SECRETS OF SUCCESSFUL TRADERS

FOURTH EDITION

8 trading experts share their winning strategies

SECRETS OF SUCCESSFUL TRADERS

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Contents

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Introduction: What is Technical Analysis?

As you read this book, you will quickly notice that all of its contributors refer to things like price, volume, volatility, resistance, etc. These are the tools and terms of the technical analyst. Technical analysis is a complicated-sounding term for a very basic approach to investing. Steve Achelis, author of *Technical Analysis from A to Z* describes it likes this:

> "Simply put, technical analysis is the study of prices to make better investments, with charts being the primary tool."

There are almost as many methods of trading as there are traders, but successful traders have several things in common:

One, they leave emotions like fear and greed out of their trades.

Two, they know that not all trades will be winners. Their goal is to beat the odds and make a majority of winning trades, and limit losses.

Three, they have a plan. They manage their trades and never risk more than they can afford.

This is what the technical analyst strives to accomplish: methodical and accurate trading decisions. The contributors of this book come from a variety of backgrounds but they all understand these basic principles. As you read please note that some of the chapters will be more complicated and technical than others. Technical analysis is simple at its core, but has differing degrees of difficulty.

The first chapter "Anatomy of a Stock Chart" by Martha Stokes, C.M.T is a good introduction to charting. For additional resources about charting, technical analysis and trading visit youtube.com/metastock to view the library of recorded webinars by guest speakers that cover a variety of topics.

Finally, remember that successful trading, like everything in life, takes effort. Fortunately there are tools like MetaStock software which can scan the markets for winning stocks, provide easy-to-read buy and sell signals, and even test your strategy before you spend your first trading dollar. To find out more about MetaStock, visit www.metastock.com and register for a free 60-minute webinar.

Successful Trading!

The Anatomy of a Stock Chart

BY MARTHA STOKES, C.M.T.

Stock charts are a window into the marketplace providing a detailed graphical view that enables a chartist to understand the dynamics behind the price action. Whether you trade stocks, options, currencies, or commodities, you need to be using charts for your trading analysis.

Most people however jump into stock chart reading without getting the essential training they need to optimize and expedite their chart analysis. So let's start with the essentials of chart analysis using a stock chart. For new chartists this will be a place to begin. For advanced traders, this may be a review in places but reviewing is something all professionals in any industry do on a regular basis. Honing skills to the highest professional level should be a life-long pursuit.

First, let's dispel a common myth: Charts do not predict the future. However, when used properly, charts do tell us a great deal about how to trade, when to trade, and what to trade.

Charts tell you:

1. When to buy or sell, based on your trading style and risk tolerance.
2. What is a reasonable price to pay for a stock, option, etc, based on your trading style and trading parameters.
3. Which stocks are forming Trendline Patterns that fit your trading style. This tells you what trading strategies will work best at that time.
4. Where to place your stop loss based on price patterns rather than the outdated 'percentage stop loss'.
5. The angle of ascent or descent which tells you whether the current price action is sustainable, how long the trend is likely to move in that direction, if a change of trend is imminent, and where you are in the trend cycle.
6. When to exit a stock based on your trading style, hold time, and financial goals.
7. Which of the 8 levels of Market Participants are actively trading.
8. Which of the 4 positions currently dominate the price action: buyers, sellers, sell shorters, or buy to cover traders.
9. Whether small lots or large lots are in control of price.
10. The direction of the long term, intermediate term, and short term trend and whether the 3 trends are in harmony or opposition to each other. This defines the overall cycle.

Stock Chart Components

Many people don't realize that without the invention of the ticker tape, charts as we know them today would not be possible. The ticker tape was invented by Thomas Edison in 1869 and forever changed the stock market. Instead of scribbles of stock quotes on scraps of paper hand-carried via couriers around New York City, anyone with access to a ticker tape could watch market activity anywhere in the country.

With the data from the markets recorded in such a reliable manner it was only a matter of time before someone started recording those transactions in a graphical form we now call stock charts. Although the format for charts has evolved and changed over the years, the basic data used has not.

The 3 components of data available from the market are: PRICE, TIME, and QUANTITY.

Although price is often considered the most important aspect of a chart, all three pieces of data are critical to successful analysis in today's Internet driven markets.

Price is displayed on the chart in a variety of ways. In the illustration below, price is shown in the form of Candlesticks, currently the most popular price chart form. Price is also displayed on the side bar and at the top of the chart to show the open, high, low, and close for that particular time frame.

The chart is called a "daily" chart which means that each candle represents one entire day of price activity.

The difference or change in price up or down for that day is based on the prior day's close. So the last number at the top of the chart reflects a comparison between 2 days of market activity. To create this section of the chart, PRICE and TIME data have been used. TIME is an integral part of how we perceive and determine changes in value (price) for a stock. PRICE is given priority status on the chart with TIME close behind it. The importance of time is often overlooked by traders and investors.

TIME is displayed not only in formulation of end of day price difference, but also at the bottom of the chart, and in conjunction with the open, high, low, and close pricing as well. Charts combine PRICE and TIME to reflect the impact of TIME on PRICE during the day, week, month, and intraday.

With this screen view, we have about six weeks of daily price action that can be analyzed and studied. TIME allows us to see not only what is occurring at the moment with price but also to see what has occurred in the immediate past, and several months or years past. TIME provides the perspective on PRICE needed for proper evaluation of the short term, intermediate term, and long term trend which provides critical information about where price has been and where it is going.

QUANTITY is the final piece of data that is essential for chart analysis. QUANTITY appears as both a graphical histogram called the 'volume indicator', and the total quantity of shares traded each day.

The QUANTITY indicator VOLUME provides a visual image of shares traded over TIME. By studying the quantity of shares traded in relation to price fluctuations, a good chartist can quickly pick out discrepancies, fading volume patterns, exhaustion volume patterns, and speculative volume patterns that can forewarn of changes to price before price actually begins that change. The importance of QUANTITY can't be overstated.

QUANTITY is not just the number of shares per, minute, day, week, or month it also is the share lot size being traded for every transaction. Share Lot Size provides a higher level of analysis seldom used by small retail traders. With the dominance of the institutions in the marketplace, being able to see visually what the large lots are buying or selling has become increasingly important.

It is the relationship between PRICE, TIME, and QUANTITY that creates the patterns on charts that expose the direction of trend, and the strength and energy behind the trend.

Indicators

Because all transactions are recorded it is possible to take this information and create formulas that give the chartist a different perspective on what is hap-

pening between the relationships of time, price, and quantity.

These formulas are called 'indicators'. An indicator is precisely what the term implies: an indication changes to trend, price patterns, volume, etc. Indicators are not precision tools however and must be used with judgment and consideration of what is going on elsewhere in the market.

In order to create an indicator, the writer must use at least 2 pieces of market data. Since all data is recorded, applying the formula to the data is simple and provides an accurate line or histogram for more sophisticated analysis of the data.

A moving average for instance, smooths PRICE with TIME to create a line trend indicator that is much smoother than pure price action and tells the chartist whether or not the trend is still intact. Volume can also be changed from a histogram to a line indicator.

Most indicators are based on PRICE and TIME. Some are based on QUANTITY and TIME. Less common are indicators that use all 3 pieces of data, PRICE, TIME and QUANTITY but these indicators tend to be the most reliable of all. Such indicators tend to 'lead' price, meaning the indicator moves or changes its pattern before price changes.

Setting up your indicator tool kit

For the best chart analysis, use a group of indicators based on your trading style and the current Market Condition. Common indicator types include:

1. Trend, direction of trend, and strength of trend indicators.
2. Oscillator Indicators for overbought and oversold which expose weakening sideways action before price breaks out of the sideways trend.
3. Accumulation and Distribution indicators which expose the buying and selling habits of large lot institutional investors and institutional traders. Each leaves a different 'footprint' on the chart.
4. Convergences and divergences of price or volume, indicating a change of trend direction.
5. Compression or expansion of patterns of price and/or volume in cyclical patterns.

Additional Considerations

Traders and investors need to use the appropriate indicators and not assume a popular indicator will work for their trading or investing goals. Never use just one indicator for your analysis. Try to include at least 3 and preferably 5.

Be sure that if you are trading short term that you use leading indicators rather than lagging indicators. Leading indicators "signal" a change of price

before it actually happens. Leading indicators use all 3 pieces of data or are a combination indicator that uses all 3 data streams in the analysis. In contrast, Moving Averages, by their very nature, are lagging indicators and are best suited for longer term analysis.

There are 6 primary Market Conditions. Each requires a different set of indicators for optimal trading profits. As an example: during a platform market, Bollinger Bands, RSI combination indicator, and Volume Accumulation with Price Accumulation indicators are ideal. Trending indicators fail dismally.

Be sure you understand which indicator works for each market condition and use the appropriate indicators as market conditions change. Another example: MACD is a price/time indicator that works ideally in a trending or velocity market. It performs poorly in platform market conditions. Stochastic works best in trading range markets but fails during velocity trending markets because it signals an exit just as a stock starts a velocity run. As the market shifts from one condition to the next, change the indicators you are using so that your analysis is correct.

Summary: Chart analysis is a necessary skill for anyone who has money in the financial markets. Charts provide a graphical view of what has happened in the past, near past, as well as current activity. This information helps traders and investors anticipate what will happen next.

When you first learn to use a chart, start with the basic layout and learn it thoroughly before trying to learn the more advanced features of a charting program. As you become more proficient with chart analysis make sure you customize it to suit your trading style, parameters, and goals. Try not to fall into the trap of "following your neighbor". Each trader is unique and what works for someone else may not work for you.

Remember, no one can predict the markets. Good chartists study the historical data as well as the current data, identify the most common reoccurring patterns, and then act on those consistent patterns, ignoring the atypical patterns. In that way, their analysis may seem to predict when they are actually going with the flow of the trend.

About Martha Stokes, C.M.T

Martha Stokes, C.M.T. is the co-founder and CEO of TechniTrader®, an educational firm dedicated to helping investors and traders. Martha's fascination with the markets and business started at a very young age. She made her first investment while still a teen. In her late thirties, when most people are just getting their careers established, she took an early retirement. Martha considers teaching as a way to enjoy her retirement while giving something back.

Martha's infectious energy and vast body of knowledge in economics and financial markets, along with her innate ability to identify newly emerging technology has established her as a market authority. Her theory on Cycle

Evolution is a landmark work on financial cycles. She has been involved in several startups and has sat on both sides of the Venture Capital negotiating table, worked on an IPO, managed a small fund, taught at community colleges, and has been a guest speaker at numerous seminars and investment groups including the Boeing Employees Investment Group.

Martha has been a guest on the CFRA radio Ottawa Canada. Her long list of educational work include: 15 stock and option courses, 14 semester length Lab Classes, her Annual New Technology Reports, Sector and Industry, and Special Edition Reports, hundreds of articles, resource papers, and white papers. Martha writes 6 newsletters each week and still finds time to answer student questions.

What is the RMO and Why Do We Need Such a Tool?

BY RAHUL MOHINDAR

Firstly, am glad you have taken the decision to read on and hopefully my journey and tools will add value to your analysis and inspire you to achieve the best in you.

My entire career has rotated around the sphere of Technical Analysis (TA), and the best introduction to me is a passionate technical trader and investor above all.

Professionally, am a Director of Viratech Software and an active trader who appears regularly on CNBC India & Bloomberg. With over 20 years of experience in technical analysis, I have been a guest lecturer across renowned stock exchanges, universities and business schools. My findings and research on the markets have been carried in leading business daily's including the Economic Times and Hindu. Besides the RMO ATM, I also developed MetaStock's exclusive Rahul Mohindar Oscillator (RMO for short) which detects trends in financial markets and is designed to work on Open-High-Low-Close-Vol charts for a wide variety of stocks, futures, options and Forex

Crowded and Complicated vs Simplified: Technical Analysis has its 2 sides!

Technical Analysis has been a passion from my school days; I had the good fortune of starting with hand drawn charts which engrained in me a deep connection with the science of Technical Analysis. Every indicator including a moving average was well understood as one had to largely manually calculate them too! Thanks to the birth of MetaStock and computers we went places with TA. Whilst a lot of us have used the technology to our advantage, there clearly exists a set of traders suffering from an information overload that has sadly complicated the subject beyond reason.

Unfortunately, if one makes analysis a more subjective process rather than an objective on, it's easier for the mind to take you in all directions. To put it succinctly "A crowded chart doesn't make you smart!"

Loss is like that fall, we need to brush our knees and rise up from. I call it the most important investment in the business of trading / investing. The moment we lose we learn and understand the need to believe in our study and stay disciplined. Theory and Practice has taught me that keeping ones tool set to a visual and simple approach, results in an unemotional and successful rule based trader. It's this philosophy that i deeply embedded when putting together the RMO and RMO ATM suite of studies. Hence the RMO comes

across as a clean and visual chart, but it condenses several aspects into a crisp and actionable signal.

Another important aspect in trading is that we as individuals think Positive by design!

Yes most folks think of buying first, going short doesn't come naturally. It's equally important that we sell / short the markets when we get a sell signal rather than just exit and sit out. Else we will be like a one handed boxer, thereby increasing the odds we get knocked out in a bear market

Financial Planning and Money Management is key, let software crunch the numbers and largely automate the analysis. We need to work on the trader inside ourselves, so that we become successful and disciplined!

So no matter if you use the RMO suite or any other strategy of choice, here are some learning's that can immensely help you on the path for successful technical trading...

The essence is to trade in the direction of the long term direction. It's the stronger force!

Find your Time frame and stick to it! Remember the majority, changes time frames when in loss. A single timeframe is easier and yet allows you to focus.

Consistency is Key! Do 10 trades in a row to realise the hit rate. If you keep jumping stocks / symbols you are not giving the system or yourself a fair chance!

What is the RMO and why do we need such a tool?

The RMO is a strategic tool that makes primary trend detection simple and effective and also helps us detect entry points with ease. The RMO was included into MetaStock in 2006 with the launch of version 10 and is one of the most popular templates used by MetaStock users globally.

The RMO is not just a time saver but an effective method that gives traders a hansdfree and visual approach to technical analysis. Considering today's demands of real time trading and the constraints of analysis time, the RMO comes in as a very handy strategy which cuts out the clutter with clear entry – exit – stop approaches.

What's best is even beginners could use the system and get a comprehensive pulse of the market or particular asset class / symbol they are trading. The RMO strategy is backed with a template, expert, alerts and even explorations that power users with the ability to scan and detect current real life trading opportunities.

The Need

With every passing moment, the way markets move and the factors that control it continue to change. From a technical perspective these dynamics mean that we would not necessarily experience one way single slope trends. Even within a strong up or down trend there's a lot of back and forth or peaks and troughs that get constructed, all of which needs to be understood and utilised.

Simply put, there are multiple market swings that are built into a trend. The RMO will firstly help establish the long term trend direction and then point us to take trades in the direction of the primary force or long term trend.

To further extrapolate on Dynamics …..a common way we detect or understand the markets trend is by plotting trendlines. Whilst we may at times plot them accurately, many a time we fall into a situation where we're actually unable to draw a perfect trendline. The reason for which could be due to the fact that the market has been very volatile and has not been moving in a clear directional rhythm / line / angle which is often the case.

Take for example illustration 1. The chart on the LHS connects its troughs fairly well thru the rising bottoms, making a perfect trendline. This is the ideal situation we'd like to be in from a trendline perspective.

Mostly in the real world of trading, we see more charts similar to the one on the RHS where a lot more volatility is seen. Here if we attempt connecting the rising bottoms on the chart we would surely not arrive at a single straight line. To handle such dynamics and ease out the analysis process an automated and visual tool like the RMO could play a key role in helping us detect and trade in the right direction.

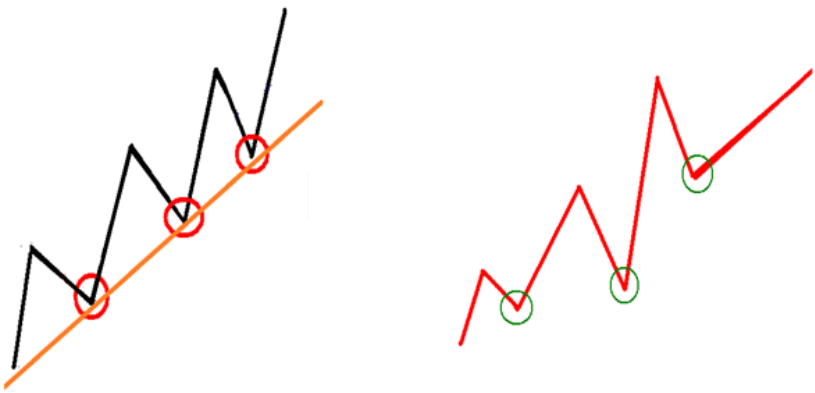


Illustration 1

Interpreting the RMO Oscillator

The RMO is an oscillator that is displayed by default in a histogram format (coloured light green). The RMO is actually very easy to understand but is often over interpreted and hence it's essential to understand some key basics…..

