

YOUR **TRADING** *solutions*

**Create
Momentum
Habits**

**Everything You
Need to Trade
Like a Machine**



**Seven Steps for
Developing a Low-
Risk Idea**



**Market Update
Matthew Sharratt**

The Trading Manifesto

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Are Yesterdays Losses
Influencing Today's Trades?

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MARKET MASTER™**



GET IN

GET OUT

GET DONE!

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FROM The Editors



Welcome to Issue 29 of the **Your Trading Solutions** eMagazine.

In this issue I have written an article titled "Create Momentum Habits" where I look steps to get your New Year of to a good start. Gary Stone shares his knowledge from years of studying the markets in "The Trading Manifesto". Louise Bedford's article "Everything You Need to Trade Like a Machine" explores 8 habits to develop to attain financial freedom with trading. In Van K. Tharp's article "Seven Steps for Developing a Low-Risk Idea" he looks at the process for developing a trading system.

We have our regular Market Update with Matthew Sharratt from SCM Equities. Matt is offering all YTS eMagazine readers a full review of your portfolio and he will put a comprehensive investment plan together for you free of charge.

We hope you enjoy the current issue of the **Your Trading Solutions** eMagazine. If you have any comments or feedback, please direct them to: support@yourtradingsolutions.com

Your Trading Solutions is committed to assisting Traders to gain the right knowledge and to educate themselves to make informed decisions about financial matters.

All or love and best wishes to you for a continued happy and profitable 2012!

Graeme and Natalie Pearson



Note: Articles have been reprinted in the English language supplied

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4th January 2012

Market Report for December 2012

December Markets

S&P 500	+0.07%
XJO	+3.15%

The S&P 500 closed the final month of 2012 up 0.07% whilst the XJO finished up +3.15%. Again the final numbers don't tell the full story with markets generally being very volatile as the US approached its "fiscal cliff" on Jan 1st. In the end the US avoided economic embarrassment when politicians in both Houses passed a last minute deal that avoided huge tax hikes and spending cuts that would have sent the US into a recession.

Is this the end of the fiscal cliff problem? No, the deal is only temporary (2 months) however it was a positive enough for global equity markets which soared 2% on the first 2 trading days of 2013.

2012 Snapshot

So how did major markets perform in 2012?

S&P 500	+13.35%
XJO	+14.6%
Gold	+6.61%
AUD/USD	+1.87%

Some of you may be surprised to see that the Australian equity market outperformed the US; it was like a silent rally that started in mid-2012 just when markets were at their most pessimistic and has seen a 19% rally in the last 6 months of 2012.

Why such a rally when things were looking so gloomy? Well as we highlighted on several occasions throughout the year, 2 major factors were the cause;

1. Falling interest rates and attractive equity yields meant money would flow into equities forcing prices higher
2. The general underperformance of Australian equities versus other global equity markets.

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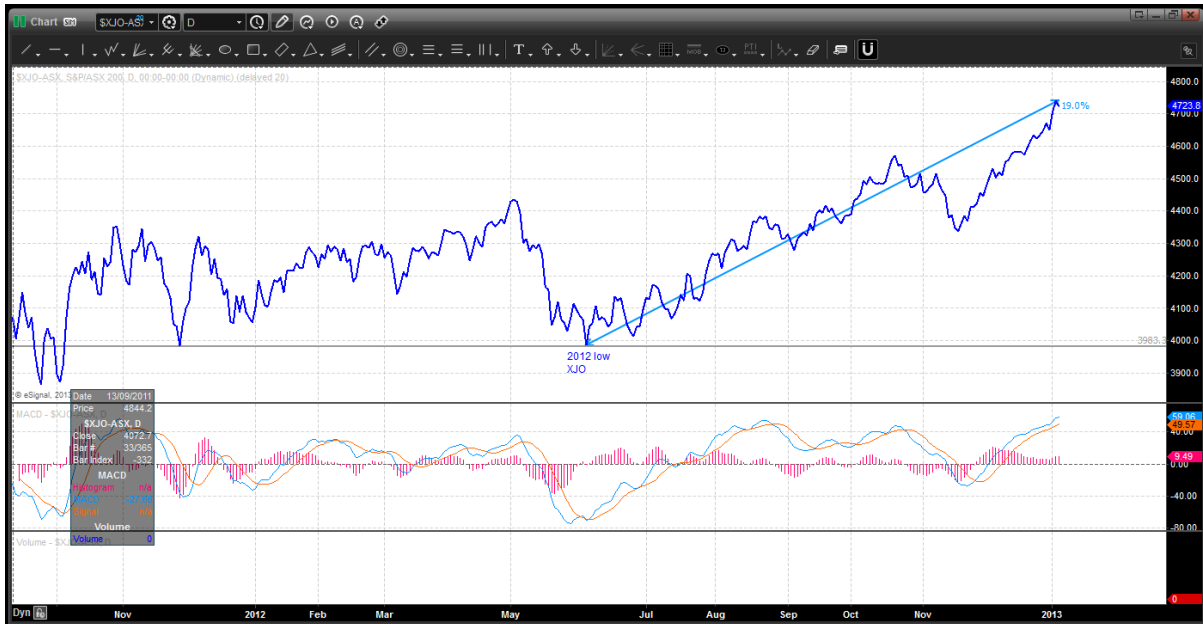
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XJO Weekly Chart



