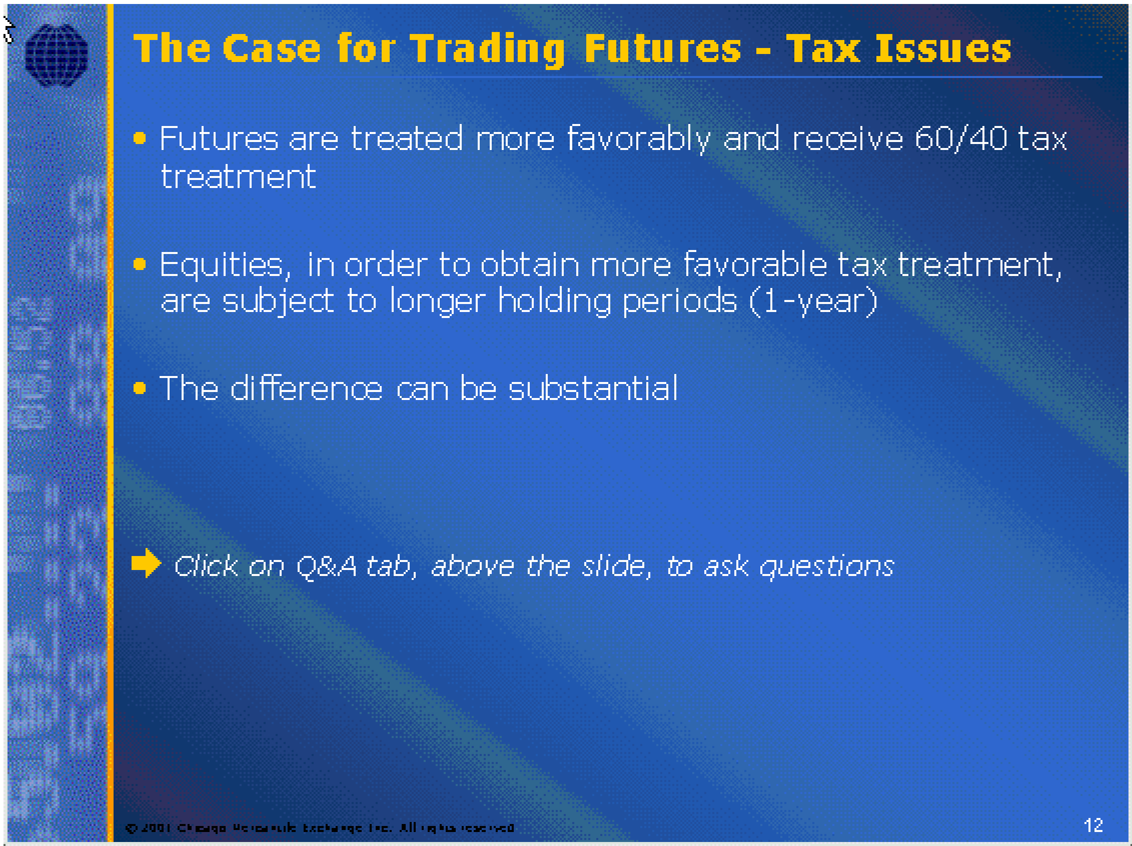
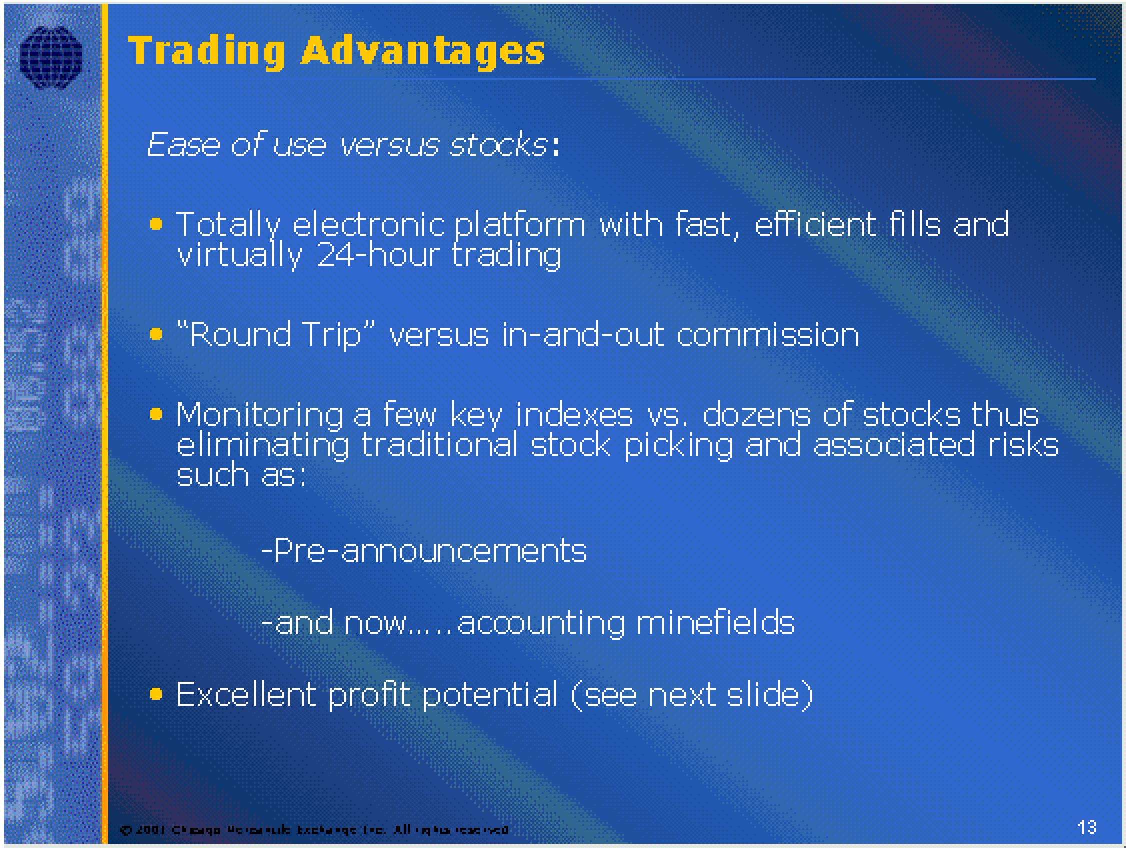

The Case for Trading Futures - Tax Issues
• Futures are treated more favorably and receive 60/40 tax treatment
• Equities, in order to obtain more favorable tax treatment, are subject to longer holding periods (1-year)
• The difference can be substantial
Click on Q&A tab, above the slide, to ask questions
12



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Trading Advantages (continued)
Ease of use versus options:
Rocket Science Factor
Options traders can call market correctly and still lose money because they must juggle 4 items:
underlying price
strike price
volatility
time decay
Futures traders care about only 2 things:
an advancing market or
a declining market.
Futures have more constant order flow and are usually much more friendly regarding bid/offer spreads
14

Emini Contract Months

	E-mini S&P 500	E-mini Nasdaq-100
Ticker Symbol	ES	NQ
Contract Size	$50 x E-mini S&P Futures price $55,000	20 x E-mini Nasdaq-100 Futures price $30,000
Min. Price Fluctuation (Tick)	.25 futures index points = $12.50	.50 futures index points = $10.00
Trading Hours	virtually 24 Hours	virtually 24 Hours
Contract Months*	H, M, U, Z	H, M, U, Z
Last Day of Trading	8:30AM 3rd Friday of contract month	8:30AM 3rd Friday of contract month

***H=March, M=June, U=Sept, Z=Dec**

Examples of Symbol for the Emini S&P 500:

Example 1: ES Z2 (Emini S&P500 December 2002 contract)

Example 2: ES M1 (Emini S&P500 June 2001 contract)

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With the stock market decline of March 2000 and the end of the glory days of the 1990s, stock investors and all day traders changed their strategy in order to be successful.

During the 1990s, day traders with little or no knowledge were trading Internet stock that was moving 20-30points in one day, giving them the false comfort of thinking they were great traders. Those days are long gone, and many day traders are back to the real world, working or adjusting their trading style.

The purpose of this report is to give you the tools to readjust your strategy, to try doing what the successful traders do. The successful traders trade the QQQ or the Emini S&P or NQ. The Emini S&P is the best vehicle to put the odds in the trader's favor and not the broker's favor.

This report covers the most important facets of trading:

1) Emini tools of the trade: putting it all together with charts and complete explanations of our process through the day

2) Emini risk management

3) Our 10 cardinal rules of trading

4) 10 psychological commandments to live by when trading.

At **TradingEmini.com** we want to contribute to your progress in this rather difficult process of becoming a pro by helping you with the right basic mix of risk management, tools of the trade and proper control of your mind while trading.

But, ultimately, you need to absorb the principles in this report with your own personality and strategy, to make yourself the master of your happiness and destiny.

Sincerely,
Marc
Founder of TradingEmini.com

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1.1 TOOLS OF THE TRADE

Our tools and methods are very simple and not derived from an expensive guru system. They are very powerful when used with discipline and proper money management.
The idea is for you to understand our tools and methods and incorporate them into a customized trading process that fits your trading style!!!!

Basic Tools and Setup

1) **You must use a fast computer**
Get a fast computer, the best of the best, period. Do not be cheap here, it will cost you in the long run. Buy the best memory on the market and a fast processor for reliable trading. Make sure you have a high-speed Internet connection (cable or DSL). Low memory and having to reboot your computer while in a trade can cost you a lot of money. I now use a dedicated server to ensure the fastest speed. Get the best data bandwidth from your ISP, cable provider.

2) **You must have two screens** connected by a video card. One screen will show your real-time quote and graph. The other screen will be your execution panel screen : Bracket Trader risk management and P&L results (You must have a order platform with an auto Bracket order, when the trade is placed automatically it triggers a stop loss e.g.: 2points and a target)

3) **Work with a good futures broker**
Search for low commissions from $4 to $5 round trip and have access to a sales representative who can assist you by phone if your Internet connection goes down. Review the reputation and integrity of your broker at the NFA (National Futures Association) web site. Check if there are open cases against your broker:
http://www.nfa.futures.org/

4) **Look for a real time quote feed provider**
With advanced chart capabilities .

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5) **Quote screen column setup:**

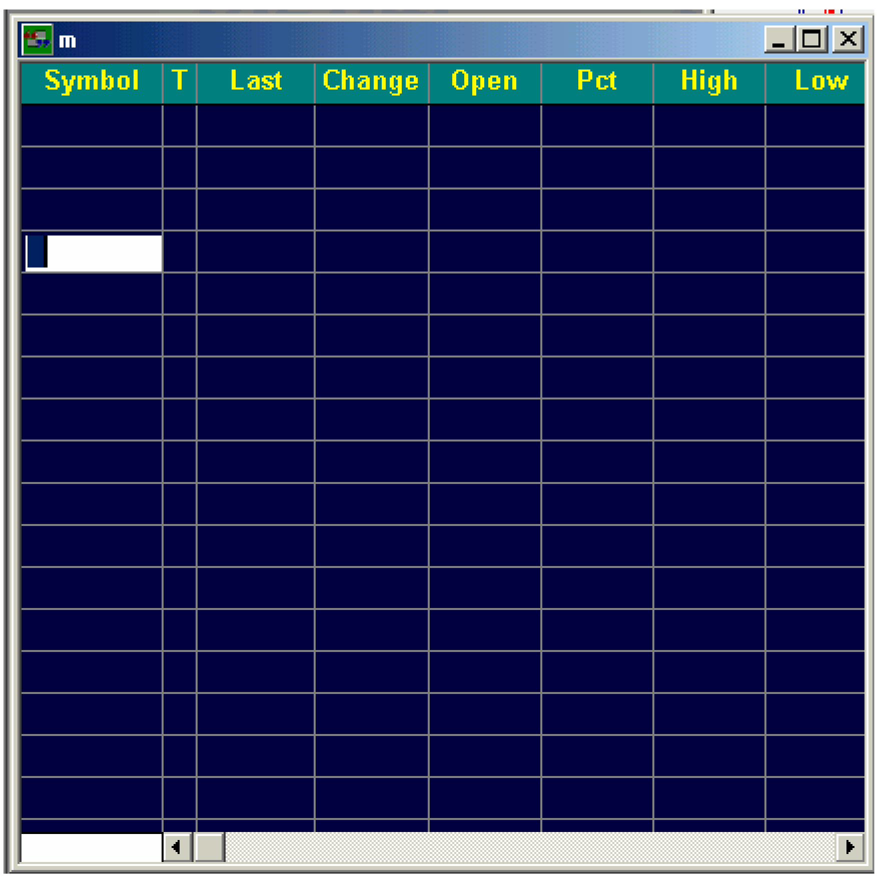
1st column…………….stock symbol

2nd column……………. last price

3rd column ……% change from the open (very important: not from the close)

4th and 5th columns………… high and low of the day.

Example of column setup:



6) **EMINI S&P DAILY TREND:** Emini S&P 500 futures contracts have typically two to three major daily trends, and a maximum of four.

A good trader has a **good entry-exit point for at least two major daily trends** and does not overtrade. During these major daily trends sit tight and be patient to maximize your profits, lower your commissions and avoid feeding your broker.

Edwin Lefevre in *Reminiscences of a Stock Operator*: "Men who can sit tight are uncommon. I found that it is one of the hardest things to learn, but it is only after a stock operator has firmly grasped this that he can make big money."

1) The First INTRADAY trend starts around 10-10:05 a.m. Twenty-five minutes after the opening of that day on the Emini, the Emini price will be above (positive opening price signal) or below (negative opening price signal) the 9:30 a.m. open price. The U formation will be formed (more details on the U formation on pages 20-23) , giving the tone for the first morning trend.
2) We usually have a countertrend around 11:30 a.m.-12 noon.

3) Between 2:35 - 4 p.m. (be careful to head-fake at 2:45 p.m. and 3:15 p.m.), the Emini S&P goes in the direction of the initial morning trend.

Example:

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Paying attention to the daily time frame is very important; keep track of the time of your entry and exit points in your trading journal.

It is a vital daily step to keep a trading journal. You can review and analyze all the trades you have done during the day. You can analyze the price and time at which you entered each trade, and the time and price at which you exited each trade? You can analyze the logic you used to enter each trade, write it down and think it through. We advise you to even draw a chart on your journal, mark your entry and exit points, and note the logic and time frames you used. See if you respected your trading plan and used all the tools of the trade taught in this report . Keeping a trading journal will multiply your results immensely. You will be aware of recurring mistakes, weaknesses to improve, strength to consolidate and most of all, it will help you to be honest with your trading and your commitment to success.

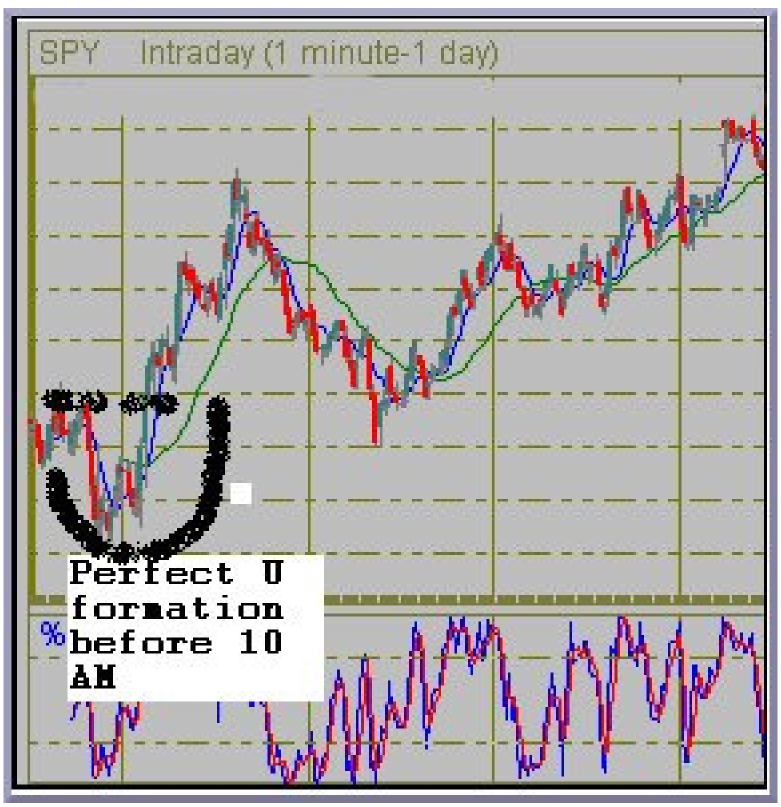
4) **IMPORTANCE OF THE OPENING PRICE SIGNAL:**

Usually after the first 25 minutes of trading, we can determine if the opening price at 9:30a.m. was set by real demand or was due to an artificial mark-up with the price opening signal.