1. RMO > 0 suggests that the primary trend is strong / up, and hence we should look for buying opportunities.
2. Conversely, the RMO < 0 suggests weakness or a bearish primary trend, and hence we should look for sell setups
3. Do NOT pay specific attention to the shape or value of the Oscillator as this could constantly change. For example you may feel that the RMO has started curling down and is looking weak, but in reality the price may actually still be moving up, besides the RMO may quickly resume / curl back up. (Refer to the RMO in Illustration 2)
4. To enhance your visual experience a ribbon on the X Axis of your chart would stamp RMO Bearish or RMO Bullish, and a character face on the bottom right would further specify the current RMO trend. (Refer to the X Axis displays in Illustration 2

Illustration 2

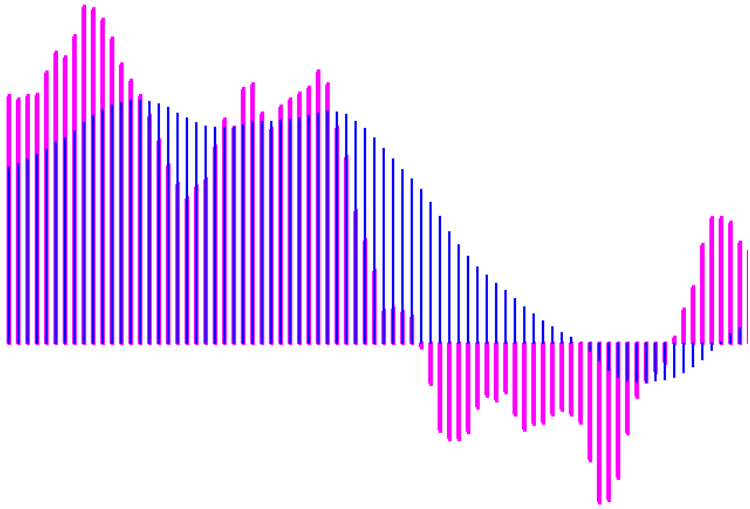
Trading with the RMO in the direction of the primary trend gives us a three-fold advantage:

1. It increases our odds of winning
2. We trade in the direction of a stronger force
3. Have a focus of the BIG picture

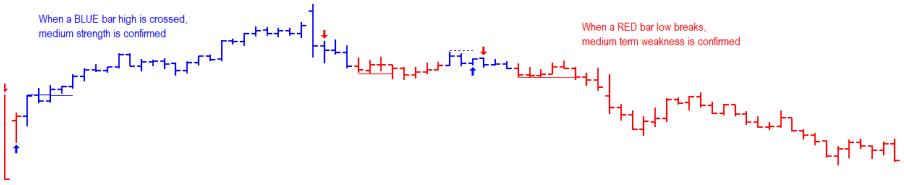
Understanding the RMO TEMPLATE

Prebuilt in MetaStock is a RMO Trade model template, when you apply this not only would you see the RMO Oscillator as described earlier but also 4 additional components:

SwingTrd indicators: These measure the short term trend and an intersection of the 2 histograms suggests a shift in short term trend. To save you the trouble or detection, these are automatically interpreted with signals stamped in the form of arrows.

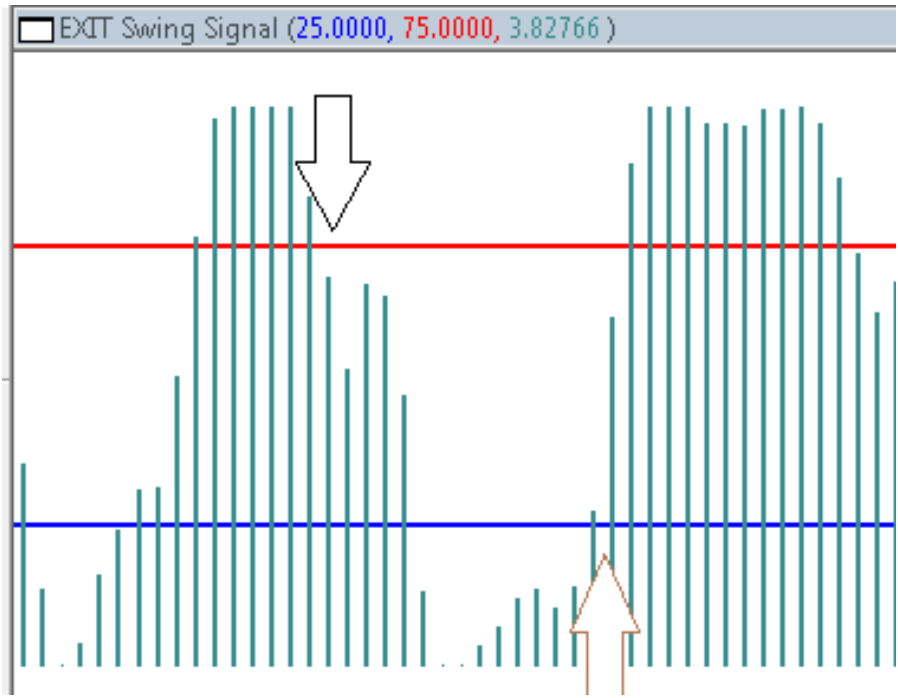


Arrows: These are automatically plotted on the chart when the short term SwingTrd indicators crossover. However what's important to note is that every arrow does not mean enter or exit. You could ignore red sell arrows if the RMO is Positive and likewise ignore buy arrows if the RMO is negative



Bar Colours (Red & Blue) : These indicate the medium term market trend which is when the pink SwingTrd histogram goes positive or negative. Blue indicates strength whilst Red suggests weakness.

EXIT SWING SIGNAL



The Exit Swing Signal indicator is designed to help you exit a profitable trend trade and can even work as a trailing stop model. Exiting below the 75 level suggests we exit Longs, where as if the histogram gets above 25 we could consider exiting shorts. Using the high or low to further reconfirm the exit is advisable

What's critical is to use this indicator **only after** 5 to 10 bars have moved profitably in your favour, and not at the start of the trade.

The 3D STRATEGY: I call this the 3 Dimensional setup as we are ***Buying on a confirmation for all the 3 trends*** (viz Short – Medium – Long) which occurs when we see the following:

1) BUY Arrow
2) Blue Bar
3) RMO Bullish (RMO > 0)

As they say, the market's always right. So whilst we've simplified the process and rules, I would caution traders from becoming over mechanical in their process, being adaptive is the name of the game and it would well be your worth considering these practical aspects when using the RMO :

1. Identifying Signal bars

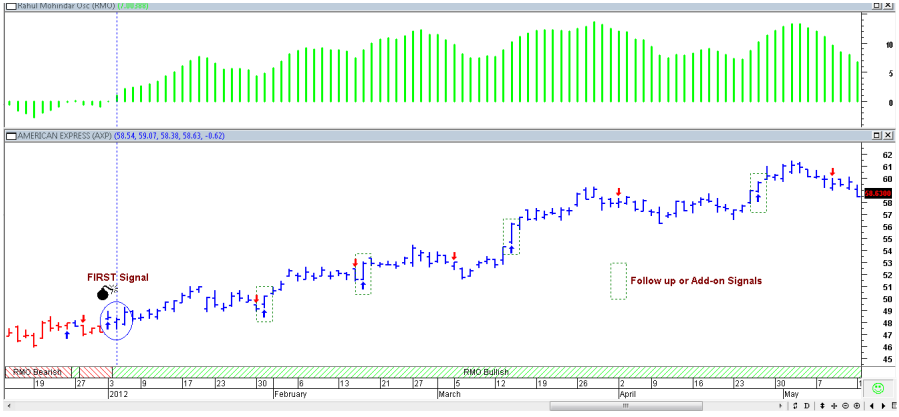
It is not necessary that all 3 indicators give you a buy on the very same bar. You may first see an arrow, followed up by a blue bar and then the RMO turning above 0….it's at this point i.e. when you see all 3 are in agreement that you signal a trade.

2. Triggering the trade: Buy above the high of signal bar

This works as a simple yet important reconfirmation of strength. Likewise when shorting SELL below the low of the signal bar.

3. The importance of focusing on the first signal / first breakout

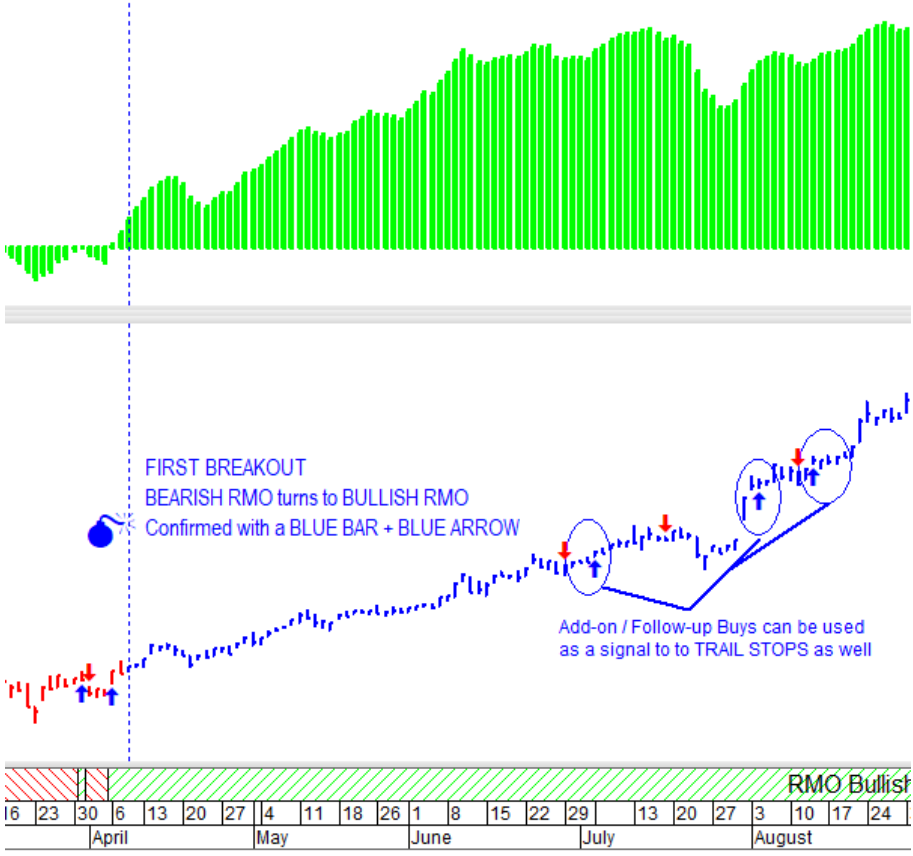
Whilst arrows appear in plentiful, the best signal / arrow would be the first in chain. Subsequent buy arrows are supportive in nature which could be used to add onto your positions if confirmed with above average volume. (Refer to Illustration 3)



4. Stops & Exit

Using a swing low or key support level is ideal for your Stop. Aggressive traders could set the lowest point in the preceding 2 bars as the stop when buying (vice versa).

Good money management is essential to reap the benefits of Technical Analysis. Hence it is recommended to be tactical in exiting trades as well. One simple rule of thumb that's worked for me on exits is: Exit one part of your



trades on achieving a basic monetary / technical objective and finally move onto using the Exit Swing Indicator to fully exit or trail your stop. After all, it's only when technical analysis is coupled with good money management and discipline that we can build a complete trading plan.

5. Volume gives us important cues and confirms the setup

Volume or Money is the driving force for any trend without which it would be hard to expect a meaningful breakout. Hence if you get a signal with above average volume that certainly adds significance. Likewise I would tend to ignore add on / subsequent breakouts if not coupled with better than average volume surrounding the signal area.

Can I apply the RMO across asset classes and on multiple timeframes?

Absolutely, you can use the RMO across any market or asset class. Be it Stocks, Forex or Futures feel free to use the RMO on any symbol and on a timeframe that you're comfortable with. The RMO works great with real time charts, as well as end of day data. What's best is the prebuilt explorations pro-

vided could detect new trading opportunities for you in a matter of seconds, and that too on a stock list and timeframe of your choice!

Scanning for RMO Signals

After providing you the powerful RMO system it would be unfair to expect you to hunt down those perfect opportunities. So we specifically included for you, Explorers that can find new buy / sell arrows, new red / blue bars and help you shortlist stocks that have a positive / negative RMO. However as one used the systems, I developed a larger vision. A vision and that would change the landscape of indicators and above all scanning and optimization technology. So In 2008 I completed years of good work to put in place the first version of what I christened the RMO ATM (Automated Trend Modules)

The Next Gen : RMO ATM

With such great feedback on the RMO and all the experience, my mind was fertile with ideas, and I truly believe the RMO ATM shaped up to be a game changer. An add-on that redefined scanning technology, an add-on that detects sideways markets, and an add-on that works on optimization so its internal indicators are tailor made and adjusted to the symbol you open!

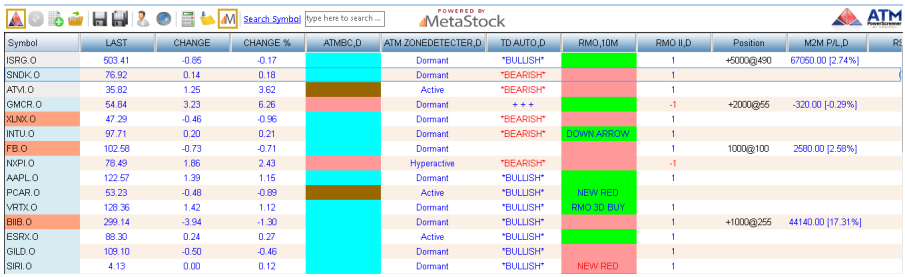
Below you will find a brief outline of the arsenal of Proprietary and Exclusive RMO ATM indicator studies. To learn more interactively about these tools, would suggest you also visit and watch the video http://virat-echindia.com/MetaStock-rmo.html

ATM PowerScreener Application

Gone are the days you need to manually build or run a scan. Using the ATM PowerScreener application you get automated alerts as they happen that too on the precise symbols and strategies you trade!

You can even set the program to run it on a periodicity of your choice and get it to shoot out live voice and email alerts based on single / multiple criteria. It virtually ensures you never miss a trade!

Your "GO TO Screen"
Real-time, Handsfree Scanners with VOICE Alerts!



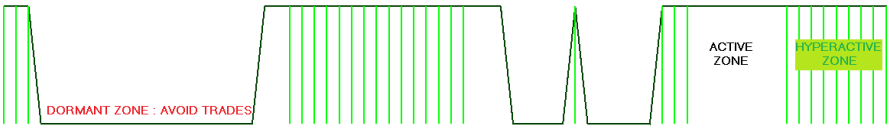
Symbol	LAST	CHANGE	CHANGE %	ATMBC,D	ATM ZONEDETECTER,D	TD AUTO,D	RMO,10M	RMO II,D	Position	M2M P/L,D	RS
ISRG.O	503.41	-0.85	-0.17		Dormant	*BULLISH*		1	+5000@490	67050.00 [2.74%]	
SNDK.O	76.92	0.14	0.18		Dormant	*BEARISH*		1			
ATVI.O	35.82	1.25	3.62		Active	*BEARISH*		1			
GMCR.O	54.84	3.23	6.26		Dormant	+ + +		-1	+2000@55	-320.00 [-0.29%]	
XLNX.O	47.29	-0.46	-0.96		Dormant	*BEARISH*		1			
INTU.O	97.71	0.20	0.21		Dormant	*BEARISH*	DOWN ARROW	1			
FB.O	102.58	-0.73	-0.71		Dormant			1	1000@100	2580.00 [2.58%]	
NXPI.O	78.49	1.86	2.43		Hyperactive	*BEARISH*		-1			
AAPL.O	122.57	1.39	1.15		Dormant	*BULLISH*		1			
PCAR.O	53.23	-0.48	-0.89		Active	*BULLISH*	NEW RED				
VRTX.O	128.36	1.42	1.12		Dormant	*BULLISH*	RMO 3D BUY	1			
BIIB.O	299.14	-3.94	-1.30		Dormant	*BULLISH*		1	+1000@255	44140.00 [17.31%]	
ESRX.O	88.30	0.24	0.27		Active	*BULLISH*		1			
GILD.O	109.10	-0.50	-0.46		Dormant	*BULLISH*		1			
SIRI.O	4.13	0.00	0.12		Dormant	*BULLISH*	NEW RED	1			

ATM RMO (SUPERFILTER)

The ATM RMO is the best one to start with as it aims at even further refining MetaStock's inbuilt RMO Trade Model using optimization models. I also call it the "Super-filter" as it delivers a more confirmed viewpoint than ever. It grades the market trend into 4 types / colours and our focus should be to enter on light blue / blue when buying and orange / red if going short. The illustration below it often gives you an early indication, and also has the ability to smoothen out signals.