Macro Themes

As we enter 2013 there are several major macro themes to consider:

- The world is re-structuring with advanced economies having to become net savers and the emerging economies needing to be driven more by domestic demand and becoming net spenders.
- The continued global deleveraging process as advanced economies try to pare down their debt levels.
- Slower economic growth compared to long term averages
- The engine of global economic growth will be emerging economies, especially Asia. Growth in Europe and the USA will be constrained by fiscal consolidation.
- The chase for higher yield as interest rates remain low
- Continued fiscal intervention

Where to invest in 2013?

Our outlook for equities in 2013 is positive although we believe the market will have a higher level of volatility than normal during the period of economic recovery. This will be the result of continued de-leveraging and unevenness in the economic recovery.

We believe global growth is in the process of bottoming and some moderate recovery in growth is projected for 2013 with momentum building in 2014. This improvement will reflect firmer growth in the USA and China. The UK is expected move out of recession but growth is likely to be relatively weaker in the Euro area.

Specifically we favour (in no particular order);



1. Australian Equities will continue to perform well in the early part of 2013 as they continue to play catch up and investors chase higher yields than TD's. (The Aussie Dollar strength will wane as the carry trade unwinds pushing AUD lower however don't expect a dramatic move down).
2. US equities remain in favour, our sector picks for 2013 are
 - a. US Homebuilders
 - b. US Financials on the back of the housing recovery
 - c. Health Care (large cap pharmaceuticals)
 - d. Re-emergence of US Industrials
3. Emerging markets will outperform and investors should look for direct investments in EM ETFs and global companies with a high earnings exposure to the emerging economies. Sectors expected to outperform include energy, resources, alternate energy technology, information technology and luxury goods.
4. Despite all the naysayers Gold will have another positive year

Global Equity Model Portfolio

Creating a global equity portfolio has never been easier and it is one area we specialise in. We have developed a model portfolio for our clients to follow that invests in global companies and sectors (including Australia). It is much more than just a recommendation service, it is a total portfolio approach designed to take advantage of the sectors and companies we believe will outperform over the medium and long term. So if you are serious about creating a truly global portfolio give us a call.

Wishing you a great 2013

Regards

Matthew Sharratt

About SCM Equities

SCM Equities are specialist in Australian and International investment services; they run Individual Managed Portfolio's for their clients and provide comprehensive economic and company specific research and recommendations. As a special offer for Your Trading Solutions subscriber, if you mention you are from YTS, they will conduct a full review of your portfolio and put together a comprehensive investment strategy for you free of charge.

Contact Matthew Sharratt for further information.

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Create Momentum Habits

By Graeme Pearson



With the start of a new year now is the typical time to set goals for the year. Many of these can be spurred on by New Year's resolutions. The majority of the time these are driven by things which have caused us pain over the last year or have been sitting on the to do list and just not getting done. So now is a good time to start getting some momentum building so that this year is better than the last.

I won't be touching much on trading specifically but will be more about just getting things done. I want to provide you some steps on how to create momentum when working towards your goals so that you become like a runaway train being almost impossible to stop.

In physics the principle of momentum describes the product of mass and velocity such that a large heavy object moving quickly has a lot of momentum. Also for a light object to have equal momentum of a heavy one it has to move a lot faster. In relation to achieving goals I am going to equate mass with tasks and velocity with time taken to complete the tasks.



To create momentum effort is required. In physics this comes in the form of a force applied to the object. The larger the momentum the larger the effort required. To stop momentum the same amount of force or effort has to be applied in the opposite direction.

With all that in mind lets no look at some steps which can be taken to create some unstoppable momentum.

Know Your Direction

The first key step is to have clearly defined goals. This is important to save any needless energy exerted to change the direction of your momentum. You don't want to build up a large amount of momentum only to find that you are heading for a cliff. Having a clear direction helps with any decisions that need to be made along the way. Decisions can be made quickly as to whether something will move you closer to your goal when you have clarity.

