

A (NOT) So Random Walk on Wall Street.

A No-Nonsense Framework on How to Beat the Market and Create Wealth.

Written by Professional Trader/Investor Gregory Mannarino,

The “Robin Hood of Wall Street.”

This book is dedicated to my many tens of thousands of followers from all over the world!

Thank you!

“The stock market is a game of mortal combat where massive opposing armies of Benjamin Franklin’s engage each other on the battlefield... and to the victor of this war goes the spoils.”

GM

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Introduction.

Now, why have you picked up this book specifically? Well, it would be a safe assumption on my part to just guess perhaps that you have selected this book for one reason... to make money trading the market! To learn directly from a professional trader on how it is done. Well then, if that is the case, I congratulate you. You have indeed picked up the right book.

I am going to walk you through exactly how to look at and think about the market, and trading, from the perspective of a professional trader. Trading is my only job, this is how I make a living, and that is important to know because you did have many choices when it came to picking “the right” book to learn how to trade. There are a multitude of books written about trading, and in truth I probably have read most of them. The vast majority of books written about trading and the markets seem to just regurgitate the same information over and over, moreover, many of these books have not even been written by professional traders! How does that work? This book is different, much of the information provided in this book cannot be found in a single other trading book. What I have done here with this book, is put together for you a guidebook so to speak, which will get you to think about the market and trading differently, a new approach to the market.

Becoming a successful trader means developing the right mindset, which is something that can only be accomplished with the right teacher who is willing to share what they have learned by experience. There are two types of “smart,” book smart, are real world smart. Real world smart only comes from experience and is invaluable, especially when attempting to be successful in complex situations. Yes, book smart is important! A person must have a strong fundamental understanding of the principals and theory of any given subject to make the practice of it produce successful outcomes, but here again, there is absolutely no substitute for experience.

I am going to let you in on a secret right here at the open, trading is both a science and an art, and whomever can bring the two parts together better wins. The science aspect of trading is the easy part, just follow the data, along with the principals and theory. But the art aspect is more complex. The art of trading develops over time and comes about by understanding the fundamental drivers of the market IN PRACTICE, or how they work in real life- we will cover this in some detail later in the book. At an extremely fundamental level, understand that every single trade involves two participants, there is a buyer and a seller, and each is competing against the other attempting to have a successful trade outcome, and every trade is the same. Whichever trader, either the buyer or seller, who has a better perspective on what is going on regarding understanding both the science and the art aspect of trading at the time the trade is executed will win.

This book is all about winning.

This book is not filled with lots of stock chart patterns for you to learn, *although I do include a couple of important ones later in this book.* The issue I have with books which attempt to just fill

up pages with a multitude of stock chart patterns is this, most are useless and are based around rather antiquated methods of tracking price action. Moreover, attempting to possibly recognize when a complex chart pattern is developing can cause you, the trader, to make costly errors. Attempting to determine the probable price direction of an asset goes way beyond pattern recognition, and as I said, trading is both a science and an art. The art aspect of understanding the market implies understanding how the market works, fundamentally, enabling you to make rational and therefore better trading decisions.

In the **technical analysis** section of this book, I will cover a newer and vastly more accurate way to interpret price action movement using **Heikin-Ashi** candlesticks among other things. Utilizing the information I provide in this book will allow you to gain a clearer and better understanding of exactly how to track, and therefore predict, the price action movement of assets from a technical analysis perspective.

What this book will teach you, and this is critically important, is how to think about the market logically from the perspective of a professional trader. If you understand the market, how it works, and why it works, you will make better trading decisions.

You and I are not machines, and from time to time we will make bad and outright wrong trading decisions, but learning to minimize your errors, and then learning from them, will set you on the pathway to being a successful trader over the longer run. Expect yourself to make mistakes trading, not just as you learn to trade, but also as you gain experience. The trick to becoming a successful trader over the long run is to keep errors to a minimum.

I would like to end the introduction of this book with a heartfelt and sincere thank you to the many thousands of people from all over the world, who have supported my work over the years and given me the drive to keep going. *I Thank You!*

Chapter One- Getting Familiar with The Game.

Have you ever wondered about why it is that your boss makes more money than you? Or do you assume that your boss makes more money than you because he or she has a certain amount of power over you, and therefore more responsibility?

How about your bosses' boss? Why does your bosses boss make more money than your boss? Even more power and more responsibilities?

The answer to these questions is simple, your boss is "closer to the money" than you are. Moreover, your bosses' boss is closer to the money than your immediate boss is, and so it goes right up the chain to the CEO of whichever company you may work for.

Now, I want you to consider this.

Where does all the money in the world reside? Where can you find the center, or the hub so to speak, where all the money is?

I will tell you- all the money on Earth resides in the capital markets.

