TRADING TRICKS

The Pros Use and You Can Too!

by Dr. Barry Burns
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Top Dog Trading

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INTRODUCTION

What? You mean there’s trading “tricks?”

Well, yes and no. None of these “tricks” are magical ways to make money in the markets. But they do represent things the pros do, and most amateurs don’t do.

In this way, it’s something the pros have “up their sleeve.”

Now some of these things you may already “know.” At least you think you know. And maybe you do know … intellectually. But that doesn’t do any good.

Knowledge is NOT power!

Applied knowledge is power.

So the ultimate “trick” to trading is to work on your own self-discipline and master yourself. You won’t master trading until you’ve mastereded yourself.

That’s the real truth, but you probably bought this Special Report because you were looking for some new trading “techniques.”

So that’s what we’ll focus on.

These are some techniques that pros use and amateurs don’t … or don’t do correctly. Again, remember it’s the DOING not the KNOWING that’s critical. The pros are different and they’re making money because they apply some or all of these techniques in their trading consistently.
BUY INTO SELLING AND SELL INTO BUYING

It’s well known that the crowd is normally wrong. Contrary thinking is often the key to success in trading. Doing this requires nerves of steel however. It’s unnatural for human beings. Since we’re social beings our “herd” instinct is very strong.

But the nature of the markets, being a mass-market auction place, is such that trading with the crowd doesn’t work in your favor. Being a rogue is the secret to success. And that means DOING WHAT IS UNCOMFORTABLE.

The chart above is an example of where a pro might find an excellent buying opportunity. What about you? Would you BUY that last bar? The market is going down and not showing any signs of reversing. There’s also a gap below that may get filled. Besides, you’re not supposed to buy a “falling knife” right? Traders who misinterpret this pattern to be a falling knife, know just enough about technical analysis to get themselves hurt!
On the longer-term chart you can see that what looked like a move DOWN, was actually just a small retrace in a new up trend on the longer time frame. As the market comes down, it is retracing into a cluster of support.

Rather than waiting for the market to bounce and then take a long position, the professional trader may just buy into the selling. Looking back at the short-term chart, it would be very uncomfortable for most people to BUY while the market is actually moving DOWN short-term.
That’s why it works! Amateurs like to wait for a lot of confirmation before they enter a position. But waiting for a lot of confirmation before you buy, means buying at a higher price. The pro wants to “buy low, and sell high.” The best way to buy low is to buy before price moves up!

The obvious objection is, “How do you know it’s going to bounce?”

We don’t know that the market will continue it’s long-term trend up, but the short-term odds are that when the market is in an up trend and it retraces into a cluster of support, it will get at least a small bounce up.

Making this actually work in real life requires nerves of steel and impeccable money management. It’s the money management that allows you to move into these positions and trade them profitably.

Just remember: By the time you would be buying a retrace, there are other people lightening their long positions … meaning they got in way before you and are now selling some of their position to adjust their cost position in the trade!

The “trick” is to buy below support and short above resistance. This works for several reasons:

1. When the market holds support, it normally will “pierce” support, allowing you to actually buy BELOW the support level, even though it “holds” the majority of price action (and the bars on the chart).
2. Even when support doesn’t hold, and the market breaks down through support, the first attempt normally results in at least a little reaction or bounce up off of support. Thus allowing you to get in near the bottom of the swing, making your risk smaller than it otherwise might be.
The above chart shows how price found support and resistance at the 50 MA of the S&P Daily Chart. Even though support and resistance held each time, notice that price went BELOW support and ABOVE resistance, giving you a chance to enter at those extreme levels. This can provide you a tremendous edge against other traders! You wanna be FIRST in?

Again, you have to employ some advanced money management techniques to make this work in real trading, including “legging in” to a position.

I teach the complete rules for this in my Advanced Trading Course.

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MANAGING RISK

There are many risk management techniques in trading. Some use complicated mathematical models. Others use a combination of art and science.

There’s no one answer to the question of how to manage your risk, other than to use principles that allow you to CONSISTENTLY keep your losses small and catch big winners when they occur.

