



# TRADING

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## SOME QUICK NOTES

I've created hyperlinks throughout this book and as of this publishing, they all work. However, in the event that one of the links is broken, I have placed the actual website address directly below the link. So if the link doesn't work, just copy and paste the address into your browser.

Throughout this book I may make reference to some things you don't understand. At least, not if you are a complete novice. For starters, the first thing you should do is [click here](#) to see a market depth trader in action. Take the flash tour.

<http://www.tradingtechnologies.com/xtrader.aspx>

**You can skip the rest if you are already familiar with the basics of trading.**

Many of the topics I discuss will make much more sense once you understand what is taking place on the market depth platform.

Here are some quick explanations for other terms you might not understand.

**Long:**

To buy a contract and hope it goes up.

**Short:**

To sell a contract and hope it goes down.

**Cover:**

Exit your position and get flat.

**Bid/Ask:**

If I say 08 bid/09 ask, this means the inside market is currently bid at 08 and offered at 09. Again, look at the market depth trader and this will make sense.

**Pull:**

If a person is offering to sell 500 at 09 and then they pull their order. The 500 doesn't disappear because someone bought it. It disappears because the person who was offering decided they didn't want to offer anymore. This happens all the time.

**Hit:**

To hit into a price. It's 500 bid at 09 and you hit 10 into the 09s. This means you sell 10 contracts at 09.

**Fade:**

To go against the current momentum. "The market has been going up for 10 ticks now and he's fading it." This means he's been selling into a rising market.

**Bail/Puke Out:**

To exit your position for a loss.



**Scratch:**

To exit a trade at break-even. Bought 05s. Sold 05s.

**Spread:**

To buy one product and sell another similar product at the same time. You could buy the June 10-year notes and sell the June 30-year bonds. Or you could buy June Corn and sell December Corn. That is called calendar spreading. If you want to know more about it, look it up online.



## Introduction

This is a no B.S., no hype, no filler, no fluff, short, concise, to the point manual. I'm not going to tell you what you want to hear. I'm going to tell you like it is.

The only way to make money in this business is by consistently picking low risk entry points, pressing your mouse to get in the trade, riding it for all it's worth, whether it's 1 point or 20, and then pressing your mouse to get out of the trade. When you know you're wrong, you have to get out immediately. You must have some serious personal discipline to do this. It's not just about how much you make. It's about how much you keep.

There will be times when you will **know** which direction the market is going to go. You'll know it. That is the time to fire. You cannot fire when you're bored. You cannot fire when the market is trading in the middle of a range. You cannot fire because, "Well, even though not much is happening, somebody just sold 2,000. I'll sell it here and see what happens." You have to have a really good reason to put your money at risk. You have to see something which you've seen many times before. A setup which works more than it doesn't. "The market has been going up tick by tick for 7 ticks now and if it goes another 2, people are going to start bailing. Shorts are going to run for the door. And when they run, I want to be long." This is a reason to fire.

You cannot be an action junkie. This is about money. Period. You're doing this to make money. Not to get a rush. You have to be sharp. You have to pay attention. One screw up can cost you thousands in a matter of seconds.

You will have losses but the key is to keep them under control. If you are long at 06 and the market is currently 04 bid/05 offer and it's obvious that the market is going to break another 2 or 3 ticks, there is no reason to stay in that trade.

"How will I know it's going to break another 2 or 3 ticks?"

You'll know. You will see it. Just go with me on this for now.

Once you know it is going to break another 2 or 3 ticks, you get out at 04. I don't care if you think it will go to 01 and then come back. If you stay in a trade like that, you can forget about making it in this business. You bail at 04. You take the two tick loss. If it goes to 01 and you think it's going back up, buy 01s. If you're right and it goes back to 06, you will be up 3 ticks.

Bought 06s. Sold 04s. Lost 2 ticks.  
Bought 01s. Sold 06s. Made 5 ticks.  
3 ticks profit.

If you don't take the loss at 04 and it goes to 01 and comes back to 06, you will be even. If it goes through 01 and you bail at 00, you lose 6 ticks. The best decision in that scenario is to bail at 04, lose 2 ticks and then wait and watch.



Do you understand? If you know you're wrong and still let a 2 tick loser turn into a 6 tick loser, you are doomed. It's only 4 ticks, right? Do that 10 times and it's 40 ticks. The Emini S&Ps are \$12.50 a point. That's \$500 a contract. If you are a 10 lot trader, you've just given away \$5,000. It's things like that which can make you or break you in the long run.

I am going to walk you through, step by step, the process of getting up and running. I'm not going to start with entries and exits. I'm going to start with picking the right product to trade. You have to pick one or two products and stick with them. If you have five different products up and are trying to trade all of them, you are going to lose money. No doubt about it. I will tell you which products I feel are the best for day trading.

Then I will talk about finding a broker. I will tell you some things about commission rates which you may not know.

"If I lose money trading, commissions don't matter."

Yes. They do. If you have a lower rate than the next guy, instead of losing \$20,000, you will only lose \$17,000. You still lose and and you still curse yourself for trading in the first place but \$3,000 is \$3,000.

If you **make** money trading, commissions **really** matter. I will show you how lowering your rate by 25 cents a turn could add \$6,000 a year or more to your bottom line.

You have to pick the right product. You have to open an account. You have to get the right execution platform. You have to set that platform up correctly. You have to make sure that your computer is fast enough to handle the software. You have to make sure your internet connection is fast and stable. You have to place an order with a 1 lot to test the speed and stability of the entire setup.

**THEN...**you begin to stare at the screen.

If you've never seen a market depth trader, you will have no idea what I'm talking about in the chapters on entries and exits. You need to familiarize yourself with what a market depth trader looks like. [Go here to see a demo of one in action. Take the flash tour.](http://www.tradingtechnologies.com/xtrader.aspx)  
<http://www.tradingtechnologies.com/xtrader.aspx>

If you already have an account and are happy with your broker and with your commission rates and have experience with a market depth trader, then feel free to skip ahead to the chapter on [entry strategies](#). But if you read the chapter on commissions, you may find out that you are not getting the best rate possible.

### **One more thing.**

The age-old question which is usually a very good one to ask goes like this...

"If you're so good, why would you give away your secrets? Why enlighten the competition?"



While in most businesses, sharing a strategy would be counterproductive, in trading it very rarely is. As a matter of fact, it could help you. See, the truth is...if 2,000 people were to buy my book, chances are maybe 20 of them will actually use the information. And unless one of those 20 is a huge trader, those 20 guys aren't going to affect the market. Even if all 20 guys are decent size traders who swing 50 lots, you're only talking about 1,000 contracts. If you're trading the most liquid markets such as the Eminis or the treasuries, that's not going to move the market much, if at all. And suppose all 2,000 people who bought my book opened up an account and traded exactly like me.

I could think of nothing better. I'm long and 2,000 people are buying? Manna from heaven.

If only...

So if I ever did develop a magical automated day trading system which actually worked, I would give that sucker to everyone. For free. Start a viral email. It would catch like wildfire and as long I'm not the very last person to act, I'm making money.

But there aren't any magical automated day trading systems. Remember that. And the information I'm sharing with you is not new. There's nothing secret about it. This is how day traders trade. These are the things they look for. These are the moves made by major players with access to billions. The only reason you don't already know these things is because you've been looking for the answer in all the wrong places. You don't know these things because you've never been in a room with fifteen other traders who are all yelling "Puke!!" at the same time.

Let's begin.





## CHAPTER 1: CHOOSING THE RIGHT PRODUCT

### A. Futures vs. Stocks

I trade futures. Primarily treasury futures. I have traded stocks in the past but I do not trade them now. There are two major reasons for this.

#### Reason 1: Margin

The leverage available in futures trading cannot be found anywhere else. My intraday margin is currently \$500 per contract. Intraday means I don't take a position overnight. I am controlling \$100,000 worth of treasury bonds for \$500. That is 200:1 leverage. The best you're going to get on a stock is maybe 20:1. If you can find it. This means I can move more volume for less money. This equates to a much greater return on investment. Even if my margin goes up to \$1,000 per contract, I'm still getting 100:1 leverage. I can get that on almost anything. Except the energies. They're insane right now.

If I put up \$5,000, I can control 10 treasury bond contracts. Or 10 emini S&P contracts. Or 10 corn contracts.

If I get 20:1 leverage on a \$10 stock, I only have to put up 50 cents a share. So I can control 100 shares for \$50. But if I want to trade a \$20 stock, that \$50 will only get me 50 shares. And if I want to trade a \$50 stock, that \$50 gets me nowhere.

"That leverage can work against you."

Of course it can. Which is why you trade a size you can afford. You always leave yourself plenty of room for swings.

You can make money trading stocks. It can be done. All of the strategies and ideas I share with you can be applied to stocks. The idea is always the same. He with the most money moves the market. But why risk your money on something which will yield 20% when you can risk it on something which will yield 120%? Don't think that just because the margin is more on stocks the risk is any less. It isn't. If you make the wrong call, you're going to lose. So if you make the right call, you might as well get paid for it.

Example:

At 20:1 leverage you can control 2,000 shares of a \$50 stock for \$5,000.

20:1 on \$50 is \$2.50 a share

\$5,000 / \$2.50 a share is 2,000 shares

The stock moves 50 cents. That's a 1% move. You make 50 cents a share on 2,000 shares.

$.50 \times 2,000 = \$1,000$  profit

\$5,000 in margin yields a \$1,000 profit which = 20% return on investment (ROI)



At \$500 a contract you can control 10 emini S&P futures for \$5,000.

Let's say the eminis are trading at 1200.00.

They move 1%.

A 1% move is 12 points

Each point is \$50

$12 \times \$50 = \$600$

$\$600 \times 10 \text{ contracts} = \$6,000$

\$5,000 in margin yields a \$6,000 profit which = 120% ROI

Same amount of margin. Same percentage movement. Huge difference in ROI.

Margins can and do change based on volatility so \$500 per contract might become \$1,500 per contract. Even still, it's better than anything you will get with stocks.

## **Reason 2: Taxes**

Yes. Taxes. I'm going to let you in on something that not many stock traders know. If you are a professional day trader and you earn your money trading stocks, you are taxed as though it's regular income. If you earn \$100,000, you fall into the 28% tax category and therefore, have to pay \$28,000 in taxes.

However, if you are a professional day trader and you earn your money trading futures, it is different. Futures are considered to be "section 1256 contracts" and fall under what is known as the 60/40 rule. What does this mean? It means that 60% of your income is taxed as long-term capital gains. The current rate is 15%. The other 40% is taxed as regular income.

Let's compare.

Stocks:

\$100,000 earned

Taxed at the normal rate of 28% = \$28,000

Futures

\$100,000 earned

\$60,000 taxed at 15% = \$9,000

\$40,000 taxed at the normal rate of 25% = \$10,000

Total paid = \$19,000

You just put an extra \$9,000 in your pocket for doing nothing. Nothing other than choosing the right product to trade.

If you decide to trade stocks, trade the Nasdaq. The NYSE is still run by specialists and they will rob you every chance they get. I can't blame them. I only wish I had access to the information they have.



## B. Forex

Stay far, far away. You've been warned.

The little guy can finally tap into a market that was once the sole domain of major banks. Hence the term, "Interbank Market".

Forex has exploded over the last several years. Extremely high leverage. That's fine. No commissions. What a deal. Tight spreads. How tight? As low as 1 pip. And they've even gone to fractional pips now. Competition is tough.

Ask yourself a question. If someone isn't charging you any commissions, how do they make money?

It's called capturing the bid/ask spread. Forex dealers have an open line with big banks. The big bank gives the dealer a quote and then the dealer gives you a quote. The two quotes are not the same. There are no market depth screens for Forex because there is no market depth for you to see. You would have to call a bank and ask for a quote and the guy on the other end of the line would give you one. If you hit his price, you would then have to ask him for another quote. You cannot see that there are 100 contracts offered at 10, 200 contracts at 11, 300 contracts at 12, etc. The banker would sell you 100 contracts at 10 and then he might say it's 300 at 13. It's irrelevant because he wouldn't talk to you anyway. This is where the Forex dealer comes into play.

The dealer finds out that it's 10 bid by 12 offer. So he makes a market of 9 bid by 13 offer. If he buys it from you at 9, he knows that he can turn around and sell it at 10. If he sells it to you at 13, he knows that he can turn around and buy it at 12. It's about as risk-free as you can get. And if he wants to hold the trade and take some risk, it's only because he's been talking to the banks all day and he has a much better idea of what the market is going to do than you do. All you can see is two numbers. The amounts you see trading are only the amounts he's showing you. There could be billions of dollars worth of transactions taking place which you don't know about. There is no way to make an educated decision. NO WAY. You might as well flip a coin. At least, when it comes to day trading. If you saw the recession coming in America, you could have sold the dollar and just held it...if you could swing the margin.

When you're trading the eminis or treasuries, you see all the action. If 10,000 contracts trade, you see it. You can see bids and offers above and below the current price. You can often tell whether a bid is from someone who really wants it or from someone who's trying to push the market. You can't see anything in the Forex market. Not to mention, you're giving up a huge spread. You cannot bid and offer. If you want in, you have to hit **their** bid or offer. So you are instantly down money. If the spread is 2 pips on the EUR/USD (Euro against the U.S. Dollar) and you buy it, you are instantly down \$20 per contract. Meaning, if you wanted to instantly turn around and sell it, you have to sell it 2 pips lower for a loss of \$20. If I'm working a bid in the bonds and I get hit and it's still bid, I'm even. I don't start out down 2 ticks.



It's 2 pips in and 2 pips out. So you're giving up \$40 per contract per trade. That's a full-service brokerage commission.

Maybe it's not 2 pips. Maybe it's 1 pip. In less liquid pairs, it might be 4 pips. Whatever the case, you're getting the shaft. Big time.

One of the draws is that you only need \$500 (or less) to open an account. So you'll turn \$500 into \$1,000 and \$1,000 into \$2,000 and so on and so forth. Sure you will. If you only have \$500 to risk, do like I said on my website. Go play craps. It will be much more fun and the odds are actually better.

### C. Options

Don't trade options. Seriously. The commissions are high and they just don't pay off unless you hit it bigtime. You give up so much in premium that it's just not worth it. I once bought a feeder cattle call and held it for a month. The market went up 150 points over that time, which is equivalent to \$750 per contract. My option increased in value by \$100. The time value had completely eroded away.

I know a guy who trades equity options for a living but he works for a firm and pays bottom dollar commission rates and he does different kinds of spreading strategies and plays for small quick profits. He doesn't buy a coffee call in November and hope for a freeze. He also uses an execution platform which gives him more information than you will have access to as a retail trader. Don't trade options.

### D. Which futures contracts are the best for day trading?

Like I said, I primarily trade treasury futures. The 10-year treasury note contract and the 30-year treasury bond contract. There are a few reasons for this.

**One:** The treasury market is what I learned in Chicago. It was the market I was told to trade so I traded it. I learned this market very well. I know it. But that being said, I have also traded many other products. I have traded the emini S&Ps, Corn, the Bund, the Bobl, Eurostoxx, Eurodollars and the Euro currency on the CME exchange as well as stocks on the Nasdaq and the NYSE. I've already explained why I don't trade stocks anymore.

**Two:** The treasuries are the cheapest to trade. Every time you click your mouse, a set amount of money (commission) is subtracted from your account. I want to keep that amount as small as possible. The commissions on the emini contracts and the other CME products are almost twice as much as the treasuries. The Eurex products aren't twice as much but they are higher. The grains are much higher. If you're thinking about trading corn or soybeans, you should think again. It's going to cost you at least \$5.00 a round turn. Probably more. At that price, you cannot be wrong very often. I keep coming back to this because...it matters.

**Three:** There are several treasury contracts. The 30-year, the 10-year and the 5-year. I



watch all of them. A lot of spreading takes place in this market. Some people find that annoying. It can be annoying but quite often if you can figure out what the spreaders are doing, you can figure out where the market is heading. This also happens with the Bund and the Bobl. There are a couple of strategies I use to take advantage of spread movements. I will share them with you in the following chapters.

