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# PitNews

M A G A Z I N E

“ In order to master trading, people need to control their emotions. The good Lord knows that is a difficult task for many of us. ”

Are You Addicted to Trading?

Off the Wall by Spike

JOHN  
PERSON

Day Trade  
TACTICS



*Editor in Chief:*

Lan H. Turner

*Managing Editor:*

Marlene Sampson  
submit@pitnews.com

*Assistant Designer:*

Marlene Sampson

*National Sales Manager:*

Erik Akins

*Controller:*

Joseph Chambers

*Webmaster:*

Jacob Anawalt

*Website:*

www.PitNews.com

*Email:*

magazine@pitnews.com

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by Spike

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DAY-  
TRADE  
TACTICS

by John Person

**M**ost traders live by the adage, “Buy Low & Sell high”; really great traders aren’t afraid to buy high and sell even higher, as well as sell low and buy even lower. This may be referred as buying breakouts and selling breakdowns. Simply stated, successful traders just want to trade on the right side of the market.

Blending the strengths and characteristics of Candlestick chart pattern recognition with a specialized Pivot Point filtering system I designed has helped me to stay on the right side of the market. This is what I have been teaching around the globe to private and institutional investors, professional traders, brokerage firms and various Exchanges.

This article is designed to introduce you to three specific day trading tactics that incorporate the above mentioned tactics which have a favorable high probability outcome. These techniques work across multiple time frames in high volume markets. Specifically stock index futures, Gold and Crude Oil.

My intentions are to leave you with a specific set of rules with knowledge on how to identify a trade setup, when to enter a position, how to effectively place a stop and where set a profit objective and an exit strategy. It is a simple style that may help you change the way you trade.

Many methods have been introduced to traders but the one constant that has not changed is human emotional behavior. In order to master trading, people need to control their emotions. The good Lord knows that is a difficult task for many of us. The markets are simply a reflection of these emotions. Fear of losing money causes market prices to head lower as people sell, and greed from missing an opportunity causes market prices to move up as people buy trying to catch a free ride. Therefore, it is imperative that we understand how and when a market moves and what signals or patterns give us a clue for a directional price change. There are patterns that recur consistently and this is one that is easily identifiable with the criteria’s to help traders overcome the conflicts of fear and greed based on the entry, the risk

management, the trade management and the profit objective.

With that said it’s important for a momentum trader to set their entry orders, protective loss order and profit target orders. Notice that I did not state a “stop loss order”, this was intentional as the “stop “ order can and should be used as an entry order under certain instances. Remember a buy stop is an order to ‘buy” that is placed above the current price, and a sell stop is an order placed below the current price to “sell”.

Traders use stops to “bracket” order looking for trading range breakouts or breakdowns. This is a technique used by some who are not certain which way a market will go but want the market to “stop” them in when the market does breakout. The trouble with this technique is many times traders orders are filled on false breakouts. Typically the opposite order not filled automatically becomes the “stop loss” order.

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Figure 1: Use the width of the narrow sideways channel as your measuring price & profit objective.

Examine Figure 1, this is a three minute chart on Crude Oil from January 28th. The price action was clearly range bound. A trader could place a “buy” stop four ticks or points above the high of the range and place a corresponding “sell” stop four ticks or points under the established low. Once a breakout occurs the opposite order becomes the risk or stop loss order. Typically the range or distance of the channel offers technicians a measurable price objective for the exit level. More times than not these levels are exceeding. To give added corroboration if a move has merits I like to use the volume indicator known as On Balance Volume created by Joe Granville. On a side note Joe passed away September of 2013. As for other “technical tools of the trade” I use are proprietary indicators I created, but I also use Stochastic to help spot divergences. I say still use

Stochastic because back in 1980 I had the privilege to work with George and his wife Carrie. George was a strong influence on my early days in the business.

Stochastic helps to uncover overbought and oversold market conditions, especially when using it to identify divergence formations. However, when one is looking at breakout trades, volume analysis will really help identify if a trade has participation to provide the momentum needed to get price action moving in order to capture a profit. In this example once the price broke out above the swing high thus “stopping” a long entry in position notice the volume increasing with prices revealing the bullish momentum behind the move. The distance between the swing high and low extended out offered the trader a measured profit

objective. One can utilize the stop below the channel as an emergency stop level and certainly it is strategic idea to initiate a trailing stop mechanism.