If the net difference between the last price and the opening price is positive by one point of the EMINI it is a positive price opening signal. And vice versa…

*When the opening price turns from negative to positive after 25 minutes of trading (around 10 a.m.) that is the first indication that the underlying sentiment has changed to the upside.

See the following example: Buy at 10-10:05 a.m. There is a positive U formation, with a positive price signal 35 minutes after the open.



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**When the opening price turns from positive to negative after 25 minutes of trading (around 10 a.m.), that is the first indication that the underlying sentiment has changed to the downside, and you should sell short.

THIS IS A VERY IMPORTANT CONCEPT. IT WORKS WONDERS EVERY DAY. WE NEVER TRADE AGAINST THE OPENING PRICE SIGNAL AND U FORMATION.

Four different, powerful U opening pattern combinations to know (use a one-minute and a three-minute chart):

1) Prices Open at 9:30 a.m. ,trend up, reverse, break down. At 10:00-10:05 a.m, when prices break down the 9:30a.m opening price, (short).

2) Opening 9:30 -Strong trend up-reverse U- but price does not break down the 9:30 opening price – Resume the up trend after 10-10:05 a.m. :(buy)

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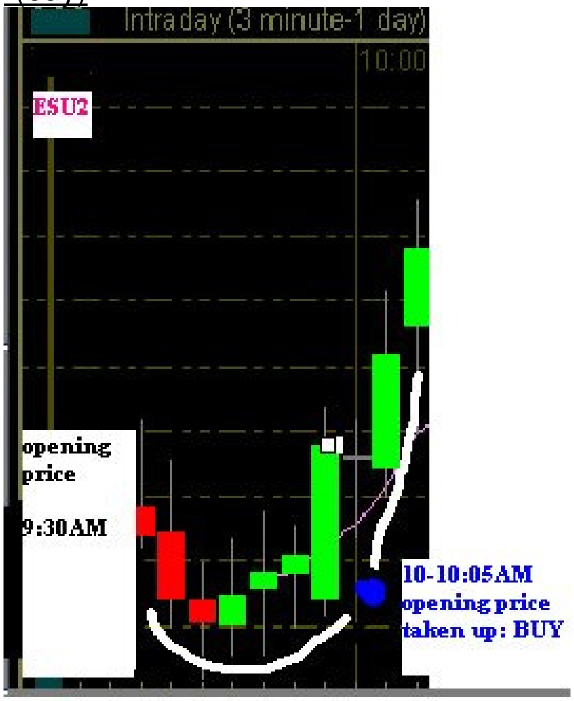
3) Prices open at 9:30 a.m. The trend is down. Prices slow down, then the down trend reverses at 10:00-10:05 a.m. and breaks above the 9:30 a.m opening price -(buy)



4) Opening at 9:30a.m. Down trend at 9:30a.m. Down trend slows down, reverses up and fails to cross up the opening price. The price proceeds to retrace down 30% (short at that point)

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Final note on the U pattern: Be extremely careful if you see a U pattern between 9:30 and 9:45 a.m. That is not the real U pattern. Remember, the U pattern is created between 9:30 a.m. and 10:00-10:05.a.m (After 30-35minutes from the open; not before). A U formation in 10-15 minutes is a trap that you have to be aware of.

***The previous-day high and low serve as the shortest-term measures of support and resistance.**

The previous-day high and low mark the extreme ranges of the support and resistance. These prices mark the extreme ranges of the bulls and the bears from the previous day. Stop and limit orders tend to accumulate just above or below these prices, because once the price is broken the momentum usually carries the price further.

4) **Quote Screen setup**: always have the following symbol set up:
- **$INDU** (Dow Jones industrial)

-**symbol ES**, **NQ, $VIX for volatility), the $BKX (Banking Index)**

-**Add the following as a barometer**: * **GOOG** is the granddaddy of tech and if GOOG is weak market will follow. When followed with a five-minute chart it confirms or strangely anticipates the EMINI trend. Remember, what Google does, the market will do**.**

Quote

Symbol	Last	Change	Pct	High	Low
ES #F	88300	-650	-0.73%	89550	87675
$INDU	8268.64	-62.68	-0.75%	8394.96	8230.17
NQ #F	135425	+50	+0.04%	137300	134125
$VIX	33.12	+ 1.75	+5.58%	33.61	30.59
$BKX	36.65	-1.12	-2.97%	38.31	36.34

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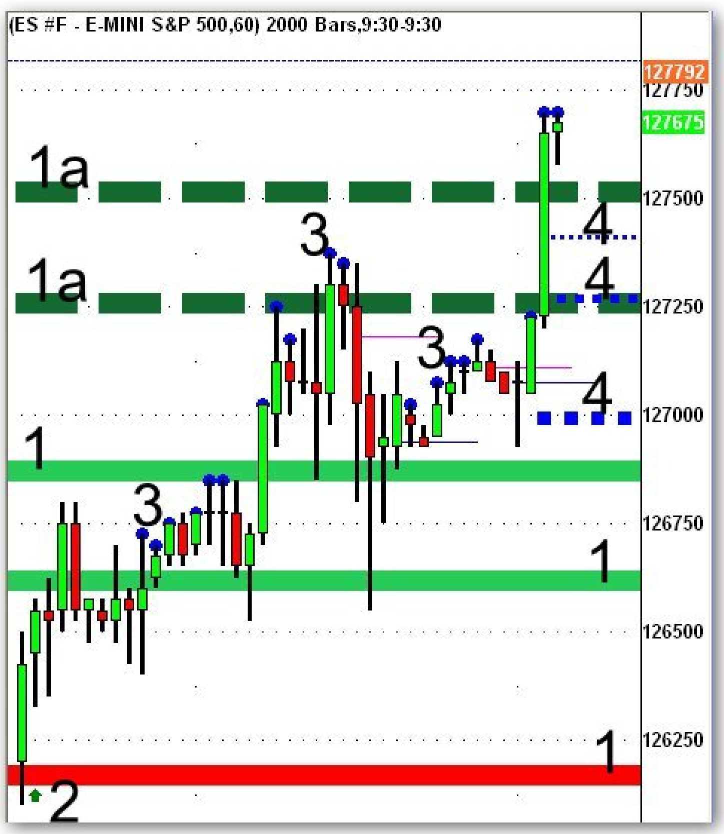
5) Screen and analytics setup :

2 charts – Less is more and you can react faster
1. Emini S&P500 (ES) plotted with our Probability Tools (mainly 5 and 60 mins).
2. Our Volume Indicator (VI) Chart , used in synergy with ES price chart (mainly set to 5 min).

Time and sales window with bids only you can filter the settings you want. I recommend setting a minimum 2contracts filter. You really want to get a feel for the rhythm and speed of the tape (This IS NOT MANDATORY because it is confusing at first for newbies, it takes many years to read the time and sales. Everything that you need is already incorporated in the VI anyway and it is much easier to the eye vs. watching every print from the time and sales window)

Quote window with the BKX index/NQ keep an eye on the chart formation of Google and BKX (Banking Index)

What you see on the Price Chart - Overview



1/1a – Major areas of support/resistance (support being areas below current price and resistance above current price) – dashed 1a is more important than the solid areas.
2 – Potential Indicator of momentum/trend change (green up / red down arrow)
3 – Trend continuation Indicator (blue dot on top of candle / magenta dot on bottom of candle)
4 – Immediate Probable Support/Resistance Indicator (Alternating between blue/magenta dashed line)

*** Note Also make a note of, or draw a line for the open price**

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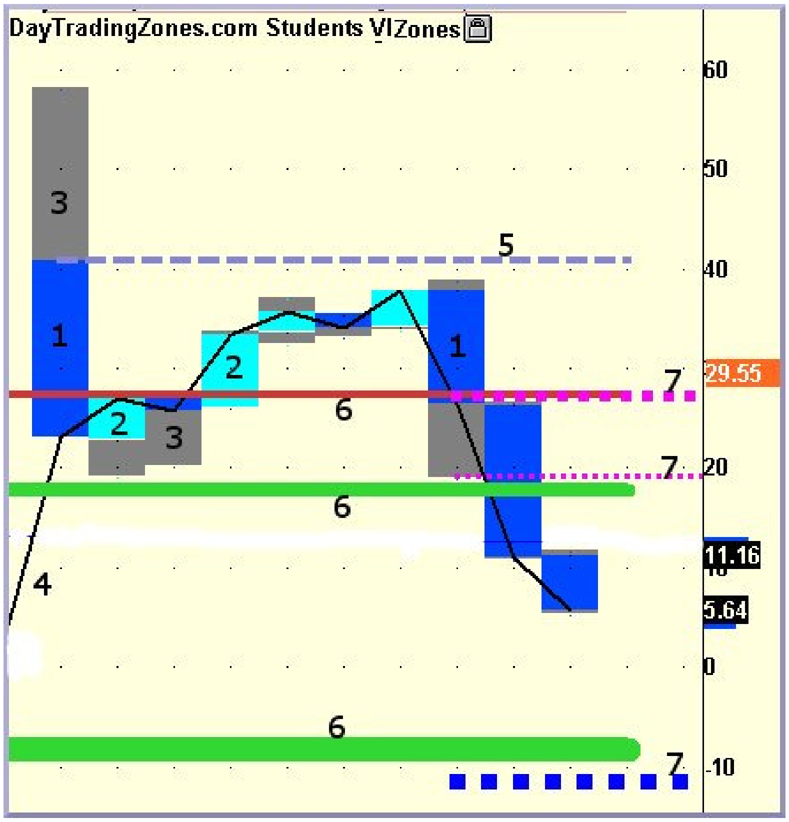
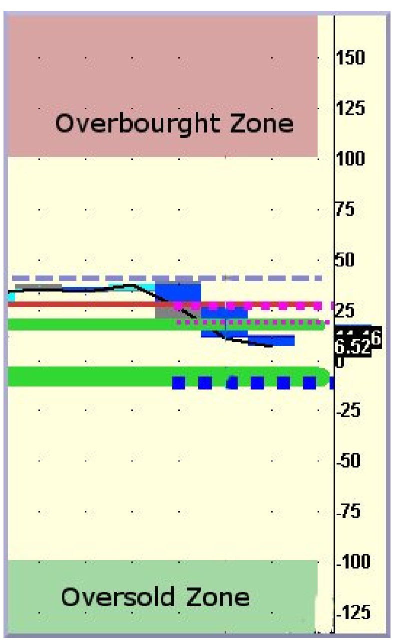
What you see on the VI - Overview



1 – Volume Moving Down (Dark Blue)
2 – Volume Moving Up (Light Blue)
3 – Volume Extremes (Grey)
4 – Pattern Overview Line (Black line)
5 – Open Level (Grey dotted line)
6 – Major Areas of support / resistance and directional bias (Solid lines alternating between green and magenta)
7 – Immediate support / resistance and directional bias (dotted segments alternating between blue and magenta)



8 – The VI has a scale from -250 to +250.
From +100 to +250 a pink area shows the Overbourght Zone.
From -100 to -250 a green area shows the Oversold Zone.

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Position Trading

We use the DayTradingZones Probability Continuation Tool on long term charts like Daily, weekly, Monthly.

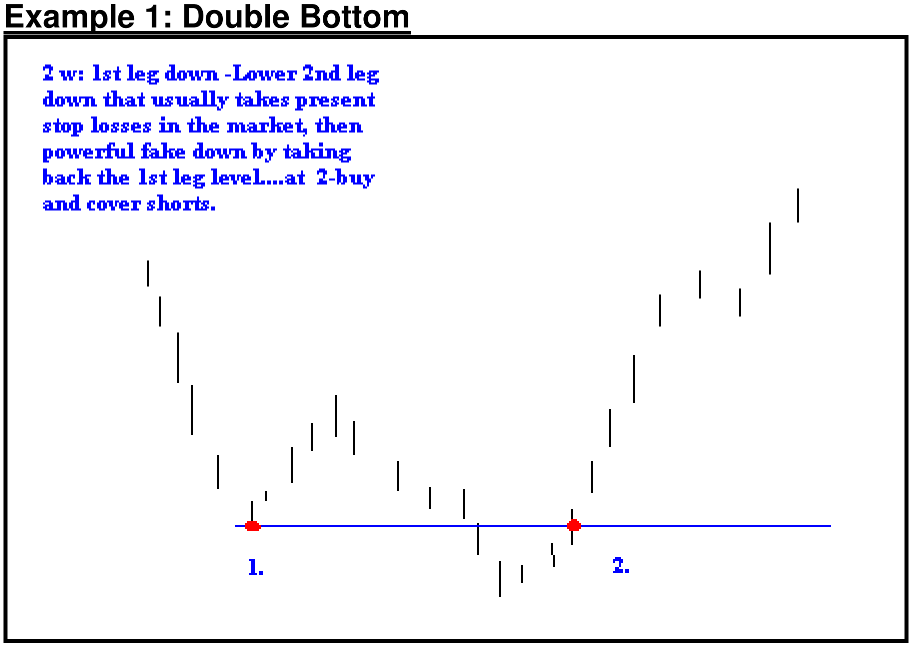
When the signal comes we usually expect a 50-100pts ES move, YES IT IS MAGIC 3 TIMES PER YEAR. Back test it, it is amazing. (see the example under other tools below)

This concludes the setup of your screen. Now, let's see how to pick up the right trend and spot the trend reversal

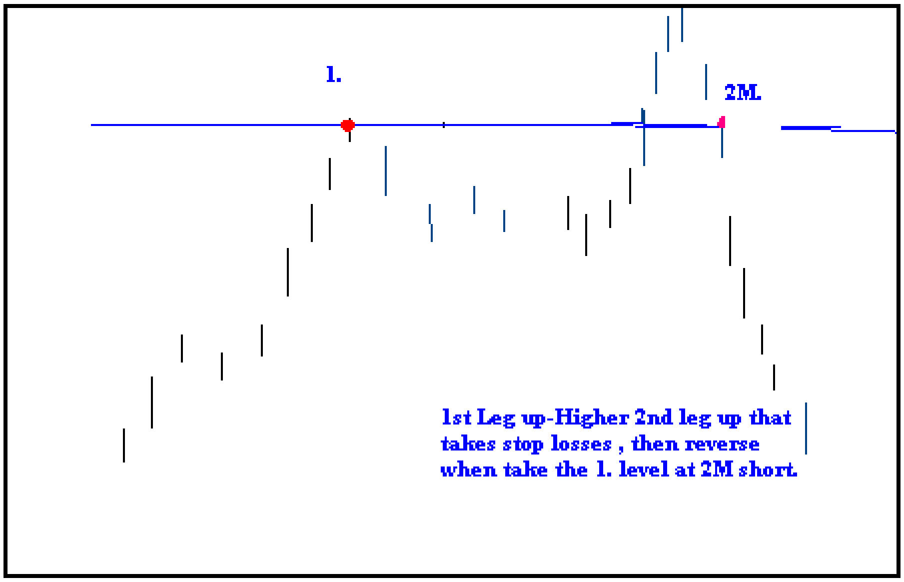
Key Price Patterns

1) (2M) and (2W) double bottom and double top signals are extremely important but, contrary to what most people think, the double top and double bottom do not need to be perfectly symmetrical. In fact, most of the time the market makers and pros at the pit go above the first top or below the first bottom just to make people panic, and take all existing stop losses and limit prices present in the market.