Chunk It Down

Once you have your direction worked out break it down into manageable chunks. The applicable metaphor here is - How do you eat an elephant? One bite at a time. A good approach to chunking a big picture goal down is to start with a weekly task list of items to complete to achieve your goals. Once you have your weekly task list you can then set your

daily tasks to ensure that all your weekly tasks get completed. The best time to do this is before the week and day starts respectively.

Use The Snowball Effect

The snowball effect is where you build a snowball and start rolling it down a hill and it builds layers of snow as it gains speed giving a dual effect of building momentum. All though this probably works better in cartoons rather than real life I think you get the idea. You want to apply the same principle to your tasks. As with the snowball you want to start off with something small and manageable. An approach to take is organise your tasks into what is easy and what will provide the most impact. You can then start with the easiest tasks, to get the ball rolling, and then start to introduce the greater impact tasks. You then have the beginnings of your runaway snowball.



Just Start

To get a car rolling the first push is the hardest. Once you have a car moving with some momentum it is much easier to maintain that momentum. The same applies to the first action step as it is often the hardest to make. A lot of time can be consumed with fear or anxiety of taking the first step. The best advice comes from Susan Jeffers who wrote the book "Feel the fear and do it anyway" and that is to do just as the title says. Action is a wonderful conqueror of fear and creator of momentum.

Don't Break The Chain

Consistency fuels momentum. This is related to setting your daily tasks. Commit to doing something daily which will move you towards your goal. For trading it might be doing your market analysis daily, visualising or reading some trading psychology material daily. Each day that gets crossed off where the task was completed creates a link in the chain. If you



miss a day then the chain is broken. I often get my clients to commit to a realistic time each day, say 15 minutes, in which they work on set tasks. This approach can be much more effective in building momentum rather than setting aside larger chunks of time less often. Doing something daily is also the backbone of forming a habit which then continues the momentum. A great quote by Aristotle sums this up nicely with "We are what we repeatedly do. Excellence, then, is not an act, but a habit."

Start The Clock

A natural tendency that seems to occur regularly is that work required to be done will expand to fill the time available to do that work. Therefore if you don't fill your day distractions will naturally fill any voids. A way to combat this is to set strict timeframes in which to complete tasks. The way to implement this is to create your daily task list and then allocate specific times to each task and the order in which you will do them. Then get a timer and set it to the

time for your first task and then start the clock. Your aim is to solely focus on that task until it is completed. This means no random internet surfing, checking Facebook or even going to the toilet. You stick with the task at hand until finished.

Remove Energy Drains

The next step is to do an energy audit on your work area, although it can also extend beyond just where you work. What you are looking to include on this list are all the things which create a mental drain for you and take your focus from working on your goals. Whenever you find yourself saying "I'll get around to that" or "I should fix that" then those are things you probably should be adding to this list. You want to eliminate these things as quickly as possible and you will probably find that it takes less energy to just get the job done than all the time you have spent thinking about it. Other energy drains can be people in your life. You may not be able to remove them but you can spend less time with them. You can create the biggest energy drain yourself just by the self talk that you allow to play out. Make sure that you catch any negative self talk early and turn it around.



Other energy drains can be people in your life. You may not be able to remove them but you can spend less time with them. You can create the biggest energy drain yourself just by the self talk that you allow to play out. Make sure that you catch any negative self talk early and turn it around.

Don't Blow Out

Don't go to the extreme and blow out by taking on too much at the start. A good example of this is related to getting fit. You might have spent the last couple of months couch surfing in your leisure time and then when you do your New Years resolutions you hit the gym with gusto playing catch up only to regret it the next day. That then creates a set back because you are now only focussed on the pain you are in and you lose any momentum you created. This blow out phenomenon is usually caused by a build up of frustration. This build up then causes a burst of energy creating a flurry of activity which is rarely followed up. This flurry of activity can often be ineffective as it is emotionally driven and is as misguided as a loose garden hose on full blast

Outsource or Delegate

One other key way to get momentum is to delegate or even outsource as many tasks as possible. If I use the pushing a car analogy again you can easily see that it is easier to push a car and get it rolling if you have help. What you want to keep focussed on is the core tasks or the ones where you add value. Question any task that you are doing where you could pay someone a cheaper hourly rate than what you currently get paid. I can't emphasise this step enough as this is where you can really super charge your results. The biggest problem is apparent loss of control or feelings that others can't do as good a job as you. The focus can be on the short term pain of having to train someone and never realise the long term gains.



To put a twist on an old saying - teach a man to fish for you and he feeds you for a lifetime.

Belief

Belief in yourself and your capabilities is very important. The problem is not about believing you can't do something but more about not believing you can. Have a weak belief in yourself allows doubt to creep in. Now moments of doubt are ok and everyone will have them but it is the momentum of doubt which can be destruction to your progress.

