

THE STOCK TRADER

TONY OZ



HOW I MAKE A LIVING
TRADING STOCKS

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(Happy reading)

Notes: There are some pages missing (Page 1, 84, 85, 120, 121). I will try to fix it, and reupload again, in meantime you could start reading

The Stock Trader

How I Make a Living
Trading Stocks

Tony Oz

GOLDMAN BROWN
BUSINESS MEDIA INC.

To My Wife Jodi, and My Son Jordan,

You have made my life complete.

I love you both.

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Thanks to all the members of the Market Technicians Association. Thanks to all the members of Daytraders USA, and special thanks to all my students. You have inspired me to write this book for you.

Foreword

I sat down at one of four monitors, still only half-awake while sipping my third cup of coffee since 3:30 am. The trading day starts early in California, and it took almost an hour to get here. But whenever a great trader invites me to watch them trade, I feel compelled to take full advantage of such a golden opportunity. Little did I know how extraordinary this experience would turn out to be.

For his second Book, a follow-up to his instant classic, *Stock Trading Wizard*, Tony Oz wanted to show the world how he trades stocks for a living. And as I watched for the next four weeks, all of his trading activities were documented in a detailed trading diary. The idea was simple, and the formula classic. He would invite everyone to take an intimate look into his activities as he explains the strategies and processes behind his actions. It's a recipe that has worked for centuries, as Master entrusts to Apprentice a lifetime of knowledge and experience.

After having received an exciting challenge from the founders of the International Online Trading Expo, Tim Bourquin and Jim Sugarman, Tony planned to hold nothing back, providing all the decisive details of each trade, including the thoughts, strategies, surprises, and problems, and how he dealt with the moment-by-moment challenges the Market presented him.

Such a book had never been attempted before. No trader has ever put their reputation on the line with this kind of honesty. It's easy to search through past trades and present the best ones. But no trader has come forth in advance with the candor to say, "For the next four weeks, I will reveal my every move, for better or worse, entries and exits, winners and losers, with all my profits and losses."

Presented in these pages, 116 Round Trips are documented, including the charts, illustrations, and formulas. Tony explains the research and preparation; the joys and frustrations; the exhilarating victories and disappointing defeats. And of course, the blow-by-blow descriptions of each battle between Emotions, Decisions, Market Makers, and Technology.

In this fascinating account, readers will quickly find themselves immersed in the action as Tony weaves his narrative. The chess game never lets up, as The Stock Trader matches his wits with the best the Market can throw at him.

And by an astonishing coincidence of timing, trading for this book was in full swing during the Great Crash of April, 2000. When the devastation was complete

and the carnage had exhausted itself, The Stock Trader rose from beneath the rubble triumphantly wielding his profits, unbowed and unscathed, from a Market where over Two Trillion dollars had been obliterated within a mere fourteen days.

Most traders would agree that studying the actions, strategies, and emotions of a great trader is an opportunity anyone, regardless of experience or viewpoint, can benefit from. This book is a treasure in that regard, and is sure to become a classic, as Tony demonstrates with his simple methods, that you too, can make a living trading stocks.

Rick LaPoint

Introduction

Online trading is taking on the world with lightning speed. It is one of the hottest, fastest growing businesses on the planet, and it has almost everyone wondering if they "have what it takes" to become a successful trader. Stock trading is even becoming a common topic of conversation in places where you would least expect it to be brought up, such as hair salons, delis, and even grocery stores.

With the explosive growth of the Internet and the major changes occurring in the financial markets, this industry is not just today's "hot thing," but also an industry that is here to stay. Indeed, I truly believe (that online trading in all its forms is only in its infancy. This industry will continue to grow and change to the point that what we know and practice today in the industry may seem like ancient history in as little as five years. How about one global exchange in which traders across multiple continents will trade stocks, options and futures for foreign and domestic companies? While this may sound like a far-fetched dream to some, and one that I'm sure floor traders in New York City with a vested interest in preserving the status quo will do everything in their power to prevent, it could soon become a reality. You just can't stop or fight the technological revolution that's occurring, at least not for long.

This revolution has opened the doors to Wall Street and is granting anyone who wishes to participate in this business, a pass. This pass is, by no means, a *free pass*, as most speculators will soon learn; however, if you wish to take on the challenge and manage to survive the never-ending learning curve, you, too, can enjoy one of the most exciting jobs ever. And if you truly enjoy your new "job," you can make it your business and have the time of your life doing so. You may have noticed that I used the *word job*. I did so to make sure that you understand that trading stocks is work! In fact, this job is more time demanding than most people and the media can comprehend, or stock traders are willing to admit.

Before I go on further, I feel that I should give you some background about myself. I will do so for the simple reason that it's important to know and trust where this information is coming from. No one will use and benefit from ideas and experience they don't have confidence in.

Two centuries ago (at least it seems that long), I was a young kid who watched his uncles play the stock market. I had a great passion for what they were doing and wanted to learn all I could about the market. When I was asked what I wanted to do when I grew up, I would answer, "I want to be a

stockbroker." This brings a big smile to my face today, knowing now that I would *never* want to be a stockbroker. But at the time, I thought it was the most prestigious job in the world. Why? Because I thought that a stockbroker was the closest person to the stock market. I had no idea back then that a stockbroker was really a salesman - or that technology would afford me the opportunity to bypass brokers and trade on my own.

Fast-forward now to my freshman year in high school. I had a passion for two things: sports and stocks. Everyday, on my way to school, I would stop at the grocery store and pick up a newspaper. If you asked my classmates what I was doing on my breaks, they would have told you that I was either playing soccer or reading the financial section of the newspaper. I couldn't get enough of what was going on in the business world, and I was paper trading, or better said, paper investing in certain companies based on fundamental research.

