Surviving Day Trading

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Table of Contents

1 Introduction

Welcome to the “Surviving Trading” eBook. There are two goals for this book. The first goal is to help you to understand a little about the nature of trading so that you don’t spend money on training/software/literature that is of no value. The second goal is to put you on the path of actually doing what you need to do in order to become successful.

I hope you enjoy this book and I hope it saves you some money. Note that I use plenty of terminology in this book. You are free to email me about specifics but this book is not intended to hold your hands through the process of learning what a futures contract is or any of the other basics. If you come across a lot of terms you do not understand, then my advice is to skip and keep on reading. It’s the key points that are important here and not the terminology.

Note that by necessity, I have made some simplifications in this book. Mostly this is because this is a book for the layman. This is not intended to be a scientific manual or dissertation. Feel free to email me to discuss points in more detail on peterdavies@jigsawtrading.com

2 The 'Nature' of Trading

You have probably heard the phrase "Zero Sum Game". When people use this referring to trading, they refer to the idea that for every dollar a Trader wins, that is a dollar some other Trader(s) loses. The idea is that losers + winners = zero.

The reality is somewhat different. Imagine a bunch of people standing around a bucket. They all have a cup of water each. Each of them will throw their cup of water into the bucket. Once that is done, they all wait for a whistle to blow. When it does, they will all attempt to take out more water than they put in. What is the likelihood that each of the players will succeed and take more water out than they put in? Exactly, it's impossible.

We can apply the same concept to trading. Many people put money in and they all want to take more money out. Just like the bucket of water that is not possible. You could point out the 'Ponzi-esque' element of the market which is always bringing in new money and you could also point out that inflation complicates things. The bottom line though, is that the market is like that bucket of water. In fact, it's worse than the bucket of water. Who pays for all those adverts on CNBC? Who produces all that glossy literature and slick web sites of mutual & hedge funds? Who pays for the marketing people, the secretaries, the office rentals, sales commissions, company cars, the bonuses not to mention the hookers we all read about in the press? Naturally, this also comes out of the bucket.

We aren't dealing with a zero sum game where for every winner there is a loser, we are dealing with a game where we have winners, losers and a significant amount of 'fees' that fund the industry. If you have ever invested in mutual funds, you have probably been in the position where you've paid somebody 3% of your capital to lose an additional 10% of it. Personally, this was the reason I got into trading. I was actually paying people to lose money for me.

Let's go back to our bucket. The bucket is full of water, a bunch of people are all waiting with their empty cups to try to scoop out more water than they put in. I am now going to announce that these people are all men. I am not being sexist, just that women are far too sensible to play games like this. Let's say 75% of the guys are 170cm tall and weigh 160lbs dripping wet and 25% of the guys are 190cm tall and weigh 220lbs a piece. What are the chances that amount of water collected will be even between the smaller and larger guys? The chances are the little guys won't even get close to the bucket.

What has this to do with trading though? The fact is that just like the water extraction from the bucket. Trading is a competitive endeavor. A lot of people are chasing the same money. Some of these people are very large companies who can take almost unlimited risk. Most people will lose and the 'best' will win. It won't be an even distribution.

At this point, I can hear the doubt creeping in because I know this is not what you have read in trading books and web sites. "This guy's talking nonsense" I hear the cries. "All I have to do is buy here and sell there. I don't need to compete with anybody. I just need to buy and sell at the right time". In some respects, I agree; if you look at a chart of any financial instrument, there is little evidence of there being a battle or competition at play. It's just going up and down, right?

For now, I need you to take at face value what I am saying

- The market has a finite amount of money in it
- This money is put in by people expecting to take more money out
- Fees will be extracted from the pool of money by people taking zero risk
- It is impossible for everyone to take out more than they put in
- The majority of the profits will be extracted by larger, skilled players
- The markets are therefore competitive

Market Dynamics? Or Somebody Cheating?

There are many reasons that people place trades. Some of this will be covered later in the book. For now though, let's simplify and say that somebody buys something because they want to sell it later at a higher price. This is a concept lovingly described as "the greater fool theory". You buy because you think someone more foolish than you will buy back from you at a higher price later on. Of course, the greatest fool is the one that buys at the high just before price rolls back down. I have been that fool on countless occasions.

If people are buying and shorting for this reason, looking for a greater fool, then this represents the 'greed' element of the 'fear and greed' we read about in all the trading books. Of course, it's not really greed. You just want to pay for that new lawnmower. Still, the flipside to that is the fear. When things don't go the way you want, you get a knot in your gut. You start to think about killing the trade. Quite often you will kill the trade at the very point that it turns around and starts moving in your direction. This is not just you. This is not just retail traders. This is everybody. Perhaps fear is not the right word just as greed is not appropriate. Fear conjures up the thought of acting irrationally. Puking out of a trade is not irrational. It's common sense. You can very often see areas where price accelerates as people realize a trade is not going their way and they all get out. These are not just small retail players, it happens to everyone. Some say it's an emotional reaction but to be honest, most of the time, you enter and exit losing trades without feeling the slightest bit of emotion. You get out because it's the appropriate thing to do. You had a stop loss and you let it get hit.

I hear you say "Aaaaah, but isn't that the fault of the mysterious 'they'" that "know where your stops are"? These are the mischievous unnamed that are causing our trades to fail. It can't be our fault after all. Apparently they have supercomputers that can see into your office and see where your stops are. They know what you ate for breakfast. Is this right, or is it in fact a dynamic of the market at play?

Let's say that you are out looking to buy apples. You enter the market and you see some nice Red apples for sale at $3 a pound. You are about to buy some when a friend walks up and says "I'm going to the other side of the market, they have apples for $1 a pound there". So, you turn and follow your friend. On the way, a vendor shouts out "Apples for $2.75 a pound". Do you stop and buy them? Of course not. Further on a vendor shouts "Apples for $2.50 a pound" You keep on walking. Eventually you get to the $1 a pound vendor and buy your apples.

What has this to do with trading? Well, let's say you buy 20,000 shares of Apple (Ticker: AAPL) for $372.50. You decide that if a greater fool exists that will pay you $380.00 for those shares, you will sell them. You also decide that if price goes down to $360.00, you will exit the trade. So what have you done here? You have just brought something for $372.50 and you have also decided that you will sell for $360. It often happens that many people do just the same thing. Many people will buy something and will have a pain point below at which they will exit. Sometimes, it is clear that many people have done the same thing as you. Many people brought for $375-$385 and will sell out at $355-$365. No-one knows exactly what these price points are but to people that study market structure (no, I don't mean candlesticks), it is sometimes very obvious where the 'puke point is'.

So now consider this scenario. You are at the stock market trying to buy some AAPLs. The price is $375. You are about to buy when a friend walks up and says "I'm going to the other side of the market, they have AAPLs for $360 there". As you walk, someone offers you AAPLs for $370, you pass on the offer. You also pass on $368, $365, $363. Eventually you get to the AAPLs at $360 and you buy them up. What happens next? There's no need to keep on walking, you've already brought the cheapest AAPLs. Now you just need to decide which fool to sell them as the price moves back up.