**Four:** Liquidity. The treasuries are the most liquid markets after the Eurodollar. When I want in and out, it's not a problem. There are rarely sudden 10 tick spikes. If I have to pay up, it's not more than a tick or two. This suits my risk tolerance. I can't handle large spikes. If I could, I would be trading oil right now. There is tremendous opportunity in the energies but you better be prepared for some serious volatility. "It's seventy-fi....no...wait...it's twenty-thre...no...wait...it's at even."

**Five:** Opening hour. The treasuries open at 8:20a.m. You can trade them before that but you will notice a big difference in volume after the open. A lot of really important economic numbers come out at 8:30a.m. The unemployment report is one of those. The treasuries are in full swing when these numbers are released. The emini S&Ps are open and you can trade them but there is not as much volume as there is at 9:30a.m. when they 'officially' open. I find the treasuries to be a better trade after an 8:30a.m. number.

So, obviously, I advocate trading treasury futures but I realize not everyone is going to want to go that route. Let me give you my take on the other products.

### **Emini S&Ps**

Next best market to day trade in my opinion. Plenty of liquidity. Good volatility. Commissions are higher but you can live with them. The S&Ps move fast. When they run, they run. However, even when they are running, you can still get in and out. The eminis are good for taking small quick profits. Especially at levels where everyone is watching. If someone sells 1,000 into a 'support' level, the market will usually break a few ticks. It might bounce right back but that is where your exit strategy becomes important. This market will go down 4 points and then rally back up 4 points in a matter of seconds so you have to be fast. If the treasuries have ground down 4 ticks, most likely, they will not spike back up real fast. The eminis will spike back up and rocket onwards another 4 points.

My buddy calls the eminis "crack for traders". You may find yourself seeing trades where there are none and making way more trades than you should but that can happen in any market. Watch the commissions.

### **Eurodollars**

Tons of volume. Not a lot of volatility. You will be bored out of your mind. The only way to trade this market is with size. You will be waiting for that one setup and swinging big when you see it. Make a tick. Maybe two. Call it a day. Or you will lose a tick...maybe two...and call it a day.

### **Euro currency (other currencies on the CME)**

While I will tell you stay away from Forex, I will say that there is some opportunity in trading



the currencies on the CME. The Euro is by far the most liquid and is therefore, the one you should focus on. It can move fast. Again, you must react quickly. There is plenty of volatility. The commissions are a bit high though.

### **Corn**

The grains have gained in popularity with food prices rising to all-time highs and the ethanol B.S. has had a huge impact on corn. It is the most liquid and if you're going to trade grains, it's the one you should trade. But even though it is the most liquid of the grains, you cannot swing huge size. Sometimes it takes 300 to move the market 1 tick. Sometimes a 50 lot will move it 4 ticks. It's sketchy. I offer this caveat as always...the commissions are steep. You will feel them fast. However, corn has some huge moves and if you get on one, your day will be made. One thing you need to keep in mind at all times is that this market is subject to limit movements. So you need to know where that number is. If you get caught in a limit move against you, you are in trouble. You will be subject to overnight margins and will almost certainly be looking at a much bigger loser in the morning. But...reading the volume can be easy in this market. When prices get taken out, people jump on board. Also good for short, quick profits.

### **Bund / Bobl**

For years, the Bund was the most heavily traded contract in the world. I have no idea why. I don't know if this is still the case but it does a huge amount of volume on a daily basis. The Bund and the Bobl are spread against one another quite often, like the U.S. treasuries, but they tend to be more volatile than the U.S. treasuries. Remember "the Flipper" from my website? He's still around. There is opportunity here but I will tell you why you should not trade these markets if you live in the U.S.

First, they trade during European hours. So when you're turning on your computer at 8:00a.m., they are going into their final hours of trading. They do move during the first few hours of the U.S. open but if you have one or two losses in that time frame, you're not going to get your money back. Plus, if you don't wake up at 2:00a.m. to trade the European open, you will be missing out on a lot of opportunity.

Second, and this is way more important, the Eurex exchange is known for having connectivity issues. I will tell you what stopped me from trading those products. I had been trading the Bund for about two weeks. Just testing it out. Seeing what I thought. One morning, I get short. The market moves a few ticks against me and I hit into an offer of 700. Nothing happens. My screen still shows me as being short. The 700 disappears and so I hit into the next price where there is 400 offered. Nothing happens. Now I know it's possible that I'm hitting in and the offer is already gone before my order arrives. This happens in every market but it usually only takes a second or two for the offer to disappear. In this case, the offer was sitting there 10 or 12 seconds before disappearing. So I pick up the phone to call my broker and as I do so, my position closes. My screen shows me as being flat. I don't call the broker. Seventeen minutes later...**17 minutes**...my screen shows me being long. Seventeen minutes may not seem like a long time if you've never traded but trust me, when you're trading size, it's an eternity. I know what's happened. I've received a delayed fill. When I hit into the 700, my order went through and I was out but the fill didn't come back. So when I hit into the 400, I



got long. I thought hitting into the 400 closed my position and so went about my day only to find out 17 minutes later that I'm long and the market is 10 ticks against me. I hit into the bid and sell. Nothing happens. I call my broker and we get on the phone with Eurex. This took forever. Sure enough, even though my screen is showing me as being long, I'm actually flat. It only took 12 minutes for that fill to come back to me.

My broker told me that he's had this happen to customers before. Eurex claims no responsibility. I've never once had this issue when dealing with U.S. exchanges. Just to see if it was a fluke, I traded a 1 lot in the Bund the next day. It happened again. Took about 3 minutes for the fill to come back. I've not traded any Eurex products since. The Eurostoxx trades on the Eurex so I don't trade it. The eminis are a better trade anyway.

My advice is go with the Treasuries or the emini S&Ps. The treasuries are cheaper. You can be wrong more often. Keep it in mind. The energies offer much opportunity right now but I cannot recommend trading them. Not in good conscience, anyway. The high commission rates don't matter much with the swings that are happening but the margins are way, way up there and you could lose your entire account in a day. A few bad calls and you're done. The learning curve will be costly. Don't do it.





## CHAPTER 2: COMMISSIONS KILL

Commissions can ravage your account. I trade anywhere from 15 to 50 contracts at a time. In a busy day, I can do between 200 and 1000 round turns.

"You make 20 trades in a day?"

Sometimes. Sometimes the opportunities are there. Other days I may only do two trades. Or one. It just depends. Still, two trades on a 50 lot is 100 round turns. That's 500 a week. 2000 a month. At \$2.00 a turn that's \$4,000 in commissions. It has an impact. Even for a small trader who only trades 10 or 20 contracts at a time, it's not hard to average 100 round turns a day. This is why you should fight for every nickel when it comes to commissions.

Let's do some math. This is what can happen if you lower your rates by 25 cents per round turn.

100 turns a day x .25 = \$25 a day

\$25 a day x 5 days a week = \$125 a week

\$125 a week x 4 weeks = \$500 a month

\$500 a month x 12 months = \$6,000 a year

I don't care who you are, \$6,000 is nothing to be sneezed at. And that is a very conservative figure.

I have a friend who trades for a firm in Chicago and he gets member rates. I once added up my commissions over a six month period and compared them with what he would have paid. If I had his rates, I would have had another \$36,000 in my account.

\$36,000. In six months. That's not what I spent. That's less than what I actually spent. That's what I would have saved if I traded for a firm and received member rates. Or owned a seat. A seat costs about \$600,000. It's a little out of my price range.

I'm not complaining. I'm just telling you like it is. They add up. Which is why, if you become profitable and start doing a lot of turns, it pays to lease a seat.

[Click here](http://www.cmegroup.com/company/files/Non_Members.pdf) to see the CBOT exchange fees for non-members .  
[http://www.cmegroup.com/company/files/Non\\_Members.pdf](http://www.cmegroup.com/company/files/Non_Members.pdf)

These are current as of July, 2008. What you will see is that for non-members, which is what you are, the fee for trading treasury futures is 50 cents a side. That's \$1.00 per round turn. Clearing and NFA fees are 7 cents a side or 14 cents per round. So it's \$1.14 per round turn, total. Anything above that goes to my broker. You will see that number is only for treasury





futures. Corn is \$1.75 per side or \$3.50 per round. \$3.64 including clearing and NFA fees. This is before the broker adds his fee. Trading corn costs \$2.50 more per round turn than trading treasuries. So if I trade 100 treasury contracts, it's going to cost me \$250 less than if I trade 100 corn contracts. This doesn't mean you shouldn't trade corn. It means if I trade treasuries and you trade corn, I can be wrong more than you can because you're paying 3 1/2 times as much to trade as I am. Let me explain.

Let's say I make 10 trades with a 20 lot and each tick is worth \$100. I have 5 winners for 2 ticks each. I have 5 losers for 1 tick each.

5 winners x 2 ticks = 10 ticks in profit

5 losers x 1 tick = 5 ticks in losses

10 - 5 = 5 tick gross profit

5 x \$100 = \$500 gross profit

200 turns times \$1.14 = \$228 in commissions

\$500 - \$228 = \$272 net profit

You make 10 trades trading the same exact size as me, a 20 lot. Each tick is still worth \$100. You have 6 winners and 4 losers.

6 winners x 2 ticks = 12 ticks in profit

4 losers x 1 tick = 4 ticks in losses

12 - 4 = 8 ticks gross profit

8 x \$100 = \$800 gross profit

200 turns x \$3.64 = \$728 in commissions

\$800 - \$728.00 = \$72 net profit

I have 50% winners. You have 60% winners. The lot size and the tick size are exactly the same. Yet I make \$200 more than you do.

This matters.

[Click here](#) to see the CBOT exchange fees for members and non-members.

<http://www.cmegroup.com/company/files/IR.pdf>

You will see that an individual member who owns a seat pays 5 cents a side. An individual delegate who leases a seat pays 20 cents a side. Seat leases on the CBOT run between \$850 and \$1650. Depends on what you are trading. A lease will bring your rates from 50 cents a side, or \$1.00 per round, down to 20 cents per side, or 40 cents per round. This is a 60 cent difference. That means for every 1000 turns you do, you will be saving \$600. If a lease is \$850, all you have to do is 1400 round turns a month to be even. Anything above that and you are saving money. I've had months where I did 9,000 round turns.

9,000 - 1400 (break even number) = 7,600 turns

7,600 x .60 = \$4,560

That is for one month.



This matters.

[Click here](#) to see the CME exchange fees.

[http://www.cmegroup.com/company/files/CME\\_Fee\\_Schedule.pdf](http://www.cmegroup.com/company/files/CME_Fee_Schedule.pdf)

If you are interested in energies, go to the NYMEX site. If you're interested in the Bund or the Eurostoxx, go to the Eurex site. Every site lists its fees and you should know what they are. This will give you more leverage when you're negotiating. It will also let you know what is a realistic request and what is not. I cannot get the same rate for corn as I can for treasuries because the exchange fees are higher. Not my broker's fault.

I met a guy who worked for a trading firm in New York and he traded energies on the floor of the NYMEX for years. He left the firm and the floor and went out on his own. His commissions went from 60 cents per round to \$3.33 per round. His first year off the floor he spent \$150,000 in commissions. It was his first losing year. He made money trading. Just not enough to compensate for the commissions.

This matters.

I mentioned that some days I may do 20 trades. I try not to for this very reason. If I'm up money early in the day, I usually quit. There might be more opportunity but quite often I will just churn. I don't lose any money trading. As a matter of fact, I might make another tick or two. But it does me no good because I spent it all in commissions.

When looking for a broker, make sure you pick one which is well-known. This doesn't mean it's the best but it does mean the firm is probably well-funded and is not going anywhere anytime soon. I have traded for proprietary firms and I have traded on my own and whenever I trade my own money, I trade through [Gateway Capital](#) (used to be Spike Trading).  
<http://www.spiketrading.com>

I am not a broker for Gateway Capital and I am not affiliated with them in any way and I don't care where you open an account. All I can tell you is that I've never had any problems with them. Their servers have never gone down. When I call, someone answers. When I need something done, it gets done. When I put in a request to withdraw funds, it gets done that day or the next. And most importantly, they give me a commission rate no one else can touch. Granted, I do a lot of volume. What kind of rate you get depends upon your average daily round turns.

If you're interested, send me an email and I will put you in touch with my broker. I don't know what kind of rate you will get because I don't know how much size you will do. You will probably get an introductory rate and they will watch you for the first month or two. After that, they will have some idea of what your average daily round turns will be and you can go from there. All I can tell you is that I primarily trade treasury futures and the exchange fees plus clearing and NFA fees is \$1.14 per round turn. I pay less than \$2.00 per round turn. That's not per side. It's total. It's not member rates but it's the best retail rate I can find.



If you're paying \$5.00 or \$6.00 per round turn, you're going to have an extremely difficult time making money as a day trader.

Shop around.



## CHAPTER 3: COMPUTER AND SOFTWARE

In a nutshell, you need a fast computer and a fast connection. The computer should have a processor of 2.4Ghz or above, at least 500mb of RAM and a couple of free gigabytes on your hard drive. If you don't know what any of that is, go to:

Start

Programs

Accessories

Windows Explorer

Right click on "My computer"

Click "properties"

This will tell you what your processor is (1.7Ghz, 2.4Ghz, 3.2Ghz, etc.) and how much RAM you have.

Go back to Explorer and right click on your C: drive

Click "properties"

This will tell you how much free space you have on your hard drive.

A fast computer does make a difference. My main computer went down one day so I used an old one for a backup and I noticed a lag. I could use it but it put me at a disadvantage. And don't run a lot of other programs while you're trading. Close down anything you don't need.

Also, you need a battery backup/surge protector. If your power goes out, you do not want your computer to lose power as well. A battery backup will keep your computer up and running long enough for you to exit any positions you might have. Some will keep you running for 5 minutes while others will keep you running for 30 minutes. If your power goes out and the backup kicks in, I recommend exiting the trade. Don't linger for very long hoping the market will move in the next 10 minutes. If you wait, you might lose your backup power and then you have real problems. Make sure your backup has at least 3 outlets. One for the computer, one for the monitor and one for your modem. Or...plug a power strip with six outlets into one of your battery backup outlets (I don't say that to be smart. Sometimes people, including myself, just don't think about these things when they are shopping).

In terms of connections, I recommend a cable modem over dsl. It's faster. If you can get a T1 line, it's better than a cable modem. But before you do that, trade on a modem for awhile. You need to get a feel for what's happening before you invest in a T1 line. T1 lines are about \$360 a month. No need to throw that down at the beginning. You may not do this very long. There is also a new connection coming online called FIOS. Verizon is the first retailer to offer it. It's currently only available in a few areas but it's blazing fast and much cheaper than a T1. It's not available where I am at the moment but I'm looking into getting it as soon as I can. I trade from home on a cable modem. It works fine 99% of the time but I can tell you that there is a difference between it and a T1. When I was trading in Chicago, we had T1 lines running directly to the exchanges. Not much faster, if at all, but much more stable and my screen never froze. Sometimes, when there are large volume spikes around really volatile



movements, my screen will freeze for a few seconds at a time. It's a bandwidth issue. A bunch of orders hit at once and the modem just can't handle that much information at one time. Also, I have lost my connection twice when I was in a trade. In that situation, I just call my broker and have him get me out. If I can't see what's happening, I don't need to be in the trade. Losing the connection cost me money.

Note: Those two times were when I was trading at home. I was visiting a friend for a week and decided to trade from his house. It cost me \$5,000. His connection was unstable and I didn't quit after it went down the first time...because it only went down for a few seconds. Bad idea. I was in a trade and the market turned volatile and the connection went down again. By the time I called my broker and he got me out, the market had moved against me in a big way. And I was trading some decent size.

