YOUR TRADING solutions

Gambling vs Investing

What's Next RJ?

Market Update
Matthew Sharratt

3 Ways To Break The Belief Cycle

System Development Secrets

Trading skills can be one of the most difficult skills to acquire, yet how many traders take on a coach to help them with their trading? If we were to talk about any sporting endeavour which you wanted to achieve your best in then you would hardly think twice about taking on someone to help make it work for us, but trading, no, that seems to be different. Of course trading coaches may not be cheap, but in most cases they are a lot cheaper than the losses which many make in the markets.

A quote by Derek Bok sums it up nicely **"If you think education is expensive, try ignorance".**

It is not difficult to make money in the markets, but there are many things you need to learn and you also may need to "unlearn". It is learning to do what you learn intellectually, that ultimately proves so difficult. Knowing what you should do is not enough. That is where the coach comes in to help you not only to know what you should do, but actually do it.

A large number of losses exist through not following a profitable trading system and this is where the coach comes in to find out what is stopping you working in your own best interest.
Your coach will give you methods to follow to help strengthen your internal discipline and continues to work with you until it works for you. That is when the fees charged will be dwarfed in comparison with the money you can make from the markets.
Winners go for what they need. **If you think there is scope for improvement in your trading then you should do something about it. The first step is to decide that you are going to be a winner, and then just do it.**

Become the Best Trader You Can Be!

When would now be a good time become a successful trader and make massive profits from the market? Pick up the phone and CALL NOW on +61 400 482 653 or email me on graeme@yourtradingsolutions.com for more information on our transformational coaching. Graeme Pearson.

As Anthony Robbins says **"Never leave the scene of a decision without taking the first step"**

YOUR TRADING solutions

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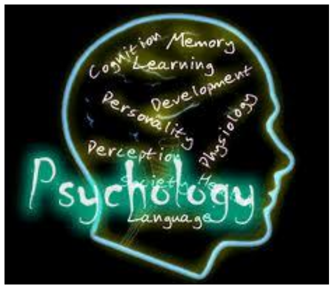

YOUR TRADING SOLUTIONS

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FROM The Editors

Welcome to Issue 25 of the **Your Trading Solutions** eMagazine.

In this issue I have written an article called "3 Ways to Break the Belief Cycle" where I look at the steps to make changes to your beliefs and hence your results. Gary Stone shares his views on "Gambling vs Investing". Part two of Louise Bedford's article "System Development" gives some insight into defining rules as well as risk and money management. Lastly in Van K. Tharp's article "What's Next RJ?" he provides a response to an article from one of his students.

We have our regular Market Update with Matthew Sharratt from SCM Equities. Matt is offering all YTS eMagazine readers a full review of your portfolio and he will put a comprehensive investment plan together for you free of charge.

We hope you enjoy the current issue of the **Your Trading Solutions** eMagazine. If you have any comments or feedback, please direct them to: support@yourtradingsolutions.com

Your Trading Solutions is committed to assisting Traders to gain the right knowledge and to educate themselves to make informed decisions about financial matters.

All or love and best wishes to you for a continued happy and profitable 2012!

Graeme and Natalie Pearson

Note: Articles have been reprinted in the English language supplied

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SCM EQUITIES

Markets Report for August 2012

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August Review

S&P 500	+1.9%
XJO	+1.65%

Markets have been quiet for August, U.S. fund managers and investment bankers are enjoying their summer vacation; on the other hand the market spent most of the month waiting for Fed and ECB's announcements. Those two factors caused extremely low market volatility and low trading volume. (I am writing this report before Bernanke talks at Jackson Hole).

One major macro theme is the continuous intervention of the policy makers fighting the global slowdown and deleveraging. Market returns are highly dependent on monetary and fiscal policies and those policies are not always rational. Look at the European situation, German is on a different boat to most of the other countries. This situation has made investing extremely hard. Since capital preservation is always our number one rules we decided to cut a high number of positions and remain cautious for most of the month.

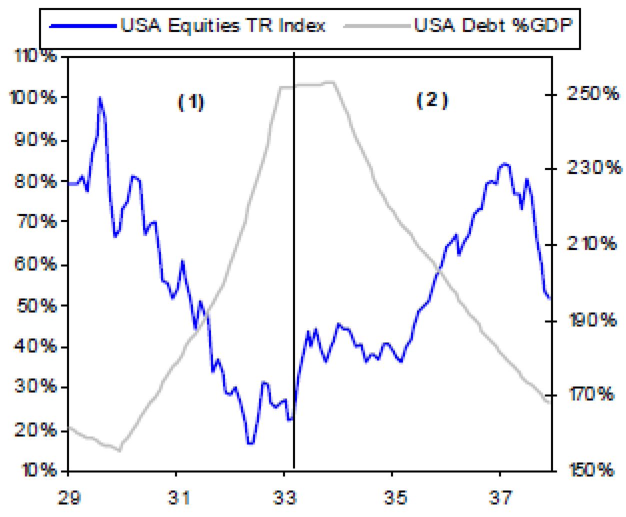
Eurozone Update:

On the cover of The Economist on August 11th there was a picture of German chancellor Angela Merkel holding a book titled 'how to break up the euro'.

