# How To Do It

**In order to profit from trading price and volume alone, one must forget nearly all of what he thought was true**, and that presents an insurmountable obstacle to a great many people.

If, for example, one insists on focusing on how he can make it "work" with mathematically-derived indicators (stochastics, MACD, CCI, OBV, blah blah blah), then he blocks the process through which he would otherwise understand it and profit from it.

If he focuses on where and how to make mechanical entries and exits rather than understand the dynamics of demand and supply, then he blocks the process through which he would otherwise understand it and profit from it.

If he focuses on setups and patterns as gimmicks rather than as manifestations of changes in the balance of buying and selling pressure, then he blocks the process through which he would otherwise understand it and profit from it.

## Hire yourself to do a job

The job is just to sit there and watch price move, to watch the buying and selling waves, the pokes and prods and feelers cast by buyers and sellers looking for a trade, not to create or test a strategy, not to make money, not to learn the "secrets" or the "tricks", just to develop a sensitivity to buying and selling pressure. No indicators, no MAs, no nothing but price bars/points and volume bars. This is analogous to meditation in that if one finds himself thinking about entries rather than focusing on price behavior, he should start over from the beginning. Eventually he will get tired of doing this and focus on the behavior in order to get through it.

## Make notes of what you see and what you think you see

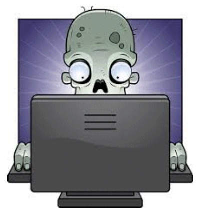
Don't rush to draw conclusions. Throw away your crutches and focus on what the auction market is really all about. The market is not out to get you. The market is not out to trick you. Buying pressure is buying pressure. It lasts as long as it lasts according to who wants what. Ditto for selling pressure. Rather than focusing on avoiding getting screwed, focus on the pressures and the imbalances between them. Don't trade. Don't conclude. Just watch.


When you get tired, stop. Come back. Begin again. When you're done, review your notes. Look for those areas in which change took place. Formulate some hypotheses as to why those changes took place in those areas and not others. **Don't force the Ah-Ha**. Just let it come.

Begin with what appears to apply to whatever market you're trading. If it's in a trend, focus on retracements and continuations (a continuation being the logical result of a successful retracement). If it's in a trading range, focus on reversals. And so on. Develop the strategy thoroughly, with all the accompanying tactics. Test it via replay, "reading" the chart from left to right. If your suppositions don't pan out, then go back to observation. If they do pan out, move on to simtrading.

## Trade it

But understand always that whatever you're doing may not apply to every trading day. If you decide to focus on breakouts, for example, and the entire day is range-bound, then you're very likely going to have nothing to do. This is not your problem. Use the time for something else. But don't force trades. Don't see what isn't there (many novices fall into this trap when they've been working on reversals and insist on seeing reversal setups where none exist, e.g., on trend days). In time, you'll have a variety of strategies to cover most situations. But the key words here are **"in time"**.



**There is no inconsistency between tuning in to the buying/selling dynamic and defining setups with specific entry and exit points.** A lower high, for example, says something about the balance of buying and selling pressure. Now at what point does the probability of a reversal become sufficiently higher than that of a continuation that the trader will go short instead of long (or vice-versa)? A drop of so many ticks? A break of a TL? A break of an MA of some sort (if he just has to use one)? And once one has determined that, how far does he allow the price to go against him – if it does – before he bails? And what is a reasonable target? And where is my pastrami on rye?

Changes in the balance between buying and selling pressure manifest themselves in recognizable and repeated ways, e.g., double bottoms, lower highs, bull/bear spikes (hammers et al,, if one is into that), but whether any of these are worth taking will depend on the context, what one wants, what one is willing to settle for, how much risk he's willing to assume, whether or not he's willing and ready to fade himself, etc. Sometimes the changes in balance are so rapid and so violent that the trader might think that only a loon would get involved. And sometimes the changes are so subtle and so quiet that waiting for the trade to resolve itself would put most people to sleep. Therefore, the trader has to decide under what conditions he's going to trade and during what portions of the day (or year) -- if not the entire day (or year) -- he's going to trade.