Is this far-fetched? Why would you be in a hurry to buy anything when you know there is availability at a lower price elsewhere? The very fact that it is sometimes obvious where there will be a cluster of sellers below is enough to de-motivate anyone from paying current prices. This isn't a stop run per se, this is market dynamics. You'd buy food this way; you'd buy gas this way. This is merely hunting a bargain. There's nothing wrong with a bargain and when you know there's a bargain elsewhere, you have to be very motivated to buy above bargain prices.

Still, nothing is set in stone in the markets. You can have lots of sellers below but if AAPL announced their new iHat right now, there will be a rush of very motivated buyers and the fact that sellers are below would be irrelevant. This brings us to the next point. Any analysis you do based on the structure/dynamics of the market can only take into account the actions of the players involved up to this point. This includes trades placed and orders in the order book. The fly in the ointment will always be that you never know the actions of someone yet to enter. There can at any time be someone stepping into the market that will move it in a way you could not have anticipated.

Other Reasons To Trade - Hedging & Arbitrage

It's worth considering that not everyone is trading for a profit and not everyone is trading on the same time horizon. If you watch the e-mini S&P500 futures regularly you can see that many days are dominated by day traders. On these days the markets swing one way and then the other but finally end up close to where they started. Interestingly, on these days the "Cumulative Delta" (trades at ask minus trades at bid) does pretty much the same thing. People got in, people got out and the net result was that the market didn't move much, some people made money and some people didn't. On other days, you will see much more volume and a much bigger move, often in one direction. Market Profile theory would call these days when "Other Timeframe Players" are coming into the markets. People are entering with a view to holding longer term positions. Of course, such people enter every day but on this particular market it is quite obvious when one set are dominant over the other.

Now, you did read correctly that not everyone is trading for a profit. If we look at Wheat Futures, organizations that produce and use wheat are trading there to hedge against adverse price moves. This is different from outright price speculation. It is quite normal for somebody to place a hedge on wheat, to lose money on the trade and to be quite happy about the whole affair. This is because the trade was about protecting them from adverse moves in the price of wheat, a sort of insurance. When you buy life insurance, you don't feel bad at the end of the year because you paid for it and didn't die.

Sometimes a trade will be part of a two-sided transaction. There is a method known as statistical arbitrage, which also goes by the more down to earth name of 'pairs trading'. With this method of trading, you may (for example) see the prices of two solar energy companies move in different directions. You think that they will move back in line at some point (because it is statistically likely), so you buy one and short the other. You don't really care which of the individual trades makes money.

Arbitrage is taking advantage of price discrepancies, often very small discrepancies. This is what keeps the S&P Futures and S&P stocks in line. If the futures and the underlying index move out of line, programs kick in to take advantage of that discrepancy and the result is that they move back in line. There may be arbitrage between different month values of the same instrument. With Contango, you can buy next month's Crude contract and sell the one three months out for an instant profit. No problem at all, as long as you have somewhere to keep the oil for the two months between expiries.

Arbitrage *in this context* is made possible because of something called 'derivatives'. A derivative is a financial product whose price is 'derived' from the price of something else. Stock options in Apple (AAPL) are derivatives of the underlying stock. Futures contracts in wheat are a derivative of wheat. The e-mini S&P500 futures contract is a derivative of the S&P500 stock index. The Euro (E6) futures contract is a derivative of the EUR/USD currency exchange market. Derivatives are very attractive instruments to speculators. They are generally more leveraged than the underlying product, so you get to make more money when you are right and lose more when you are wrong. Trading derivatives is a lot easier than trading raw commodities, unless you have a place to store a whole bunch of pork bellies that is. There are tax reporting benefits of trading derivatives too. If you do trade futures or options, just don't forget that there is something real underneath the product you trade. This can obviously have an effect on price.

If we consider short term arbitrage, such as that between the S&P500 futures and the S&P500 stocks; traders are looking to take advantage of a very short term price discrepancy between the two. The problem of being profitable at that game is not so much in getting the 'rules' right but in getting in fast enough to profit from the discrepancy after transaction costs have been accounted for. **The very act of trading on a discrepancy helps to close the gap**. This is where computers come in; this is where co-locating your computer at the exchange helps. It becomes a game of reflexes and reaction time. The ability for the futures and the underlying stocks to deviate a large amount is now limited. If they deviate, arbitrage traders will close the gap. It then becomes a matter of who is willing to trade the smallest deviation.

The reason that it’s important to understand these things is:

- Not every trader in a specific market has a directional bias
- Derivatives can impact the price of the underlying and vice-versa, this may mean you just have to stay away when the derivatives expire or roll. Don’t think options expiry and futures roll-over dates can be ignored
- Some trades are complex and consist of multiple positions. The individual position doesn’t matter much, just the combined outcome of them all.
- There are many, many ways to trade. Yet, 99% of web sites and trading books focus on taking single, directional trades, usually based on technical analysis.

This book could be hundreds of pages long discussing all the different types of markets and how to trade them. We have now had a peek at some of the complexity and diversity. If this puts you off trading, that’s a good thing. If not, then you are at least prepared to learn, we just need to ensure you don’t learn from people that can’t trade.

Why is it that retail traders gravitate towards directional trading? Partly this is because the commission structures we are given don’t allow us to take on such complex positions. If we traded a tiny deviation between the S&P index and futures, our commissions would eat all of the profits. It is also true that a lot of the different types of trades, such as option credit spreads are hard to understand and fairly risky. Taking a one way trade is a very easy thing to do and anyone can understand it. For this reason alone, it is a crowded space to be in.

Gaming

Game Theory - *where a persons' success is based on the choices of others*.

You might at this point be thinking that the markets are complex places and that the key is to figure out who's going to trade and when. That you need to understand all of the related and correlated instruments and get an overall view of all of them to make a decision. That would be fine if the markets weren't full of people like **you**. That's right – **YOU**. Your reason for trading is pretty simple. You want to put on a trade, see the market move your way and get out. You aren't hedging, you aren't interested in the long term view, you basically want to benefit from a short term price move in either direction. You aren't even really bothered which market you are trading, just as long as you can make money. **You are a pure speculator**. So, whilst it's nice to know about all these other ways of trading and how they may all come together to synergistically move the markets, the fact is that there are a lot of pure speculators out there. These speculators are just as likely to move the market as anything else. My advice therefore is not to get bogged down in the details.