The next year, when I was a sophomore, I woke up one morning not feeling so well, and decided that skipping school was a good idea. But I had already exceeded the number of allowable sick days, and a note from my parents was not sufficient anymore. I needed a doctor's note. So, I made my way to the clinic and got the doctor's note I needed. On my way back home, I passed by a lottery stand. There was a big prize for the next drawing, so the large sign drew my attention. I walked towards the stand, and saw a soldier in uniform buying a lotto ticket. It was a scratch-off ticket, where you find out instantly if you win or lose. I watched the soldier scratch the ticket and win \$3.00. The vendor asked the soldier if he wanted the \$3.00 or if he wanted three more tickets. The soldier turned to me and asked, "What do you think I should do?" Without hesitation, I replied, "Take the money." The soldier took my advice, collected his money and left. There was an old man standing by the booth where this incident took place. He looked at me and said, "Young man, why don't you take his luck?" I replied, "I don't think so. These type of lottery tickets are the biggest sucker game, and besides, I only have enough to buy the other lottery ticket." The old man looked into my eyes and said, "Why don't you take his luck?" I can't exactly explain why I did it, but before I knew it, I reached in my pocket and bought the lottery ticket the old man suggested. I started scratching the ticket, and I won! I won the jackpot! \$15,000 to be exact.

I was so excited (that I practically broke the world record for the 400-meter sprint. I ran home so fast I even lost the doctor's note in the process! I called my parents immediately, and they did not believe me. However, they quickly became believers when I surprised them with a \$7,000 gift. The wonderful thing about winning this money was that I now had money to speculate with.

I wish I could say that I had it easy from that point on, but I didn't. I did manage to survive, and more importantly, I was learning valuable lessons. I was not an active stock trader. I was an investor and did well, but I desperately wanted to trade stocks for a living. The five years following the incident at the lotto stand were the typical years a teenager goes through, with my priorities changing everyday. Yet throughout this time, I continued investing. The only time I took out any money from my account was to buy my first car, and I actually missed the crash of 1987 as a result.

Another fortuitous thing that happened on my road to becoming a career stock trader was that I met my future wife and moved in with her. She lived just five minutes away from where the *Investor's Business Daily*, *The Daily Graphs* and other William O'Neil publications were printed. I started going there on a daily basis and learned technical analysis from the pros. Living close was also a big advantage, because I would receive tomorrow's paper by 7:00 PM today, giving me all night to study it!

From that point on, I have been committed to learning all there is to learn about stock trading. More importantly, I truly *believed* that I would be successful at it. I can't tell you how many new lessons I learned, each and every day. I had the basic knowledge needed to trade, but little actual trading experience. I could read the tape and find the plays, but when my money was on the line, I was a weak hand, and I would "give" my position away to the smart trader, without me capitalizing on the big opportunities presented to me.

Despite this, I kept good records of my trades, which allowed me to analyze them, so I could discover why I wasn't doing better. Analysis of my records showed me a pattern of mistakes I had been making over and over again. I knew that if I didn't correct these mistakes and learn from them, my future as a stock trader would not be very promising. I see now that keeping detailed trading records was the single greatest educational tool at my disposal, and I spent considerable time pouring over them, learning new lessons each time.

My goal in this book is to let you "sit beside" me and watch trade after trade. Some are "textbook" in how well they come together, while others are very messy, and it seems everything goes wrong. But that is real life trading, and hopefully you will gain new insight from my experiences. This is my trading diary, and it is my hope that from this intimate look into my everyday activities, you too can learn as much from these records as I have.

You didn't need to look at her twice before you realized that Linda loves what she does for a living, and (hat she is very proud of it. It was the pride and love for what she does that made her presentation so dynamic and inspiring. It was high powered, like a drink from a fire hose.

When (he fire department finally put (he fire out and all the lights were turned off, I anxiously drove back home. I couldn't wait to get online and sludy charts. Something very interesting happened when I got home and did my research for the next morning. I started writing an outline'for a "how do you do it?" book. I wanted to answer the question I was asked in person every other weekend by members of Daytraders of Orange County, once and for all. The title of the book was *StockJimkie: Advanced Short Term Trading Strategies*. Once the writing was completed, we printed 98 unedited spiral-bound books. The reviews the book received were very positive, and the book was edited and published in hard cover under the title, *Stock Trading Wizard*, by my partners in August 1999.

While my book was being printed, my dear friend, Tim Bourquin, took his original traders network idea to the next level as he extended his work effort, and together with Jim Sugannan, they co-founded the first ever International Online Trading Expo, which took place in Ontario California, September 1999. The theme of the Expo was education, and it turned out to be a great success. What I enjoyed the most from speaking (he Expo was the opportunity to sec, talk too, and teach traders who flew in from all over the world. It gave me (he feeling that day trading is here to stay, and I was proud to be one of many who shared a passion for the market.

Following the success of the Expo, Tim and Jim scheduled another show to take place in New York, Fcb 18-20, 2000. I was invited to be a guest speaker and (each a tutorial about high probability trading. To make this tutorial special, I would walk the attendees through case studies of actual executed trades, from concept to completion.

Two weeks before the Expo in New York, I met with Tim and Jim for lunch at a local Sushi bar. We were talking about the success of my book, *Stock Trading [Vizard*, and about my upcoming presentation. Tim and Jim also informed me that my tutorial was number one in pre-registration. We figured out that there was a lot of interest from traders to sec a recap of actual placed and executed trades, studied in detail. As I was stuffing my face with a spicy tuna roll, I noticed that Tim was cooking something up in his head. He had that serious look on his face. Then came a smile as he presented his idea.

"I have a challenge for you," Tim said. "I want you to take your book,

Stock Trading Wizard, and show the world how you actually implement the strategies you featured in the book, in real life.

This idea started an entire conversation where the three of us were brain storming. The result was that I was going to do something that had never been done before and would hopefully benefit many traders for years to cotne.

Here is what I would have to do:

I would start from scratch as if I was a beginner. I would research and select the right broker. I would open an account with \$50,000 and follow all the money management and risk management rules outlined in the book. I would trade for a period of four weeks, starting on a date selected in advance. I would feature all trades — winners and losers — from concept to completion. The goal was for a reader to spend four weeks with me and learn how I trade stocks for a living.