ECB president Mario Draghi said ECB would do whatever it takes to protect the euro, he is desperate to start buying Eurozone bonds which is clearly seen as the only way to prevent disaster now. The German courts must agree to this first, we expect they will but as with most of the policy making in Europe it takes forever to action anything. Another problem Draghi has is the ECB buying of Spanish bonds; Spain and the ECB are yet to agree on the ranking of ECB bond holdings and the terms and conditions of austerity measures that would be imposed in return for a bail-out, again this causes nervousness and Spanish bond yields remain very elevated.

In the short term, there are still a lot of uncertainties in the market. If ECB does go ahead a purchase the sovereign debt we could see a risk rally in European markets. Now money printing will only solve the liquidity problem temporally, in the longer term the Eurozone still need to address the solvency problem and the imbalance between northern and southern regions and fiscal reform. However money printing is the first step to calm the market and help spark much needed growth and without growth they will never be able to repay the debt. If growth does starts to pick up the rally could be sustainable for a few years.

The European situation is very similar to what U.S. experienced during the depression period in the 1930s. After the initial 1929 crash caused by an asset bubble the U.S. government implemented a series of austerity measures to bring down the debt to income level. However growth went down more than the debt level because of cuts in government spending and increased taxes. Central banks started to print more money in 1933, growth started to pick up and debt levels went down. Equity market also experienced a strong rally; markets went up 4 folds from the 1932 bottom.



Source: BridgeWater

In investing term, we will need to closely watch the action of ECB and their growth perspective. If there is enough liquidity in the system and growth starts to pick up the European market could experience some sustainable rallies.

As for the Euro; in the short term it might rally however longer term as long as ECB keep devaluing its currencies Euro it will fall to parity. Remember, adjusting for purchasing power the Euro is still trading at very high historical level. Export sectors can benefit directly from a weaker currency and a stable economic condition. If we do see this we will be having a close look at a few luxury brands listed in Italy and strong German companies such as BMW.

Before we have more clarity on the policy ground, we are staying away from the European markets.

Have a great month

Alan Liao
Portfolio Manager
SCM Equities

About SCM Equities

SCM Equities are specialist in Australian and International investment services; they run Individual Managed Portfolio's for their clients and provide comprehensive economic and company specific research and recommendations. As a special offer for Your Trading Solutions subscriber, if you mention you are from YTS, they will conduct a full review of your portfolio and put together a comprehensive investment strategy for you free of charge.

Contact Matthew Sharratt or Alain Liao for further information.

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QUOTES To Inspire

"I can calculate the motions of heavenly bodies, but not the madness of people"

~ Sir Isaac Newton (Loser in the South Sea Bubble)

"All our dreams can come true, if we have the courage to pursue them."

~Walt Disney

"The winners in life think constantly in terms of I can, I will, and I am. Losers, on the other hand, concentrate their waking thoughts on what they should have or would have done, or what they can't do."

~ Dennis Waitley

" The more I talk to athletes, the more convinced I become that the method of training is relatively unimportant. There are many ways to the top, and the training method you choose is just the one that suits you best. No, the important thing is the attitude of the athlete, the desire to get to the top."
~ Herb Elliott

" Commitment is what transforms a promise into reality. It is the words that speak boldly of your intentions. And the actions which speak louder than words. It is making the time when there is none. Coming through time after time after time... Year after year after year. Commitment is the stuff character is made of; The power to change the face of things. It is the daily triumph of integrity over skepticism.

~ American Express Advertisement

3 Ways to Break the Belief Cycle

By Graeme Pearson

Beliefs play an integral part in your trading success. Beliefs are interwoven amongst all of your trading activities as you are continually making decisions based on your beliefs at many different levels. Your beliefs about your self worth, your capabilities, what a certain pattern means, what markets to trade, how much to risk and so on.

A belief comes from decisions you have made or assumptions you hold about yourself and your world which you presuppose to be true. They are driven by your experiences with the inputs feeding through your senses. Beliefs automatically guide your thinking, feeling and behaving. A belief acts as a gate to your resources as a human being and like a prophecy it will be fulfilled whether it is fact or fiction about the real world. Beliefs are a map but not the territory and like maps need to be treated only as a guide. You need to be open to the possibility that the map may no longer be accurate and may need updating just like your beliefs.

Beliefs are like the gateway to your potential. They are wonderful if they are self enhancing because they leave the gate wide open to your personal power but if your beliefs are self limiting the gate may have prevented you from noticing the truth about yourself. Releasing those negative beliefs will free you to realise the truth that you are worthy and capable, competent to create what you desire.

Beliefs can be seen to be formed in a three stage process of the initial event, the behaviour or belief producing event and the belief intensifying event.