If you have logged on to any trading forums, you will no doubt of become aware of "THEM". The mysterious "THEY" that cause your losing trades. Those guys are the cause of you getting stopped out on the very tick that the market reverses and goes the way you expected it to. Whilst no-one can be blamed for your losing trades, it is true that there are traders out there with very deep pockets that 'game' the markets. These are the people that can build positions of 5,000 ES contracts. Apart from the fact that you need millions of dollars to trade at this level, you also need to use certain tactics to establish a position. If you want to buy 5,000 ES contracts, you can't just put in a buy market order for 5,000. Too many people would see it and by the time you'd been filled, the market will have moved 6 or 7 ticks because of your order. What you have to do is work an order, finesse your way into the market. When possible, you also manipulate the other players into taking the other side of your trade. The best way to build a long position is to make the market appear weaker than it really is. If you can get people to sell, then you can buy from them. When you have built your position you make the market look strong. As the market moves up, those people that sold to you start to 'puke'. They exit their positions. To exit their positions they need to cover/buy back what they sold. Guess who they buy back from? Correct, they buy back from the guy they sold to earlier but at a higher price. In the matter of a few minutes somebody brought 5000 contracts and then sold them back to the same people 4 or 5 ticks higher. That's a profit of $250,000 - $312,500. Not a bad morning.

Of course, this cannot happen all the time. In a market that is just running one way, no-one has the capability to stop it dead and turn it around. Still, there are times when the market is 'ripe' for manipulation. Remember those books on Technical Analysis? Those 'secret' candlestick patterns the clever Japanese people use? Well, people that game the market know all about this. So, next time you short a 'shooting star' at a swing high, just remember that some guy with a few hundred million dollars knows that you are doing that, knows that there's a bunch of other people doing it too and he also knows that your stop loss will be 2-4 ticks above the high of that candlestick. At this point, what do we expect the hundred million dollar man to do? Should he be a gentleman, know that he's not playing fair and stand to one side? Or should he quietly buy all the contracts the suckers are selling and start bidding the market up so that they all run for the doors and in the process hand him a quarter of a million dollars? What would you do in his position?

I heard a great analogy once, "*If you see a thousand people walking around a shopping mall, it's impossible to know where they will all be in 5 minutes time. It's too complex to predict and calculate* (yes, even with fractal mathematics). *On the other hand, if you set off the fire alarm, it becomes very simple to predict where they will all be in 5 minutes time*". So it is with the markets, there are times when it is easy to push people around because so many have shown their hands. People have put their stops in a big cluster and they will all run for the exits when the market moves there.

Trading is not a game for the weak willed. Don’t start buying into the theories that day trading is mathematical and that it has a solution. It’s like more a game of poker. Sure, probabilities play a part but so do psychology and game theory.

The Nature of Trading

So back to our theme: What is the nature of trading? Well, it's a competitive game where the skilled take money from the unskilled. On the surface it does not appear to be competitive, after all, it is just lines on a chart. You cannot see the competition. If you are willing to accept that trading is a competitive venture, please continue. If not, please do not waste any more time reading this book. You will not really benefit.

Many people are trading and they all have their reasons. Some of their reasons seem baffling and counter-intuitive at first. Still, if you do research on the topics, then you can see the sense in what they do. There is much to learn about trading but there is no point in trying to learn it all. In fact, you could read thousands and thousands of pages on the different products and ways to trade, yet still come no closer to making any money. If you don't want to trade options, then there is no point learning the intricacies of the Black-Scholes pricing formula. If you do not plan to hold stocks long-term, there is no need to understand Discounted Cash Flow. If you plan to make money trading, then you need to focus on a specific area of trading and become good at it. If you wanted to become good at a 'ball' sport, you would not approach this by playing Tennis one week, Cricket the next, Soccer the next and Pinball the week after. There are many games to play and you will only make money by becoming a good player. Just like any sport, this takes practice.

Let's look for a second at the flip side of the 'trading is competitive' argument. This is something you will see in books and internet forums. Here you will see a lot of focus on 'solving the trading problem'. That is to say that making money from trading is a problem with a (often mathematical) solution. You will see a lot of people from engineering disciplines approach trading this way on the forums. There is an abundance of programmers trying to program their way to a solution. Often the solution will be a combination of price based indicators that when properly aligned give a 'signal' for you to buy or sell.

There is a whole industry geared towards selling people with these beliefs useless crap. There are "EA"s – programs you can run that will turn your PC into a money printing machine. There are "magic indicators" that will tell you when to buy and sell. There are courses with titles like "Easy way to trade" and "five minutes a day to trading success". We will look later at why you want to buy these but they are all crap. Trading is not a problem with a solution. Trading is a game that you need to become skilled at. Most people are uncomfortable with this. Most people want to hear that if you learn when to enter and exit (for $599 at a $1000 value), then you will have an income for life. Most people just want a set of instructions on how to trade and then just apply those instructions. **Bottom line is most people don't want to make a trading decision themselves**. Still, in a competitive market like this, do you really think a $99 or even $999 cookie cutter formula is going to make you a living long-term?

So, here is your second chance to stop reading. If you want a system/indicator/formula/flashing light to tell you when to buy and sell, stop reading now. On the other hand, if you are willing to accept that you need to make trading decisions yourself, carry on. I know that this is a scary thought. Once you accept this, you will start to change the way you look at the markets and this is when the learning process really starts. Whilst you are evaluating indicators and red light/green light systems, you are learning nothing about trading. Note that once you accept to make decisions yourself, then you will start to see that **this is not an impossible mission**. **This is just a different mission from the one you thought it was.**

3 The keys to survival

There really are two aspects to surviving your trading journey. First though, why do I say ‘surviving’ and not ‘profiting’? In my opinion, the profits are simply a product of surviving the learning process. Learning to trade can be a huge money pit, not to mention an emotional drain. You need to keep these in check if you are to have a hope of becoming a success.

In terms of financial survival, trading is not free, nor are all the bells and whistles I’ll soon be advising you not to buy. No business venture is without cost and trading is no exception. Do not get caught up in the initial excitement of reading a ‘how to trade’ book and then go out and put large money on a trade. Initially, don’t even consider yourself good enough to know how much money you are risking on any trade. There are platform fees, trade fees and education fees to pay, this isn’t even considering all the money you will lose trading. If you have a $5000 life savings and start risking $500 per trade, then the chances are extremely high that you will lose the $5000. Now that you have done that, even if you learn to trade, you won’t be able to because you have no money left.

There is a huge industry out there aimed at retail traders. Look at all the books, adverts on trading forums, adverts on CNBC, Google Adwords, web sites all aimed at the retail trader. They know you are easy bait. Don’t buy anything until you know what you are buying. Consider everything a scam until you have evidence to the contrary.

Emotionally, you may just become pissed off with trading and simply cast it aside one day. This is absolutely fine and in most cases it’s a good decision. Still, the night is darkest before the dawn. Learning to Trade is not a ‘straight line’ endeavor. It’s not like you’ll be making 1% per year one day, 10% per year 6 months later, 20% per year after another 6 months. More likely, you are going to absolutely suck at trading for an extended period of time and then ‘suddenly’ things will start to click into place quite rapidly. At that point, the most likely thing to happen is you’ll have a rush of blood to the head, throw everything you learnt out of the window and start losing again. It’s just a bit of overconfidence and is normal. Still, this whole experience can be emotionally crushing.