I really liked the idea and challenge Tim and Jim had for me. I felt it would be beneficial for anyone who considers trading stocks for a living to see how I do it. I accepted the challenge, and we decided that I would have the account ready and start the trading no later than the end of March.

Trading Station Setup

Before I could get started, I needed another PC. I wanted to have a backup unit ready to ensure there would be no interruptions in case I ran into problems. I bought a new custom Pentium III with dual, 8 Megabyte graphic cards powering dual, 21" monitors; 256 megabytes of RAM; and miming Windows 98. My other computer was already running NT 4, with a DSL Internet connection, and my new PC was connected to the Internet via cable modem. I had to swap various graphic cards, cables, hubs and settings to get everything just right, because I naturally wanted my new PC to be my primary workstation.

Beyond giving me an added degree of psychological comfort, all these backup precautions turned out to be very prudent, because at one time or another, the DSL went down, the cable feed went down, and a PC froze up. Not everyone may need such an elaborate setup for their own trading, but I cannot stress enough the importance of having backup systems in place for those occasions when disaster strikes. In a world so heavily dependent on technology, the unexpected seems to happen routinely. As it was, I ended up losing money or leaving some on the table due to technical problems. But I could

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have gotten into bigger trouble had I not been able to quickly switch to a different computer or data feed.

By the time everything was ready, I had two computers, four monitors, a printer, and a TV. Besides having CNBC running in the background, the television would indicate if the cable company was having problems, rather than the data feed or my PC. All in all, the furniture, lighting, deliveries, and various installations and setups set me a week behind schedule, which just shows how the best planning can still run into unanticipated" problems and setbacks.

Choosing a Broker

This is probably the most important element of the setup procedure. I knew from past experience how important it is (o have my account with someone I can trust. Before I discuss the guidelines I followed to select the right broker, I feel I should explain how some online brokers make money. Have you ever seen the phrase "free commissions" or "\$0.00 commission on market orders" used in promotional advertising? You probably have. In fact there are companies out there that offer "Free Trading." How is that possible? How can they afford to pay for advertisement on TV if they work for free? The answer can be found if you read in between the lines.

The first thing you will notice is that free commissions are offered for accounts with limited customer service activities. For example, all communications with the customer are via the Internet, exclusively (E-mail). They do not offer a telephone number or a physical location for customer service. All trades and customer service are only handled through the Internet. Do you know what happens if you bought a stock at \$45.00 and it is falling down hard and you lose connection to the Internet? You are toast my friend!

There is no one to call to get you out of the trade! You can lose thousands, in this case.

Here is the next catch. You will often read that the Market Makers and Specialists who execute trades may pay the brokerage firm for order flow. What is order flow? Simply put, the brokerage firm SELLS your order. These payments used to average as much as \$9.00 per order. Why would a Market Maker or a Specialist pay \$9.00 on average for your order? I am sure you guessed it by now; he would do so, because he plans to make a profit from it at your expense. How do you like your free commission now? I think it is important to understand that nothing is FREE. We always pay for it one way or another.

So, how can one go about selecting a broker to open an account with? I will use the process of elimination, just as if I was taking a multiple-choice test.

First, I will eliminate all browser-based brokers, because there is no way I should wait more than six seconds, at the most, for confirmations on executions and cancellations on NASDAQ stocks. There is also no way I should click the refresh button again and again to get confirmations of pending trades and cancellations. That will cost me a lot of money in the long run. I want to see my orders and cancellations live, in real-time. Consequently, I require a stand-alone program.

Next, I will eliminate all online brokers who do not offer direct access to all ECNs and Market Makers. Day traders who trade with brokers who do not offer direct access are at an obvious disadvantage because their orders are rerouted, rather than placed directly with the buyer or seller. This means that they do not have direct access to the *best* possible prices to buy or sell a stock. I am amazed by how many day traders are trading with inferior platforms, robbing themselves of the best possible fills. I have narrowed down my selection to a few brokers who offer a stand-alone program and direct access to the market.

Finally, I will take into consideration the brokerage firm's customer service and commission rates. I had a handful of final candidates whom I was going to interview at the upcoming Online Trading Expo in New York. I wanted to see the trading software they offered and get my in-person impression of the way they conduct business.

After doing my homework and interviewing the different brokerage firms, I selected MB Trading to be my broker for the following reasons:

1. I found the software MB Trading uses, RealTick^{1M} III, to be very powerful and user-friendly. I must disclose that I have been using this software in the past, so I felt very comfortable with it. This is, of course, a personal preference, but as you will see throughout this book, I am a technical trader who uses charts to help identify entry and exit points. Charts are visual, and the charts provided by RealTickTM III software were of high quality, and were brighter, clearer, and sharper than charts provided by other trading software.
2. MB Trading offered direct access to the market from 8:00 AM through 8:00 PM. An hour and a half before the official open, and four hours after the official close, via both the trading software and their trading desk. I can call and place a trade with a live person at

their trading desk anytime between 8:00-8:00 at no additional cost.

3. Slate of the art customer service, I couldn't say enough about the importance of reliable customer service. MB Trading has always prided itself on providing such service, and I was very impressed to find out that my calls were consistently picked up by the second or third ring.
4. Reduced commission: "We at MB Trading understand that many clients are new to the RealTick™ III software and need some time to adjust to the different order routing system and wish to do so with fewer shares, MB Trading has created a special 60-day program available to all clients in which you may trade in lots of 300 shares or less for a reduced commission rate of five dollars - \$5.00 per trade." I felt that MB Trading was giving new traders a better opportunity as they cut down the slippage cost on smaller lot trades.
5. The most impressive thing about MB Trading was the testimonials. When I asked traders who use direct access software the question, "Whom do you trade with?" MB Trading was one of the most common answers, and when these traders were praising MB Trading's customer service, it made my decision a lot easier.