Example 1: Double Bottom



Example 2: Double Top



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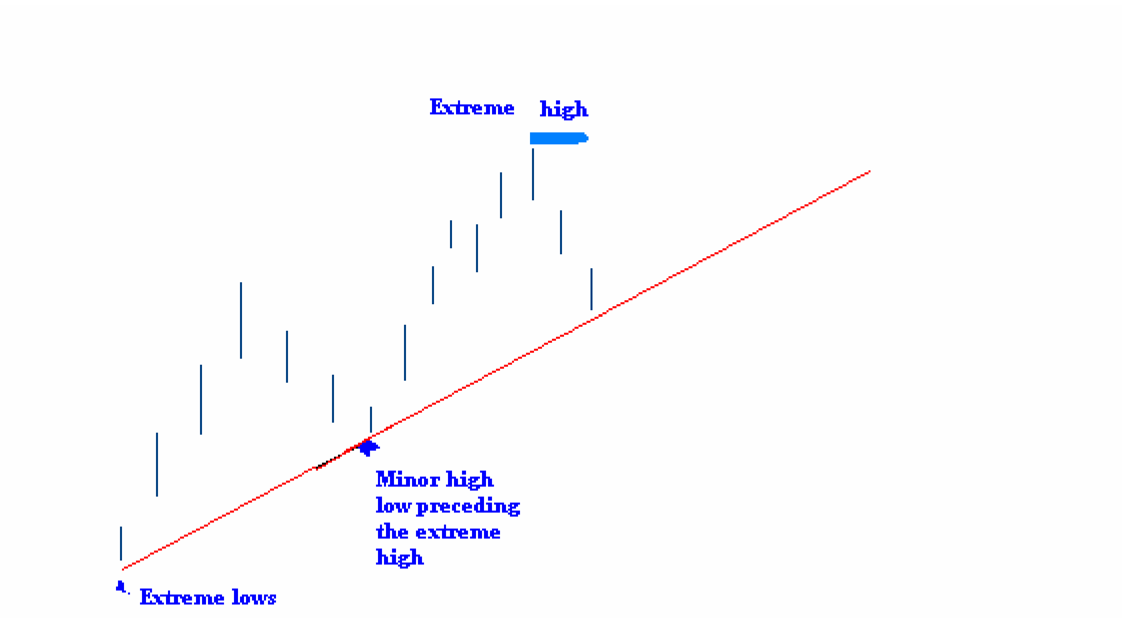
2) **Up trend and down trend: People fail to really place the right trend lines. I advise everybody to read the Trader VIC1 and 2 from Victor Sperandeo who has one of the best track records on Wall Street as a trader.**

<u>Definition of an up trend line</u>: A series of higher highs and higher lows.

<u>Drawing an up trend line:</u> Within the period of consideration draw a line from the lowest low, up to the highest minor high's low point preceding the highest high <u>such that the line does not cross prices in between the two low points</u>**.**

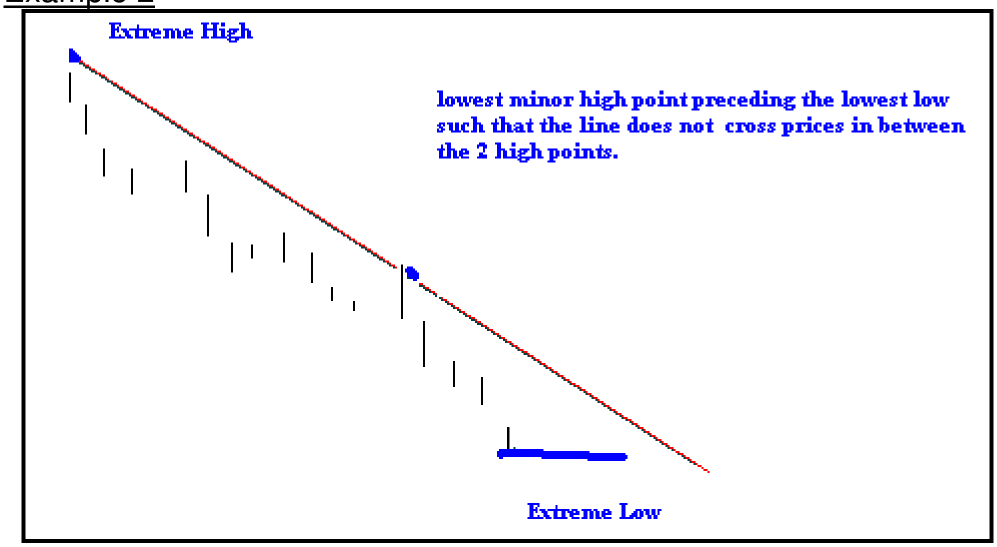
<u>Example 1:</u>



<u>Definition of a down trend line:</u> A series of lower highs and lower lows.

<u>Drawing a down trend line</u>: Within the period of consideration draw a line from the highest high point, up to the lowest minor high point preceding the lowest low <u>such that the line does not cross prices in between the two high points.</u>

<u>Example 2</u>



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3) The **1-2-3 rule Break down and Break up reversal trend:**

1- We need the current trend to be broken up or down (see above drawing of a trend line)
2- Prices must stop making higher highs in an up trend or lower lows in a down trend
3- Prices must go above a previous short-term minor rally high in a down trend or, below a previous short term minor sell-off low in an up trend.

Example 1:

1 - Down trend broken
2 - Emini prices fail to create a lower low (start buying)
3 - Add contracts on the long side

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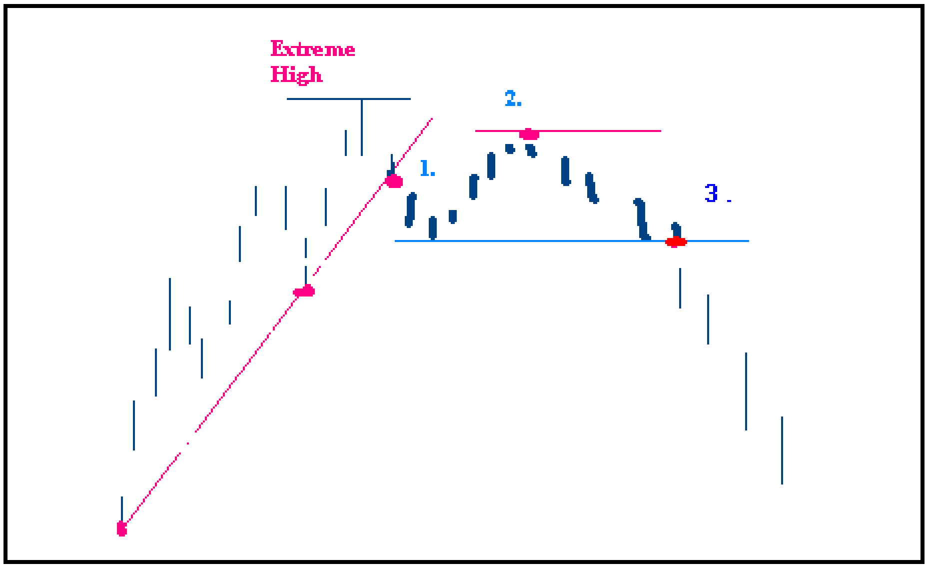
Example 2:



1- **Break down**
2- **Emini prices fail to make a higher high <u>(short here)</u>**
3- **<u>Add short contracts</u>**

At 2 we should start our initial short position. We have a 66% chance of a trend reversal (Emini prices failed to make a higher high or lower low) and at 3 have almost a 100% chance that the trend will continue, so this is the time to add more contracts.

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Our Power Tools

A: DayTradingZones Probability Continuation Tool

This software uses a combination of arrows and dots to give a higher probability of trend continuation. You will see this process applied again and again in the live training and trading room. The chart below shows it in action on the Euro FX.

The first indication of trend direction is a green arrow up for an up trend and long trades OR a red arrow down for a down trend and short trades.

Then for an up trend, after seeing the green up arrow, we look for blue dots to appear at the top of candle to confirm that we are in a trend, not just in a large flag (see explanation of Flags below).

For a down trend, after seeing the red arrow down, we look for pink dots at the bottom of a candle.

For example in the Euro-FX 5 minute chart below you can see the sequence of events

1. From 1 to 7 we had a immediate down probability trend confirmed by red dots but in a very tight range between 2 DayTradingZones lines
2. A green arrow up at 8, indicates a potential up trend coming out of the neutral status, get ready
3. At 9 We have a blue dot confirming the up trend likely and this time we have a lovely move up by RE CROSSING THE DASHED GREEN ZONE LINE AT 1.2610, with a decent range to 1.27 with blue dots remaining on the candles all the way up.

nb for the segment continuous data tool, which is now used for support/resistance between the zones, please see the video

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B. DayTradingZones Zones software

The DayTradingZones provide lines of potential support and resistance in the market. For instance in the Euro-FX example above we have 3 potential lines of support and resistance, the blue line just below 1.26, the dashed at 1.2615 and the green at 1.27

What we look for is a decent range between the lines and a cross-recross of the zones in conjunction with the Probability Continuation Tool.

- For example on the Euro-FX chart above we can see from price how it was moving along the dashed line in a tight range deciding what to do from candles 1-5. We finally got a small breakdown, but we would not be expecting too much of a move because we have the next DayTradingZones line at 1.26.
- It crossed down below the 1.26 Zone but then crossed back above it, indicating potential for an up move but immediately got sandwiched between the 1.26 and 1.2615 lines as you can see from candles 6-8. For the long we want to see it cross above the 1.2615 and hold above it, which will give us a good potential trade long as the next target is all the way up at 1.27, the green DayTradingZone, which what happened starting at candle 9.

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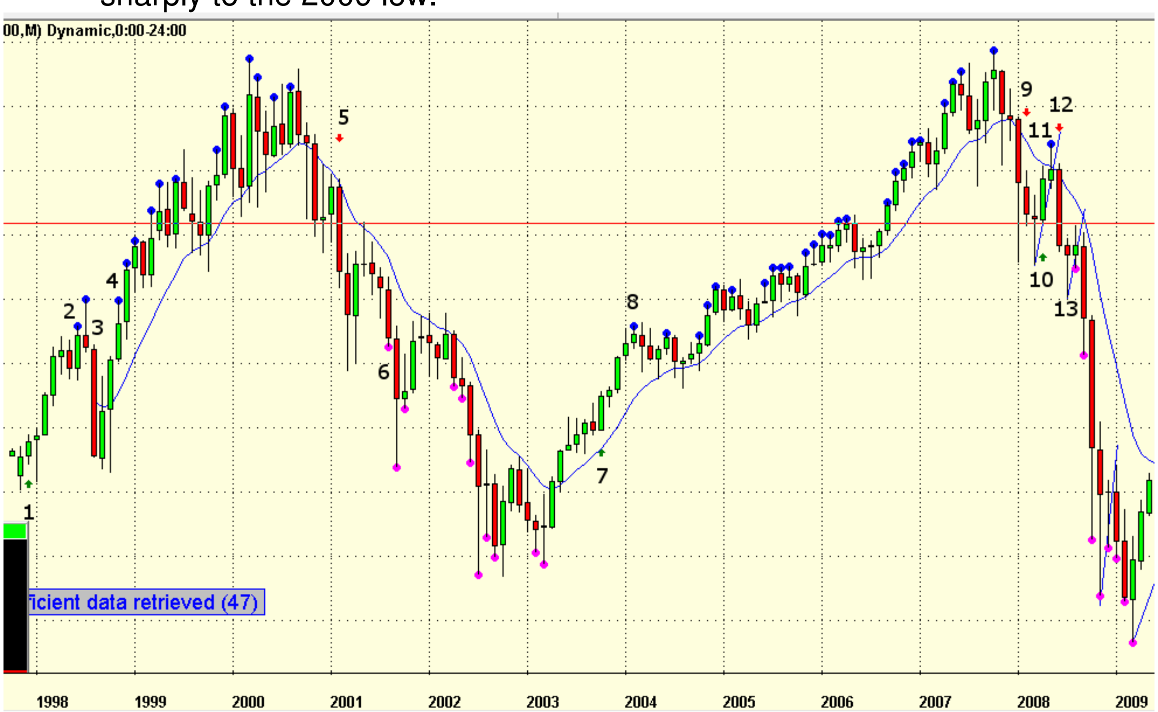
To gauge the long-term trend we use Monthly, Weekly, Daily charts with the DayTradingZones Probability Continuation Tool, using the same principles explained above.

For Example see the ES EminiS&P500 Monthly Chart below for the last 10 years

1. We get our green arrow up, indicating probability of Up Trend.
2. Up Trend is confirmed by Blue dot
3. A neutral candle with out a dot or change of arrow, which indicates a sideways market or potential retracement flag
4. Continuation of up trend indicated by the blue dot appearing again
5. A potential Up Trend reversal, with the appearance of a red arrow down indicating a shift in momentum.
6. Pink dot probability confirmation of a new down trend rather than just a bear flag in a bear year market 2001-02
7. Green arrow indicating that the momentum is changing from down to up
8. Blue dot probability confirmation of a new up trend
9. Again a red arrow down indicating potential momentum shift, but now it gets interesting. We don't get a pink dot on subsequent candles indicating a potential new down trend
10. Instead we get a green candle up first. This combination, without the dots in between shows that the market is potentially undecided and jumpy.
11. We get are blue dot but knowing we have had a down arrow and up arrow prior we should be a little wary, especially when we look at the chart pattern which shows a potential double top off the year 2000 high.
12. Now we immediately get another red down arrow indicating the continuation of the down trend that was first indicated at candle 9
13. We get our pink dot confirming the probable down move and it falls sharply to the 2009 low.



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Trading with the VI and Divergences

We draw trendlines directly on the VI, (above and below our ladders and segments support /resistance lines) to gauge possible further areas of important resistance and support at the extreme trendlines. Usually this is very accurate.

Take a 30minute chart VI and trace the trendline as far back as possible every morning. Draw these trend lines from the tops and bottoms, using the definition of a proper trendlines. This will be part of your daily routine before the market opens.

How do you know an intraday trend is exhausted? When the trend is overbought or oversold and about to reverse?
Looking at the VI, combined with other powerful tools that we use, we get a good idea about trend reversal.

The theory behind using the VI is that if you throw an object up or down a street, the opposing force of gravity will inevitably slow it.

The VI provides very good trend reversal signals with divergences. It is also during the period of time when trends consolidate that the VI produces potent signals for reentry into the trend.

Go long during a pullback within an up trend.
If the emini is in on an up trend and the VI pulls back beneath its lower oversold line and then crosses above it, you have a potential signal to trend from the long side or add contracts to your initial long position. (Also by seeing at the overall 30mn trendlines you can see if you touch a potential support trendline for longs)

During a downtrend, if the oscillator pops above the overbought line, then crosses beneath it, you have a potential signal to trade from the short side. A trader objective should be to buy and add or sell contracts that are moving in your direction, not against you. (Same here watch your 30mn trendline to see if it touched resistance for potential pull backs)

THEN ALWAYS COMBINE THE OVERALL TREND IDEA WITH THE U FORMATIONS – The same 4 U Price patterns apply to the VI.

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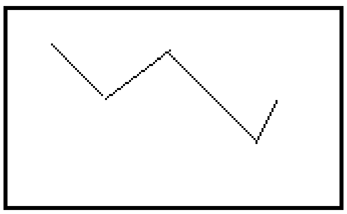
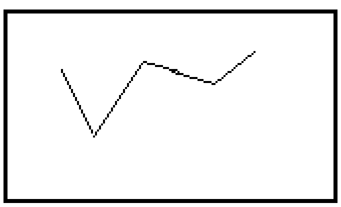
VI Divergence Patterns

Example 1: Bullish Divergences

Price



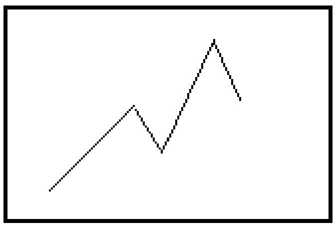
VI



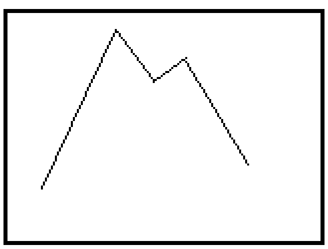
Prices make a new low while the VI makes higher LOW bottom indicating perhaps price is about to turn soon.