Remember, this is a competitive endeavor. You need to get good at it. You can’t suck at something for a week or a month and then change to something else because you will suck at that too and never get good at anything. You have to stick with something but of course, that should be something that you are confident in. How can you be confident in something if you don’t really know that it works? Of course, you are prime scammer bait at this point. Every man and his dog on the trading forums and web sites has a magic system that works for you…

4 Surviving Financially

I am sure that like me, you are very fond of government and the way they help the little guy. So it is that in Day Trading, those with less money are actually forced by SEC regulations to take more risk. Welcome to the Pattern Day Trading rule. The Pattern Day Trading rule states that unless you have $25,000 or more in your account then you cannot place more than 3 day trades in any 5 day period. Note that a day trade is a trade that you enter and exit on the same day. If you do this, they consider you a day trader.

On the bright side, such rules do not exist for Futures traders. Many retail traders gravitate towards the e-mini S&P500 (ES) Futures. Many brokers will let you trade that futures contract with just a few thousand dollars in the account. In fact, they will often let you trade 1 contract for every $300 in your account.

As of writing, the ES is at 1165.00. The value of this contract is $50 per point which gives it a nominal value of $58,250. Each contract you trade on the ES is the equivalent of trading 1000 shares at $58.25.

The current rules force small traders to take on a ridiculous amount of risk. A beginner with $25,000 can go out and buy 100 shares in eBay with a total value of $3,100 and transaction fees of $1 each way. On average, eBay moves about $1.42 a day. So, the risk would be about $142. Someone without $25,000 is pushed toward futures. Instead of a total value of $3,100, they are forced to trade a product with a value of $58,250. On top of that, the ES range is currently about 20 points per day. That is $1000 per contract risk instead of the $142 with the stocks. The fact that some brokers allow you to trade 1 ES contract per $300 in their account when the daily range is $1000 is scandalous. You would have to be a master trader to be able to trade at that level without blowing the account.

So, how to proceed? Well, the fact is, even if you have a few hundred thousand dollars to start with, you should NOT trade futures. There is simply no reason to put so much money on the line when you start. My recommendation on how to proceed depends on how much money you have.

If you have $25k or more…

In this case, the world is your oyster. Long term, there are some advantages of trading futures over stocks and this is a decision you will need to make yourself. If you plan to be a stock trader, then go ahead and trade the stocks but do so in small size.

If you plan to trade futures long term, then you should initially start by choosing an ETF that matches your futures contract and trade that instead. For example, the ETF "SPY" (aka spiders) represents the S&P500 stock index. The e-mini S&P (ES) also represents the S&P500 stock index. If you want to become an ES trader, then you should analyze the ES but trade the SPY. The SPY will move 10 cents for every point the ES moves. One point on the ES is $50 per contract. 10 cents on 100 shares of the SPY is $10. Your risk is approximately 1 fifth of that on the ES. You can hone your analysis skills on the ES but trade the smaller SPY.

This can be applied to other contracts too. It works better on some contracts than others. The combination of the e-mini DOW Jones (YM) and the ETF DIA (aka diamonds) is pretty poor because the moves on the ETF are so small. In this case, an ETF like the Ultra Dow 30 (DDM) could be considered as it moves 2x the move.

Do your research, look at what you want to trade long-term and then look for an appropriate stock/ETF to trade as a proxy.

If you have less than $25k…

Your options are somewhat limited in this case but you have to play with the hand you have been dealt. If you are not a US citizen, then you can look at spread betting or CFDs. I'd avoid spread betters if you are day trading because you are effectively trading against your broker. They will win. CFDs again, I'm not a huge fan of, mostly because they don't offer you a much smaller way to play. As such, there seems little point.

If you do have less than $25k, then the best thing to look at is currency futures. You will be benefitting long-term from learning how to day trade futures, just that you don't have such a wide selection of markets to trade. Again, we will look for 'proxy' markets to trade for less risk. In this case, the proxy market will be Forex. I'm not a huge forex fan as most brokers are charlatans. Certainly, I would not want to deposit a large amount of money in a forex broker's account. Some brokers, such as Oanda, allow you to trade the forex market with any size you like. This allows you to trade for just a few cents risk. If you look at the forex page on the CME website (www.cmegroup.com), you will see there are plenty of options in terms of currencies to trade. The most liquid is the EUR/USD (6E). So, analyze the futures, trade the forex in small size.

You may be wondering why I am not recommending you analyze the forex market and trade it directly. There is no single, centralized Forex Exchange. What that means is that my broker's forex prices and your broker's forex prices will be different. Of course, not too different or those arbitrage guys will come in again. With stocks and futures, you are effectively looking at the same prices as everyone else. Also, the futures and stock markets both have 'order books' which show you the limit orders that exist at various prices. These markets also have a centralized 'Time & Sales' which is a list of trades placed and finally you can also see the volume traded. Forex has none of this. On forex, you do not have an order book, you cannot see the trades placed and you have no idea of the volume traded. As a day trader, you are at a serious disadvantage trying to make trading decisions based on the limited data you have on the forex markets. Of course, this is the reason that so much of the trading industry is focused on getting new traders to trade forex.

5 Surviving The Scammers/Getting Educated

Whilst you might not like "Them" too much for taking your money through trading, there are some people in the trading world you are going to dislike a hell of a lot more; The Scammers. These people are the scum of the trading world. They are people that can talk the talk of trading but cannot walk the walk.

First, let's take a step back and look at why the scammers exist. The fact is that trading is a tough game. In fact, it's a tough business. My educational background is IT Management. I'm not sure about your educational background but mine is 100% irrelevant to trading. Also, I'm fairly sure that if you aren't in IT, then you couldn't do my job and I couldn't do yours. So, why is it that people (i.e. me before) expect to be able to pick up a $29.99 book from Amazon.com, read it and be able to do someone else's job? That's right, people expect to read a few books and be able to do a traders job. I guess part of the reason is that the impression you will get from most on line resources is that everyone on line is making money from trading with a few pretty indicators on a screen. It's just YOU that doesn't get it, dummy.

The fact is that almost all; if not 100% of people on trading forums are not making any money from trading. The safest presumption to make about anyone on a trading forum is that they are losing money, unless you see hard evidence to the contrary. So, let's ignore that lot and look at this realistically. Prop shops and companies like Goldman Sachs take on a lot of traders and only a few survive. They take on more people than they need because they know most won't make it. People like Goldman don't take on slouches either**!** So, even with recruiting the best and brightest, with top notch training from seasoned professionals, with other traders on hand to learn from – many still don't make it. So, do you really think all those books on Technical Analysis have the answers?