So get your momentum started and make your year amazing. Remember consistency is the key as it keeps things in motion rather than continually wasting energy with stopping and starting continually. Don't forget to get some leverage and ramp things up with outsourcing and remove the brakes caused by any energy drains.

If you would like more information on getting momentum in working towards your goals or would like support on your trading journey then free to contact me at graeme@yourtradingsolutions.com to help you become the best trader you can be.



About the Author: Graeme Pearson is a Professional Trader and Trading Coach for Your Trading Solutions. Since resigning from his Full-time job as a Mechanical Engineer back in 2006, Graeme realised that although he had reached his goal of financial independence something was still missing. Graeme found that he gained great pleasure in helping others and particularly when that help involved trading. Graeme now utilises his trading experience, Neuro Linguistic Programming and coaching training to combine mindset and methodology to help other traders become the best they can be. For more information about coaching contact Graeme at: graeme@yourtradingsolutions.com

Everything You Need to Trade Like a Machine

By Louise Bedford

People sometimes ask me if they can watch me work. I always decline because they'd shrivel up with boredom. I work in rushes. Most of the day I goof around with my kids, talking about their hopes and dreams, immersing myself in their world's full of jealousies, envies, and fears. I'm with them 100%, total eye contact and attention, making sure their needs are number one.



Then I trade. No interruptions. No phone calls. No-one asking for my opinions. I trade with total focus and silence.

Then I look after my traders. I point out more profitable ways of approaching the markets. I write articles, get interviewed by journalists, and create resources that I feel will help people reach their potential as a trader. I help them run on my belief for their futures, when they're stumbling in the dark.

And...I play and do things just for me - just for fun. I go to the gym, have a wine with friends, and laugh so loudly people turn around and stare at me in cafes.



I'm not a circus-performer. There's little to see. One thing that you will notice though is that I'm completely focused on what I'm doing during that particular time. I work to a written list. I'm a meticulous planner. I take pride in being productive and achieving, as well as being a caring Mum and an excellent trader.

My life is just like yours. I juggle. I rush. I get out of breath. However, I find a plan of action with all areas of my life dissolves the stress. Plus, it helps me achieve more than the average person. (Not trying to make this into a commercial message... just reporting the fact.)

Everything I've said here is available to you. The only person standing in your way is... YOU. You can achieve more, do more, and have more fun. You just need to MAKE it happen.

Most people put more effort into planning their next holiday than their long-term financial future. The bleak truth is that, the only way to live well tomorrow is to begin planning today. If you have chosen the sharemarket as the vehicle via which you will attain financial freedom, there are eight habits that you must develop.

- 1) Trade with the trend

Would you like to make money in the sharemarket beyond your wildest dreams? Trade in direction of the overall trend and you'll be amazed at the results. This sounds obvious, but in reality you'll probably spend the rest of your trading life trying to achieve this goal.

Whether you decide to pursue fundamental or technical analysis techniques—work on developing your skills. Aim for perfection, but be aware that there is no particular technique or method that will work in all circumstances. Be rule-oriented, but maintain a degree of flexibility and adapt to changing market conditions.

2) Set stop losses

If you do not know how to set a stop loss, then for goodness' sake, stop trading immediately! An initial stop loss is designed to preserve your trading capital. A break-even stop will help lock in a no-loss trade. A trailing stop loss will assist in preserving your profits. Learn how to set a stop and then follow it. Contrary to popular belief, if you exit on the basis of a stop loss, the world will not abruptly stop spinning, flinging you into space ... but you will live to trade another day. If you can keep investing in the markets for long enough, you are bound to learn the secrets about how to succeed.



3) Utilise a written trading plan

When I aim to trade well and to follow my trading rules, money easily flows into my account.

Detail your position-sizing rules, entry and exit triggers, and list the markets that you will participate in. This small display of discipline is one of the keys that separate professional traders from unprofitable try-hards.

4) Develop money management skills

Money management is the part of your trading system that tells you 'how many' of a particular share you are going to buy or 'how much' of your account will be committed to a given market. The most effective traders have a method of attributing a greater percentage of their capital to low-risk, high-probability trades. Higher risk trades are still entered into, but a smaller position is taken.

In all games, the difference between the amateur and the professional is that the professional plays the odds.

5) Remain detached

The only way to trade well is to aim to be a good trader, rather than to make money. I have personally found that every time I demanded that the market provide me with a certain monetary return, then profits became ridiculously elusive. However, when I aim to trade well and to follow my trading rules, money easily flows into my account. Frustrating darned game, this! Successful traders have had to learn how to handle the inevitable losses that will ensue from investing.