ATM Zone Detector & Zone Fill

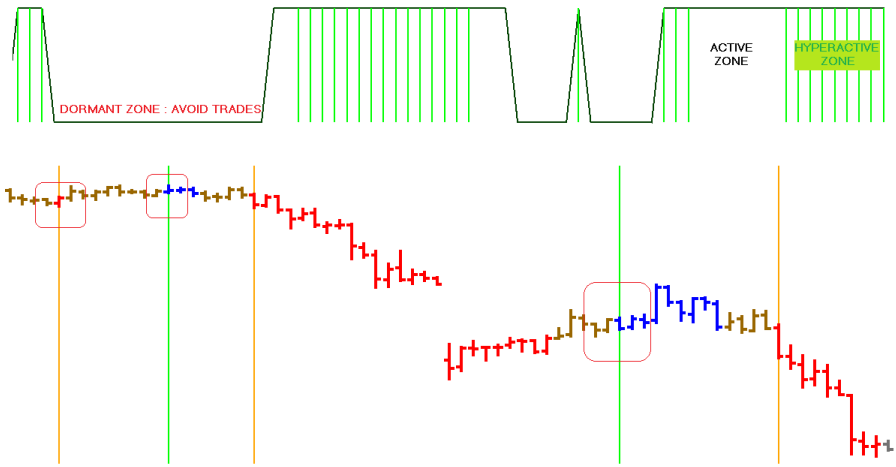
Using the ATM Zone indicators you will know if you are in a dormant market. This will help save you from multiple whipsaws that typically occur when the markets get sideways courtesy little / low volume and volatility.



ATM Breakout Catcher

The ATM Breakout Catcher solves the direction puzzle straight out. It auto interprets if the market is in a Bullish, Bearish or Neutral phase. Notice in the illustration, the study paints the bars in BLUE, RED or KHAKI colour. BLUE indicates strength RED weakness and KHAKI suggests indecision or a possible phase of transition.

You can detect trend changes accurately without much of a lag effect using this indicator.

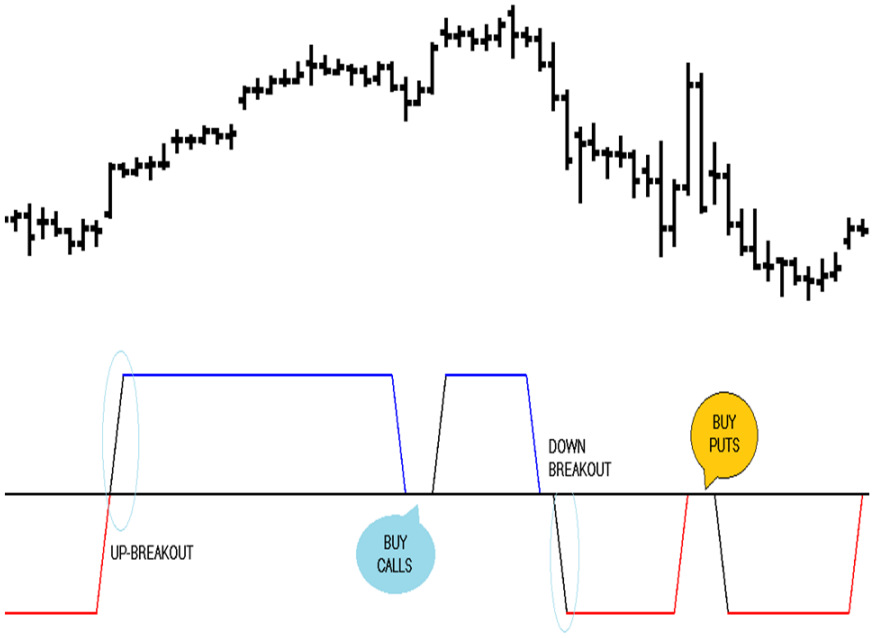


ATM SWI

The ATM SWI (ATM Strength Weakness Indicator) is a tool that focuses on using Volume data to analyse the trend. It measures the strength or weakness on the trend based on volume action and divides the market

ATM RMO II+ and ATM RMO II -

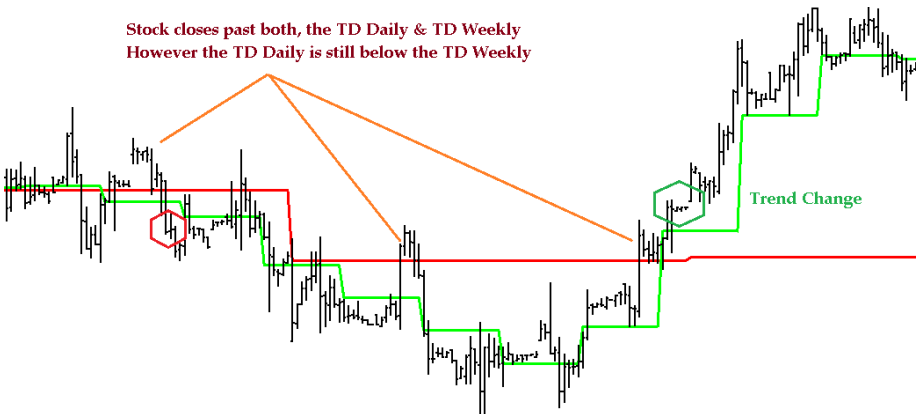
The ATM RMO II is multi faceted; it not only identifies the current established trend, but also lets you tactically detect trading opportunities that fit your trading style. The Options trader too would find the ATM RMO II exceptionally helpful as it would help Buy Call Options in a falling market and Put Options in a Rising market!



ATM TrendDecider

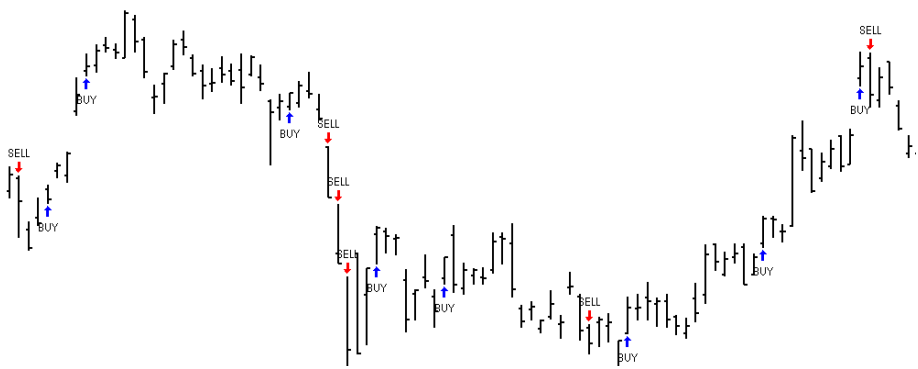
The TrendDecider gives you single levels of Support / Resistance plotted on your price chart, which when broken out should result in a change in trend. As the name suggests the level plotted is the deciding factor and denotes if the trend is "Bullish" or "Bearish"

One of the clear cut advantages of using the Trend Decider tools is the fact that it integrate multiple timeframes including Daily – Weekly – Monthly chart data onto one single interval chart giving you a more holistic view of the trend!



ATM Counter Trend Indicator

The ATM CTI (Counter Trend indicator) is designed to automatically stamp Buy and Sell signals on the chart based on price breakouts from zones of high volume and / or high volatility. It's designed to be a sharp yet automated signaling method that works best when viewed with a counter trend approach.



In Conclusion...

Work on the trader in you, let MetaStock be the analyst!

A few well tuned indicators presented succinctly, was a whole lot more successful than drawing scores of lines and mixing and matching a large bouquets of indicators and timeframes manually.

Our markets have changed and it's about time out indicators and approach change!

Good luck in your journey, **the biggest secret lies in YOU.**

About Rahul Mohindar

Rahul Mohindar is the director of Viratech Software and an active trader who appears regularly on CNBC India & Bloomberg. Besides being a market panelist, Mr. Mohindar has also been a guest lecturer across renowned stock exchanges, universities and business schools.

Mr. Mohindar's findings and research on the markets have been carried in leading business daily's including the Economic Times and Hindu.

Besides the RMO ATM, Rahul has developed the Rahul Mohindar Oscillator (RMO for short) which detects trends in financial markets and is designed to work on Open-High-Low-Close-Vol charts for a wide variety of stocks, futures, options, and FOREX.

Rahul was one of the only few analysts that called a SELL on equities several times in February 2020 before the current crisis after which global indices crashed over 35%, his calls were featured on both CNBC & Bloomberg and he has time and again caught the attention of traders globally.

John Bollinger on Bollinger Bands®

BY JOHN BOLLINGER

Bollinger Bands are available on MetaStock and most charting platforms, and MetaStock offers a Bollinger Bands Tool Kit add-on. Bollinger Bands are so popular worldwide because they tell traders whether prices are high or low on a relative basis; vital information for profitable investing.

Bollinger Bands are a technical trading tool I created in the early 1980s. They arose from the need for adaptive trading bands and the observation that volatility was dynamic, not static as was widely believed at the time.

The purpose of Bollinger Bands is to provide a relative definition of high and low. By definition prices are high at the upper band and low at the lower band. This definition can aid in rigorous pattern recognition and is useful in comparing price action to the action of indicators to arrive at systematic trading decisions.

Bollinger Bands consist of a set of three curves drawn in relation to securities prices. The middle band is a measure of the intermediate-term trend, usually a simple moving average that serves as the base for the upper and lower bands. The interval between the upper and lower bands and the middle band is determined by volatility, typically the standard deviation of the same data that were used for the average. The default parameters, 20 periods and two standard deviations, may be adjusted to suit your purposes.

Bollinger Bands can be applied in all the financial markets including equities, forex, commodities, and futures and they can be used in most time frames, from very short-term periods, to hourly, daily, weekly or monthly.

22 Bollinger Band Rules, By John Bollinger, CFA, CMT

One of the great joys of having invented an analytical technique such as Bollinger Bands is seeing what other people do with it. The rules below covering the use of Bollinger Bands were assembled in response to questions often asked by users and our experience over 30 years of using the bands. While there are many ways to use Bollinger Bands, these rules should serve as a good beginning point.

1. Bollinger Bands provide a relative definition of high and low. By definition price is high at the upper band and low at the lower band.
2. That relative definition can be used to compare price action and indicator action to arrive at rigorous buy and sell decisions.
3. Appropriate indicators can be derived from momentum, volume, senti-

ment, open interest, inter-market data, etc.

4. If more than one indicator is used the indicators should not be directly related to one another. For example, a momentum indicator might complement a volume indicator successfully, but two momentum indicators aren't better than one.
5. Bollinger Bands can be used in pattern recognition to define/clarify pure price patterns such as "M" tops and "W" bottoms, momentum shifts, etc.
6. Tags of the bands are just that, tags not signals. A tag of the upper Bollinger Band is NOT in-and-of-itself a sell signal. A tag of the lower Bollinger Band is NOT in-and-of-itself a buy signal.
7. In trending markets price can, and does, walk up the upper Bollinger Band and down the lower Bollinger Band.
8. Closes outside the Bollinger Bands are initially continuation signals, not reversal signals. (This has been the basis for many successful volatility breakout systems.)
9. The default parameters of 20 periods for the moving average and standard deviation calculations, and two standard deviations for the width of the bands are just that, defaults. The actual parameters needed for any given market/task may be different.
10. The average deployed as the middle Bollinger Band should not be the best one for crossovers. Rather, it should be descriptive of the intermediate-term trend.
11. For consistent price containment: If the average is lengthened the number of standard deviations needs to be increased; from 2 at 20 periods, to 2.1 at 50 periods. Likewise, if the average is shortened the number of standard deviations should be reduced; from 2 at 20 periods, to 1.9 at 10 periods.
12. Traditional Bollinger Bands are based upon a simple moving average. This is because a simple average is used in the standard deviation calculation and we wish to be logically consistent.
13. Exponential Bollinger Bands eliminate sudden changes in the width of the bands caused by large price changes exiting the back of the calculation window. Exponential averages must be used for BOTH the middle band and in the calculation of standard deviation.
14. Make no statistical assumptions based on the use of the standard deviation calculation in the construction of the bands. The distribution of security prices is non-normal and the typical sample size in most deployments of Bollinger Bands is too small for statistical significance. (In practice we typically find 90%, not 95%, of the data inside Bollinger Bands with the default parameters)
15. %b tells us where we are in relation to the Bollinger Bands. The position within the bands is calculated using an adaptation of the formula for Stochastics

16. %b has many uses; among the more important are identification of divergences, pattern recognition and the coding of trading systems using Bollinger Bands.
17. Indicators can be normalized with %b, eliminating fixed thresholds in the process. To do this plot 50-period or longer Bollinger Bands on an indicator and then calculate %b of the indicator.
18. BandWidth tells us how wide the Bollinger Bands are. The raw width is normalized using the middle band. Using the default parameters BandWidth is four times the coefficient of variation.
19. BandWidth has many uses. Its most popular use is to identify "The Squeeze", but is also useful in identifying trend changes...
20. Bollinger Bands can be used on most financial time series, including equities, indices, foreign exchange, commodities, futures, options and bonds.
21. Bollinger Bands can be used on bars of any length, 5 minutes, one hour, daily, weekly, etc. The key is that the bars must contain enough activity to give a robust picture of the price-formation mechanism at work.
22. Bollinger Bands do not provide continuous advice; rather they help identify setups where the odds may be in your favor.

For the 30th anniversary of Bollinger Bands, John Bollinger held a special two-day seminar teaching how to use Bollinger Bands and which indicators to use for confirmation. Comprehensively covered are the classic Bollinger Band indicators, John's newest Bollinger Band indicators, volume indicators including open and closed forms, technical analysis techniques including M & W Patterns and, Three Pushes to a High.

In more than eight hours of presentations John teaches you everything you need to know to trade effectively using Bollinger Bands. This is your opportunity to master the entire suite of Bollinger Band tools – including John Bollinger's newest work. For information about Bollinger Band DVDs and educational materials and events visit http://www.BollingerBands.com

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About John Bollinger

John Bollinger, CFA, CMT, is the president of Bollinger Capital Management, a firm that provides money management and proprietary technical analysis research and tools for institutions and individuals. He is internationally known as the developer of Bollinger Bands which are utilized worldwide for analyzing the financial markets. His book, "Bollinger on Bollinger Bands" has been translated into twelve languages and he is the founder of eight websites for investors.

Mr. Bollinger is the recipient of the Technical Securities Analysts Association of San Francisco Lifetime Award for Outstanding Achievement

in Technical Analysis, the 2005 Market Technicians Association Annual Award for Outstanding Contribution to the Field of Technical Analysis and the IFTA Lifetime Achievement Award.

For educational materials and speaking engagements visit www.BollingerBands.com.

Volatility Derivatives

BY LARRY MCMILLAN

In 1993, the CBOE formally published the Volatility Index, VIX – the first and still the foremost index of volatility in existence. But the mere publication of VIX was just something traders could observe; they could not trade it. Eventually, though, in 2004, listed futures on VIX were introduced. The CBOE created its own futures exchange, the CBOE Futures Exchange (CFE) for this purpose. Futures were listed on both realized volatility (variance futures) and on implied volatility (VIX futures). Variance futures have not proven to be very popular with the populace who trades listed derivatives, but VIX futures have. Listed options on VIX were introduced in 2006. These products allowed listed option traders to address volatility directly for the first time. For those who don't trade derivatives, the volatility Exchange Traded Note (ETN) – VXX – was listed in 2009.

These have been some of the most successful new products ever introduced, and their popularity continues to grow among both speculators and hedgers – those looking to protect stock portfolios.

Historical and Implied Volatility

Most of the time, actual volatility declines in bull markets and increases in bear markets. One reason is that, in bull markets, stocks tend to advance almost every day. But, in bear markets, declines are often punctuated with sharp, short-lived rallies, and so the standard deviation of the daily price changes is much greater. In fact, novice investors and certain members of the media interchange the terms "volatility" and "price decline." They might say "the market is volatile," when what they mean is "the market is down." This is incorrect, of course.