Once I chose MB Trading to be my broker, I filled out a new account application and sent it in with a check for \$300.00 for the data feed. My account was issued within a couple of days, and I wired \$50,000 into the account on 3/17/00. I was ready to make the first trade on Monday 3/20/00. The time frame for the challenge would be for the four weeks starting on Monday, 3/20/00 and ending on Friday, 4/14/00. I feel it is extremely important that I disclose that I have never had an account with MB Trading prior to the above date. Consequently, it made the challenge very real. I was going to trade a new account with a new broker just as a beginner trader would.

CHAPTER 2

Setting the Rules

The first rule has to do with risk management. When you manage risk, you always have to think of what would happen should something go wrong. Although this may seem like a pessimistic point of view, it is an essential element of proper risk management. We have set the following guidelines for money management and risk exposure for all trades that will take place in the following four weeks,

Risk capital is set at \$50,000. Margin may be used for a total buying power of \$100,000. Maximum amount of money to be allocated to one stock position may not exceed \$30,000 on the most aggressive position and should be around \$25,000 for most stocks. This will ensure I will not put all the eggs in one basket. The exception to the rule will be index-tracking stocks such as SPY, QQQ and DIA. Since these stocks track a basket of 30 to 500 stocks, a single position in one of these stocks is already diversified. Consequently, the entire buying power of \$100,000 may be allocated to such a position.

I must take into account the volatility of certain stocks, and manage risk properly. I may use the entire buying power to hold positions overnight and be fully extended if I so choose, but I must have a very good reason for doing so.

At the end of each week, all realized profits will be swept out of the account. If I have \$800 in profits for the week, I will order a check for that amount and start the next week fresh with \$50,000 in risk capital. If I have a losing week, I do not add money back into the account. I will work with the remaining capital until I get back over \$50,000, in which case I will draw checks again. This will prevent me from losing a lot if I hit a slump.

To keep things more challenging, I may not short sell stocks. This seemed a little odd to me at first, but the argument made was that many traders don't have access to an extensive short list or are trading accounts that are restricted from short selling. In order to not distort any of the performance, I will have to trade only one side of the market - the long side. I had no idea how much more challenging this rule was going to make things during the next four weeks.

Preparing for Day One

Sunday, March 19, 2000.

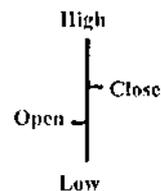
My day begins when the market is closed. At some point between the close of the market and the open on the following day, I will do my research. I normally like to do it at night. When I am finished with my research, I should have an idea as to what positions I want to be in during the next trading day. I will take notes, write out trading plans, and go to sleep.

I use technical analysis to help me find potential stock trades for the next day. Technical analysis is used to determine supply and demand for a stock based on price behavior over a certain period of time. There are many patterns in which a stock has traded in the past that will help me forecast the potential future price movement for that stock. I try to keep things very simple and I only trade patterns that I understand.

I will use two types of charts to illustrate the setups that I will be trading over the next four weeks, bar charts and candlestick charts.

Bar Charts

Each bar shows four different price fields for any given day. These price fields include the opening price of the day, the high price of the day, the low price of the day, and the closing price of the day.



Opening Price - This is the execution price of the first trade of the day.

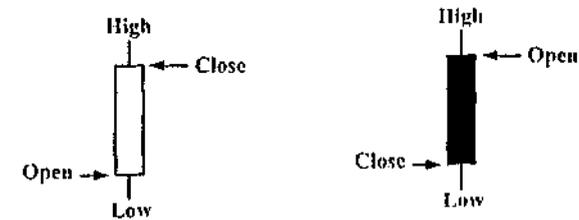
High - This is the highest price point that the stock traded at that day.

Low - This is the lowest price the stock traded at that day.

Closing Price - This is the price of the last trade of the day.

Candlestick Charts

Candlestick charts record the same data; however, it is somewhat easier to see the range between the opening price and the closing price for the time period the candle stick covers. Here are the differences between a white candle and a black candle.

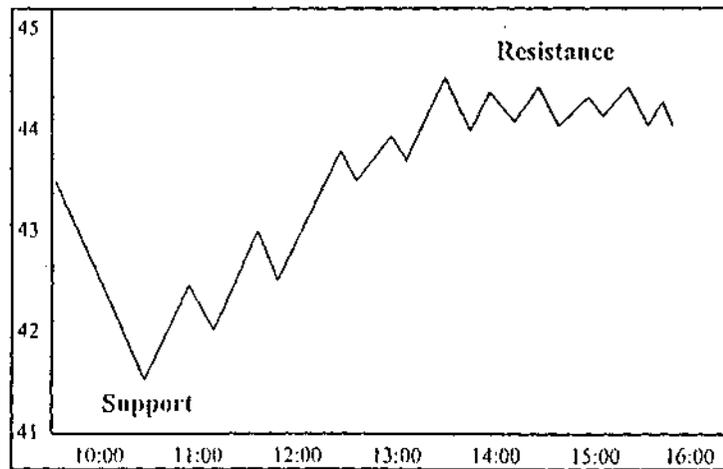


A white candle means that the closing price was higher than the opening price. A black candle means that closing price was lower than the opening price.

There are a few patterns that I base most of my trading decisions on, which I found easy to understand and implement. Those patterns consist of the trend or overall price direction a stock is trading in, and support and resistance. I strongly believe that most complex patterns and indicators which will derive from certain mathematical calculations of price behaviors will try to confirm the obvious pattern. I learned that focusing on the simple pattern has been very profitable for me over the years.

Support and Resistance

I will try and use a very simple example of how I look at support and resistance levels or how I implement (the laws of supply and demand in my trading). I will use a hypothetical example to illustrate the idea of support and resistance. Let's say that at 9:30 AM, XYZ stock opened for trading at $43 \frac{1}{2}$. The stock started trading down, and at 10:30 AM the stock was at $41 \frac{1}{2}$. The stock then started to trade higher and at 1:30 PM it was trading at $44 \frac{1}{2}$. The stock then traded in a tight trading range between 44 to $44 \frac{1}{2}$, and the last trade at 4:00 PM was at $44 \frac{1}{8}$. Let's chart the data of the trading day for XYZ Stock.



