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Editor in Chief: Lan H. Turner

Managing Editor: Heather Rich hrich@pitnews.com

Controller: Joseph Chambers

Webmaster:

Jacob Anawalt

Email:

Website: www.PitNews.com

magazine@pitnews.com

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Dual Credit Spreads: An Advanced Option Trading Strategy by Thomas Loge, CTA



Option trading is a "zero sum game." Whenever there is a winner there must be a loser, and whenever there is a loser there must be a winner. Someone is making a bad decision while someone else is making the right decision. This is the essence of option trading. So, what is the trader's first priority in option trading? Making as many right choices as possible. We want to be right more frequently than we are wrong. How is this to be achieved? It begins with understanding the rules of the game!

Time Value

An option can either be purchased or it can be sold. This becomes the trader's first decision. If an option is purchased, a strike price is selected (the point of entry), and this becomes the option that is purchased. The price paid for the purchased option is called the premium, which establishes the value of the option. Most options purchased are out-of-the-money, meaning that the premium paid is for an object without real value. In trading parlance, "There is no intrinsic (real) value to the option." Yet the buyer paid a premium, so there must be some actual worth. There is value, and the value is time. Most purchasers of options buy time, which by its very nature is a

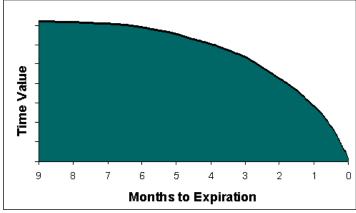
depreciating asset. Time runs out!

The value of an option declines as time passes. The further away from expiration an option is, the higher its value will be because of the time value. However, the closer an option is to expiry, the less valuable it will be since there is less time for prices to move and move dramatically.

This relationship is known in options lingo as Theta. Below is a graphic representation of option time decay, or "Theta."

Option traders should remember that all options decay in value over time in one sense. However, short (sold) options benefit from this as the writer makes money with the passage of time, in exchange for the unlimited risk and limited reward potential of selling an option.

Remember that the trader wants to make as many "right decisions" as possible. Buying a depreciating asset (time) is generally not a good way to be on the "right side" of the trading decision. Time is going to run out upon the option's expiration, and if it does so before the market reaches the strike price purchased, the option becomes absolutely worthless. The option buyer loses the purchase value of the option plus the fees and



commissions paid, while the person selling (granting) the option keeps the premium from the sale. For every option purchased there must be a seller to write (grant) the option. This is how someone is always making the "right" decision and someone else is always making a "bad" decision.

Probability

There is a mathematical formula to calculate the probability of a market price reaching any option's strike price at the expiration of the option's contract. This Probability Analysis is calculated employing a formula created by Black and Scholes (Nobel Prize winners in Economics). The formula indicates, in terms of percentage, the probability of any market moving from its present point to a strike price point (away-from-the-money) within a defined period of time before expiration. In other words, we can mathematically calculate the probability of any strike price being reached within a certain time period.

It must be pointed out that when "at-the-money," the chances are 50% that a market will go up, and consequently, a 50% chance that it will go down. So, any out-of-the-money option that is purchased must have less than a 50% chance of being reached. The farther away the option is "out-of-the-money," the lower the probability of its being reached within a certain time period. Let's assume an option with 2 months until expiration is purchased 3-strike prices "away-from-the-money." The option has perhaps a 25% probability of being reached within the 2 months remaining before expiration. If the buyer has a 25% chance of being right, the seller has a 75% chance of being right under the "zero sum" theory.

Understanding "Money"

Use the following table as a refresher for

understanding option lingo related "In" and "Out-Of" the Money.

	Call	Put
In-The-Money	Futures > Strike	Futures <strike< td=""></strike<>
At-The-Money	Futures=Strike	Futures=Strike
Out-of-the-Money	Futures <strike< td=""><td>Futures>Strike</td></strike<>	Futures>Strike

Our goal is to make more "right decisions" than wrong decisions. Logically, the 75% probable position is better than the 25% probable position on a long-term basis.