Implied volatility, however, is strictly a component of option pricing, and is a forward-looking measure. It is the volatility that one would have to use in a theoretical model (such as the Black-Scholes model) in order for the model's estimate of "fair value" to be equal to the current market price of the option. There is not a specific formula for calculating implied volatility; rather, it is an iterative process.

Calculation of VIX

The original CBOE Volatility Index calculation was released in 1993. It used the weighted implied volatilities of four series of OEX options, centered about the current OEX price – one strike above the OEX price, one below, in each

of the first two expiration months.

By 2003, SPX options had become the most liquid index options, so the CBOE revamped the calculation of VIX. The "old" VIX remains – its symbol was merely changed to VXO. The "new" VIX was based on SPX options, and incorporated nearly all of the strikes trading in the first two expiration months. In the vernacular, it is said that the "new" VIX is based on the "strips" of options expiring in the first two months. The actual formula, which is complicated, can be found on the CBOE web site, along with other papers on the subject.

Both the old and new VIX are 30-day volatility measures. That is very important, for longer term derivatives, expiring many months in the future will not track VIX well, for this very reason. What this 30-day estimate means, in mathematical terms, is that the two strips of SPX options that are used in the VIX calculation have a different weighting each day. As time passes from one month to the next, the strip of SPX options in "near" month gets less weight and the strip in the "far" month gets more.

The VIX calculation is versatile. It can be applied to any set of options where continuous markets (bids and offers) are being made in the two strips of options in the two front months. As a result, a VIX-like calculation of volatility can be made for nearly every listed stock, index, or futures options. In recent years, the CBOE has begun publishing VIX calculations, and in some cases trading futures and options, on gold, crude oil, and the Euro (foreign currency). These used the options of the popular ETF's GLD, USO, and FXE, respectively. Also, VIX calculations are being broadcast on a number of other ETF's and some individual stocks – which, at this time, include Apple (AAPL), Amazon (AMZN), Goldman Sachs (GS), Google (GOOG), and IBM (IBM), and the following ETF's: Emerging Markets (EEM), China (FXI), Brazil (EWZ), Gold Miners (GDX), Silver (SLV), and Energy (XLE).

It will become necessary, if it isn't already, to qualify what VIX one is talking about. For years, VIX meant the calculation based on the SPX options. But, it really is likely to be called "SPX VIX" as time progresses. To differentiate it from "Gold VIX," "Apple VIX," and so forth.

Listed Volatility Futures

In 2004, the CBOE created its futures exchange – the CFE – with only two products in mind: listed futures on historical and implied volatility. Implied volatility futures – or VIX futures, as they are commonly known – have proven to be the far more popular product.

Do not skip this section if you are planning on trading any derivative volatility products. Even if you think that you might have no interest in trading VIX futures – only options on VIX – you must understand the futures on

VIX in order to understand the options on VIX.

VIX futures are quoted in price terms, much like VIX. For example, if VIX itself is trading near 20, then the various futures will be trading at prices slightly above 20, most likely. A VIX futures contract is worth $1,000 for every one point move it makes. So if one buys one July VIX futures contract at 21 and sells it at 22, he makes $1,000 less commissions.

The margin required by the futures broker can vary, depending on the price of the futures and only general market volatility. The exchanges are always allowed to raise margin prices to curb speculation if they see fit. At this time, the exchange minimum margin for trading one VIX futures contract is $4,000. Thus, this has tremendous leverage, as do most futures contracts. A four-point move in the contract could double your money or wipe out your initial margin equity.

VIX Futures Expiration Date

VIX futures are listed for several months – at least the next seven contiguous months going forward from today's date. Each futures contract has an expiration date. At first glance, VIX expiration dates seem rather arcane, but there is actually a physical reason for the way these expiration dates are determined, as is the case with many futures expiration dates on all kinds of commodities and financial products.

The expiration of VIX futures in any given month is 30 days prior to the SPX option expiration in the next month. This is always a Wednesday. It may sometimes be the Wednesday before "regular" option expiration (which takes place on the third Friday of the month), or the Wednesday after. Those are the only two possibilities.

> Example: July SPX options expire on Friday, the 19th. June VIX futures will thus expire 30 calendar days prior. That means back up 19 days in July, and 11 in June. Since June has 30 days in all, backing up 11 days from the end of the month, puts the expiration date as June 19th. If July 19th is a Friday, June 19th will always be a Wednesday.

This 30-day "look-back" has to do with providing an arbitrage capability for market makers, which is necessary for liquidity in the VIX options. Moreover, VIX futures are based only on the SPX options that expire 30 days hence – not on two "strips" of options, as VIX itself is.

The actual expiration of the VIX futures takes place on the Wednesday morning of expiration, and a VIX calculation is done, using just the SPX options that are trading with an expiration of 30 days hence. There are rules governing exactly what price to use for the SPX options – an average of the bid

and offer, or the last sale – that can be found on the CBOE web site.

Once this "expiration-day-only" VIX computation is made, the VIX futures expire and settle for cash at that price.

> Example: The VIX settlement price is disseminated by the CBOE under the symbol VRO (quoted as an index). Suppose that an account had bought a single June VIX futures contract at a price of 23.25 and held it until expiration. Furthermore, suppose that at expiration, VRO is determined to be 20.84. Then a realized loss of 2.41 points, or $2,410 dollars, would be booked into his account, and the futures position would be removed from the account. In reality, the futures would have been marked to market daily is his account, so that $2,410 loss would have been accumulating for some time.

Futures Compared to VIX – Premiums or Discounts

If a futures contract is trading at a higher price than VIX, it is said to be trading at a premium. Conversely, if a futures contract is trading a lower price than VIX, it is said to be trading at a discount. In other words – as is the case with S&P futures and many other futures contracts – the terms premium or discount refer to the relationship of the futures with respect to VIX, not the other way around. That is, one would not say "VIX is trading at a discount to the futures contract," but would instead say "the futures contract is trading at a premium to VIX."

When one talks about the collective status of the premiums on all the futures contract, he is said to be referring to the term structure of the futures. It is usually the case that the various futures contracts – extending out seven months in time, or more – trade in a pattern. One pattern that is fairly common is to see larger and larger premiums on the futures, as one looks farther out in time.

> Example: this is an example of a positive-sloping term structure:
>
VIX:	13.45
August VIX futures:	15.09
September VIX futures:	18.17
October VIX futures:	20.28
November VIX futures:	21.92
December VIX futures:	23.01
January VIX futures:	24.94
February VIX futures:	26.03
March VIX futures:	26.70

See how each futures contract is trading at a slightly higher price than its predecessor? That is a positive slope to the term structure.

A positive-sloping term structure usually exists during bullish markets and/or if VIX is quite low-priced. A negative-sloping term structure is possible as well, and that usually exists during the throes of an ongoing bear market, especially if VIX is high-priced.

In these regards, the term structure can sometimes be a good indicator of whether the market is overbought or oversold, for if the term structure slopes "too steeply" in one direction or the other, odds are it will flatten out somewhat, and the stock market will reverse direction – at least temporarily – in order for that to occur. The above sample prices show a very steep term structure, and thus describe an "overbought" stock market.

Novice traders often ask why these futures trade at such different prices than VIX, even the short-term ones. Besides the natural term structure of option pricing, there is another important factor – the way that VIX is computed as compared to what the VIX futures measure. Recall that, in the VIX calculation, one uses the two near-term strips of SPX options, whereas the futures only use the SPX options that expire 30 days hence.

As an example, examine what happened in August 2011, when VIX exploded to 48 as the stock market collapsed, but VIX futures didn't come close to that level. When VIX closed at 48 on August 8th, 2011, the near-term (front month) August VIX futures settled at a 36.55 – a huge discount of 11.45. The September futures (second month) discount was a rather stupendous 17.80 on that day, for the Sept VIX futures settled at a price of 30.20.

The reason this occurs is that VIX and the futures do not have the same components. VIX and VIX futures prices are based on the implied volatilities of SPX options. On that date, VIX was a weighted calculation of the August and September SPX options. The VIX futures however, are based on just one strip of SPX options – those that expire 30 days after the VIX futures expiration. Hence, on that date of August 8th, August VIX futures were based on the SPX September options. Similarly, September VIX futures were based on SPX October options.

In rough terms, the average implied volatility of SPX August options on that day was about 58%, while the average September SPX option was about 36%, and the average October SPX option was about 30%. VIX was a blend of the 58% and 36% – resulting in VIX being at 48. But August VIX futures reflect the volatility of September SPX options (36%) and September VIX futures reflect the volatility of October SPX options (30%). Hence the difference in pricing.

It has nothing to do with market makers or other traders trying to make unreasonable volatility predictions for the coming months. It does have to do with the term structure of SPX implied volatilities inverting steeply in a very bearish market.

Volatility ETF's and ETN's

Once the popularity of Volatility futures became evident, other entities tried to copy the product. The CBOE and CFE have certain licensing agreements in place, so the exact same products could not be duplicated. That is, it is not possible to create another futures exchange and then start trading volatility futures in the same way. However, a number of ETF's (Exchange Traded Funds) and ETN's (Exchange Traded Notes), which utilize the VIX futures, have been created.

The first, and the most popular and liquid, of these is the Barclay's Bank creation, VXX. It is formally known as the iPath S&P 500 VIX Short-term Futures Exchange Traded Note. It was launched on January 31, 2009, and has been a way for entities that cannot or will not trade futures and options to trade volatility. The components of this ETN are the two front-month VIX futures that trade on the CFE. Barclays rolls them daily, to keep them in the proper ratio according to the VIX formula.

VXX is, by far, the most active and popular of the volatility ETF's and ETN's. However, others are gaining in popularity and – due to the overall demand for volatility hedging products – there will probably continue to be more of these in the future. VIXY is an ETF, which essentially duplicates VXX. TVIX is double the speed of VXX. XIV is the inverse of VXX. There are many others, as well.

A Potential Problem With ETF's and ETN's

One of the main problems with commodity-based ETFs is they don't necessarily track the underlying commodity very well. This is mainly due to the fact that the ETF is forced to trade the futures contracts, and there are times when it isn't feasible for the ETF managers to roll from one futures contract to the next without making a "losing" trade that puts drag on the performance of the ETF vis-a-vis the spot index or commodity itself. For example, when the term structure has a positive slope (which is most of the time), each daily "roll" costs the long volatility (VXX or VIXY) ETF some money.

It should also be pointed out that an ETN is essentially subordinated debt issued by the underwriter. Hence, if you own VXX and Barclay's were to go out of business, your VXX shares could be worth only pennies on the dollar. This is a remote possibility, but not impossible.

Listed VIX Options

Some of the ETN's, such as VXX, have listed options. Those options are of the "normal" variety – expiring on the third Friday of the month, and settling into

VXX shares if they are exercised or assigned.

But the options on the VIX index itself are cash-based options, settling for cash on their expiration day – ostensibly like OEX or SPX options do. The same "a.m." VIX futures settlement price that was discussed earlier is used for the VIX options settlement.

> Example: a trader owns a VIX July 25 put. He does not exit the contract in the open market, but rather holds it until expiration. The settlement price (VRO) is determined to be 20.84. The July 25 put is thus 4.16 points in the money (25 minus 20.84), and the customer would receive $416 in his account, while the put contract would be removed from the account.

But nearly all other aspects of VIX option trading are different from other listed equity or index options, whether they be cash-based or not.

First, VIX options expiration dates are the same as VIX futures – 30 days prior to the next SPX option expiration. That date is always a Wednesday, often the Wednesday before the third Friday, but occasionally the Wednesday after the third Friday.

But the most important thing to understand about VIX options is they are priced off the VIX futures – not off of VIX itself. As an aside, then, each month's VIX options actually have a different underlying index – the corresponding VIX futures contract. If one is discussing IBM, October IBM and December IBM, say, have the same underlying – IBM's stock price. Same for an index, such as SPX. But not the same for VIX options, since each month's underlying futures contract is a reflection the implied volatility of the SPX options expiring in each separate month.

> Example: On February 24, 2006, on the first day of VIX option trading, VIX was trading at 11.46. The following were the prices of the VIX put options with a striking price of 15:
>
> | | |
> |---|---|
> | VIX Index: | 11.46 |
> | VIX March 15 put: | 3.00 |
> | VIX April 15 put: | 2.55 |
> | VIX May 15 put: | 2.00 |

First of all, this looks rather strange, doesn't it? The longer-term puts sell for a lower price than the near-term ones? But any option trader will always relate an option's price of parity, first of all. For a normal American-style option, parity of an in-the-money put is the striking price minus the underlying price.

If we (erroneously) assume VIX is the underlying, then we would calculate:

Parity = 15 – 11.46 = 3.54

These puts are trading well below parity, it seems. The May 15 put seems to be trading at nearly a point and a half discount to parity.

What is possibly going on here? The answer to that question lies in the fact that, for pricing purposes prior to expiration, the underlying for these VIX options is not VIX itself (at least not until the last instant of their life), but rather the VIX futures. Consider, then, this further piece of information, Table 1:

Table 1: VIX Options and Futures Prices		
Option Contract	Option Price	Futures Price
VIX March 15 put	3.00	March: 12.10
VIX April 15 put	2.55	April: 12.76
VIX May 15 put	2.00	May: 13.86

Consider the following general information about a proverbial XYZ option:

If we have XYZ: 13.86
And we have an XYZ May 15 put: 2.00

One would not think there is anything unusual about this. XYZ stock is slightly below the striking price of 15, and it's 1.14 in the money (15 minus 13.86). The put option is trading at 2.00 – well above intrinsic value.
Now substitute the data for the May 15 put from Table 1:

May VIX futures: 13.86
VIX May 15 put: 2.00

Now, the option prices in Table 1 make sense – if you consider that the underlying is the futures contract and not VIX itself. In fact, VIX may differ from the futures prices by a substantial amount, as we have seen from earlier examples. Not until the settlement process takes place does VIX have to converge with the near-term futures price. Hence, for nearly all of a VIX option's life, the price of VIX itself is a piece of irrelevant information! True, there may be strategies we can employ knowing that the near-term futures and VIX will have to eventually converge, but for the purpose of pricing the options, VIX is not needed. VIX options are priced off of the futures contracts.

VIX Option "Calendar" Spreads

Using these same concepts, let's see how what appears to be a rather benign strategy – the call calendar spread – can actually have some unexpected results. The following examples closely replicate what actually happened in the fall of 2008, much to the chagrin of both customers and their brokerage firms.

Date: September 8, 2008
VIX: 22.64
VIX Oct 25 call: 1.75
VIX Nov 25 call: 2.15

Most brokerage option platforms at that time – and, sad to say, most still today – do not calculate option Greeks and implied volatility correctly, because they are not "smart enough" to use the futures prices as the underlying. Rather they just use VIX, which we know is wrong. That contributed to the problem. Using VIX (incorrectly) as the underlying, it appears that the implied volatilities of these two options are out of line – that the Oct 25 call is trading with a much higher implied than the Nov 25 call. Thus, traders thought that a call calendar spread might make sense.

VIX Call Calendar:
Buy Nov 25 call and Sell Oct 25 call for 0.40 debit

Now, if this were IBM or an index, or anything besides the equivalent of a futures option, you know that a "regular" calendar spread risks the initial debit (0.40 in this case) and can make a limited profit, depending on where the underlying is at the time of near-term (October) expiration and what the implied volatility of the long-term (November) call is at that time. There isn't any such thing as "November IBM" and "October IBM." IBM is just IBM.

But these are not IBM options, and what happened was devastating to some.

Date: October 10, 2008
VIX Oct 25 call: 31.60Oct VIX futures: 56.60
VIX Nov 25 call: 13.70Nov VIX futures: 38.30

This VIX call calendar spread is now trading at minus 17.90 points. Thus, to exit the spread costs another $1,790! You would have to buy back the Oct 25 call for 17.90 more than you get from selling out your long Nov 25 call. Since you already paid $40 to enter the spread, your total loss is $1,830 plus commissions.

Traders who used this strategy lost a lot of money, and in many cases their brokerage firms did too, because those brokerage firms had not properly margined the position – thinking it was a "normal" calendar spread. Now, most

experienced brokerage firms are asking for naked margin for any short options in a VIX calendar spread or diagonal spread; only vertical spreads receive the usual reduced margin requirement.

Using VIX Derivatives

Trading VIX options as a speculative vehicle can be quite interesting, for VIX can be very explosive. If VIX is very low-priced, it can rise tremendously if a bearish market takes place. Essentially, VIX trends opposite to the stock market.

Almost any strategy that one would employ with "regular" stock or index options can be constructed with VIX options, but be aware that VIX rarely falls below 10 or rises above 50 (although it did reach 93 in the financial crisis of 2008, and theoretically would have reached 150 in the Crash of '87, according to the CBOE).