Example 2: Bearish Divergence

Price



VI



Prices make a new high while the VI makes a lower High top indicating perhaps prices will reverse down soon

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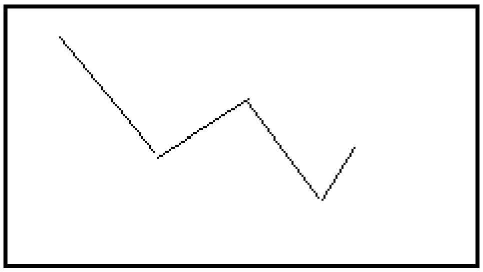
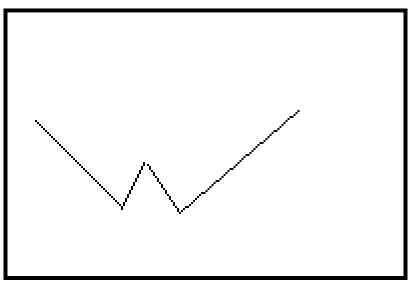
<u>Example 3: Bullish Divergence</u>

<u>Price</u>



<u>VI</u>



<u>Prices make a new low while the VI makes a double bottom - this is only effective around trend lines from the 30mn chart pre morning preparation or the extreme vi +100/-100 zones area. Perhaps indicating here price reversal UP.</u>

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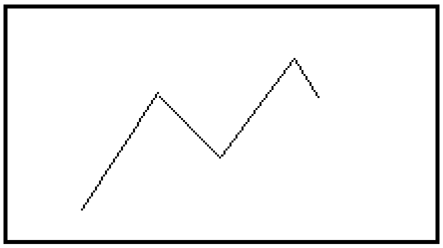
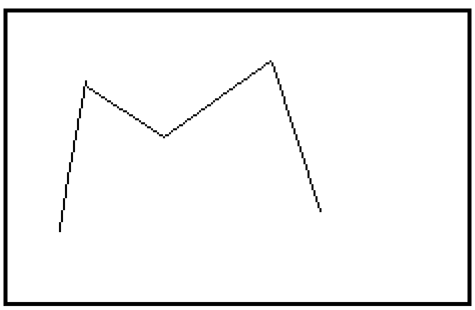
Example 4: Bearish Divergence

Price



VI



Prices make a new high while the VI makes a double top same as above but reverse perhaps indicating reversal in prices coming soon.

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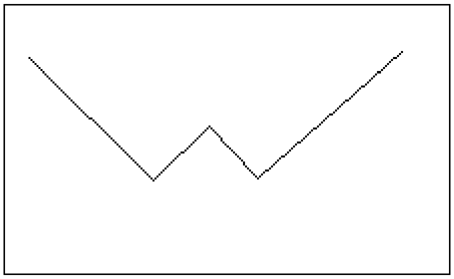
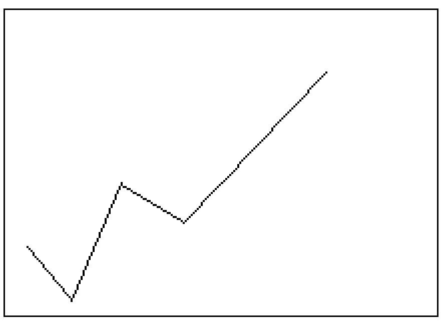
Example 5: Bullish divergence

Price



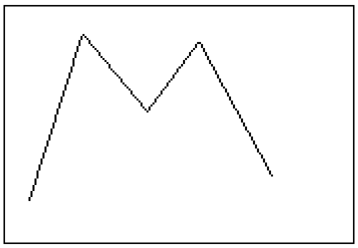
VI



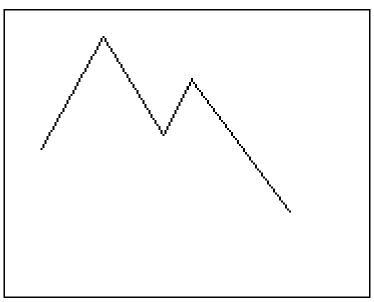
Prices make a double bottom and the VI makes a higher bottom perfect synergy for reversal up

Example 6: Bearish Divergence

Price



VI



Prices make a double top and the VI makes a lower High top perfect synergy reversal DOWN

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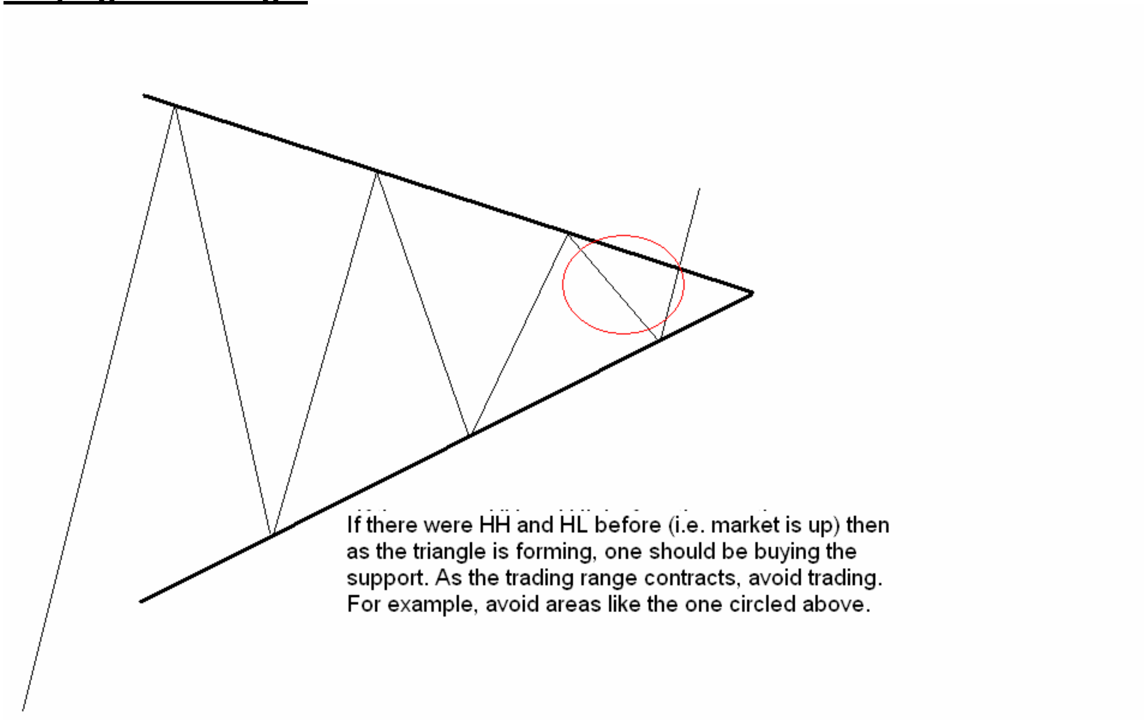
Playing the Triangle



1. Example of the trend of the day is long
2. Buy longs at support
3. Avoid area where there is a small trading range
4. Buy break above of triangle at close of the 5 minute bar.

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FLAGS The Importance of timing properly your entry in a trade

1) On a down trend wait for an up flag, then short or add to your short, when the candle breaks down the up flag trend line. The flags are so important to avoid chasing any move, if you chase a move most likely you will get stopped.

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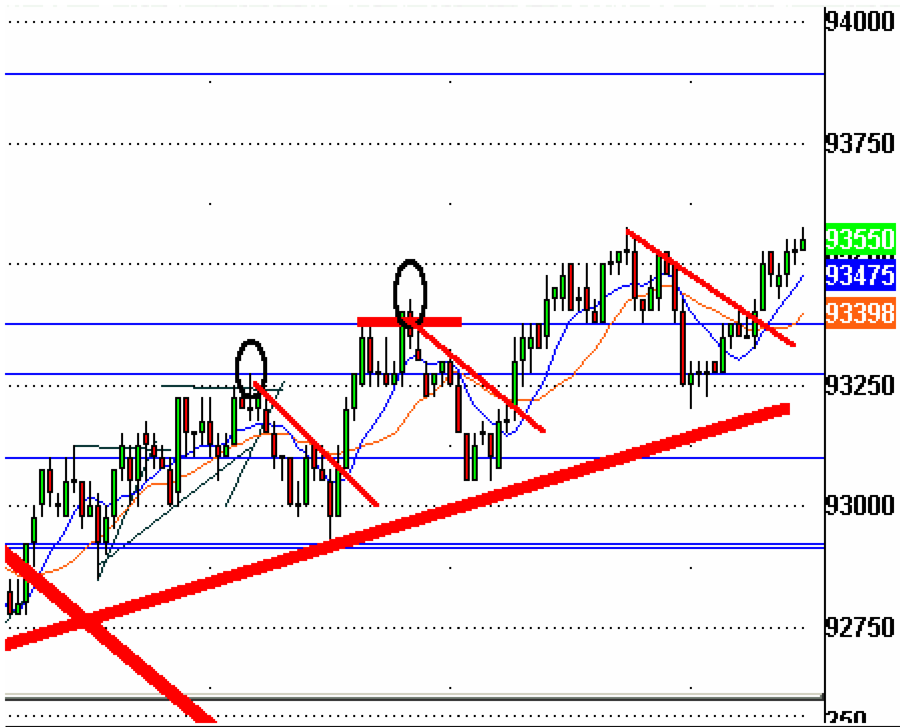
2) <u>On an Up trend wait for a down flag, then get long or add to your long, when the candle breaks up the down flag trend line.</u>



By using all the signals—opening price, high and lows of the day and previous day close for filling the gap opening, 2M, 2W, 1-2-3 breaking rule, reversal trend, the DayTradingZones Probability Continuation Tool and DayTradingZones Zones, to help time our entry, exit or adding to exiting open position—you will increase your odds of winning. Every day in the trading EMINI room you will see these signals forming. We will go over them each morning in real time.

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Complete Emini tools of the trade examples

ALSO KEY WATCH THE VIDEOS FOR COMPLETE EXAMPLES MONTH1 AND MONTH2 EDUCATION-

The key will be applying these principles from the cornerstone 2010 and the essentials month1 Video LIVE NOTHING REPLACES LIVE TRAINING especially in trading.

Example 1: When we looked at the monthly ES chart in position trading we already started to look at synergies. Here is the chart again, now with Trend Lines, the Double Top Line and Flag Lines.

Notice prior to the up green arrow at 7 we have 3 other indications supporting a long trade: higher lows at (a), a break of the Down Trend Line at (b), continued higher lows at (c) plus by the time we get the blue dot Long confirmation at 8 we are into a 1-2-3 long formation.

Now at the potential Double Top Line we become wary of Longs and we can see that by (d) we have a major potential double top forming on the year 2000 high, we also have a minor double top forming at the top of this up move on the early 2007 high. Then there is an Up Trend Line break at (e). This is all leaning towards a reversal of the Up Trend and we get our first red arrow down at candle 9 but we do not get a pink dot before we quickly get another green arrow up, which makes us wary of the longs when we get the next blue dot, especially as we have had those lower lows between (e) and 10 following on from the double top and it looks like 1-2-3 reversal setting up. That move up from 10 to 11 could just be a retest of the (e) trend line break, forming an Up Flag in a down move. Now, at candle 12, we get a second red arrow down, with price also breaking down the little Up Flag line at (f), we get short confirmation with the pink dot at 13 and another Up Flag break down at (g).

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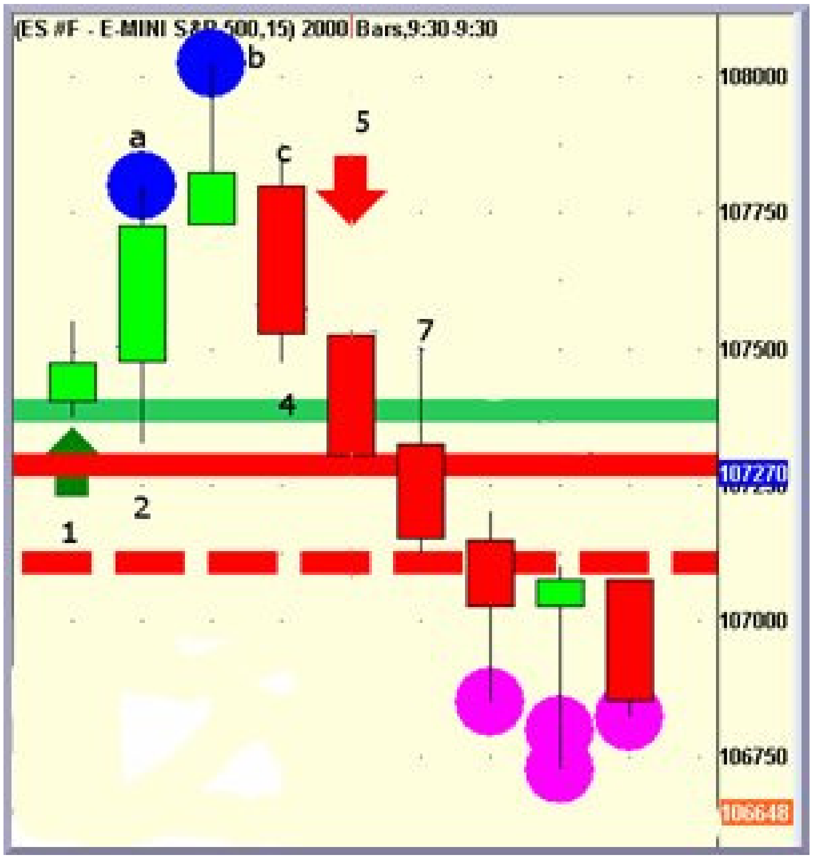
Example 2: Inverse-U formation breaking down Price.



Just before the 9.30 open on the ES we have a green up arrow at candle 1 on the 15 minute chart, indicating the likelihood of the first leg being up.

This is supported by price holding the Zone line at a price of 74 at candle 2. Then we get our blue dot confirmation at candle 2.

In this case, to take a long, we didn't need to wait for the blue dot because we had the synergy of the green arrow, holding the zone 74.

We recognize this as a first leg and prepare our minds for a second leg short, to retest the open and form an inverse U. We see a small head and shoulder, a, b and c, with a neutral direction candle at 4 (no arrow or dot), followed by red arrow down at 5 indicating the shift in momentum to down, this candle also completes the inverse U.

So now we want to know if the zone will hold for an inverse U breaking up or down. With that red arrow down, our bias is short. And we see at candles 7 and 8, both price and VI have a retest of the opens (from below), for a short entry for a drop nicely to the 67 area.

Example 3: Using synergies with flag retracements.

The highlighted down trend in this chart was indicated by the red arrow down and the start of the pink dots, area (a). Notice after that we only had one up flag (area 1) with green arrows, but there were no blue dots, so as soon as we got that red arrow again and broke the flag, again it was another good entry short.

All the way through this move there were no long signals, all we had were pink dots, neutral candles and longer term (as it is a weekly) we should only be looking for shorts on retracement, selling at the breaks of flags, area 2, 3 and 4.

In area 5 you can see we got some indecision (usually represented by an alternating of green up and red down arrows) and a warning that we might get a reversal with some green arrows up,, telling us that if we have not already got out of our short we should do now.

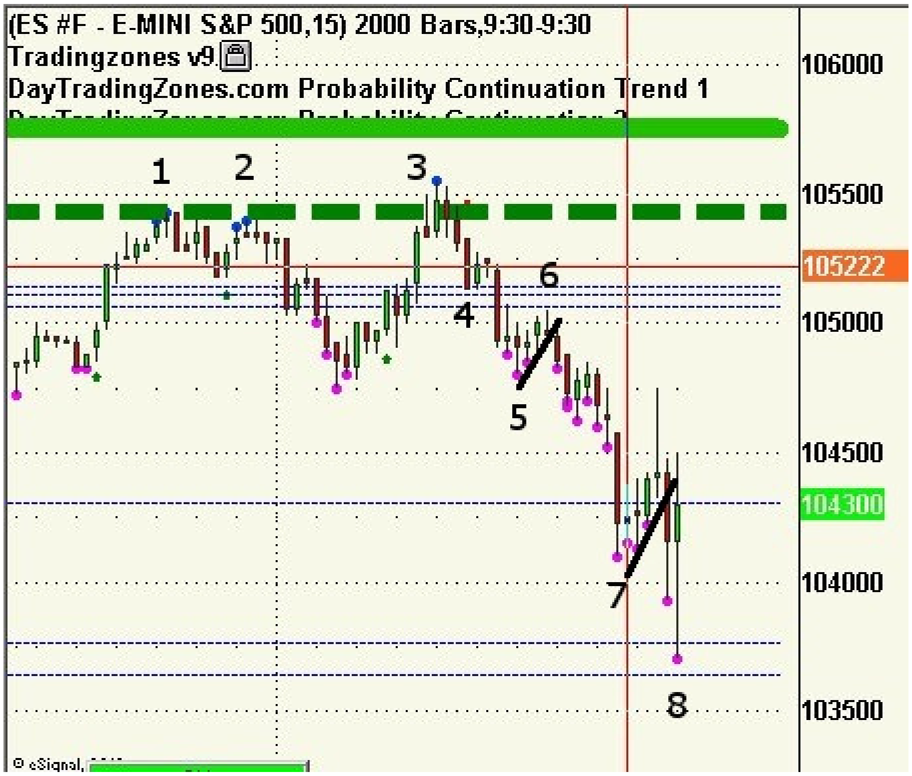
We then had our first long indication at candle 6 with a flag break up and a second green arrow and followed 2 candles later by our first blue dot in a long time. We got another opportunity to go long by buying on a retracement flag break at 7.