Amateurs are always looking for successful trades. Their expectation is that each trade they place is going to be a big winner. If you ask them this, they of course say “no.” But when you watch their behavior, the answer is clearly “yes.”

How does this manifest itself?

When a trader takes multiple trades over time, but none of their trades turn into large winners, they get tired, get distracted and take a break, skip some trades, and miss the big winner.

Beyond simple fatigue, this happens in part because of the trader’s belief that most of their trades should be large winners if the trading method is valid.

Another phenomena that occurs is that after so many small wins, small losses and break even trades, the trader get enamored with a small or medium size profit, so locks that in before the market has finished its move. Then the market goes into a mega-trend without him/her.

The truth is that most trades taken by successful traders are small wins and small losses. A good day trader may find that 1-3 of their trades for an entire week account for 100% of their profits for that week. That means 2-4 days with no significant winning trades.

There’s simply no way to know when the market is going to have a major follow-through, so you have to take every setup in your methodology without getting tired. Knowing this before you begin gives you the proper mindset to be consistent, not miss trades, and not be concerned when most trades don’t follow through very much.

It also encourages you to look for those opportunities to hang on to winners when they do occur, because you know that’s where your entire weekly income will be found.

Most traders are aware of the need to trade with a good risk/reward ratio. However the truth is there’s no way to assure that on any one trade. Your risk/reward ratio is established over a history of trading.

You can’t control when or whether the market makes a big move, so you must focus on keeping your risk consistently small.

Again, many traders don’t keep their original risk consistent. This is absolutely crucial, otherwise some losses will be large and others will be small when your protective stop is triggered. This is a recipe for disaster.

When I refer to your protective stops being consistent, there are often 2 misunderstandings that arise:
1. You’re supposed to trade the same number of shares/contracts every time.
2. You’re supposed to trade the same amount of money each time.

Let’s look at #1 first.

If you trade 100 shares on every stock, then on a $10 stock you’re investing (putting at risk) $1,000, and on a $100 stock you’re putting at risk $10,000. These are not equal risks. Therefore you’re giving one trade much more weight in your portfolio than the other. This is terrible risk management. 75% of your trades could be winners, but if all your winners are with $10 stocks and all your losers are with $100 stocks, you’re still likely to lose money.

Now let’s look at #2.

You may think to solve this problem you’ll simply invest the same amount of money in each stock. So if you decide you’re going to invest $1,000 in each stock, you would buy 100 shares of a $10 stock, but you would buy 10 shares of a $100 stock.

This certainly is a reasonable approach in that you’re risking the same amount of money on every trade.

But there is one shortcoming to that approach. It assumes that your risk is the ENTIRE position.

It’s true that when you put that money out there, the entire position IS indeed at risk. No question about that. However, what is the probability that your stock will go all the way down to ZERO overnight?

If you’re trading stocks that have decent volume and price (avoiding penny stocks and lightly traded stocks), then that risk is minimal (though we acknowledge that it’s there).

Here’s the problem:

Your actual risk on 99% of your trades is the distance between your entry and your protective stop. But that distance will often vary by as much as 50%. That means your risk on the vast majority of your trades will vary by as much as 50%.

This is the more typical scenario.

Therefore the approach that will level the risk on all your trades is to take the amount you’re willing to risk on a trade and divide that by the distance from your entry to your protective stop.

EXAMPLE:

You’re willing to risk $300 on a trade.

If the distance from your entry to your protective stop is $1, then you could buy 300 shares.

If the distance from your entry to your protective stop is 50 cents, then you could buy 600 shares.
It also helps to look at your “budget” and set a maximum amount you will risk if the stock goes to zero. This means keeping the stocks you buy in a certain price range and not risking more than a set percentage of your total trading account (usually 5% or less) in total investment on any given trade. This helps to buffer you from the occasional stock that gaps through your stop or goes out of business. And, of course, solid diversification principles are also critically important.

If you’re not already familiar with these principles, I encourage you to get a book on risk management since the topic is beyond the scope of a Special Report.
Another key aspect of managing risk is what I call “adjusting your cost position” in the trade as soon as possible. In addition to keeping your protective stops, this is a way of keeping all of your losses small.