In my experience day traders' look to trade with a trend, they normally do not buy the low or sell the high, they just look to captures a chunk of the middle of a move. Picking tops and bottoms is more lucrative but has lower probabilities of success. Therefore we need to identify a trend and then look for moves within that trend and establish profit objectives. One of the most reliable patterns yet least traded pattern by retail speculators is the wedge formation. It has a measuring technique to help establish profit objectives and one can establish a loss or risk factor. Examine figure two, here we have another three minute chart on Gold from January 28th. The market started off on an

upward price move out of another sideways channel break out. After this breakout, let's say you missed that channel trading set-up, a new opportunity was created as the market price consolidated. This consolidation actually created a "wedge" pattern. As you would draw a trend line against the highs and lows a wedge is created as prices start to compress in a tightening coil pattern. Typically wedges breakout in the original trend direction and in this case the trend was up. Therefore one can look for a breakout of the middle swing point marked "A" on the chart. Once the buy stop order is filled then one can place a corresponding sell order under the swing low marked at point "B". The measuring objective is measured by the "mouth or left side of the wedge formation, which extended out gives a nice profit objective at point "C". The OBV indicator shows the participation of buyers picked up substantially



Figure 2: Use the triangle's widest range as your as your measuring price & profit objective.



as the price moved up we see the indicator move in the same direction. Thus giving solid confirmation that the move was sustainable.

There are several other tactics day traders can employ, but these two methods when combined with simple indicators shows these methods have stood the test of time. In fact to prove this point, my first book written over a decade ago titled, "The complete guide to Technical Trading Tactics, How to Profit Using Pivot Points, Candlesticks & Other Indicators" by John Wiley & Sons, illustrated the wedge pattern on page 82 describing the wedge measurement and then again on page 87 using Gecko Software highlighted a wedge formation on a daily Gold chart with the wedge tool offered by Track and Trade! That's a great book and certainly as I wrote many years ago, the techniques and patterns shown in this article still stand the test of time.



For more information and more advanced techniques, please feel free to visit my website: [www.personsplanet.com](http://www.personsplanet.com)

All the best to you in 2014 and beyond!

Sincerely,  
John Person



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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?



**ARE YOU  
ADDICTED TO  
TRADING?**

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 [emphasis added] - 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.”

“Psychological addiction does not have to be limited only to substances; even various activities and behavioral patterns [emphasis added] may be considered addictions if they are harmful...”

From 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 it 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 of 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



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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 for the trade. 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, A.K.A. 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 an 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 re-establish healthy trading practices.

- Unknown Author



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This Month's Off the Wall Chart Comes From: Spike



**Anyone else have any thoughts as to where the dollar is headed?**

**Best of good trades, Spike**

Get into the action! Start posting on The Wall, and maybe you'll see your article or chart highlighted here in our next issue of [PitNews.com](http://PitNews.com) Magazine!

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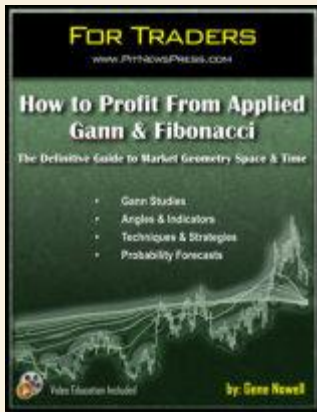
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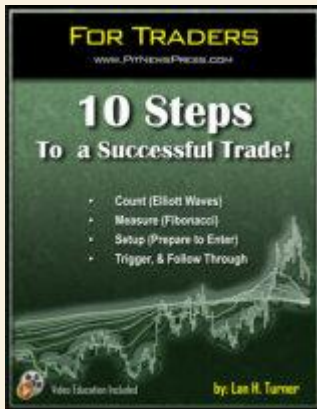
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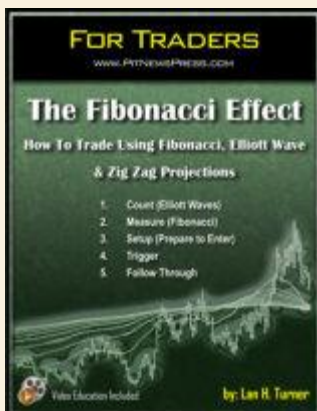
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