Lately we use the segment continuous data tool between 2 zones. (See Video to help you spot retracement support or resistance between our DayTrading Zones.)

Example 4: U formation breaking down Price.

Here see how first leg was down on price and then came back up and reacted back down again, finding resistance at the 60 zone combined with a red arrow down, an attempt to hold the up trendline with a green arrow, but quickly followed by red arrow down and pink dot and trendline break. Then a lower high and flag break and another red arrow down at area 2.

Example 3: Price Reacting to the DayTradingZones



In this chart there are 2 major zones of resistance (because they are above price) at prices of 57 and 55 (the thick green lines), then below that are a bank of minor zone lines at just above 50 (thin dotted lines), a single minor at 43 and 2 more minors around 36/37.

Notice how price tries to break that major at 55 3 times but it just can't push through it. Generally if the market tries to move in one direction 3 times and fails on the third it is likely to go in the opposite direction. So in this case we can see that the bulls give up and the bears take over and we get a red arrow down.

At 4 there is a little stall in the down move reacting to that cluster of minor zones, but the bears quickly break through it down to 5, there is one more minor retest of the minor cluster from below at 6, but now we have our pink dots and this is just an up flag in a down move and another opportunity to short when price breaks.

At 7 price reacts around that single minor line, we still have our pink dots and no green up arrow, so again this is likely to just be an up flag in a down move, especially as it only a single minor line, so we have another short opportunity at the flag break. Price drops to the 36/37 area and we have achieved a full short move from a major zones resistance to the next strongest zone, the 2 minors at 36/37. Also 37 was a major 1-2-3 formation for months.

Example 4: The same example of the move in eg5 but on a 30 minute chart

This is the same move as above but shown on a 30 minute chart – notice all those red arrows down and the predominance of the pink dots. Although there are some green arrows they are never supported by blue dots. Price just can't break that daytradingzone resistance at 55/57.

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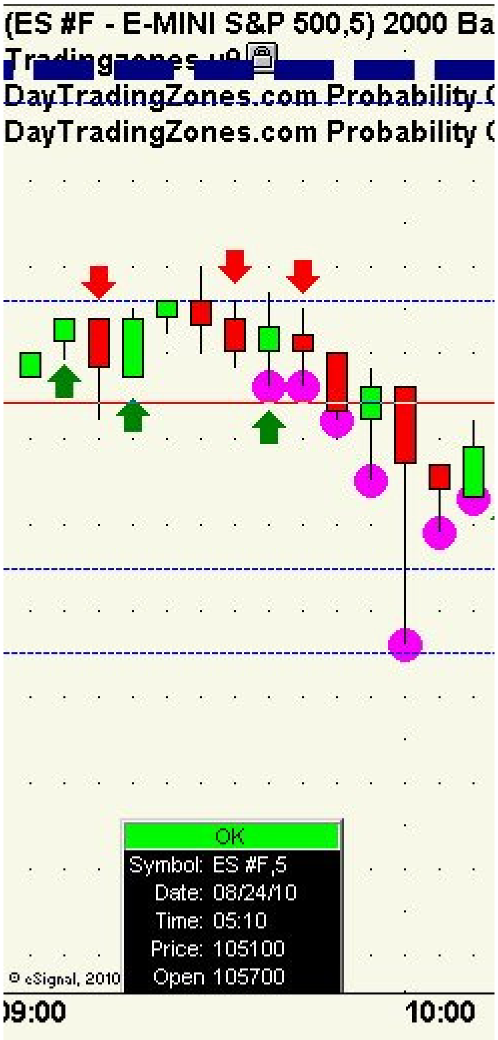
Example 5: Arrows, dots and Zones synergy



Again on a 5 minute chart this time we see price banging its head against a zones line (dotted thin blue), we get a mixture of red and green arrows, but no dots as the market moves sideways in a tight range but as soon as we get the pink dot short confirmation, the market falls

Examples: Pulling It Together, Synergy between Price and VI

This 5 minute ES chart and VI shows 4 potential trade signals on a very tight range after an overnight gap up. The chart is broken down in detail below.

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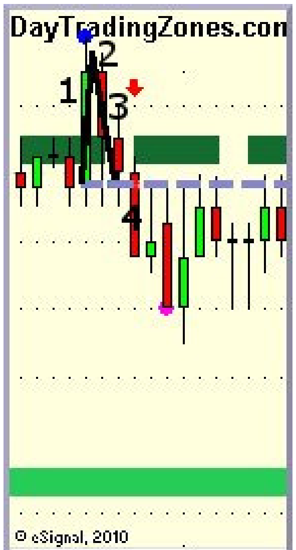
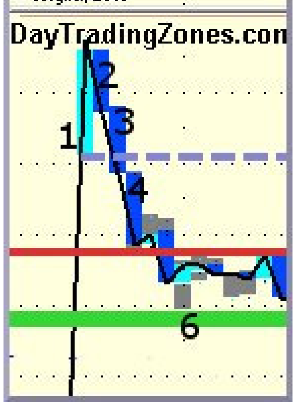
1. First hour – 9.30 to 10.30am Inverse-U breaking down and Major Zone Cross-Recross Short Trade





Note this is only a 5 point range so difficult to trade.

Price Candle / VI Block 1
Both price and the VI moved up from the open (grey dashed lines) in the first 5 minutes. We had an overnight gap up so it's not surprising that we maintain a little push up, but remember from our U-Formations we are expecting a re-test of the open before the market makes a definitive move.

Price Candle / VI Block 2
The price open is tested in the next five minutes, giving us an inverse U on price, but we don't enter yet because price is still in a tight range and price could hold the open and break up for an inverse-U break up, or it could go through the open for an inverse-u break down pattern AND most importantly the VI block, although going down (dark blue) has not tested its open yet. Also the price candle is a neutral candle (no dots or arrows).

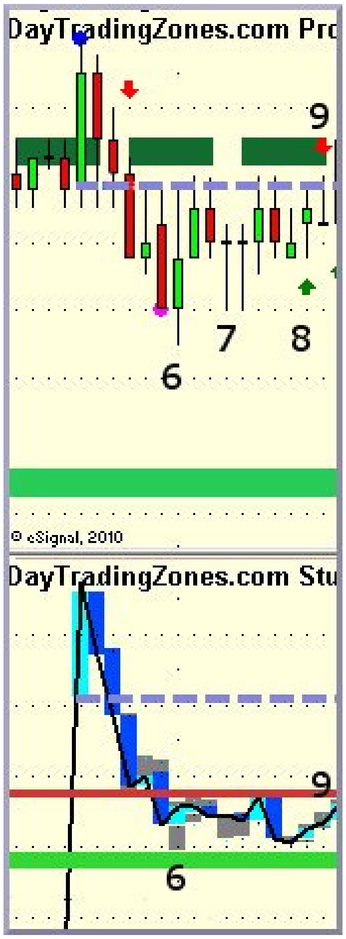
Price Candle / VI Block 2
On the third price candle, price seems to be holding the open, but it is not making new highs and is still a neutral candle, so we don't have an inverse-u breaking up properly formed. ALSO we can see that the third VI block is pushing below the VI open warning us of a potential down move. The probability of this is also increased because the VI is showing a red horizontal line, red being a down bias.

Price Candle / VI Block 4
Now we see price and VI confirming our down bias and we get a red arrow down on price, confirming the down momentum. Also since the open, price has crossed above the major zone (dashed dark green) and re-crossed back below it.

We don't chase the candle but wait for a small retrace. In this case back up to the open, then enter short with a target to the next support below us, which in this case is the green area on the VI. We would play this trade very tight as the support is not very far away.

VI Block 6
The market held the VI green line support, so this would be a good place to exit.

2. No Trade – Market consolidating sideways



Price Candles / VI Blocks 6-9
The market held that VI green line support and from 10-10.30, candles/blocks 6-9, we had a very tight range of 2 points as the market consolidated with the VI trapped between the tight green and red support and resistance.

Plus price makes a higher low at 7, warning us that the shorts are not pushing down and we should get out of our short if we have not already done so at the VI green support.

Plus all the candles are neutral (no dots or arrows).

At 8 we have our first up green arrow warning us that there is a potential change in momentum to the upside, but this is not yet confirmed by VI which is still trapped in the middle of the support and resistance lines.

At 9 we see a swift change to a down arrow, such a swift change after the up arrow indicates that we are still consolidating sideways with very little volume – you can see this on the volume indicator by the smallness of the blocks and the amount of grey in the blocks - so no trade.

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3. Trendline Break – Momentum Shift Cross-Recross Long Trade

Price Candles / VI Blocks 7-11
We get a second green arrow up at price candle 10, quickly followed by a blue dot long confirmation at price candle 11.

Price breaks its open and breaks the down trendline and is recrossing back up above the major green dashed zone.

All long signals, confirmed by the VI which broke its trendline first.

Plus both price and the VI have made higher lows at 7.

The target would be the open line on the VI and the next dashed green resistance on price.

Again these targets are not that big so we would play this trade very tight – there is only 2 points between the two major green dashed support and resistance zones. Another indication to play it tight is when crosses back and forth through the open like this.

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4. Consolidation – Sideways Market – No VI confirmation – No Trade

Our suspicions are confirmed in the next couple of hours as price is trapped between the two major green dashed zones and moves sideways.

Although price is above its open and showing a mixture of blue dots and neutral candles we are still very wary of taking another long because it is not able to continue making new highs and push through that top major green dashed resistance.

AND most importantly the VI is still below its open, and has not made a new high for the day suggesting that Volume is not backing a further price move up. Plus you can see that VI is moving sideways, with small blocks, in a tight range.

This VI behavior indicates that the new high price made at around 11.00am could be a potential double top, (from the high at the open), starting a down move. So long as you recognize that the market is moving sideways like this, and don't trade it, it is a good sign because the market is coiling itself up like a spring for a reasonable move. Also this kind of sideways action is typical of lunch time that's why as a rule we don't like to trade after 11.00am.

5. Double-Top, Trendline Break and Flag Break short trades

Remember from the last chart we have been sitting on our hands as the market coils up, with a short bias based on the VI and potential Double Top on price.

That bias is confirmed first by a break of the price trendline with price candle 13, which has also formed another double top (minor) off price candle 12. VI confirms that minor double top. Price shows a red arrow down. VI has got close to its open and rejected it. Price then breaks through the lower major dashed green support and the open. If we were trading aggressively we could hop on this move here, with a target of the next light green support on both price and the VI.

Or we could wait for the new day low and then take a flag break short at 14 after price has retested open/major resistance and VI retested the red resistance.

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1.2 RISK MANAGEMENT REPORT

Success in trading is first defined as survival. Your ability to survive and grow as a trader depends on your money management techniques: Loss management, proper position size and discipline.

The best way is to establish a loss management strategy

1) Determine on any one trade the most you are willing to lose. **It should not exceed 1% of your trading capital at risk.**

2) Steps to proper position size:
We need to start with the capital at risk. If you have $100,000, your loss point should be 1%, or $1,000 at risk on any given trade, and no more (1% or less is best PERIOD if you want to survive).

Consider that 100 losing trades of $1,000 each would wipe out your entire capital at risk.
With a 2% loss point, it would only take 50 losing trades. Less is better, so we recommend 1%. For people having $10,000 capital to start, we recommend a proper size position of one contract, and not losing more than two points on any given trade.

If you know you are willing to lose $1,000 on any trade, the next question is, how many points of the EMINI am I willing to let go against me? And how many EMINI contracts am I going to trade and add up? Remember each point has a value of $50. I recommend never more than two points loss for beginners trading 1-2 contracts and 3 points for more experienced traders who trade 5-10 contracts.

Also it depends on how much you want to make or think you can make. If you want to make three points, take a one-point loss, and always take what the market gives you.

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TRY TO KEEP YOUR RISK/REWARD RATIO AT THREE TO ONE (THREE POINTS WIN TO ONE POINT LOSS. Losing MORE THAN TWO POINTS IS RIDICULOUS, BECAUSE WE WOULD BE IN THE WRONG TREND, OR OUR ENTRY WAS IMPROPERLY DONE TOO LATE OR TOO EARLY FROM OUR SIGNALS.

IF YOUR TWO POINTS' LOSS IS $100, ADD CONTRACTS ONLY WHEN YOU ARE IN THE RIGHT MAJOR INTRADAY TREND, AND NEVER AVERAGE DOWN.

AS YOU ADD ONE CONTRACT TO TWO CONTRACTS AT A TIME, YOU SHOULD NEVER HAVE AN AVERAGE LOSS ON THE ACCUMULATED CONTRACTS OF MORE THAN 0.75 POINT.

IF YOU TRADE WITH $10,000-$20,000 IN capital at risk (be properly capitalized to succeed over time)

<u>ONE CONTRACT</u>: 1.5 to 2 POINTS LOSS MAXIMUM PER TRADE (less than 1%loss)

<u>TWO CONTRACTS</u>: ONE POINT LOSS MAXIMUM PER TRADE (1% loss)

<u>THREE TO 10 CONTRACTS</u>: 0.75 POINTS LOSS MAXIMUM by adding up ONE TO TWO contracts AT A TIME (less than 1% loss to 2% of capital at risk).

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When you carefully prepare to manage risk before trading, the outcome will always be manageable.

Trading with appropriate position sizes is extremely important for survival. It is like playing poker: You would be crazy to put all your money on one hand with the ever-present risk of losing it all, with nothing left to play at another table to win over time.

Appropriate position size is determined by knowing beforehand how much you can afford to lose on any position. When you know that figure, you can determine how large your position should be given your initial stop-loss point and the price of the EMINI contract.

Mental risk management

"When you learn what not to do in order not to lose, only then can you begin to learn what to do in order to win." Edwin Lefevre, *Reminiscences of a Stock Operator*.

When you trade you can either act or be passive. In order to win, you need to act. Winning in trading is done by action, by respecting your plan and having 100% focus on the trading process.

Not trading at all is also a strategy if, as traders, we have no confidence in the current market trend. Sometimes having no position will over time improve your chances of wining. We know that the market is typically strong from November to March and weak and dangerous from March to the end of October. September and October usually mark the year's low.

The human mind will go to great lengths to avoid boredom. Yet in trading the natural human tendency to avoid boredom is a negative quality that must be recognized and controlled. (A Gamblers Anonymous maxim holds that gambling or overtrading is a sign of boredom, so protect yourself. Know when you stretch yourself with large positions or overtrading; defensive trading means not taking a course of action that might cause you harm or lost money).

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THE MUST NOTS:

1) **Averaging down**

A trader should never average down under any circumstances. Averaging down means adding to a loser and hoping it will turn around. Whenever you hear the phrase "average down," run for the hills. "I average down" is really an excuse that means "I'll stubbornly refuse to admit I am wrong."
Buy contracts that move in your direction, not against you. Your objective is to trade with the momentum.

2) **Gamble**

Great traders have proven time and again that they consistently win by speculating when the odds are in their favor. Speculation is derived from probabilities; pure gambling, on the other hand, is based on hope.

When you become aware of the difference between speculation and gambling in trading, you will be able to repeat profitable trading scenarios while cutting out blind gambling shots. A gambler who wins will never really be able to explain why, expect that he had a "gut feeling." If you trade for excitement you are probably gambling. Gambling forces a trader's hand when no plan or discipline exists.
Gambling is a problem and an addiction for many people. It is believed to increase during times of stress and pressure; many gamblers are unaware of, or just do not care about, their real probabilities of success. They rely on some untouchable gut feeling, and are "comfortable in their life only in action." They are unwilling to accept reality, or they have an emotional insecurity and immaturity that leads them to believe they can have all the good things without any great effort.

There are 16 million compulsive gamblers in the USA, and many daytraders fall into this category. We can, however, choose to take the proper steps to be a professional trader and not a gambler.
The 12-step recovery program of Gamblers Anonymous can help traders improve and control their losses. Here are some of the 12 steps that you can use to help you make a positive change in your trading.

"Make a searching and fearless moral and financial inventory of ourselves."
Be honest with yourself, and know your weaknesses and strengths.
"Admit to ourselves and to another human being the exact nature of our wrongs" Be honest when writing your trading journal to improve.

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"We are entirely ready to have these defects of character removed." Be ready to stop losing big or to stop keeping losing positions. Clean your dirty dishes now, not later.