Lesson: When you go on vacation, don't trade. When you're visiting a friend, don't trade. If you're going somewhere and are going to be there for a month or two and want to trade during that time, trade a 1 lot for the first day and test the connection. Incidentally, you should do this at your home as well before you start trading for real.

Like I said on my site, I trade from home in South Florida. I don't have to endure the Chicago winters. This is the price I pay.

## **A. Trading Technologies and X Trader**

Trading Technologies, also referred to as TT, has developed a platform called X Trader which is used by almost every professional day trader in the world. The only companies I know of which do not use it are companies which have developed their own front-end platforms.

X Trader is a must. Period. It has several features which a day trader cannot live without. For starters, it has the market depth trader. Again, I cannot emphasize the importance of this. If you are using software which only shows you the inside bid and offer, you are trading at a disadvantage. I put a link to TT's website in the introduction page. If you didn't click on it, go there now to check out the [X Trader demo](#). This is your main tool. This is where all of your decisions are made. Familiarize yourself with it.

The bids are in blue.

The offers are in red.

The price is in gray.

You can click on a column and drag it wherever you want.

On the left, you can see where you pick your size. Hit 1 to trade 1 contract, 5 for five, etc. If you click on the blue or red, you will see your order appear next to the column.

You can also see how many contracts are currently being traded in the column to the right of the bids and offers. When the column goes green, it means the market just traded higher than the last trade. When it goes red, it means lower. When it's white, it means this trade is taking place at the same price as the last trade. These are the basic features.



There are a couple other features you will want to enable. Right click on any part of the gray area around the edge of the screen. Click properties. Go to MD display.

Turn off "Global Recenter". You can recenter your screen by clicking the wheel in between your left and right mouse buttons. If global recenter is checked, when you recenter one depth trader, this will recenter all of them. I find it annoying.

Enable "volume by price". This shows you how many contracts have traded at each price throughout the entire day. Also known as the "market profile". It's useful information not found on many other platforms.

Check "EPIQ" column. This will allow you to see your position in line. It stands for "estimated position in the queue". It was designed by a European and they call lines "queues". So if there are 1,000 contracts bid and I'm bidding for a 20 lot, the screen will show me where I am in that 1,000. This can be very helpful at times. If it's a sketchy situation and I'm not sure what I want to do and I'm number 950 in the cue, I may pull my order. But if I'm number 20 in the cue, I will leave it there. This means if a 40 lot prints, I will get filled and there will still be 960 contracts bid. Sometimes it doesn't make any difference but quite often it helps the decision making process. Especially when you are getting out of a trade. If I want out and I'm working a bid and it doesn't look like I'm going to get filled, I will hit the next price and market out. But if I can see that I'm number 40 in the queue, I will wait. That extra point will mean an extra \$312.50 on a 20 lot. It adds up. Before this feature was available, I would hit out of trades only to watch 100 or 200 print at my bid price right after that. Of course, I had no idea whether that would have filled me or not because I had no idea where I was in the queue. I wonder how many ticks I gave up as a result. The EPIQ feature is a big advantage. To my knowledge, this feature is not available in any stock software. I could be wrong. Let me know if I am.

TT's X Trader costs \$675 a month. It is a cost of doing business. As with the broker I mentioned, I'm not associated with TT in any way, shape or form but in this case, I DO care what platform you use. TT has a patent on something called a "static" platform and what this means is, as the prices move, the columns do not. If you don't know what this means, don't worry about it but basically, every other market depth trader is in a constant state of movement. When you're watching the prices, you feel like you are in a boat crossing the North Atlantic. It's horrible. Sometimes you click into a price and end up getting a different price because the platform moved just as you clicked your mouse. There are other platforms out there such as J-Trader but do not use them. Pay the \$675 and get X Trader.

TT has also recently incorporated charting into the X Trader software. I don't use the charts but if you want to use them to refresh your memory from time to time, they're available. It does help to know the numbers EVERYONE is watching and in that situation, there's no need for additional charting software. No CQG necessary. No \$1400 NeoTicker. For free charts, [go here.](http://futuresource.quote.com/charts/charts.jsp)  
<http://futuresource.quote.com/charts/charts.jsp>

When you open an account, your broker will have to get a X Trader license for you. This



usually takes a day or two. Once you get the license, you simply install the X Trader software, log in and set up your market depth trader however you want.

Note: If you want to watch two different exchanges (CME and CBOT) at the same time, you will have to pay more money for each exchange you add. **However**, you can log out of one exchange and then log into another exchange on the one license for \$675. For months, I thought I had to pay extra to do this until my broker informed me I could log in and log out as I pleased. I just couldn't have both exchanges running at once.

### **In summary**

Fast computer. Fast, stable connection. Battery backup and surge protector. X Trader. All of these are requisites. Do not attempt to trade without any one of these.

You might be tired of reading about the setup but hopefully, you now understand why I place so much emphasis on getting started correctly. A slow computer will cost you money. A slow connection will cost you money. An unstable connection will cost you a lot of money and paying outrageous commission rates will destroy your account. And now you should understand why you cannot start trading with \$1,000 or \$2,000. You really should not start with anything less than \$10,000. More would be better. X Trader costs \$675 a month. Your modem will cost at least \$50 a month. You will not be able to work a normal job in the mornings. You have to trade in the mornings. That's opportunity cost. If you try to start with \$3,000 or \$4,000, you will not be able to trade big enough to make it worth your while. Even if you pick it up fast and start making correct decisions on a daily basis, you're only going to make a few hundred after costs. Maybe \$1,500 if you go on a good run. You're not trading to make \$1,500 a month. Give yourself a legitimate chance and get started on the right foot.

### **Important note for traders who want to start with a small account despite all my caveats:**

I've had several customers ask me how they can go about learning without the heavy out of pocket expense. Here is what I recommend. If you only have \$2,000 or \$3,000 dollars and want to trade a 1 lot for several months and not pay for TT, you can open an account with [Transact Futures](#) and use their Transact AT platform for free. The platform is not as good as X Trader ([click here](#) to see a side by side comparison on youtube...the comparison leaves no doubt that AT is slower) but you can set it to static mode so it's not constantly moving and it will provide a good introduction to a market depth trader. While researching the platform, I've come across several forum posts on sites such as [www.elitetrader.com](http://www.elitetrader.com) and [www.trade2win.com](http://www.trade2win.com) which state the platform is unreliable. These posts claim the data feed is very unstable. However, an experienced trader who bought my book told me that he has been using it for two years with no problems. There's another similar platform called Ninja Trader which I think runs about \$50 a month but it doesn't look like it's any better than Transact AT. I've never used either one so I can't say for certain. My suggestion is: use either of these platforms as a learning tool. Once you are ready to trade real size, change brokers and get X Trader.





## CHAPTER 4: TECHNICAL B.S. AND AUTOMATED LOSSES

If you've ever bought or sold a breakout and wondered why the market immediately retraced back into its range, let me shed some light on the subject for you.

All professional traders, including the big boys at banks and funds, know where the numbers are. They know where support 1 is and resistance 2 is. They know the pivots. They know it all. And they know what to do at those points.

Let's say that everyone in the world knows that 10 (an arbitrary number) is a resistance level. People are just sitting around waiting for the price to go through that resistance. People like you. The market is 8 bid/at 9. Let's say there are 400 contracts offered at 9 and 1,000 offered at 10.

There's a guy sitting at his desk in New York. Let's call him Bill. He works for XYZ hedge fund. He can buy or sell up to 5,000 contracts at a time. He knows that 10 is a big number and he thinks a bunch of people, like you, will buy the market if it goes through 10. So here's what he does. He places offers at 11, 12 and 13.

"Offers?"

Yep. Offers. He offers a couple hundred at each price. THEN...he buys everything at 9 and everything at 10. After buying 400 at 9 and 1,000 at 10, he bids 2,000 at 10. His buying acts as a catalyst. People like you, looking to buy breakouts, buy the 11s, 12s and 13s. People who were short at 6, 7 and 8, people who were hoping 10 would act as resistance and keep the market down, those people also try to buy 11s, 12s and 13s. The combination of the two sends the price higher. The guy who was offering 1,000 at 10 and is now short may or may not cover. Depends on his mood. If he tries to cover, he will send the market higher.

Who is selling here?

Bill. The guy in New York. The guy who started this mess.

Bill is long at 9 and 10. His offers are the ones you are hitting into at 11, 12 and 13. He was already set up to cover his positions before he ever bought. He scalps out a couple ticks on 1,400 contracts. That's not chump change.

What determines whether or not the market stays above 10 or falls back below it?

How much money jumps on board.

It's very possible that other Bills around the world could start buying here. It's possible that a huge short covering frenzy could take place. It's possible. More often than not, this is not the case. The market rallies on initial reaction to the breakout. This is caused by weak shorts getting out and your average Joe Blow looking to play a breakout. Once these people have





bought, people who cannot buy any significant size, the market stops going up. If the market goes through a resistance level and doesn't appear to be following through, big players go the other way. Big traders rarely go with breakouts. They typically fade them (fade means go against). So those other Bills I mentioned before, they don't go with the breakout. They go against it. They start selling. They sell 13s, 12s and 11s. "What's happening? Why isn't it going up?" Everyone who just bought the breakout begins to get worried. People are looking to bail if this is a "false" breakout.

Our good buddy Bill sees this. "Hmm. I bet if we go back below 10, all the people who just bought will sell." So Bill gets back in the market and sells another 1,400 at 10 and 9 and offers 2,000 at 9. Meanwhile, he has bids at 8, 7 and 6.

You panic. So do a lot of other people. "This wasn't supposed to happen. I don't understand. That was a huge resistance level. Why did it stop?" You sell. All the other longs sell. Bill and the other Bills all cover their shorts. The market goes back to 8 bid/at 9. Nothing happens for the rest of the day.

One guy caused the market to rally through the "resistance" level and a couple of other guys caused it to go back down. Guys with a lot more money than you.

## PEOPLE WITH MONEY MOVE THE MARKET.

When Bill bought 10s and bid 2,000, could some other guy have sold him 2,000 and then offered 2,000 at 9? Absolutely. This happens. And when it does, Bill loses. But again, it's about who has the most money.

This is why professionals rarely buy or sell **after** the breakout. If they think the market is going to go through the number, they get in **before** it gets there. They are buying 6s, 7s and 8s.

A classic setup at these points is when the market goes to 9 or 10, touches it and then comes back to 6. Then it goes back to 9. Pulls back to 7. Goes back to 9. Pulls back to 7. Goes back to 9. Pulls back to 8. Each time it pulls back, it pulls back less and less. Finally, it just sits there, right below the level. The pros are just waiting.

What are they waiting for? They are waiting for someone like Bill to sack up and crack the 10s.

You have no idea how many times I wish I could have traded 5,000 contracts. There have been times when I knew the market would go if *someone* would just hit it. "Someone. Anyone. It's weak. Take out the bid. Crack it. The offers above it will pull. Just do it!" Alas, I cannot afford to be the one. The other pros can't afford it either. So they wait. And when Bill finally buys and the market runs, they are selling 12s and 13s right alongside him. If they were not long going into the run, they do not buy 12s and 13s. They miss the trade. It happens. It's alright.



If the other situation takes place where someone with more money than Bill stops the market at 10, the professionals cover their 7s and 8s at break-even. It happens. It's alright. Or maybe they go short. They can see someone with big money stopped the market. No one wants to go against that. If anything, they're going with it.

### **This is why technical analysis will kill you.**

A chart is nothing more than a graphical representation of where the price was in the PAST. Just because the market stopped there before does not mean that it will do so again. Plus, why did it stop there in the past? Did it stop because some huge trader sold 10,000? Or was there very little volume driving the move? Was it 9:00a.m. or was it 2:45p.m.? Did a few hundred contracts cause a 10 point run? This is important to know. That number is more important if 10,000 traded there than if 500 traded there. And even that doesn't matter much because the guy who sold 10,000 there that day may not even be trading today. It might have been a perfect opportunity for him to dump a position without pushing the market against himself. He may not even trade this market anymore.

You have to know what is happening RIGHT NOW. The people playing RIGHT NOW are the ones who are going to move the market. Are the people who are playing right now going to make decisions based on technical analysis? Maybe. Not likely. Not the guys with money. And if they do, chances are they are going to do what technical analysis tells you not to do. If the technicals say buy, they are going to sell.

Think about it. Fibonacci numbers? Gann lines? Stochastics? Bollinger Bands? What are these things? They are ways of trying to classify data. They are numbers calculated after the fact. They are indicators used to try and predict the future. How can a Gann line tell me what Bill at XYZ hedge fund is going to do? Even charts themselves...they are just lines on a page. The most basic of charting ideas, drawing trendlines, fails to make sense. The trendlines change depending upon the scale of the chart. Look at a 2 minute, 5 minute, 60 minute and daily chart of the same product. Try to draw trendlines on each one. Lines within lines within lines. It's ridiculous.

It's the human desire to see patterns within the chaos. Don't get me wrong. Patterns DO exist. But you're not going to see them on a chart. The pattern is...

"It doesn't look like anyone wants to sell anymore at these prices so I'm going to buy 10s and hope it triggers a move." That's it, folks. That's the pattern. You are at the mercy of people with billions. They will push the market and in order for you to make money, you have to anticipate what they are going to do. Can this be done? Absolutely. But it can't be done by looking at any kind of technical B.S.

There are only two reasons to look at a chart, in my opinion.

1) You look at a chart because you don't remember if the market stopped at 15 or 16.

Refresh your memory but know that just because it stopped there before doesn't mean it will stop there again.



2) If you're trading markets which can be related ( i.e. the treasuries and the eminis), you might have your X Trader screen up for one market and a chart up for the other market just so you can see what the other market is doing without needing X Trader for both exchanges.

### **Automated systems and algorithms**

Same concept applies. I've known several people who developed algorithms which worked well for a very short time period. It's a computer crunching numbers. It cannot read human emotion. It cannot tell me that the guy bidding is actually trying to sell. It can't see that the market is in a free fall and no matter what the numbers say, this is not a place to buy.

Algorithms which work generally work because a lot of people are using a similar variation of the same algorithm. Surprise, surprise. When a lot of people do the same thing, they drive the market in the same direction.

Big companies spend hundreds of thousands developing systems. Sometimes one of them will hit for awhile but then foreclosures go through the roof and all rhyme and reason goes out the window. A friend of mine works for a big trading firm which trades both systems and discretionary methods. One year, the system was up \$10 million in the first 4 months. Then it gave back \$4 million in the next 4 months.

"They're still up \$6 million."

Yes. They are. But they wouldn't be if they hadn't stopped trading the system. And imagine if, instead of implementing it right before the \$10 million run, they implemented one week before the \$4 million loss. Now they're not up \$6 million. They're down \$4 million. Truth be told, that wouldn't happen. They would have abandoned it after \$1 or \$2 million. Still. Letting that kind of money ride on an algorithm is insane. Especially when you have good traders who know how to read the market, which this company does. They admit their bread and butter is made by spreading the treasuries. They trade futures and cash. Why screw with a good thing? If it ain't broke, don't fix it.

They do it because everyone wants to believe. They want to believe a system can outplay a human. Maybe in chess. Not in trading. Plus, if they develop a system which works 100% of the time, they wouldn't need to hire any good traders. Cut costs. Should you ever find yourself working for a firm which wants you to automate your trading style, tell them, "Impossible." Even if you could do it, as soon as you did, they would fire you.

Trading is not about numbers. It's about psychology. The desire to make large amounts of money very quickly. The fear of losing large amounts of money very quickly. For some, the very few guys who actually take delivery of a product, it's simply about hedging their risk or getting a guaranteed price. None of this has anything to do with bars or graphs or lines of code crunching data. Stay away from anyone who has an automated system or algorithm. If they say have a record, make them prove it with real statements and real money. And a 3 month track record isn't a record.



## CHAPTER 5: ENTRIES AND EXITS

Trading is an art. It's not rocket science. There is no science to it. It's about reading the volume. Reading the price action. Watching the trades take place. And most importantly, anticipation.

