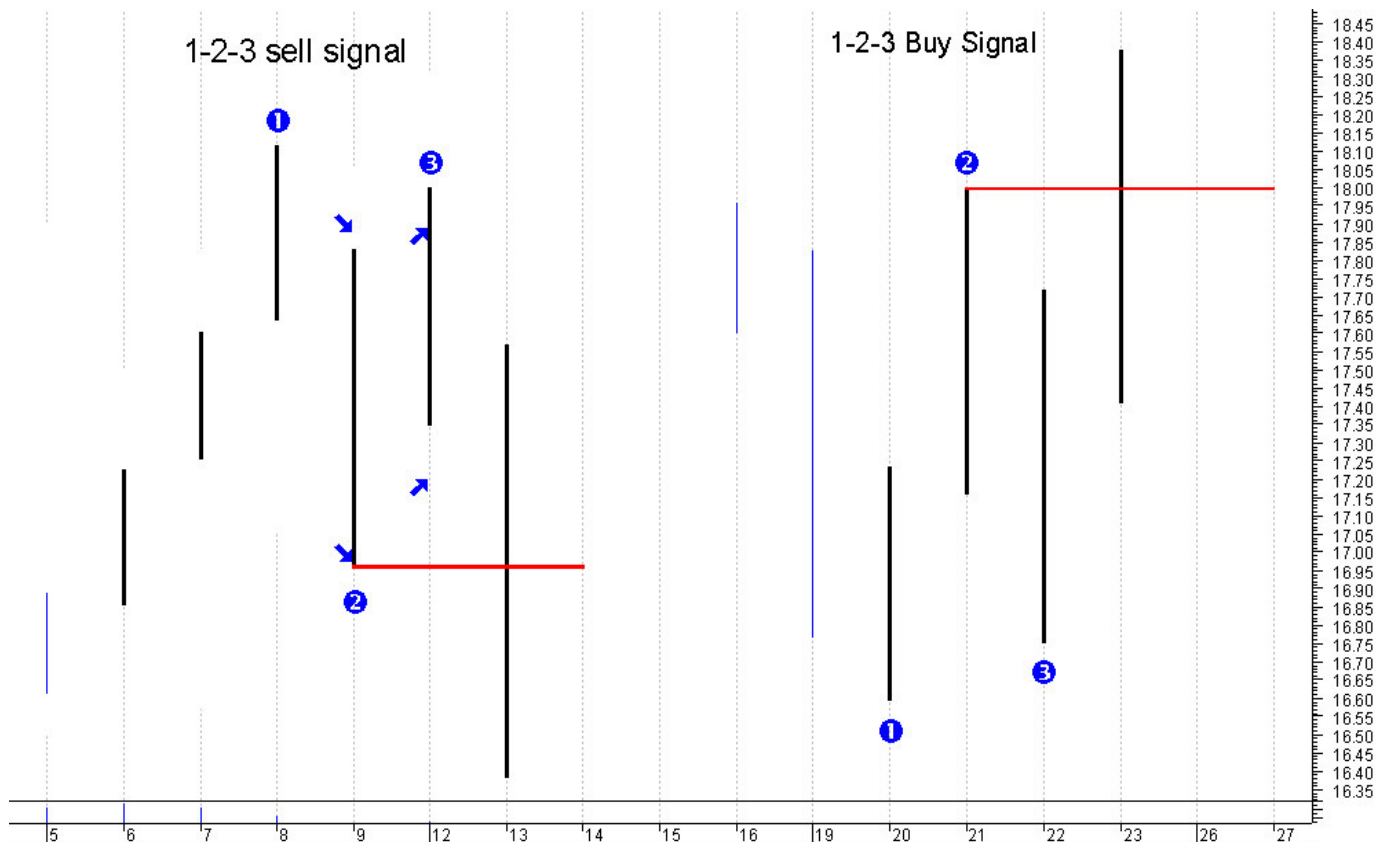


## Chapter 3

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### *The Entry "Trick"*

In chapter one I told you to either buy or sell the breakout of the number two point.

