ManusRisco™

Appendix

Future's Day Trader

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Tom' s Trading Tips

I promised myself I would not do this……….but I guess promises are meant to be broken. I promised I would avoid writing anything about trading methods since **ManusRisco ™** is primarily concerned with money management.

However, I couldn't resist the temptation, so the following are some observations, opinions, etc I have accumulated over the years relating to trading and speculation.

Warning……these thoughts may be 100 % right, 100 % wrong, or most likely, somewhere in the middle. If you are a newbie trader who is just starting out, you may pick up one or two helpful hints.

If you are an experienced trader, you may choose to skip over this diatribe since most of this information will already be familiar to you.

So…………here we go.

Mechanical, shemenical

- Mechanical trading systems will never be long term profitable. Markets are continually changing from inactive to volatile, congestion to trending etc. A mechanical trading system will find it very difficult, if not impossible, to identify and adapt to a rapidly changing market environment.

- Someone who designs a mechanical trading system incorporates his own trading methodology and risk / reward prejudices into the system. His trading methodology and risk / reward preferences may not coincide with your opinions on trading technique and risk.

- Invariably, you will modify any mechanical system to fit your own personality as to how to trade and how much risk to assume. If you will eventually modify a mechanical trading system, why purchase it in the first place ? This is similar to buying a suit that doesn't fit and then paying a tailor to re-alter the suit to fit your measurements.

- Read and learn as much as you can about trading methodologies and design a trading technique which fits your personality and Reward / Risk profile. Basically, you are designing your own suit which will be perfectly tailored to fit your particular body style. You won't have to pay someone to re-alter the suit.

The Splendid Splinter, Newton and Picasso

- As the famous 20th century philosopher Yogi Berra has observed…." Half this game is 90 % mental." Likewise, speculation is half technical and half psychological, half science and half art.

- Anyone can read a book on how to hit a fastball written by Ted Williams which describes how to hold the bat, where to place your feet, etc. (the technical or scientific part)….. but you then have to step into a batter's box and hit a Nolan Ryan fast ball coming at you at 100 miles an hour (the psychological or art part).

- Similarly, you can read many books on trading (technical, scientific) but you still have to actually make the trades dictated by your trading plan (psychological, art) and adapt the plan to current price activity.

  Speculation is a classic right brain, left brain enterprise. Both sides must be functioning to achieve long term success. The left brain develops a trading methodology and the right brain overrides the plan when it senses the market is changing (inactive to volatile, congestion to trending, bullish to bearish etc.)

- Just like Ted Williams adapted his swing to adapt to what the pitcher is throwing, you must adapt your trading technique to what the market is telling you.

  If Williams was expecting a fastball but instead the pitcher is throwing a curve, he changed his swing, timing, etc to accommodate the changing environment. Similarly if you detect that prices are congesting instead of trending, you must adapt your trading strategy to accommodate current price activity.

- Similar to hitting a baseball, trading is re-active, not pro-active. The hitter reacts to what is thrown at him. He can not be pro-active and tell the pitcher what to throw. Similarly, the trader reacts to the market. He can not tell the market to trend up or trend down. He must react to what the market throws at him. If the market throws a curve ball, you react this way…………..if the market throws a fastball, you react that way.

- That's why there will always be a psychological / art portion to the trading equation. You can't program reaction into a computer……….just like you can't program someone to hit as well as the Splendid Splinter, Ted Williams, by forcing them to read books on how to hit a fastball.

- The scientific, technical part of trading is learned by reading, research, testing different trading techniques etc. The psychological, art portion you learn by experience, observation of how prices act and react under certain conditions, identification of trends and congestion areas and simply observing price behavior over many months or even years etc.

- It takes two to tango and it takes two parts of your brain to succeed in the trading arena. Now you know why some traders become very successful and very wealthy……. some traders become marginally profitable or marginally unprofitable……. and some traders lose significant amounts of their trading capital.

- They all have read the same books on trading or attended the same trading seminars so why are not they all equally successful? The reason is that successful traders are able to develop and incorporate the psychological and art portions of the trading equation into their personality…..while other traders are limited in their ability to integrate the intuitive, right brain, artistic aspect of speculation into their personalities.

- If you gathered together 100 poker players and gave each of them $ 50,000 and told them to play for a year, it is almost guaranteed that 4 or 5 of the players will win most, if not all, of the money from the rest of the players.

  Speaking from a purely statistical point of view, over a year's time period, each player will receive approximately the same number of flushes, straights, full houses, three of a kind etc.

  Each player will have read the same books on how to play poker, how to compute pot odds, implied odds, the odds of completing a hand etc.

- Which means that from a scientific, statistical viewpoint, after playing for a year, every player should end up with approximately the same $ 50,000 they started out with…......but that will probably never happen. Four or five players will eventually bankrupt the other remaining players and take home their money.

  Why? Because there will be 4 or 5 players who will develop the psychological / art portion of poker…….bluffing, raising, sandbagging, playing aggressive, playing weak, folding at unpredictable times, reading tells of other players, semi-bluffing etc.

- The winners will have learned not only the scientific, technical aspect of poker (Isaac Newton) but also the psychological, art portion (Picasso).

  And just like in poker, the trader who successfully integrates the right brain, left brain techniques into an overall trading strategy always takes home the money.

