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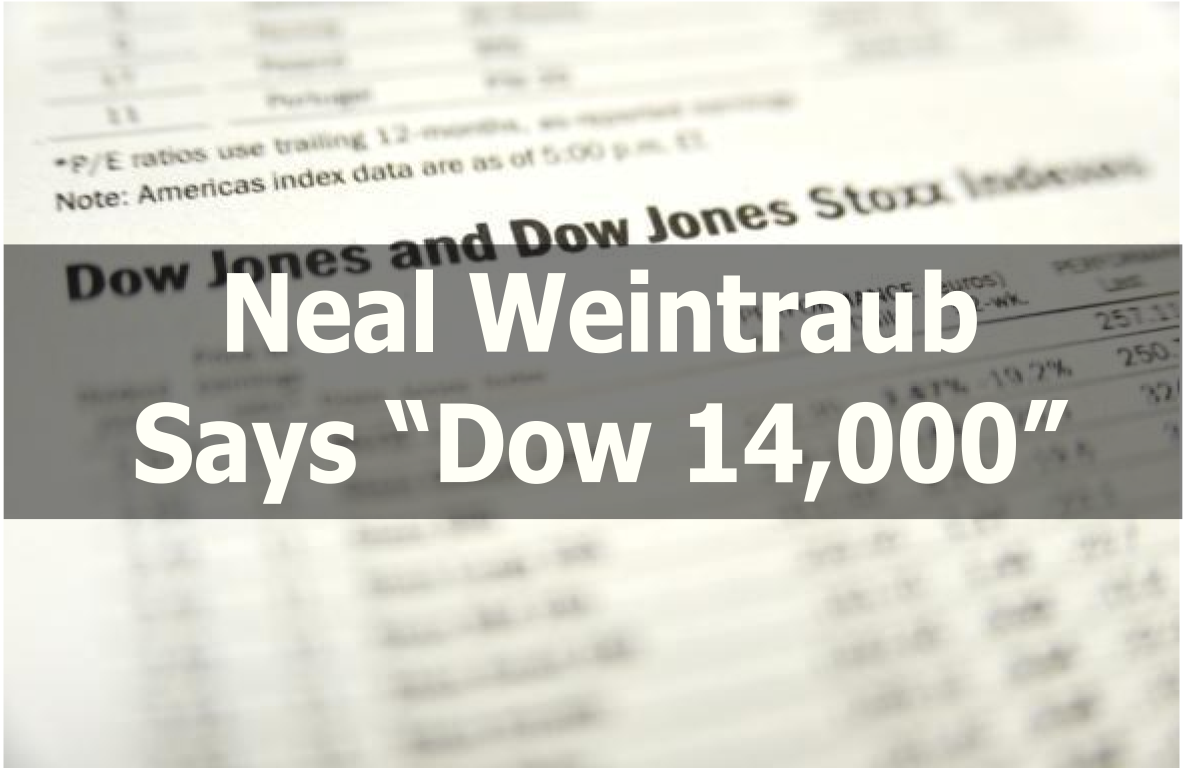

Chicago Mercantile Exchange Instructor Says Dow 14,000

Ready Aim Fire.

OK, You will run out of money, before CNBC runs out of trading ideas.

Neal Weintraub Bases His Predication on Day Traders and CNBC being wrong.

CHICAGO – May 21st– The upward trend in the stock market will continue throughout the first quarter according to market pundit Neal Weintraub. In fact, he has called for the Dow Jones Industrial Average to close at or above 13,000 by April 1st (it did happen).

"I see the economic uptrend continuing to push the stock market up to higher levels," Weintraub said. "The nation is definitely in a recovery phase."

Weintraub was criticized last year when he publicly made his predication of Dow 12,000 and then subsequently called for Dow 12,500. In fact, WBBM Radio in Chicago would not consider a guest appearance while the station advocated a Bear Market.

"People doubted my predictions based on sound quantitative analysis twice last year and they both came to fruition," he said. "I stand behind my predictions for a continued strong stock market." Weintraub bases his stock market predictions on two main indicators. First, he looks at consumer sentiment. This indicator has truly been on an increase lately. Second, he closely monitors content analysis. By reviewing the number of times certain words are mentioned in the press, he can accurately make predictions about movements in stock market levels.

"It is a technique I learned at Ohio State in graduate school." Hedge funds have instant access to news and trade off reports. Many times those reports leak or are replicated by consulting firms. "What did you think, you get the news first," noted Weintraub.