Another use is as protection. If one owns a portfolio of stocks behaving in a manner similar to the broad stock market, then an effective hedge against some downside risk would be to own VIX futures or options (or the volatility ETNs or their options).

Volatility has become an asset class. Volatility derivatives are going to be a major factor in portfolio strategy in the coming years, and they already are for the more sophisticated traders. Furthermore, more and more individual stocks and ETFs will have volatility derivatives as well. Hopefully, this article will get the reader interested enough to search out further information on the topic.

About Lawrence G. McMillan
Lawrence G. McMillan is the author of "Options as a Strategic Investment", the best-selling work on stock and index options strategies, which has sold over 300,000 copies. The fifth edition of this work was released, in August, 2012. He also edits and publishes several option-oriented newsletters as President of McMillan Analysis Corporation, which he founded in 1991.

He writes about volatility derivatives daily and in feature articles in The Option Strategist newsletter. For anyone who is interested in sampling that newsletter, please go to www.optionstrategist.com, and order any subscription to The Option Strategist. Receive 50% off, if you enter the Coupon Code SSTBOOK when subscribing.

How to Manage the Highs and Lows in Trading

BY PRICE HEADLEY

In order to manage your emotions effectively when trading, you need to create a written plan that you can review regularly to stay focused on your goal of trading success. By writing down your plan, you put yourself in the top 3% of individuals who have written goals and plans, giving you an immediate edge on most traders. Make sure you have answered these questions, which are covered in further depth in my book, *Big Trends in Trading:*

1. How will you enter trades? The key to good entries is putting on trades where there is relatively low risk compared to much higher reward. You should also write down a clear catalyst for the expected stock move.
2. How will you exit trades? You should define an initial stop point for your trade, at the point where the trend is invalidated. You will also need a 'trailing stop' technique to protect your profits.
3. What type of orders will you use to enter and exit? When entering, I like to use limit orders, good for the day only, while exits are often market orders. Why? Because limit orders allow me to define my risk and reward clearly on the entry of a trade, while when I need to get out, market orders allow immediate exit compared to the risk of missing my exit with a limit order.
4. How much capital will you need to trade successfully? There are economies of scale as you increase the amount of capital you trade with. Costs related to commissions, quote systems and equipment begin to diminish as the percentage of capital invested goes up.
5. What percentage of your capital will you invest in each trade? The amount of capital I typically use is 10% per trade in my own accounts. I know traders who commit anywhere from 5% of their account per trade, to 20% of their account per trade. Your goal should be to keep portfolio risk per trade at less than 2% per trade. For example, if you invest 20% of your portfolio in a trade, a 10% loss on that position would lead to a 2% loss on your portfolio.
6. How many positions will you focus on at once? I like to concentrate my portfolio on my best ideas, plus I like to stay focused on how each stock is acting. If my portfolio is too big (I'd say more than seven stocks is too many to focus on), then I will lose focus and invariably miss an exit on a trade that I should have previously exited.
7. What will your Trading Journal look like? In my Trading Journal, I note daily observations, particularly related to my ability to execute my trading plan. I also commit to doing a post-trade analysis every month. I note what I did right and wrong, and seek to learn from mistakes to minimize

future errors in similar circumstances, while also looking for winning patterns where I seek to repeat big successes.

8. What is your Position Review process? I suggest you have an end-of-day routine to close your day. Review your trades, and assess if you followed your plan. Keep a log of all your trades, and make comments on each position.
9. What is your Preparation process before trading? You need defined time to prepare for the next trading day and build up your trading confidence. I prepare after the close for the next day's trading, which allows me to formulate a plan of action BEFORE I get into the heat of battle. This keeps my trading proactive instead of reactive.
10. What broker will you use? Most traders mistakenly think that commissions are the number one factor they can control. In reality, commissions are a small cost compared to the broker's effectiveness at executing your trade. Your focus should be finding a broker who gets you speedy and fair execution of your orders.

Once you have defined these facets of your trading plan, you are in an excellent position to have a strategy to control your emotions when trading. Make sure to review your plan on a regular basis to create effective trading habits.

Psychological Issue #1 in Trading: Perfectionism

Why do we let losses ride and cut profits short? Perfectionism tends to keep traders from taking their losses quickly, as they are too concerned about looking good to others and not wanting to admit they are wrong. This leads to the dreaded hope for a return to 'break even', to get out without a loss. But does the market care about where you bought the stock? NO! The market is going to go wherever it wants to go, and your job is to see that trend, recognize when you are not in tune with it, and get out of such trades.

We all have this tremendous desire to prove ourselves right. But in the markets, we should concern ourselves more with making money than the amount of times we are proved right. This means winning ideas need to be ridden longer than average, while losers need to be cut short quickly. Our school training says there is one right answer, but in the markets there are many ways to win.

Perfectionism cannot only keep you hanging on to losers too long, it can also keep you out of the best performing stocks. On stocks that rally sharply, I sometimes have to fight the feeling that I've already missed out on the move. In retrospect, many of these stocks go on to much bigger gains than the initial gain I missed. Traders tend to desire a perfect entry, and this leaves them on the sidelines during major trends. It is these huge trending trades that have carried my portfolio historically, so I have to make sure I am participating in

these big moves.

Ironically, perfectionism does not lead to higher performance or greater happiness. Perfectionism can destroy your enjoyment of trading. Focusing on flaws and mistakes depletes energy. This may escalate to panic-like states prior to making the trade, impairing objective performance. At some point perfectionist standards get set too high, and life is measured in units of accomplishment. The drive to be perfect becomes self-defeating, as the individual often places the intense pressure on himself, which can become crippling.

Perfectionists share a belief that perfection is required to be accepted by others. The reality is that acceptance cannot be gained through performance or other external factors like money or social approval. Instead, self-acceptance is at the root of happiness. Ultimately you must be the one who must live with yourself. If others think you're perfect, but you yourself are never happy, then perfectionism is not helping you to grow and develop to your fullest potential.

One way to be less of a perfectionist is to set one goal and make it process oriented, instead of being focused on the outcome. If you achieve the goal to improve your trading via that goal, you win no matter the outcome. Perfectionists often seek to control uncontrollable factors in a trade. For example, waiting for all the risk to be out and everything to look perfect (the quality of the fill on the exit especially), hoping or 'willing' a better outcome by doubling down on a loser, etc.

When a trader focuses on these "uncontrollables", he is more likely to tighten up and resist pulling the trigger and exiting a losing trade, or he'll miss out on a new winner that has moved 'too far.' By focusing on a process that you can control (such as to focus on only five stocks at a time, or work on implementing your entries and exits consistently with a small amount of money to improve your ability to execute trades, or another process-oriented goal), you build confidence in your ability to execute your trading plan.

Based on these perfectionist tendencies, I recommend the following entry strategy for perfectionists. Enter half a position as soon as you see an opportunity that generates at least three times the reward for the risk at the current market price. Then place the remaining half at your desired 'perfect' entry price. For exits, always place market orders, as the tendency for the perfectionist is to try to get a better exit price with a limit, which often results in missing the exit on the way down.

Psychological Issue #2 in Trading: Fear

One of my subscribers, Vince, recently wrote to me: "Your commentary is truly excellent. And your 'batting average' has been exceptional during this most awful market that I have ever seen. Do you have any general advice that you would be willing to offer on a very serious problem that I – and perhaps many others – am experiencing in recent weeks? The length of this bear mar-

ket – and the substantial financial damage that it's inflicted on me at my age (51), has seriously damaged my investment psychology.

Consequently, while I read and believe your judgment calls, I haven't been able to get myself to act – to pull the trigger, to try to begin to rebuild from the carnage – for several months. So, I guess you might say I'm suffering from the 'deer caught in the headlights' syndrome. Which results in experiencing losses, and not experiencing the gains. These violent moves in both directions, changing on a dime without notice, with an overall 2 1/2 year huge down-move cumulative, have left me at sea. How does one begin to work oneself out of this state of mind after what we have been through?"

Vince is suffering from the fear of trading that, after a string of losses, many traders experience at one time or another. The reality is that human beings tend to do things that either maximize pleasure or minimize pain. Not pulling the trigger on trades becomes a way for traders to minimize pain, because mentally, the thought is that we are not causing ourselves any more damage if we do not trade. The problem is that we then remain stuck in a state of fear until we can TRUST our method again and start taking trades. This is why it's so critical to have a trading plan that is tested, one we'll be able to stick with it.

Here's a game plan for getting yourself back on track:

1. Define Your Trading Plan – If you already have a plan, reexamine it. Are you following your rules for entry, exit and money management? Does your plan still have an edge in the current market conditions?
2. "If In Doubt, Get Out" – Who says you have to trade every day? If you are not pulling the trigger on your trades, it is because you lack confidence in yourself or your plan. Try taking a step back for a short while. Consciously decide not to trade real dollars, but work on paper trading your buy and sell signals. Sure, it's not the same as trading real dollars, but this step allows you to work on executing your trading plan. I have found systematic trading to be much easier than discretionary trading, because it helps take my ego out of the equation. I focus instead on the execution of buy and sell signals, as opposed to my ego wanting to be proved right. Paper trading will allow you to get refocused on execution of your ideas.
3. Measure Your Results – Too often traders may have a good plan, but then lose sight of measuring their results on a regular basis. What happens is that 90% of your trades may be done properly, but it is those 5-10% of your trades that eat you up with big losses. If you monitor your results closely, you should start to develop a "Success Profile" which defines what your best trades look like. Once a trade doesn't fit this Success Profile anymore, you should look to exit –whether at a profit or a loss – as your edge no longer exists.

Psychological Issue #3 in Trading: Lack of Confidence

In trading as in life, how you think determines the results you achieve. Many traders are filled with doubts and a lack of self-confidence, so you need to coach yourself through tough times with positive and self-motivating beliefs. Check to see if you possess the traits and beliefs of winning traders, including:

1. My trading objectives are perfectly clear, and I truly believe I will achieve these goals. If you have the belief that you will win, you increase your chances of trading to win. In order to have this level of conviction, you must have a thoroughly tested plan. You also must have a clear vision of how you will proceed with your plan in order to reach your goal. The more you can visualize your goals being achieved, the more you will strengthen your internal belief and confidence that you will reach your goals.
2. I have created a plan to achieve my trading goals. I'm sure you've heard the saying "I didn't plan to fail; I failed to plan." Without a plan, your results will tend to be mixed and uninspiring. Commit to writing down your trading plan and reviewing it regularly.
3. I prepare my plan before the trading day starts. If you don't have a plan of action once the trading bell rings, you are moving from the proactive mentality into a reactive approach. I contend that the more reactive you become, the more you will get in late to market moves and dramatically diminish your reward-to-risk ratio. I prepare after the close for the next day's trading, seeking to stay proactive and a step ahead of the rest of the crowd.
4. I regularly monitor my trading results to measure my progress toward my goals. Trading results tend to follow a zigzag approach similar to how a plane is guided to its destination. At periodic steps along the way, if a pilot is off course, he will set a new course towards the target. This is called course correction. Once you have defined your trading target, your periodic evaluation should lead you to assess what is taking you off course and encourage you to make the necessary corrections to get you back on target.
5. I quickly discard negative emotions that can hurt my trading results. When you lose, learn from the experience and put it behind you. You cannot afford to dwell on a loss once the trade is complete. You have to have total focus on the new moment and forget about the past, save for the time you allocate to evaluating past trades (which should be done outside market hours).
6. I am focused on the market during the trading day, and not easily distracted by non-market activities during trading hours. This can be a tough one for many traders who have many responsibilities. If this is the case, define the time you will be focused on the market and make arrangements not to be interrupted.

About Price Headley

Price Headley, CFA, CMT founded BigTrends.com in 1999 to help active investors take advantage of real-time stock and options opportunities in both bull and bear markets. You can see him on CNBC & Fox News and in publications such as The Wall Street Journal, Barron's, Forbes, Investor's Business Daily and USA Today. He is a graduate of Duke University and a member of the Market Technicians Association. He is also a chartered financial analyst (CFA) charter holder and a chartered market technician (CMT) charter holder. Mr. Headley authored the Amazon Investing best-seller, Big Trends in Trading.

Identifying the Power Trades with Metastock Scanning and Candlestick Forum RARE (Research Analysis Reverse Engineering)

BY STEPHEN BIGALOW

Do you often ask yourself why other investors seem to be in the big profit moves and you are not? You can change that with a very simple trading strategy!

What is the most logical, yet powerful, trading strategy? MetaStock scanning techniques Identifying the strongest sectors (or weakest sectors), then identifying the strongest trade opportunities in that sector? Wouldn't you like to identify what has caused breakout moves in a strong sector? MetaStock scanning and the Candlestick Forum RARE program makes that easy.

The RARE process is exceedingly simple! Candlestick signal and pattern breakouts reveal dramatic changes of investor sentiment. Reverse engineering is merely investigating what caused the reaction, news, political changes, etc. Then evaluating whatever created the change of investor sentiment will likely continue the price move.

Currently, there are two major aspects for utilizing the RARE process:

1. Politics! Biden's policy changes. The green energy sector is obviously gaining strength. Knowing which sectors are going to be influenced the greatest allows for high probability profitable short-term trades.
2. Longer term fast changing Industries -The electric vehicle industry! There have been huge gains in the electric vehicle stocks over the past two years. This report is not written to recommend which electric vehicle related companies should become your next investment. Whatever might be suggested in this report could be obsolete by the time this report is read. (The term electric vehicle will refer to all alternative energy vehicles)

Electric vehicle sector

There will likely be huge gains in this sector over the next few years. Improving technology will move some stock prices up while diminishing other stock prices . But how do you know which companies in a strong sector is gaining technology advances over their competitors? That is where the MetaStock scanning techniques and the Candlestick Forum RARE program can provide tremendous profitable opportunities.

Although candlestick analysis provides excellent identification of short-term price movements, it also has a very powerful application for longer term investing. Candlestick signals and patterns reveal when there is a buildup or

major change of investor sentiment.

Candlestick pattern breakouts produce an excellent alert system! A strong candlestick bullish signal indicates a major change of investor sentiment. This when this occurs in a strong sector, logic dictates investigating what has caused the new breakout in price.

How does candlestick analysis provide an advantage for profiting from trading in this sector? Simple, the graphics of candlestick charts reveal immediately when there is a change of investor sentiment in any particular stock chart. This becomes very important for being alerted when a company makes an announcement that dramatically improves future prospects for the company.

Why are electric vehicles becoming more acceptable?

Two years ago, investing in the electric vehicle sector was considered a fringe/high risk investment area. The concept of electric vehicles was not an accepted prospect. It would take a lot of changing of public sentiment. To consider a new energy product that would replace the gasoline engine was a futuristic concept.

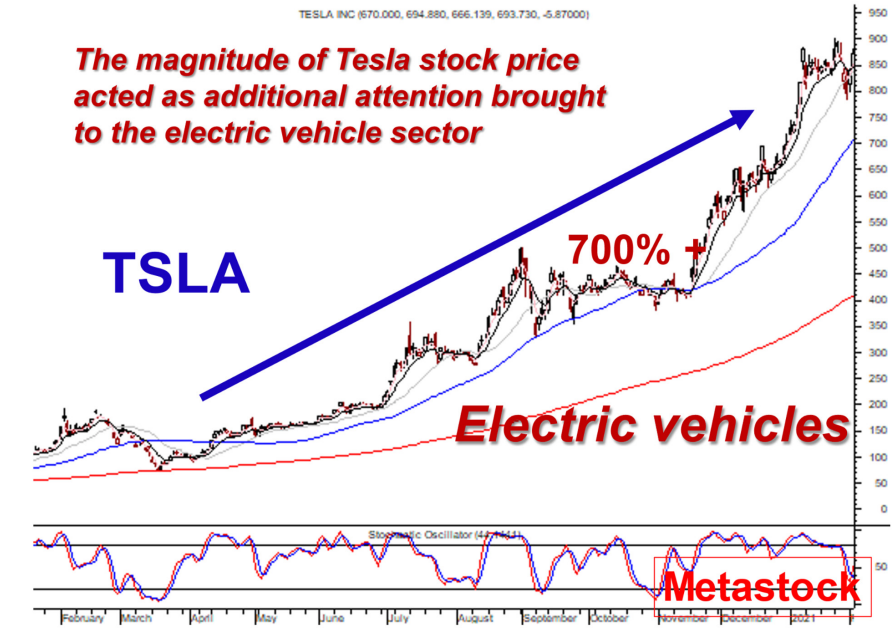
Tesla automobiles were deemed as merely a product that might capture a teeny portion of the vehicle market. They were considered merely a status vehicle or a 'statement' vehicle for the clean energy advocates. However, TSLA stock price has acted as a double promo. The huge gains in Tesla stock constantly produced attention to the electric car vehicle sector.