The term "capital markets" is broad and is used to denote the financial system. This includes venues like the stock market, bond market, currency/foreign exchange markets, and the commodities market. The term capital markets also refer to the central banking system, commercial banks, investment banks, derivative markets, and the place where various entities trade financial instruments, like the New York Stock Exchange.

Question. So, if we know where the money is, the issue then becomes this; how can you place yourself as close as possible to the money?

Answer. By being a trader of financial instruments. A trader is the guy or girl standing right at the front lines of where all the money is.

That is right! Traders do their work right at the very front lines of the capital/financial system therefore, traders are on top of the money. Being a market trader puts you right on top of the money hub, exactly where the cash is. As a trader there is no boss over you, and THAT is exactly where you want to be- right on top of the money.

As I outlined in the introduction section of this book, I am going to teach you how to understand and think about the market, in both theory and practice. As with anything, having a solid foundation to build upon is the key to long term success in every endeavor, so let us begin with this. As a professional trader of the capital markets for many years and as an individual who has built a worldwide following of many tens of thousands of people, I can attest to one certainty- the price action of the stock market IS NOT RANDOM!

Yes, you read that correctly- **the price action of the overall market or any asset is not random.** Think about what non-random price action means for a moment.

If the price action of either the market or an individual asset is not random, then that also implies that it is possible to track and trade asset price movements for profit. Moreover, it also suggests that anyone can beat the market by tracking price movement. In fact, beat the market to a large degree. When I say to a large degree, I am referring to vastly exceeding the overall performance of the S&P500. By considering that the market has a “frequency” to it, more commonly known as cycles which can be foreseen, forecasted, and therefore utilized to profit from, it should make sense to you that making accurate predictions on where the market is going can be done for profit.

There are certainly many people, some of which who claim to be “market experts” or professionals, who will say steadfastly that there is no way to predict the market, moreover, if you were to listen to many so-called market experts, almost invariably you will hear them say this; “you cannot time the market.” So, I ask you, what are these so-called market experts/professionals really experts and professionals of? Are they experts and professionals of simply just taking a sum of cash and putting it into various assets hoping that the value of the assets will only go up? What happens if they lose value? Moreover, if timing and tracking the markets is really an impossible task, then how can one explain that markets do in fact rotate through four cycles, and not three or five? Patterns which do repeat themselves over and over again. Moreover, why then do investment banks and other financial services institutions use something called “sector rotation” as to maximize investment profits? Furthermore, why then does every single investment institution employ a team of technical analysts whose sole job is to “technically time and track” the market? Additionally, why then does every major Wall Street bank employ a team of economists to help them gauge which economic cycle the market is entering and exiting as to capitalize on it? The answer to these questions is simply this; because the stock market can most certainly be “timed,” its future price action predicted, and its sectors rotated through, with a high degree of accuracy- therefore maximizing profits. Anyone who tells you that the market cannot be “timed and tracked” simply has not put in the effort required to learn how it is done.

Understanding “market dynamics,” or how capital flows through the market, is an exact science therefore the price action movement of the overall market or even an individual asset can be calculated, tracked, and timed- and therefore, is not random.

After many years of intensive work, exhaustive study, hundreds of interviews, and interactions with people who work at the major Wall Street banks, other traders, investors, hedge funds, and a lot of real time trading has allowed me to gain a unique perspective on the markets. I now fully understand “the game” that is Wall Street to an exceedingly high degree, but every day I continue to learn even more. As a Wall Streeter I must immerse myself, and in many ways, become the market. To be successful in any endeavor, one must become that thing. Being in the

market as a trader seeking to capitalize on the price movements of assets, means simply that I am going up against and competing with some of the smartest people in the world, including Wall Street investment banks, hedge funds, and other traders, all of which who want my investment capital.

As you already know, there are always two sides of every trade, a buyer, and a seller, and one of them will lose in any given trade. As in anything in life, the market is a game of survival of the fittest, and the best trader will win. To beat the market, one needs to have a clear understanding of how the market works, moreover, have a strategy to attack it. Being a trader means that you must approach the market strategically; you need a viable game plan and execute it precisely. A successful trader must have extreme discipline, know how to manage their investment capital, and have a clear understanding that not every trade will be successful. A trader who is making profits over time must be able to shift his perspective on the market quickly, as more data becomes readily available. Trading is a game of incomplete and rapidly changing information; therefore, a good trader has got to keep on top of what is going on all the time, and then be willing to change his perspective quickly. Every successful trader I know, or have ever known, has possessed the ability to adapt quickly to a shifting market environment. New data, market sentiment, geo-political events, central bank monetary policy changes, etc. all effect the market, sometimes dramatically, and a good trader will adjust his thinking and therefore strategy accordingly.