6) Use an appropriate instrument

For some reason, novices seem attracted to the futures market like beetles to a bug zapper. 'The more volatile the better!' they cry as they launch themselves headlong into financial oblivion ... Begin with shares, and trade them successfully for at least a year. Once you've proven yourself in this less volatile arena, then you can move on to leveraged instruments such as options, CFDs, warrants and futures.

Learn how to take advantage of a bear market. By using short selling, CFDs and options as part of your strategy, you can make money whatever the market is doing.

7) Persist in the face of adversity

The only way to pass Share Trading 101 is by attending the school of hard knocks and staying in the trading arena, even when you feel like quitting.



Take responsibility for your own financial future. You are perfectly capable of learning how to trade. You can do this. You will ultimately be successful if you put in the effort and learn from your past mistakes. There are others who may have more knowledge than you at this very moment, but you have the resources necessary to develop your own strategies. Any negative people that doubt your skills have underestimated your tenacity.

Stay committed and focused and you will achieve your objectives.

8) Realise that you are worthy of success

A lot of people amputate their own success because they feel unworthy. Unworthy of the rewards of trading, unworthy of being happy and definitely unworthy of greatness.

This is why we must continually find people to boost us and see the best in us. Without support, our mind gets claustrophobic and we never see how incredible we can be. Just like Vitamin C, it seems our body can't store these positive thoughts easily. Unless we get continual shots of positive, our minds drift towards the negative.

To help you pursue your trading goals, if you would like to download a trading plan template called a 'Trading Plan Review', there is one available for free from my website www.tradinggame.com.au. Simply enter the competition to potentially win a free Home Study Course, and you will also receive 1 month free forum access, as well as a copy of my Trading Plan Review. It will help you work through all of the vital issues that need to be included in a sophisticated trading plan to can give you an edge in the sharemarket.

Want to get Louise's free 5-part e-course so you can excel in the markets? Register your details right now at www.tradinggame.com.au and you'll never look back.

Louise Bedford (www.tradingsecrets.com.au) is a full-time private trader and author of *The Secret of Writing Options*, *The Secret of Candlestick Charting* and *Trading Secrets*.

DID YOU KNOW?



Commonwealth Bank

Commonwealth Bank (CBA) founded in 1911 by the Australian government, the Commonwealth Bank is one of the 'big four' Australian banks, with National Australia Bank (NAB), ANZ and Westpac. The bank listed on the Australian Stock Exchange in 1991 and the government fully privatised it in 1996. The Commonwealth Bank is now the second largest Australian listed company on the Australian Securities Exchange as of January 2008

The bank opened its first branch in Melbourne on 15 July 1912. In an agreement with Australia Post that exists to this day, the bank also traded through post office agencies. In 1912 it merged with the state savings bank in Tasmania, and by 1913 it had branches in all six states. In 1958 and 1959, there was a controversy concerning the dual function of the bank as the central bank on the one hand and a commercial bank on the other. As a result of this, the government split the bank, giving the central bank function to the Reserve Bank of Australia, with the Commonwealth Banking Corporation (CBC) retaining its commercial banking functions.

Commonwealth Bank has continued to grow with brands including BankWest, Colonial First State Investments Limited, ASB Bank (New Zealand), Commonwealth Securities Limited (CommSec) and Commonwealth Insurance Limited (CommInsure). The Commonwealth Bank has traded to an all time low of \$5.80 on 2/11/92 and has traded as high as \$63.70 on 7/1/13. As of writing CBA has a market capitalisation of 98.8 Billion giving it a weighing of 7.67% of the All Ordinaries

http://en.wikipedia.org/wiki/Commonwealth_bank

The Trading Manifesto

by Gary Stone



My brand new and FREE Special Report is hot off the press. It's called "The Trading Manifesto". Why the name, "The Trading Manifesto"? Because the contents of this report are a written declaration of my thoughts, passions and beliefs on how every self directed investor should approach the markets.

When I thought about what to write in this issue, I came up with idea of writing a mini review of "The Trading Manifesto" so you could gain an understanding of the contents. My hope is that this review will inspire you to download and more importantly read it.

Start now and download "[The Trading Manifesto](#)".

When I wrote "The Trading Manifesto" I was playing to my strengths. I was in the best possible position to write such a report considering that my team and I had spent multiple man years researching markets and trading concepts for the benefit of my customers which were then compiled into a 230 page White Paper for their consumption. What I learnt throughout this process was profound in anyone's terms. This may sound like hype but let me reassure you that it's not. After researching the markets for the past 20 years, I must admit that I was a little shocked when I saw some of the results.