Implied Volatility: The Key to the Option Door

Implied Volatility is the measure of a market's emotion. It is more likely that a strike price will be reached, within a defined time period, if the market has the characteristics of excitement and emotion. A market that is placid and emotionless has little mobility. This means Volatility stretches the "pricing array" of a market. The greater the Volatility, the farther "away-from-the-money" the strike price can be while still attaining the same premium value. Why is this important? When purchasing options, we want to buy before this price array becomes expanded. If selling, we want to do so after prices have become inflated. This is not fool-proof, of course, but it certainly is advantageous to be on the right side of the option trading decision!

A further application of Volatility is that it serves as a measuring device to determine whether an option is over or under-valued. This valuation is done through comparing various Historical Volatility readings. Why is it important to know if an option is over or under-valued? It is better to buy something under-valued and sell something over-valued. Again, we want to make as many good trading decisions as possible. Selling an over-valued option is better than buying something that is over-valued. Volatility measurements give us an excellent evaluating tool.

The Reasoning

By putting these basic elements together, we hope to increase the chances of being on the winning side of the trade decision. We can see that "at-the-money" and "out-of-the-money" options are merely a purchase of time value, and time, once purchased, is a depreciating

asset. So, one would prefer to be the seller of option premium more frequently than to be the buyer of premium.

We also know that the farther "out-of-the-money" an option is, the less likely that the strike price will be reached within the expiration period (the lower the probability). Therefore, selling an "out-of-the-money" option offers a greater probability of being successful than buying the same "out-of-the-money" options. The higher the probability, the greater the mathematical chance of being correct.

Traders can continuously evaluate options to determine if they are over or under-valued. This affords the ongoing advantage of knowing whether it is timely to buy or sell the option. If one finds an overvalued option, they can sell it to collect the premium. Hopefully, this is done with options that are tremendously "far-out-of-the-money." When achieved, the probability of that "far-out-of-money" strike price being reached before expiration becomes improbable. So, what is improbable? 30% probability, or 20%, or even as low as 5% and 10% probabilities exist. depending on how "far out-of-the-money" one goes. If a market has just heated up emotionally (volatility has increased), there is a great chance of finding options far "away-from-the-money" where the Probabilities of that strike price being reached are very low. By waiting for these situations, the seller gains a definite advantage.

This sort of selectivity in selling options gives the trader both the high probability of being right plus the added advantage of selling something that is overvalued. To this impressive combination of selling advantages, we add the omnipresent time decay factor of the option also being on the seller's side, and a compelling argument develops for selling options as a logical way to approach trading.

Note: It is not that selling options is the only approach to Option Trading. There are certainly many buying opportunities as well, but they are not as apparent and require a number of factors being properly in place. Always included should be a desire to lower one's exposure to loss. This is necessary as the odds are always going to be under 50% of being right when purchasing "out-of-the-money" options. Because of the overwhelming logical reasons that favor option selling to option buying, it could be concluded that to improve one's making the "correct

trading decision," the trader should seek selling opportunities first.

Neutral Options Position Strategies (NOPS)

The traditional strategy to take advantage of all the favorable elements offered by selling options is embodied in the Neutral Option Trading Strategy. This option trading strategy sells options (far-out-of-themoney) on both sides of the market that are overvalued. In other words, sell Puts to the Put buyer who thinks the market is going down, and at the same time, sell Calls to the Call buyer who thinks the market is going up.

The required and consistent common denominators of successful Neutral Option Trading are:

- The options must be "far-out-of-the-money" (far enough away to offer a low Probability of being reached before expiration); The Puts and the Calls must be sold at the same time to achieve balance in the position, because if one side of the trade fails, the other side is gaining (Delta Neutrality).
- There must be enough premium to collect to make taking the risk of selling naked options worthwhile. This requirement means that it becomes tempting to sell options that are too "close-to-the-money" (for safety considerations) just in order to gain enough premium.
- The options sold must be overvalued to the underlying asset (Volatility).

When these requirements are met, the Neutral Option Trade can be a thing of "theoretical beauty." But it is only theoretically beautiful because the strategy has one overwhelming flaw. It always has an undefined (unlimited) risk attached to it. Thus, the theoretical perfection can easily be shattered by any sudden dramatic market move in a market where both sides have been sold. Such a move usually causes great discomfort to both the undercapitalized and novice trader.

Note: It takes both the experience (a cool head under pressure), and ample trading capital to successfully trade Neutral Option Positions. If one possesses these two characteristics, Neutral Option Trading is certainly a viable strategy, but it must be managed properly.