Whilst many on Trading Forums will tell you to "read this thread" or "just watch the screen for 10,000 hours", just remember that those people aren't making money anyway. What you need to do, as quickly as possible is to hook up with people that actually trade **successfully**. Now, I am not opposed to looking at a screen for a lot of time, you absolutely need this for day trading, you need to develop a feel for the market. Still, what on earth is the point of watching the screen if you have no reference points, no ideas about what to actually look for? Unless you are a natural born trading killer, this is nothing more than an exercise in futility.

Now, I could be wrong here. It is possible that you can learn to be a doctor, lawyer, airline pilot or veterinarian by reading a few books and having no contact with anyone in the industry or any tuition of any kind. Just don't expect to have me as a patient, client, passenger or worried owner. On the other hand, it may just be that to learn to trade, you need to be taught a thing or two from people with relevant experience.

This is where the scammers come in. The scammers come in 2 broad categories. The first type of scammer offers you absolution. They offer you absolution from ever making a trading decision yourself. They have a system for you. This may come in different guises such as:

EA/Black Box System – This is the ultimate in absolution. Not only do you not have to make a decision, you don't have to even be there. Just install the software, switch this baby on at the start of the day and come back 8 hours later and count the money. Yes, for just $99/$999/$9999 you will have a system to install that will trade for you.

Red Light/Green Light – Yes, you can still totally avoid making a decision yourself. Just wait for the red light to flash and you can sell. When the green light flashes you can buy. Other versions will have a variety of different indicators, either generic ones or new flashy editions for you to follow. When they reach mystical alignment you hit the appropriate button. Now you are trading! Of course, you are ignoring the actual market and you are not making any decisions.

The Magical System – Once again, you are being absolved but this time you really feel like you are making a decision. The thing is, you have been given a fixed set of rules to use to make that decision. A good example of this is http://www.daytradetowin.com/ - you have a set of simple rules, a cookie cutter formula to follow and as night follows day, so shall you make tons of cash. Normally, the system will also be accompanied by phrases such as "EZ", "5 minutes a day", "care free" and "even a chimp can do it".

Now, each of us is entitled to buy one, maybe two of these things but really, any more than that is just not learning your lesson. Just go for two at most and then please move on to the second category of scammer. After all, time's a wastin'.

One of the things you will notice on these sites is a statement that begins as follows:

"CFTC Rule 4.41 - HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS".

What this means is that the results shown on the website you are looking at **are not the result of live trading**. Rather, they are the estimates of what probably might have happened if live trades had been placed. You have someone selling a trading system and they do not trade it themselves. There is a page at the Rockwell Trading site at the time of writing that twists and turns around this issue - http://www.rockwelltrading.com/blog/2010/05/02/whats-the-deal-with-hypothetical-results/. All of the points made here are irrelevant. If you trade a system live and show the live results, then you do not need to put in this disclaimer. So whether it's a list of results or a trading room, when you see this statement the owner is simply not willing to put their money where their mouth is.

Here is an example of one of the more blatant examples of massaging hypothetical results that I have seen. In summary, their system is an opening range breakout system. You set a range based on the pre-market and open action and when it breaks out of that range you take a trade. The 'massaging' comes from one very simple 'option' you have for every trade. That is that you can place a 4 or 5 tick target. So, when the hypothetical results are calculated, when the market moved 4 ticks and reversed, they put a 4 tick win in the hypothetical results. When the market moves 5 ticks or more, they put in a 5 tick win. With this simple adjustment, it is possible to create consistent rear-view mirror results based on the rules in the system. Now, no laws have been broken here. If you had traded the system outlined and managed to pick the right exit strategy each day, those would have been your results. Of course, how to pick the right exit strategy each day is not something the 'system' does or could cover.

The second category of scammer is “The Mentor”. This is the expert fishing on the internet forums that is going to teach you how to trade. He may also have a trading room where you can watch him trade. No doubt they will use impressive buzzword laden language and as such are obviously making tons of cash trading. There are a few categories of mentors that I have come across and we can add more to this book if you meet another type and send me the details…

The Ego – This mentor is so full of himself that “How dare you” ask for an account statement. Expect long rants when you dare question anything he says. Such rants will include how much money he’s making and how he’s doing a favor by even spending time with such a lowly rat like you for $1,000 a day. You think to yourself, “Wow, this guy is either really good or a borderline psychotic”. Correct.

The ex-pro – This guy spent every day for 500 years on the trading floor of the CME. As such, he OBVIOUSLY knows how to trade. Of course what he doesn’t tell you is that his time at the CME was spent placing arbitrage trades between the large and small S&P futures contracts and that this experience has zero relevance to trading off the floor. He may even give you a call, put on his thickest New York/Italian blend accent and belittle you in person until you take his $5,000 course.

The Trading Room – This guy offers you a free peek inside his trading room. This is a room which is strictly moderated, dissent is stifled and trades are made on a SIM account. If you spend 5 days in his room for free and you see him make money, then for sure it’s a go, right? Wrong. There’s a few ways to swing things in your favor over a 5 day period. You can call entries on fictional trades a little late (giving yourself a few ticks onside on a fictional trade). You can have much larger stops than targets. This gives you a loser overall but runs of small winners, enough to give you plenty of people that see you make money over a 5 day period, other 5 day periods will be a wash but it’s a numbers game anyway. You can plain cheat in a number of other ways.

If you have traded a while, you’ll spot the tricks. I attended one room where they were calling trades on crude oil, which is as slippery in the markets as it is in real life. They had an 11 tick stop and a 6 tick target so of course the majority of their trades were winners. The thing is, every time they got stopped out, they said “that’s an 11 tick loss”. One time they did this, they reported an 11 tick loss when zero contracts traded at their exit point. When I pointed this out they said “OK, 12 tick loss”. No trades there either. In the end, they settled on 13. They were obviously not trading but they did look very convincing for a while.

Now, why do we fall for this stuff? The fact is we buy this stuff because **we want to believe** and so we decide to believe. We really don’t want trading to be that hard. We want to hand over the responsibility to someone else. We decide to believe that by handing over hundreds or thousands of dollars to someone, they will be responsible for making a trader out of us. This is a bit like “Them” suckering us into a bad trade. It not only takes “Them” to set up the market to look weak/strong, it takes “us” wanting to believe that is the case.

Most con artists are successful because they tap into the greed of the person being conned. There’s a great scam in Thailand. You see somebody distraught in a shopping center; they ask you if you’ve seen a bag. It’s got a number of gold chains in it. Amazingly – there in the corner you see the bag on the floor. You pick it up, it’s heavy with chains but obviously you are too polite to open and inspect it. The person thanks you so much and wants to reward you with $500. They are short of cash, so they need to go & get some. Hey, that’s not fair on you though, there needs to be some deposit to ensure they come back with the $500. So, they leave you with their bag of gold & you leave them with the gold chain you are wearing as a deposit too. Either way you win, if they don’t return you get the bag of gold, if they do return you get the $500. Obviously, the bag is full of fake chains and no-one comes back with the $500 or your real gold chain. People fall for this scam day in day out. The scammers are obviously convincing but they don’t need to be that good because **they tap into their victims own greed**. Who knows? A large majority of the people getting scammed probably just intended to do a runner with the large bag of gold. So, in their excitement of getting away with suckering someone else, they fail to see they are the sucker themselves.