- Technical indicators (Moving Averages, Stochastics, Commodity Channel Index etc) are re-active**……...**not pro-active. Those indicators <u>react</u> to what prices did in the past**……..**they are not pro-active and reveal where prices will be in the future.

  If technical indicators were pro-active, then all traders would know what prices would do in the future and no one would take the other side of a position**…..…**and there would be no more market for any type of stock or commodity.

  For example, if moving averages were pro-active and indicated that the E Mini was absolutely, positively going to go up 30 points the next day, would you be a seller of the E Mini today ?

  Of course not**…..**why sell something when you know it will absolutely, positively be more valuable tomorrow ? We will have all buyers but no sellers**……..**so we have no market. There are no sellers to sell to the buyers.

  Technical indicators are best used to confirm your position <u>after</u> you enter a trade. Use additional techniques for your trade entry such as price patterns, divergence with non related trading instruments etc. If the technical indicators do not move in your direction <u>after</u> you are in a trade, then consider exiting the position with a manageable loss and kick your dog

  If technical indicators move in your direction after initiating a position, then look in your bathroom mirror, smile and say**……..** " Who's that genius smiling back at me in the mirror ? "

King Arthur, Sir Lancelot, Percival, Merlin et al.

- If you are looking for tips or ideas on how to construct the perfect trading system, you won't find it here**…….**or anywhere else. King Arthur and his buds spent a lot of time searching for the Holy Grail only to discover the kingdom was within themselves all along.

- As described in the **ManusRisco ™** manual, the Holy Grail of speculation is the integration of trading methodology, money management and psychological development into a well rounded, confident and disciplined trading personality. One of the tools to assist you on that journey is the **ManusRisco ™** software and manual (Ouch!!! How's that for a shameless advertisement ?)

- If you would like some thoughts to get you going on developing a trading method, you can start with the following ideas and modify the basic concept to suit your own trading personality **:**

a) Choose a time period which fits your personality, 60 minutes, 15 minutes, 7 minutes, 5 minutes, tick charts etc. Experiment with different time frames until you are comfortable with the volatility inherent in each time frame.

b) Select three time frames to provide a long term, intermediate and short Term perspective. For example, choose 10 minute, 3 minute and 1 minute charts. Settle on one time frame and become an expert in that time period

c) Utilize indicators to determine the trend on the long term and intermediate (10 minute and 3 minute) charts and then use the short term chart (1 minute) to time your entry. For example, if the 10 minute and 3 minute charts are trending upwards, use the1 minute chart to wait for a pullback and then time your buy entry and stop loss on the 1 minute and pray for another leg up.

d) Select indicators and timing tools which reflect your own personality and Reward / Risk profile. Do your own work. Make your own suit which fits your own body type. We all can't look like Arnold or Cindy.

e) Create a trading methodology for trend trading and another trading technique for congestion trading. Train your eye to recognize when prices are trending or congesting and switch to the appropriate trading method

f) If prices are trending, you will have a chance for a larger profit target since prices may be more volatile, but you might have to use a larger stop loss to accommodate the increased volatility (see the Reward / Risk report described in the **ManusRisco ™** manual.)

g) If prices are congesting, volatility will probably decrease so you may have to settle for a decreased profit target and use a smaller stop loss (once again, see the Reward / Risk described in the **ManusRisco ™** manual.).

Profit and risks are not the same for a trend trade versus a congestion trade. Try to identify if prices are throwing you a fastball (trend) or a curve ball (congestion) and react accordingly. Knowing when to adopt a price congestion versus trend Reward / Risk posture is one the most important skills a trader must learn.

Any commodity or stock will be in a price congestion area and going nowhere 75 % to 85 % of the time……..and only trend 15 % to 25 % of the time. Set up CONGESTION and TREND Profit Centers to segregate your congestion and trend trades and find out which types of trades are producing your profits and losses……..congestion or trend trades.

As you have no doubt discovered by now, most indicators (RSI, CCI, Stochastics etc) look identical. Therefore, try to incorporate tools into your trading methodology which utilize different methods of calculation. For example, if you trade the E Mini, try to develop a trading methodology which utilizes the Tick Index, Premium and Trin Index as well as price behavior.

The Tick, Premium and Trin are all non-related calculations and may provide better tools to locate and exploit price divergences.

Likewise, you may wish to add a filter to your trading technique such as only buy if the Trin is below .80 and trending downwards. Only sell short if the Trin is above 1.20 and trending upwards. Only use a congestion method of trading if the Trin is between .80 and 1.20.

Always strive to move up the trading methodology, psychological development and money management learning curves and strive to master the technical as well as artistic aspects of speculation.

h) Many studies have shown that the maximum number of variables the human brain can process at one time is 6 before reaching overload. If you have three price charts on your computer screen, and each chart has two studies**……….** then as our favorite spy James Bond used to say before sending another evil doer to his eternal reward**……….**"That's a Smith and Wesson and I'm afraid you've had your six."