Do not let anyone tell you there is no luck in trading. There is. It's just not what you think it is. There are guys in this business who have made money 20 years in a row. I once went 21 months without a losing month. During one particularly wonderful July, I had only one losing day. One of my closest friends hasn't had a losing year in the last five.

There is still luck involved.

The luck is not in whether you make money or lose money over the long run. The luck is in how much you make.

You see a setup. You take the trade. The market breaks 10 ticks. Or...you see the setup, you take the trade and the market only breaks 2 ticks. Same setup. But in the first case, there are probably a lot of people playing and it's a busy day. In the second case, no one wants to play. So you take the 2 ticks. Or 1 tick. And curse under your breath. However, if you make the right move, you still make money. But you might only make \$200 instead of \$2,000.

Well...you usually make money when you make the right move.

It's possible for you to make the absolute correct read and anticipate perfectly and still lose money. I will give you an example.

### CLASSIC REVERSAL SETUP A. THE LURE

The market is going down. It's sold off 6 or 7 ticks and it pauses. Let's say there are 1,500 bid at 05. The market is sitting at 05 bid/06 offer. The person bidding 1,500 at 05 pulls his bid. As soon as the market goes 05 offer, he buys whatever is offer and puts his bid back up.

In other words:

Trader A is bidding 1,500 at 05. The market looks like this:

<u>Bids</u>	<u>Offers</u>
	07 600
	06 2300
1500 05	
1500 04	



Trader A pulls his bid. Trader B offers 500.

<u>Bids</u>	<u>Offers</u>
	07 600
	06 2300
	05 500
1500	04

As soon as Trader A sees this, he buys the 500 from Trader B and bids 400. Then he waits. If no one hits him, he pulls his bid again. Trader C offers 100. Trader A buys it and bids 200. He waits. He keeps pulling his bid and then buying whatever is offer. As soon as he buys all he wants to buy at that price, he will bid 1,500 at 05 again and buy everything at 06. The beauty of the setup is this. Most likely, he is **offering** 1,500 at 06 as well. He's showing 1,500 at 06 because he knows the market has been going down and it's unlikely that he's going to be hit at 06. He's bid at 05 and he wants to be hit there. So by pulling the 05s and keeping his 06 offer up, he is making the market look weak at that spot. Let's say that there are also another 800 contracts being offered at 06 by various other traders. So the total offer at 06 is 2,300. Trader A is now bidding 250 at 05 and offering 1,500 at 06. The market looks like this:

<u>Bids</u>	<u>Offers</u>
	07 600
	06 2300 (Trader A is offering 1500 of the 2300)
250	05 (Trader A is trying to buy 250)
1500	04

Trader A gets hit on his 250. Let's say he has now managed to buy 1,200 contracts at 05 and that's what he was looking to buy in the first place. He now bids 2,000 at 05 and pulls his offer at 06. Now the market looks like this:

<u>Bids</u>	<u>Offers</u>
	07 600
	06 800 (Trader A pulls his 1500 leaving 800 from other traders)
2000	05 (Trader A bids 2000)
1500	04

Not only does he pull his offer at 06, he buys all 800 that are left at 06 and then bids 2,000 at 06. The market then looks like this:

BidsOffers

	08	400
	07	600
2000	06	
2000	05	
1500	04	

Do you see what's happened here? He pulled his bid at 05 in an attempt to lure in sellers. This is someone who really wants to buy. Someone who can buy that much size is not someone you want to be going against. He offered at 06 to help make the market look weak. Again, in an attempt to lure in sellers. Once he had bought all he wanted, he bids it, pulls his offer at 06, buys what's left at 06 and then bids those as well. Now the traders who just sold 06s and 05s know they've been worked. They're not going to hold those positions because they know that most likely, other buyers who saw that are going to come in here and drive the market up higher. They are right. So other buyers follow Trader A's lead and people who are short cover. This buying sends the market up and as it's going up, Trader A is covering his longs at 07, 08, 09, etc.

This is how it works. This is the kind of action you want to see. You have to see things like this in order to be profitable.

This is not a setup for a market that is roaring in one direction. This is a setup for a market which has been grinding up or down, tick by tick. If you see a bid pull and as soon as the market goes offer, the entire offer is scooped up, be wary of selling. If every time a 50 lot or 100 lot goes offer at that price, it is instantly bought, that is real buying. That is someone who wants to be long. Or wants to cover. And buying like that will stop a market. If it is someone getting long, you better believe they're about to bid the market up.

This same setup happens on the short side as well. All of these setups work in both directions.

So how do you take advantage of this? You buy it of course. But you don't wait for confirmation. You do not want to be buying the 08s. If you see this setup and you think this is what's happening, you bid the 05s. You buy with the big money. If you don't get hit on the 05s, you buy the 06s. And you ride it up until it stops moving up. This might be 3 ticks or 10 ticks. Whatever you do, you don't buy the 08s or 09s because that might be as far as it goes. This is the luck I was talking about. I can tell you that someone with money is buying. I can tell you that the market is probably going to go bid. It's probably going to run to at least 09. Anything after that, I don't know. You just have to watch and be ready to exit as soon as it slows down. Trust me, this is what the guy buying at 05 is doing.

"So...what if it doesn't go up?"

You bail at 03 and take a 2 tick loss. It's that simple. Assuming you read the action correctly, if the market does not bounce off of action like that, it's not a good sign. That means there is



still a lot of selling pressure or no one else is interested in bidding the market up along with Trader A.

I'll tell you what happened to me one time.

I saw this lure setup. The play was taking place at 09s. I have a bid at 09 but don't get them. Sure enough, the 09s go bid 2,000 and the guy who had been buying 09s hits the 10s. I hit the 10s with him. I'm long. Only one problem. Someone is willing to sell all we want to buy and more. It's 2,000 offer at 10. They get bought. It refreshes immediately (meaning the 10s never go bid. As soon as the 2,000 were bought, 2,000 more appeared). Another 2,000 trade. Another 1,000. And so on. Over 12,000 contracts trade at 10. This is serious size. This is not a bunch of day traders. This is two guys battling it out.

<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	11 800	
	10 2000	12000
2000 09		
1500 08		
700 07		

12,000 trade at 10 and then someone hits the 2,000 at 09 and offers 1,500 at 09.

<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	11 800	
	10 2000	12000
	09 1500	2000
1500 08		
700 07		

I know I'm toast. The longs just lost the battle. I instantly hit 08. I don't even wait to see if it looks like it's going to pull. I just bail. Someone hits 1,000 into the 08s and the rest of the bids pull. The market instantly cracks 3 ticks.

<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	09 1500	2000
	08 2500	1000
	07 1500	500
	06 850	900
300 05		

I don't bring this trade up to make myself look like a genius for hitting out at 08. There have been other times where I wasn't so fast on the draw and lost more than 2 ticks. And if I was a genius that day, I would have not only sold to get out of my longs but I would have reversed





and sold more to get short. I was too busy cursing the guy who sold 12,000 at 10. I should have been reacting instead of bitching. I would have made my money back plus.

I give this example to illustrate that I made the right call and I still lost money. I saw the action. I was right that someone with a lot of money was going to buy. I bought with him. This was the right trade. It works 8 out of 10 times if not more. But on this day, it did not. There was no way for me to anticipate that some other guy with a lot of money was going to sell 12,000 at 10. You can only trade what you know works most of the time. When it doesn't, there isn't anything you can do. Which brings me to another point.

Never ask "Why?".

There is no "why". Not that you will ever know. I don't know why that guy sold 12,000 there. It's irrelevant. What's relevant is that he **DID** sell 12,000 there and I was long and I had to react to that information. That's what you have to do. You have to react. You do not question. You do not ask "why".

Calling him a no good c#\$%su#\$%r doesn't help matters either.

Some of you reading this might be asking...

"Are you really making decisions based on what happens at one price? You're watching the market that closely? You're changing your mind over the course of seconds?"

YES. I AM. AND YOU BETTER DO IT TOO.

What happens at one price can determine the direction of the market for the next hour or more. People get caught. They have to get out. Others jump on board. It's a chain reaction. A domino effect. And it can all stem from one trade. One guy pushing the market at just the right moment. One guy willing to sell 12,000 contracts kept that market from going up. One guy was responsible for sending it down. Had he not been there that day, the market would most likely not have broken those 08s. At least, not for another hour or longer. The action which took place at 10s determined the direction of the market for the next several hours. There was no news that day and there were no major moves after that. The traders who were short going into that move all covered, took their money and went home. The longs who got burnt were all sitting around waiting for an opportunity to make their money back. It never came. The action dried up. Nobody wanted to play anymore.

That is trading. That's how it works. Once you know you're wrong, you better bail. If I had not bailed at 08, I would have been bailing at 05. That's 3 more ticks. It adds up. And I knew I was on the wrong side. There was no reason to wait. There is no reason to take a 5 tick loser on that trade. When you know you're wrong, you JUST...GET...OUT.

A lot of systems and courses will tell you all about setting a stop loss of 7 ticks and setting a profit goal of 12 ticks (or any variation thereof). You only have to be right 40% of the time. Or 30%. Depends on your stops and profit goals.





What...ever. Try it out and see what happens. And of course, their entries aren't based on reading the volume at all.

Let me tell you something. The guys I know who have made a lot of money trading (and when I say a lot, I mean millions), the guys who have consistently made money year after year, are either guys who read the volume like I do or guys who work for big firms and position trade with huge sums of money. I've never met a million dollar trader who risks 1% of his capital per trade and sets a 2:1 or 3:1 profit to loss target and uses a trailing stop on winners and blah, blah. They read the action. They know the setups. They know that money moves the market. Some of them look at charts but they never actually make a trade based on a chart pattern. The guys who position trade for firms can afford to position trade. Whenever I talk to them, I tell them they're crazy. "You have *how many* contracts?!" But truthfully, if I could have afforded it, I would have bought oil at \$85 and just held it. Too bad for me.

## B. Getting The Edge

There is a concept which has been around since the inception of floor trading. It's called "getting the edge". Many traders, even some who claim to be pros, will scoff at this idea. They will tell you that it used to work but it doesn't anymore. I don't care what anyone says, EVERYONE wants the edge and EVERYONE is looking for it. You're not going to get it all the time and maybe not even half of the time but you should always be looking for it.

The concept of "getting the edge" is this:

If you can hit into a price right before it leaves, you will immediately be sitting in a break-even trade. To illustrate:

<u>Bids</u>	<u>Offers</u>
	08 1200
	07 600
600 06	
1000 05	

There are 600 offered at 07. I think those 600 are about to leave (about to be bought or about to be pulled). I see 300 trade at 07 and so I hit the 07s. I get filled. The market immediately goes 600 bid at 07.

<u>Bids</u>	<u>Offers</u>
	09 900
	08 1200
600 07	
600 06	



I am long 07 and the market is bid 07. This means, right now, at this moment, if I wanted to get out, I would break even. I have the "edge". I am essentially risking nothing to make something.

"Can't the 07s go offer again just as fast?"

Yes. They can. This is why you hit in only when you think you are going with the current momentum. You would be surprised how often the "edge" holds. Will I hit out at 07 and scratch the trade if it doesn't immediately go 08? Depends on what's happening.

"So you're telling me you will get long or short, get the "edge", and if the market doesn't immediately go in your direction, you will just bail out at break-even?!"

Sometimes. If the market is really volatile, this is not a bad strategy because if you hit in during a push and go with the momentum, your edge should not disappear. If it does, the momentum you *thought* was there is not really there and you shouldn't be in the trade any longer.

I do not always expect to get the edge but I am always looking for it. Looking for an edge will force you to pick very low risk entry points. Low risk entry means, if the trade moves against you 2 to 3 ticks, you **know** you are wrong and you bail. You do not want to be taking trades where you have to risk 7 or 8 ticks before you know you're wrong. An example of that would be:

The market has been in a 10 point range for the last three hours. It's trading between 05 and 15. You buy 10's. Horrible trade. You know the market could very easily drop back to 05 and then come back to 12. So you can't really determine whether or not you are wrong until the market goes offer at 04. If the market goes offer at 04, you are going to be hitting out at 03 or 02. You have taken a trade where you won't know if you're wrong until you've lost 7 or 8 ticks. This is not the kind of trade you ever want to take. You want to take a trade like **The Lure**. I was long at 10. I knew I was wrong when I could see that it was going to go through 08. I risked 2 ticks. That's the kind of risk you want to take.

On occasion, you can also get the edge by bidding or offering rather than hitting into a price as it's leaving. Remember the EPIQ feature I described which is available on the X Trader? Well, I might offer 10s and be in the top 50 in the queue. If there are 1,000 sitting there at 10 and a 50 lot prints, I get filled and I still have 950 offered at my price. Immediate edge. Picking tops and bottoms is generally a bad idea but I've become pretty good at it over the years and this is usually where this feature pays off. If I can see the market is slowing down and I manage to get a good spot in the queue, I might get lucky and get filled if a 20 lot or a 50 lot panics and just bails out. Many a time I have been filled and the market never went against me a single tick. When you're short at 10 and the market is 2,000 offer at 10 and you know the offer is real, you're in a good situation.

Watch the X Trader. You will start to be able to anticipate when the market is going to go bid



or offer. Look for the edge at spots where you are either going with the momentum or you see a good reversal setup.

The name of the game is **LOW RISK ENTRIES** and **BAILING AS SOON AS YOU KNOW YOU ARE WRONG.**



## CHAPTER 6: LOW RISK ENTRY STRATEGIES

### A quick word.

More often than not, you should go with the momentum. The reason is very simple. It will take less pressure to keep the market moving in that direction. Traders often say, "Don't step in front of a train". This is apropos because once a train starts rolling, it's not easy to stop. I will tell you how this applies in trading.

If the market has gone down 15 ticks, there are not going to be a lot of people itching to buy it. In order for it to stop, someone is going to have to step up and buy a lot. And even if that happens, people who are short from 5 and 10 ticks higher aren't going to cover immediately. They are going to wait. The only shorts who are going to cover are people who just got in and are trying to scratch or take a one tick loss. So you will have neither NEW money coming in nor SCARED money leaving. It might take 6,000 contracts to stop the market and make it go back up 2 ticks.

But a market which has just fallen 15 ticks is ripe for further selling. People who have missed the move are upset and are looking for weakness again so they can catch the second wave. All of the longs are worried. They realize their hopes and dreams of a reversal are most likely nothing but that...hopes and dreams. So they will be covering if they see a further push down.

It might take 6,000 contracts to stop the market and make it bounce 2 ticks but it will only take 1,500 contracts to crack the next level and make the market sell off another 4 ticks. Follow the path of least resistance.

This is why going against the momentum is generally a bad idea. However, if you become good at spotting reversals, there is a lot of money to be made there. Not just in getting in but also in getting out. If I am long and the market is going up and I want to know when to get out, I will be looking for signs of a reversal. When I see it, I will not be trading to get short. I will be trading to cover my long position. When I see the momentum slowing down, I get out. That's my trailing stop. There is no need to give back 4 ticks when you see the market stopping. Take your profit. Take your money off the table. See what's happening. If it looks like you got out too early, you can always get back on the move.

### A. THE HELLO McFLY

The Hello McFly is any trade which is completely obvious. "We've been in a free fall for 15 ticks and there aren't any bids. Probably going down some more."

Generally, these trades are the ones which follow the path of least resistance. As I just explained, picking reversal spots is fine if you know exactly what you're looking for and you've seen it many times before now. **The Lure**, which I explained in the last chapter, is a perfect example. You know what to look for and you know when you're wrong. Your risk is minimal.



But most of the time you are much better off going with the momentum. People have a pain threshold and they will eventually puke. It's easier to make money when you have BOTH new money coming in AND scared money running for the door. So if the market has just gone down 6 ticks, you can be sure there are some longs getting ready to dump their positions. Their dumping will drive the market down further. This is particularly true at levels which have been established earlier in the day. If the market has been in a range all day and all of the sudden it starts drifting down towards the bottom of the range, people are going to be looking at those numbers. They're going to be watching very closely and they're going to have their hands on their mice. That index finger is going to be twitching.