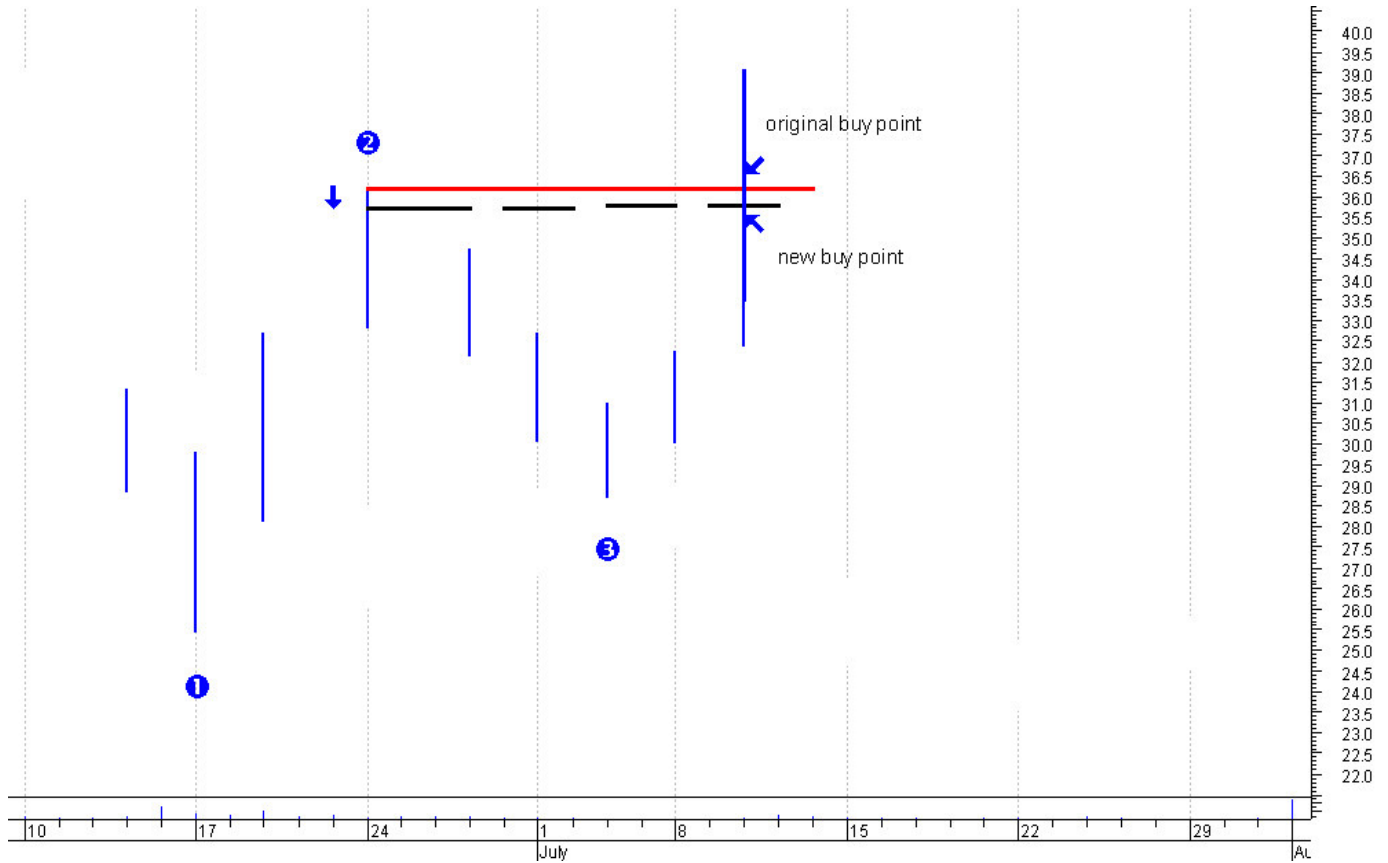


Above I simply show the valid 1-2-3 top and bottom patterns and where to place your buy/sell points. At the breakout of the number two point.

But, you see there are many traders, systems, etc.. which blindly sell and buy at the breakout of every pivot point on a chart. What we do know is there are usually many orders placed at the breakouts of these points.