"Consumer sentiment and content analysis are the two true indicators of stock market movements," Weintraub said. "Now we will have at least five down months and that is just a mathematical fact."

With the Dow currently at about 12,500, Weintraub's prediction of Dow 14,000 would be a huge gain. However when he predicted Dow 12,000 the market was below 10,000.

Neal Weintraub trades for himself and does not solicit clients. He will not speak to Day Traders or ever appear on CNBC. "I used to be in television, and selling fear one day, and greed the next- is not the way for me. But what do I know- I only trade the stuff."

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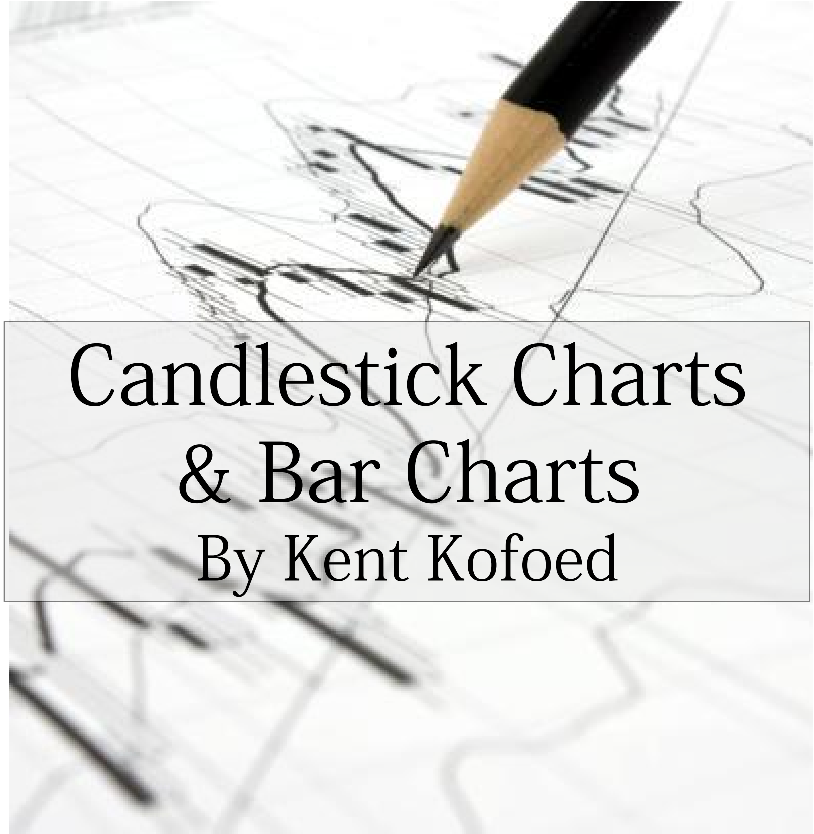


Candlestick Charts & Bar Charts

By Kent Kofoed

History of Candlestick Charts:

Candlestick charts, which are believed to be the oldest charting style, date all the way back to the early 1700s and were originally used for the prediction of future rice prices. Munehisa Hommaa, a rice merchant from Japan, is considered to be the "father of the candlestick charts" because he is said to be the inventor of candlestick charts. In addition to being the creator of candlestick charts, he also wrote a book on market psychology, which is called The Fountain of Gold: The Three Monkey Record of Money, where he claimed that the psychological aspect of the market is critical to trading success and that traders' emotions have a significant influence on rice prices. He also made the observation that "when all are bearish, there is cause for prices to rise," which is, in essence, a contrarian view that easily can be applied in either direction. Another historical, and rather interesting, piece of information about the history behind candlestick charting is that the various candlestick patterns were originally given names, by Japanese traders, such as "counter attack lines" and "advancing three soldiers," which was, in large part, due to the overwhelming influence that the military had during that era.