I’ll demonstrate this with an example of day trading the emini, but it also applies to stocks, forex, and commodities, as well as swing trading and investing.
In the example below we’re going SHORT below the low of the setup bar (highlighted) and putting our stop above the setup bar. The exact reason for entering the trade isn’t important, we’re just using this to illustrate a money management “trick.”

We’re risking 6 ticks and trading 4 contracts, so our total risk in the trade would be $300 if the trade completely fails and we get stopped out.

We could use the last swing low as our first target. That would be 1422.00 and would give us more than a 1:1 risk/reward on the first exit, which would be great … if we reached it.
Well the trade didn’t work, so we lose $300. Don’t you hate when that happens?

If we simply used a strict 1:1 risk/reward for our first exit, that wouldn’t have worked either since price just tickled 1422.75, which was 1.5 points from our entry and exactly a 1:1 risk/reward, but the odds of getting filled were small.

We risked 6 ticks, but instead of insisting on a 1:1 risk/reward, what if we took off ½ of our position earlier, at only a 4 tick gain? Now let’s see how that would change things.

First, the closer you make your first target and the quicker you take profits, the greater your odds that you’ll hit your first target. The risk/reward isn’t as good, but the win/loss on the first exit will be much greater. Getting a 1:1 risk/reward is much harder than most people realize until they try getting it. The odds are generally lower than 50/50!
So if we put our first target at just 4 ticks, then we have a bad risk/reward, but a much better win/loss. Remember, this is only the target for part of our position … say the first 2 contracts.

Now let’s look at the math on the last trade:

- We reached our first puny 4 tick target, so we made $50 on 2 contracts, which is $100.
- We lost 6 ticks on our last 2 contracts, so we lost $75 on 2 contracts, which is $150.
- **So our total loss is now $50 instead of $300!**

*The difference in your losses is HUGE!*

Here’s the rub:

- How many $300 losses can you take in a day before you have to quit trading?
- What does it do to you psychologically to take one or two $300 losses, and how does that compare to your mental state when you take $50 losses?

The FIRST RULE OF TRADING is “keep your losses small.” And this is one way to do it.

The primary objection to this approach is:

- This reduces your risk/reward ratio because you’re removing fully ½ of your contracts with such a puny profit.

That is absolutely true. If you have a solid trading methodology AND you have the psychological makeup to take many more losses than wins, BUT you also have the psychological makeup to hold on to your winners for the big payoff, then go for it!

But most people can’t handle the large draw down periods of such an approach, so whether it “works” or not isn’t helpful, because most traders can’t “work” it.

However you need to understand the point of this technique. Those first 2 contracts are there for the exclusive purpose of reducing the size of your losses. They are purely *defensive*. Therefore even taking a 1 or 2 tick profit on them will help reduce your loss.

They are only used to “adjust your cost position” in the trade. They are there to acknowledge that many trades do not succeed, so we simply want to minimize the damage of the losing trades.

They are your defensive players whose job it is to simply hold the other team from scoring too many points against you until your offense can come back on the field and score some points for your team.

And it works for one very good reason: The probability of the market moving 2-4 ticks in your direction are much higher than it moving 4-8 ticks in your direction.

Then you still have 2 contracts left in case the trade actually works! You have a 3rd contract to use for medium profits and a 4th contract to use with a trailing stop to catch the big winners.
This money management trick is a combination of scalping and position trading to help you get the best of both worlds.

Mature and successful traders tend to be impatient with their trades at the beginning because they know from experience that many of them are not going to work out. So they tend to emphasize defense more than offense. Amateurs, on the other hand, tend to be overly optimistic about trading in general, and so tend to emphasize offense more than defense.

**EXECUTION PLATFORM**

In trading, the difference between success and failure is actually very slight. It’s found in the “little things.” For this reason, you need every edge you can get.

If you want to be a pro (a professional is someone who makes a living at the activity), then you need to use a professional execution platform. This is especially true if you’re a day trader.

The reason can be summarized in one word: “Fills.”

Remember, the pros want to be first in and first out. They want to lead the crowd, not follow the crowd.