As soon as the bids pull, they're going to start clicking. You want to be in right before that happens. This applies more to a wide range day. If the range has only been 5 ticks, say from 03 to 08, and the market has just gone from 07 to 04, not such a big deal. But if the range has been between 03 and 13 and the market has just dropped steadily from 10 to 04, look out. All the longs are going to be dumping if it breaks 03. This isn't a breakout strategy, per se. You are looking for a break through a level but only AFTER you have seen a sharp decline or rise leading to that level. The quicker the market gets there, the more likely it is to go through it. So in this scenario with the drop from 10 to 04, you are going to be looking to sell 04s and 03s as they leave. You are still looking for that edge and if somebody with size steps up to stop the market, you get out. But make sure it is real size and real buying and not someone just throwing up 1,000 to try and temporarily stop any new money from coming into the market. That guy will pull his bid as soon as he can. He might even be trying to get short himself.

Another trade to watch for is when, out of nowhere, someone slams the market 2 or 3 ticks in one direction. Nothing is happening. Nothing is happening. Nothing is happening. 3,000 trade and the market is bid 3 ticks higher. WTF? Remember, don't ask "why". Just react. I'm telling you, when the market suddenly goes more than 3 ticks in one direction, people are itching to puke. So if the market has been trading 200 or 300 contracts at a clip on average and all of the sudden you see someone clear out 3 prices with 3,000, don't fade it. Be looking for an edge and try to go with it.

If you've ever read *Reminiscences of a Stock Operator*, which has been hailed as one of the greatest trading books of all time, you might remember that the main character (supposedly based on Jesse Livermore) was constantly talking about following the path of least resistance. If you own that book, I would suggest re-reading it after you read my book and after you have watched your X Trader screen for a month. Things that he talked about make a lot more sense once you understand how size moves the market and how one trader can set off a chain reaction which will cause a big move.

## **B. THE SMACKDOWN**

You have to be careful with this one but again, it works more often than not and you will know very quickly if you are wrong.



The setup:

The market has been driving up on lots of volume. Bid 10, bid 11, 12, 13, 14, etc. It's trading 500 to 1,000 or more at each price. (The amount of contracts will vary from product to product. You will become familiar with what the average size is in whatever product you trade. I'm using 500 and 1,000 as random numbers to illustrate a point. This would be average size in the treasuries.)

So the market has been going up on good volume and then it shoots up 3 or 4 ticks on very little volume. The offers pull and maybe a total of 600 contracts trade at 15, 16 and 17. 350 contracts trade at 15, 150 contracts trade at 16 and 100 contracts trade at 17.

<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	<b>18</b> 200	
400	<b>17</b>	100
300	<b>16</b>	150
1000	<b>15</b>	350
700	<b>14</b>	2000

The market is now 400 bid at 17 and 200 offer at 18. A 100 lot hits into the 18s and as soon as it does, someone drops 2,000 on the market. He hits the 400 at 17 and offers 1,600 more at 17. He also firms up the 18 offer by adding another 1,000 to it.

<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	<b>18</b> 1100	100
	<b>17</b> 1600	500
300	<b>16</b>	150
1000	<b>15</b>	350
700	<b>14</b>	2000

This guy has just shown that he's willing to sell a lot of size here.

"Is he getting short or getting out of a long?"

I don't know. It doesn't matter. He just sold 600 and that means he is probably willing to sell all 1,600 he has offered at 17. That kind of action will stop any new players from buying. If some guy was waiting around and looking to buy the market for a quick scalp, he's not going to buy now. The traders who just bought 16s and 17s were probably guys getting out of losing short positions. They just got burned and they are not getting back in the market here. If they do, they're going to sell again after seeing this guy drop 2,000 on the market. Anyone who got long at 14, 15 or 16 is not going to hold for very long. If the market goes 15 offer, they are all going to be looking to bail.



The trade here is to sell 16s. You could try to offer 17s and hope this guy tries to go for **The Lure**. This happens sometimes. He will pull his offer and some poor soul out there will think, "It's not a real offer." and bid the 17s. As soon as he does, the guy will put the **Smackdown** on again. You may get filled if this happens but if he doesn't go for **The Lure**, you're not going to get 17's. Incidentally, if he doesn't go for **The Lure** and he gets taken out (meaning someone buys all 1,600), you probably do not want to be short at 17. This is a sign that someone else with a lot of money is willing to keep buying at these prices and it won't take much to start the ball rolling again. If you get short and the market blows through 18, you need to get out at 19.

This is a fade trade and you have to be really cautious with it. If it's going to stop here, most likely no one is going to hit into the 17s. If they do, it's still going to take another 1,100 to go through 18. But if the 18s get filled and Mr. Smackdown doesn't offer anymore, it means he's lost the battle here. If he's lost the battle, so have you.

You sell 16s. You're risking 2 to 3 ticks and if the **Smackdown** holds, the market will sell off more than that.

### C. BEFORE SHE GOES

This is a trade based on the breakout play I discussed in the technical analysis chapter. The one with Bill at the XYZ hedge fund. If you don't recall it, go back and read it again before reading how this trade works.

Everyone knows that 10 is a level. Everyone is waiting for a break through that level. In this trade, you buy before the market goes through 10. Every time the market touches 9 or 10, it pulls back. But each time it pulls back, it pulls back less and less. The first pullback is to 6. Goes back up to 10. Pulls back to 7. Goes back up to 9. Back to 7. Back to 10. Back to 8. Then it just lingers at 08 bid/offer 09. The range is getting smaller and it's getting **closer** to 10...not farther from 10. A chartist would call this a "flag"...or maybe it's a "pennant"...I don't know. A "narrowing sideways triangle" is the most accurate graphical description. But a chartist would tell you to buy after the breakout. I'm telling you to buy before the breakout.

In this situation, you are looking to buy at 07 or 08. You can also try and get the 09s or even the 10s if it looks like this is the time someone is going to pound them. If you do that, try to get the edge. Try to get them as they are leaving. There is a term used by traders called **"leaning"**. This refers to leaning on a bid or offer. In other words, in the above scenario, traders who are short at 08 and 09 are leaning on the 10s. They are hoping that offer will hold. If it looks like it's going to go, they will try to buy 10s as they are leaving. Other traders are also looking to buy 10s because they know shorts are "leaning" on them. This means 10 will probably be a good spot to get the edge. However, this is also a spot where traders like the Flipper make moves. The Flipper might be long 08s and be the offer at 10. When it gets heavy bid at 9, he lifts his offer at 10, bids 10 and buys everything at 11. Virtually no contracts trade at 10. In this situation, the shorts are up the creek. They were looking to risk 1 or 2 ticks and now they are forced to cover for a 4 or 5 tick loss. Other people who had no





shot at 10s are going to buy 12s and 13s. This is why you must anticipate. If you think it's going to go, just buy the 10s. If you don't get them, you don't want to be buying 14s. If you miss it, you miss it.

By the way, most of the time these spots are not support or resistance levels on a chart. There is no technical reason for someone to buy or sell there. You would never know traders are leaning on the price unless you know how to read the order flow. And if you don't know traders are leaning on a price, you cannot take advantage of that setup.

#### D. AFTER SHE GOES

This is how to play it after the breakout. On rare occasion, I will hit the 11s or 12s in the above scenario. And when I do, I'm ready to scratch at a moment's notice. I will not hit 13s or 14s. I would actually rather buy 16s or 17s. It's very possible that the market will pop 3 or 4 points and then as soon as Bill has covered his longs along with the rest of the scalpers that were long going into the break out, the market will instantly pull back into its range. Buying 13s or 14s here puts you in the worst position. You cannot legitimately get out until it goes back below 10. However, you are buying right where a **Smackdown** can take place. If the market runs through the level by 6 or 7 ticks and shows no signs of pulling back, it's unlikely that it's coming back. If I buy at 16 or 17, I may not make money but at least I know that I am definitely following the path of least resistance. Go with the momentum.

#### E. FOLLOW THE LEADER

Sometimes markets move in tandem with one another. One market will lead the other. In the treasuries, sometimes the 10-year note leads the 30-year. Sometimes the 30-year leads the 10-year. When this is happening, it's important to pay attention to it because it might help you get the edge. Also, if the 10-year has been leading and all of the sudden the 10-year pops 2 ticks and the 30-year doesn't go anywhere, that's usually a sign of spreading. When that happens, it tells you that when you decide to short the treasuries, you want to short the 30-year and when you decide to buy the treasuries, you want to buy the 10-year.

Which market leads which market varies. Sometimes the bonds and the S&Ps will do the exact opposite of one another. S&Ps go up. Bonds sell off. Sometimes they are completely unrelated. This is just something to be aware of. Don't automatically buy the bonds because the S&Ps are going down. Buy the bonds because you see a good setup AND the S&Ps are going down. Use the leading indicators as confirmation for a trade which you are already planning on taking.

Over the last several months, there have been days when oil has been a leading indicator. If, for the last ten days, the S&Ps have rallied every time oil breaks, this is something you want to know. So you see oil starting to sell off and you buy the S&Ps. You have to be fast. Faster than the other people who are all thinking the same thing. You don't want to be the one holding the bag. When oil stops going down, you instantly get out. If you're using the leading





indicator to make your entry decision, you should definitely get out as soon as it stops moving. But again, you shouldn't make an entry decision based SOLELY on the leading indicator. Use the leader as a confirmation.

## F. THE DEAD SPREAD

This is a trade in the treasuries.

Traders are constantly spreading the treasury markets. Buy the 10-year. Sell the 30-year. Or vice-versa. Sometimes they are looking to scalp out a few points as the spread tightens or widens. At other times, they are hedging their bets. Say a guy is long 2,000 in the 10-year. The market is 3 ticks against him. He still thinks the market is going up but just in case he is wrong, he might sell 500 in the 30-year to hedge his bet.

"If he doesn't want to take that much risk, why not just buy 1,500 in the 10-year?"

I don't know. Maybe he already sold some in the treasury cash market as well (similar to buying S&Ps and selling an underlying basket of stocks). These guys have their reasons. Something to be aware of is: a guy who's long 2,000 in the 10-year will push the market against himself if he wants to get out. Once he's short in the 30-year, he can then buy the 30-year to cover that position. If he picks the right spot, that buying in the 30-year may cause the 10-year to also go up a tick or two. He loses a couple ticks on 500 but makes a tick or two on 2,000. It's a worthwhile exchange.

It just depends on what the guy is trying to accomplish. You won't know why he's doing it but you can see it happening. You can also spread yourself if you want. If you do, I recommend using the "auto spreader" feature on X Trader. The platform is the same market depth platform but you can get the exact spread price you want without going back and forth from window to window while trying to leg in and leg out.

If you spread, you need to read the price action just like when you're scalping. The difference here is you are trying to figure out if the spread will get tighter or wider. If the spread gets wider than 7 or 8 points in a day, it typically closes up at some point before the market closes. In other words, the 30-year is up 15 points from yesterday's close and the 10-year is up 6 points from yesterday's close. At some point, the spreaders start selling the 30-year and buying the 10-year. The 30-year might sell off 8 points and the 10-year only sells off 2 points. I've seen this happen many times. When you see this, the way to take advantage of it is to

- A) Spread it.
- B) Make sure you sell the 30-year if you want to get short and make sure you buy the 10-year if you want to get long.

I don't like to spread because I have a difficult time figuring out when I'm wrong. Picking an exit isn't easy. So when I see this scenario, I take option B.

**The Dead Spread** goes like this.



If the market has just been sitting there doing nothing and all of the sudden you see a couple hundred print in the 30-year, it probably means that someone is getting ready to move the 10-year. Let me illustrate:

30-year bonds			10-year notes		
<u>Bids</u>	<u>Offers</u>	<u>Traded</u>	<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	18 700			25 2000	
	17 500	950		24 1500	3000
1000	16	300	800	23	4500
900	15		1500	22	

In this example, the inside market in the 30-year is 16/17. In the 10-year it's 23/24. Let's say the market has been sitting at these two prices for the last 20 minutes and very few trades have taken place. Nobody appears to be doing anything. All of the sudden, you see a 400 lot print into the 16s in the 30-year. The 1,000 bid goes to 600 bid.

30-year bonds			10-year notes		
<u>Bids</u>	<u>Offers</u>	<u>Traded</u>	<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	18 700			25 2000	
	17 500	950		24 1500	3000
600	16	700	800	23	4500
900	15		1500	22	

Most of the time, this is someone spreading or hedging. Someone who is about to buy the 10-year. Think about it. If the market is dead and nothing is happening...no news, no numbers, no nada...why would someone hit 400 INTO the bid. It's 1,000 bid by 500 offer. It's likely that at least a few contracts will trade at 17 before anyone hits the 16s. Someone who is long is not going to bail out here for no reason and give up that tick. If nothing is happening, your average day trader is certainly not going to hit the bid with 400. He knows there isn't going to be any follow through. No one feels like playing right now. The only person who is going to do this is someone looking to spread or hedge. And if he's selling the 30-year, he's buying the 10-year.

The trade is buying 24s in the 10-year. The guy who just sold 400 in the 30-year is probably the offer at 24 in the 10-year. He's about to pull that 1500 offer and bid it. The trade is typically not good for more than 2 to 4 quick ticks but it is good most of the time. And every now and then he will start a push that drives the market up more than that.

Remember: this is during a dead market. Don't try this when it's really busy. When it's busy, that 400 could be anyone. This is a trade for really slow periods. If you're wrong, the risk is minimal. You blow out at 22 or 21. It's about a 1:1 risk to reward trade but it works way more



than 50% of the time.

## G. PUSH AND PULL

This is also a trade for the treasuries which happens all the time.

Someone will put up a large bid or offer in the 30-year in an attempt to get filled in the 10-year. It goes like this (we'll use the same numbers from the previous example):

30-year bonds			10-year notes		
<u>Bids</u>	<u>Offers</u>	<u>Traded</u>	<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	18 700			25 2000	
	17 500	950		24 1500	3000
1000	16	300	800	23	4500
900	15		1500	22	

The market presses up. In the 10-year, the 24s trade and go bid 1300 and the offer at 25 goes from 2,000 to 800. The 30-year follows suit.

30-year bonds			10-year notes		
<u>Bids</u>	<u>Offers</u>	<u>Traded</u>	<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	18 400			25 800	
600	17	1450	1300	24	4500
1000	16	300	800	23	4500
900	15		1500	22	

Now...the market stops. No one wants to hit the 25s just yet. The guy offering 800 at 25 wants to sell them. No one will hit him. So what does he do? Instead of bidding the 10-year at 24, he bids the 30-year. He bids 1,500 for 17s which makes the market look like this:

30-year bonds			10-year notes		
<u>Bids</u>	<u>Offers</u>	<u>Traded</u>	<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	18 400			25 800	
2100	17	1450	1300	24	4500
1000	16	300	800	23	4500
900	15		1500	22	

He is bidding the 30-year in an attempt to make the market look stronger than it is. He is bidding the 30-year because he is trying to sell the 10-year. His hope is that someone who



sees that 2,100 bid in the 30-year will panic and hit into his 800 in the 10-year. As soon as that happens, he pulls the bid in the 30-year. He also offers another 800 or more in the 10-year. When he pulls his bid in the 30-year, the market doesn't look as strong anymore and everyone realizes what just happened so fewer people are itching to buy. The offer in the 30-year will also get stronger. In this case, let's say someone adds 1,100 and now it's 1,500 offer.

30-year bonds			10-year notes		
<u>Bids</u>	<u>Offers</u>	<u>Traded</u>	<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	18 1500			25 800	800
600	17	1450	1300	24	4500
1000	16	300	800	23	4500
900	15		1500	22	

The guy bidding 1,300 at 24 sees what just happened and he doesn't want to buy anymore so he pulls his bid. The 24s go offer. People see that and hit the 600 in the 30-year and both markets go down.