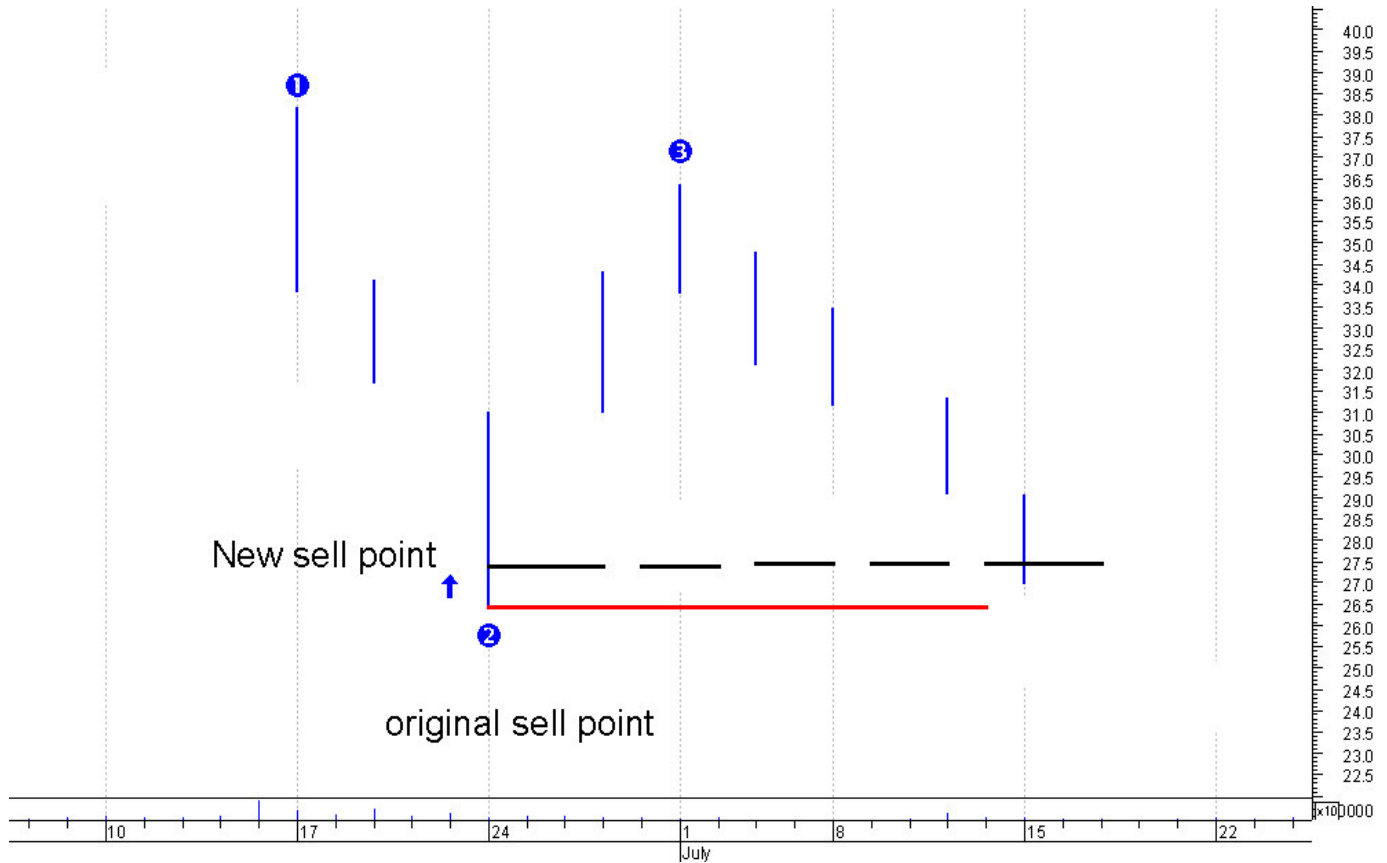
Now, whilst this is good you really need to beat the crowd. You want to be in the market just before the masses. How do you think you can achieve this?

Easily. Simply bring your order slightly in. In a buy point buy at a slightly lower price than the breakout of the number two point.



So no big secrets here. Instead of simply buying at the breakout and joining the mass of other buy orders as they scramble to get onboard the break out just move your buy order in so to enter the market before most others. This will cut down on your slippage and ensures you will get a big initial move on your order.

## Let's take a look at a sell order:



Now by how far you move this buy/sell “in” is your choice. There is no exact scientific amount. Bear in mind you are simply trying to enter the market before the masses. So you do not want to get in too early where the stock/future never breaks out beyond the number two point.

On the other hand, you want to get in with plenty to spare before the masses enter on the breakout.

Experiment. Remember to keep a tight (no more than 10%) initial stop loss once you have entered your trade.

## Chapter 4:

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### ***When To Exit***

Exiting a trade. Surprisingly, this is more important than entry. This is where the money is made. Yet not one in a hundred traders actually spends any time considering exiting from a trade once they have entered. In my opinion, this is why most traders fail in the markets.

Let's recite some of the trading principles I live by and then see how they fit into my exit rules.

The big money is in the big moves. So when you are in a trade and it gives you some early profits, DO NOT look to bail out as soon as it starts to correct. You want to hang in there for as long as possible and HOPE your small profits turn into large ones.

Cut losses short. I am absolutely gob smacked when I hear of traders/investors not cutting their losses short. They say to me things like: "it's not a loss until I sell it". "But it's a good company, why should I sell it". "if it drops any more then I will sell". The only way we can survive in the markets is to cut your losers as soon as it reached a predefined % stop loss. Do not second guess. If your initial stop is hit get out and move on. What's the big deal. Think about it this way, if the loser you are holding onto is stopping you from entering a fantastic winning trade isn't it sensible to drop the loser and go looking for that winner?

Less is best. Most people want to actually make more trades. They like to cut off their winning stocks/futures in the search of the next one. BUT the key to making money in the markets is to actually trade less often. This means both to be very patient before entering a trade and then when you are in it is actually much better to hold onto your winning stocks than to cut them off and initiate a new trade. The most dangerous part of any trade is when you enter. So if this is the case why would you keep wanting to place your-self in danger?

