

# FREE TRADING LESSONS

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## INTRODUCTION

By David Graeme-Smith

Welcome to this publication which is a collection of trading lessons from professional traders including myself. The lessons do not intend to cover the entire subject but are simply a number of things that the relevant author/trader has found relevant and useful.

Knowledge is not just important in trading, it is absolutely essential. The more you learn the better you will be. Not because you use everything you read but because you will understand enough to be able to choose the things you wish to use as part of your own trading plan or strategy. Make no mistake, we are all different people with different characters and that often means we like to trade in different ways. Information on all different ways to trade together with the different markets you can choose to trade will allow you to find the right combination for YOU.

If the whole world traded in exactly the same way then the Stock Exchange would simply not work. It is much the same as buying a house. You may have decided that you don't want to live there any more for a variety of reasons but to a prospective buyer it could be their dream house. For everyone who sells a share another person feels it is the right time to buy. One person may sell because they have made profit out of it over the last few **days** and feel it will now fall a little and someone else is buying because they feel it will be a good investment over the next few **years** and they are not at all concerned about a short term fall in price.

One trader may love the cut & thrust of day trading Forex (currencies), being in and out in seconds and trading many times in a day. Another trader would find this far too stressful and would be on medication by the end of the day. However, that same trader may find that trading swings in price on an end of day basis is perfect. They do not like staring at screens and have the discipline to not even look until the market is closed.

Trading has many aspects in addition to the above and this collection of short lessons will cover just a few points that are dear to the heart of the authors. I sincerely hope that you find things of value that can help you in your trading whether you are a novice or an experienced full time trader.

*David*

David Graeme-Smith

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## What Makes the Share Price Move?

by David Graeme-Smith

The first thing you notice when you look at a share price represented on a chart is that the price rarely moves in one direction for very long.

So why does the price go up, then down, then up again and down again? Surely if the company is making good profits month after month, the price should just continue to go up. Almost everything we buy goes up steadily, not up and down then up again.

What makes the price go up? The list below is not exhaustive but gives most of the underlying reasons.

- Announcement of good profits
- Good order book (orders won)
- Another company in the same sector producing good results
- Increase in dividends
- Decrease in bank interest rates
- Strong economy
- Favourable currency exchange rates
- A Director buying shares in their own company (called "Director dealing")
- Price penetrating a price resistance (for example the price will often stall when it reaches a round number such as £5 or \$30 in the same way as goods for sale in a shop)
- After a long period of the price dropping people will begin to feel the price is now cheap and begin to buy again
- Sentiment – if most people are of the mind that the market generally will increase
- News – can take many forms from the announcement of a change in oil (fuel) prices to the threat of war or civil unrest. You would be surprised how some announcements can immediately affect prices. Sometimes it is only for a matter of seconds; sometimes it can trigger a more major price reversal.

The causes of prices going down are generally the opposite of those above.

The fundamental thing we must remember is that almost every company quoted on the Stock Exchange is traded on a daily basis. In other words some people are buying the shares, which means that others are selling the same shares. Every share must be owned by someone. The Stock Exchange works on a principle of willing buyers and willing sellers striking a deal for every transaction. Traders react to the list of things above and try to predict what will happen in the future.

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But if everyone had the same view there would be no buyers when the consensus was to sell.

So why would somebody be buying if the price is falling like a stone and you are desperate to get out? The answer is because we are all different and people have different trading strategies, time frames and reasons to buy or sell. Let's take an example:

You bought Tesco (store chain) shares a week ago and although they went up initially they have now started to fall pretty fast. You normally look for the price to increase within a few weeks then sell to take your profit and you certainly do not want to see your shares continue to fall over the next week or two and turn a profit into a loss, so you decide to sell before they fall further.

At the same time, a large pension fund has received another £1m of new cash contributions from its members and wishes to invest more in the retail sector. The fund manager has decided to spread the money between the high street food retailers because he or she believes they will provide steady growth over the next 5 to 10 years. They are not concerned about what happens over the next few weeks. So your reason to sell coincides with a pension fund manager's reason to buy.

You see, there are all sorts of investors (longer term) and traders (shorter term) with different time frames, objectives and views. Day traders will look for just a few pence gain and a trade might only last a few minutes. Large insurance and pension funds might be looking to invest in a company over several years.

## **BUYING & SELLING PRESSURE**

Why does the price go up and down in relatively small steps? Firstly, if the underlying trend is up, perhaps due to a company doing consistently well, the market generally is looking for the price to increase. However, once the price has moved up by a reasonable amount, many traders will feel that another retracement is likely so they will begin selling to take their profit. At the same time the number of buyers is likely to decrease because they feel that the price is now a bit on the high side.

Once the price begins to fall, more traders will decide it's time to take profits and the selling will increase. This will happen until the buyers feel that it is worth the price again. Buying pressure will then increase and selling pressure will decrease. The law of supply and demand then forces the price up again. This happens on a continual basis for all shares.

The price rises when buying pressure is greater than selling pressure. The price falls when selling pressure is greater than buying pressure.

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A swing trading strategy capitalises on these short swings in share prices and lets us exit before the price retraces too much. So the risk at entry is kept to a minimum but equally we can lock in profits very early before they are eroded away by a large price retracement.