"Continue to take personal inventory, and when we are wrong, promptly admit it." When in a bad trade, admit it and get out. These are the traits of the greatest traders, admitting to being wrong and taking personal responsibility for it.

The recovery book has one sentence that says it all: "TO GAMBLE (for traders it is keeping losses, adding to a losing position, creating a big loss for our risk capital) RISKING PROGRESSIVE DETERIORATION OR NOT TO GAMBLE, AND DEVELOP A BETTER WAY OF LIFE."

3) **<u>Desire to have a home run</u>**

The desire to hit a home run in trading is the earmark of a beginner. The key to earning profits in trading Emini is consistency. Steadily hitting singles and doubles is how the pros fill their bank accounts.

A successful athlete does not think about success; that would distract him. Instead, great athletes focus on the necessary steps to achieve results.

Proper techniques and proper respect for the process, with an absolute focus and dedication, lead to great results. Daydreaming about points and results does not lead to great techniques, process and results. "Correct routines in trading revolve around visualizing and implementing proper methods, not around focusing on the big swing." "Swinging for the fences in trading is destructive on several counts. The first reason it is destructive is that it is the product of unrealistic expectations. Having unrealistic expectations may set you up for a letdown in the future. When high expectations are not met, traders generally experience a sense of disappointment and frustration; emotions that interfere with optimal trading performance and could result in a downward confidence spiral" (*The Market Maker's Edge,* by Josh Lukeman).

4) **<u>Managing position size</u>**

Traders often take larger positions than they should because they are experiencing size envy. Position envy occurs when your ego whispers to you, "the sky's the limit."

Someone who can trade large contract positions has arrived at that point through a long, patient and painful learning process. Most people cannot walk into the gym and bench press 300 pounds if they are used to putting up only 150. The

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only way to get to the 300-pound mark is to slowly build up your strength and tolerance over time. The same holds true when trading Emini contracts. It should be a slow process based on your financial capacity and psychological and emotional development, discipline, and strength. Traders should judge themselves by their own goals and nothing else.

Greedy traders have an insatiable attachment to money. Remember, the most successful traders on Wall Street have a disregard for money. When you are glued to your P&L as a trader, your ability to act objectively is limited.

Emotional attachment to money and what it represents is the main reason traders freeze and have a difficult time taking losses, especially large ones. They find themselves in situations they are unprepared for financially and mentally. Traders need to stick to their game plan and avoid having emotions blown out of proportion. When emotions run high, step back and take a deep breath before making deadly mistakes.

5) Vengeance trading

Vengeance trading occurs after a trader takes a hit on a trade and wants to get even with the stock. The reason the trade went sour does not matter. The trader is angry, but, not wanting to accept the blame, will quickly place it elsewhere. This misdirected emotional firestorm usually translates into pure revenge. The only solution he sees in this cloudy state of mind is to avenge honor and money lost by getting them back from the stock that took it. The problem with vengeance trading is that the initial loss probably occurred because the original direction of the trade was incorrect. The vengeance trade goes in the same direction because vengeance traders need to prove that they were right in the first place, that it wasn't their fault they lost money. They need to get even so their egos can be restored to their original perches.

The market is never wrong and it cannot be defeated. It is selfless. It does not experience feelings of victory or defeat. The market is a cold battlefield and its participants are engaged in a life-or-death battle against themselves.

Vengeance trading can quickly turn into disaster, because revenge is one of the strongest and most stubborn of emotions.
Vengeance trading is a futile exertion of time, energy, and money. Its grip only tightens, clogging clear thinking and profit; it drains the resources of a trader, sucking time away from other profitable opportunities by encouraging the trader to focus on where the losing trade did not go, rather than where another trade could go.

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1.3 OUR 10 PERSONAL TRADING RULES TO LIVE BY:

1.Three major intraday trends in EMINI S&P

Be patient; wait for high-probability winning trades (Remember Initial trend-contra trend-resuming of the initial trend. Also look for double top and double bottom pattern—2M and 2W rules). DO NOT OVERTRADE (8-9 trades maximum per day).

<u>2. Make first trade a 10-10:05 a.m. Best time for Success is the Morning or if you play the U formations leg wait for the first 5-10mn from the open to show a clear direction on the U formation leg</u>

At that time the trend is established and your maximum odds of being right are present.
At 10:00 and 10:05 a.m. the market makers' manipulations are smoother.

The 10:00-10:05 a.m. time frame sets the first daily trend (look for the opening price signal, relative strength from the opening, the Daytradingzones indicators dot – Probability Immediate trend-The Volume indicator Support / Resistance synergies)

<u>3. Money management loss point Always place stop loss on rationale from the process eg: segments-Daytrading Zones-Ladders ect</u>

Remember and just DO IT, have your bracket set at :

One-Two contracts---1.5 point-2points Stoploss max
Target 15points and control the exits also based on the system.

Three-10 contracts----1-1.25 point loss max.

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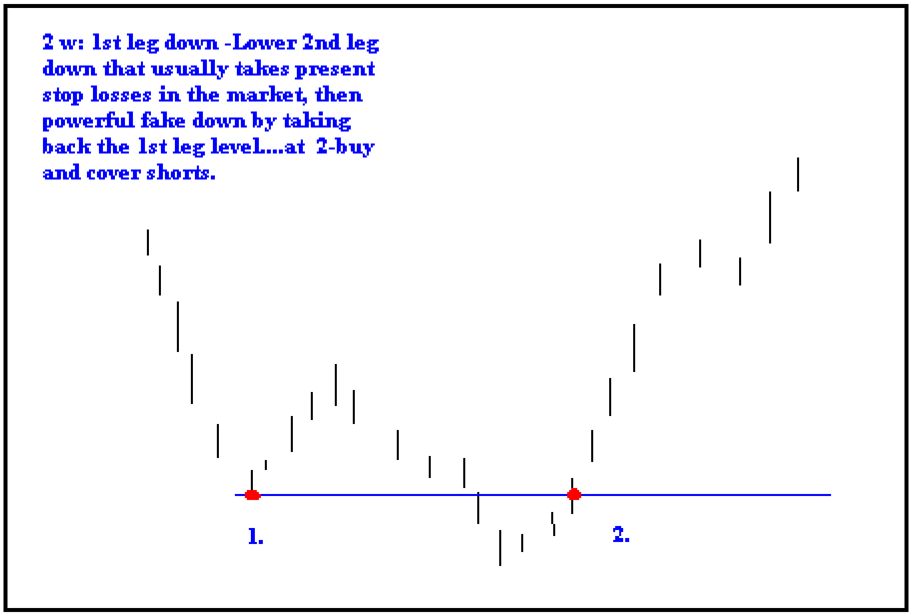
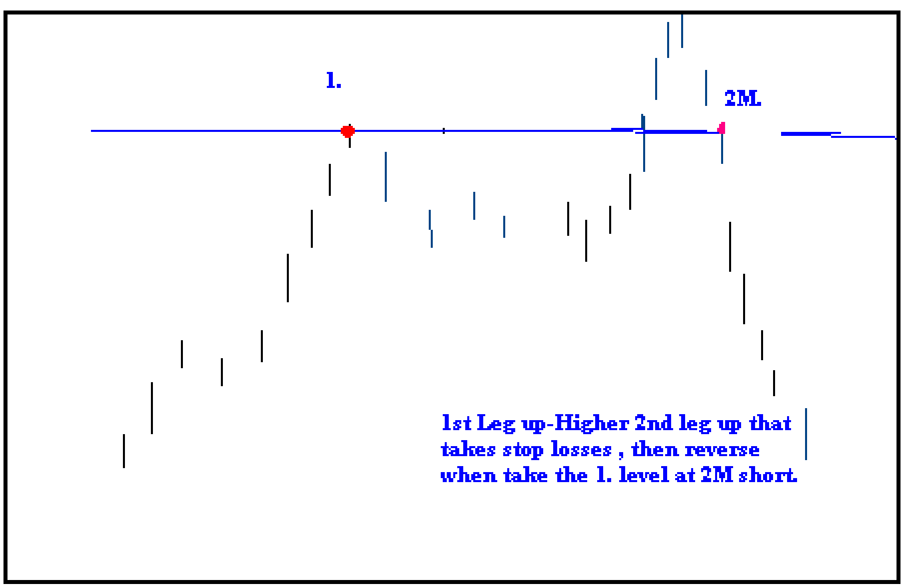
4. Recognize the trend

By using trend lines, the 2W-2M double top-bottom formations rules and the 1-2-3 breaking trend rule (see tools of the trade report, and follow our daily educational trading room for a full real-time application of all the ingredients learned in the Cornerstone report)



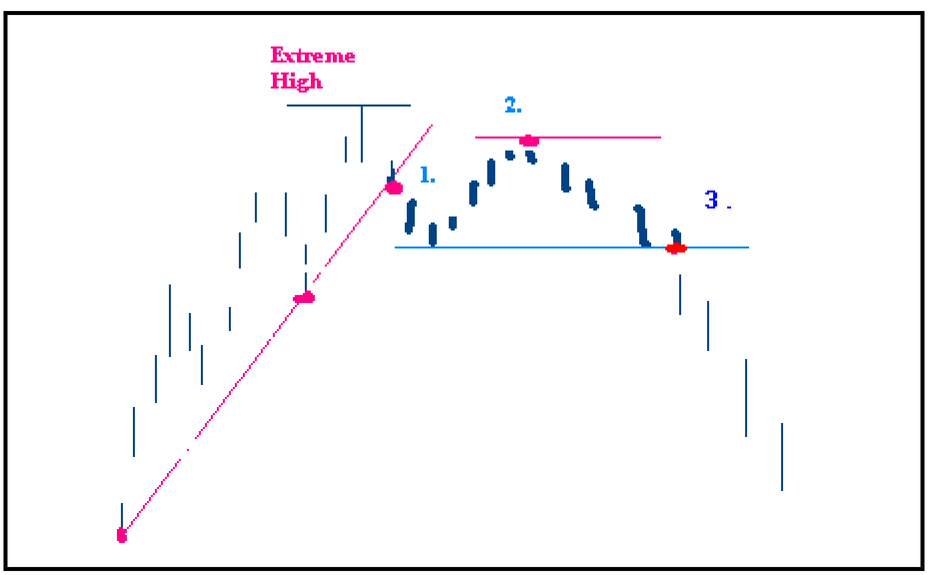


The 1-2-3 rule break down and break up reversal trend:

- We need the current trend to be broken up or down
- Prices must stop making higher highs in a up trend or lower lows in a downtrend
- Prices must go above a previous short-term minor rally high in a downtrend or, below a previous short term minor sell-off low in an up trend.

Example: 1-Downtrend broken 2-Fail to create a lower low; start buying 3-Add contracts on the long side

Example: 1-Uptrend broken 2-Fail to create a higher high; start selling 3-Add contracts on the short side.



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5. Take one break

If you have a winner in the morning, relax at lunch time between 12 and 2 p.m. because the odds of making money at lunch are usually lower. So clear your mind, go running, relax and come back around 2 p.m. and see the 2 p.m.-2:35 p.m. trend developing for 3 p.m. Money can be made at any hour of the day if you are a good trader, but these are proven to be the tricky times to trade.

And anyway, it is not healthy to stay in front of your computer for seven to eight hours without a break. It is like playing chess for seven hours. You might be extremely focused during those hours, but then you are completely empty. Pace yourself to stay alert when you trade.

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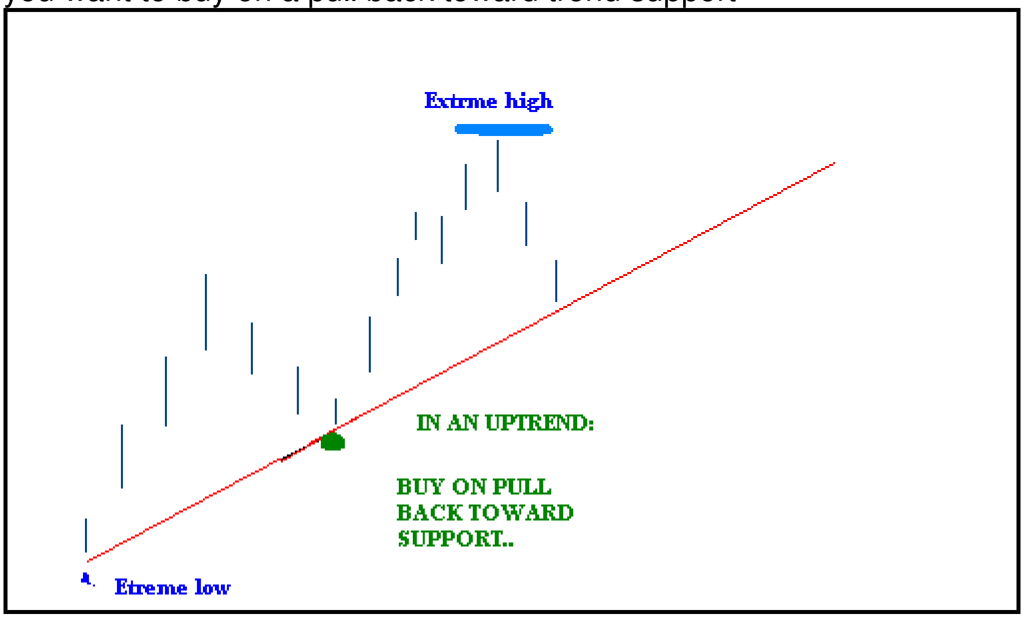
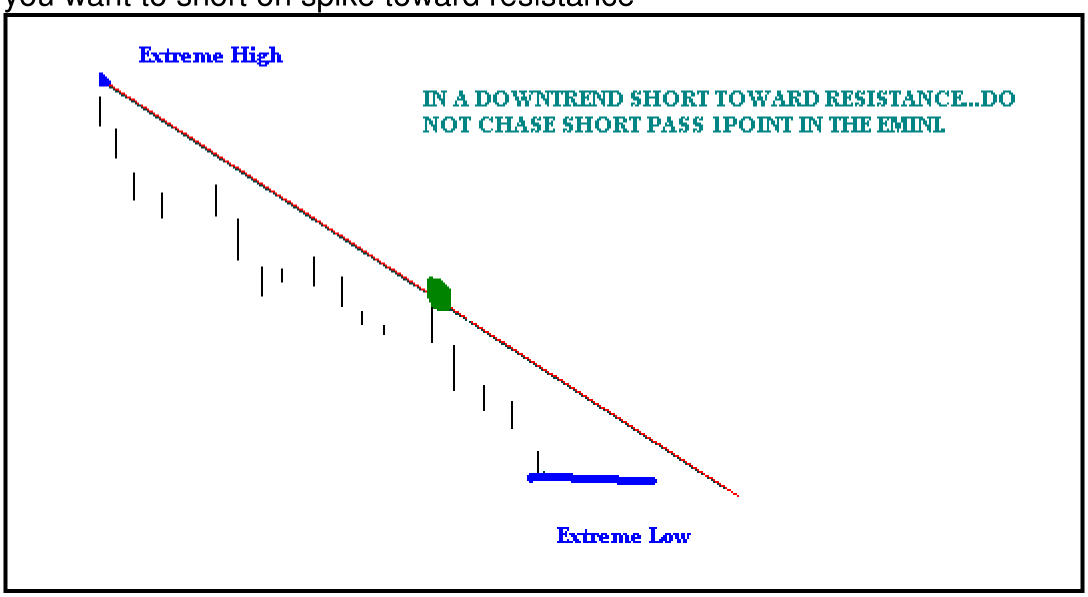
6. Refrain from chasing

EMINI contracts and trends: enter your trades with limits (the market moves in waves) and exit trades fast with market orders:

you want to buy on a pull back toward trend support



you want to short on spike toward resistance



Doing this will increase your chances to make big money and avoid being killed if you need to get out.

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7. Scale your position progressively

Scale IN and OUT of your trades: ADD one or two contracts at a time and sell one or two contracts at a time. Take some money out of the table by SCALING.

8. Always trail your profits by 70%

If you have a winner, keep it a winner by keeping 70% of the profits from the top or bottom (i.e., keep 70% of the highest P&L of the day). SCALE IN and OUT when you have more than one contract.

9. Set Goals

Decide how much you want to make every day, and when you get it take the money and trade down the number of contracts. If you reached your daily goal, scale down to one to three contracts for the rest of the day with tighter stops, trade smaller sizes than you would usually do, and keep your profits; do not be greedy.