Once you have entered on a valid 1-2-3 pattern do this:

Set your initial stop loss relatively tight. For stocks I do not like to lose more than 10% on futures this will have to be a predetermined \$\$ amount. Bear in mind, you really should not be risking more than 3% of your total equity on any one trade. So if your account is \$20,000 on each trade your maximum risk is no more than: (3% of \$20,000) \$600.

Once you have a 25% gain then move your stop to break even. If the stock doubles back from here and takes your stop out you have lost only your brokers transaction. Sure you left 20% profits on the table. So what. That's the "chance" we took in the HOPE of making a much bigger profit.

Once you have a gain of over 25% simply protect half of those profits until you are stopped out.

Once you have a 100% gain then protect 75% of those profits until you have been stopped out.

As you can see I like to keep my exits very simple and straightforward. I do not rely on oscillators to tell me a market is overbought/oversold. They simply do not work. Once you have a profit it is all about hoping those profits turn into very big profits. You have to be prepared to give back a % of your gains in the hope of doing this.

Taking a profit too early is just as dangerous as not cutting your losses!

Hope and Fear. Remember this statement:

**FEAR** your losses will get much bigger (so cut them off)

**HOPE** your profits will become much bigger (so give them plenty of slack)

Sadly, most do it completely the other way around. They fear their profits will disappear so cut them off too quickly. They hope their losses will turn into profits so hang onto them far too long. Is it any wonder they lose in the markets?

## Chapter 5

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### **Conclusion:**

#### **“I have seen the enemy and it is me”**

I've been around and around in my trading career. I started off simply following trends in stocks with sound money management rules. Guess what? I made money.

Then I embarked on a quest to find the Holy Grail of trading. I attended literally dozens of seminars. Sadly I have bought many \$3,000+ black boxes trading systems. Purchased hundreds of trading books, reports, files, tapes, CD's. You name it I probably have it.

**JUNK!** 99.5% of what I have read, seen, heard or tried simply does not make money in the stock/futures market. It's all smoke and mirrors to simply disguise the fact you have been ripped off.

#### What I have learned:

- \* No MAN ALIVE, or system on earth can ever, or will ever be able to predict the future market behavior. If someone tells you they can RUN AWAY!
- \* Simplicity is the key. Complicated technical systems are trying to baffle you into parting with your \$\$\$'s. B\*S baffles brains.
- \* Systems have three main components: 1) trade entry/exit rules. 2) Money management 3) Trader psychology

95% of traders will put them in the order I wrote above (i.e. in order of importance.)

I realize now the order of importance is:

- 1) **Trader psychology**. If you do not have the correct mindset you are doomed to failure. Most traders I come across are seeking a get rich quick scheme. Or wish to make money in the markets with no effort. Then they wonder why their account is sinking faster than the Titanic. They jump into the markets with little or no stock market/trading education but expect to compete with the big boys. Get this. If you enter the stock market with no education then you are treating it as a gamble. If you gain an education, test, and adopt a more professional stance, then you are treating it as a business. Who makes money? Gamblers or business people? It is no different in the stock market.
- 2) **Money management rules**. I could trade solely on money management rules and come out ahead. I spend most of my time in this area now. It's that important. I have adopted a much more business like approach to my trading. The results and MY LIFE have improved dramatically.
- 3) **Trade system**: I have my simple systems now. They may need a little tweaking from time to time but I will not spend any more time seeking out the Holy Grail trading system. (if you find it... don't tell me about it)

**\* Trading Really Is a Great Business:**

But only when you remove the stress. I've been there when I was hanging onto every twist and turn of the market. Trading from emotion. Getting excited about winners and down about losses. Looking back it was not a good phase of my life. The stress levels were far too high. I gave up hobbies, friends, social life. I was forever anxious about what might happen to my positions. Had I have carried on this way I would have been dead or on the trading scrap heap.

But adopting a more business like approach to trading. Taking time to relax and plan my trades. Developing the correct mental posture in order to win. Using sound money management techniques then it actually does become enjoyable.

You can make your trading career as big as or as small as you wish. Want to simply manage your own retirement capital? Then trade in the evenings. Or trade weekly charts and manage your trading account on a Sunday evening.

Want to trade full time? Great. Make sure you have sufficient knowledge, capital and experience to do this. Why not?

Want to create a trading empire? It can be done. Get a solid track record, get some business plans drawn up then go for it.

It can be as big or as small a venture as you are willing to take it.

Good luck and keep learning the stock market business.

Sincerely

Mark Crisp

Momentum Stock Trader

<http://www.stressfreetrading.com>

Contact: [trader@stressfreetrading.com](mailto:trader@stressfreetrading.com)