This article is an extract from one chapter in my book, "Short Swing Trading",

Enjoy your trading.

*David*

**David Graeme-Smith**

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## DAY TRADER SKILLS

by Malcolm Robinson

I received an email from a prospective buyer of my online trading course. His question (below) caused me to think about the wisdom of pursuing trading as a worthy venture. I know that a lot of readers are investors rather than traders, but regardless of your trading horizons, the skills and concerns of active short-term trading are relevant to us all.

Question: There are a lot of people who say that day trading is for 'fools' and that it is very difficult to make a living from Day Trading. What are your opinions?

Trading is like most business: it requires commitment and perseverance. It is never easy to make money, but people who have mastered a skill make it appear easy. The really successful pit traders that I have known made trading look very easy, tantalisingly easy; but they all had many years of experience behind them. For every successful trader there has probably been a few hundred who have tried and failed.

### TWO CORE SKILLS

I think people fail at any business if they approach it without an appreciation and understanding of what is required for success. The majority of traders fail, because they have no such appreciation and they have unrealistic expectations of themselves. Any trader who starts with the expectation of becoming an instant success is setting himself up for failure.

No one would decide to become a golf pro and assume that they could just pick up a bag of clubs and start winning tournaments. Yet novice traders do this all the time. Just to start with the understanding that trading is a skill that is developed over time, through experience, puts a novice trader way ahead of the competition.

There are two core skills in trading: first the ability to anticipate the market (read the market) and second, having the discipline to execute your plan. To learn to read the market you may as well use a trading simulator and only start to trade when you have demonstrated to yourself that you can anticipate the market. Discipline, though, has to be developed and tested in the real world.

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### STICK TO YOUR RULES

Discipline is really the crux of the matter and it is here that most traders fall down. Their failure is mainly due to the fact that they are not really aware of its importance. Just starting out as a trader with the intention of developing your discipline puts you way ahead of the average trader. If you can trade with discipline (i.e. stick to your rules and limits) you are 95% there!

So I would say that for the average aspiring trader, trading is a fool's game; but for those of us who approach the business as a business, with a clear understanding of the unique challenges that trading offers, it is a rewarding and fulfilling career.

Malcolm Robinson

**An excellent lesson, thanks Malcolm. Many of your points I wholeheartedly endorse. In fact my own book (Short Swing Trading) backs up just about everything you say.**

*David*

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### EASY WAY TO CUT LOSSES

by Malcolm Robinson

I have successfully given up two unhelpful behaviours, one was smoking which I stopped 10 years ago; and the other was drinking alcohol, which I gave up last year. Most people these days agree that smoking is a bad habit, but equally most people still consider drinking to be perfectly healthy in moderation.

I no longer have that opinion about alcohol, but I have no interest in attempting to change anyone's view about either drinking or smoking. I bring this subject up because I think there are parallels to trading. If we go back to basics we know that to be successful trading we need to cut our losses and let our profits run.

I think everyone agrees on this, it is stated in virtually every trading book ever written. The fact of the matter is though, that we all seem to be hard wired to do exactly the opposite. If you look at your trading results over any period of loss, you will see that your losses come from trades that you did not cut.

#### DIFFICULT

It is unlikely that your losses are attributable to a large number of small losses, far more likely that they came from a few large losing trades, i.e. trades that you did not cut. If this is the case for you, then success in trading will not depend on you finding the right trading system or idea, it will depend on your ability to learn to ruthlessly cut your losses.

The question is why is it so difficult? I smoked from the age of about 12 until I was 25. During that time I made many attempts to quit, like most smokers, but it was far too difficult, so I never succeeded. That was until I read a book called "The Easy Way to Stop Smoking" by Allen Carr. Allen Carr's book got me to consider whether I actually enjoyed smoking and I discovered that I didn't at all.

Once I made this discovery I stopped smoking, I stopped smoking and have never had the desire to smoke again. It really was easy. The reason that I had found it so hard to quit before, was because I was under the illusion that I enjoyed smoking and that there were benefits to be had from smoking. So even though I was also aware of all the negatives of smoking I couldn't give up.

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## **BENEFICIAL**

Yes, because I was giving up something that I loved doing (or so I thought). What has this got to do with trading? Well what I have learnt from my experiences of giving up smoking and drinking is that I only do things that I am motivated to do, i.e. I only do something because I think there is a benefit to me in doing it. As soon as I realise that there is in fact no benefit whatsoever, I stop, without a single thought.

I found this to be the case with both smoking and drinking, when I realised that the benefits I thought I was receiving were in fact illusory, I just stopped having any desire to drink or smoke. With trading I realise that when a trader finds that he repeatedly lets his losses run, he cuts his profits short, it is because (perhaps on an unconscious level) he believes that it is beneficial for him to do so.

So what possible benefits can a trader think he will receive by not cutting losses? I think this question cuts to the very core of the difficulty of achieving consistent trading success. When we offer advice, in any situation, we are making one big assumption: that the person we are advising has a choice.

So if I say to a losing trader: "Cut your losses when they are still small", I am assuming that he has a choice and that up to now he has been making the wrong choice. He simply has to take the option to cut his losses early and hey presto... Now of course this is excellent advice and would stem the bleeding; but it is useless.