A Viable Alternative: The Dual Credit Spread

It is possible to take advantage of the market by selling over-valued, "far-out-of-the-money" options on both sides of the market at strike prices that have a low probability of being reached, and to do so in a consistent manner without incurring "unlimited" risk. This can all be accomplished quite easily using Credit Spreads on both sides of the market, thus gaining all of the advantages of selling options plus one critical additional advantage defined risk.

The Credit Spread is an Option strategy whereby an over-valued, "out-of-the-money" option is sold (taking in premium), while at the same time a "farther-out-of-the-money" option (one or two strike prices removed from the option that was sold) is simultaneously purchased. This purchase of the "removed" strike price option gives the sold option "coverage," and eliminates the undefined risk aspect of selling. What a concept!

It becomes possible to sell "out-of-the-money" options, giving the trader a significant advantage in:

- 1) a percentage probability of success,
- 2) selling over-valued options, and
- 3) putting "time-decay" on the trader's side, while
- 4) being able to constantly define the risk.

Remember that the risk can never be greater than the difference between the strike price sold and the strike price purchased. This gives the trade a risk definition, and allows the trader to sleep at night.

Example: The difference in S&P strike prices is 10 Basis Points. Each Basis Point is worth \$250, so the difference between the 1400-strike price and the 1410-strike price is 10 basis points (\$2,500). If the 1400 Call were sold for \$1000 and the 1410 Call was purchased (as protection) for \$500, the spread would yield the trader a credit of \$500. The risk would be the difference in the two strike prices (\$2,500). The \$500 credit received would be 200 S&P points. Each S&P option tick is worth \$2.50 (\$2.50 x 200 = \$500).

What makes the Credit Spread so interesting is that we can initiate the trades on both sides of the market. In other words, we can do a Credit Spread with Puts as well as with Calls. This is very significant because by incorporating both sides of the market, it is possible to increase the premium collected, while also allowing



the trader to enjoy "balance" in their position.

As with the NOPS (previously explained), selling both sides of the market only enhances one's chance for success. Clearly, the market expiration can only be biased in one direction or another. This means that either the Put or the Call side is vulnerable to a dramatic market move (rendering it unprofitable), while the opposite side will be profitable, thereby lessening the overall prospect of loss. This holds true with Dual Credit Spreads.

When collecting premium from both sides of the market, the total risk becomes greatly reduced. It's logical. If a market can only move in one direction at a time, the total risk is always limited to the maximum exposure on one side. (In the S&P scenario, this risk was the difference between the strike price sold and the one purchased for \$2,500.) By collecting the additional premium, the total risk is reduced by the amount of premium collected. So, if the risk is \$2,500 on one side and we collect \$500 premium on that side with a Credit Spread, the net risk exposure is only \$2,000. But, if we initiate a Credit Spread on the opposite side of the market as well and collect another \$500 in premium,

the net exposure then goes to \$1,500. We reduce the overall risk, while increasing the premium collected by initiating a Credit Spread twice The "Double Play." Twice the advantage!

The one great advantage of the Dual Credit Spread over the Neutral Options Position Strategy is that the risk is defined. The loss can never be greater than the difference in the strike price sold and the strike price purchased. Once that loss is defined and accepted by the trader as being the maximum, some additional advantages appear. One such advantage is that it is not necessary to adjust one's position should a market move dramatically in one direction or another. If one sells without defined risk (naked options), as in NOPS trading, there would be legitimate concern and possibly a need to adjust the positions. This process is painful both emotionally and financially.

With the Dual Credit Spread, it is possible to allow the position to remain in place hoping that the market will reverse itself (as it so frequently does), and end up back inside the original Dual Credit Spread range. Once the maximum loss is accepted, there is no need to go through an expensive adjustment of the position (locking-in losses) because of the legitimate fear of unlimited risk.

The Art Of Turning The Double Play

The outstanding advantage of defined risk allows the trader another trading edge, the ability to "leg into the trades" or placing one side of the Credit Spread at a time. This is an advantage because one can wait for the market to move up (place the Call side of the Dual Credit Spread), and then wait for a reversal down (place the Put side of the Dual Credit Spread). This allows the trader to increase the premium collected. The advantages to that are obvious. It's always better to take in additional income, not to mention lessening the cost of the trade.