10. Think in terms of odds and probability

RISK/REWARD RATIO. If you are caught at the top of a double top short be patient for the second leg down. Think: Where did I enter? Where is the first top? Where should I get out? PLAY THE RATIONAL PROBABILITIES.

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1.4 10 TRADING PSYCHOLOGY COMMANDMENTS

Some passages here come from Ruth Barrons Roosevelt's book *12 Habits of Highly Successful Traders* (see recommended reading on our site).

1. Be prepared

- Psychological preparation
- Strategic preparation
- Position sizing and money management
- Data and information
- Commitment to trading
- Goal setting technique

Gather sufficient capital. The winning trader is prepared with sufficient capital. He understands that he can't trade on a shoestring. Risk capital is money that you can lose and still maintain your life—and your peace of mind. The winning trader does not trade on capital he needs to live on.

> *Set some daily goals in dollar values, have a detailed vision and strategy for what you want to achieve (make it attainable to stay positive).*
>
> *Example: "I want to make $500/day." Make a mental movie; close your eyes and see the proper steps to reach this goal. Feel it and see it.*

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2. Detach yourself from any individual trade

Think in terms of process:

Look at trading as a game of poker, a game you are good at. (We recommend that you play poker with friends to understand the money management and trading process. Poker is the closest game to trading money management.)

Confirm the process you use, believe in it, know that over time, trade after trade, week after week, you will win.

Place your attention on the process, not the money. Your focus and your faith are in the process (money management and tools of the trade).

Do not be too attached to any single trade and its results. This will let greed and fear interfere with the trading process.
Keep your ego out of the trading process; ego has no room in trading. Follow the process over the long term to succeed.

3. Accept loss as a natural part of trading

Taking a loss does not make you a loser. This is so important, let's say it again: Taking a loss does not make you a loser. In fact, taking a small loss will keep you from being a loser.

Trading is about winning over time and slowly increasing your equity curve. Most of the best traders have 40-60% winners to 60-40% losers. By taking small losses these traders make a great living.
Individual losses and individual draw down periods happen. That is an undeniable fact. If you do not like it, you might as well get out of trading and save yourself and your family financial and emotional hardship. You will only frustrate yourself and diminish your ego over time.

Again TAKE SMALL LOSSES, ACCEPT THEM AS A COST OF DOING BUSINESS, FOLLOW AND APPLY YOUR PROCESS OVER TIME AND YOU WILL WIN OVER TIME.

LOSSES ARE LIKE DIRTY DISHES. SOONER OR LATER YOU WILL HAVE TO TAKE CARE OF THEM. DO NOT WAIT TO BE IN A PAINFUL SITUATION TO TAKE CARE OF THEM.

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We need to look at our trading as we look at any other endeavor in life—there is no such thing as failure, there is only feedback. We do something and we get results. Results give us information that helps us make another decision and take another action. Living and trading are rich processes filled with give and take. Losses are not failures. They are feedback. And feedback takes us forward.

USE A TRADING JOURNAL DAILY. GET FEEDBACK. IMPROVE THROUGH YOUR TRADING JOURNAL. DRAW CHARTS. PAY ATTENTION TO YOUR ENTRY AND EXIT TIMES. YOUR TRADING JOURNAL REFLECTS THE TRUTH OF YOUR TRADING DAY. USE IT TO BE A BETTER TRADER; IT WILL IMPROVE YOUR RESULTS DRASTICALLY.

4. Take controlled risks

Successful traders decide and act based on the odds. Probability is the mathematical center of wise risk. Successful traders risk to win.

"Without numbers, there are no odds and no probabilities; without odds and probabilities, the way to deal with risk is to appeal to the gods and the fates. Without numbers, risk is wholly a matter of gut."

Peter Bernstein

If you overtrade or over-risk, you need to stop trading. Step back, relax, go on vacation, reflect on your life and your trading, and rebalance everything before trading again.

Find your personal trading style. For us it was the EMINI, which is less stressful and dangerous than regular stocks. Find an arena and a customized approach to trading so you can trade in the zone flawlessly and profitably.

5. Think in terms of probability

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Our trading is either in the hands of fate, gods, or probabilities. We need to think in terms of probabilities.

Score the entry and exit probability in your mind. Ask yourself if this trade is a 10 on scale of 1 to10. Scale it.

Successful traders know that probabilities are all they have with the tools of the trade, strict money management and discipline. Putting probabilities on your side means that you will probably succeed.

There is no room for self-delusion. Thinking probabilities keeps you from tying your ego to a trade. Since any decision is only about probabilities, it's no big deal if you win and no big deal if you lose. The highest probabilities and process should be played over time.

The moment you start seeing the market in relation to yourself you are in trouble. First, you distort your vision. You cannot see what is right in front of your nose. Second, you distort your valuation. Your trading becomes too important, all kinds of distortions and misdirections arise. You've started trading to prove your self-worth, not to make money.

Probabilities are your power. They give you an edge. Without an edge we're simply at the mercy of luck. And luck won't last, not without building a bias toward it. You need to create your own luck. You do that by letting probabilities guide your analysis, your trading and your feelings.

6. Have a long term vision

By taking the long view, a trader keeps herself from being caught in euphoria or despair or panic. The long-term view gives you wisdom. And wisdom takes away the immediate craziness of the moment of each trade, which is just one step in the long journey of trading.

When you take the long view, you don't sweat the small stuff. If you get all hot and bothered about something during the trading day, ask yourself, "how important will this be tomorrow or next week or next month?"

How to improve your long term trading? Be brutally honest with yourself. Project your past and current trading strategy into the future. What will your trading be like if you keep on trading like this? Change what needs to be changed.

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Find out what works. Verify that it does work, and then take the long-term view. Do not rush into trading a method or system until you have fully checked and believe in it.

When you have verified that the trading process works, you will be comfortable with setbacks because deep down you will know that, over time, the process works and you will win.

A draw down is merely a passing phenomenon. It won't disrupt a trader's faith in his proven methods. A draw down becomes a simple detour on the road to certain success. It is merely a pause in a winning strategy.

The long view enables the trader to be optimistic about the future even as he remains realistic in the present. With an optimistic view of the future, a trader is able to accept with clarity current market conditions. A clear view of current price action is essential to successful trading.

7. How to avoid being greedy

At the root of many problems is a sense of scarcity or a lack of belief in the abundance of wealth opportunity. With abundance we have more than enough.
Successful traders have confidence that the markets will provide tons of opportunities and that they can take advantage of them.

When you have that attitude, you also have a sense of deserving to participate in that plenty. If there were only a limited amount of substance, you could feel greedy or unworthy if you take more than a limited amount. When you believe in ever-flowing abundance, you feel free to partake liberally.
Successful traders and entrepreneurs see unlimited opportunity. They expect it. They look for it. They affirm it wherever they see it.

Successful traders and entrepreneurs also show that they have been able to survive failure as many times as they have had to. They use failure as feedback. They learn from it and make changes and go on.

Many super traders have experienced crushing loss in their early years. All of them picked themselves up, and, with the sure belief that they could make it back, they did just that.

A sense of scarcity can freeze a trader and keep him from pulling the trigger when he needs to get in or out of a trade. When a trader is afraid of missing out he can overtrade in terms of size and frequency.

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Fear of missing out causes the trader to throw away good money management principles and trade excessively with large size. Overtrading will overtax the account and lead to financial ruin.

Greed is based on a panicky feeling that there will not be enough. The problem with greed is that it feeds on itself and leads to the opposite of what you are trying to achieve. When you are driven by greed, as you attain more you want more, so you achieve less instead.

When you want something badly, your brain is sending you signals that you are destitute. If you are driven by greed, then you are trading in a state in which you are consistently aware of what you do not have. This is called poverty consciousness, and it will work against your goals of creating abundance in your life.
Greed is unfulfilling because there will never be enough to satisfy what you believe you lack, so the more you get, the more you believe you need.

Try to be happy with what you have in life find something larger than yourself. The more you make, the more you will give.

We need to save money and we need to let money flow, to enjoy family and friends. With a sense of abundance we invest and we risk. We can afford to risk in a calculated, controlled way, because there is more out there.
Nature is abundant. Go out at night and count the stars. You can't. There are too many of them. Go for a walk in the woods. The trees and wildflowers are countless. Affirm the natural abundance around you.
If you miss a trade or leave a trade too soon, there is no need to stress over it. Bless it and let it go. Learn from it and try to do better in the future. After all, there is a future of abundance waiting for you.

8. Have discipline

Discipline for us is doing whatever needs to be done to achieve results and goals. If your goal is a healthy, trim body, that means healthy eating, exercise and sufficient sleep. If your goal is wealth, then there are actions you need to take with spending, saving, investing and trading. There are no shortcuts to these results. We do what needs to be done whether we like it or not.

Trading discipline involves integrity of thought and action. If I have a goal, then my actions support that goal. If I do not act upon my goal, then I am just wishing. Successful traders know what needs to be done, and they do it. No excuses. No evasions. Simple, clean thought and action.
It comes down to this: if you are trying, you are not succeeding. When somebody tells you that they'll try to get to your party, you know they won't come.

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Set down in writing your trading goals. What do you need to do to achieve these goals? What skills do you need to acquire? What do you need to believe? What resources do you need? List a set of actions that will help you get to your goals. Set a timetable for yourself. JUST DO IT.

9. See reality as it is

The successful trader is open-minded. He is willing to take on information that is difficult to accept but that is factual nonetheless. He is flexible and willing to shift course at a moment's notice. He stops telling himself stories that don't square with price action. He maintains an attitude of acceptance. He is willing to want what the market wants.

The most expensive attitude you can have in trading is a closed mind. It will cost you money over and over again.

You need to develop some impartial indicator that will let you know whether or not your bias—your hunch—is in fact occurring. You need to create an unbiased set of rules to tell you whether a market is trending what that trend is.

Certain questions can help us be alert to market action.

"What is the market showing me now?"
"What is the market telling me now?"
"What do I feel in my bones the market is doing?"
"Is there a clear trend?"
"What is the trend?"
"Where is the opportunity on the long side or short side?"
"Is there anything I'm not noticing?"
"What would I think if I weren't in this trade?"
"What does the price tell me?"
"Are there lower highs and lows or are there higher lows and highs?"
"Is price in a neutral range?"

The market gives us immediate and long-term feedback. Feedback tells us if what we are doing is working or not. As traders we need to keep our perceptions clear so that we can respond to feedback.
Sometimes a trader becomes so fearful of failure that he distorts or denies the accuracy of the feedback. Feedback is not failure, and it never has been. Feedback is simply information that what we are doing is working or not working.

If what we are doing is not working, we need do something else—soon.

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As traders we need to long for the truth. We are on an express train to the future. Unfortunately, we can only act in the now. Therefore we need to see clearly, think clearly, and act decisively—Now!

10. Be optimistic

Successful traders maintain an optimistic view of the future of their trading—even while they remain clearly realistic about the present and the past.

The best traders are successful because they are able to maintain unshakable confidence in themselves and in their decisions. This serene self-confidence creates a positive state of mind and the will to act.

Exercise also has a number of positive effects for traders, including alleviating stress and reducing anxiety. Because trading is such a physically and mentally demanding occupation, you owe it to yourself to exercise as often as possible. Consider exercise an investment in your trading career.

Winning traders are resourceful. They think:

"The market provides opportunity."
"This is the kind of market that requires patience."
"I choose to get into the market at my price."
"I'll take one trade at a time."
"Everyone makes mistakes; I'll just focus on the next trade."
"What others think about me is not important; I'll just do my best."
" I don't have to be perfect; I just have to do my best."
"If I get stopped out then I have to reevaluate the trade."
"If the market doesn't do what I expect it to, then my analysis or timing has to be reconsidered."
"If I am responsible for every market decision that I make, then I'm in control."
"Money is not that important."
"Losing is part of the process."
"Trading is a game; it's fun."
"I know I can win."
"There is no such thing as failure. Every setback provides me with new market information."
"If I am to be successful trader, then I must be patient."
"If I get stopped out of the market, then I have to learn why, and analyze through my trading journal."'
"If I am a disciplined trader, then I will consistently apply my trading rules."
"If I take a loss, then it is part of the process."

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More positive self talk:

“Everyone makes mistakes—move on to the next trade.”
“I’m doing my best. The good trades will take care of themselves.”
“Relax, exercise discipline, and make your next trade.”
“I have to think more critically about where to place my stops.”

Characteristics of winning traders.

*Money is a factor but not essential motivation for trading.
*The trader is well rounded in his or her personal life.
*The trader is consistent in methodology.
*The trader assumes personal responsibility for all success and failures.
*The trader is bottom-line oriented.
*The trader employs an automatic response to markets.
*The trader possesses flexibility and resilience.
*The trader has a positive attitude, belief system, and state of mind.
*The trader is decisive.”

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1.5 NEW 2010 ADDITIONS, THESE ARTICLES AND RULES ARE KEY

Sitting On Your Hands – not taking a trade is an active position

Edwin Lefevre said in Reminiscences of a Stock Operator, “Men who can sit tight are uncommon. I found that it is one of the hardest things to learn, but it is only after a stock operator has firmly grasped this that he can make big money.”

This has 3 implications
1. Know when not to trade, i.e. when the market is moving sideways, wait for a good move, a trend. In trading you will often hear the maxims “trade with the trend”, or the “trend is your friend”. Your set-up tools should help you with this.
2. Sit on a trade when it is going in your direction. See the section on Mastering the Runner to understand the importance of this. It basically forms part of another often quoted trading maxim, “Cut losses quick, let winners run”.
3. In trading the commissions impact is overlook by new traders. However if you track very closely your daily results you will see that:

Commissions will represent 30 to 50% of your total gain or losses in any given day. You are consistently fighting against the commission factor. VERY IMPORTANT e.g.(A typical trader in the future market makes 8 Round trip trades

per day @ about $5 a round trip (Buy-Sell), so per day commission is $40 day, $200/week, $800/month, for only one contract. The average day trader trades 2 to 6 contracts that makes it per month $800*2 or $800*6= $4,800/month or a whopping average of $38,400/Year in commissions alone. This means that if you want to be a successful trader you have to cut your number of trades per day, to 2-6 is best. However at over 6 trades per day a trader starts overtrading. As seen above you need to make in a year $38,400 just to break even in commissions for 8 round trip daily and 4 contracts.

Ideally try to keep the number of trades per day between 2-6 round trips per day. By trading more than 2-6 round trips you are increasing the probability of being wrong in your trades since there are usually no more than 3 trends per day anyway.

(These are facts also mentioned by the SEC investigation on Day trading)

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Master the Runner – maximizing returns by understanding trading psychology

To make serious money trading while controlling your risk, you need to master "the runner". The runner is the percentage of a position which you keep open for as long as possible when the trade moves in your direction. It's one pillar of the fundamental trading maxim, "cut losses fast, let profits run". Sounds easy, however applying the runner principle is challenging. To understand why, we'll look at how the most minimalist trade, buying one contract or share, can be sub-optimal.

Typically, when a one lot trade moves in a traders direction, they are eager to pat themselves on the back, so exit and bank a small profit as quickly as possible. Often traders will then suffer mentally as the market continues to move in their original direction. Annoyed by the missed profit, after a short but lethal delay, just when the market is about to pullback a little, they will enter again, only to be stopped out, returning their banked profit from their first trade (one lot).

In this situation, an extremely disciplined trader, with a low daily target, will turn off their computer after that small winner on their first trade. They are a better trader than the one above, keeping greed in check, but they are still behaving sub-optimally as they are loosing out on the bigger move days which could drastically increase their annual returns.

The first solution is to use multiple lots, shares or contracts. However, if you are still entering all in, exiting all out and scalping profits on small moves, you are taking high risk to profit ratio trades which will eventually eat into your capital

unless you have a very high percentage of winning trades. (Note: when you enter a trade with multiples, your risk should not exceed 1% of your capital – see why in one of our previous articles, 9 Key Trading Concepts).

The next solution is too use multiple lots but scale out. So say you enter with 2 contracts, with a 1.5 point stoploss. As the market moves in your direction, you can exit 1 contract at 1.5 points. Immediately you have satisfied the emotional need to take profits and your risk is eliminated, because if you don't move your stoploss and the market turns against you, your overall trade will be breakeven. Alternatively you can play it tighter and move your stop to breakeven and protect your banked profit of 1.5 points. Either way you can trade your remaining contract, the runner, in a more technical, less emotional manner because you have put yourself in a position to capitalize on a bigger move on an auto trade with your runner protected by your exit on the first contract.