It is useless because the trader doesn't have a choice. He is not letting his losses run because he chooses to. If that was the case his problems would be solved the first time he read about cutting losses. It must be that the trader doesn't have a choice; he can't help himself! But why? I think the answer lies in our upbringing and, more specifically, what we were taught and what we learnt about success.

## **OUR PSYCHES**

Whether in business or in the sports arena, we are taught to be persistent, to persevere against the odds. We are taught to be steadfast and not a quitter. We are taught to be decisive and not fickle. We are taught to conquer and overcome problems through our decisiveness and the application of our intelligence.

And perhaps the overriding rule of life we are taught is to be a winner and not a loser; our aim in every endeavour is to win not lose, it is hard wired into our psyches from an early age. So how does this attitude to success stand with trading? With this attitude we come to the market with the desire to conquer it with our all-powerful intelligence.

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Why else would we spend hours studying charts and testing systems, trying to find the key that no one else has found? With this attitude we attempt to overcome the market through our steely determination, how many times have we heard of the gold digger who quit an inch from a rich vein? With this attitude we are determined to persist until the market submits its treasure to our greater powers.

## **BROKE**

Why else do so many traders go broke before they quit? And cutting losses... well, cutting losses is akin to fleeing at the first sign of trouble; it is weak, fickle and dishonourable. No wonder we hold on for dear life!

Everyone wants to make money, that's a given and that inevitably leads us to look for ways to take money out of the market. The strange thing is, though, that the harder we search the more inaccessible profits become. Why?

I think there is a fundamental flaw in our approach. Our approach is to seek out and deploy a trading system or strategy that will ensure a steady stream of profits. That is why we all spend so much money on books, courses and seminars. We think that out there, somewhere, is the idea, the system, that will turn us into successful traders.

Yet, even when we think we have found the missing link, it doesn't seem to work, we are not converted into big time, consistently profitable traders. Don't get me wrong, this does not mean that I think trading ideas and systems and strategies are useless. Far from it, they are an essential element of successful trading, for sure, but they are not the only, or even the biggest requirement for successful trading.

## **ANTICIPATING THE MARKET AND EXECUTION**

I divide trading skills into two distinct elements: anticipating the market and execution. The anticipating part is reading the market, whether through charts, systems, technical indicators or intuition. Anticipating/reading the market is the trading skill that most of us focus all our energy on, and it is the subject covered by most trading books and seminars.

The execution part, meaning the actual trading part, is an often overlooked skill of trading. A good way to clarify the distinction between being able to anticipate the market and being able to effectively execute the trades is to describe the difference between the brokers and the locals on the floor of the exchange. (In Europe the floor no longer exists as all trading is now electronic).

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Locals on the floor are independent traders trading for their own account (profit). Their motivation is (like ours) to make money and their preoccupation is (like ours) to be able to anticipate the market. The job of brokers on the floor is to execute orders from traders not on the floor. These orders may be from bank traders trading in an office or independent traders trading from home.

## **RUTHLESSLY EFFICIENT**

Either way these orders are generated from somewhere 'off the floor' and they need to be executed 'on the floor' by a broker. So what makes a good broker? Think about what you would want from a broker. You would want someone who executes your trades with the utmost efficiency i.e. no hesitating, no indecisiveness, no coyness.

A broker needs to be sharp and alert to what is happening in the market so that they are always in a position to immediately execute any trade that they are given. A good floor broker is a joy to watch, they are ruthlessly efficient. They can go from idly chatting in a quiet market, to disseminating an endless flow of orders in a busy one.

Now imagine having to trade through a broker. What would it be like trading through a novice broker? Someone who doesn't know one end of an order from another. Not a pleasant prospect! Now imagine what it would be like trading with a highly skilled and experienced broker... Quite a different experience I think you will agree.

## **ANTICIPATION AND EXECUTION**

Locals have to both anticipate the market and execute their own trades. If you think of all the possible combinations:

Good anticipation / poor execution,  
Poor anticipation / poor execution,  
Good anticipation / good execution,  
Poor anticipation / good execution,

It is obvious which we would all rather be, good / good; but which combination would you say you are? I suspect there are a lot of good anticipation/poor execution traders out there who lose money despite their anticipation skills. So not only do we need good anticipation skills we also need good execution skills to succeed in trading. We need to develop the attitude of a broker when it comes to the task of actually executing our trades.

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A broker is judged by his execution skills. It does not matter to a broker whether the trade he has just executed for a client is profitable or not. The broker, his boss and his client are only concerned with his ability to execute the trade efficiently.

So a broker gets to fulfil his need to be successful, to be a winner, by doing his job efficiently and effectively. That is all we can ask of a broker, it would be crazy to hold him responsible for the outcome of the trade. Going back to my earlier analogy of the trading floor, a local trader, on the other hand, is responsible for the outcome of his trades.

The local is trying to make money by anticipating the market. So a local has to decide whether it is a good time to buy or sell and then execute the trade. He is doing two things, deciding when to trade and then executing the trade.

A local therefore has two aspects of his trading to judge, the accuracy of his market anticipation and the execution of his trades.

## **POOR EXECUTION OR ANTICIPATION?**

We know that trading is a numbers game, i.e. our success is not dependent on the outcome of the next trade; our success is dependent on the overall profitability of many trades. So while we are trading, whether the last trade we did was profitable or not is not important; there is no point drawing conclusions on the outcome of just one, or even a few trades.