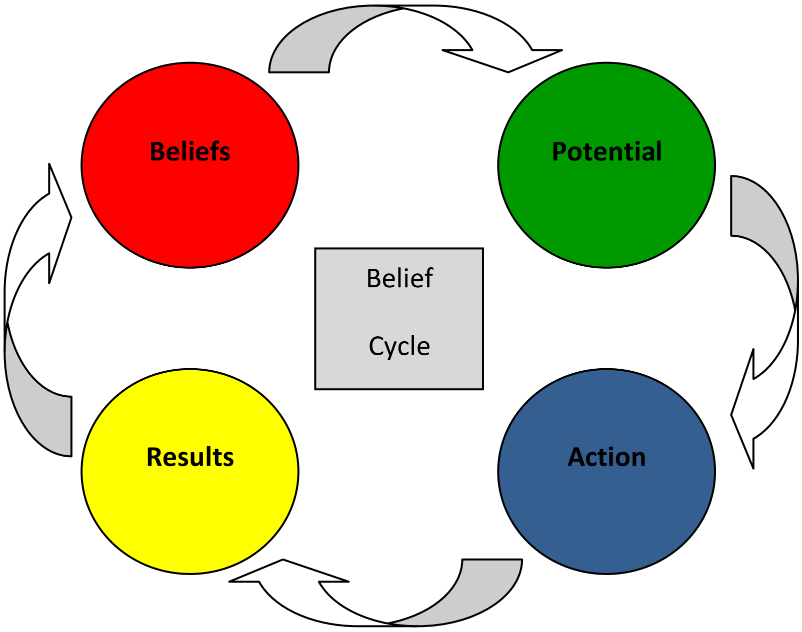
The initial event is where you first experience a certain thing and make your first judgment about the cause and effect of that event. The majority of our first experiences happen before the age of 12 so we are making a lot of these first judgements with a very immature mind.

The second stage is the behaviour producing event where you recognise this as happening to you before and if you take a certain action you should get certain result. If your judgement proves correct in this case then your belief is reinforced.

Finally you have a belief intensifying event where your belief is further reinforced and this one may be a bit more emotionally charged in some way. You now feel more competent and are able to deal with the situation more confidently.

Once a belief is formed it is not very often that it is reassessed or changed and can remain with you for the rest of your life. People can cling very tightly to their beliefs which is understandable as it is how we make sense of the world and keeps out of danger. Beliefs are very closely attached to your identity and many conflicts have been caused over them being defended. This can be seen as the ego in action and translates into seeing everything other than you as a threat.

The problem is that if you never change your beliefs you can get stuck in a belief cycle loop. The belief cycle can be seen to consist of four main elements as shown in the diagram and explained in more detail below.



Beliefs

If we consider that beliefs are the starting point of the cycle then you can see that the belief that you have determines the amount of potential you have. I think the quote by Henry Ford sums it up best that "if you think(believe) you can, or think(believe) you can't-you're right".

Potential

The next step in the loop is potential. Potential is like charge in a battery. You can't get more out than what is held in the battery. Beliefs determine the potential which in turn determine the actions you take. If there is no belief there is no potential and therefore no action.

Action

The by product of action is then results. More action leads to more results and no action gives no result.

Results

The results you get then feed back into the beliefs you hold. Your results will have a large influence on your beliefs about your capabilities and your self worth. Unless there is a change made your end results won't deviate much more than plus or minus 10%.

As you can see if your beliefs remain static there is no growth and that in this closed loop cycle there is little opportunity for growth. Your beliefs create your current results which in return reinforce your current beliefs. Now lets look at three ways to break out of this cycle.

1. Focus on Your Ideal

One way to break out of this self perpetuating cycle is focus on something other than your current results to change your beliefs. This can be achieved by creating an ideal that you desire to obtain. Start living that ideal in your mind and make it as real as possible involving your senses and emotions. You mind has difficulty telling apart what is real and what is imagined and if you continue with visualising your ideal on a regular basis your belief will begin to shift. The process can be summed up by a quote by Wallace D. Wattles which is "think truth , regardless of appearance" or put another way imagine your ideal regardless of your current results. Wallace goes on to say "The think according to appearance is easy; to think truth regardless of appearances is laborious". It is not easy but well worth doing.

2. Question Your Beliefs

The next method of breaking out of the belief cycle is to question the beliefs you have. More often than not our beliefs just run in the back ground on autopilot. As discussed before the majority of your beliefs are formed during early childhood so it is reasonable to assume that the beliefs which were formed with an immature mind may not serve you so well in adulthood.

To question your beliefs you need to start observing your thoughts, feelings and actions and ask what would I have to believe in order to think, feel or act this way. A useful analogy is to think of your beliefs as a lens which you look at the world through which like a lens puts some things in focus, others out of focus, distorts reality and filters reality. Now instead of just looking through the lens you want to also look at the lens and see how it is made up.

Your beliefs can usually identified when you are making judgments of either yourself or others. Watch for statements which include should, shouldn't, can't, always, never, etc. Once you identify your beliefs then start to question the validity of them and look for examples where that belief is not true.

3. Create a New History

The final method to break the belief cycle is to create a new history. This can be done by going back in your past to the three events which created the belief in the first place as discussed earlier. Take the position as an observer and relive these formative events and consider the positive intent of everyone involved and then whether there could have been a alternative action and outcome that may have formed a more empowering belief. Relive each of the formative events with the new belief and also play out how that new belief will effect your future.