This "legging-in" is possible because it is not imperative that both sides be in place at once. The worst thing that can happen is that one side of the Dual Credit Spread is in place and the market goes strongly in that direction (causing a loss) and proceeds not to reverse itself. This results in the maximum defined loss (\$2,500 in the case of the S&P) less the premium collected on one side of the strategy. (\$2,500-\$500 = \$2,000 maximum loss). This is the worst case scenario.

The advantages of legging-in are many. The choice is there for the trader to make. You can take the available credit on both sides of the market, thus reducing the defined risk by receiving two credits. Further, you may be more adventurous by trying to improve the profitability of the trade through legging-in. You do, however, run the risk of missing the second side premium should the market run away against the position in place. There is no right or wrong answer. This is the art of the trade, and is probably best executed by employing competent brokers who understand the nuances of Dual Credit Spreads and the markets in which they are appropriately placed.

Trading Rules: The Markets

The Dual Credit Spreads depend on markets that offer enough premium between the strike prices to make the sell and the buy a worthwhile transaction. Also, the markets should have enough volatility on both the call and the put side to allow the Credit Spreads to be initiated at a distance out of harms way on both sides. Also, the volatility should be on the high side of the last 2-year volatility range to make both the safety and the premium adequate to fully maximize the opportunity. It is ideal if the market has, as its normal course, pricing spikes that allow the trader to leg in and out of positions. The two best markets for Dual Credit Spreads presently are the S&P and US 30-Year Bonds. Both of these markets meet all of the qualifications. Other markets that are candidates for Dual Credit Spread Trading are the Currencies and the Metals (when Volatility is high), as well as Crude Oil.

Trade Standards

The trade should bring in a minimum Premium before it can be taken seriously as a Dual Credit Spread candidate. For the S&P, this minimum would be 150 S&P points (\$375) on each side of the market, or a total of 300 S&P points (\$750).

The maximum risk of a Dual Credit Spread in the S&P (buying the next strike price removed from the sold option) is \$2,500. If the maximum income is \$750, the Return on Capital Employed (ROCE) is 30%. If realized in 30 days, the 30% would be annualized at 360%. If the premium collected was 400 points (\$1,000), the ROCE is 40%, etc. The trades considered should allow 30 days until expiration (plus or minus 5 days). There will be occasion to expand this window of opportunity with a more aggressive approach.

Bonds generally require 60 days in order to collect enough premium to make the trade worthwhile. When trading Bonds we ideally look for a total credit of \$1,000, while risking \$2,000 (the difference in 2 Bond Strike Price points).

Trades can either be held to expiration or a Profit-Taking Plan can be installed to take profits when they occur at some point short of their maximum. Our trades will all employ a Profit-Taking Plan. It is up to the trader to decide if the plan is to their liking.

The first embellishment to the Dual Credit Spread is to aggressively not wait for the 30-day period. Rather, one seeks a trade that is 45 to 60 days from expiration and establishes a Dual Credit Spread. This lengthening of the time frame allows either 1) more premium to be taken in by selling the same strike prices as with a 30day expiration position, or 2) selling positions fartherout-of-the-money so that even greater safety is achievable. It would most likely be our choice to opt for the safer position, when given this choice. This is a embellishment of the straight 30 days to expiration plan. If a market remains emotional (volatility is high), it is possible to find Dual Credit Spreads on both sides of the market with very little time until expiration (10 -20 days remaining). This would be a second or third position using the Dual Credit Spread Strategy in the same market. The first Dual Credit Spread position may be taken 45 to 60 days from expiration. The second position would be 30 days from expiration, while the third spread would be in the 10 to 20 day period before expiration.

Using these approaches, the same market is sold at three different positions, giving the trader some strike price diversification, while collecting substantially more premium than if just one position was in play. Remember there are 3 trades, so there are 3 different maximum losses. If the scenario is that each position has a maximum risk of \$1,500 and there are 3 positions, the maximum loss in case of a "runaway market" would be \$4,500 plus commissions and fees. This means that the Triple/Double is not for either the smaller equity accounts (it takes a minimum of \$10,000 of available capital to be able to apply just 1 set of Triple Dual Credit Spreads).