As you can see, XYZ traded down from $43 \frac{1}{2}$ to $41 \frac{1}{2}$ where it found a bottom (support), then traded back up to $44 \frac{1}{2}$ where it topped out (resistance). The question is, why? Why didn't XYZ go lower than $41 \frac{1}{2}$? Why didn't it go higher than $44 \frac{1}{2}$? The answer, of course, is found in the laws of supply and demand.

The laws of supply and demand for any product or service are very simple.

1. If quantity demanded is greater than quantity in supply, prices will go up.
2. If quantity in supply is greater than quantity in demand, prices will go down.

The reason XYZ share price did not go any lower than $41 \frac{1}{2}$ is simply because the quantity in demand was greater than the quantity in supply. The

reason XYZ share price did not go higher than $44 \frac{1}{2}$ is simply because the quantity in supply was greater than the quantity in demand.

The next question is, why was the quantity demanded higher than the quantity supplied at $41 \frac{1}{2}$, and why was the quantity in supply greater than the quantity in demand at $44 \frac{1}{2}$? In other words, what determines supply and demand in the stock market?

The reason (here was more quantity in demand at $41 \frac{1}{2}$ is simply because investors' expectations were for the stock to go up in price. The reason there was more quantity in supply at $44 \frac{1}{2}$ was because investors' expectations were for the stock to go down in price. In other words, supply and demand in the stock market is determined by investors' expectations.

If we study the price behavior for XYZ stock in more depth, I can expect a few things to happen in the future based on what took place in the past. The first thing will be that if XYZ traded back down to $41 \frac{1}{2}$, buyers should step in and buy the stock. Next, if XYZ trades back up to $44 \frac{1}{2}$, it will face some selling pressure. This easy to understand concept is the foundation of my trading system, and almost every setup I trade is based on this simple idea, that is to say, on changes in supply and demand.

Changes in Supply and Demand

If XYZ would be able to trade at a higher price than $44 \frac{1}{2}$, then it would suggest that investors' expectations have changed. If XYZ is able to trade at a lower price than $41 \frac{1}{2}$, then it would suggest that investors' expectations have changed, as well. These changes in investors' expectations, or changes in supply and demand, for a stock are very common, and I would try to capitalize and profit from these changes over the next four weeks.

Searching for Potential Trades

I have three main sources for potential trades. The first one is a watch list of 35 stocks that I follow on a daily basis. This list is my Constant watch list (although I do make changes to it once in a while). The second source is a scan I run after the market closes. This scan looks for different criteria and presents me with stocks that require further analysis. The third source is a scan I run during the trading day, which also looks for specific criteria to be met. Over the next four weeks, I will disclose how I found each and every trade prior to executing it. I will be covering methods of producing a Constant watch list in Appendix B. I will also be covering different scanning criteria, which you may use in your own trading, in Appendix D.

Running the Overnight Scan

The first scan I ran was for stocks that have pulled back in price over the last three days. I am looking for stocks that are pulling back in price from their 52-wk high and are at or near support levels. The formula for the scan is:

Oz Fullback Swing Trade

$\text{VolAvg20} > 350,000$
 $\text{Last} > \text{P Low}$
 $\text{PI Close} < \text{P2Close}$
 $\text{P2Close} < \text{P3Close}$
 $\text{P3Close} < \text{P4Close}$

Explanation:

VolAvg20: Average volume the stock has traded over the last 20 days.

1' Low: Previous Day's low.

PI Close: Previous day's close

P2Close: The close the day before

P3Close: The close the day before P2

P4Close: The close the day before P3

Tips and Guidelines

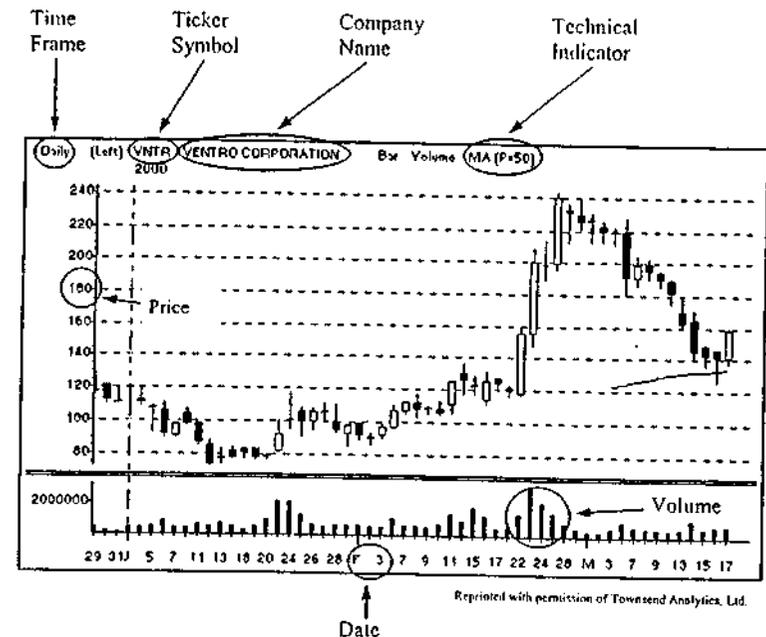
What you are about to read in (his book is very educational. Therefore, there will be many illustrations that will require both time and a high concentration level on your part. This book was not intended to be a novel, but a text book of many lessons of how I trade stocks for a living. In order for you to get the most out of this book, I am including the following tips and guidelines, which I suggest you follow.

Every case study which features an executed trade will include a chart that shows the pattern I was trading. It is extremely important that you take (the time to analyze each and every chart and understand exactly what took place. I understand that there is a lot of technical information that slows down the flow of the action; however, it is that technical information that is so important to learn.

Every stock I will be trading over the next four weeks will be referred to by its ticker symbol. I will say I bought 200 shares of INTC at 33 5/16. INTC is the ticker symbol for Intel. Since I am including charts for every executed trade, you will be able to know the company name, if you simply read it off the chart.