The challenge is holding onto that runner. And you should because 1 risk free runner is worth a lot more than repeated full risk scalps. For instance, assume there are 9 points between a support and resistance area and you take 2 trades for the day, 1 winner, 1 looser, using 2 contracts with a 1.5 point stop loss.

Lets look at two scenarios, one with a scalping style and one using a runner, in exactly the same market circumstances.

Scenario One – Scalping with Fear
On the first trade the market moves 1.5 points against you, so that's a 3 point hit to your account because you are using 2 contracts.
Because their account is negative, typically newbies now start to "trade their account" i.e. they just want to get breakeven and don't focus on their charts. So on the second trade the market moves 1.5 points in their direction. They scalp out both contracts at 1.5 points, that's 3 points profit, bringing their account to breakeven for the day and they sit frustrated on the sideline as the market continues to move in their direction.

Scenario Two – Using a Runner
Your first trade is exactly the same as above, market moves 1.5 points against you, a 3 point hit for 2 contracts.
However this time, on the second trade, you trade like a pro, focusing on your process, your next trade, not obsessed with your P&L. So you exit the first contract at 1 point profit and keep the second contract, the runner, for two thirds of the 9 point range (between your support and resistance), exiting at +6 points, making your account 4 points profit for the day (1st trade, -3, 2nd trade-contract#1, +1, 2nd trade-contract#2, +6 = +4).

To match the performance of the trader using runners, the scalping trader would have to continue trading, racking up commissions, and risking digging themselves into a hole which gets worse as their emotions begin to drive their trades.

Finally there are several ways to determine when to exit your runners. You can either use your technical analysis, be it the next resistance, support level determined by Fibonacci, price action, moving averages, floor pivots, oscillators, whatever works for you OR by using a trailing stop. It's a matter of personal choice. I prefer to rely on my targets, and see if momentum begins to shift at our support/resistance. Either way, hang onto those runners until your teeth hurt, knowing that you are in a risk free trade which is better than having to potentially enter the market several more times at full financial and emotional risk. It's when you grasp and apply the runner concept you will transform from a good to great trader.

Our 9 rules to keep you in the 10% winning club vs. 90% of traders who lose money:

1. Look for high volume markets with a thin spread – Orders are filled quickly and it has high volatility so there are opportunities for 2 to 6 good trades during the day. The E-mini S&P500 Index Future is a good example of this type of market (Each point is worth $50, split into 4 ticks of $12.50 and there are 4 contracts a year, traded on the Chicago Mercantile Exchange). I am a big believer in being a well rounded trader. Rounded means you can take advantage of opportunities in all markets i.e. Options, Stocks, Forex and Futures. But first you need to master one instrument and prove to yourself that you have a sound process with which you can win overtime even if you have bad trades or bad days.

After you reach a level of consistency for one instrument then you can diversify your capital at risk with different accounts so you don't mix up your strategies. For instance using the DaytradingZones Probability Continuation Tool I like to confirm a trend, a move, before I take an option trade in my long term position account.

Top Tip: NEVER EVER MIX your daytrading account with your position account, otherwise you will always be tempted to take from one to finance the losses of the other until all is drained. Do not do it, believe me, it will kill your capital and drain you emotionally. Whereas if you have 2 segregated accounts with at least the minimum capital required for each strategy you will stick to your process entry logic for each strategy and maintain a diversified split capital risk between accounts which will protect you from blowing everything.

2. Only risk 1% of your capital per trade, then your capital can absorb 100 consecutive bad trades – Even the best systems can expect 20% losing trades, so the 1% rule gives you room to maneuver.

Success in trading is first defined as survival. Your ability to survive and grow as a trader depends on your money management techniques ie Loss management, proper position size and discipline.
The best way is to establish a loss management strategy

Determine on any one trade the most you are willing to lose. It should not exceed 1% of your trading capital at risk (The less the better to survive long term)

Steps to establish proper position size:
a) We need to start with the capital at risk. If you have $100,000, your loss point should be 1%, or $1,000 at risk on any given trade or less that is even better again bottom line stay below 1%.

Consider that 100 losing trades of $1,000 each would wipe out your entire capital at risk.
With a 2% loss point, it would only take 50 losing trades. For people having $10,000 starting capital, we recommend a proper size position of one contract, and not losing more than two points on any given trade for the eminiS&P500
b) If you know you are willing to lose $1,000 on any trade with a $100,000 hypothetical account, the next question is, how many points of the EMINI am I willing to let go against me? And how many EMINI contracts am I going to trade and add up? Remember each point has a value of $50. I recommend never more than two points loss for beginners trading 1-2 contracts and 3 points for more experienced traders who trade 5-10 contracts.

Also it depends on how much you want to make or think you can make. If you want to make three points, take a one-point loss, and always take what the market gives you.

This is a risk ratio of 3 to 1. Why do I think 3 to 1 is the best minimum risk ratio? Because it pushes us as traders to look for a decent range, it stops us rushing into a 1:1 or less trade which becomes gambling. Also bear in mind a 3 to 1 ratio could be as tight as a 2 ticks stop (0.5 point) on the ES and 6 ticks target, 1.5 point, the 3:1 does not need to be 1 pt loss for 3 pts gains or 2 pts loss for 6 pts gain. It all depends on the current range, that is where I use the DayTradingZones to figure out the best probability of support and resistance visually. Another trick is to take any support and resistance whether fibs, market profile, moving averages or whatever you use, divide the total range from immediate support and resistance and divide the range into THIRDS. Enter the first third on longs and last thirds for shorts it is very simple yet powerful trick with daytrading zones.

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For instance on the chart below we have an 18 point range on the eminiS&P500 between two major support and resistances at 1064 and 1046.

We split that range into thirds as shown below

For Longs, expecting the market to go up we should enter in the first third, between 46 and 52.

Losing more than two points is ridiculous, because we would be in the wrong trend, or our entry was improperly done too late or too early from our signals.

If your two points' loss is $100, add contracts only when you are in the right major intraday trend, and never average down.

When you carefully prepare to manage risk before trading, the outcome will always be manageable.

Trading with appropriate position sizes is extremely important for survival. It is like playing poker: You would be crazy to put all your money on one hand with the ever-present risk of losing it all, with nothing left to play at another table to win over time.

Appropriate position size is determined by knowing beforehand how much you can afford to lose on any position. When you know that figure, you can determine how large your position should be given your initial stop-loss point and the price of the EMINI contract, Stocks or Forex lots.

3. $10-$15k is the minimum capital you should have per E-mini S&P500 contract traded – If you lose $1000-$1500, it only represents 10% of you capital which is recoverable compared to a $3k account where the same loss equals 50% of your account. Consequently, you are more likely to lose the remainder of your capital rather than recover the loss.

> For Daytrading anything other than eminis, just see what the SEC says is the day trader pattern. Its $25k. Have they come up with this number out of the blue? NO THEY CAREFULLY analyzed brokers accounts and found that accounts funded below $15k have way less of a chance to make it as daytraders, very profound. THIS GAME IS BRUTAL AND YOUR BASIC TOOL IS CAPITAL AND THE MINIMUM IS $25-50k in my opinion. **It is just a fact, even if you are a decent trader undercapitalized you will blow up, how do I know? Because I have been there and can tell you don't go there.**

4. Limit the hours you trade – We prefer the first 60-90 minutes when typically there is a good trend before the lunch time chop – many professional traders trade this time period.

5. Limit the number of trades you make per day – 2-6 is good as the E-mini usually has up to 3 trends per day (see below) and you should aim to catch 1-2 out of the 3. Overtrading racks up commission fees and increases the risk of revenge trading. A few ticks loss per trade quickly mounts up – 4 trades fired like a machine gun can easily become four losers, at 8 tick stops, that's $400 loss on the Emini ES, 4% of a $10k account. Patience is key, stalk trades.

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6. On any one day stop trading when losses hit 5-10% of capital, which is recoverable, and indicates you are reading the market wrong, so stop, evaluate your errors and record them in your Trading Journal.

7. Keep a Trading Journal listing all your trades – Over time the mind dismisses bad trades and habits. Include annotated charts, and notes about your emotions. Key things to note:
- Are you trading your account and not the charts, taking desperate trades having made a couple of losers, rather than treating each trade uniquely?
- Are you taking negligible signals because you have missed a good move, resulting in chasing a trade which you are stopped out of on a minor retrace, or you opt for a counter-trend trade purely on the thought “it can’t possibly go any higher”?

8. Base your stop loss and target strategically from the charts, not an arbitrary number of points – For example use price levels at double tops, swing highs and lows, or pull backs to moving averages. Then you can place tighter stops and take higher profit to risk ratio trades by keeping your focus on the chart, trading what you see, not what you think or feel.

9. Be patient between one support/resistance to the next (eg Whether you use Market Profile, Bollinger bands, Moving Averages, or pivots), This is one of the hardest things to master. To help, trade at least 2 contracts, keeping 1 for 2-3pts, whatever your first target is, and then let a runner go with a break even stop. If it goes your way you add gravy to the first. One good runner is hard to beat with lots of scalps, your results will amaze you (See the Mastering the Runner section).

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1.6 INTERPRETATION OF ECONOMIC DATA / REPORTS

Indicator	Measurement	Market Impact	Explanation
Consumer Price Index (CPI) (Monthly)	The CPI measures the change in the price of a fixed basket of products used by the average consumer, in order to determine the level of price inflation	*Exceeds Estimate:* Stocks fall Bonds fall Yields rise U.S dollar stronger *Misses Estimates:* Stocks rise Bonds rise Yields fall U.S dollar weaker	A strong CPI points toward higher prices and rising inflation, which may induce the Fed to raise interest rates.
Housing starts (Monthly)	New home construction.	*Exceeds Estimates:* Stocks fall Bonds fall Yields rise U.S dollar stronger *Misses Estimates:* Stocks rise Bonds rise Yields fall U.S dollar weaker	New home construction is generally a byproduct of economic strength. Excessive building could indicate the Fed might act to slow growth.
Index of Leading indicators (Monthly)	Eleven economic indicators grouped together, created to forecast broader movement within the economy.	*Exceeds Estimates:* Stocks fall Bonds fall Yields rise U.S dollar stronger *Misses Estimates:* Stocks rise Bonds rise Yields fall U.S dollar weaker	The basket of leading indicators that is on on the rise points toward growth in the economy, which may induce the Fed to raise interest rates to stem Inflation.
Industrial production capacity utilization **(Monthly)**	Gauges the production of the manufacturing, mining, and utility industries.	*Exceeds Estimates:* Stocks fall Bonds fall Yields rise U.S dollar stronger *Misses Estimates:* Stocks rise Bonds rise Yields fall U.S dollar weaker	Surging production in manufacturing, mining and utility sectors suggests that the economy is strong and that the Fed may act to slow growth by increasing rates.

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Indicator	Measurement	Market Impact	Explanation
Initial unemployment claims (Weekly)	This figure examines how many workers have filed initial claims for unemployment benefits.	*Exceeds Estimates:* Stocks rise Bonds rise Yields fall U.S dollar weaker *Misses Estimates:* Stocks fall Bonds fall Yields rise U.S dollar stronger	If unemployment is on the rise, that indicates the economy may be weaker because there are fewer jobs available due to less growth. In this case, the Fed may act to stimulate growth by lowering interest rates.
Nonfarm payroll employment (Monthly)	A key economic indicator. This monthly measure takes into account production across sectors to determine the overall strength of the economy.	*Exceeds Estimates:* Stocks fall Bonds fall Yields rise U.S dollar stronger *Misses Estimates:* Stocks rise Bonds rise Yields fall U.S dollar weaker	Strong employment growth suggests a growing economy, which is conducive to stronger demand and higher prices, causing inflation. The Fed may be inclined to raise interest rates because of a strong number.
Producer Price Index (PPI) (Monthly)	Measures wholesale inflation on a monthly basis. This number examines the change in wholesale prices of goods shipped from manufacturers.	*Exceeds Estimates:* Stocks fall Bonds fall Yields rise U.S dollar stronger *Misses Estimates:* Stocks rise Bonds rise Yields fall U.S dollar weaker	If producer prices are on the rise, the increase will be passed on to the consumer and can mean the beginning of inflation. The Fed would act to hike interest rates in order to keep inflation in check.

Indicator	Measurement	Market Impact	Explanation
Real Gross (GDP) (Quarterly)	Measures the aggregate value of goods and services produced.	*Exceeds Estimates:* Stocks fall Bonds fall Yields rise U.S dollar stronger *Misses Estimates:* Stocks rise Bonds rise Yields fall U.S dollar weaker	If production in the U.S. is growing too fast, it could cause inflationary pressures, which in turn may cause the Fed to raise interest rates.
Retail Sales (Monthly)	Looks at consumer spending by measuring retail sales to consumers. Includes both durable and non-durable items.	*Exceeds Estimates:* Stocks fall Bonds fall Yields rise U.S dollar stronger *Misses Estimates:* Stocks rise Bonds rise Yields fall U.S dollar weaker	If consumers are spending more on retail items it indicates that demand is high, which would create higher prices. The Fed may move to raise interest rates to stem inflationary pressures caused
Unemployment rate (Monthly)	Polls 60,000 families to see how many within those homes are looking for work.	*Exceeds Estimates:* Stocks rise Bonds rise Yields fall U.S dollar weaker *Misses Estimates:* Stocks fall Bonds fall Yields rise U.S dollar stronger	If unemployment is on the rise, the economy could be slowing down. The Fed may act to lower interest rates in order to stimulate growth and create new jobs for the unemployed.

Conclusion

The TradingEmini.com Cornerstone report has given you the basic ingredients to trade the Emini S&P successfully, from the tools to use, to risk management, to the proper trading mind.

Your trading process will have to be nurtured and developed. It is like a plant. If you do not take care of it, nurture it, water it and do the proper steps to care for it the plant will die. Trading is the same. You will have to nurture a balance in your life to be a good trader.

Being a professional trader and earning a consistent living from trading is on ongoing quest to improve your weaknesses, know yourself and develop your strengths.

Experiences (gain and losses), proper education and mentorship will help you to become a better trader. Many professional traders were not born successful traders.
Almost all of them passed through psychological losses and emotional conflicts early in their trading careers.

Trading is a constant fine tuning within yourself and being truthful to yourself. There is no room for lies. Be brutally honest with yourself: Are you committed? What do you do to improve your trading weaknesses? Do you record and analyze all your trades every day? Are you balanced in your social life? Do you have other passions in your life than trading? Do you trade with proper capital at risk? Do you utilize capital risk that will not affect your family if you lose it?

A good trader is a well-rounded person; he is well balanced in his trading business and personal life. Trading is not everything, it must not be an addiction or an obsession; it is a smart game at which you are good.

Trading is a fascinating endeavor, it regroups familiar patterns similar to playing chess, playing poker and being in tune with the world economics and politics; it is like a real life game of the world.

Trading has provided many traders the freedom that most us seek. You can trade from anywhere in the world with a good Internet connection.
Trading is the best-leveraged business: You don’t have employees, bosses, inventory or business bills. You just have to pay your taxes and commissions.

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Trading will help you to learn about yourself, your strengths and weaknesses. Go through this process with a positive attitude. It is not an easy process. But when you graduate to becoming a consistent profitable trader, you will reach freedom and peace within yourself.
Always balance your trading, your family, your loved ones and your passions. This balance will help you to be more detached and more pragmatic in your trading and to take small losses. Think in terms of process, believe in your process, test it, paper trade it or trade only one contract for the first three months, until you know deep down that if you do the proper steps, over time you will win.

After trading go out, do some sports, see friends and have fun, smell the roses, take care of your loved ones, help your spouse and children, love them and nourish them.

By being persistent and keeping a positive attitude you will achieve your trading goals.   Always remember there is no such thing as failure, only learning experiences to improve in life.

At TradingEmini.com we wish you the best trading, to find happiness and personal fulfillment in trading.

When I came to the US, I placed copies of a couple of success stories on my desk. I would like to share with you my favorite one, about persistence:

"At the age of 21 he failed in business.
At the age of 22 he lost a state legislative race.
At the age of 24 he failed again in business.
At the age of 26 his lover died.
At the age of 27 he had a nervous breakdown
At the age of 34 he lost a congressional race.
At the age of 36 he lost another congressional race.
At the age of 45 he lost a senatorial race.
At the age of 49 he again lost a senatorial race.
At the age of 52 he was elected President of the United States

This was Abraham Lincoln. "

Go and be the best you can be. Good trading process !!!!!

Sincerely
TradingEmini.com

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