If you overload your brain with too many charts and studies, will you be able to efficiently process all the information that's being pounded into your brain cells? Keep your trading simple and elegant**………**and you will avoid the brain lock and confusion which results from following too many charts, indicators and different types of analysis.

i) If you are a new trader, experiment with different time frames and trading techniques and enter paper trades into the **ManusRisco ™** **Hypothetical** Work Area. Then run the Analysis Reports to pinpoint trading strengths and weaknesses and determine which type of time frame and trading methodology is best suited to your personality.

When you are ready to start trading real money, then trade small amounts such as one contract or 100 shares until you have perfected your trading technique. Enter those trades into a Profit Center named SMALLTRADES in an **Actual** Business Organization.

Then run the **ManusRisco ™** reports on the SMALLTRADES Profit Center to determine if you are profitable trading your selected time frame and trading system. When you are profitable trading small amounts, then slowly increase your trading size and create additional Profit Centers to monitor your trading activities.

Once you become familiar with operating the software, you will discover that **ManusRisco ™** is flexible enough to satisfy the requirements of both novice as well as experienced traders**…….**and the only limitation is your imagination.

j) If you usually day trade a particular future such as the E Mini, then create a spreadsheet and enter the daily trading range for the last 20, 10, 5 and 3 trading days for that future.

Then take an average of the trading range for the last 20, 10, 5 and 3 trading days and keep a running average of these averages.

Then take the standard deviation of the running averages for the last 20, 10, 5 and 3 trading days.

Then add and subtract one, two and three standard deviations to the average and you will have a 68%, 95 % and 99% probability of how large the trading range will be for tomorrow's trading day.

For example if the running average of the 20 day average trading range for the E Mini was 10.00 points, and the standard deviation was 1.00, then there is a 68 % probability that tomorrow's trading range will be between 9.00 and 11.00 points (one standard deviation).

There will be a 95 % probability that tomorrow's trading range will be between 8.00 and 12.00 points (two standard deviations).

And there will be a 99% probability that tomorrow's trading range will be between 7.00 and 13.00 points (three standard deviations).

Do the same calculation for the 10 day, 5 day and 3 day running averages of the trading range (all spreadsheet programs can do these calculations in seconds).

These calculations will provide you with a good approximation of how large tomorrow's trading range can be as well as the volatility. Graphs of the averages will provide a visual representation of the trend of the averages.

Refer to any standard statistics textbook for further information on standard deviation calculations.

The following spreadsheet is an example for the E Mini **:**

					E Mini				
	20 Days	10 days	5 Days	3 Days		20 Days	10 Days	5 Days	3 Days
	15.25								
	13.75					10.09	10.60	8.85	9.08
	14.75					10.97	11.28	11.65	13.42
	10.50					11.03	11.63	12.55	14.92
	13.00					11.04	11.10	12.40	14.42
	7.25					11.49	11.73	13.20	11.75
	16.25					12.12	12.00	15.15	13.42
	7.50					12.17	12.15	12.65	13.83
	9.50					12.20	12.40	12.25	13.33
	8.50					11.82	12.35	12.30	9.67
	9.50	9.50							
	9.25	9.25							
	21.50	21.50							
	14.00	14.00							
	7.75	7.75							
	13.50	13.50	13.50		Std Dev	0.72	0.61	1.64	2.05
	19.00	19.00	19.00		Average	11.44	11.69	12.33	12.65
	9.00	9.00	9.00	9.00		10.72	11.09	10.70	10.59
	12.00	12.00	12.00	12.00		12.15	12.30	13.97	14.70
	8.00	8.00	8.00	8.00		10.01	10.48	9.06	8.54
						12.87	12.91	15.61	16.76
Averages	11.82	12.35	12.30	9.67		9.29	9.87	7.42	6.49
						13.58	13.52	17.25	18.81

The first column lists the trading ranges for the last 20 days. The average for the last 20 days was 11.82 points. The second column lists the trading ranges for the last 10 days. The average for the last 10 days was 12.35 points.

The third column lists the trading ranges for the last 5 days. The average for the last 5 days was 12.30. The fourth column lists the trading ranges for the last 3 days. The average for the last 3 days was 9.67.

When today's trading day is over, I will add the trading range for today to the 20 day average column and delete the oldest trading range on top of the list which is 15.25 points and then compute a new 20 day average.

Use the same technique for the 10, 5 and 3 day averages.

In the upper right hand corner of the spreadsheet is a continuous running average of the 20, 10, 5 and 3 day averages. The bottom row has today's current averages of 11.82, 12.35, 12.30 and 9.67 points.

After today's trading, I will add today's averages to the bottom of the list (I will not delete the top average......in other words, the list is continuous, it's a running average, and will keep getting larger and larger.)

Then I take an average of the averages and a standard deviation of the averages. For example, the average for the last 9 running averages of the 20 day average was 11.44 and the standard deviation of the averages was .72.

So the estimate for tomorrow's trading range is a 68 % probability of a range between 10.72 and 12.15 points (one standard deviation).

A 95 % probability of a trading range between 10.01 and 12.87 points (two standard deviations.

A 99 % probability of a trading range between 9.29 and 13.58 points (three standard deviations.

I also do the same calculation for the 10, 5 and 3 day averages and obtain predictions based on the running 10, 5 and 3 day averages..

The predictions for the 20 day averages will usually have a tighter range than the predictions based on the 10, 5 and 3 day averages.