30-year bonds			10-year notes		
<u>Bids</u>	<u>Offers</u>	<u>Traded</u>	<u>Bids</u>	<u>Offers</u>	<u>Traded</u>
	18 1500			25 800	800
	17 800	2050		24 1300	4500
1000	16	300	800	23	4500
900	15		1500	22	

It's a variation of **The Lure**.

The trade is selling 25s with him. Or offering 18s in the 30-year and hoping you get hit there. If it's slow, he's going to leave that bid up until he gets filled in the 10-year. If you sell with him, you are getting the absolute best possible price for this trade. If the market trades 25s and then pounds right through 26, you get out at 27. His selling wasn't enough to stop the market. You lost 2 ticks. It's alright. When this trade works, which is more often than not, you make more than 2 ticks.

Do not do this in a roaring one-way market. In that kind of a market, it doesn't matter whether he pulls his bid or not. The pressure is up. In a roaring one-way market, you should either go with the momentum or stand aside and watch. Don't step in front of a train. This trade is for a market which has been in a range or has moved up 5 or 6 ticks on average volume.

## I. HEAD FAKE LEVEL SMASH

This one works very well in one-way markets. An ideal setup for going with the momentum.



Let's say the market is going up steadily. It's just gone up 8 ticks and is approaching a level that people are watching. Let's say the level is at 12. It goes 11 bid/offer 12.

<u>Bids</u>	<u>Offers</u>
	13 700
	12 1200
1500	11
1100	10

Some trades go off at 12. Some go off at 11. It sits for a minute. Now, usually, the majority of the bids and offers are only a few guys. Out of the 1,500 bid, at least 1,200 is one guy. All of it might be one guy. Same for the 10s and the 12s.

So the 12s trade but it doesn't go through. Here is what happens. The guy bidding 11 pulls his bid. This will cause at least a few people to sell. He might even be bid at 10 and pull those bids as well. Some more people sell.

<u>Bids</u>	<u>Offers</u>
	13 700
	12 1200
	11 600
	10 300
1500	09

Then he pounds it right through 13s. Buys everything at 10, 11, 12 and 13 and bids 13s.

<u>Bids</u>	<u>Offers</u>
	14 600
2000	13
1300	12
1800	11
2000	10
1500	09

The shorts run for the door like madmen. They want out and they want out now. And people looking to play the breakout jump on board. This is one of those solid trades where both NEW money and SCARED money are all going the same way at the same time.

The trade is buying those 10s or 11s when you see that bid pull. This one will take some time for you to see but when you start to see it, you will know what's happening. Anytime the market rushes up on a level very quickly, be real cautious about fading that move. The quicker it gets there, the more likely it is to go through. You see it touch 12s, you see it



pause, you see that bid pull and you know it's one guy. He's just luring them in. Don't confuse this one with the **Reversal Lure**. That's a slower market trade. A market which goes down or up tick by tick on a lot of volume. The **Head Fake** trade is for a rapid ascent or descent followed by a short pause. Plus, it's not the **offer** pulling and then offering again. It's the **bid**. The 12s aren't trying to lure people in. It's the 11s trying to lure people in. The guy trying to lure people in is the guy who's about to smash it.



## CHAPTER 7: EXITS

Up until now, I have discussed when to exit **losing** trades. You want to be taking trades where you know you are wrong if the market moves 2 to 4 ticks against you. **Note:** this is for the treasuries and the eminis. The grains and the currencies are a little more volatile and might require a bit more risk on some trades but not much. I mean it. You do not want to take 10 and 12 tick losers. You will not last a month. If you decide to trade oil, which you shouldn't, but if you do, this is obviously not realistic. But whatever your average winner is, your average loser cannot be bigger than that.

So you exit losing trades, without hesitation, as soon as you know you're wrong. Those are actually the easy exits.

Taking profits is not so easy. Your personality has a lot to do with when you decide to take a profit. If you are the type who is willing to risk 2 ticks of profit for 2 more ticks of profit and then risk that 2 ticks in hopes of 5 more, so be it but be aware that you are rarely going to take 10 and 15 tick winners. You're not looking for 10 and 15 tick winners. You are looking for sharp breaks that are good for 3 to 6 ticks relatively quickly. If it goes 15 ticks, great but you're not risking 7 to make 15. That's not what scalping is.

Reading the price action is just as important, if not more so, when it comes to exits. My general rule of thumb is to get out as soon as the momentum stops.

An example: you see **The Lure**. You buy with the guy doing the luring. He bids it up and the market pops 3 or 4 ticks. At this point, I am not exactly looking for the door but I am aware that unless other NEW money comes in, this market will not go higher. That pop is usually shorts getting out or people scratching. If it looks like new money is coming in and the market continues to press, I will hold on but under no circumstances will I let that trade come back to me. I'm taking 2 ticks no matter what. 2 ticks may not seem like a lot but sometimes that is all you get. It's important to understand this. There are plenty of times I thought the market "should" have gone another 6 ticks and it didn't. And I cuss my screen and complain about a lousy 2 ticks. But I TAKE the 2 ticks and go on down the road. What I think "should" have happened doesn't matter. What "actually" happened is what matters.

Important note: the entries you are looking for should also be used to determine exits.

If you are short and the market has gone down 5 ticks and all of the sudden you see **The Lure**, you know you should cover your short. See? It works both ways. If you see a **Push and Pull** or a **Smackdown**, you get out of the trade. It's all the same. You are reading the action in order to determine where to get in and you are reading the action in order to determine where to get out.

I can tell you this. You should never let a 3 or 4 tick winner turn into a loser. If the market has moved 4 ticks in one direction, that's the direction with the current momentum. Follow the path of least resistance. This means if you are sitting on a 6 tick winner and the market pulls



back 3 ticks, there is no longer a wave to ride. The momentum has slowed. Take your 3 ticks. The exception to this is in a really busy and volatile market. But it's all relative. In that situation, instead of a 6 tick run and a 3 tick pullback we're talking about a 12 tick run and a 6 tick pullback.

Also, if you get in a trade and instantly know that the market is going to break 2 ticks against you, don't hold the trade. I talked about this in the introduction. There is no reason to wait and see if it's going to come back. You're long 6s. It's 4 bid. You know it's going to 2. Don't let it get to 2 and hope it comes back. Bail at 4 and watch and wait. You can always get back in. Plus, if the market has just gone from 6 to 2 and you're long, you are on the wrong side of the momentum.

DO NOT HESITATE. I CANNOT EMPHASIZE THIS ENOUGH. HESITATION CAUSES DEATH.





## CHAPTER 8: POSITION SIZE

or

### HOW MANY CONTRACTS SHOULD I TRADE?

To begin with, you should trade a 1 lot. You really should. However, this isn't realistic for very long. The reason it's not realistic is because anyone who is willing to risk \$10,000 or \$20,000 or more isn't going to be very content with making \$30 on a winning trade. I understand.

If you've never traded before OR if you have never paid close attention to the price action (i.e. you have spent all of your time looking at charts instead of the market depth trader), you should just watch your screen for a few weeks. Don't make any trades. Don't paper trade either. Paper trading isn't real. It won't help you. You're watching the screen so you can begin to get a feel for how the bids and offers give away what a person is thinking. You are watching to see if you can spot some of the entry setups I discussed in the previous chapters.

Once you decide to go ahead and start firing for real, keep your size to a point where if you lose a lot of ticks, you will still be able to play the game. Let's say you are starting with \$20,000 and you are trading the emini S&Ps. The eminis are \$12.50 a tick per contract. It's very easy to make 3 or 4 bad trades and lose 12 or 15 ticks in that market. So if you go on a 15 tick losing streak, you don't want to lose all of your money. You don't want to lose half of it. You want to keep it under 25%. Preferably less. However, this "risk 1% per trade" thing that the books suggest will not work for most accounts. You're not going to make any real money like that.

This is what I do. I know that a really bad run for me is 12 to 16 ticks. I round that up to 20. If I lose 20 ticks, I don't want to lose more than 25% of my total risk capital. This way I still have plenty of money to fire with when I get my head out of my ass and start trading with discipline again. At \$12.50 per contract, that is \$250 per contract.

$\$12.50 \text{ per tick} \times 20 \text{ ticks} = \$250 \text{ per contract}$

If you're risking \$20,000, you don't want to lose more than \$5,000 on a bad run. And when I say you're risking \$20,000, I mean that is your risk, not your total capital. Your total capital is going to be more because you need money for margin.

$\text{So } \$5,000 / \$250 = 20 \text{ contracts}$

You trade 20 contracts. You lose 20 ticks. You lose \$5,000. This isn't hard to do. If you've never traded before, you might be surprised at just how fast this can happen. If it does, don't fret. You still have \$15,000 with which you can make more trades. Only now you don't trade a 20 lot. You cut your size because if you've just lost 20 ticks, you're doing something wrong.



"How many do I trade now?"

Depends. If you are new and you made 6 bad trades in a row and went straight down 20 ticks, I suggest you watch the market some more before you trade again. If you must trade, trade a 5 lot. Seriously. You need to trade small until you reach the point where you are making the right call at least half of the time. If you're wrong more than that, you need to trade really, really small. This is a learning process. It takes time. You want to make sure you can hang around long enough to learn what's happening. If you only have \$20,000 to risk and you lose \$17,000 of it, it won't make any difference if you figure out how to play the game. You're out. You have no more bullets. This is about bankroll. There is no substitute for it. You have to be able to fire when the opportunities arrive. And really, you shouldn't trade 20. You should trade 10 or 12. Play it safe in the beginning.

I have a friend who is a phenomenal trader. He had four years in a row where he made well into the high six figures. In his fifth year, he didn't even crack \$100,000. At one point, I think he had 25 losing days in a row. Lack of discipline? That might have been part of it. But mainly, the market changed drastically over that time. Setups that once yielded 8 and 10 tick profits were now yielding 2 ticks. There was so much size that it took thousands of contracts just to push the market 1 tick. I have no idea why this happened but it did. The game changed and he didn't adapt so well. I didn't either. Nor did most traders I knew.

My friend was literally ready to quit. Then, in the first three months of the following year, he crushed it. He was up over \$500,000 by April 1st. The volatility had come back. It was his kind of market again.

He could afford to sit there and wait. He had a bankroll. Most people don't. That is probably the biggest reason why most people lose money in the markets. Granted, a lot of people lose money because they are looking at the wrong things. Charts. But if you sit there and start watching the volume and the price action, you almost have to figure it out. The question is, can you afford to sit there long enough to figure it out?

Once you've traded for awhile, you will begin to learn what a bad run is for you. It might be 20 ticks. It might be 12. Might be 8. Once you figure it out, trade a size which allows you to lose that and not lose too much money. And pay attention to how you lost. Did you have three 7 tick losers? If so, you better pick better entries and tighten up those loss limits. Don't lose 7 ticks on a trade. Did you have 10 2 tick losers? If so, you really better pay more attention to your entries because you could throw darts and do better. Are you keeping your stops too tight? Are you bailing out too soon? You will have to give the market a little room at times. At 4 ticks, it's pretty clear that you are wrong but at 1 tick it might not be so clear. Don't churn. This can happen in a slow market. If you see that you scratched your last 3 trades, this is a sign that nothing is happening and you are seeing trades where there aren't any. Or you're bored. If you catch yourself doing this, quit.

I know if I lose 15 ticks, I am having a bad run. I won't usually cut my size in half at that point. I will cut it back by about a third. If I'm trading a 20 lot, I will cut it to 13. This way, I'm reducing my risk but I'm also making back a decent amount of money if I immediately have a



few good trades. Also, when I go on a good run, I NEVER double my size. I increase by half. If I'm trading 20, I start trading 30. I learned this the hard way. If you lose right off the bat, you don't give back all of your profits. I once went on a run where I made over 40 ticks over the course of three weeks trading 20 and 30 lots and then I got cocky and started trading 60 lots. I gave back almost all of it in a week. I only lost about 12 ticks but 12 ticks on a 60 lot hurts. 12 ticks in losses gave back 40 ticks in profit. Don't let this happen to you.



## CHAPTER 9: TRADING ECONOMIC NUMBERS

"How do you trade economic numbers?"

VERY, VERY, CAREFULLY.

If you are an inexperienced trader, do not attempt to make trades right after major economic data is released. Do not do it. I'm warning you. And absolutely **DO NOT HOLD A TRADE INTO A NUMBER**. If you want to wipe yourself out at the fastest possible rate and experience what it's like to have a broker call you and tell you that he needs more money for a margin call, feel free to do this.

Economic numbers can account for a large part of your gains or losses. I have seen unemployment numbers miss by 150,000. I have seen the treasury futures go straight up 3 full points in a matter of seconds (this is \$3,000 per contract). I have seen people lose huge sums of money during these times. Wait for the number to come out and then be very careful about trading for the next 10 minutes. If you do trade, look for edges and scratch or take small losses if the market doesn't go your way immediately. Markets which may normally have a 15 tick range over the course of a day may move 15 ticks in 30 seconds.

The best thing you can do until you begin to understand the risk is just sit and watch. There is a lot of opportunity around numbers but you have to be fast and you've heard me say "do not hesitate" many, many times throughout this book but I'm going to say it again. Do not hesitate. Especially around numbers. Hesitation will not cost you another 2 ticks. It will cost you another 10.

[Click here](#) to look at the upcoming economic calendar.

<http://www.briefing.com/Investor/Public/Calendars/EconomicCalendar.htm>

This calendar will show all of the numbers which are coming out over the next month. The date, the time, the actual number (after it is released), the Briefing.com prediction, the consensus prediction (from various other sources) and the prior number (last month's number). You need to know what the consensus is because if the number misses in a big way, it's going to cause some serious movement. Example: everyone is expecting non-farm payrolls to be up 60K and it comes out down anything. However, if everyone is expecting it to be up 60K and it comes out up 40K, this will cause an initial push but the push might be short-lived. When a number misses by a small amount, do not immediately jump on board. Don't go the other way right away either. Just watch. When the market misses in a big way, you may not want to jump on board because it's going to be really thin and volatile but whatever you do, don't go against the momentum. Any reversal setup I mentioned in the chapter on entry strategies goes out the window during big moves around economic numbers. Don't step in front of a train. You'll lose.

The major numbers to watch are usually:



Unemployment (non-farm payrolls)  
ISM Index  
CPI  
PPI  
Consumer confidence  
Michigan Sentiment  
Retail sales  
Philadelphia Fed

These days, the housing numbers are also causing some reaction. As well as oil inventories. It's tough to call what numbers will or will not have an impact so the best thing you can do is make sure you are watching when each one comes out. The 8:30a.m. numbers tend to cause more movement than the afternoon numbers. More people trade in the morning than in the afternoon. Think it's a coincidence?

**A word on the FOMC policy statements (Federal Reserve statements):**

I don't trade the FOMC statements. Here is why. Inevitably, it does create action. But the action is short-lived. The number comes out at 2:15p.m. A lot of people do not trade around the FOMC. The moves are sharp and if you get caught on the wrong side, you will not make your money back that day. As soon as the action dies down, which usually only takes 15 or 20 minutes, the market flatlines and everyone goes home. Everyone who managed to make money during the move, anyway. If you lose, you will be sitting there with the rest of the losers, scratching your head, wondering how you managed to lose 12 ticks in 2 minutes and hoping for a miracle trade to save your day. It will never come.

A few more things to be aware of:

If the market suddenly gets really thin and it goes from 500 bid/1000 offer to 50 bid/30 offer and you don't know why, get out of any trade you are holding. There are many different things which can cause this.

- Bernanke or one of the Federal Reserve governors might be speaking.
- A treasury auction might be taking place. These usually happen at 1:00p.m. Eastern on Tuesday or Wednesday. The [CBOT website](http://www.cbot.com) has a schedule.
- A major company on the Dow or S&P 500 might be releasing an earnings report.
- A crop report is about to be released.
- A major financial news story just broke.

Etc. If the market gets thin all of the sudden, be very careful and turn on your television to find out if something major has happened.