As you become more proficient at trading, as you come to terms with the nature of trading, so you become proficient at spotting a scammer. The old adage “if it sounds too good to be true, it is” is only applicable if you can actually quantify “too good to be true”. This comes with experience. Until you have that experience the presumption has to be that the person you are dealing with is not legitimate. You should not even fall for the first category of scammer because none of them are legitimate. The best way to see if someone is for real is to get on the phone and have a chat with them. Confront them about the fact that you want evidence that they are for real. Run a mile at the first sign of an over-inflated ego, the “how dare you” response. If someone is genuinely offended at being asked for confirmation, they are in the wrong business. Some people sound very convincing, so ask them, on the phone what proof they can supply to show that they actually make money from trading. This could come in the form of watching them trade a live account or showing you an account statement. If you do get an account statement, hold onto it. If the person turns out to be a scammer, a fraudulent account statement will be a handy tool in getting your money back. Other than that, a personal recommendation from somebody you know in real life is probably as good as it gets.

Finally, look out for bogus guarantees. This is usually in the form of “if you can show you traded this system and followed the rules exactly for 30 days and lost money, we’ll give a full refund”. Well that’s great but if you realize on day 1 that this is bogus, why would you trade it live for 30 days to get your money refunded? You’d lose way more than the refund amount. The whole guarantee is part of the con.

Do not be disheartened. There are legitimate people out there that can teach you how they trade. There are just 10 times as many scammers. Proceed with caution and presume the worst.

6 Education Expectations

Whilst I don't want this to be all doom and gloom, it's worth looking at what is realistic in terms of your expectations when you get educated. For now, let's presume you have found a good mentor; let's call that person "Tiger Woods". While we are at it, let's call trading "Golf".

You already know what's coming but I shall continue. If you've never played Golf before and you went to Tiger Woods for lessons, the chances are that you wouldn't be that great after a week of tuition. Still, what a great start, you'd have. In any case, some people just suck at Golf and even Tiger wouldn't be able to help them. On the other hand, should you stick with what he taught you and practice, practice, practice, you may just end up being the best golfer amongst your peers. You'd probably need to go back to Tiger a few other times, to ask more questions as you picked up on the nuances of the game.

I use analogy because in my experience people want to think that trading is different to other skills. It isn't. It is a skill you have to learn and practice to become good at. You need to accept that you might learn a style of trading that doesn't suit you. This is unfortunate but if you learn from somebody legitimate, the exercise will still be of great value. Initially, you will suck at what has been taught, this is to be expected. The section in this eBook on reducing risk will help make that a less painful experience. If you change the trading style after a week or a month, then you will never excel at any particular style. Your trainer has years of experience at what is being taught and they are trying to fit it all into a day/weeks/months training. It's not really going to work out like that. You can learn the basics, then apply it and then come back with questions on the nuances of what you experienced. That's how you'll move forward.

Now it should become even more apparent why you need some evidence from the mentor before you commit. When things are looking grim, you've been trying to apply the methods for six weeks and are consistently getting your ass handed to you – how will you continue? The natural reaction will be to question what you have been taught. If you didn't get any validation from the mentor up front, how will you get through this period of doubt? If you are at this point and still have confidence that the mentor can trade what they taught you, you will be able to overcome these doubts.

I guarantee that if you do not get some evidence from the mentor before you start the education process, then you will be looking for it at some point soon after the education is completed. **At this point, these questions will probably cause an issue between the two of you.**

7 The End/The Beginning

Ultimately, what you are trying to do with trading is get an ‘edge’. Effectively you need to find a way to get other traders to hand you more money than you hand them. Embrace that concept. Embrace the fact that you will be making the decision to trade yourself and not by relying on some flashy piece of software. Embrace the fact that so many retail traders are trading based on 30 year old Technical Analysis books or regurgitated versions of them. Embrace the fact that there are large players gaming the market. When you do this, you look for the answers in different places to those people on the internet forums/reading TA books. When you do this, trading will actually start to make more sense.

Any trade can fail; any individual trade will either win or lose. That’s it; your next trade will be a winner or a loser. It’s largely irrelevant which for any individual trade. Accept it and move on. You should certainly not be changing the game based on one loser or even a string of losers. Nor should you change based on a string of winners.

You will not win 100% of the time, nor is that a realistic goal. Concepts like “Risk: Reward” that you read on internet forums are largely irrelevant. If your stop loss is 1 point away and your target is 4 points away, then you have the magical “Risk: Reward” right according to the internet forums. What good is that if 90% of your trades are losers? When you are in a trade, it may be that your premise for the trade was correct but that it’s just not going to get to your target. As a skilled trader, you will recognize this and salvage what you can. You will know how winning trades generally play out and you will know how losing trades play out. You might have a good idea of where you want the market to go when you place a trade but this fixed “Risk: Reward” concept is rather naïve. You play the hand you are dealt.

The ability to choke off a trade before it gets to your stop or target is a skill that comes with experience. It is just one of many nuances that will come to you with experience. The experience of a market becoming more or less volatile is another nuance that can be explained at length but needs to be experienced to be understood. There is no point in me trying to list all of these things. I am still experiencing new things myself. You will only get the experience through trading and this trading carries both a financial and emotional cost. This is the reason this eBook is called “Surviving Day Trading” and not “making money in five minutes”.

Trading is not that difficult. Some people can do it and some people can’t. The problem for the retail trader is the sea of bullshit you have to wade through to get to the point where you can trade. It seems like everyone wants a little piece of you and of course, they do. Just don’t give away those pieces too easily because at some point there won’t be any left for you. **Then of course, you will have succumbed to trading and nobody wants to see you do that.**

8 First Steps – The Search For Certainty

So, you are ready to take the first steps. Maybe you've been looking at trading for four or five years. If you are not yet profitable, then these steps are still appropriate.

The normal first step for the aspiring trader is a web search. This will take you to internet forums and web sites as well as on line book stores. You will find that certain books come highly recommended. Steve Nison's book "Japanese Candlestick Charting Techniques" is one of the most highly recommended books. Alexander Elders "Come into My Trading Room" is also highly recommended as is his "Trading for a Living". Marcel Links "High Probability Trading" is another one. John Carters "Mastering The Trade" is another. I have read all of these books. I can hand on heart say that none of them helped me one bit. The truth is that the people recommending these books are not profitable. Still the books tell them a lot about what they want trading to be. They look very sensible; they tell us things we never heard before. They must be right.