While these predictions are obviously not 100 % accurate, they do provide a very good educated guess as to the size of tomorrow's trading range.

Based on the above information, I would guess that tomorrow's trading range which is 10/07/2003, will be somewhere between 9.50 and 13.50 points with the highest probability around 11.50 points. These are just subjective guesses. (The actual range was 13.00 points for 10/07/2003 so the range was at the upper end of the prediction)

A graph of the running averages in the upper right hand corner of the spreadsheet will reveal the trend of the averages.

"I wish I was bald so I could not pull all my hair out of my head"

Anonymous

Based on prior experience, you can always expect the following to happen **:**

- Your worst trade which produces the largest monetary loss will always occur when a) you had a good night's sleep and are well rested, b) your computer is functioning perfectly, c) your internet connection is working perfectly, d) your broker's software is working perfectly and e) you have no distractions and are fully concentrating on trading

- Your best trade which produces the largest monetary profit will never occur because a) you had a bad night's sleep and were not paying attention, b) your computer won't boot up, c) the internet is down, d) your broker's software is broken, or e) you were distracted because your spouse / child was yelling at you, you had to run an errand, take out the garbage, get the car fixed, go to the dentist, go to the bathroom or….. fill in your own favorite nightmare scenario.

- Congestion trading rule #1 - After you have identified a congestion area, and you short the top of the congestion, that is the exact time prices will break out of the congestion on the up side and start rapidly trending upwards, handing you a nice juicy loss.

- Corollary to congestion trading rule # 1 - After you have identified a congestion area, and you buy the bottom of the congestion , that is the exact time prices will break out of the congestion on the down side and start rapidly trending downwards, handing you another nice juicy loss.

- The trade where you ignore your trading plan, get greedy, and stay in the trade to try to get more points profit will be the trade where prices make an instant reversal and not only wipe out your profit but also hand you a another nice juicy loss.

- The trade where you don't get greedy and exit the trade according to your trading plan with a small profit will be the trade where prices skyrocket in the direction of your original trade and would have provided you with enough profits to keep a supermodel in dresses and manicures for the next five years.

- Sorry about the above comments…..just had to get them off my chest. Of course I'm only kidding…………or am I ?

The flea said "I'll fly through the spider's web..…he's probably sleeping and I can save some time by not having to fly around the web."

The spider silently waited.

- There is no "correct" or "incorrect" way to trade**……**which is why trading is so much fun**……..**you get to create and improvise by using your own preferences and imagination. If there was a "correct" way to trade, everyone would find out about it. If the method said BUY, no one would sell since everyone knew that the method was never wrong and if the method said to BUY, price is definitely going to rise**…...**so who would be foolish enough to sell ? Therefore, there would be no market.

- So now that we know we have complete freedom to create and improvise our approach to trading, what are some of the advantages and disadvantages of speculation? Is it worth the risk to attempt to fly through the web**….**or should we avoid the web altogether and fly around it ? One way to try and answer this question is to compare speculation with a Las Vegas game of chance**……** such as sports betting .

First, let's look at some of the advantages the player enjoys in sports betting.

a) The bookmaker must post odds on all games played that day. Sometimes during the college football and basketball season, he may have to put up odds on 70 or 80 games. However, the player can pick and choose which games to play**……**he doesn't have to bet on all 70 or 80 games. If he thinks the odds on one game are not "accurate", he can choose to bet only that one game out of the 70 or 80 offered.

b) The player can choose not to play any games if he does not see any value in any of the odds**….**in other words, take the day off. The bookmaker can never take a day off. He has to offer odds every day.

c) The bookmaker must post odds on all types of sports such as football, baseball, hockey, basketball etc. The player can choose which sport he has the most knowledge and experience to bet on.

d) The player determines his own risk level**…….**that is, the player decides how much to bet and risk on any particular wager. The bookmaker can not force the player to wager a certain large amount of money on any particular bet.

e) The bookmaker must offer parlay bets (betting on two or more two teams to win) which afford the player the opportunity to earn more than even money if all the teams in the parlay win.

Now we will look at the disadvantages the player must suffer **:**

a) The main disadvantage of sports betting is the “vig”, the “bite”, the “take” or any of a number of slang expressions for the percentage the bookmaker deducts from your winnings as a fee for the privilege of placing a bet with him. The vig is the bookmakers source of income.

   If you wager $ 100 on a game and win the bet, the bookmaker pays you $ 91 instead of $ 100. The $ 9 difference is the bookmaker’s fee for providing a marketplace where you can wager on various sporting events and enable your wife to yell at you for gambling away the rent..

b) The second disadvantage is the efficient market theory. Although the odds the bookmaker posts on a game are designed to evenly split the amount wagered on both teams, the player may discover that he is not able to find any “value” in any of the odds. He can not find any team to bet on because all the posted odds agree with his opinion of what the odds should be**……**in other words, the posted odds are efficient. Any bet would be won or lost in a totally random nature**……….**in other words, he doesn’t have an edge.

So what’s all this got to do with trading, you may ask ? Well let’s take a look at the advantages and disadvantages of speculation and maybe we can pick up a few pointers.