Also, be careful around rollover periods. This is when position traders start unloading the front-month contracts and moving into the next-month contracts. For example, in the treasuries and the equities, traders will start getting out of June contracts and getting into September contracts or get out of September contracts and move into December contracts, etc. The markets tend to get a little weird for the two or three days leading up to expiration. Exercise caution and cut your size.



## CHAPTER 10: PSYCHOLOGICAL WARFARE

Trading is all about psychology. Who has the most money? Which way do I think he's going to go? If he does go that way, is this a spot where a bunch of other people are going to jump on board? Is this a spot where scared money is going to exit? Where is the pain threshold? Where is my exit if I'm wrong? Where is my exit if I'm right? Why am I doing this?

Why are you doing this?

The answer to that question better be, "To make money." If it's anything else, you're in trouble.

"What else could it be?"

You're bored. You need action. You like the thrill of not knowing what's going to happen next. Some guy talked you into it. You bought Google right before it exploded and got really, really lucky and now you think you're a trading genius.

This is a business. The only thing that should matter is the bottom line. Turning a profit. You do whatever is necessary to make that number as large as possible. You have to have an extraordinary amount of personal discipline. No one is going to be watching you. No one can make you click your mouse. No one can turn off your computer. There is no boss calling the shots. You're the boss and it all lies on your shoulders and your brain.

I don't trade afternoons. Liquidity dries up and the risk factor increases. Most of the major players make their moves in the morning and then go home. I do the same. Not that there's no money to be made in the afternoons. Sometimes there are big moves and there's lots of money to be made but overall it's been a losing proposition for me. If I looked at all the trades I've made after 11:00a.m., at best, I might be even. I bring this up for a reason.

You have to be honest with yourself. Once I realized that my afternoon trading was yielding poor results, I stopped trading afternoons and my bottom line has improved as a result.

Once you figure out what trades work more often than not, you have to take those trades and **ONLY** those trades. Don't trade out of boredom. Don't trade because the market just moved up 4 ticks over the last 20 minutes and "Grady says that if the market moves 4 ticks in one direction that's the side with the most momentum so I guess I should go long here". That's not what I said. I said if you're short in that situation, you should be thinking about exiting. Just because the market went up 4 ticks doesn't mean it's going up 6. You need more confirmation. You need to see real buyers making real bids and taking out prices. Have patience and wait for the setup.

I know a lot of guys who took a shot and didn't make it as day traders. Some of them were undercapitalized. Some didn't have the time. But there were plenty of others who had both. The reason they didn't make it was NOT because they didn't pick it up. Most of them saw



what was happening. They understood the game. They didn't make it because they had no discipline. They couldn't sit there and wait for the good trades. They would see the good trades. They would take the good trades. Their problem was they couldn't stay out of the market when there was no clearly defined opportunity. They would make 3 bad trades in between every good trade.

During the Nasdaq boom/bust, I met a guy who was a great day trader. Actually, he tried to teach me about reading the volume and I didn't listen. I was young and stupid. He would look at my time and sales and say, "Look. You bought at 45.50. You sold at 45.30. You bought at 44.90. You sold at 44.70. At that point, you should have been looking to short. If you keep selling lower than you are buying, what does that tell you?" It tells me I'm a dipshit. He never explained how size moves the market or any of the other things I talk about in this book but if I had just listened to him and forgot about my charts, I would have seen it.

So this guy can read the volume like a champ and pound out \$1,000 or \$2,000 a day like clockwork and he's managed to make a few hundred thousand over the last several years and then...one day...he decides to do something...different. He buys 100,000 shares of a penny stock, turns off his computer, jumps on a jet and goes skiing in Austria for a month.

Why? Who knows? I don't think he could have given you a reason other than "he felt like it".

When he comes back, he is \$400,000 richer. In terms of his trading career, it was the worst possible thing that could have happened to him.

He tries it again and lo and behold, he makes another \$150,000. He has found the Holy Grail. Why grind out a few thousand a day when you can make \$550,000 while you're skiing in Austria?

Now, he's not only swinging 50,000 and 100,000 shares of penny stocks but he's also trading 20,000 shares of Qualcomm and Ciena. Stocks which, at the time, are trading in the \$60 to \$80 range. His P&L is fluctuating by \$75,000 on a daily basis. At his peak, he had over \$1,000,000 in his account. A year later, he had less than \$30,000. He didn't spend the money. Needless to say, he doesn't trade anymore.

I'm not trying to dig at the guy. I've lost large sums of money doing stupid stuff as well. As have a lot of people. He's a friend and we keep in touch and I think he's a much happier person now that he's not trading. But having an extra million in the bank never hurts.

He found something that worked really well (reading the volume and grinding it out) and then he bought a lotto ticket which hit. If he could have chalked it up to luck and bought a big house and gone back to grinding it out, he would have been alright but it wasn't in his nature to do so. Once he got a taste of the fast big money, he couldn't quit.

If it ain't broke, don't fix it.

**Know when to say when.** It's cliché but it's true. If the market has been in a 5 tick range for





the last two hours and there is no economic data scheduled to be released, chances are it's going to remain in a 5 tick range. Turn off the computer. Call it a day.

If it's been 1000 bid by 1000 offer all day and now it's 200 bid by 150 offer, call it a day. When the volume dries up, there is rarely a good opportunity. I've had days where I was down \$150 at 1:00p.m. and I cut my size and tried to make 1 tick to cover commissions. Instead of making 1 tick, I lost 5. I could see there was no volume and I might as well have been flipping a coin. Stupid...stupid...stupid. A friend of mine who trades much bigger than I do called me one day a few weeks ago and he was ready to jump off a bridge. He was down \$3,000 at 2:30p.m. There was no volume and no trade. He kept at it. He lost another \$20,000 in the next 30 minutes. Stupid...stupid...stupid.

If your last 5 trades have gone...scratch, scratch, 1 tick loser, 1 tick winner, scratch...turn off the computer. Call it a day.

If you're working on some other business deal which requires a lot of your time and concentration, don't trade.

If your wife or girlfriend or boyfriend or husband pissed you off last night and you're still thinking about it, don't even turn your computer on in the first place.

If a relative died this week, don't trade.

If your dog died this week, don't trade.

If it's a major holiday week, don't trade. The week of Thanksgiving sucks for trading. No action. The week before Christmas and the week after Christmas suck for trading. No action. The big boys are all on vacation. You should be too. Don't bother turning on your computer.

If you made \$100,000 trading last year and this year you've given back \$40,000, stop trading. And don't start again until you figure out what the problem is.

It's not just about how much you make. It's about how much you keep.





## CHAPTER 11: PROPRIETARY TRADING FIRMS

[Here](#) is a link to a page which has a great list of proprietary trading firms. The guy keeps it updated fairly well and you can read some of the comments left by traders who have actually worked at some of the firms.

<http://www.tradersnarrative.com/list-of-proprietary-trading-firms-735.html>

If you can land a job at a well-funded, legitimate prop firm which will pay you a draw or a salary and let you trade their money, I highly recommend it. You get paid to gain experience. These firms are few and far between but it's always better to risk someone else's money. Especially when you have no idea what you're doing.

The majority of firms out there are actually brokerages who want you to make a capital "contribution" and then they "leverage" your money for you while pocketing the commissions from your trades. Stay away from them. You don't need them to leverage your money. You can do that on your own. You might get a little better leverage if you're trading stocks but they will nail you on the back-end with the commissions. If you're trading futures, you already have the best leverage possible.

Some other firms will give you a job and let you trade their money but they will start you real small and they won't pay you anything. I have no idea who runs these firms or why they think this is realistic but they exist. If you don't pay a guy a salary or a draw, he has to work a night job to pay the rent. If a guy has to work a night job to pay the rent, he's not going to feel like getting up to trade in the morning and when he does, he's going to wonder why he's doing it because he's only allowed to trade a 2 lot and even if he makes 20 ticks, it's maybe going to cover his desk fees. He made \$300 waiting tables last night. He woke up at 6a.m. and walked through snow in 10 degree weather so he could stare at a screen and make \$20. And even if he does get his size up to a 10 or a 15 lot, he's still thinking about the rent. It's affecting his trading decisions.

"This isn't a great trade but if it hits, I'll make \$1,500 and that will cover my expenses for the month."

The worst part is that most of the firms like this aren't really willing to risk much money. They'll tell you they give everyone a shot and you have a year to figure it out and a downside of \$50,000. Then you get in there and they want you to trade on a simulator for a month. Or two. Then you go live and they give you a 1 lot. If you do well, they give you a 2 lot. They're never going to lose \$50,000 because they are never going to give you enough size to lose \$15,000. You might think losing \$15,000 is a lot but I know someone who was down \$30,000 and six months later he was up \$1 million. Firms which don't pay a salary are actually doing themselves a disservice because a guy who's been sitting there for six months may be two weeks away from turning the corner. OR he may already see it. But once he starts to see it, he knows that, at best, he won't get any real size for another two or three months and he won't see a bonus check for another six months and he simply cannot afford to sit there any



longer. He's already spent everything he had saved and trying to work the midnight shift and then come straight to the trading office is killing him. Prop traders are investments and should be treated as such. Brokerages pay a draw to new brokers who haven't made any sales. Insurance companies do the same. They understand this. Some investments pay off. Others do not. But in most cases, what ends up happening is a firm lets a guy trade for six months, he loses \$5,000 and then walks because he can't afford to sit there any longer. So the firm is out \$5,000 in trading losses plus another \$8,000 in desk fees and the trader thinks there is no way he's ever going to make a living by trading. Quite often, if the firm would invest another \$15,000 or \$20,000 in helping that trader live while he's learning, the payoff would come. It took me seven months to figure it out but once I did, I made my firm hundreds of thousands. That's the case with all of the successful prop traders that I know.

Be aware that firms also charge you a commission rate above their cost. I worked for a legitimate firm which did everything they said they would but they still charged me double what they were paying. They made at least \$60,000 in commissions off of me over the course of a year. They're going to get you any way they can but they should. They are taking all of the risk. If you become very profitable, the contract can always be re-negotiated.

If you find a firm that pays no salary and says they want you trade on a simulator but...

"Don't worry. If you do well in the first month, we will let you go live and once that happens, we give everyone plenty of time. Don't worry about the money."...

...don't take the job.

It's not a job and you're not going to learn anything. Or get paid. I know you think you can swing working night shifts and trading in the morning because you'll eventually figure it out and it will have been worthwhile.

It won't. It will not be worth your time. You are better off working the night shift, saving your money and opening an account on your own.

But if you find a firm that pays a salary and has more than three traders working there and the traders are trading decent size (anything bigger than a 20 lot), take the job. Just a word of caution: you're going to have to sell yourself big time. These places get a ton of applicants. I have a track record in the high six figures and I've had firms turn me down. Some of them are more into systems trading and position trading and don't like scalpers. Some trade options and think you need to know how to calculate deltas and gammas and alphas and omegas in your head. Maybe you do. I don't know. I don't trade options. But I know when the Chinese decide to buy options, they buy all of them. Regardless.

Tell them what they want to hear. Tell them you're a team player. Tell them you are fascinated with the markets and interested in the long-term. If you have a college degree, it will help tremendously. Doesn't matter what field you got it in. Same B.S. you would tell any interviewer anywhere else. The trading world is no different. Psychology. Figure out your opponent and then figure out how to get him to give you what you want.



Oh, and you will have to go to Chicago or New York (for U.S. Traders...most of the offices in Europe are in London and Gibraltar). All of the firms are in one of those two cities and NO ONE will let you trade from home. No matter how good you are.

You might wonder why I would interview with a firm if I do well on my own. The answer is two-fold.

- 1) You should always risk someone else's money if you can.
- 2) I get member rates at a firm.

They're taking all the risk. I'm risking nothing to make something. Superior edge. Plus, even if they are charging me more than they are paying in commissions, I'm still paying less than I do as a retail trader.

Here's a list of the U.S. firms. I'll tell you what I know about the ones I'm familiar with. If I'm familiar with them, it's because I've either interviewed there, worked there or know someone who's worked there. If there's nothing written beside a firm, it's because:

- a) I couldn't find any contact information
- b) I contacted them but never received any response and don't know anyone who has ever received any response

## **A. PROP FIRM LIST**

Advantage Futures - Brokerage as far as I know.

Alaron Trading - Brokerage. I know a guy who can get me \$5.00 a round turn. I told him he should get a different broker.

Allston Trading  
Angle Group  
Archelon Group

Assent - Brokerage

Barkley Trading  
Bear Capital  
Belvedere Trading  
Benchmarq Trading  
Blue Capital Group  
Boss Trading  
Boston Cabot (Chicago - 312-498-7041)

Breakwater Trading - One of the very few legitimate firms. If you can land a job here, take it. They pay a draw of \$60,000 a year. However, their desk fees are outrageous and you will probably not make any money on the back-end. Use it as a learning opportunity. One that pays very well.



Bright Trading

Cago Trading

Caliber Financial Management

Carlin Group

Capstone

Cheiron Trading

Chicago Trading

Chimera Capital

Consolidated Trading

Cornerstone Trading Group

Curvalue Financial Services Group

Cy Group

Darwin Capital Trading

Dayson Capital

Dimension Brokerage

Dimension Capital Partners

DRW Trading Group - Legitimate. I think you need to be young and have a degree. They did write me back. Weren't interested.

DV Trading

E-Brokerage

Echo Trade - Brokerage. Will "leverage" your money.

Eldorado Trading Group

Epiphany Trading

Evolution Capital

Excel Trading

First North American Trading

First New York Securities

FCT Group of Companies

Fusionary Trading

Futex Group

Gator Trading Partners - Legitimate. Does not pay a salary or draw last I heard. 50/50 split. They'll give you some leeway but you won't be trading big anytime soon.

Getco, LLC (Chicago)

Gelber Group - Legitimate. Big firm. Probably need a degree to get in with them. Or a



connection. Or both.

Gemini Capital  
Genesis Securities

Geneva Trading - Legitimate. No idea how to get a job there.

Golden Beneficial

Goldenberg, Hehmeyer & Co. (GHCO) - Legitimate. Not going to pay you a salary or draw. Their risk controls are very tight. I know four people who worked there at one time or another. One of them is a friend of mine who traded for Refco. He was making money trading 100 lots at Refco. When he went to GHCO, they gave him a 5 lot. It's going to be difficult. I wouldn't recommend it unless you already have experience and can afford to sit there for awhile.

Golden Market

Group One Trading - Legitimate. Primarily options oriented or they used to be anyway. I think they did well for a few years and then not so well. I know some guys who were fired as a result of cutbacks and not as a result of losing money.

Guardian Trading

Harrison Trading Group - Legitimate but don't know anything about their prop deal or if they still have one.

Hanley Group  
Harrison Trading Group  
HLV Capital  
Hold Brothers

Infinium Capital Management

International Trading Group/ DE Trading Corp - Legitimate. They'll pay you a salary of \$25,000 a year. Well-funded and will give you a decent shot. They are in the burbs of Chicago.

Jane Street Capital  
JC Trading Group

Jump Trading - I talked to someone there when I was trying to put together a remote deal to trade from Florida. They said no to that but wanted to talk to me if I went back to Chicago. I tried contacting them about a year later and never heard back.

KC-CO II  
Kershner Trading



Keystone Trading

Kingstree Trading - I contacted them through email. The guy who runs it said they weren't looking. Don't know much about them but it might be worth it to try contacting them.

Last Atlantis Capital

League Trading

Lion Pride Trading

Liquid Trading (New York)

Lynx Capital

Mako Global

MBH Trading

MJL Partners

M&N Trading

MAREX Trading

Marquette Partners

Mazel Trading (Los Angeles)

Motive Capital

Nexis Capital

Nico Trading

Next Level Trading

Optiver - They are all about the options. You will have to pass a 3-part math exam just to get an interview. You have to pass each part in a certain amount of time. I took the exam with four other guys. Four of us didn't pass the first part. I don't know how the one remaining guy did on the next two parts. My track record didn't help my cause. I know a guy who knows a guy there. Supposedly, they make a ton of money. One never knows in this business.