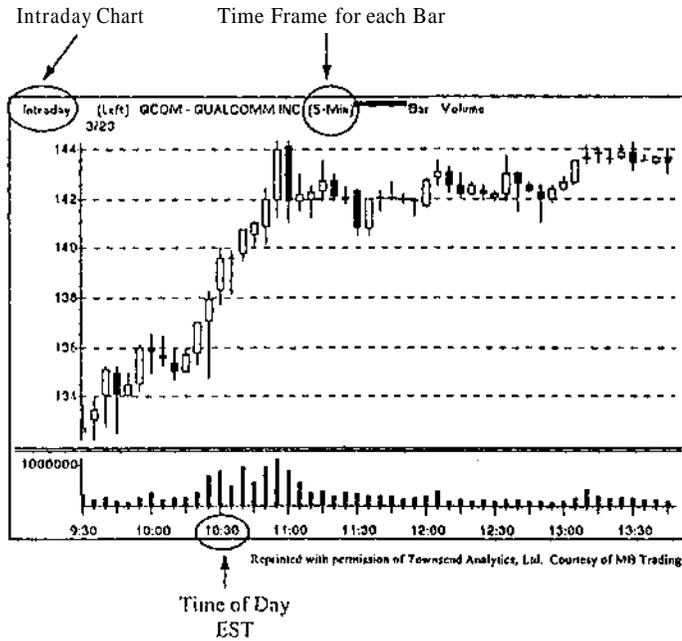
I will also be referring to Market Makers by their four letter code. To avoid confusion, I will put this code in italics to differentiate it from the ticker symbol. I will say something like *SBSH* was a serious seller. If you want to know who the Market Maker is, you can go to www.na.sdaqtrader.com. Click on the symbol directory link. In the search box, check the following fields: *Symbol*, *Start With*, and *Market Participant*. Enter the four letter code into the *Search For* window and click *Execute Search*.

Here are some tips on how to get the information out of the charts that I will feature in the book.

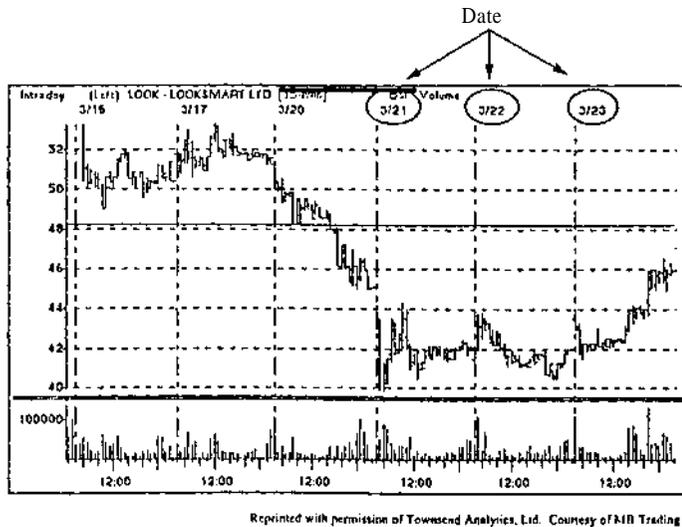


The technical indicator shown in this chart is MA, which stands for Moving Average. (P=50) means that the average covers 50 Period = 50 Bars. In this case it is a 50-Day Moving Average.

Intraday Chart (Single Day)



Multi-Day Intraday Chart



One of my goals in writing this book was to give the readers the sense that they are sitting right next to me while I execute the trades, I wanted readers to know the battles that take place inside my head, In my attempt to do so, I have included some of the extra important things that takes place while I trade. I wanted the reader to be a fly-on-the-wall observing all the action.

I think it is also important that you understand that I use MB Trading's order execution software in my trading. This software is not the traditional order routing software which you might be used to. This software allows me to control the routing of my trades by cutting the middle man out. Consequently, I have more order routing options to choose from, which may at times make things a little complicated to understand. The five order routing options I will be using in my trading over the next four weeks will be SOCS, SelectNet, ARCA, ISLAND and ISI. All listed stocks are automatically routed to ISI. As to Nasdaq stocks, I will be using one of the other four order execution routes listed above depending on the situation I am presented with. Appendix E covers a detailed explanation of the currently available execution routes,

Over the next four weeks, there will be trades that I will enter one day and exit sometime in the future. In order to keep some mystery as to what takes place next, I won't tell you where or when I exit the trade until it actually takes place; consequently, I will go on to feature the next trade I get into. This might be somewhat confusing to you. In an attempt to keep things organized, at the end of each trading day, I will list my open positions that I am holding overnight, along with a daily profit and loss statement.

Every trade that I execute will include a trade record in a table format. This table will show the capital allocated to the trade and the profit or loss realized on that trade.

With these tips and guidelines in mind, fasten your scat-belt and enjoy the ride.

Evaluating Risk/Reward Ratio

A trader should never risk more than he can make on a trade. I try not to risk more than 1/3 of what I am looking to make on a trade. In other words, my reward is normally three times greater than the risk I will take. If I am looking to make three points on a trade, I can only risk one point, so if I enter a stock at 50, and my price target is 53, I will have to cut the trade if the stock falls below 49. If the setup I look at does not present me with this ratio or better, I will not enter it. This will be one of the rules I will try to follow religiously over the next four weeks.

Stop Loss

One of the keys to successful trading is an effective stop loss system. Over the next four weeks, I will utilize the following strategies to limit my downside risk. I will first take into account the risk/reward ratio presented by the setup I am going to trade. Next, I will take into account the maximum allowable drawdown on my position. Then, I will define where technical support is found.