In summary we have looked at how beliefs play an important part in your trading results and life in general. We then discussed a model to understand how beliefs are formed and the introduced the belief cycle and how it can be a self perpetuating loop. Then lastly we went through three ways of breaking out of the belief cycle if you are open to changing your beliefs. So get believing in yourself and make a change happen.

If you would like more information on breaking the belief cycle or would like support on your trading journey then free to contact me at graeme@yourtradingsolutions.com to help you become the best trader you can be.

About the Author: Graeme Pearson is a Professional Trader and Trading Coach for Your Trading Solutions. Since resigning from his Full-time job as a Mechanical Engineer back in 2006, Graeme realised that although he had reached his goal of financial independence something was still missing. Graeme found that he gained great pleasure in helping others and particularly when that help involved trading. Graeme now utilises his trading experience, Neuro Linguistic Programming and coaching training to combine mindset and methodology to help other traders become the best they can be. For more information about coaching contact Graeme at: graeme@yourtradingsolutions.com

System Development Secrets - Part 2

By Louise Bedford

Types of Stop Losses

As stated by William J. O'Neill in '24 Essential Lessons for Investment Success'; "Investors spend most of their time deciding what stock to buy. They spend little if any time thinking about when and under what circumstances their stock should be sold. This is a serious mistake."

Before you place your order, you must decide on where you will exit. There are four main ways to set a stop loss:

Pattern based stop loss traders will exit trades if the share breaks downwards through a trend-line for example, or a significant line of support. Throughout this workbook I have given you many examples regarding appropriate places to position a pattern based stop loss. *Technical indicators* can be used as a stop, for example, a dead cross of two moving averages may trigger an exit. *Percent drawdown* or retracement methods suggest that if the instrument drops in value by a set percentage e.g. 7%, then an exit should be made. *Volatility* based stops rely on significant changes in volatility past a pre-defined level in order to trigger an exit.

To exit a position in the sharemarket, you can choose to implement any of these types of stops or even a hybrid of any of these methods. Derivatives can use all of these types of stops and more. If you are unfamiliar with any of these techniques, it is essential that you research them to find out the most appropriate stop for your own requirements.

Successful technical traders have a defined set of rules to enter a share, and to exit from the market promptly at the first sign of a downtrend, or to preserve their capital after the share or derivative has retraced in value. Some traders even set auto-stop losses so that when the share price reaches a certain level, the computer software exits their positions automatically. If you are struggling with the discipline required to take an exit when your stop has been hit, this is probably a good alternative.

It actually does not really matter what techniques you use for entering and exiting positions in the market, provided that over a large sample of using the selected techniques, you end up with more cash in your trading account than your starting capital! The more cash added and the longer the method adds cash to your account, the better the method.

While trading through the large sample of trades, it also does not matter how many winning trades you had compared with the number of losing trades. What matters is that the total winnings add up to more than the total losses net of trading costs. It also matters that the techniques for entry and exit, which you deployed in the market, are repeatable in the future so that you can continue to use those techniques to generate more profits.

Deciding when you will take profits will mean that you have gone a long way towards ensuring your success as a trader. You could apply a trailing stop loss, or apply profit targets. The decision is up to you.

The question is: how can you determine whether an entry and exit combination over a large sample of trades will result in a net profit before you start trading it? Other important questions include: how do you know what the maximum drawdown is that you might suffer along the way? How would increasing your position sizes affect your profits or your drawdown?

It's also important not to let your trading results dictate how you feel about a particular transaction. A good trade is made when you follow your trading plan to the letter regardless of a profit or loss result. It is a sign of a disciplined trader. If you are having trouble developing your own system, I suggest that you plagiarise the ideas of other traders/authors who you relate to. After you have tried out their concepts, you can make alterations to suit your situation. Duplicate before you innovate.

Risk Management

Whilst risk management is about limiting the size of loss for loss trades, more importantly, it has to do with limiting the amount of drawdown that may result from a portfolio of open positions in the market and from recently closed trades.

The risk management rules and processes are closely aligned to the trading system that you have designed. Obviously risk is lower with taking medium to long term non-leveraged positions in the market than short term leveraged positions so your risk management rules need to be customized accordingly.

Not only should the risk management rules match the trading system but also your risk profile. Are you a risk taker or are you more risk averse? A good methodology should allow risk to be customised to match a trader's risk appetite which will change over time.

The sorts of tools that can be used to assess risk include overall market direction, sector direction, liquidity, traded volume, market volatility, stock volatility, stock direction, market capitalisation. Using these tools you can construct unambiguous rules that assess risk as high, medium or low or even according to a scale of 1 – 5 or 1 -10.

The risk management rules should also determine how much risk a trader can take with their overall portfolio funds. This involves determining how much drawdown a portfolio might expect in certain market conditions in the future. Whilst it is impossible to foresee future market action, it is possible using a database of the researched trades to compile portfolios of historical trades that will give you an excellent idea of what drawdowns you might expect in the future.