Technical Analysis Overview:

Technical Analysis is the process of analyzing historical market data (with the primary focus typically being on price and volume data) in order to "forecast" the future price of an asset, and, candlestick charting, is simply one of the many tools that are used in technical analysis, by technical analyst's. Technical analysis relies on multiple assumptions, with one of the main assumptions of technical analysis being that market prices are "fundamentally" efficient. This means that whenever new fundamental information reaches the market, prices will immediately adjust in order to reflect that information in the market price; however, technical analysis also recognizes that the current "mood" of the market can have an impact on market prices. For example, traders can become overwhelmed by the many emotions that are inherent in trading (or any other risky activity) and end up making investment decisions that would have, in a majority of circumstances, typically been deemed irrational. Greed, for example, is viewed as one of the main reasons why so many traders tend to pile into the market right before a top while fear, on the other hand, is another common emotion that causes many traders to act irrationally and stampede out of the market, right before it reaches a bottom. If ignored, both of these emotions can quickly bankrupt traders, of any skill level, so it is extremely important to learn how to effectively manage these emotions. The current "mood" of the market can, and will, distort prices in the short-term (mostly due to fear, greed or one of the myriad of other emotions that impact trading decisions); however, prices have a tendency to adjust back to the equilibrium market price, in the long-term, by converging with the underlying fundamentals of the market. In order to be successful, traders need to be able to ignore the many emotions that are the cause of illogical behavior, and learn how to identify when the overall market is acting irrationally in order to take advantage of the market when prices are temporarily out-of-sync with reality. Technical analysis helps traders put emotions aside by giving traders the ability to focus solely on what is currently happening in the market (or what will likely happen in the near future) and ignore the significant amount of market "noise" that is so prevalent in the market.

Bar Chart Overview:

One of the first technical analysis tools that traders who are new to technical analysis will likely study, will be the various charting styles that are used in technical analysis. These charting styles include line charts, bar charts and candlestick charts (as well as a few other less frequently used charting styles), and are used to visually illustrate the price action of the asset being analyzed.

Bar charts are made up of multiple vertical bars and each individual bar is used to represent the price action (i.e., open, close, high, low) that occurred during each individual period (i.e., minute, hour, day, week, etc). The top of the vertical bar represents the high of the period and, inversely, the bottom of the vertical bar represents the low of the period, and the left and right dashes represent the opening and closing prices of the period, respectively, that was reached during the period. See Figure 1-1: Bar Chart, below, for an example of the typical bar chart.