Which may be why so many beginners prefer just to buy when the green line crosses the red line and sell when the red line crosses the green line.

**The degree to which one experiences anxiety before and during the trade is in direct inverse proportion to the amount of preparation he has done**; in other words, the less prepared you are, the more anxious you will be (many people start the day anxious and stay that way until the final bell).

Trading according to buying and selling pressure entails looking for those areas which are most likely to attract attention and activity, which is why understanding the nature of support and resistance is important. Those areas where the most people traded the most shares/whatever in the past are most likely to ignite activity again, partly because all those people have something to gain or lose at those levels, but also because even those who did not trade at those levels or in those areas can see that those levels and areas attracted the business of others at the time and may do so again. Some of these levels or areas or zones – if one is trading stocks or ETFs – include the previous day's (week's, month's, year's) high and low, and if one does nothing but sit idly by until those areas are tested, he will likely save himself a lot of money (see “Please Sir”, p. 90 and “What Am I Bid?”, p. 112, *Notes*).

The opening high and low can also be a rich source of opportunity. I say "can" because one must also consider volume: if there's lots of activity, there's likely to be lots of opportunity. **Targeting these opportunities in advance is simple. Sitting on your**

**hands until the opportunities actually present themselves is considerably more difficult.** But if one knows well in advance what he's going to do and where he's going to do it, *and has some understanding of the nature of probability,* he has nothing to be anxious about.

A great many traders just cannot reconcile the facts that each moment is unique and the outcome of any given trade unknowable with the idea of determining the probabilities of success of a particular "set-up", or cluster of behaviors. One must know what he's looking for and what to do with it if he finds it, which are the purposes of backtesting and forwardtesting. But he cannot trade successfully by staring into the rearview mirror. He must look forward, armed with his knowledge of how likely it is that his trades will succeed, and trade in the moment. Otherwise he can literally spend years examining charts and dwelling on couldawouldashoulda.

*A good friend of mine, Julian Snyder, wrote a book for traders called* The Way of the Hunter Warrior*. Recently I asked him about the use of such a metaphor for trading, and he conceded that it's total nonsense in the light of what he now knows. "You have to trade without ego, and any contest elevates ego," he said.*

*I like to think of trading as sailing. Here you harness the forces that are there. You take into account the wind direction and velocity, the currents, and your destination. You've got your charts to guide you and you constantly adjust to nature's forces, sometimes pointing into the wind, sometimes running before the wind, sometimes tacking, but always in partnership with your boat, your crew, the wind, and the currents. Sure, storms can come up, but you can always let down the sail and anchor and wait out the storm. You work with the forces that are there, the forces that are much bigger than you, but you enjoy the journey, the day, the sport, and you're confident you can get to your destination, your port, your safe harbor.*

*–Ruth Barrons Roosevelt*

*Fit yourself into the flow of the game. Some players approach the game of poker simply as a game, the way you might play Chinese checkers, or Old Maid. They can be observed playing their own cards and nothing else, staring hard at their hand, brows furrowed, never glancing up, struggling along. It's as if they are playing in a vacuum. Still others do the opposite, trying to dominate all parts of the game, force victory, muscle over the game with various aggressive maneuvers. Do either of the above two approaches work? Yes, intermittently. A better approach – one that experience shows works more frequently – is to try to fit yourself into the flow of it.*

*–Larry Phillips*

*Rarely do any of us grow up learning how to operate in an arena that allows for complete freedom of creative expression, with no external structure to restrict it in any way. In the trading environment, you will have to make up your own rules and then have the discipline to abide by them.*

*The problem is, price movement is fluid, always in motion, quite unlike the highly structured events that most of us are accustomed to. In the market environment, the decisions that confront you are as endless as the price movements you intend to take advantage of. You don't just have to decide to participate, you also have to decide when to enter, how long to stay in, and under what conditions to get out.*

*There is no beginning, middle, or end – only what you create in your own mind.*

*–Mark Douglas*