"The Trading Manifesto" discloses what I now believe to be the single most important ingredient you will ever need as an active investor. This ingredient can liberate you from your fear, uncertainly and doubts and allow you to build trust and consistency. This ingredient is called Exploratory Simulation.

The purpose of Exploratory Simulation is to determine:

- Whether your edge works or not and, if so, how well it works under different conditions
- When to engage the market and when not to
- An ideal range of position sizes, that is how much to invest in a trade

- How good the chances are of a trader achieving their Reward Objective and Risk Objective outlined in their Trading Plan
- How robust the edge is, that is, how well can it continue to work into the future and what its level of repeatability is with similar outcomes

Exploratory Simulation is used to get answers before we start trading.

“The Trading Manifesto” covers the major problems all investors face. Such as, how well a strategy works, what position sizing is too big or too small, what position size should be used to achieve their risk objective and reward objective and what are the boundaries for brokerage rates.



From reading “The Trading Manifesto” you will gain knowledge on how to:

- Determine whether a trading strategy is good enough or not
- How much to place in each trade
- Eliminate uncertainty
- Protect you from false promises
- Re-ignite your natural enthusiasm for trading
- End perfection once and for all
- Regain your confidence
- Simplify your approach
- Overcome fear



This is the first time I have written a Special Report like this and in hindsight – it’s long overdue. Because, as the markets continue to evolve, it becomes vital that you have the essential information you need and are able to adapt and evolve too!

“The Trading Manifesto” can liberate you from your fears and uncertainty while at the same time it can raise your trading confidence and trust in

both your own execution and in your trading approach.

I would encourage any self directed investor who is managing their own funds in the market to read "[The Trading Manifesto](#)".

Start now and download "The Trading Manifesto".

Gary Stone is the founding Director of Share Wealth Systems and leads the Research and Development Team. Trading and researching the markets since 1990, Gary is motivated by a conviction to help people do better. He has a strong belief that gaining knowledge in the market is not enough. "Investors need to be able to step into a set of repeatable and measurable processes that emanate from the market. Without a set of rigorous processes the probability of success is low". A contributor to media outlets such as Sky Business News, ABC Radio, Your Trading Edge Magazine and the Australian Technical Analysis Association, Gary is regarded as a well-researched and credible market commentator.



QUOTES To Inspire

"There is the plain fool, who does the wrong thing at all times everywhere, but there is also the Wall Street fool, who thinks he must trade all the time. No man can have adequate reasons for buying or selling stocks daily — or sufficient knowledge to make his play an intelligent play."

~ *Jesse Livermore*

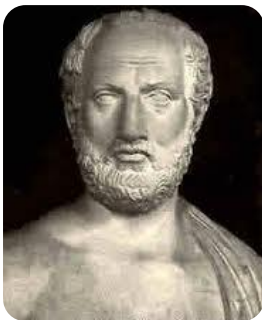


"Strive for excellence, not perfection."

~ *H. Jackson Brown Jr.*

"Why keep a system and do all that work if you're not going to follow it?"

~ *Larry Williams*



"In general, the men of lower intelligence won out. Afraid of their own shortcomings and of the intelligence of their opponents, so that they would not lose out in reasoned argument or be taken by surprise by their quick-witted opponents, they boldly moved into action. Their enemies, on the contrary, contemptuous and confident in their ability to anticipate, thought there was no need to take by action what they could win by their brains."

~ *Thucydides (c. 460 BC – c. 400 BC)*

"Failure is the opportunity to begin again more intelligently"

~ *Henry Ford*

Seven Steps for Developing a Low-Risk Idea - Part 1



by Van Tharp, Ph.D.

People tend to think it's hard to develop trading systems. I believe that having a process to follow makes developing trading systems a learnable skill. Let's list the steps you might take to develop a low-risk idea and then look at each step in detail:

1. Knowing the big picture and trading a strategy that will work given that big picture;
2. Developing a fictional short-term model for what the market is doing;
3. Finding a low-risk trade within the model where your risk is minimal;
4. Taking the trade only if your potential profit is at least three times the size of the potential loss;
5. Trading it at a risk level that allows you to continue to play the game;
6. Continuing to trade the model if the trade works out or
7. Adjusting the model if the trade proves that it is no longer valid. Let's look at each of these seven steps.

1. Know the Big Picture and Develop an Appropriate Strategy

I believe we entered a long-term, or secular, bear market in 2000 and that it should last about another eight years. A secular bear market does not mean that stock prices are in a steady decline over the period; rather, it means that price-earnings ratios will be much lower at the end of the period—in the single-digit range—than they were at the start. A secular bear market may include strong economic cycles, and the market can actually seem to be bullish for long periods. In our current situation, however, the economic fundamentals for the U.S. are perhaps the worst ever on record.