We can only access our anticipation skills when we have made a reasonable number of trades and we can see the longer-term result of our actions. This contemplation is best made when we are not trading, when that markets are closed or when we are taking a break. When the markets are open and we are engaged in trading, the only thing it is appropriate to judge is our execution skill.

When we are trading our goal should be to focus on executing our trades with ruthless efficiency and to judge only that. If you consider the ways that you lose money trading, I think you will find that it is down to poor execution, rather than poor anticipation.

Appraise and amend

You fail to place a stop loss according to your predetermined loss limits,  
You place a stop loss but then move it as the market approaches,  
You hesitate and miss an opportunity that you had clearly seen,  
You trade out of frustration or anger,  
You fail to use a trailing stop to protect your profit,  
You let a winning trade turn into a losing trade etc...

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All the above (and there are more) fall into the category of poor execution rather than poor market anticipation. So if you want to turn your trading round, or make it more profitable, then cut out the above mistakes by focusing all your energy on executing your trades. Only judge yourself, when trading, on your execution. You can appraise and amend your strategy/approach when the markets are closed.

Best wishes,

Malcolm Robinson

**An excellent lesson, thanks Malcolm. It's all good stuff and particularly important advice coming from someone who has traded in the heat of the battle of the trading floor of LIFFE (London Futures Exchange).**

*David*

**David Graeme-Smith**

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## LOST IN LOSS

by Malcolm Robinson

An email prompted me to consider the significance of taking responsibility in trading. There is a natural tendency for most people, in any area of life, to not take responsibility for results and behaviours that appear negative. We want to see ourselves in a good light and it is tempting to try to avoid responsibility for acts that we consider bad.

I have noticed for example, that liars (I mean here people who habitually lie) do not see themselves as liars. For every lie that they are conscious of, they have their justifications. In their mind the lie would have been to save someone else's embarrassment or disappointment; something that allows the liar to feel that not only they are not acting deceitfully, but they are actually doing a good and kind act.

I remember once a teacher at my junior school crudely picking some bit of stuck food out of his teeth. After he had finished he justified himself by saying to us (8 year olds) that he only did it because he knew that we had no table manners. We weren't judging him; he was judging himself and using us as his scapegoat.

### WHAT WE RESIST PERSISTS

We all lie to some degree and I don't have a problem with that; what I do consider important is how we explain the lie to ourselves. When you lie are you honest with yourself about it, or do you make up a story to yourself so you don't feel guilty? It is a difficult question to answer, but one that will say a lot about your trading.

The most important, the most difficult, and the first skill that a trader must learn is to cut their losses quickly. It is essential (as we all have read many, many times); we only lose significant money by holding onto losing positions. So why do so many (perhaps all) of us find it so difficult? What is it about cutting a loss that is so hard? The answer, I believe, is in what we say to ourselves about what a loss means.

It is the meaning we attach to a loss that determines whether we can accept it and let it go; or whether we refuse to accept it and in so doing hold on to it. What we resist persists. If a loss means something bad about you; if it means you're a loser, or a failure or just no good, or doomed to financial subsistence or whatever; then you won't be willing to accept it.

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## TOO BIG

Take it to an extreme, if it was a life or death matter, if you were going to be beheaded if you have a losing trade; you would never, ever, accept the loss, you would hold on for ever and as soon as the position was 1 point in profit, you would grab it immediately! Isn't that how many of us trade now? If so, ask yourself what does a losing trade mean about you?

If a loss means something negative about us we won't want to accept it, this is human nature. We would rather hold on as long as we can and then, when we inevitably have to take the loss because it is now too big; too big to hide, too big to ignore, too big to refuse to accept; we look for our scapegoat.

The 'they' of the market: the controllers, the insiders, the manipulators, or even the market itself; anything but to take the judgement that the loss implies. The objective of our self-deceit is to avoid the judgement that the loss imposes. In the same way that the teacher condemned the school children in order to avoid the judgement about his manners, so do we look to shift the blame to some third party.

## SIGNIFICANCE OF LOSS

The problem here lies, not with our self-deceit, but with the meaning that we attach to having a loss. If a loss means something negative, of course we don't want to accept it; but if a loss had no significance to us, accepting it would be easy.

## Malcolm Robinson

**Another excellent lesson, thanks Malcolm. The mental side of trading is particularly important and advice coming from someone who has traded in the heat of the battle of the trading floor of LIFFE (London Futures Exchange) is always good.**

*David*

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## PIVOT POINTS

by Mark McRae

Those of you who have been trading for a while will be familiar with Pivot Points. During this lesson I want to go over how to find a Pivot Point and also a slightly different method of using them. First let's look at how you calculate a Pivot Point.

Using a bar chart you will observe that each bar has an Open, High, Low and Close. This information represents all price activity during that particular period.

In the case of the following example, we shall use a daily bar. To calculate the pivot point all you need to do is add the High, Low and Close. Once this has been done you next divide the total by three, e.g. the cash FTSE on the 2nd May 02 had a High of 5192.70, a low of 5125.50, and a close of 5174.10. If you add the three together, you get 15492.3. You then divide that total by three to get a Pivot Point of 5164.10.