The Broker

It is important to Dual Credit Spread trading that the technicians be adept. This process begins by selecting the ideal markets and strike prices with which to establish the spreads. The broker and client should work hand in hand to apply the art of trading. This certainly includes working the trades to achieve maximum positions, especially if the trade is being worked to leg in. If legging in to improve the Premium derived from the trade, that Broker/Client team must be very competent. The result of their effort means the lowering of maximum risk, while improving the profit potential of the trade.



Account Size Requirements

Position	Strike	Туре	Premium
Sell	1545	С	9.10 (\$2,275)
Buy	1555	С	5.60 (\$1,400)
Sell	1480	Р	6.30 (\$1,575)
Buy	1470	Р	4.60 (\$1,150)

These strategies can be employed successfully with minimum accounts of \$5000. Smaller accounts may have trouble implementing this type of strategy, as one wrong play can reduce the available funds by a crippling amount. Of course, larger accounts can also use this type of strategy as well, across various different markets to establish a well diversified portfolio.

Dual Credit Spread in Action

On Friday, May 18th the June 2007 S&P 500 futures (+SP2007M) settled at 1527.90. Examining the long-term chart (monthly), the S&P 500 had developed solid resistance near 1543 and support near 1470, setting up an ideal situation for establishing a Dual Credit Spread.

Our potential Dual Credit Spread would be to sell the June 1545 Call, sell the June 1480 Put and buy the June 1555 Call and June 1470 Puts.

This position – which plays off of the established support and resistance levels – could have been established for a net credit of 4.50 (or \$1,125 before commissions and fees).

This position would be profitable if the June S&P 500

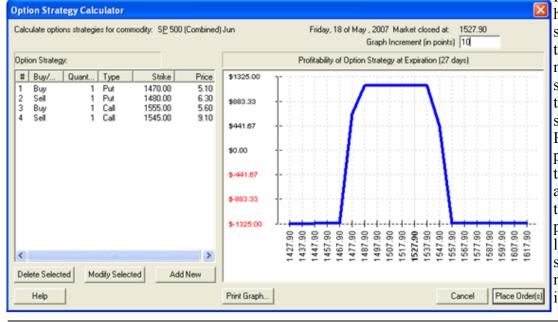


futures (+SP2007M) stay below 1545 and above 1480 between May 18th and June 15th, 2007. The maximum risk is -5.50 (\$1,3750 before commissions and fees), and the maximum reward – or net credit – is +4.50 points (\$1,125 before commissions and fees).

This scenario, which played out perfectly with the June '07 S&P 500 settling at 1524.80 on June 14th, shows the power of the dual credit spread. The market remained below the resistance and above support, allowing all of the options to expire worthless.

The key to this type of strategy is to set up the Dual Credit above resistance and below support, with a large enough credit (net credit) so that the risk and reward are fairly close to equal and the strike prices are far enough away, so that the premiums can be collected.

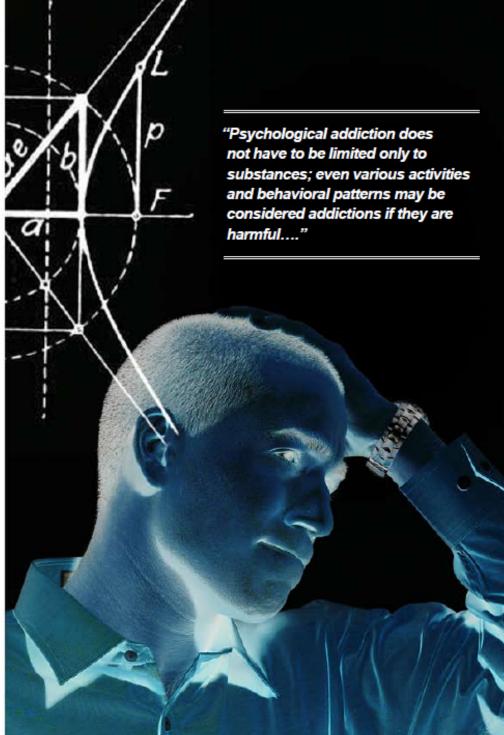
Remember, market lore holds that most markets spend the bulk of their time in consolidation (i.e. moving sideways), and as such more often than not the Dual Credit spread should produce a profit. However, because the position is fully hedged, traders need not worry about unlimited losses on their short option positions. As such, when losses do occur, they should be manageable, and more than offset over time if the process is repeated.