My beliefs about the big picture mean that I will likely not be holding any equity positions for very long. The volatility associated with bear markets means great conditions for shorter-term traders. If inflation appears, commodities and real estate are likely to be very good areas for investing or trading. Because the U.S. dollar may be in for trouble ahead, gold and silver probably make some sense too.

If you understand your big picture and the elements involved in trading it, then you might come up with several types of strategies. You could use a model that describes when stocks are rising or falling to buy stocks during up markets and short stocks when the market falls.

You could develop an inflationary model and apply it to a long-term gold strategy because gold usually does very well in an inflationary market. Another strategy could be to wait for the market to become extremely oversold and then buy stocks that are deeply discounted.

My point is that you need to understand the big picture and what kinds of strategies will work given your view of the big picture. You have to understand the big picture and how it changes in order to make money in the long run.

2. Develop a “Fictional” Model for What the Market is Doing

Part of my big picture is the long-term decline in the value of the dollar. From 2002 until 2008, the U.S. dollar lost about one third of its value. Since then, it's been trading in a range, but a continuing long-term decline could wipe out any gains from equity positions if the stock market were to rally.

So, let's say you decide you want to trade foreign currencies, keeping the big picture in mind. Figure 1 shows a monthly bar chart of the U.S. dollar versus the Japanese Yen. You can easily see the decline in the value of the USD since 2006 and the appreciation of the Yen. The trend is very clear. Generally, you would like your trades to be in the direction of the major trend in congruence with the big picture.



Figure 1 – Monthly Bars for USD/JPY

Your next step is to simply invent a model that will allow you to generate a low-risk idea within that big picture.

Now take a look at Figure 2, which is a recent daily bar chart of USD/JPY.



The daily prices seem to be moving in a down-trending channel since the highs in mid-March. Two trend lines have been drawn to reflect this, but are the prices really moving in that channel? Does the price really react to those lines? Who knows? Whatever the case, we can still use this (invented) channel to find a low-risk trade. Currently, it looks like prices are hitting resistance against the upper trend line, and they seem to be rolling over.

So here's an idea for a low-risk trade using a channel:

- Determine the direction of the longer-term trend (which in this case is down).
- We want to be ready to trade when prices get to the top of the channel. Ideally, we would like to see price go slightly above the top channel and then come back down through it.
- We don't enter a trade until prices move in our direction. This is a very important principle for all traders: only take trades when prices are moving in your favor.

Notice that it doesn't really matter whether the lines we drew reflect anything "real" or not. Do candlestick charts and price channels really reflect anything real? No, they're simply tools or guidelines that help us set up a low-risk idea. In fact, the worst thing you could do is to start assuming that your lines are real phenomena rather than an invented model. If you do that, you might be convinced that your model is right and fail to get out when price action proves it wrong. Many people who trade sophisticated models like Gann, Elliot Wave or others with similar complexity run into trouble because they may believe the model more than the market at some critical juncture.

3. Find a Low-Risk Trade That is Set Up By the Model

We've already started to do this with our lines on the chart. Our criteria for this low-risk trade include the following ideas:

First, we want the longer-term trend to be in our favor. Consequently, we really only want to take trades that are moving down off the top line. This is happening in the last few bars in Figure 2.

Second, we want to have some point of reference for our trades to set up the low-risk idea. This is the overall purpose of our model. The model suggests that the market is currently moving within the channel we've drawn with our imaginary lines. We don't know that this is truly the case, but the model gives us a frame of reference. If prices leave the channel, the model is no longer useful.



Third, we could be rigid or fairly loose about our frame of reference. If we want to be rigid, we might demand that prices cross (or touch) our upper boundary line of the channel and then cross below it again before we could enter. The problem here is that we'd get very few trades. If we are willing to be more flexible, we might just require that prices approach the upper-line reverse and then we could enter a short position. It really doesn't matter, because you only trade your beliefs anyway. And since you made up the model, you can make up the rules.



Fourth—and this is very important—we must set up a point at which we know that we are wrong about the trade. We might say that if the price reverses after our entry and moves above the upper trend line, we would cover the position. We might also say that if the price just goes sideways for more than a week, then something else is happening, the model is wrong about the trade and we would exit. You must have a clear point at which you declare yourself wrong about the trade so that you exit. The amount you are willing to risk (lose) is your 1R for the trade.

I chose a model based on channel lines because it's fairly easy for most people to see that it's just made up. However, your model could involve Elliot Wave, Fibonacci numbers, support and resistance, or anything else you care to invent. There's only one purpose for the model: to set up low-risk trades.

I'll discuss steps 4-7 in next month's issue.