Money Management

Once risk is assessed, the risk can be managed by adjusting the amount of capital that you commit to each trade and / or to the market for your portfolio.

Your trade size is therefore determined by how much risk you are prepared to take. Your portfolio value and other factors will also come into the position sizing algorithm such as the amount of leverage that you are trading with and the risk assessment for each individual trade.

As a rule, as your portfolio value increases so do your position sizes and as your portfolio value decreases into drawdown, your position sizes decrease. Also, the higher the risk assessment the smaller your position size will be.

Other considerations also come into the position size calculation like your brokerage rate and potential slippage that can be encountered.

The objective of money management is to define how much capital you commit to each trade to potentially generate portfolio profits over a large sample that provides geometric growth. This can only be done with confidence with a trading system that has a positive expectancy.

Summary

Whilst system design can be a personally rewarding, do not kid yourself that it is a simple task. By reading this book, you have proved that are amongst the small minority that even attempt trading systems design at all. The great majority of traders start trading the markets based on nothing more than a newsletter or a broker's advice. I wonder what the expectancy of the newsletter might be? And what are the money management rules that are integrated with the newsletter's stock tips?

If this article makes sense to you, hopefully you will realise how futile it is engaging the market based on newsletter, magazine, broker, chat forum or other tips. In order to achieve the consistency required to make money in the market over the long term, you must have a robust trading system integrated with risk management and money management.

If you are feeling overwhelmed with the task of doing all this yourself then at least take comfort that you now know what to look for in a methodology that is available for purchase. Understandably, putting two years aside to design a methodology purposely built for yourself is not possible for the great majority of people that would like to engage the market directly.

Want to get Louise's free 5-part e-course so you can excel in the markets? Register your details right now at www.tradinggame.com.au and you'll never look back.

Louise Bedford (www.tradingsecrets.com.au) is a full-time private trader and author of *The Secret of Writing Options, The Secret of Candlestick Charting* and *Trading Secrets.*

DID You Know?

Australian Securities Exchange(ASX)

The origins of the ASX date back to the mid 1800's when 6 separate exchanges were established in Australia's state capital cities of Melbourne, Victoria, (1861), Sydney, New South Wales (1871), Hobart, Tasmania (1882), Brisbane, Queensland (1884), Adelaide, South Australia (1887) and Perth, Western Australia (1889). A further exchange in Launceston merged into the Hobart exchange.

1861:Australia's first stock exchange was formed in Melbourne

1937: The Australian Associated Stock Exchanges (AASE) was established

1960: Sydney Futures Exchange began trading

1976: The Australian Options Market was established

1980: The separate Melbourne and Sydney stock exchange indices were replaced by Australian Stock Exchange indices

1990: A warrants market was established

1994: The Sydney Futures Exchange announced trading in futures over individual ASX stocks

1998: ASX become a listed company. First exchange in the world to list on its own market

2006: The ASX announced a merger with the Sydney Futures Exchange

There have been three different forms of trading on the Australian stock exchanges. The earliest was the auction-based call system, which saw a stock exchange employee call the name of each listed security in turn while Members bid, offered, sold or bought the stock at each call. This system proved inadequate to handle the increased volume and was replaced by the 'post' system in the early 1960s, which involved stocks being quoted on 'posts' or 'boards'. 'Chalkies' were employed by the Stock Exchange and it was their function to record in chalk the bids and offers of the operators and the sales made. This system stayed in place until 1987 when the Stock Exchange Automated Trading System (SEATS) was launched.

http://en.wikipedia.org/wiki/Australian_Securities_Exchange

Gambling vs Investing

by Gary Stone

There are billion dollar funds' and money managers managing 100's of million dollar funds in equity index futures, FX, commodity futures, equities etc that do not spend 1 nanosecond on fundamental analysis of company information. They purely use mechanical systems based 100% on technical analysis and / or quantitative analysis. Are they gamblers? Their results of outperforming the market indices by large margins don't suggest so. Do they have loss years? Sure they do.

And the way that they do it is to:

1.Limit their risk by deploying exit strategies & rules that when used in conjunction with their entry strategies & rules provide them with a positive mathematical expectation, i.e. an edge that has been researched, modelled and pre-calculated before investing capital into the market.

> •Well defined exit strategies based on price movement also eliminate large loss positions that eventuate over long periods (such as QBE – down 67% – and JB Hifi – down 50% – from their highs. QBE must now rise by 150% to make a new high!).

2.Employ risk management strategies and rules that reduce portfolio exposure (potentially to 0%) during falling markets (they could and do also use shorting) and increase portfolio exposure during rising market periods.

3.Employ money management strategies & rules that determine how much capital is invested in any position based on the characteristics of the stock / instrument.

> •For example, if the listed company has volatile price action and the company has never made a profit then rather than totally ignoring the stock as 'gambling', a small portion of a portfolio can be invested into the stock with a pre-defined exit rule in place. If the research shows that the investor has an edge in doing this then this is not gambling but assessing a risk / reward proposition that has been researched and modelled based purely on the characteristics of the stock's price movement and then executing according to that edge.