The advantages enjoyed by the trader are **:**

a) The trader can pick and choose what time period to trade. He can hold positions for many weeks or months or he can day trade. If he day trades, he can choose a particular time period such as 10 minutes, 5 minutes, tick charts, etc. The market must provide the price data to accommodate all types of time frames (the bookmaker must post odds on all the games)

b) The trader can take a day off he is not feeling well or if he can not Isolate a trading opportunity. The market can never take a day off except for a holiday (the bookmaker can never take a day off).

c) The trader can choose which instrument to trade……….Bonds, E Mini, Nasdaq Minis, Yen, Swiss Franc, Euros, FTSE etc (the bookmaker must post odds on all types of sports)

d) The trader determines how much to risk on a trade using a good money management tool such as **ManusRisco ™** (Again !! He did it again !!) The market can not force you to trade a certain number of contracts or force you to place a stop loss order at a certain price (the bookmaker can not force you to bet a certain amount on any particular wager)

e) The trader has the opportunity to make more profit on a trade than his planned stop loss…….in other words, profits are open ended and losses are closed ended (the bookmaker must offer parlay bets which pay more than even money).

Now let's look at the disadvantages suffered by the trader :

a) The market extracts a "vig" or "bite" from each trader for the privilege and opportunity to engage in speculation. This fee is comprised of commission and slippage. The commission is paid to your broker so he can buy braces for his children's teeth and pay for artery clogging lunches with his fellow brokers.

Slippage is the result of bad fills on market orders due to fast markets or hanky panky between floor brokers if your orders are routed to an open outcry market (I'm Shocked !! **........** Shocked !!**.......**. that such underhanded behavior could ever take place !!).

The "vig" extracts a tremendous toll on all traders, and just like the bookmaker's "bite", it is sufficient to lull the trader into a slow, methodical, unassuming and imperceptible slow financial death.

b) The second disadvantage to confront the trader is the possibility that he is not able to locate any exploitable inefficiency in the market……in other words, prices are efficient and are exactly where they should be at any point in time. All trades signaled by any type of trading methodology will only result in random profits and losses and you will eventually go broke as the "vig" methodically grinds down your bankroll to mince meat.

And just like that midnight date in a romantic restaurant with that beautiful movie star, any dreams of windfall profits in the marketplace will only exist as an amorphous fantasy in your mind.

c) The third disadvantage which affects all traders is the necessity to master the disciplines of trading methodology, psychological development and money management. Most traders will be unwilling and / or unable to master all three disciplines and suffer the inevitable financial consequences.

Now that we have examined the advantages and disadvantages of speculation, what are we to do with this information ?

To start with, the trader should play to his advantages and minimize the disadvantages. The trader's two main advantages are a) flexibility and b) the ability to obtain more than even odds on any trade (that is, the chance of a higher profit target than a stop loss).

The trader chooses when, where why and how much to risk on any trade. He is not forced to trade one specific type of commodity, or time frame or risk a specified monetary amount on any trade. He can attempt to receive a payback on his trade that is more than the amount he will lose if the trade fails.

Experiment trading with different commodities such as Bonds, Euros, Indexes etc. Do you have a talent, or are able to "read", a certain commodity better than the others. Practice trading different time frames……long term , short term, different lengths of minute or tick charts. Which time frame suits your personality? Is 5 minutes too long to be in a trade or is 1 minute too long before you start to get nervous and start to reach for the aspirin ? The best way to learn how to trade is the same way poker players learn how to play poker. Poker players must accumulate "table time" to obtain the necessary playing experience. Traders must accumulate "screen time" by staring at price patterns over and over again to learn the price behavior and patterns of the future or stock they will trade

The longer the time frame you trade, the larger your profit objective, but the stop loss will probably have to be greater compared to a shorter time frame. Likewise, the shorter the time frame, the smaller the profit objective and stop loss compared to the longer time frame.

Some questions to be answered **:**

Which time frame suits your Reward / Risk Profile ……60 minutes, 30 minutes, 1 minute ? What percentage of Trading Capital will you risk on a trade ? How many points will you risk ? How many contracts can you trade based on those parameters ?

Which time frame best matches how long you are willing to stay in a trade, how many points profit will be your objective, how much money you are willing to risk if the trade is a loser, how many contracts would you like to trade? How will you monitor your trading performance to ensure you are staying inside your money management parameters ? (Don't worry, I won't mention that program again)

Will you be a trend trader, a congestion trader**…….**or will you try to be both? What techniques will you use to construct a trading system?

One of the main advantages the trader enjoys is the ability to earn more profit on a trade than he can lose, that is, the average profitable trade can be larger than the average unprofitable trade**……..**letting profits run and cutting losses short. Will your trading system take advantage of this fact ? What ratio of average profitable trade to average unprofitable trade will your trading system try to attain ?

The flexibility to create, improvise and pick and choose when, where, why and how to trade and to earn more on a trade than you can lose are advantages the trader must fully exploit to overcome the disadvantages he faces in the trading arena.

The disadvantages of trading, at first glance, seem less important than the advantages**…….**but in reality, the disadvantages are extremely powerful and are sufficient to bankrupt many traders. The 'vig", efficient markets and inability to master the necessary trading disciplines are each individually capable of sending most traders to the poor house.

The "vig" and slippage are invisible diseases which slowly and silently eat away at your Trading Capital until one day, you discover you have lost nearly everything.