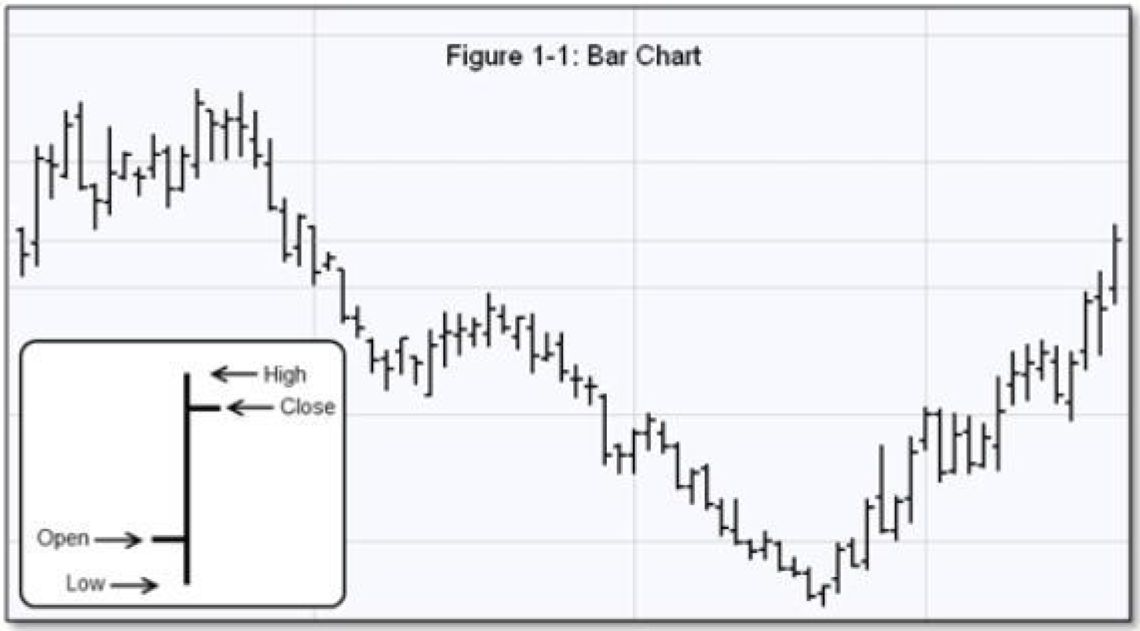


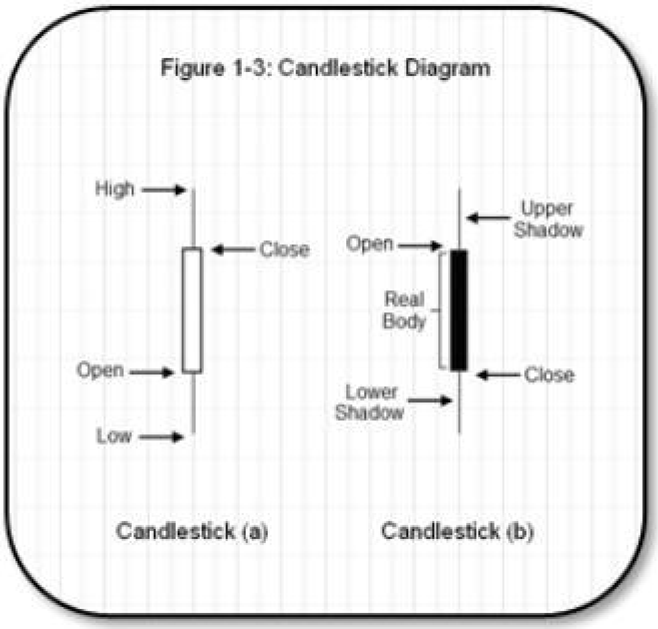
Figure 1-1: Bar Chart

Bar Charts vs. Candlestick Charts:

Bar charts and candlestick charts are, essentially, made up of the exact same components (both provide the exact same information), and the main difference between the two is mostly due to how the various components are presented. As shown above, the components of the bar chart represent the opening price (left dash), the closing price (right dash), the low price (bar bottom) and the high price (bar top), of a specific time period, and each of these bar chart components are components of the candlestick chart as well; however, on the candlestick chart, the space that is in-between the opening and closing price bars (the left- and right-side dashes) is filled-in. This filled-in area of the candlestick is called the "real body," and whenever the opening price of the period is lower than the closing price of the period (the price action of the period is bullish) the candlestick will be a "light" candlestick. Inversely, whenever the opening price of the period is higher than the closing price of the period (the price action for the period is bearish) the candlestick will be a "dark" candlestick. Lastly, the area of the candlestick that extends from the bottom of the real body to the low price of the period is called the "lower" shadow and the area of the candlestick that extends from the top of the real body to the high price of the period is called the "upper" shadow. Many traders believe that the opening and closing prices of each period are the

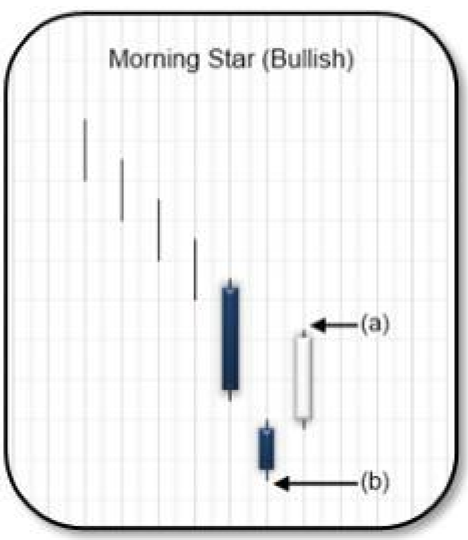

Figure 1-2: Candlestick Chart

most relevant prices, which is mostly due to the belief that these prices provide the most information, and the visual emphasis that the candlestick chart has on these prices is a very important feature of the candlestick chart. See Figure 1-2: Candlestick Chart and Figure 1-3: Candlestick Diagram, below, for an example of a typical candlestick chart and a diagram of the components that make up an individual candlestick, respectively.



Potential Trade Setup:

One of the more reliable candlestick patterns, in my opinion, is the Morning Star pattern, and this pattern is considered to be a bullish reversal pattern. The pattern is composed of three candlesticks, with the first candlestick having a long dark real body. The second candlestick gaps lower and forms a star, and, after which, the third candlestick closes well into the real body from the first period and has a long light real body. Although it is preferable for the third period candlestick to gap higher, this is not a requirement of the pattern, and the pattern is still believed to be highly reliable even when the second gap does not occur.



After a Morning Star pattern appears, traders will typically set a stop order (a) to buy slightly above the high price from the third period and, once the order is filled, in order to manage risk, traders will typically place a stop order (b) to exit slightly below the low price from the second period. Once the position is entered, use traditional stop-order-management techniques and strategies to manage the trade, because the future price action of the asset and the market, as well as any fundamental news or other relevant information (i.e., technical, fundamental, and/or overall economic information), will need to be considered in relation to the risk tolerance of each individual trader.