ARE YOU ADDICTED TO TRADING? by: Brian McAboy







There are those that believe that trading is truly addictive and carries with it some of the same dangers as certain chemical addictions. The tremendous emotional rushes that most traders experience both prior to placing a trade and while in the middle of a big winner or big loser are an acknowledged part of trading, but are traders truly becoming addicted to trading? Is there a need for help for traders, or is the situation one where the high percentage of traders that lose money is simply due to them still being in the learning curve and suffering the losses as a normal part of "paying your dues"? In this article we are going to investigate the matter and determine if there is sufficient evidence to support the hypothesis that trading is, indeed, addictive.

So what constitutes an actual addiction? There are two categories of addictions, physical dependence and psychological addiction. There is a considerable amount of information on both and certainly beyond the scope of this article, but a brief summary follows:

From Wikipedia, the definition of "addiction" includes: "Psychological addiction, as opposed to physiological addiction, is a person's need to use a drug or engage in a behavior despite the harm caused - out of desire for the effects it produces, rather than to relieve withdrawal symptoms. ...it becomes associated with the release of pleasure-inducing endorphins, and a cycle is started that is similar to physiological addiction. This cycle is often very difficult to break."

Also, "Psychological addiction does not have to be limited only to substances; even various activities and behavioral patterns may be considered addictions if they are harmful...."

Merriam-Webster Online, the definition of "addicted": "1: to devote or surrender (oneself) to something habitually or obsessively"

So an addiction could be described as a person feeling the "need" to repeatedly engage in a particular behavior to satisfy a desire for the emotional effects that is has, the feelings that it produces. It is a desire that they have rationalized into a need, to which they have surrendered control, and they have allowed the behavior to develop into a habit. This is physiologically compounded by the endorphins released into the system that provide a physical feeling effect as well. Let's look at some of the necessary practices (behaviors) of trading to achieve consistent

profits and some of the behaviors exhibited by many traders and see if they fit the above.

One recognized critical practice for profitable trading is good risk management. At the heart if this is making sure that the risks you take are measured and calculated risks. You want to keep your losses small when they occur and avoid them all together when possible, such as NOT getting into bad trades. Key tools commonly used for controlling potential losses include risk/reward calculations and stop loss orders. Risk/reward calculations are necessary on every trade, so that you know whether each trade is a sound business decision. Stops are used so that then a good trade is placed but the market doesn't do what you'd expected. With the leverage in trading that can work for or against you, risk management is essential.

General money management is another critical practice to make sure that your trading business will still have the doors open months and years from now. It includes risk management but the focus is on a larger scale and a broader scope, such as looking at what percentage of your available capital you are placing on any given trade, regardless of the details of the specific trade.

These practices may appeal to the intellect, but how they feel is where traders get into trouble. There are several common mistakes repeatedly made by traders that bring large losses, missed profits, and ruin for many. These mistakes run in direct conflict with the known and established good practices for consistent and profitable trading, yet are made over and over again by the same traders. Since they are repeated, it would be reasonable to say that they have become habits. Let's examine these habits from the perspective of the emotional response for the individual.

Trading without a plan, also known as entering a trade without an exit strategy.

The trader doing this is usually not following a technical system and is going more on their hunches than sound calculations. This right here is an indicator that they are allowing their feelings to dictate their actions more so than their reasoning and rationale. If the market moves in their favor, it reinforces the decision to follow their intuition and feeds the ego in being right. Another very elemental factor is suspense. If one has the trade planned out and there are no surprises, it takes all the suspense out of it. Why do people love a good mystery novel or movie? They love

sitting on the edge of their seats and reveling in the suspense of it all. When you know the end of the story it takes all the fun out of it, and who wants that?

Refusal to use stops.

The comment often heard by brokers is "No, I don't want to get stopped out. I'll just watch it." This is true for initial stops and quite commonly for trailing stops after the market has moved in one's favor. The trader is putting a lot of energy into their feelings of hope and anticipation. The ego is also being fed here, "knowing" that the market will do as they desire. As the move goes their way, they are experiencing a tremendous thrill, plus the validation they desire about them being a better trader than they truly are. When the market moves against them, the opposite feelings are amplified and only create a greater need to be validated. This also again, involves a lot of suspense and anticipation.