OK, so far so good, but what do you do with this information? Well, one technique I like to use intra day is to use the pivot point as a trend indicator. We already know that the Pivot Point for the 2nd May was 5164.10 and we will use this the next day as an intra day trend indicator.

If the price is above 5164.10, then I would only be long and if it were below 5164.10, I would only be short.

As price can fluctuate around any given point I also add a further proviso. If I have support close to 5164.10, I will first wait for the price to pass through 5164.10 and support before entering short. If I have resistance close to 5164.10, I will first wait for the price to move through the Pivot Point and resistance before entering long.

This method becomes even more powerful when the Pivot Point is close to the opening price. If, for example, the opening price is 5174.10, the Pivot Point is 5164.10, and I eventually go short at 5155, I can stay short the whole day as long as it does not go above the Pivot Point.

Once in a position I normally have a very tight stop to begin with and then will follow the market with a trailing stop to lock in profits.

Another way I like to add Pivot Points to my analysis is for more long-term projections. I will use the Pivot Point of a Yearly, Monthly and Weekly chart. In this case it would be the High, Low and Close of the previous Year, Month and Week.

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I like to think of the weekly Pivot Point as the short-term trend, the monthly as the medium term trend and the Yearly as the long-term trend. I find this particularly useful in Spot Forex. If I am below the yearly, monthly and weekly Pivot Point, I know I am in a strong down trend and I can scale into multiple positions over time. The same holds true for long positions.

The point is there are many ways to determine trend. You can also use Pivot Point to find potential Support and Resistance, which we will cover in later lessons.

Experiment with Pivot Points and see if it suits your trading style. At the very least it is always handy to know where they are and it may help you decide which side of the market you should be trading from.

Good Trading,

Mark McRae

**Thanks Mark. Pivot points are not for everyone but can be particularly relevant in the Forex Market where Mark is an expert.**

*David*

**David Graeme-Smith**

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## WHAT TIME FRAME SHOULD YOU TRADE

by Mark McRae

On a recent lecture on trading I asked one of the audience whom I knew traded spot forex where the trend was for the Euro/Dollar this week. He immediately replied that the trend was up. I then asked how he knew the trend was up for all the traders who trade the Euro/Dollar.

You see it's impossible to determine trend until you know what time frame you are talking about. The trend for that audience member was up because he traded on a daily time frame yet for another audience member the trend had been up and down several times that week as he only traded on a five minute chart.

One of the main reason I see traders not do as well as they should is that they are trading the wrong time frame for their personality. In the normal course of events someone learning to trade will either educate himself by taking a course or reading relevant books.

In order for the person giving the course or writing the book to demonstrate his point he will have to use a particular time frame. This often becomes the student's time frame by default because that is how he learnt.

In today's electronic world many new traders start off by studying very small time frames such as 1 minute and 5 minute charts. This often leads them to get frustrated and to become anxious when they trade because it is the wrong time frame for their personality. Let me just add here that there is nothing wrong with trading any particular time frame just be sure you are trading it for the right reasons.

So what is the right time frame for you? Well, it all depends on your personality. You have to feel comfortable with the time frame you are trading in. You have to feel at home with that time frame. There is always a degree of pressure when you trade because there is the real potential for loss or gain and that will affect you to some degree. You should however not feel that the reason you are feeling pressure or frustration is because things are happening so fast that you find it difficult to make decisions or so slowly that you get frustrated.

When I first started trading I started out as a Spot FX trader trading on 5 minute charts. I traded on that time frame for years. Because it was such a short time frame and I was covering so many currency pairs I always felt a bit unprepared regardless of how much time I spent preparing for the trading day. I also found that after a few years it was beginning to take its toll on my health as I never seemed to have enough time to do anything but trade.

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From the 5 minute chart I moved to the 10 minute chart and spent a month trading on that time frame. I then repeated the process with the 30 minute chart, 1 hour chart and 4 hour chart. I eventually found that trading the 4 hourly charts made a lot more sense to me. As the time frame was much longer and trading signals fewer I found I had a lot more time to analyze the market and I never felt rushed.

On the other side of the coin I have a dear friend who trades the FTSE who just could not trade in that time frame. It would be too slow for him and he would get bored waiting for opportunities. He feels at home trading a 1 minute chart and always feels as though he knows what's going on and has enough time to make his decisions based on his trading method.

Yet another friend thinks that the 4 hourly chart is far too short a time period for him as he trades only daily, weekly and monthly charts. The point is only you can decide what is the correct time frame for your personality.

You will also have to take into consideration the market you are trading and amount you have available to trade. Shorter time frames usually mean that you can have better use of margin and stop loss orders can be much tighter.

If you think the reason that your trading is not going the way that it should but you believe that your method of trading is sound, it may just be that you are trading the wrong time frame and it is affecting you psychologically.

To sum up, if you have a solid trading plan and a sound method of trading your chosen market, you should be able to take that approach and apply it to any time frame.

The question is if you could make the same amount of money trading any time frame which time frame would you choose. You will of course have to take into consideration that the time frame you choose does generate enough trading opportunities for you to be happy with the results.

It is also worth noting that if your trading is going well and you are profitable then don't even think about changing time frames. As the saying goes "if it ain't broke don't fix it."

When you do eventually find the time frame you are happy with you can then start looking at multiple time frames to help your analysis of the market.