My point is that there are many, many ways to approach the market. I subscribe to the fact that there is a place for fundamental analysis but there are also many, many other approaches too. I prefer to keep my mind open to other methods and approaches because that way I learn. When we shut our minds to the possible existence of another way we stop learning and reduce the potential for adapting in a changing world.

Any person investing in the market needs to solve the problem of a:

1.Precise process for stock selection.

2.Precise process for exiting open positions.

3.Precise process for determining when to increase and decrease portfolio exposure (even to 0%) to the overall market that they are investing in.

4.Precise process for determining how much capital to deploy in each position, i.e. money management.

The less precise the process the more subjective it will be and therefore the easier it will become to chop & change and be open to outside influences and noise which will lead to hesitation and indecision with stock selection and position sizing. For example, deciding whether to invest in a stock based on the interpretation of a CEO's statement is very subjective. Having said that, technical analysis of price action can be used to objectively measure the market's reaction to it, fundamental analysis cannot.

If all four of these problems are not solved then the investor is probably gambling as they are placing their investment return purely on hope. Picking a stock, using whatever analysis method, and watching it's price fall by over 65% is a 'hope' strategy that denies the existence of other influential variables outside of those variables analysed.

I understand and believe that in order to grow as a person, and indeed as an investor, one needs to be open minded in the way that one approaches the things that they are passionate about. One must always be willing to accept input from the universe, not only push output into the universe.

Investing, like most areas of our lives, is a never ending journey of learning and growing. No single person or collective group of people will ever know everything that there is to know about investing, ……. about anything for that matter!

On this note I'll finish with two quotes: "He who thinks he knows , doesn't know.   He who knows he doesn't know , knows." - Lao Tse (thank you to Tim S, a customer in Perth, for this one) and "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." – Mark Twain.

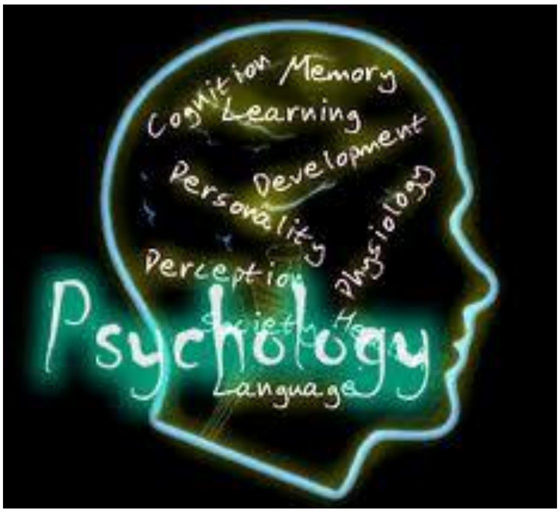
What's Next RJ?

by Van Tharp, Ph.D.

RJ's (R.J. Hixson) most recent Project Marathon article gave me the perfect opportunity to review his progress and provide some advice. Since he has been sharing his progress with you, I thought it would be appropriate to also share my response. I hope that the suggestions I am giving RJ also help a number of our readers who may be in a similar position.

Five Phases

Our Super Trader program has five different phases. The first phase is to master Tharp Think. This material is provided in the books *Trade Your Way* and *Super Trader*, as well as on our web site. In addition, in I occasionally present a low-cost Tharp Think workshop.



The second phase is to strongly work on one's personal psychology. I think I have strengthened this phase over the years, especially with the addition of the Oneness Awakening Workshop. Originally, Super Traders had to pass a lengthy "test" and document five major transformations. My belief was that when you have mastered yourself through five major transformations, you could handle whatever else comes up in your life. Now, we have updated this phase to include 16 lessons that incorporate the old Super Trader test material and much more. When Super Traders complete this part of the program, they earn a psychological completion status. Most people who complete this phase say that their lives have improved dramatically, but personal growth doesn't end here. Because transformation is continual, current Super Traders develop an ongoing self-work program. This was not part of the program when RJ went through it.

The third phase is to develop a business plan. This plan is a working document, at least 100 pages long, which guides you through your trading life. We teach what to include in this document in the Blueprint for Trading Success Workshop.

The fourth phase is to develop three non-correlated systems that are designed to work under different market conditions. You have to understand these systems thoroughly and know when they will work and when they won't work. And I expect each system to have an SQN® score of at least 2.5 for the market types in which you plan to trade them. We teach numerous systems in our workshops that meet these criteria; however, most people seem to have a need to develop their own systems that fit them, which is why this step can take a lot of time.

The final phase is to demonstrate that you can make 100 trades with one or more of these systems at 95% efficiency or better. This means that you don't make more than one mistake (of not following your rules) every 20 trades. Only when this phase is complete are you considered a graduate of the program.

What Happened

I have traders in the program that stop progressing at some point. “Getting stuck” happens! And I have written about ways to get around it. When a Super Trader gets stuck, I readily provide advice. Sometimes they follow it, and sometimes they don’t. Usually, they get stuck because they have skipped important, psychological steps.