Candlestick Summary:

Both candlestick charts and bar charts are very useful tools for analyzing historical market data (i.e., historical price and volume data); however, neither charting style has been proven to be superior to the other charting style and the use of one chart over the other typically comes down to trader preference. The only real issue with bar charts, when compared to candlestick charts, is that bar charts are less visual in nature and, as such, do not provide the same visual advantage that candlestick charts do. The same information that is provided by candlestick charts, however, is also provided by bar charts and the only real difference is the visual emphasis that candlestick charts place on certain price action characteristics. Lastly, the choice of which chart to use will typically depend on the type of technical analysis that the trader prefers and the various tools that the trader uses. If the trader tends to rely on certain types of indicators more than others, and these indicators fit one chart better than the other, then whatever charting style the trader is more comfortable using should be the one chosen. It is not recommended, however, to simply pick one chart over the other because that is the chart that you have always used, and have grown accustomed to. It is important to put any pre-determined biases aside whenever new technical analysis tools and strategies are tested, in order to make sure that the best tools and strategies are chosen.

Kent Kofoed is a research analyst with Gecko Software, & PitNews Magazine. You can find more details about Gecko Software, and their line of trading platforms on the web at: *www.GeckoSoftware.com*

Improve Your Bottom Line

By Boosting Your Confidence & Discipline In Two Simple Steps

By Brian McAboy

Ask any frustrated or struggling trader what their biggest problem is and it will almost always boil down to a lack of confidence and/or discipline in one form or another. Traders who have both are the ones that are doing fine and enjoying their trading.

Even the veteran traders will tell you that the primary reason for any rough spells they have occasionally experienced occurred when they had a lapse or breakdown in their confidence or their discipline, but once they got it back, all was well.

Traders that are not realizing the full profit potential of their system are almost always experiencing this because they deviate from their system occasionally or perhaps regularly. These deviations usually come about for one reason - the discipline to stick to their system is not where it needs to be. But why is that?

Let's look at a few of the scenarios where discipline plays a crucial role and see if any of these sound familiar.

Large Losses: A lack of discipline will not only keep you from realizing all that your system will deliver, it is usually one of the primary contributors to the large losses that occur. Have you ever decided NOT to put in a stop-loss order, saying to yourself, "It's okay. I'll just watch it." And then what happens? The market moves against you while you hope that it will turn around and let you be right in your choice of trades. Rather than stick to your system and cut your losses, you hang on until it really hurts, and only then get out.

Profits Cut Short: There are also the times that your system was telling you to let it run, but lacking the discipline to stay in, you got out early, only to watch the market continue to move in your favor. This one is responsible for many of the bruises that traders get from beating themselves up, all because they didn't collect on the money right in front of them. All they had to do was have the courage and the discipline to stick with a right decision. It's almost like back in school when you'd take a test and change one of your answers from the right one to a wrong one.

Profits Given Back: This one is a real killer. You picked the right trade, got in at the right time, and the market moved in your favor. You had the money in your hand, but didn't get out and then watched it all disappear as the market moved back the other way. Oh, if you'd only moved up your stops or just plain got out when you knew you should have!

It's time to forgive yourself and move on. You can't go back and change any of that now, so let's look to see how you can take a couple simple steps to make your future trades much better memories.

Consistent profits are the end goal of all traders (who wants inconsistent profits?), so let's start at the very foundation.

First Thing's First

Regardless of whether you trade fundamentals, technicals or a combination of both, you absolutely must have a system for your trading. This system must be one that is repeatable, as you want it to be reliable and have a reasonable level of predictability. For many traders who are having challenges with their confidence and/or discipline, the problem is that they have two systems: the one that they have written down and should be following, and then they have the one that they've actually been trading. The differences between the two are the deviations in their actions from the prescribed plan.

The Challenge

Most traders that struggle with their discipline do so because their confidence in their system does not outweigh the uncertainty in the markets. When a drawdown of three, five or perhaps eight losing trades (or profits cut short) occurs, their anxiety causes them to deviate from their system out of fear that it is not robust enough to carry them through, so they second-guess it.

Discipline and confidence go hand-in-hand. Even the veteran traders will tell you that the primary reason for any rough periods they've encountered was that they had a lapse or breakdown in either of these, but once they got it back all was well. Their wisdom and maturity was shown when they recognized the breakdown and focused on getting back to the system that they knew worked.