Opus Atlanta

Peak6 - Legitimate. Tough to get in. Need a degree.

Positrade

Prestige Capital

Questrade

Refco Trading Services (Man Financial) - No more.

Remata Trading

Rho Trading Securities

RML Trading

Riverbank Capital

Ronin Capital



Rosenthal Collins Group

Saxon Financials - I heard these guys were opening an office in Chicago but it's yet to happen. They are legitimate. If you live in London, check them out.

Schonfeld - Big back in the day of the Nasdaq. Don't know about now.

SDV LLC  
Semper Fi Trading  
Simplex Investments

SMW Trading Company - Contacted. They did write me back. Not looking.

Spot Trading  
Star Alliance Capital One  
Swift Trade

Tibra Capital  
Titan Securities  
Title Trading  
Tower Hill Trading  
Trade Vision Group  
Traders Capital  
Transact Futures

Transmarket Group - Legitimate. Don't know about the salary. They offered a salary at one point but now I'm not sure. If you get in, you will have a decent shot at making money.

Trillium Trading  
Trinity Capital  
Tuco Trading - SEC Action

Yourika Capital

Van der Moolen (US & Europe)

Vankar Trading - Brokerage

VTrader Group  
Velez Capital

Wasserman Capital  
Wescott Group

Wolverine Trading - Legitimate. I think they hire graduates right out of college. I understand it's tough to get on there.



World Trade Securities

Zinc Trading

Z-Marc II - Tried contacting through their website. Never heard back from them.





## CHAPTER 12: FINAL WORD

The strategies I have shared with you in this book are not part of “John Grady's secret system”. They are strategies used by all scalpers. Scalpers obviously do not always make the same trades but they are all looking for the same thing. There were plenty of days when every trader at my firm made money and other days when every trader lost money. We weren't all making the same exact trades or even talking about our trades but we were all looking for momentum spots. Places where new money is coming in and scared money is exiting. Some days, there is no momentum and you try not to get chopped to death.

Yesterday, I saw a setup which made me think the market was going to sell off and I placed an offer at 118-20 in the 30-year. There were 275 contracts offered at 20 and 10 contracts offered at 19. Someone bought the 10 lot at 19 and then bought 256 contracts at 20. I say someone because it was all one trade. After the 256 traded at 20, there were still 19 contracts left offered at 20. No one touched them. Not even a lonely 2 lot was interested in buying at 20. When 256 print and no one is interested in buying the other 19 that are left, that is a sign of weakness.

I'm not the only person who saw this. Hundreds of other traders saw this and most of the scalpers were thinking what I was thinking. “It's going down.” Any scalper who is long at 16, 17 or 18 is not going to hold his trade after seeing that. He's going to get out. Other traders are going to sell it in an attempt to push him out. I just need a few guys to sell it and a few more to bail out. They did and the market broke 5 points. I covered and called it a day.

This is not rocket science. I'm not a genius. I just know how scalpers think. And most of the big day traders, traders who swing thousands, are scalpers.

There are going to be times when you know where the market is going. You're just going to know it.

“How?”

You just will. Seriously. Turn on your X Trader and turn off your charts and watch that screen every Monday through Friday from 8:30a.m. till 10:30a.m. You're going to start seeing it. It's like any other job. You have to pick it up. However, let me just say that's it's not going to happen in a week. I've had guys write me after one week and tell me, “I've been watching the market for a week and I don't see your setups. It's not working for me. I'd like a refund.” Literally, they wrote me after one week. If this is you, let me just tell you right now that you are never going to make any money doing anything other than working from 9 to 5. You don't learn anything in a week. I sat there for seven MONTHS before I got it.

I don't know how long it will take you to get it but I do know that your learning curve will be much shorter than mine because you will know what to look for. You are way ahead of the game because I am telling you what no one else is telling you. All you have to do is watch the price action. You now know that traders who are offering might actually be trying to buy. I



didn't know that for the first 8 years of my misadventures in trading. No one ever told me that could be happening. None of the books I read spelled it out like that. None of the courses taught it. After I was hired by the proprietary trading firm in Chicago, I sat in front of my computer for seven months before I understood what was happening. Why did it take that long? Because no one clearly explained it. My manager gave a short lecture on "getting the edge" but it made absolutely no sense to someone who had never even seen a market depth trader. So there I am, sitting in front of my computer and staring at those stupid charts like all the other mislead rookie traders around the world and I can't figure out why I'm not making any money.

Then, about six months in, one of the traders has a huge month. He makes six figures and everyone perks up. This guy is making real money. Maybe this *is* possible. This was a new firm which had only been open for a little over a year and this guy was the first to start putting up serious numbers. So I watch him from across the room one day. I have no idea what he's looking at but I can tell you what he's NOT looking at. Dude doesn't have a single chart in front of him. Not one. At that point, I stopped looking at my charts. The next month I made \$10,000. The next month I made \$126,000. It was a booming bond market and the moves were unbelievable but that's not why I made money. Plenty of guys in that office never made a dollar. I made money because the light bulb went off one day. "This is one great big game being played by people with millions. All I have to do is wait for them to step up to the plate and when they crush the ball, I run around the bases with them."

You don't have to figure this out. I'm telling it to you right now. All you have to do is wait for the setup. Go with the money. You're not going to see it right away but you are at least going to have an idea of what you should be looking for. When I started, I had no idea what to look for. I would have had an idea if I had listened to my friend who tried to teach me about reading my time and sales page...before he got caught up with the penny stocks. Not listening to him and being convinced that the answer was in the charts ended up costing me a lot of money.

I have a friend who traded for Refco before they went belly up. When he landed the job, he wanted to know my secret. He would try to pick my brain. All I told him was to turn off his charts.

He didn't listen.

I mean, this guy is asking for my advice and he knows what my track record is and I give him the keys to the kingdom and he doesn't believe me. And let me just say, this guy is extremely intelligent. When it comes to understanding macroeconomics, he knows 100 times more than I do. I couldn't tell you where the Dow Jones closed yesterday and I really don't care because knowing that isn't going to affect how I trade tomorrow. He could tell you where every major market around the world closed...and that was his problem. Understanding macroeconomics doesn't make you any money when it comes to day trading.

Three months go by and he's not making any money. I tell him again. "Turn off your charts." Finally, he listens. Two months later he's swinging 400 lots in the 5-year notes and the



Eurodollar. He turned off his charts and watched his screen and it clicked. Unfortunately for him, Refco tanked a few months later.

I've read a couple of interviews with the "Flipper". He says he doesn't think any one person can influence the market...."around the clock". Right. When the market is a one way street, he doesn't fade it. But when there is no clear direction and no one has any idea what's happening, the Flipper knows how to influence it. When asked, "What does one have to do in order to become a good scalper?", his response says it all.

"Watch the order book for a very long time."

This is, perhaps, the biggest individual trader in the world. He's worth hundreds of millions. He does anywhere from 100,000 to 300,000 round turns a day. He watches the order book. He reads the price action. Need I say more?

I have met guys who have been trading (losing) for 10 years. It's like they've never even contemplated watching the volume. They have their charts up all over the place. Twenty different stocks or five different commodities or both with all the indicators. At best, they've had maybe one or two good years which were a result of one or two really big winning trades. Day trading? Forget about it. They are deep in the red. But I understand where they are coming from. I opened my first account when I was 18 and at age 26 I was still trying to make sense of the charts. Losing thousands didn't deter me. It certainly should have.

I got lucky, really. I mean, I basically B.S.d my way into the trading job in Chicago and fortunately for me the firm was legitimate and well-funded and one day I saw a guy making hundreds of thousands and he wasn't looking at any charts. If I hadn't had that experience, I would have probably never made any money trading. I would not be writing this book. And that's one of the reasons I am writing this book. People will tell you exactly what you want to hear to sell you whatever it is they want to sell you. I will tell you like I see it. If you don't want to hear it, too bad. If you don't believe me, your loss. I cannot guarantee that you are going to make money trading but if you read this book and pay attention to what I'm saying and start trying to anticipate what the big money is going to do, you will have a really good shot. If you keep looking at charts and keep buying system after system and continue to think that you can turn \$2,000 into \$2 million, you have no shot. None.

And if you want a guaranteed way to make money, marry a rich person. Best advice I can give you.



## DISCLAIMER

Futures and options trading involves substantial risk. The valuation of futures and options may fluctuate, and as a result, you may lose more than your original investment. In no event should the content of this book or the No B.S. Day Trading website be construed as an express or an implied promise, guarantee or implication by or from John Grady that you will profit or that losses can or will be limited in any manner whatsoever. Past results are no indication of future performance. Information provided in this book and on the No B.S. Day Trading website is intended solely for informative and educational purposes. No guarantee of any kind is implied or possible where projections of future conditions are attempted.

The risk of loss in trading commodity futures and options contracts can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. In considering whether to trade, you should be aware of the following:

You may sustain a total loss of the initial margin funds and any additional funds that you deposit with your broker to establish or maintain a position in the commodity futures market. If the market moves against your position, you may be called upon by your broker to deposit a substantial amount of additional margin funds, on short notice, in order to maintain your position. If you do not provide the required funds within the prescribed time, your position may be liquidated at a loss, and you will be liable for any resulting deficit in your account.

All statements and expressions are the opinion of John Grady and are not meant to be a solicitation or recommendation to buy, sell, or hold securities, futures contracts or options.

There may be tax consequences for short term profits or losses on trades. Consult your tax advisor for details on this if applicable. No tax advice is being given here.



## UPDATE

The fundamental core concepts behind day trading have always been the same.

Try to anticipate what the most money is going to do and do the same thing. You look for your spot, you hit it, you try to get the edge, and you hope your read was right and someone smacks it in your direction.

However, markets do change. You have to adapt. The entry strategies work the same but in slower markets with less volatility, you will have to sit and wait longer for a move to play out. In highly volatile markets, you move fast. In and out. In and out.

Periodically, I will add updates to this book when I see major changes taking place. I put them on these last pages because it's the easiest and most time efficient way for me to update the book.

\* Since first writing this, the treasury markets have changed substantially. The 30-year went to half-ticks and now instead of there being 800 contracts at every price, there might be 100 or 50. The 10-year is also moving on much less volume. Last year (2007) it would normally take at least 4,000 contracts to push the 10-year one tick. Now it only takes 400.

When a market switches gears, cut your size immediately. Even if for only a day or two. When you see a market behave the same way for six months, you won't know what the hell is happening on the day it goes berserk. Exercise extreme caution. Higher volatility can mean higher profits but it can also mean devastation. You might become very good at hitting prices as they leave and getting the edge but in a highly volatile market, the prices don't leave. They disappear. If you hesitate to take that 2 tick loss and hit the 10s when there are 500 offered, you might not be able to hit the 10s as they are leaving. You might not be able to hit the 11s. Someone might clear the 10's, 11s and 12s all at once. Your losses and profits will be bigger, tick wise, so do yourself a favor and cut your size.

\*\* As of September 14<sup>th</sup>, 2008, everything has gone haywire. The markets are so volatile right now that I would advise all new traders to just watch. What you are seeing right now is not indicative of normal markets and while this volatility may seem like it offers huge potential, it's extremely dangerous. I am normally comfortable trading 20 lots to 40 lots and I have been trading 5 and 10 lots. The setups are still there, but it's tough to read and the risk is super high. At times like this, it really is more about preservation of capital. It's easier to make money when markets are slower. You don't want a market that's flatlined but you also don't want to see a market crack 20 ticks and then rally 40 ticks in the blink of an eye. Even though we are seeing huge moves, catching those moves is not as easy as it looks and when the market reverses, it can swing so far so fast that you may go from a big winner to a huge loser in a matter of seconds. Be really cautious. I'm waiting for more volume to enter the market before I start trading any kind of serious size again.



\*\*I'm writing this update in March of 2009. A few things have changed which I wanted to note. For starters, it seems as though any platform can now stay static so Xtrader isn't the only tool on the block. It still has some nice features which I like but my suggestion is to try several and compare. The static feature was the main reason I recommended it.

The size in the treasuries is not like it used to be but it's still tradeable. Same concepts apply. However, I have currently switched my focus to the ETFs (exchange traded funds). The ones I focus on are the SPY (Spiders which represent the S&P 500), the DIA (Dow) and the IWM (Russell 2000). Trading these is not quite like trading futures but you may want to consider taking a look. I will briefly give some pros and cons.

The first major pro is the rebate commission structure available when trading stocks. When placing limit orders through an ECN (like ARCA), you get paid when you are filled because you are providing liquidity. In other words, you don't pay any commissions. You receive a commission. It comes to about 22 cents per 100 shares. When using market orders and removing liquidity, you pay about 30 cents per 100 shares.

Getting filled at your price is usually pretty easy. I use limit orders roughly 80% of the time and as a result, my net profit at the end of the day is higher than my gross profit over 90% of the time. Even if you only use limit orders half the time, the rebates are substantially reducing your overall commissions. You know my thoughts on commissions so you understand why this is huge. It's one of the main reasons for suggesting these products. Especially for people with small accounts. This will (probably) give you more time to learn because you won't be eating away at your bankroll by paying \$3 or \$4 per round turn. You may be getting paid money at the end of the day.

That being said, you still have to make good trades. Do not trade just for the rebates. Unless you do a huge amount of size and are lightning fast and are REALLY good, it's going to be a losing proposition.

I see good setups every day in the ETFs but you have to trade them a little differently than futures. When you watch my futures video, you will see that I'm always trying to get the best price. I'm looking to hit a price and, hopefully, get an instant edge. Watch it go bid or offer in my favor and get a free look. Sometimes I know I have to give it a little room but usually I'm looking for quick momentum plays. With the ETFs or stocks, you often have to anticipate the next 10 to 20 cent move and be willing to sit through the chop. Sometimes you can hit a price and watch it run but usually you have to read the volume and make a determination on where you think it's going while knowing that you're going to watch it bounce a little bit first. So you make the call, place a limit order, get filled, collect your rebate and then wait and watch. Scratching trades or taking a 4 cent loss is probably not going to happen. Sometimes I can see that I am wrong and will take a really small loss but usually I end up losing 10 or 15 cents if I'm wrong. I have to give it that much room, especially at turning points. When I'm right, I make just as much or more.

There are guys who bounce in and out all day long looking to scalp a few cents but again, you run the risk of losing what you made in five good trades on one bad trade. I'm not saying you



should always hold out for 15 cents but you have to let it move for you when you know you're right. If you think it's going 20 cents lower, don't get out just because it's bouncing a few cents or because you don't want to give back your 8 cent profit. Sometimes you do have to be fast but you can usually see when the momentum is really slowing down.

I prefer the movement of futures over stocks and I particularly like the spreading action in the treasuries but I definitely prefer the rebate commission structure of stocks over futures. It makes that much difference. Plus, right now, the indices are a pretty good trade. There's plenty of volume and often good movement all the way till the close. The treasuries usually slow down by 10:30 a.m.

The setups I discuss in this book happen in the ETFs all the time (with the exception of spread setups particular to the treasuries, of course). I see the Lure, the Smackdown, the Level Smash...it's there if you're watching the Level II quotes AND the time and sales.

In terms of getting the same margin as futures, it's probably not going to happen unless you join a prop firm. There are plenty which will give you good leverage if you put up the capital but you will have to get a Series 7 license. I cannot recommend any equities firms. My advice, as always, is to do your research. Call around and get the best deal.

You also have the tax disadvantage with ETFs but depending on how much size you trade, it may be a wash with the commission savings. Plus, the rebates have a psychological impact. It's nice to see that you're not being eaten alive.

If you have the means, you could trade the treasuries in the morning, try to capitalize on the economic data releases and then start trading the ETFs around 10:00 a.m. or so. I suggest you look at a variety of products and decide which ones fit you best. Just remember that the game is the same...with a few slight variations.