When RJ entered the Super Trader program, he was working at IBM in a demanding role with worldwide responsibilities putting in 60+ hour weeks. He could only devote one hour each day to the Super Trader program and a few more hours on the weekend. I approved his business plan and only one system for him to trade. As I remember, that system was not approved for trading in strong bear markets like we are in now.

Thus, he completed the first three phases of the program in his two years and his name is on the Super Trader completion plaque. At that point, RJ’s two years were up, and he stopped sending weekly progress reports. He then started working for me researching and developing new products.

I thought RJ’s Project Marathon articles would give me a sense of how he was doing on the final phases of his development into a Super Trader. Encouraging him to write those articles was the only supervision I have given him since he had completed the program.

The Power of Questions

In RJ’s article, he listed three questions you need to ask when you are stuck:

1. What happened?
2. What’s missing?
3. What’s next?

We teach this process in the Peak Performance 202 Workshop. You can ask yourself these questions whenever you seem to get stuck, or you produce results that did not meet your objectives.

It was encouraging to read that RJ desires to get out of this stuck state. I’ve already covered what happened. So, below are my thoughts on what’s missing and what’s next for RJ.

What’s Missing

- **Ongoing Self-work:** There is opportunity for a lot of powerful change work happening right now. While RJ completed work on his personal psychology in Phase 2, he needs to develop an ongoing self-work program and continue his personal evolution.
- **Three Market-Type Specific Systems:** If RJ decided to continue in the Super Trader program, for him to graduate he would need to develop two more systems that work for him. This would include one that works well in bear markets or strong bear markets. His goal was to make 131R in his first year, which is achievable (another of our Super Traders made 134R in one month last year). He also needs to document that those systems work to my satisfaction.
- **95% Efficiency:** When those systems are approved, RJ needs to demonstrate that he can trade them with 95% efficiency.

- **Trading in the Now:** Beyond those core steps, RJ needs to practice trading in the now. I taught a Trading in the Now Workshop to the Super Traders last year. That course was three days of Oneness followed by a day focusing on how to trade in the now. It's given each year after the Super Trader Summit, and it is only for Super Traders. It works extremely well, but it requires that you work diligently to get into the appropriate mental state and stay there while trading. (You are not there if you can talk while you are trading.)

An Example of Trading in the Now

While trading in the now can be applied to any time frame, it is easily applied in longer term trading simply by using monthly bars. You won't make a lot of money here, but it's part of how I trade the Van Tharp Institute retirement account. And I think I outperform most funds. Let me show you some graphs about what is going on right now.

The first is the monthly candlestick chart of the S&P 500, which I showed in last week's update of the market. It was current through September 30th—it doesn't include the up move that we have had so far in October. I first said that we were in a bear market in June 2011. And that became a strong bear in August 2011. The upward movement so far in October has not taken us out of the bear market mode.

When we first went into bear market mode, it was bear normal. That type of market is almost non-existent: bear markets are always associated with volatility. So let's look at a monthly chart of the VXX (an ETF for volatility).

In March 2009, the VXX reached a peak of about 460. It then went into a free fall. When I said we were entering into a bear market with low volatility a few months back, VXX was forming a very narrow base in the low 20s. This gave a huge reward-to-risk trade.

Think about it. We were in a bear market, which is almost always associated with high volatility, however, VXX was basing at about 95% below its prior bear market high. You could take a very logical trade for 2-3 points of risk with a potential reward of 100 points or more. Does that make sense to you? We were going into a bear market and the volatility was 22!

I personally got into this trade for the VTI retirement account as a hedge for some positions that were giving me an income of 15% per year but still had downside potential. I got in at 22.04 on July 12th. My stop was at 19.8, which would have been an all-time low (and in a bear market!). VXX is currently way up from my entry, and I have a lot of room to let it ride if it wants to go to its old highs. At the time of this writing, the position was up 15.6R with the potential for 100R in profit. That's trading in the now—being aware of what the market is doing with no internal chatter telling you that it might do something else.

I could give a lot of other examples—there is hardly a short position that would not have made a lot of money since I said we were in a bear market. And it would be completely possible to make 100R in one month going short in day trades.

What's Next

So where should RJ go from here?

1. Develop at least three systems and have them approved by me before you begin trading again.
2. Make sure you have at least one system that will perform well in bear and strong bear markets.
3. Do everything you can to work on being able to get into the "trading in the now" state. This includes developing an ongoing self-work program.

Perhaps we'll see a new set of articles from RJ on "continuing my Super Trader experience."

About the Author: Trading coach, and author, Dr. Van K. Tharp is widely recognized for his best-selling books and his outstanding Peak Performance Home Study program—a highly regarded classic that is suitable for all levels of traders and investors. You can learn more about Van Tharp at www.vantharp.com.