Elon Musk, making well-publicized projections, made headlines. This brought more attention to the viability of electric vehicles. The general public became more aware of the potential of electric vehicles entering the automobile market based upon his statements that always gained public attention. The constant escalating of the Tesla stock price added more public awareness.

TSLA stock price was a gauge that would monitor the validity of whether Elon Musk's statements were confirmed or not. This produced more publicity for the electric vehicle concept.

Chinese automobile manufacturers, such as NIO, with huge price movement over the past year, also kept the spotlight to the advances that were being created in electric vehicles. NIO stock price, moving up over 1000% during the past 18 months, indicated the electric vehicle industry was not merely a U.S. passing phase.

Clean energy vehicles have become mandatory in China. This is due to the very poor air quality in China's major cities. Currently, China is the world's biggest EV market. But carbon-free transportation still accounts for just around 5% of the country's total auto sales. The country plans to expand its EV market further in a quest to reduce energy imports, address its poor urban air quality, and attract foreign investors into its domestic auto industry.



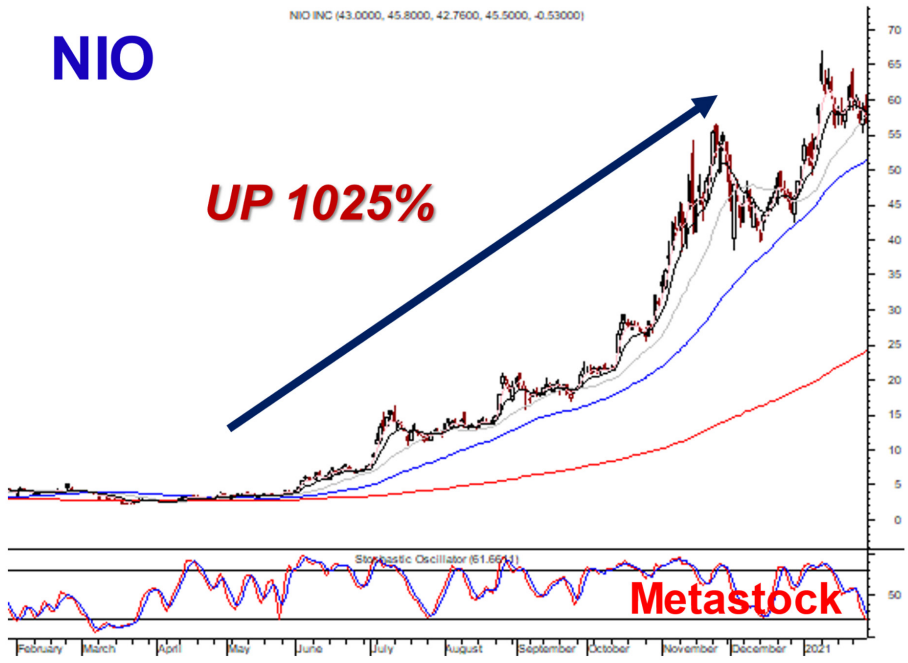
TSLA stock price was a gauge that would monitor the validity of whether Elon Musk's statements were confirmed or not. This produced more publicity for the electric vehicle concept.

Per a report by Deloitte, by 2030 China will account for 49% of the global EV market, Europe will account for 27%, and the United States will hold 14%."

The electric vehicle industry now has a much more viable prospect of gaining huge automobile market share going into the future. There are two major factors that indicate this industry has the momentum of becoming a very large participant in the automobile industry. The development of improved electronics, that the public understood, enhances the prospects of continued success: better batteries, internet connectivity, and better performance, resonates with the public. TSLA, as the considered leader of the EV sector, produced just shy of 500,000 vehicles in 2020. Obviously, that takes their production out of the whimsical product category and makes it more evident that EVs is a viable market contender.

Electric vehicles becoming accepted

There is the realization, of the general public worldwide, that electric vehicles are becoming a very viable element in future transportation. Again,



this is a result of Tesla stock price acting as confirmation of Elon Musk's statements pertaining to his electric vehicles.

Electric vehicles are also looked favorably upon because of the lack of polluting byproducts. Gasoline engines bad! Electric motors good! Electric motors do not produce exhaust emissions.

Electric motors are quiet. This is generally considered a good thing but it does have negative ramifications. People like to hear a car coming. But in general, the conception of an electric motor versus a heavy, pollution producing gas engine, is much more favorable.

As electric vehicles slowly gain more market share, the acceptance of electric vehicles becomes easier for overcoming the doubts that they would be effective running in transportation.

Technology advances

Although the alternative energy vehicles are likely to be capturing much larger shares of the auto market, there are stillmajor negatives regarding stock prices. The technology improvements that have moved alternative energy vehicles into the spotlight, are also a negative aspect for investors.

Technology has both good and bad elements!

The advances in technology have brought this sector into the forefront of investment opportunity. But it also makes for investment risk.

There are two major dynamics when evaluating which companies are going to be taking over large portions of the automobile industry. The different energy concepts have to be evaluated. The fuel-cell companies, producing hydrogen motors, is one area making technology advances. The battery powered electric vehicles are another area.

The fuel-cell companies, such as PLUG, FCEL, BE, producing hydrogen powered engines, might not be able to compete as well in the family vehicle area of the market, but may be more restricted toward heavier/long-haul vehicles. This creates evaluation of which companies, utilizing hydrogen power can advance their technology, to be able to capture the areas of the market in which they are likely to be able to produce vehicles.

The lithium battery powered vehicles would likely be more restricted to the lighter passenger vehicles. This also produces a dual dynamic of each company's technology improvements and specific products produced. For example, TSLA, NIO, LI, would all be producing automobiles that would be competing with each other. The technology advances in this area will obviously help a specific gain market share.

Technology advancement ramifications

The improvements in technology cannot be assessed as improving the overall electric vehicle sector. There can be some extensive ramifications when new improvements are made by specific companies. It not only affects competitors in their direct market, but it could drastically affect other areas of the current electric vehicle industry.

Technology is what has made electric vehicles a viable product. Two years ago, Elon Musk's touting of electric vehicles seemed more like a fringe product possibility. The concept of electric vehicles was still very alien to most investors and the general public. However, as the technology has improved over the past two years, the probability of electric vehicles being a viable product has become more accepted.

The initial range estimate for a Tesla automobile was approximately 120 miles per charge. This limited the marketability of a Tesla automobile. Hopefully, you didn't work more than 60 miles from your home or gliding back into the driveway may have been doubtful.

But technology has now improved to where the Tesla model S has a 420-mile range. This obviously takes away the anxiety of whether you might be stuck out on the road somewhere with low batteries.

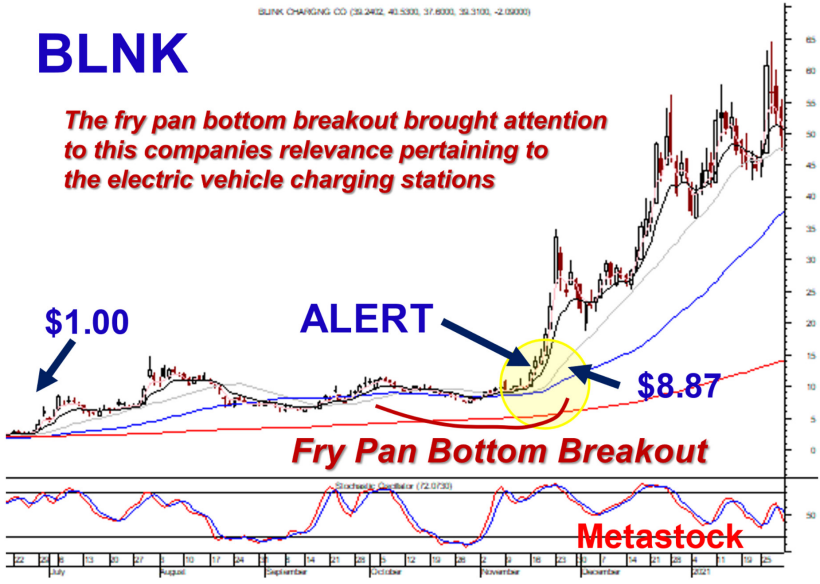
NIO recently announced that their batteries should be able to produce

625-mile range. Tesla has also recently reported their new battery technology will produce the same range.

Technology improvements can adversely affect other areas

How does advancing technology influence other areas of the electric vehicle area? Improved battery charge ranges could have a direct effect on companies like BLNK, setting up electric automobile charging stations. How would larger mileage ranges from battery technology affect charging stations?

It can be assumed that if a vast majority of automobile drivers do not drive more than 600 miles on any given day. Their automobile will be



As technology advances, the perception of future prospects for companies, related to the electric vehicle industry, can change. BLNK charging stations may not be as vital if lithium battery charges can produce much larger mileage ranges.

recharged once they have pulled back into the garage.The relevance of electric vehicle charging stations becomes much more insignificant. Maybe the function and profitability of charging stations now becomes relegated to emergency charging.

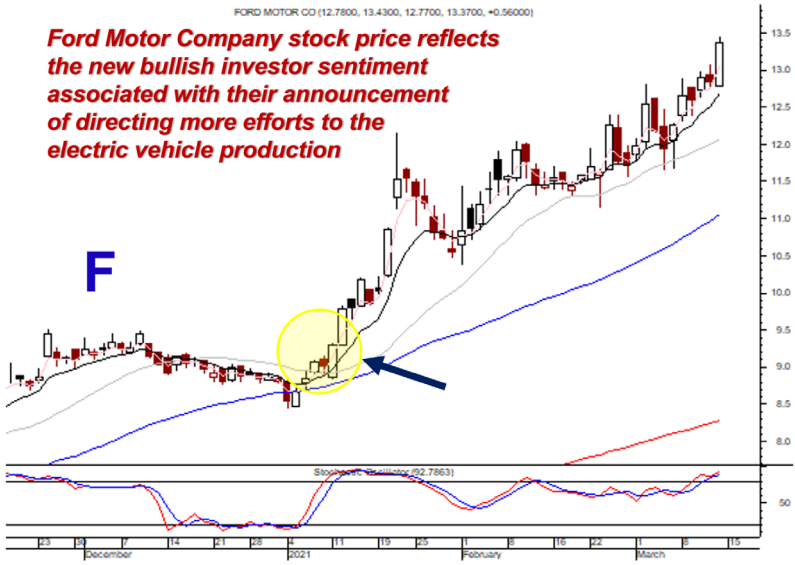
Technology affecting prices

An electric motor has very few moving parts, a major maintenance consideration. The motor is much lighter than a gasoline engine. Electric motor also produces extremely strong acceleration, much better than a gasoline

engine.

The average life of a gasoline engine is approximately 150,000 to 200,000 miles. The estimated life for electric motors is closer to a million miles.

What is the nature of technology? The expensive introduction of a new product/concept usually is very expensive at the front end. Remember the first flatscreen TVs. A 40-inch flatscreen was $4500. Today you can buy a 40-inch



Ford Motor Company stock, moving up strongly after they report they are applying more resources into the electric vehicle area, clearly reveals the potential major changes in the automobile industry.

flatscreen TV at Walmart for $299.

Pocket calculators could be bought for $225 when they first came to the market. Now you can buy a pocket calculator at the Dollar store. The natural evolution of technology is as more people improve the technology, the incentive is to make that technology less expensive and more competitive.

The major auto manufacturers, Ford and GM, moving heavier into the electric vehicle area can have dramatic ramifications. Their existing manufacturing and research capabilities could rapidly overshadow smaller electric vehicle products. Or the speed of which they may want to partake to get into the electric vehicle market may make smaller manufacturers take-over candidates.

Candlestick charts provide a visual indicator for identifying possible big profit situations getting ready to occur.

As technology improves, there will be dramatic changes in automobile production. Could the ever-increasing prices of automobiles start turning

around and heading lower? It has happened before. When Henry Ford produced an automobile for $375 when other automobiles were selling much higher, there was a significant change in the industry.

Do you know what each improvement in technology will do to help or hurt other sectors? That is a hard analytical evaluation. However, as an individual investor, you do not have to do extensive research and prognosis analysis to identify what one improvement in technology will do to help some sectors and hurt other sectors. That is what candlestick charts will reveal immediately.

How to make money from the electric vehicle sector?

The electric vehicle industry is becoming more accepted by consumers. It is also being well accepted by the investment community. Huge sums of investment funds have gone into the industry. The SPAC boom has produced low-cost capital for funding new companies coming into the industry. These funds are being used for product development, manufacturing expansion, distribution systems, as well as other aspects for developing alternative fuel transportation.

Not only has the funding of new startup endeavors been easier through the SPAC, but there has not been any lack of interest from investors to participate in the startup funding area. This is also another indication that the future for electric vehicles is being well accepted.

There will be many of these new technologies that do not prove to be profitable, but through this RARE process and candlestick analysis of the stock process, the trader gets an early warning system as to the direction of the stock

The big question is, "which companies have the greatest upside prospects?"

That is where the Candlestick Forum RARE program creates a huge advantage for investors. Which stock prices are in overbought/high risk areas? Which company's stock price might be negatively influenced by new technology coming into their area of the market?

Candlestick analysis indicators provide a very clear trading methodology for analyzing the price trends of stocks that are already well-established as far as their stock trend movement. But there is a much more powerful use for candlestick charting! Candlestick signals easily identify when a new technology development is being introduced to the markets. Candlestick signals will produce immediate validation of investor sentiment, when reacting favorably to a company"s news announcement.

You probably do not have a huge research capability, able to follow the

technology being developed by a large number of companies, there are at least 50 well-established companies, with another 100 plus startup companies, working on viable technology. To try to monitor what each company is doing is a huge undertaking.

Find the best investment opportunities immediately

Reverse engineering can be applied to candlestick signal scanning techniques. The process is very simple! Knowing that a technology improvement announcement or a merger of two companies can produce the potential of greatly improving a company's market share, those events will be found immediately utilizing candlestick scans.

The appearance of a strong candlestick signal would warrant immediate reverse engineering, investigating what caused a substantial breakout price move. If a company announces news, it can be immediately evaluated to see what that news will do to the company's future prospects.

For example, if the company announces they have just created a new lithium battery that would produce 800 miles per charge, or have produced a battery that is one half the weight of existing batteries, the bullish reaction will likely produce further upside potential for the stock price.

AND it is based upon very simple logic.

Technology's parabolic trajectory

Back in the 1960s, it was stated that technology had advanced over the past 50 years more than all the advancements from the beginning of mankind up until the previous 50 years.

It would not be too far-fetched to think that technology has advanced more in the past 10 years than all of the advancements prior to 10 years ago.

Technology is leapfrogging. It is hard to even imagine what new technology will be presented over the next year. Having the ability, using the RARE program, puts investors in a position to immediately recognize when new technology may affect the electric vehicle sector.

Currently, electric vehicles make up approximately 2% of the total automobile market. It is not out of the realm of possibility that over the next couple of years, that market share could move to 3% to 4%.

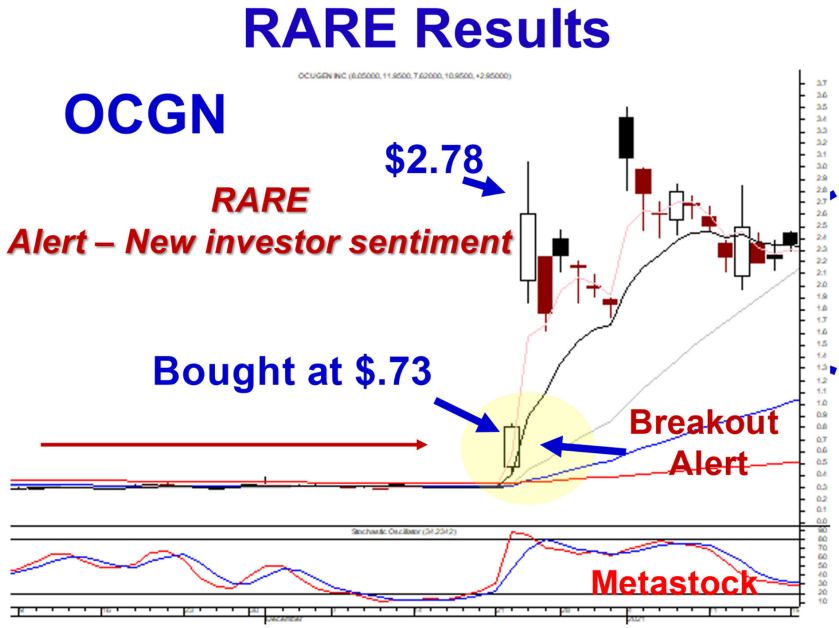
It is also conceivable that in the next few years, electric vehicles could take over an extremely large percentage (40 % plus?) of the automobile industry.