When you’re day trading futures, the exchanges work on a first-come, first-served basis. If your order goes in at a certain price before another order, then you’ll get filled before that other order.

But just because you PLACED your order before someone else, does NOT mean that you’re order will go in front of theirs.

Confused?

It depends how your execution platform works (the software you use to place your orders).

This is especially true of limit and stop orders that are placed at a certain price and then activated when the market hits that price level.

Some execution platforms will hold your stop and limit orders on YOUR computer. When the market touches the price at which you placed your order, then it sends your order to your broker’s computer, and then your broker’s computer sends it to the exchange’s computer … and THEN you are put in line.

Other execution platforms send your orders from your computer to your broker’s computer immediately. But then the order sits on their computer until your price is reached. Then it sends it to the exchange and you are put in line.

The BEST execution platforms send your orders IMMEDIATELY to the exchange and your order is put in line right then, BEFORE the limit or stop price is reached. This gives you a huge advantage! This is how the pros get the best executions.

You can too if you’re willing to pay for it. Yes, the platforms cost a little more, but they are MORE than worth it.
In essence what this does is minimize your SLIPPAGE, which can otherwise make an enormous difference in your profits.

Look at the example below where you have a long position, and you’re looking to take profits as the market moves up into resistance (the purple line). The above chart illustrates how your execution platform can help you or hurt you. When you set a profit target, you want to get FILLED. If you don’t, and the market moves away never to return, your profits go away too. Then you wonder: “Gosh, it reached my target, but I didn’t get filled. Should I just get out, or should I wait and hope it goes back up and fills me?”
Tough question to answer.

Someone DID get filled at that price. It was a professional using a professional grade execution platform. They got ahead of you and so they locked in the maximum profit. That’s an edge that you need.

The 3 best platforms I know of (there may be more) are: Photon Trader, X Trader and Zen Fire. Talk to your broker about which ones they offer and which may be best for you.

**INVISIBLE SUPPORT/RESISTANCE**

I read a book recently that promoted buying stocks breaking their all-time highs. The reason was because they have NO RESISTANCE above them.

While not necessarily discounting the approach all together, I do take exception to the comment that they don’t have any resistance above them.

And this brings us to the topic of Fibonacci measurements. Most everyone knows about Fibonacci “retraces,” but not many people use Fibonacci “extensions,” nor do they make use of retraces beyond 100%.

Let’s look at these 2 techniques starting on the next page.
FINDING RESISTANCE ABOVE A MARKET HIGH:

In the chart above, we drew typical Fibonacci retrace levels, and we see that the market retraced to the 50% level. Very common.

But the next day the market gaps up above the high from which we drew the retraces. So it’s out of the range of the Fib tool. Right? Wrong!

Simply set your tool to include levels greater than 100%! You’ll be amazed to see how those levels provide support/resistance where no one else sees them!
Using percentages greater than 100% on the Fib Tool gives you levels of support/resistance that others don’t see. Invisible to them, but clear to you!
FIBONACCI EXTENSIONS

Market turns are especially important areas to document in your trading. By this I mean the first higher low (after a down trend) and the first lower high (after an up trend). These are the most important points used for measurements in market geometry.

One of the easiest and most effective tools to use at these turning points is the Fib Extension Tool. Rather than drawing lines in between a high and low (as the Fib Retrace Tool does), it draws levels above or below the high and low you used.

It requires 3 points to use for drawing. In the example below, the 3 points used for drawing are marked by the blue arrows. They are the low, the first higher high, and the first higher low. Then the tool will draw Fib Levels above your high that you can use for support and resistance. They are REMARKABLY significant as you can see from the chart.

While this tool is available on most everyone’s charting software, very few people actually make use of it, and therefore these are virtually “invisible” support and resistance levels … giving you another edge!

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CONCLUSION

In a brief Special Report like this I don’t have the space to go into all the details of how I personally trade these principles. However you have enough here to apply to whatever trading methodology you may currently be using. Adding just ONE of these tricks to your trading can increase your trading profits tremendously.

If you’d like to learn my personal trading method, including the exact trading rules I use, **you’re entitled to a DISCOUNT because you purchased this Special Report.**

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