The "vig" can never be overcome**……..**it can only be reduced to a manageable level. Fortunately for the trader, the advent of on-line internet brokerage accounts and computerized trading arenas such as the Globex have brought down the vig to manageable levels.

Slippage is significantly reduced since computerized trading has eliminated humans from the order processing equation and the trader does not have to be a victim to the less than admirable aspects of human behavior exhibited in the open out cry trading pits.

Likewise, on line brokerage accounts have brought discount commissions to much lower levels and have significantly reduced the effect commissions have had on the trader's ability to become a profitable trader.

However, the trader should make every attempt to obtain the least expensive commission without sacrificing quality of service. Do not underestimate the effect of commissions and do the best you can to reduce this particular disadvantage

If the next disadvantage, which is the efficient market theory, is a reality, then this disadvantage is unavoidable and will inexorably bankrupt every trader if he plays the trading game for a sufficient amount of time.

According to the efficient market theory, profitable traders are profitable only because they are the lucky ones who manage to fall on the right tail end of the normal distribution curve and are profitable only because they have considerably scaled back their trading or ceased trading altogether. In other words, they have not played the trading game for a sufficiently long time for the vig to destroy their Trading Capital.

If 100 gamblers go to Las Vegas on a weekend gambling junket, normal standard deviation will ensure that between 5 and 20 of the gamblers will return home with a profit. The only reason they did not lose their bankroll is that they did not play a sufficient amount of time for the negative expectation (the vig) to grind their bankroll down to zero. If they stayed in Vegas for another day and made more bets, they too would have probably lost all their money.

The bottom line of the efficient market theory is**…..** if you trade for a sufficient amount of time, your profits and losses will be random and the vig will eventually bankrupt you**…..**regardless of when, where, why and how much you trade. The only question is when you will go broke**……..**not if.

There is continued debate as to whether the markets are completely efficient and unbeatable, or if there is a possibility the trader is able to exploit certain market inefficiencies through trading prowess and astute money management skills. The answer to this question can not be answered here**. …**but the trader should be cognizant of the random walk, efficient market theory of price behavior and it's potentially negative impact on achieving long term profitability in the field of speculation.

The last disadvantage inherent in speculation is the requirement to master the trading methodology, psychological development and money management disciplines and incorporating these disciplines into a confident and disciplined trading personality.

Unfortunately, most traders become fixated on the trading methodology and embark on a never ending search for the “perfect” trading system**…....**and totally neglect, or pay minimal attention to, the psychological development and money management skills required to achieve profitable speculation.

There are many books and courses which address the psychological aspect of trading and the trader should spend considerable time in the education and mastery of this important discipline.

Likewise, the **ManusRisco ™** (Oops **!**) manual and software are designed to enlighten and educate the trader in the money management discipline of speculation as well as provide a tool for improving the trader's psychological development and trading methodology.

A three legged stool can not stand with only one or two legs. Similarly, the trader needs to constantly move up the learning curve in all three disciplines in order to provide the best chance of achieving long term profitability. Mastery of one or two disciplines is not sufficient. All traders eventually discover that if they do not become proficient in all three disciplines, their trading “stool” will always be falling down.

“ I count the hours………..I keep the score……....I can’t go on playing the waiting game.”

“The Waiting Game”, by Swing Out Sister

That’s what day trading is all about**………**the waiting game. Waiting for the stars to align and the right price set up to occur for you to pull the trigger on your next trade. Unfortunately, waiting is not one of human being’s best virtue. We would like to trade just like we like our food**……....**hot, fast and ready to eat.

How many readers of this manual enjoy waiting at a red light**…………**or waiting in line to buy tickets to a concert or ballgame ? Unfortunately, this lack of patience which is prevalent in every human being is responsible for most of the losses suffered in the trading arena.

"Waiting" is probably one of the most important skills a day trader must develop. Failure to wait for the right trading opportunity inevitable results in over trading, higher commissions, increased ‘vig”, taking trades that are less than optimum**…...**and inevitably, more losing trades.

In the day trading arena, prices race across our computer screen like lingerie supermodels (or Chippendale dancers for you ladies out there)**……..**captivating and enticing you to trade. And humans, being humans……find it hard to turn your head and say**.....**No, I won’t look**……**No**…..** that isn’t my best trading opportunity.

Unfortunately we all eventually succumb to temptation……....and pay the price.

One of the main disciplines every trader must cultivate is simply to……….. Wait **!** Wait for the price action which matches your trading methodology……..Wait for the price structure which matches your Reward / Risk Profile……Wait for the price set up which you have seen before and affords you the highest probability of a profitable trade.

The emotional discipline required to wait for prime trading opportunities is a very difficult skill to master as every trader counts the hours and keeps the score in the waiting game.

Do you have an attitude ?

The only casino game where the customer can enjoy an advantage is Blackjack. Although the edge is only 1 ½ % to 2 %, the game can theoretically be beaten in the long run. (Actually, most casino games can be, and are, being beaten...but that's another story !)

Back in the early 1970's, someone got the bright idea for the best Blackjack players to play as a team and only play tables where they had an advantage based on the cards remaining in the deck.

One of the best blackjack players of all time was the late Ken Uston. His exploits and adventures have been the subject of numerous books and articles in the gambling world.