Biotechs

The MetaStock scanning 'breakout' alerts provide much more relevancy

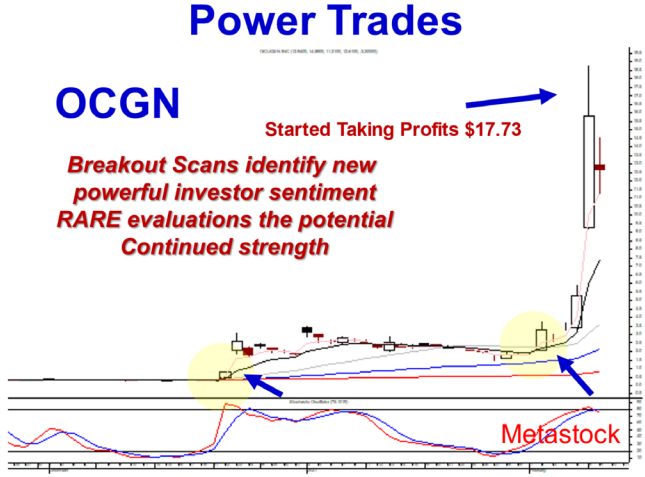
in sectors that would be impossible to try to follow all the companies in that area. The Biotech sector has hundreds of research companies producing potential breakthroughs for different medicines and vaccines.

Obviously, the co-vid vaccine advances are in the forefront of investors interests. But how does an individual investor become aware that something



favorable has occurred in a company's research? A candlestick breakout signal! Followed up by RARE, investigating what created the breakout.

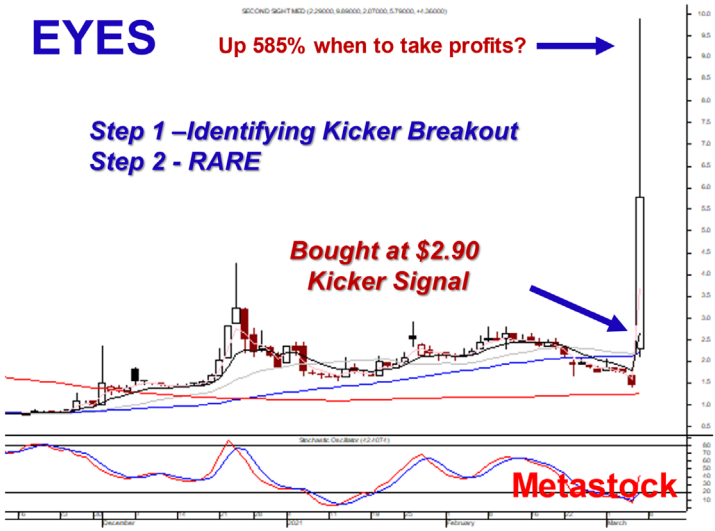
The simple process puts investors in situations where the future potential



can be quickly evaluated based upon the MetaStock scanning alert. The alerts will usually be activated by a candlestick breakout signal.

Rhetorical question, do all identified candlestick breakout signals produce big profits? Definitely not, but it does put an investor in situations where the probabilities of being in a big price move is greatly enhanced.

The benefit for candlestick investors is not only identifying when to be in



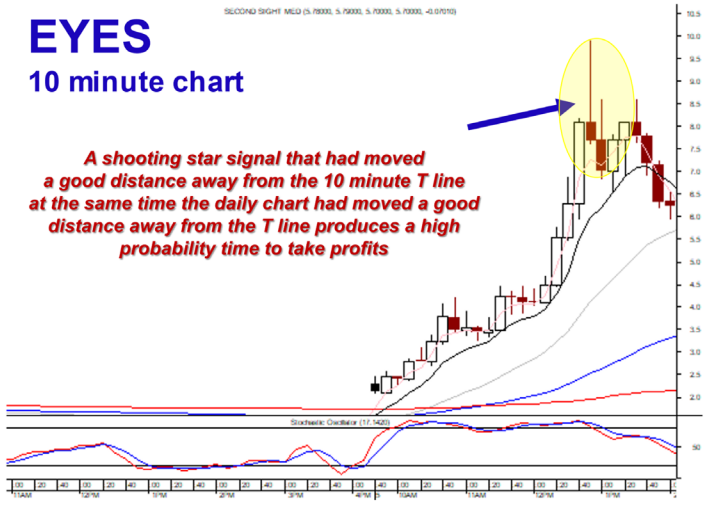
a correct trade at the correct time, but also having the prospects of participating in huge price moves. The scanning techniques identify when something new is occurring in a stock price. The RARE process identifies whether the news, that caused a breakout, was likely to continue to have bullish investor sentiment.

The process is very simple! Simple scanning techniques alert you to when something new is happening in a company's prospects. Research analysis reverse engineering merely means investigating the news that cause the breakout and simply evaluating whether that new information will provide more upside potential.

Logical candlestick analysis also provides a high probability process for when to take profits. When a stock moves up very quickly, over 585%, what might likely happen? Profit-taking! When prices move too far too fast, the candlestick investor has a simple trading strategy, pull up the five-minute chart or 10-minute chart to show when the sellers are starting to take control.

See for yourself! This is not rocket science. Candlestick analysis is merely putting common sense investment perspectives into a graphic depiction. You will gain a whole new perspective on where the high probability/high profit trade setups will occur.

The Candlestick Forum RARE program allows investors to be imme-



diately alerted when something new is occurring to produce a new dynamic in a specific sector. This greatly reduces the risk factor of investing funds into companies that might not come to the forefront of technology improvements.

The MetaStock scanning process and The Candlestick Forum RARE program takes the guesswork out of where a good profit trade can be established. The simple steps are easy to apply.

3. A large candlestick signal or pattern breakout immediately reveals something new occurring in investor sentiment in a particular stock.
4. The magnitude of the signal indicates whether a major change of investor sentiment has been affected.
5. Reverse engineering is merely investigating if a news announcement has occurred.
6. A quick analysis will reveal whether the news will produce a dramatic change as far as stock price.

Candlestick Forum RARE program benefits

No one investor or even one research team can effectively keep track of what improvements might be occurring in a specific industry. But MetaStock scanning alerts and the RARE program dramatically improves the probabilities of illustrating where investment funds should be committed.

This is not rocket science! This is merely identifying what investor sentiment reveals to indicate something has changed as far as a perspective of an individual company.

Join us at the Candlestick Forum. You gain a community of investors, utilizing the MetaStock scanning, that provide an instantaneous alert system

for identifying bullish stock price indications in a bullish sector.

Take advantage of investment process that constantly identifies high profit trade setups. This is information you will utilize for the rest of your investment career.

About Stephen W. Bigalow

Stephen W Bigalow possesses over thirty years of investment experience, including eight years as a stockbroker with major Wall Street firms:Kidder Peabody & Company, Cowen & Company and Oppenheimer & Company. (Followed by fifteen years of commodity trading, overlapped with twelve years of real estate investing) He holds a business and economics degree from Cornell University, and has lectured at Cornell and at many private educational investment functions over the past thirty years.

Mr. Bigalow has advised professional traders, money managers, mutual funds and hedge funds, and is recognized by many in the trading community as the "professional's professional." He is an affiliate of the "Market Technicians Association". (mta.org - A non-profit association of professional technical analysts) and a member of AAPTA, the American Association of Professional Technical Analysts. (aapta.us)

His first book, Profitable Candlestick Trading:Pinpointing Market Opportunities to Maximize Profits, published by John Wiley & Sons, hit the market in January 2002. The book is directed towards the new investor all the way up to the most sophisticated professionals. It demonstrates a wealth of information, about price movement and the investor psychology, built into the Candlestick signals. Mr. Bigalow's second book, High-Profit Candlestick Patterns:Turning Investor Sentiment into High Profits, released in December 2005. This book takes trading to the next level, combining the proven results of Japanese Candlestick charting with effective Western technical analysis. The self-mastery of profitable investing simplified by visual evaluations. His latest book released the end of 2010, Candlestick Profits:Eliminating Emotions with Candlestick Signals, explores the reasons most investors do not make money in the markets. While there are many books on trading methods, this one takes on what happens in the human psyche that prevents investors from making consistent profits.

Throughout his investment career, Mr. Bigalow has directed his investment acumen towards developing improved methods for extracting profits from the investment markets. His research, encompassing all fundamental and technical methods, resulted in verifying that Candlestick analysis was superior to any other method. In consulting with money management and energy trad-

ing firms, he has successfully combined conventional research methods with Candlestick analysis that greatly enhance investment returns. His implementation of statistical analysis with the Japanese Candlestick methodology has produced some unique successful trading pro.

Using Quadruple Trendline Setups (QTS) to Identify Important Market Turning Points

BY MARTIN PRING

Introduction

Price at any one time is determined by the interaction of many different time cycles. Generally speaking when a number of them are simultaneously moving in the same direction the strength of any given price

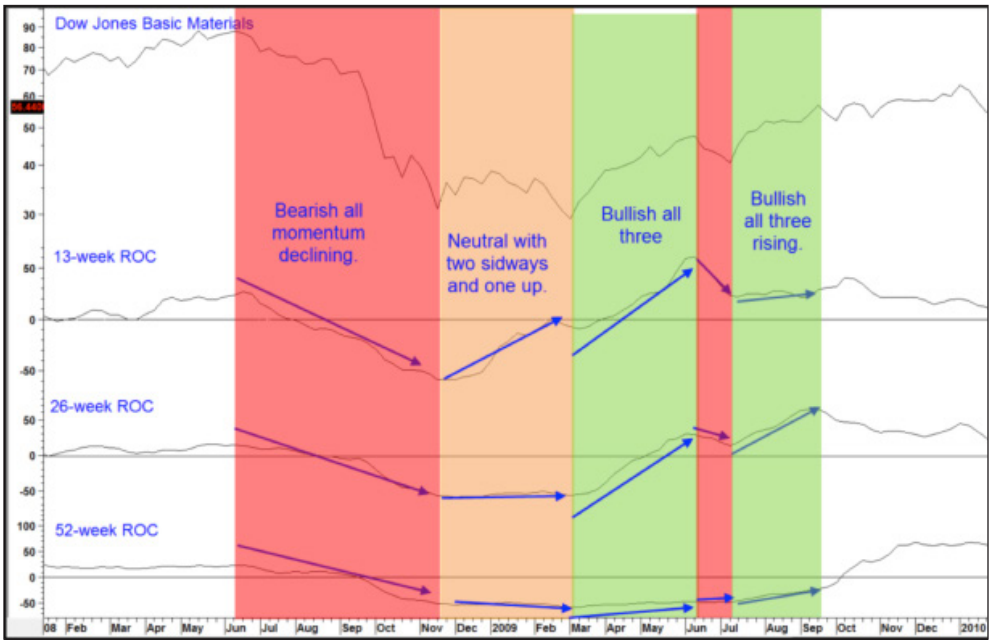


Chart 1 (Source www.pring.com)

move is enhanced.

Take a look at Chart 1 featuring the Dow Jones Basic Materials ETF, the IYM. It is plotted with three rate-of-change (ROC) indicators and each has been smoothed with a 4-week EMA to better isolate the trends. When all three momentum series are declining, as flagged by the red highlights, that's when the steepest price declines develop and when they are all rising under the green shading a strong rally gets underway. It's a simple way of demonstrating that several time cycles are in gear. The orange highlight indicates a more or less neutral trend as these smoothed ROC's conflict in the direction

of their trajectories, thereby indicating the underlying cycles are also in a state of disagreement.

They key is to identify when all three momentum series are in a sustainable up or downtrend. One way of assessing when some of these cycles are in gear is to monitor several momentum indicators with well dispersed time spans. If they are calculated with similar intervals, such as 9-,10, and 11 periods they overlap each other because they are really monitoring the same cycles. However, there is greater merit when the parameter separation is more substantial, say a double in time or even a 50% increase, such as 10-,20 and 30 on a daily chart and so forth.

The Technique

This approach is not really telling us much until it is possible to construct a trendline for each series and observe their joint violation. That's the time to expect a strong reversal move to develop. There is one additional caveat and that requires a similar break by the price itself as confirmation. The reason why this happens is the differing spans for each oscillator reflect a different time cycle. The trendline breaks merely indicate the cycles are in gear in a specific direction. The confirmation break in the price is equally as important since it shows the price is responding to *these* cyclic conditions, as opposed to others that might fall beyond the scope of the three oscillators in question.

Ideally we would want to plot many more oscillators and obtain their agreement but this makes it physically difficult to follow. In reality this technique appears to work adequately by limiting the analysis to three series. I am using ROC's here, but one could just as easily substitute any jagged momentum series such as the RSI the Chaunde Momentum Oscillator and so forth. Chart 2 shows three ROC's for the MSCI World Stock ETF, the ACWI.

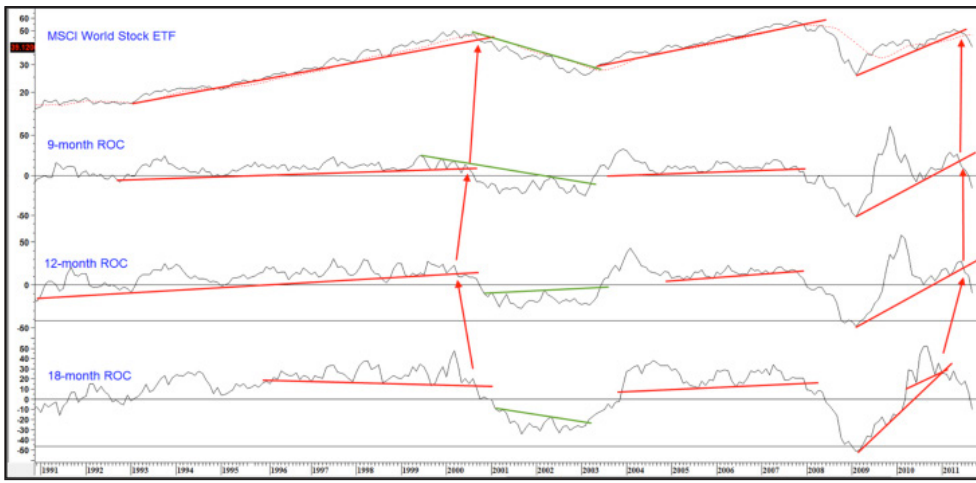


Chart 2 (Source www.pring.com)

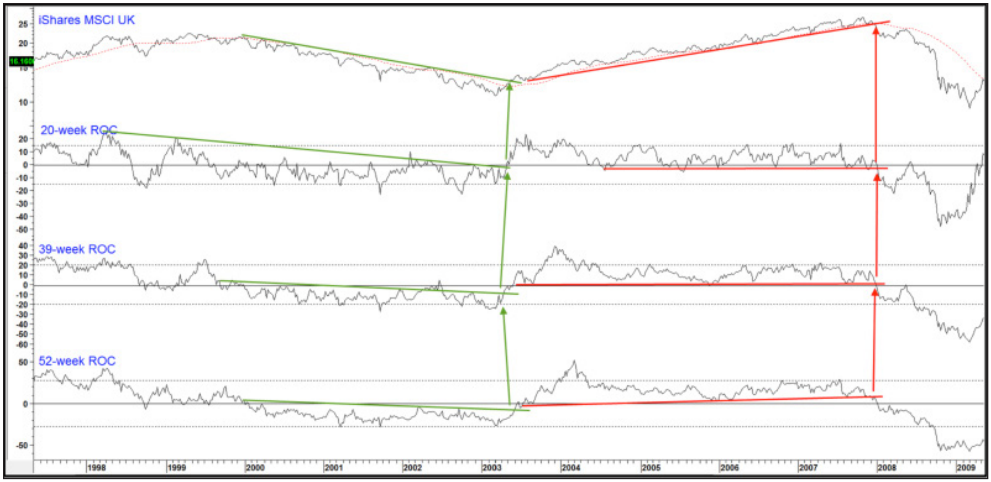


Chart 3 (Source www.pring.com)

Three quadruple trendline setups (QTS) can be observed between 2000 and 2008, two bearish and one bullish. A fourth developed earlier this year and so far appears to be working on track.

Chart 3 shows two setups for the iShares UK ETF, the EWU, but this time using weekly data. That brings up the point that this approach can be used for any time period, even intraday data. The key is to avoid ROC's with a very short time span otherwise the series will be very volatile and unlikely to sustain good trendline development. On the daily charts I would say 10-days is the downside limit and even that it's stretching it. In Chart 4, for example it was only possible to construct two trendlines for the 10-day series compared to three lines for the other two series. Note the price simultaneously violated its summer 2000 down trendline and the moving average simultaneously. The joint break reinforces the signal because both series represent dynamic levels of support and resistance. When they are in the same vicinity the significance of that resistance is doubled and its penetration that much more important.