I will use one of the following strategies for the placement of a stop loss;

Below today's low

Below yesterday's low

Below secondary intraday support levels

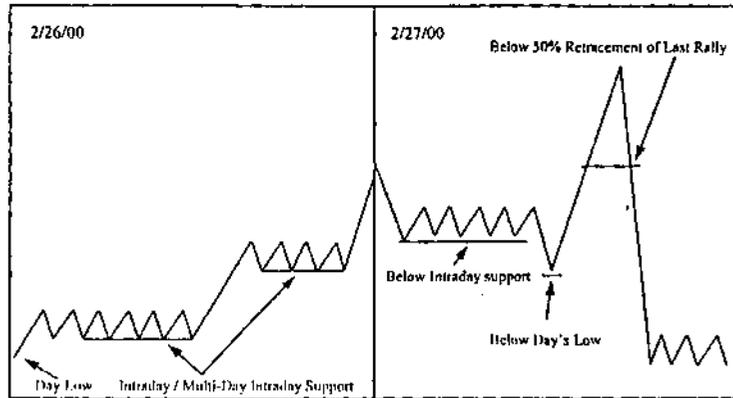
Below multi-day intraday support levels

Below 50% retracement of last rally

Below an index day's low or intraday support levels

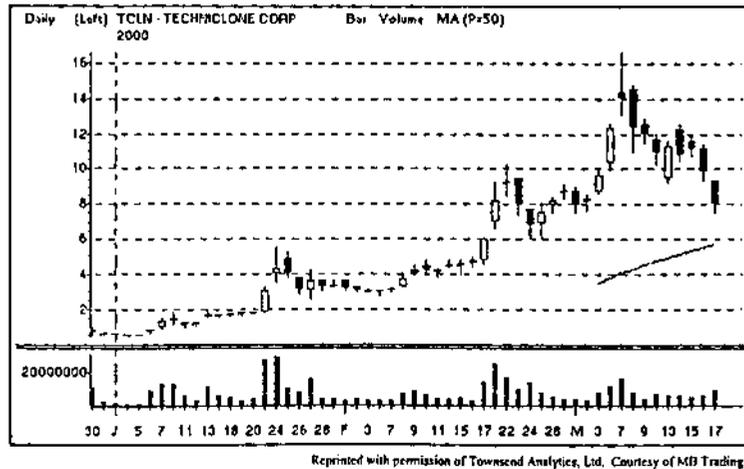
Once I am in a trade in which the initial stop loss was never activated, I will use trailing stops to protect profit. I will be monitoring the overall market, the individual stock, and the Market Makers to determine such exit points.

Stop Loss Strategies



The above 2-day intraday chart shows the different strategies for the placements of stop loss and trailing stop orders that I will be using over the next four weeks.

The final candidates for potential trades on Monday, March 20, 2000



TCLN has conic down in price from 16 5/8 to 7 1/2. I was going to watch the stock to see if it could bounce back up in price if it reached the following support levels:

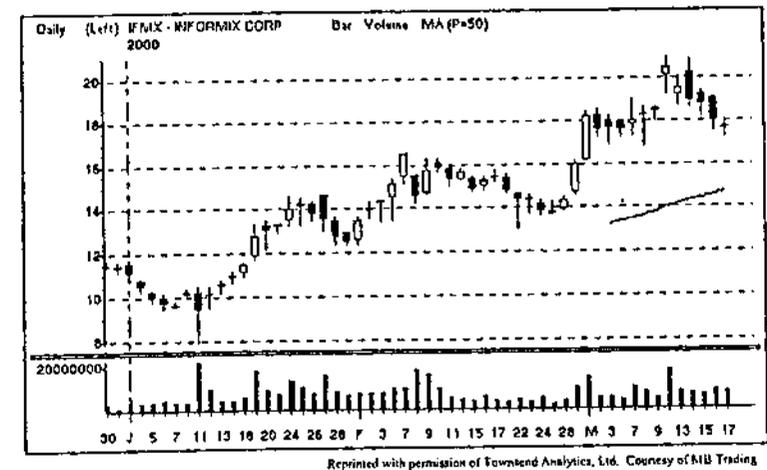
\$6.00 - This was the low the stock hit on 2/24/00, and was able to trade up from there.

\$5.72 - This is the price level where the 50-day closing price moving average lies.

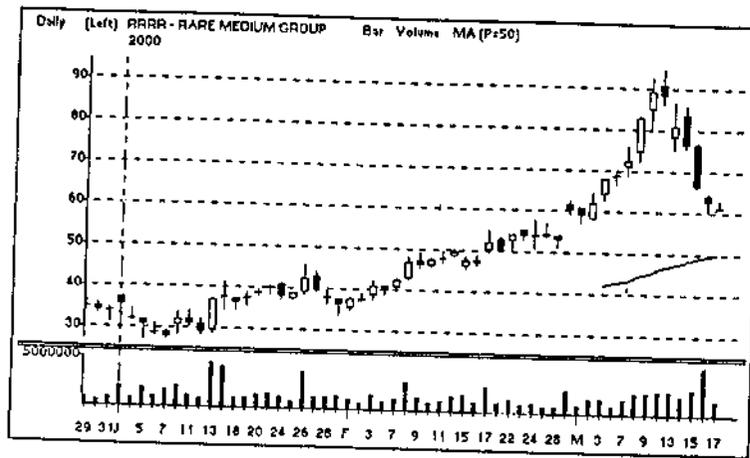
\$5.50 - This is the price level set by the stock on 1/24/00 on the high of the day. This is the same high that was taken out on the breakout on 2/17/00.

If TCLN goes down to these price levels and is able to trade back up, my price targets will be between 10 - 12 a share. The 10 level was the high set on 2/22/00, and the 12 level was the high set on 3/14/00.

The next thing was to determine the stop loss. I left that field open, and I made a little note to myself saying that depending on where I enter the stock set a stop loss at 3/16 below the low of that trading day.