Good Trading,

Mark McRae

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### **A final note on Time Frames from David Graeme-Smith:**

**Thanks Mark. Time frame is absolutely key to successful trading and essential to match to your personality and trading style. I have a few points to add:**

Mark is a Forex trader. The most popular way of trading Forex is intra-day. If you are a stock trader then my belief is that you should seriously look at end-of-day trading. In my experience, as a stock and Index trader, the shorter the time frame you use, the more difficult trading becomes and any form of intra-day trading is harder than end-of day trading.

I know of many, many traders who have been attracted by the apparent speed and ease of making money on every move during the day's trading, only to find they are down week after week with only the odd successful day promising that it is possible to make a target of \$xxxx per day.

I believe that this is unrealistic for anything other than a VERY experienced and skilful trader. Any trader who has not shown consistent profits with intra-day trading should go to end-of day and ONLY after trading that successfully should intra-day be considered.

To trade intra day (day trade) you need skills and experience but in addition you need to recognise set ups for entry very quickly and all trading decisions need to be made "on the fly". Often a moment's hesitation can then lead to a change of mind which can lead to losses. Even those with a clear strategy can find it overwhelming at times and extremely emotional which in turn, nearly always leads to poor decision making.

Please don't think I am putting day trading down. I do it and I love it but believe me, you will only love it if you are good at it. It took me three years before I achieved that and I still prefer to trade end of day because I can place my orders and go to play golf. My reward is lifestyle rather than money! Another lesson that took very many years for me to learn.

*David*

**David Graeme-Smith**

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### WHAT ARE THE DIFFERENCES BETWEEN TRADING & GAMBLING?

By Zoran Kolundzic

Many people think that trading is similar to gambling. Is this really the case?

For example, let's take a look at Black Jack. If you start with \$10,000 gambling capital, placing bets of \$100 per hand and play 100 hands per day, how long will you last? In the game of Black Jack, with Las Vegas Strip rules, a casino has a built-in advantage of 1.5% over the player in the long run. That means that on average, a player will lose \$1.5 per any \$100 he bets with. After 100 hands, on average he'll be down \$150. Starting with a capital of \$10,000 a player would last about 67 gambling days. That is very similar to the previously described trading scenario. In such case I would choose gambling because at least I would be losing my money in a more pleasant environment.

I chose Black Jack for our example because it is the only casino game in which it is possible for a skilled player to increase his odds to such extent as to be able to beat the House in the long run. A skilled counter can obtain advantage of up to 1.5% per hand over the House in the long run. That means that such a player playing 100 hands per day and average hand being \$100 could double his gambling capital of \$10,000 in less than 50 days. Similar odds apply to trading stocks, with more potential for profit and less chances for being kicked out of a casino. In order to make it work for you, we'll need to get the odds on your side. Now lets look at how we can extract as much profits from our trades as possible.

#### UNDERSTANDING TRAILING STOPS

Once you are in the trade and the price has started moving in your direction, you need to extract as much profit as possible. Not being able to do so will make you a losing trader in the long run. How can a trader lose if he only takes small profits at a time? Profit is profit, isn't it? Not exactly... Profit of \$550 is not the same as a profit of \$850. If such profits are followed by three losses of \$200 each, profit of \$550 will become \$50 loss, while profit of \$850 will become \$250 win. Do you get my point?

Profits are always followed by losses and if the profits are small they will not make up for the losses that will eventually and surely follow. However, becoming too greedy can turn a small profit into a loss. This will make you lose money in the long run. The best solution to resolving these conflicts is to use trailing stops.

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As the name says, trailing stop follows the stock price that is moving in your direction. For example, let's say that we have bought two S&P 500 contracts at 875. We might automatically put our stop loss at 1 point below the support line or if that is over our % limit we will put our stop loss at that - say 871. The price starts to move upwards and reaches 876. We will now move our stop loss at \$871.75. For every one point move in our direction we will move our stop loss 0.75 points up (or down if we were in a short sell trade).

However there is always the option to sell part of the position to protect our profit and use a trailing stop for the remainder.

**Zoran**

Thanks Zoran, a great lesson and of course there are many ways of operating a trailing stop. It can be based on fixed points, moving averages, previous days high/low and indicators such as Parabolic SAR. Short Swing Trading strategy uses trailing stops based on a unique concept called "Last Significant Day".

*David*

David Graeme-Smith

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## WHAT MAKES A REALLY GOOD TRADING STRATEGY?

by David Graeme-Smith

Ask most NEW traders, and they will tell you about some moving average or combination of indicators or a chart pattern that they use.

This, as the more experienced trader knows, is important and can give you an entry point but on it's own, it is NOT a strategy.

Any trader who is more experienced will say a strategy should also include your time frame, money management, risk control, perhaps stop losses and of course, an exit point.

Let's just cover those points:

### ENTRY

There are so many ways to determine a possible entry point it is impossible to count them. You can use moving averages, trend lines, chart patterns, candlestick patterns, support/resistance levels and a wealth of technical indicators. And that's apart from any fundamental analysis (profits, dividends, PE ratios etc) you might care to do.

In fact there are so many ways of choosing an entry level that it is beyond the scope of this article to go into them. Strangely, this is also one of the LEAST important aspects of a good strategy.