One of his observations was that when he went out to play Blackjack with a positive attitude and a feeling that he could not lose…..….he nearly always had a profitable day at the tables..........sort of like a self-fulfilling prophecy.

Likewise, when he went out to play feeling unsure of himself and lacking in confidence…......….he almost always lost.

Obviously, your psychological attitude is not going to affect the way the cards come of a deck…..….or make prices go in your direction if you make a trade.

However, for some reason, if you approach any type of highly competitive situation…………… shooting a basketball, hitting a baseball, kicking a soccer ball, playing Blackjack, making a trade etc……….with a positive psychological attitude, you will succeed more often than you will fail

When Michael Jordan took a jump shot, he took the shot knowing he is the greatest basketball player of all time. When Ted Williams stepped into the batter's box, he swung the bat knowing he was one of the greatest hitters who ever played the game.. When Pele took a shot on goal, he knew he was the greatest soccer player to ever walk onto a soccer field. When Ken Uston stood face to face with a dealer in Las Vegas, he played knowing that he was one of the greatest Blackjack players of all time.

While we can't all be the world's best basketball, baseball, soccer or Blackjack player**…..…**or trader**…….. **we can borrow the technique that these individuals used to achieve their success and apply it to trading.

That technique is a mental framework which is **a)** confident**……**but not arrogant **b)** very respectful of the markets**…….**but not fearful. **c)** professional and disciplined based on managing your trading enterprise in an informed, educated and businesslike environment versus starting each trading day in a mind set which is amateurish, uncertain and fearful. **d**) an attitude of **….**" How much money will I make today" and not**……..**"I hope I don't lose a lot of money today".

Every shot Michael Jordan took, he expected it to go in the basket**…..**every time Ted Williams swung a bat, he expected a base hit**…….** every time Pele took a shot, he expected a goal, every hand dealt to Ken Uston, he expected a Blackjack. The countless hours of practice, study and professionalism these individuals devoted towards their particular competitive arena resulted in a psychological framework which expected success**………....**not failure.

Likewise, the confident, disciplined and psychologically prepared trader does not hesitate to take his next trade when his trading methodology gives a signal**……….**and he expects it to be profitable.

If the ball doesn't go in the basket, if the bat doesn't hit the ball, if the soccer ball doesn't go in the goal, if you draw a 16 against a dealer 10, if the trade stops you out with a loss**………**then the loss is recorded so that lessons may be learned from the loss**……..** and the competitor patiently waits for the next opportunity.

The **ManusRisco ™** manual and software are both designed to create the positive mental attitude required to rapidly and confidently take each trading signal with the expectation that every trade will be profitable.

If you don't have a positive attitude**…….**you better get one real fast or the trading game will chew you up and spit you out before you know what hit you.

Are we there yet ?

I would like to conclude these trading tips with some personal observations on price behavior…….and why our natural human condition makes speculation such a difficult arena to master for many individuals.

When you plan a trip with the wife and kids and decide to travel from New York to Los Angeles, you take out a map and plot a journey which travels in a generally westerly direction from New York to Los Angeles. You do not plan on traveling first to Chicago and then back to New York and then to Miami and then to London and then to Berlin and then to New Orleans and then back to New York and finally to Los Angeles.

Humans think linearly, in a straight line…….New York to Los Angeles. Similarly, you go to work by the same identical route each day, a route which is the fastest and most direct. You travel to the supermarket in the quickest and most direct way. When you visit relatives or friends, you travel the same route to their home.

So we assume when we place a trade, that prices will exhibit the same behavior as humans, that is, travel in the quickest and most direct direction.

If we buy an E Mini contract at a price of 1120.00, we expect prices to immediately go up to 1125.00. If we sell an E Mini contract at 1115.00, we expect prices to immediately fall to 1110.00. Prices should behave the same way humans behave……take the quickest, most direct route to the destination.

Unfortunately, prices almost never take the quickest, most direct route. Prices do not behave linearly. If prices are to travel from New York to Los Angeles, they invariably first go to Chicago, then back to New York, then to Tokyo, then to Miami, then to London, then back to New York and finally end up in Los Angeles. Or they may decide to spend 3 weeks in London before going to Los Angeles. Or they may decide to cancel the trip and stay in Tokyo and never even go to Los Angeles.

Naturally, this type of behavior drives humans like us crazy and makes speculation such a tough game to beat. Many times, we throw in the towel and exit a trade as we grow impatient watching price seemingly travel in either the wrong direction, or nowhere at all……..only to discover that the price eventually ends up in the location we originally predicted. Price just took a non-linear route on its journey which a human would never take.

The reason for non-linear price behavior is the constant ebb and flow of profit and loss taking as traders constantly close out profitable or unprofitable positions. You buy a contract at 1120.00 with a profit target of 1125.00 and prices move up to 1121.00………..so you are happy.

However at a price of 1121.00, traders who bought at 1119.00 start to take profits so a bunch of sell orders hit the market and prices start to decline to 1120.00 again. New traders then see price declining so a bunch of sell orders hit the market and price declines to 1117.00. Then some traders think that price has declined too much so buy orders come in and price advances to 1122.00 etc, etc.