The focus of these books is Technical Analysis. This is the 'science' of analyzing charts with/without the help of price based indicators; to help evaluate which direction the market is headed. Now, I do not know every method of trading. I do not know every trader. Still, I do know a lot of full-time traders and I do not know a single one that uses the techniques described in these books. In fact, the full time traders all give a wry smile and shake of the head when these techniques are discussed. These books attempt to make a science out of trading because that is what new traders want to hear. They want trading to be a problem with a finite solution. Making a science of trading is a lot like trying to make a science out of Poker.

My belief is that these books and this 'science' of Technical Analysis exist because of a basic need of aspiring traders to have some degree of certainty in their trading. They don't want to really look at discretionary trading; they want it to be mechanical. They want to be trading robots. The 'de-facto' way to trade according to internet trading forum gurus is:

1 – Find a setup

2 – Evaluate the probability of that setup winning over time

3 – Add in an appropriate money management technique

4 – Rinse and repeat 'mechanically' and reap the rewards over time

This sounds reasonable. The setup gives you something to look for every time. When all of the things you look at come into alignment, you buy or sell. This is very much a 'cookie cutter' approach to trading. It is looking for a fixed scenario to occur and then trading it. The reality is though that every situation is different. The best traders are those that are able to handle what the market throws at them and adapt to it. This is the opposite of expecting the market to provide you with the setup you want before trading.

Obviously, not all scenarios are the same. The market moves in different ways every day. Price based indicators promise to deliver some 'sameness'. Oscillators will move up and down with a market. With a bit of clever math, the oscillator is made to peak and trough even though underlying markets are moving in different ways. Effectively, you have filtered out some of the 'noise' (more on noise later). Add in a few oscillators, some moving averages, Bollinger bands and wait for alignment. Now, you are no longer focused on the price, you are focused on these indicators. Despite all of these indicators being based on price, you are expecting them all to tell you different things. Furthermore, you are expecting their alignment to tell you that this is a special moment. There is now a layer of obfuscation between you and the market. Again, I will repeat that of all the profitable traders I know, none of them use these things.

What new retail traders gravitate towards is something that they can analyze objectively. That is to say something that they can analyze with a fixed ruleset. They focus on effect and not cause. Effect is the price action you see on a chart but what caused price to move in that way? Price based indicators give you a squiggly line based on the effect. The cause of the price move is often never considered at all. This focus on effect and not cause is a huge obstacle to becoming profitable. To analyze the cause of a move, you need to think subjectively. You have to realize that there is not, nor will there be a fixed logic based "ruleset for you to follow. If you focus on looking at the cause of prior moves, then it will help you to understand what sort of reaction the current price action may cause. There will never be certainty because you can only base your analysis on the actions taken by traders so far.

Now, of course you can have rules. You must have rules. This isn't a game where you can just sit and click whenever the feeling takes your fancy. It's just that your rules won't be mechanical rules. If you look for rules like "When moving average A crosses over moving average B, then buy", you are dismissing cause. Rules such as "don't buy if we are too close to the high" or "Buy a pullback after bouncing off a support area" are still rules, they are just much more realistic and flexible rules. Of course, you need some way to decide that this is a pullback and not a reversal and you can define generally how to do that. Still the answer will not be a mechanical set of rules.

I'll give an example. I trade the e-mini S&P500. This market has a tendency to reverse at the overnight highs and lows. Still, there are days, perhaps one or two trading days out of ten where this market will move in one direction most of the day. These days are typically days where volume is higher. What is happening is that it's not just day traders playing but people are establishing/liquidating longer term positions based on a perceived shift in fundamentals, usually because of a news event. I have a rule for my trading, if I see more volume than usual, I won't attempt to fade the highs and lows. That additional volume tends to cause the market to run in one direction. Now, the way I look at 'additional volume' is subjective. I do not have a fixed percentage or number above average. I watch this every day and I use my experience along with the price action to guide me. It is not an objective rule. Still, it keeps me out of trouble. This is not difficult; it is just a slightly different way to look at establishing rules.

9 One Size Fits All

One of the things the smarter ‘gurus’ on internet forums say is “markets are fractal”. By this they mean that markets work the same regardless of whether you are looking at a daily chart, hourly chart, minute chart, tick chart. Of course, if you take a series of prices and turn them into OHLC bars or Candlestick charts, then of course you will see similarities. Much of the ‘cookie cutter’ techniques you read about discuss the technique in much detail, yet don’t go into detail about applying the techniques on specific markets. It is as if the specific market was secondary.

The reality for a day trader is quite different. If you take fairly simple concepts such as “markets will tend to travel between points of support and resistance”, “markets will tend to seek out pockets of liquidity”, it gives you some general guidelines on where you expect the market to go. Still, that is not the end of the story. You could have two markets that follow these guidelines and yet behave very differently. One market could reach a point of resistance and turn around at that exact point; another market could blow through by 15 ticks before reversing. Their charts would look different, they are behaving differently but they are both following the same guidelines.

Regardless of whether you use charts or not, the liquidity of the market is going to have a bearing on how you trade it. Let’s say you have been looking at a very liquid market for a while, you use charts and you are fairly comfortable with the market structure. You then look at a less liquid market. Suddenly you feel that your understanding of market dynamics is of no use in the new market. This is not the case though. Market dynamics are a part of the picture, not the whole picture.

Let's look at the two extremes.

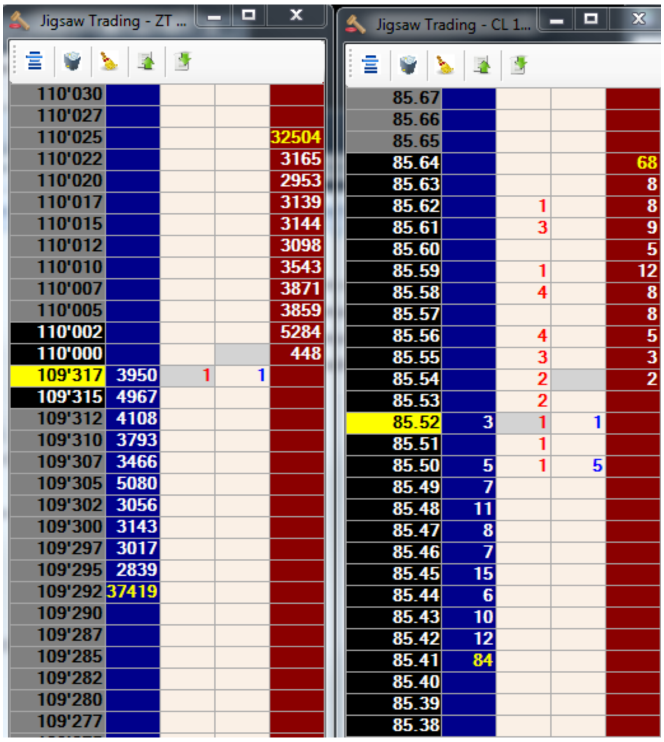

Fig 1.0. Left: 2 Year Treasury Note Futures (ZT). Right: Crude Oil Futures (CL).