### TIME FRAME

You need to decide if you want to be a Buy and Hold investor or a shorter-term trader. Day Traders will have time frames in minutes. Swing traders will look at a few days or weeks for a trade.

### MONEY MANAGEMENT & RISK CONTROL

Essentially, you must look at how much you are prepared to trade with, how much you are prepared to risk on each individual trade and the size of your trades. The objective is to preserve capital if trading does not go well because once you are out of capital you simply can't trade any more.

### STOP LOSSES

Probably the hardest part of trading and it is always a compromise. Some traders do not use stop losses at all. My firm belief is that you absolutely must or you will have little control over your maximum trade risk. Where to put your stop loss must be an integral part of your strategy and once you decide, you must stick to it.

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## EXIT POINT

There are two basic methods of deciding when to close a trade. You can exit at a calculated target price by using various technical tools including Fibonacci retracement, projections from chart patterns and many others. Or you can use a trailing stop and just stay in the trade until you are stopped out. Both of these methods have their merits and downfalls.

So those are the basic ingredients of a strategy. They are important BUT, those are not the only things that make up a REALLY GOOD trading strategy.

There are two other vital ingredients. Your trading personality and the “personality” of the symbol (stock, index etc) you intend to trade. Let’s first look at your trading personality.

## YOUR TRADING PERSONALITY

A well-read and successful trader will tell you that your strategy should fit with your “trading personality”.

You may think this is an odd subject to cover but it is vitally important and is another fundamental ingredient when designing your trading strategy.

Let me explain.

We all have different personalities, some people are very extrovert while others are shy and retiring. Some people thrive on taking risks, others want guarantees on everything before they make a decision and even if they do take a risk, they want to sue someone if it all goes wrong.

My guess is that if you have got this far reading about trading, you are prepared to take some risk at least. The trouble is, that unless you have some experience of trading AND LOSING, you will not know where your risk threshold is.

Try the following test. This is not scientific; it’s mainly for fun. Read each statement and score yourself on a scale of 0 if you strongly disagree to 10 if you strongly agree. Then total your score at the end.

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## Statements:

1. I believe you have to take risks in life or you will look back with regret.
2. Fixed interest investments don't even keep pace with inflation.
3. If you don't have an overdraft you lack imagination.
4. I drive fast even when I am not in a hurry.
5. I regard a loophole in the rules as a window of opportunity.
6. I like the adrenaline rush of risky and extreme sports.
7. I always add on a few extra items to an insurance claim.
8. I would sell a car for more than it's worth if I could get away with it.
9. I always try to knock the price down on things I buy.
10. I always respond to chain letters promising to make me a fortune within the next few weeks.
11. I am always so rushed for time that I have to eat or do my make up while I'm driving.
12. I regularly try to anticipate when the lights will change at a junction to beat the other cars away.
13. If my credit cards mount up, it doesn't worry me as long as I can make the minimum payments or get another one.
14. I always say what I think and don't care if it upsets people.
15. If I can find a way of doing something quicker I will.

YOUR TOTAL POINTS = \_\_\_\_\_

Total your score and check your risk rating below.

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## YOUR RISK PROFILE.

0 to 50 - You got this article for free so you might as well read it, right. But you won't start if it's past 9 pm in case it keeps you up. Take my advice, make a cup of hot chocolate and get an early night! Try to start life tomorrow.

51 to 100 - It's ok, you are pretty normal but be worried about any individual score where you have 11 or more.

101 to 150 - Get therapy immediately! Do not use sharp implements and cut down on caffeine. Try to sell this article to your grandmother to make a profit and think about a career as a bank robber - you should do well!

That was just a bit of fun but the statements are based around three basic but important personality traits:

- Worry
- Patience
- Risk taking

Let's look at these in more detail.

The amount you worry about things will determine how you view a trade before you even take it on. It also determines how you will react if a trade begins to go against you.

If you are a worrier you could also have real doubts about your strategy if you get three or four consecutive trades that don't work out – you will not have the confidence to continue and let the law of averages work over a longer period.

You could also be tempted to take a profit and run in case the trade turns against you instead of sticking to the strategy that could make an even larger profit.

Patience is important in trading. Sometimes things just don't happen when you want them to.

Risk and reward are inextricably linked. It is absolutely true that the more risk you take, the more POTENTIAL reward you might get - BUT:

- Only if the risk is one you can feel comfortable in taking or you will override your strategy.
- There is no point in wiping yourself out with two or three trades that don't work out.

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The more risk you take, the more worried you are likely to be and therefore the more you are tempted to make an emotional decision rather than stick to your strategy.

Trading decisions based on emotion rather than a set of rules (strategy) will ALWAYS get you into trouble in the end.

Sometimes you will be lucky and your hunch will be right. Unfortunately, that will lead you to make even more emotional decisions and at that point you might as well forget any strategy completely and trade on instinct and emotion.

\*\*\*\*\*TRADING EMOTIONALLY IS A RECIPE FOR DISASTER\*\*\*\*\*

!!!!!! GREED AND FEAR ARE THE TRADERS WORST ENEMY!!!!!!

There is a good saying in trading, which is, "Cut your losses quickly and let your profits run." This oversimplifies a complex problem and the answer actually lies in using a sound strategy AND sticking rigidly to it. Being able to stick to the strategy is where your personality comes in.