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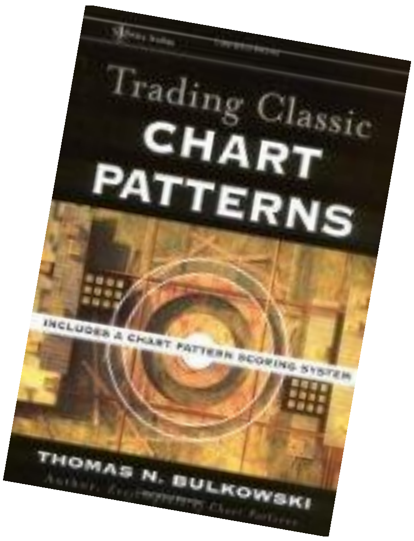
Trading Classic Chart Patterns

By Thomas Bulkowski.

Click directly on the image to purchase this book



Product Description

In his follow-up to the well-received Encyclopedia of Chart Patterns, Thomas Bulkowski gives traders a practical game plan to capitalize on established chart patterns. Written for the novice investor but with techniques for the professional, Trading Classic Chart Patterns includes easy-to-use performance tables, vivid case studies, and a scoring system that makes trading chart patterns simple. This comprehensive guide skillfully gives investors straightforward solutions to profitably trading chart patterns. Trading Classic Chart Patterns also serves as a handy reference guide for favorite chart patterns, including broadening tops, head-and-shoulders, rectangles, triangles, and double and triple bottoms. Filled with numerous techniques, strategies, and insights, Trading Classic Chart Patterns fits perfectly into any pattern trader's arsenal.

Thomas N. Bulkowski (Keller, TX), an active investor since 1981, is the author of the highly acclaimed Encyclopedia of Chart Patterns (Wiley: 0471295256) as well as numerous articles for Technical Analysis of Stocks & Commodities. Trained as a computer engineer, Bulkowski worked for over a decade at Tandy Corporation. Prior to that, he worked on the Patriot air defense system for Raytheon.

New technology and the advent of around the clock trading have opened the floodgates to both foreign and domestic markets. Traders need the wisdom of industry veterans and the vision of innovators in today's volatile financial marketplace. The Wiley Trading series features books by traders who have survived the market's ever changing temperament and have prospered-some by reinventing systems, others by getting back to basics. Whether a novice trader, professional or somewhere in-between, these books will provide the advice and strategies needed to prosper today and well into the future.

Customer Review By L. Masonson

This 439-page book is authored by Thomas Bulkowski, a successful full-time investor and trader for over 20 years. In his spare time, he previously penned the Encyclopedia of Chart Patterns (2000). For those investors and traders who want to know the performance characteristics of specific popular chart patterns, this book provides the nuts-and-bolts.

The book is not light reading and requires a great deal of concentration if you expect to get the most out of it. If you are beginning investor or trader then you may want to wait a bit until you've mastered you chart patterns and terminology before delving into this book. If you like statistical data and like to work with numbers, then this book will make you happy. Each chapter on the chart patterns follow a similar template so that you know what to expect in future chapters as far as format is concerned.

The book is divided into two parts. Part I (85 pages) presents new research on trendlines, support and resistance, placing stops, selling considerations, and common trading mistakes. Part II (about 300 pages) reviews in detail 14 chart patterns (market tops and bottoms, head-and-shoulders, rectangles, triangles and scallops - rounded bottoms). Bulkowski also provided a 19-page summary of the bullish and bearish patterns with their performance statistics. Also included is a 9-page glossary and the methodology used to determine the statistics for each pattern.

To give you flavor as to one of Bulkowski's findings, consider the most bullish trading patterns. He found the best performance was the descending triangle pattern with an upside breakout. He found the average rise after the breakout for a short-term pattern was 49%. The next best was breakouts from an intermediate-term rectangle pattern with a 42% average rise. And long-term triple bottoms can in third with a return of 41% after breaking out

He looked at the most popular patterns and found the characteristics that make them tick.

Bulkowski developed a chart pattern scoring system that helps select better performing chart patterns to trade. Scores above zero infer that the pattern will most likely beat the median, while scores below the median infer that the pattern will be a non-performer. Bulkowski also includes a few case studies for each pattern to aid in the understanding of the patterns and scoring system.

Bulkowski suggests that you use the information in the book on the behavior of chart patterns with the scoring system, combined with your own research (such as how the industry group is behaving) and other technical and fundamental indicators to develop your own trading strategy.

Overall, Bulkowski presents a masterful text on the most-often used chart patterns. But instead of giving you generalities, he provides specifics based upon detailed statistical analysis. Knowing which patterns work best under which conditions will certainly put the odds of investment success in your favor. Therefore, I highly recommend this book to serious students of the market. This is money well-spent.

NEWS and Events

Melbourne Trading and Investment Seminar & Expo

5-6th October 2012

Venue: Melbourne Convention and Exhibition Centre

2 Clarendon St, Southbank, Victoria, 3006

Times: 10am – 5pm Daily

Discounted Tickets available online at

http://www.tradingandinvestingexpo.com.au/

Brisbane Trading and Investment Seminar & Expo

1st-2nd June 2013

Venue: Brisbane Convention and Exhibition Centre

Cnr Merivale and Glenelg Streets, Southbank, Brisbane, 4101

Times: Saturday 1st June: 10am – 5pm

Sunday 2nd June: 10am – 4pm

Discounted Tickets available online at

http://www.tradingandinvestingexpo.com.au/