Over-trading regarding frequency, also known as trading too often.

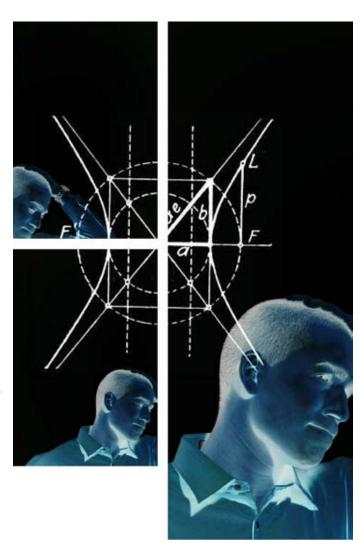
Usually in this circumstance the trader is feeling the need to satisfy their perception of lack. They may have just experienced a string of losers or a very large loss and now feel that they have to recoup their losses and absolve themselves for the previous errors. They are feeling bad about themselves and rather than do what they know is right, they simply want to have the bad feelings go away.

Placing trades that are too large for the account.

One of the more interesting aspects of this particular mistake is that besides the greed factor, people get a bit of a thrill going against the rules and particularly stepping outside their comfort zones. The simple act of rebelling or being adventurous is what many got a taste of when they first got into trading, and how it is so different from what they'd ever done before. The new territory has its appeal and stepping out of the norms and standard rules has a strong gratification associated with it. Of course, the greed factor is pretty strong here as well. Only risking 2-5% of your account and the prospect of a measly couple hundred dollars just doesn't match up with the big numbers one had in mind with trading, or what's heard often in the ads for the various trading systems available. When you're only making \$800 on this trade and you see and

ad that claims "I made \$9,700 on my first three trades!!!" – that reasonable profit you made just isn't very satisfying.

One thing worth pointing out right now, and it directly relates to our subject, is the fact that people will make mistakes. People only knowingly repeat them when there is a problem. If you get up out of bed in the morning and stub your toe on the footboard of the bed, you wouldn't stand there and keep smashing your toe again and again. You'd stop, unless of course there was some sort of additional response that was strong enough to compel you to do it repeatedly until your foot was completely mangled. You'd only smash your thumb when hammering a nail once before you changed how you were holding the board – unless something was wrong.



In comparing the repeated trading mistakes with the established good practices, it is in the emotional responses of the mistakes being made: suspense,

personal absolution and validation, excitement, feeding the ego, or being right. These can be very powerful and provide enough stimulus for the person that it over-rides their better judgment. The actions involved in the two sets are in direct contrast regarding both the financial results and how they feel to the trader. Knowing the outcomes for a given trade, keeping the risk small, managing money wisely – these are boring and provide no suspense. Lacking surprise and done with a knowing, good trading provides a much lower emotional confirmation of a trader's ability on the emotional level. When you're good and you know you're good and produce consistent results, those consistent results are not a huge celebration. When you're a rookie and you do well, it is much more gratifying, especially if you hit a big one. That's a huge ego feed.

There is an inverse relationship between the discipline necessary for good trading practices and the emotions involved in unhealthy trading. The discipline itself runs 180 degrees against the satisfying emotions and denies them to the trader. That is one of the primary reasons that so many traders struggle with the emotional aspects of trading. It is the way that they are

trading. They are trading in a manner that fuels their emotions, and established poor habits – both active and emotional habits. If they would focus on establishing healthy trading habits and practices, follow the established wisdoms and observe themselves in their trading, and do the simple things that they are supposed to do, their emotions would not flare up so badly and they could begin to break the cycle.

Trading itself is not addictive. There are a great many traders that trade in a healthy manner and enjoy the lifestyle that goes with it. There are aspects of trading that set the stage for the individual to become addicted to trading unwisely. So it is not in the activity itself. It is the focus of the individual and the habits that they establish early on in their trading that determines whether or not they become addicted and suffer. It is up to the individual to be aware of themselves and their practice to safeguard against addiction to poor trading. Education, assistance and proper guidance would be the best recommendation for traders, and these should be pursued as early as possible. The longer the habits are in place, the longer it takes to break them and reestablish healthy trading practices.

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