It is also said that traders who let losses run hoping they will turn round will go bust very quickly whereas traders who take profits early will go bust slowly but BOTH will go bust.

The first rule of trading is to preserve capital .....  
..... without it you cannot trade!

The strategy I have developed and trade is designed to help people (including me) manage risk to any level that suits their own personality. It allows you to determine the maximum risk you are prepared to take on, even before you open the trade. This is due to an extremely precise but reliable way of using an initial stop loss and calculate your position size.

It will allow profitable trades to run without watching a large profit turn into a loss. This is because I use a simple but effective system of trailing stops. My strategy shows you EXACTLY where to place them.

## **THE STOCK "PERSONALITY"**

We have looked at the importance of using a strategy that fits with your own "trading personality" and the fact that you must trade your strategy without overriding it through:

FEAR and GREED.

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BUT when it comes to building a really effective trading strategy, there is one other vital ingredient that many traders forget - and that is to fully understand the “personality” of the share, Index, currency, commodity etc. you trade.

Some traders specialise in say, gold or Brent crude or currencies or they might specialise in a particular index such as the FTSE 100 or the Dow Jones but many traders choose to trade shares.

Indeed some traders dabble in a bit of everything. I think this is the area that causes many traders to fail or at least not reach their full potential.

In my view: You absolutely **MUST** specialise.

I am sure that on the surface most people would say that sounds sensible but here is why it is a **MUST!**

Superficially, many charts look the same. I bet if you had not seen the charts for some time and someone were to show you a chart of Brent Crude over 6 months and then a chart of Barclays PLC over the same 6 months you would be hard pushed to say which was which purely on the look of the chart.

However, I bet that if you found a trader who trades **ONLY** Barclays day in and day out and also found someone who trades **ONLY** Brent Crude day in and day out, both of them would easily identify which was which.

WHY?

Because every share, index or commodity has it's own “personality”.

Some will be volatile intra-day, some will follow their sector or main index (market followers), some will do their own thing, some will spike up and down regularly, some will stop at key moving averages and some will just plough through. Some will move by 5% on average before they retrace and some by 2%. Some will gap up or down regularly, some will not. You get the idea!

Therefore, no matter how good you are at analysing indicators, moving averages, trends and patterns, the same strategy **WILL NOT** work for everything. A strategy that works well for Bovis Homes, for example, might **NOT** to work for BT Group – they have very different “personalities”.

So let's return to our original question: What makes a really good trading strategy and remind ourselves where we are.

It is a combination of:

1. Your trading personality including attitude to risk and whether your trading decisions are based on strategy or emotion (fear & greed).

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2. The "personality" of the index or share must be profiled, understood and complement your strategy.

3. You must identify the most reliable method of determining entry point, initial stop loss position, trailing stop and exit point for that share or index "personality".

Then comes the most important bit.

ALL of those things must fit together perfectly. Imagine if you had a Rolls Royce and the garage called up and said, "You need a new set of pistons but don't worry, we'll fit a set of Toyota ones, they're cheaper." One component wrong and the whole thing becomes useless!

A good strategy MUST have EVERY ingredient working perfectly in harmony to:

- \*\* Work in all market conditions.
- \*\* Make money whether the market is going up or down.
- \*\* Fit comfortably with you so that you don't override it.

Trading a strategy and sticking to it religiously is the ONLY reliable way to make money consistently in the markets and with the volatility in recent times you MUST look at smaller but more reliable and consistent profits.

Developing a strategy like this is very tough believe me. It has taken me over three years of design, testing, re-design and re-testing to get there. Add to that a great deal of anguish and pain (even tears at times) as well as a lot of money and it's not difficult to see why most traders make an overall loss and even give up before getting it right.

But if it were easy, everyone would be doing it right?

Fortunately I got there and now trade full time for a living  
- AND LOVE EVERY MINUTE OF IT!!!!!!!

The strategy I trade is actually quite simple (most good things are) and all I have is just 6 trading rules to follow but it earns me a comfortable living.

If you want to shortcut the process of developing a reliable strategy for yourself and save the time, pain and expense that I and most other successful traders went through, I would be delighted to let you trade my strategy. I will even provide one month of free email support for you.

Every detail of my strategy which I trade is in my book "Short Swing Trading".

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Naturally I expect people who benefit from it to pay - after all it represents three years of my life -- and can save you three years of yours and a whole lot of losses -- but that's your choice.

Here is what Paul Manley (a trader in the UK) said about Short Swing Trading:

“It was very refreshing to read your book, I must say that of all the books I have read in the last 6 years, this is probably the most complete, informative, practical and no nonsense approach, to trading I have seen. It's a pity I did not have this 6 years ago, it would have saved me a lot of money and even more time.”

It is said that as people grow old they only regret the things they DIDN'T do. They never regret the things they tried - even if it failed. If trading represents a risk for you that's fine, you can still give it a try as long as you only risk what you can comfortably afford to lose – and if that's nothing, you can still paper trade for the fun and experience before risking any of your hard earned cash.

However you trade a good strategy will reduce the worry and substitute excitement!

Good luck, enjoy your trading and I hope you achieve everything you wish for in life.

*David*

David Graeme-Smith

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