Obviously these quadruple trendline setups ups do not happen very often, but when they do it's amazing how effectively and consistently they work. There is certainly no guarantee they will successfully signal trend reversals every time, because there are no guarantees in technical analysis. Indeed the February/May QTS in Chart 4, which only managed to halt the downtrend and not reverse it is a fine example. Nonetheless the odds of their working are pretty high and anyone who ignores a QTS does so at their own financial peril.

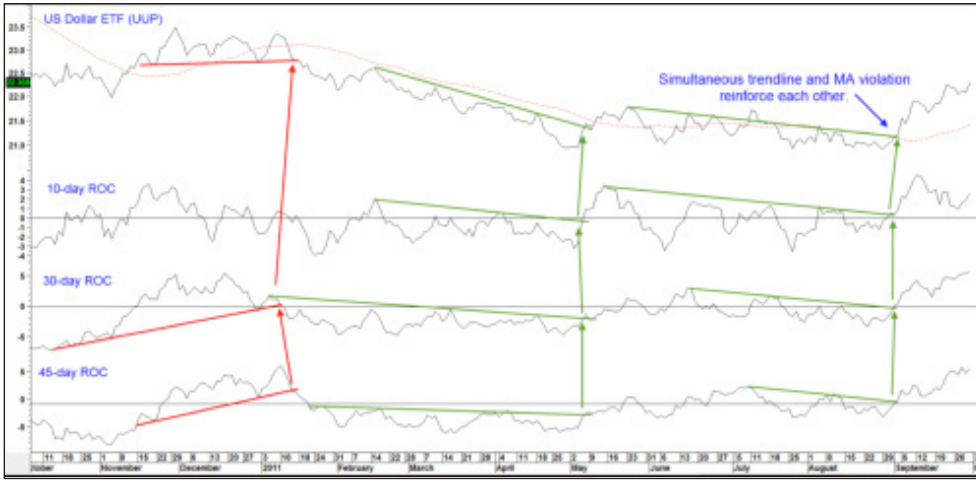


Chart 4 (Source www.pring.com)

Assessing the Significance of a QTS

Momentum normally leads price, so it is normal for the price trendline violation to lag that of the three oscillators. However, when the price/momentum breaks develop in an approximately simultaneous manner more reliable and stronger signals are generally result. Even stronger trend reversals seem to develop when a price penetration takes place ahead of any of the momentum series.

Other factors which contribute to the significance of an individual QTS are:

1. The longer the trendlines the more significant the trend and therefore the more important the signal. Thus a QTS that develops on an hourly chart is nowhere near as significant as one that appears on monthly data. The same would go for, say a 6-week trendline violation compared to the violation of a 25-week line.
2. The more times an individual trendline has been touched or approached the stronger the penetration signal .
3. As the angle of ascent or descent steepens, so the significance of that line shrinks.

A key mark of a successful trader or investor is discipline and patience. Since a good QTS is a relatively rare event those characteristics are definitely tested during the stalking period. However, that patience and discipline will usually be rewarded because the vast majority of these setups are reliable and followed by very worthwhile price moves.

About Martin J. Pring

Martin J. Pring publishes the *Intermarket Review* a monthly market letter offering a long-term synopsis of the world's major financial markets. He is also chairman of Pring Turner Capital Group, a money management firm, and president of pring.com, publisher of a 15-hour online video technical analysis course due to be released in late 2012. Author of *Technical Analysis Explained* and over 20-other titles he has been quoted in the Wall St Journal, Barron's Forbes and other leading publications.

In 2011 he, along with Dow Jones Indexes, developed the *Dow Jones Pring Business Cycle Index*, a series that systematically and dynamically allocates assets according to the current phase of the business cycle. The Index was published in March of 2012 and forms the basic strategy for the *Advisor Shares Pring Turner Dow Jones Business Cycle ETF* (Symbol DBIZ) due for launch in late 2012.

His latest book, *Investing in the Second Lost Decade* was co-authored with his two partners Joe Turner and Tom Kopas from pringturner.com.

Pinpointing Your Entries and Exits with Swiss Clock Precision

BY DR. BARRY BURNS

Working with both professional and amateur traders has taught me a lot about the difference between how these two groups trade the markets.

When I trained on the trading floor of my brokerage firm at the CME, I noticed most of the professionals had very clean charts. They were not cluttered or confusing, but rather simple, and the number of items added to their charts were minimal.

On the other hand, when students (amateurs) come to my office with their laptops and show me their trading platform, the first thing I notice is that their charts are often cluttered with all types of indicators, lines, wiggles, dots, etc.

But even with all that information, they are usually lacking any type of TIMING tool – a mistake of epic proportions! Here's why that's a fatal trading error: A chart has only 2 dimensions: the time axis and the price axis. If you don't have a tool for measuring the timing of your trades, you're missing out on 50% of the information on the chart.

Successful trading is a matter of probabilities, so how can you put the odds on your side if you ignore half of the information on your charts? In fact, of the two dimensions, the famous trader W.D. Gann said that time is more important than price. This lack of being able to time the markets leads to many common laments we hear from amateur traders:

> "I think my broker is intentionally taking the other side of my trades."

> "The market is constantly taking out my stops no matter where I put them."

> "I often enter the market, quickly get stopped out, then the market goes back in the original direction of my trade!"

These things happen because losing traders don't know how to correctly time the market.

Before we continue, let me present a couple of important caveats in discussing timing (cycles): Market participants tend to "discount" the markets. They invest their money before the cycle begins in anticipation of what they believe will happen. Professional traders especially are always looking to get

their positions in the market before the amateurs.

These cycles are only ONE aspect of trading and should not be traded in isolation. For me they are only one part of a complete trading methodology which includes "5 ENERGIES." Cycles are one of those five energies. None of these energies by themselves (including cycles) are significant, but when any of them gives a "buy" or "sell" signal at the same time as the other 4 energies, it is part of a complete trading methodology that can put the odds on your side.

There are many types of cycles. In this article we'll look at 5 of them.

1. SEASONAL/CALENDAR CYCLES

There are some markets that have very clear connections with certain times of the year.

Agricultural Markets tend to follow the farming patterns of sowing in the spring and reaping in the fall. Not only should you be aware of this cycle when you trade agricultural markets, but also when you trade stocks related to those markets.

This seems like a simple cycle to trade, but there are several factors that complicate it.

- Many American companies are globalized and so may be planting crops in the Southern Hemisphere where the sow/reap cycle is opposite to that of the United States.
- Simply buying in the spring and selling in the fall doesn't work because there are no guarantees of a successful harvest. Factors such as weather, government intervention, supply/demand ratios can cause prices to be higher or lower than anticipated.
- Agricultural products are often traded out on the futures market to lock in prices for the farmers (and large food conglomerates). So what actually happens to a crop over the course of the summer may not have a significant effect on the farmers financially.

Retail Markets in general are often focused around the December holidays in the United States. Some retail companies make their entire annual profit in November and December alone.

This calendar cycle is important for many major Western retailers, but again there are exceptions.

- Some companies, depending on the nature of their products, will do very well during other holidays, for example Mother's Day and Valentine's Day.
- A highly anticipated product launch can be an auspicious trading event, though it isn't a calendar cycle that necessarily occurs at the same time each year.

Travel companies tend to do well during the summer, as well as holidays.

These seasonal/calendar cycles are not always consistent. So don't trade them by a calendar alone. These are good times to be looking at companies that would be affected by these cycles (again, best to look at them early before the cycle begins). But then you must be able to read a chart to see what is actually happening with the stock you're considering buying during such times.

2. VOLATILITY CYCLES

Market volatility has to do with the range, from high to low, a market covers in a given period of time. I used to visit a lot of live trading chat rooms, and one of the most frequent laments I heard was, "The market isn't moving, it's just not going anywhere! This is a very messy market today." This comment was always made with disgust, disbelief or dismay.

Anyone familiar with market cycles is not put off by such market behavior. We expect it. We understand it is natural for the market to cycle between times of low volatility and high volatility. Therefore there is no anger or frustration. It's normal and natural and to be expected. In fact, it can present an exciting opportunity!

The problem most amateurs have trading volatility cycles is that they scan for high volatility markets. They scan for "high beta" stocks in order to find stocks that are high flyers. They do this in an attempt to avoid choppy stocks or markets that "aren't doing anything."

This technique is often used in ignorance by people who aren't aware of the volatility cycle, or as I like to call it, the "expansion/contraction cycle." Traders using this technique often lament that the market seems against them, and as soon as they enter, the high flyers go into consolidation or contraction patterns!

The problem is that by the time a market has established a high volatility pattern over a long enough time to register on the scans, it may be time for the expansion cycle (high volatility) to end and a contraction cycle (low volatility) to begin!

I prefer to take the opposite approach and scan for low volatility markets. There is one caveat however. I don't want a market that is consistently low volatility, but rather one that historically cycles between expansion and contraction patterns.

I call this trading "inside contraction." These patterns show up often as triangles, Bollinger Band Squeezes, wedges, accumulation patterns, etc. These are fun to trade because when you get in right before a new expansion cycle begins, you can make big money fast

3. ORDER/CHAOS CYCLES

There is a school of thought that believes the market is a "random walk" and that no one can establish a probability scenario consistently over time in trading. There's an opposing school that believes the market is perfectly orderly and predictable. Some of these people claim to be able to predict the market years in advance to the exact day and time.

Like many things in life, I believe the truth lies somewhere between these 2 extremes. My observation is many markets cycle between times of being orderly (where probability scenarios can be established) and chaotic (where the market is moving randomly and probability scenarios cannot be established).

This is one reason why overtrading is a cardinal sin of trading and partially accounts for a very common experience among losing traders who complain:

> "I was making money consistently for a few weeks [months], and then all of a sudden I got a string of losers that ate up all my winnings and even more."

When this occurs, it may be that the trader's methodology couldn't stand the test of time. On the other hand, I've seen several traders using the exact same method, and some would make money with it and others wouldn't.

Part of any good trading method is to use filters to keep you out of bad trades. One of those filters should be to indicate when the market is in a cha-

otic cycle, thus informing you to keep your money on the sideline, or put it in another market. Some of my students, who were already successful traders before they came to me, said the most valuable thing they learned from me was when NOT to trade – and this increased their net profits significantly.

Knowing when you are in a chaotic, random cycle is one of the most valuable things you can learn because it informs you when the market is not providing high probability trading opportunities, thus allowing you to preserve your winnings by keeping you out of bad trades.

4 COUPLING/UNCOUPLING CYCLES

Many people consider the S&P 500 to be the world's benchmark. This cycle refers to comparing how sectors, industries, countries, currencies, commodities, interest rates and individual stocks couple and uncouple with the S&P 500 (or another benchmark you choose).

When a market is "coupled" with its benchmark, it is trading in the same direction, with roughly the same pattern as its benchmark. When a market is "uncoupled" with its benchmark, it is trading in the opposite direction as its benchmark.

This is a "relative strength" strategy and the key is to catch the uncoupling EARLY – as soon as it occurs. This approach is one way to attempt to attain every fund manager's dream: to outperform the S&P 500.

Of course it's not as simple as it sounds. Some markets uncouple only briefly, and you must look at the entire picture. You must also be an astute trader to know when to get out and lock in your "relative strength profits" when you get them.

5. HIGH/LOW CYCLES

Markets don't move straight up or straight down. They "wiggle" up and they "wiggle" down.

By this I mean:

- Markets in an uptrend make highs and lows on their way up, but the highs tend to be higher highs and the lows tend to be higher lows.
- Markets in a downtrend make highs and lows on their way down, but the lows tend to be lower lows and the highs tend to be lower highs.
- That's the tendency, but if it were only the simple! There are several things that make it more complicated:
- Markets often make complex retraces – meaning it can create a lower high and lower low before resuming an uptrend.

- Buying lows in an uptrend seems simple, but you don't know if the market will actually make a higher high after you buy a low, or if it will subsequently make an equal or lower high and then reverse direction.

Our strategy:

In an uptrend we want to buy cycle lows – but only the final cycle low before the market continues up.

In a downtrend we want to short cycle highs – but only the final cycle high before the market continues down.

The trick is to identify the "final" cycle high/low before the trend continues. We can do that with amazing accuracy through a cycle indicator incorporating momentum aspects. It's not as simple as buying indicator lows and selling indicator highs. You must learn to read the indicator "patterns" that provide the high probability highs and lows.

Finally, it's important to reiterate that cycles are only ONE aspect of trading and should not be traded in isolation. For me they are only one part of a complete trading methodology which includes 5 "Energies:"

1. Trend
2. Momentum

3. Cycle
4. Support/Resistance (a blockage to the first 3 energies)
5. Fractals (using multiple chart time frames)

When all 5 Energies align giving a "buy" or a "sell" signal, then we have a "preponderance of the evidence" that establishes a probability scenario that can put the odds on our side.

About Dr. Barry Burns
Dr. Barry Burns is President of www.TopDogTrading.com. You can access his FREE TRADING COURSE VIDEOS that include one of his favorite trade setups and goes into more details about CYCLES and his 5 Energy trading method by going to: **http://www.topdogtrading.com/cycles.html**

What is MetaStock and How It Can Help Your Trades

Simply put, MetaStock is a tool for traders to analyze the markets on a sector, industry, group, and instrument level. It uses charts and indicators to help you decide when to take and when to exit trades. With 100's of built-in, fully-customizable systems, MetaStock is designed for traders of all levels.

No system is perfect, but MetaStock helps you become a more successful trader by improving your odds over all. It also helps take the guess work out of trading by offering a methodical, systematic approach. When you incorporate science and logic into trading, you are less likely to rely on hunches, guesses, fear or greed.

MetaStock is packed with the tools that professional traders have come to expect (and many that exceed expectations):

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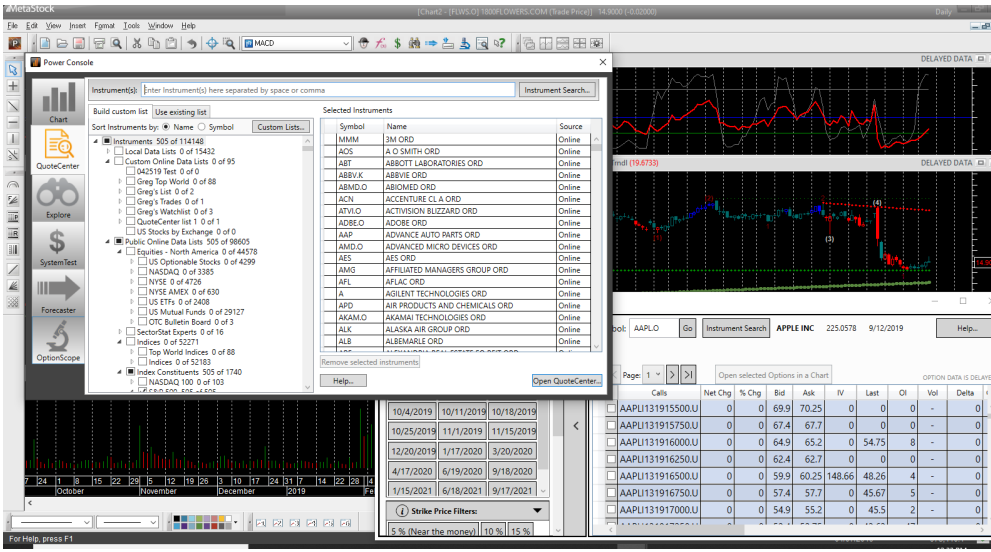
- Scan, sort, optimize, rank 1000's of instruments
- Back test multiple strategies against multiple instruments
- Determine probable price direction with the FORECASTER
- Get insight from industry experts right on your charts
- Use any of the 200+ standard systems, or build your own
- End of Day and Real-Time options available types of traders
- FREE professional support

MetaStock has been in business for over 35 years and has won the trust of 1000's of traders in over 100 countries. At least one version of MetaStock has won the *Stocks & Commodities Readers' Choice Award* for 27 consecutive years.

> "MetaStock remains the only charting software I use or recommend. Its extraordinary graphics, functionality, and ease of customization make it the professional tool it is. For me, trading without MetaStock would be like riding one of my motorcycles blindfolded."
> - Dr. Stephen Cooper
> Founder, Onlineoption.com

To find out more about MetaStock, visit MetaStock.com and chat live with a product professional - or - take advantage of the extended trial over on the next page!



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