The trip was planned from New York to Los Angeles but prices are going to use an itinerary via Miami, London, Tokyo, Istanbul, and finally Los Angeles……which of course is not how a human would make the trip. The human linear mind is attempting to predict the behavior of a seemingly insane non linear lunatic........which is called price

How do we reconcile these two totally incompatible viewpoints? The best way is develop a disciplined, confident and professional approach towards speculation which minimizes the debilitating effect of non-linear price movement. The combination of your real time trading experience and the lessons provided in the **ManusRisco ™** manual, as well as many other books and courses, will hopefully steer you on the right course towards achieving long term profitability in the very difficult and competitive trading game.

Tom D'Angelo

"People seldom refuse help, if one offers it in the right way."

A.C Benson

Need help entering trades into your Business Organization ?

Page **A - 23** is a blank copy of the Trade Entry form. Each field on the form is in the same sequence as the Trades screen described in the **ManusRisco ™** manual. After the trading day is over, you may find it useful to transcribe your trades onto the Trade Entry form for easy entry into your Business Organization.

The Commission, Slippage and Initial Margin fields are omitted from the form since they automatically appear on the trade entry screen, and you are able to change these amounts on the screen if they are incorrect.

There is room for three trades on each form.

Make blank copies of the form so you will be able to rapidly enter your trades and then run your favorite Analysis Reports and analyze your trading performance as you prepare for the next trading day.

Trade Entry Form

Trade Date ______________
Trading Capital ______________
Profit Centers ________________________________

Position	Trade Type	Symbol	# Traded	Entry Price	Close Price

Reason for trade ____
____
____

Trade Date ______________
Trading Capital ______________
Profit Centers ________________________________

Position	Trade Type	Symbol	# Traded	Entry Price	Close Price

Reason for trade ____
____
____

Trade Date ______________
Trading Capital ______________
Profit Centers ________________________________

Position	Trade Type	Symbol	# Traded	Entry Price	Close Price

Reason for trade ____
____
____

Page **A – 25** is a blank Worksheet to assist you in constructing trades which require calculation of an Average Entry and / or Average Close Out Price.

Page **A -26** is an example of a completed worksheet. Use the completed Worksheet as a guide to enter the trades into the Worksheet of the Trade Entry screen.

Make blank copies of the Worksheet so you will be able to rapidly enter your trades onto the Trade Entry screen Worksheet.

Average Price Trades Worksheet

Trade Date ____________________
Trade Type ____________________
Symbol ____________________
Symbol Date ____________________

Trade Entry		Trade Close	
# Traded	Entry Price	# Traded	Close Price

Average Price Trades Worksheet - Example

Trade Date **5/10/2003**
Trade Type **Index**
Symbol **ES**
Symbol Date **06 / 2003**

Trade Entry		Trade Close	
# Traded	Entry Price	# Closed	Close Price
2	990.00	2	993.00
3	991.00	1	994.00
4	992.50	3	994.50
		3	995.00

Page **A – 28** is a blank Allocation Form to assist you in constructing trades which require you to allocate entry and close out positions as described in the **ManusRisco ™** manual.

Make blank copies of the blank Allocation Form so you will be able to rapidly enter your trades and then run your favorite Analysis Reports and analyze your trading performance as you prepare for the next trading day.

Page **A – 29** is Example # 1 of a complex trade which was allocated so that the trader can monitor 4 different entry positions. Each entry position is a Profit Center. The last column on the right labeled P/C is a space for you to enter the Profit Center name for each trade.

Page **A – 30** is Example # 2 of a complex trade which was allocated so that the trader can monitor 2 different exit positions. Each exit position is a Profit Center. which he has marked on the last column on the right labeled P/C.

Allocation Form

Trade Date ________________
Trade Type ________________
Symbol ________________

Trade Entry			Trade Close Out			P/C
Position	**# Traded**	**Entry Price**	**Position**	**# Closed**	**Close Price**	

Reason for trade ____
____
____

Allocation Form Example # 1

Trade Date 5/20/2003
Trade Type Index
Symbol ES 03/2005

Trade Entry			Trade Close Out			P/C
Position	# Traded	Entry Price	Position	# Closed	Close Price	
Buy	2	910.00	Sell	5	911.00	1STENTRY
Buy	3	910.50	Sell	2	911.50	
Buy	5	910.75	Sell	5	912.00	
Buy	2	911.00				
Buy	2	910.00	Sell	2	911.00	2NDENTRY
Buy	3	910.75	Sell	3	911.00	3RDENTRY
Buy	5	910.50	Sell	2	911.50	4THENTRY
			Sell	3	912.00	

Reason for trade Stochastics divergence trade on a 5 minute chart with 4 scale in entries

Allocation Form Example # 2

Trade Date 5/20/2003
Trade Type Index
Symbol ES 03/2004

Trade Entry			Trade Close Out			P/C
Position	# Traded	Entry Price	Position	# Closed	Close Price	
Buy	2	910.00	Sell	5	911.00	1STEXIT
Buy	3	910.50	Sell	2	911.50	
Buy	5	910.75	Sell	5	912.00	
Buy	2	911.00				
Buy	2	910.00	Sell	7	911.00	2NDEXIT
	5					

Reason for trade Moving average crossover trade with 2 scale out exits