About the Author: Trading coach, and author, Dr. Van K. Tharp is widely recognized for his best-selling books and his outstanding Peak Performance Home Study program—a highly regarded classic that is suitable for all levels of traders and investors. You can learn more about Van Tharp at www.vantharp.com.

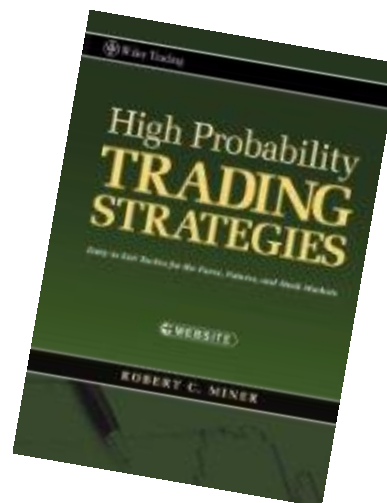
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High Probability Trading Strategies teaches traders step by step a unique and practical approach to analyzing market behavior, identifying profitable trade setups, and executing and managing trades from entry to exit in a way that both preserves and grows one's capital. In it, well-known trading educator Robert Miner draws on the theories of legendary trading gurus W.D. Gann and R.N. Elliott to teach his own practical and easy-to-learn high probability trade strategies developed over the past 20 years.

In High Probability Trading Strategies, author and well-known trading educator Robert Miner skillfully outlines every aspect of a practical trading plan—from entry to exit—that he has developed over the course of his distinguished twenty-plus-year career. The result is a

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Customer Review By Jackal

Before we get started, if you are looking for a mechanical trading system, give this book a pass.

The author presents four very useful tools for trading stocks, commodities, or currencies. These are: two time-frame momentum indicators, Elliott waves, Fibonacci with price, and Fibonacci with time. You can use these four tools as a discretionary trading system, but the Fibonacci discussion is especially valuable in and of itself. The author has been around 20 years providing trading advice - an indication of some quality.

I appreciate that the author isn't trying to hard sell his software and newsletter. You can apply the ideas in the book without buying anything more from the author! That is an honest touch that is appreciated. Still the author sells a software package that make things slightly easier, I would imagine. UPDATE: Many people comment negatively that the book is just a sales pitch for the software. Since the book discloses all the four tools, I think such a statement is untrue. However, some of the tool will require you to print out the charts and do manual calculations if you don't have his software.

The style of the text can be somewhat annoying at times; it is repetitive and has too many comments about not-so-good advisors out there somewhere. (No need for the author to point this out unless he wants to name the offenders.) It would have been good if the author told the reader how this book compares to his earlier book *Dynamic Trading: Dynamic Concepts in Time, Price & Pattern Analysis With Practical Strategies for Traders & Investors*. My take is that the current book introduces the two time-frame momentum and streamlines the other information on Elliott and Fibonacci, but it would have been useful to get this information from the author. Is the previous book superceded in his mind or does it still have value?

All positive reviewers (13 of them at the time of writing) have only reviewed this book and nothing else. Clearly the author has a fan club. Irrespective, I can really recommend this book. I am not part of the fan club and I try to give out as many one star and five star reviews..



Trading skills can be one of the most difficult skills to acquire, yet how many traders take on a coach to help them with their trading? If we were to talk about any sporting endeavour which you wanted to achieve your best in then you would hardly think twice about taking on someone to help make it work for us, but trading, no, that seems to be different. Of course trading coaches may not be cheap, but in most cases they are a lot cheaper than the losses which many make in the markets.

A quote by Derek Bok sums it up nicely **“If you think education is expensive, try ignorance”**.

It is not difficult to make money in the markets, but there are many things you need to learn and you also may need to “unlearn”. It is learning to do what you learn intellectually, that ultimately proves so difficult. Knowing what you should do is not enough. That is where the coach comes in to help you not only to know what you should do, but actually do it.

A large number of losses exist through not following a profitable trading system and this is where the coach comes in to find out what is stopping you working in your own best interest.

Your coach will give you methods to follow to help strengthen your internal discipline and continues to work with you until it works for you. That is when the fees charged will be dwarfed in comparison with the money you can make from the markets.

Winners go for what they need. **If you think there is scope for improvement in your trading then you should do something about it. The first step is to decide that you are going to be a winner, and then just do it.**

Become the Best Trader You Can Be!

When would now be a good time become a successful trader and make massive profits from the market? Pick up the phone and CALL NOW on +61 400 482 653 or email me on graeme@yourtradingsolutions.com for more information on our transformational coaching. Graeme Pearson.

As Anthony Robbins says **“Never leave the scene of a decision without taking the first step”**