The left hand column is the price. White on black represents a price that has traded. The white on blue column is the list of buy limit orders at each price level. The white on red column is the list of sell limit orders at each price level. Ignore the center column for now.

As you can see, the number of limit orders at each level is very different on the two instruments. For price to move down a level, we need to see either all of those buy limit orders traded (by people placing sell market orders) or we need to see the bidders pull their orders. On the ZT, we need 3950 contracts to trade at 109'317 before price will move down to 109'315. On the CL, we need only 3 contracts to trade at 85.52 before price moves down to 85.50 (note, there are no bids at 85.81). ZT is what we call a thick market and CL is what we call a thin market. The e-mini S&P500 is a fairly thick market with about 1,500 at each level. Still, when the market goes into a panic, it can drop down to 400 at each level.

Thinner instruments move more than thicker instruments. The type of order book manipulation that occurs on a thicker instrument happens less on thinner instruments. Different types of instrument suit different people. I like the thick ES and I can see how the orders flow and when pressure is building up for a move. On the much thicker ZN (10 Year T-Note), I can't seem to do the same thing. To me, it's so slow that I can't see when it's changing pace. You have to widen your risk to trade a thinner instrument. Slippage generally isn't an issue on a thicker instrument either. There are many differences.

When you consider different markets, consider that the way they move will be guided by (in order):

1 – Market Dynamics. Financial markets all tend to work in a similar fashion. People get trapped and puke out of trades in all markets.

2 – How liquid the market is.

3 – The markets own 'personality'.

You can't develop a single analysis technique that will suit all markets but you can take what you learnt in one market and adapt it to a different one.

10 The Myth of Noise

One of the things that may put you off short term trading is the internet trading guru telling you "it's all noise". These experts will tell you that any chart lower than 5 minutes per bar is 'noise' and that the DOM/Price Ladder is of no use because it's manipulated. Of course, if something is manipulated, then you would expect the manipulator to be benefitting from it. It goes to follow then, that if you can spot the manipulation, you can benefit too.

Not everyone is suited to scalping 2 or 3 ticks out of the market at a time. The myth of noise does tend to lead you towards chart-only trading and away from two very useful tools. The fact is that the markets are at their most predictable in the ultra-short term. They are not predictable all the time but at certain times, it can be very clear where the market is going. This may refer to the next 2-3 ticks on the Treasuries, the next 4 or 5 ticks on the ES or the next 10 ticks on the CL.

How you use this information (if at all) is up to you. If you do learn the art of short term trading, then it's possible you won't ever look to hold positions for longer again. It's possible you'll incorporate this into position day trading where you'll hold positions for hours, not minutes. The study of the tools used by short term traders can define OR refine your entries.

Price charts are one dimension you can analyze to consider future moves. Adding indicators that are based on those charts is not another dimension, it's just the same information presented in a different way. Short term traders use two other tools that really do provide a different dimension of information.

Time & Sales AKA "The Tape" – Time and sales is a very simple tool. It shows one line of information for every trade placed on a market. This allows you to see which side the large traders are on as well as to get a 'feel' for the pace of the market and who is in control of it.

Depth Of Market (DOM)/Level2 – Generally speaking Level 2 is used for stocks and the DOM is used for futures. This shows the limit orders at each level on the buy and sell side.

These tools can be used on their own or in combination. The DOM shows intent; it shows what people say they are going to do. Of course, there is a lot of manipulation of the DOM, more so on thicker markets. Not everyone does what they say they will do. If they did, trading would be very easy. The Tape shows what actually happened, the trades that actually took place. Some DOMs also show the trades but generally make a poor job of doing so. Many traders use this combination of 'intent' and 'actual' to make very accurate short term calls in the markets.

To some, this is nothing but noise. This is purely because they do not understand what to do with the information nor do they understand how many people make a living from this level of information. The presumption most people make is that everyone is making money by analyzing price charts using technical analysis.

As a Day Trader, you are at a disadvantage if you attempt to trade purely off chart information. There is no noise in the markets, only trading activity.

11 The End - Really

There isn't much more for me to say on the topic. There are people out there that can speak more eloquently than me on the topic of trading. I will finish by recommending further reading on the subject:

Justin Mamis, The Nature of Risk. This is a trading book with a difference. The fact is that the more confirmation you require in taking a trade, the less money you will make out of that trade. This book tackles the uncertainty aspect of trading. After reading this book, you will embrace uncertainty. You will no longer be looking for the 100% because you know that is the path to ruin. In that respect, I believe it's a must for any trader, especially one that is still not convinced that trading is not a mechanical discipline.

Dr Bob Rotella, Golf is Not a Game of Perfect. This book is not a trading book. It is in fact a book on Golf. Still, every trader I know that has read it says it helped their trading. Dr Bob Rotella helps golfers out with the mental aspect of their game. It discusses the difference between playing casually with friends (SIM Trading?) and playing competitively (live trading) and why many people will perform worse in competition than they do in causal play. It also discusses the impact of early poor play in a game and how that can throw off the rest of the game. He also discusses the problem with 'thinking too much' when you play. Of course, for all these issues, he has solutions. Seriously, this book is golden for traders.

www.nobsdaytrading.com. If you think I'm mean, wait till you meet John Grady! John made a living in the world of proprietary trading, specifically trading US Treasuries using the order book. He is now no longer trading for a prop shop but for himself. His "No BS Day Trading" eBook and video costs virtually nothing, just $39.99. This is one of the few resources on the web put together by someone that trades day in, day out. This particular style of trading may or may not suit you. This is what goes on every day in proprietary trading houses across the world. This is what trading is to a lot of people that make a living from it. You need to see this material as you will see for yourself that the world of internet forums, trading books, candlesticks and oscillators is very far from the world of prop shop day trading.

FuturesTrader71 – This mystery man claims to be the owner of a proprietary trading shop. Whether this is true or not, I cannot say. What is true is that this man knows about trading. There are a number of webinars on his site and they are not free. When I first came across this material, all proceeds of the site were going to a US based charity. I believe this is still the case. His approach to trading uses volume profiles and I have met a number of prop traders that use variations of this theme. The webinars are well worth listening to. There are two things you will get out of this. First you will see an approach to analyzing the market. Every trader I know has this and they all believe in the method they use. Second you will get a lot of information about the nature of trading. FT71 is certainly trying to help the aspiring trader and even if you do not use his techniques, the webinars are invaluable from the perspective of getting an understanding of what trading really means. One of the key things here is that FT71 is not trying to get you to learn 'his' technique. He's trying to help you navigate the waters yourself.

Good Luck.

Peter Davies