So the challenge then becomes building one's confidence in the system to the point that when anxiety is felt, it is clear that sticking to the system is the best solution, rather than deviating from it.

The Solution

Fortunately, you have at your disposal a method of reaffirming your confidence in your system, and this can be accomplished in a relatively short period of time.

This is one of the methods employed by true professionals, and it involves analyzing your two trading methods, looking for those aspects of the system that make the bottom line what it is.

This provides solid evidence to you as the decision maker what works and what does not, and it is through this "evidence" that your confidence and discipline can both be substantially increased.

Step 1. Know Your System's True Capabilities

You obtain evidence of your system's abilities and limitations through back-testing it with real market data, and very strictly, according to the rules and indicators of the system. You need to look at more that just the bottom line, however.

Just like any business, there are certain numbers that make the bottom line what it is and trading is no different. In trading, those numbers for your system include:

- The real winning percentage
- The actual profit-to-loss ratio
- The true size of the average winner
- The true size of the average losing trades
- The actual number of winning trades
- The actual number of losing trades
- The net average profit (or loss) over all the trades

When you have these numbers in hand to evaluate your system as traded strictly according to the rules and indicators of the system, you will see exactly what its capabilities and limitations are, and if the system is satisfactory or not.

If you have a good system, then this will build your confidence in it dramatically, because these numbers show you quite clearly what you can anticipate from that system regarding its profitability and its resilience to draw-downs. You can trust it now because you have given yourself proof.

If your system does not back-test satisfactorily, then you know that your system needs some work - or replacement. At this point, the best option would be to hold off trading with real money entirely until you have a system in which you can have solid confidence through back-testing first. If the system can't perform under ideal circumstances, why trust it under normal conditions?

Step 2 - Look for Congruence with Your Actual Trading

The next step to building your confidence is to take the results of your recent trading and then run the same numbers on that information.

If your recent trading results are substantially less satisfactory than your back-testing results, then you can see very clearly and specifically where you need to focus your efforts in how you trade.
Most importantly, you will have a dollar value for your discipline, and a very clear number on what sticking to your system can be expected to do for your average return per trade. This is a huge help in the heat of the moment, when temptation to deviate arises.

Other Factors - Lessons from a Legend

Nicolas Darvas was one of the most successful traders in history, and a few of the lessons he learned and put into action along with his proven system are:

- Be aware of the "mood" of the overall markets. This gives context to your trading. There will be times when the markets are such that you need to minimize your activity in trading and wait until conditions are favorable.

- Be extremely skeptical about the opinions and valuations of others - they are often conflicting and can be very unreliable. Darvas recognized his own susceptibility to this and took it to the point that he physically isolated himself from his brokers so that he was not being bombarded with information that did not serve him well.

- Continue to develop your system, and especially the rules for your overall trading plan. Even while enjoying substantial success, Darvas continually sought to refine his plan and kept his awareness high to all matters that affected his trading. Whether they were part of his technical system, his environment or his practices, when he recognized an influence to his results, he added to his rules for trading.

- Practice. Just like any other activity, repetition builds both competence and proficiency - the cornerstones of confidence and discipline in action.

Maintaining Your Confidence and Discipline

True professionals regularly back-test to make sure that system integrity stays high, because the markets can sometimes change in their behavior due to global, technological or economic influences. A system that worked very well last year may not perform so well now.

Systemization and adherence to proven systems has been the foundation of business success across many industries. Knowing the numbers that make the bottom line profitable and then monitoring them is a key practice in them all.

Brian McAboy has been featured on the Chicago Board of Trade. His purpose is to help traders get past the obstacles of trading and to become better traders. His works include The Subtle Trap of Trading, the Trader's Guide to Emotional Management and the Trading Performance Analyzer. For more information, take a look at www.insideouttrading.com

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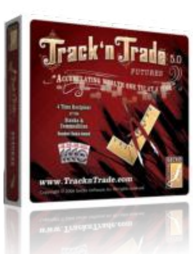

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Trading Education

It seems that we spend 90% of our time studying and trying to figure out the best timing techniques for market entry, but we spend very little time actually learning the techniques of exiting the market. Getting into a market is easy, but getting out of the market, with a profit, is the true test of a traders skill.

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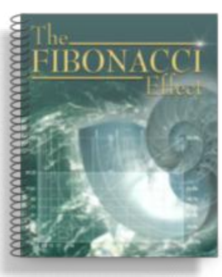

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