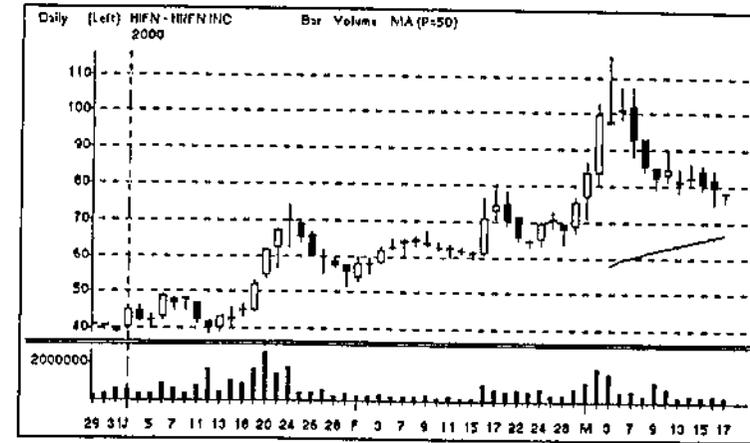


IFMX has made a 52-week high at 21 and pulled back to 17 1/4. My trading plan for this stock is to buy it at 16 1/2, which was the high the stock made on 2/7/00. My stop loss is at 15 7/8, and my price target is 19 - 23. My plan is to buy 300 shares at 16 1/2. I will add 300 shares at 16 7/8 should the stock show strength. I will sell 300 shares at 18 7/8, and trail a stop behind the remaining 300 shares. I will give it a chance to move to new high ground.



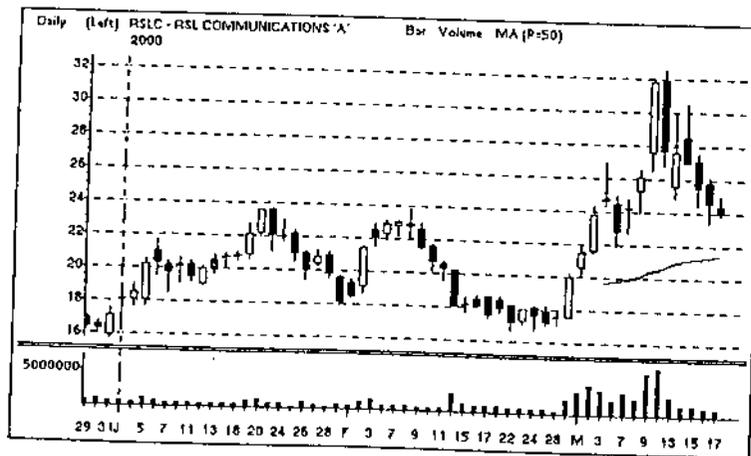
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RRRR has pulled back from 94 3/4 to 60 1/2. The last trading day, the stock closed below the previous day's close, but it did not trade at a lower price than the previous day's low. My plan is to buy the stock if it trades higher than 63. My stop loss is to be placed at 60 3/8. My price target is 75 which was the low the stock made on 3/13/00.



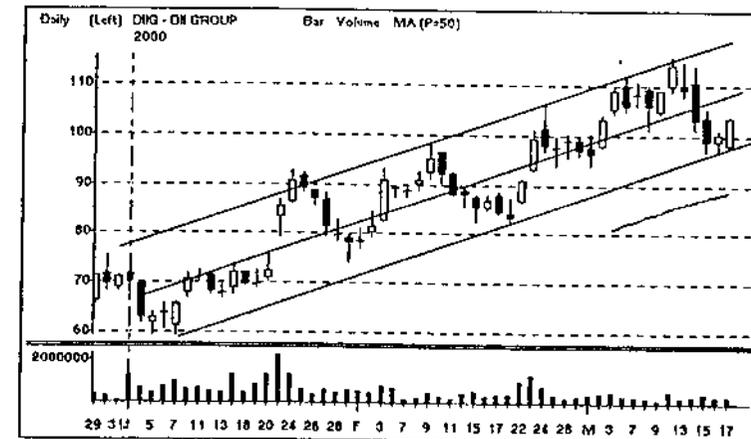
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HIFN pulled back from a high of 116 to 76. It closed near the high of the day at 78 1/16. My plan is to buy HIFN if it trades higher than 78 3/8. My stop loss is at 75 7/8, which is 1/8 below the low of the day. My target is 89 which was the high on 3/10/00.



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RSLC has pulled back from a 52-week high at 32 1/2 and was at support levels around 24. The stock did trade lower the previous day and hit 23 3/8. The close yesterday was the lowest closing price in nine trading days. The 50-day moving average is at 21 1/2 and I will be looking for a possible bounce at that price level. My price target will be 24, and my stop loss will be placed 1/8 of a point below the low of the day.



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DUG is trading in a rising channel. It held the trendline and is now looking to turn up. My plan is to buy the stock should it trade higher than 103 3/4, my stop loss will be at 99 3/4. My price target is 115 - 125. I found this potential trade on my Constant watch list, which I analyze everyday.

DAY ONE

Monday, March 20, 2000.

The time has come, and I was now to capture all my trades, executed over the next four weeks, for all the world to see. I have to admit I was extremely nervous, yet anxious to get the show on the road. I had my potential trades in my market-minder window ready to be followed. The trading plans were well outlined, and now it was a matter of simply executing the trading plan.

The trading day starts very early in Southern California. I like to get up at least 90 minutes before the open to check on market conditions and be alert early in the trading day. More often than not, there is a big news story, which sets the tone for the trading day. Today was no different, and the story of the day had to do with a company that might have been cooking the books (the company said it was revising its 1999 and 1998 revenue and operating results, "due to its evolving business model" and were later hit with a lawsuit by angry shareholders as a result). I was very familiar with this company and knew of individuals who were long the stock.

Gap Open

In case you didn't know, stocks which trade today at a certain price and close at a certain price can open the next morning at *any* price. In other words, if a stock closed its trading today at 100, there is no saying where it will open for trading tomorrow. In fact, it can open for trading at 697, or it can open for trading at 20. It might not even open for trading at all the next day. This is some of the risk that is taken when you hold a position overnight. Here are some examples: On Friday, May 1, 1998, ENMD traded last at 11 3/4. There was a very positive story about the company in one of the major news publications over the weekend. The first trade on Monday morning, May 4, 1998 took place at 82. This is not a mistake! The stock gapped up at the open almost 600%. In March of 1995, IDC was halted intraday. They lost a lawsuit in which they were trying to get compensation from MOT for patent infringement. The stock did not trade the following day at all! It never opened for trading. The last trade before the halt was at 12 7/8. When the