I have made a lot of money trading this market, but perhaps even more importantly, I have also lost a lot of money as well. Lost a lot? Why is that important? Because I learned the hard way what NOT to do. We humans always learn more from our failures, than from our successes. An especially important lesson every trader needs to learn is this; embrace his or her losses and learn from them. Ask yourself why? Why did that trade go wrong? Did I miss something? Was I not paying enough attention? Conversely, every trader needs to also accept their successful trades and again ask why. Why did that trade make me money? What do I need to do so that I can repeat the performance of my successful trade again, and again? Over and over.

How you vastly outperform the market as a trader comes down to recognizing one basic truth, **the price action of the stock market IS NOT RANDOM.** Am I saying that as a trader you will never suffer a losing trade? Absolutely not! As a trader you will suffer losses, sometimes multiple losses in a row. But as an example, **and proof** that what I am talking about is true, I offer you a challenge! At the time of this writing, I publish a free newsletter with now over 42,000 subscribers. Link: <https://gregorymannarino.substack.com/>

In my newsletter, which I began on March of 2020, I have openly posted for anyone and everyone to see, every single trade I have entered-AT THE TIME I ENTERED IT! Over 85 trades so far posted to my free newsletter. At the time I am writing this, my stock trading success rate is better than 90%. Yes, better than 90%. Want more proof? My challenge to you is this- ask any one of my newsletter subscribers if I am telling you the truth regarding my trading success

rate. Ask them this; Is Greg after posting over 85 individual trades success rate honestly better than 90%?

My trading success rate is staggering for only one reason, I study the market relentlessly. Am I telling you this to brag? No. I operate a free platform regarding posting my trades as I enter them and exit them. Why? Because I want all of us to be successful. I try my hardest to level the playing field for everyone when it comes to the “average” investor/trader VS the Wall Street Professionals. To date my performance trading this market has outperformed most Wall Street Hedge Funds- and I openly share all my work for free. All I ask is that those who follow my work and profit from it, donate a small percentage of their profits to a charity they themselves believe in. Pay it forward.

As I do offer my work for free, I have come to be known as **The Robin Hood of Wall Street.**

My interest in the stock market began in 1987, after seeing the movie Wall Street by Oliver Stone in which Michael Douglas portrayed a character known as Gordon Gekko. At that time, I was 21 years old, and having pretty much no idea of what I wanted to do with my life I said hey! I want to work on Wall Street. I had mentioned my “revelation” to work on Wall Street to my father, who happened to have a friend who worked at a Wall Street Bank, Bear Stearns. Yes, the same Wall Street bank which was involved in and at the forefront of the subprime mortgage meltdown which sent the world into “the great recession.” Well, my dad wanting to help me out made a call to his friend at Bear, who said, “*tell Greg to come down and see me,*” and that is exactly what I did! I put on the only suit I had at the time, which was hideous, I still remember it- kind of a dark grey, a terrible coarse material, and it had wide white pinstripes- just awful. Back in those days, and this has nothing to do with anything, I suffered with bad acne. So, there I was wearing literally the ugliest suit you have probably ever seen with a face full of wretched skin on my way to a Wall Street bank to ask for a job. Well, I then took a ride on the Staten Island Ferry and made my way over to see this guy who I never met before at Bear. So, I get there, sit down next to his desk, and he said “ok Greg, what do you want to do? Honestly, I had no idea! None, zero, nada. I was being honest with him. He said, “ok Greg, I can get you to work as an assistant analyst, are you interested?” I had no clue whatsoever of what he was even talking about! Assistant analyst? What in the world is that I thought to myself? What would I be doing? At that time, I had not even attended college yet! All I had done prior to this “interview” was work at a few automotive repair shops having learned about cars out of necessity because I wanted to street race. Well, being offered an assistant analyst position, whatever that was, and being essentially broke, without even asking a single question I took the job. I simply thought hey, I will just go with it. This entire thing was totally foreign to me. You may have well just dropped me off on another planet. I felt completely out of place, lost, and I was. In fact, this was the first real job interview I had ever even been on! Sure, I had responded to a few job posts in the Staten Island Advance for work at local car repair shops, there I just showed up and was asked if I had tools, I said yes, and I got hired, but this was different, and I was uncomfortable.

Ok, so now I am an assistant analyst! What on Earth would I be analyzing? Can someone please tell me I thought to myself, would I be doing? I simply just assumed that there would be a training program or something along those lines but oh was I wrong. I got put to work basically running errands for a guy who was an analyst, and it frankly sucked, in fact “sucked” may be an understatement. I got treated like garbage and learned nothing. There I was, a pimply faced “kid” wearing a horribly bad suit, oh, I subsequently did go out and buy a few better suits and borrowed some of my father’s ties along the way- I still have a few of those ties today!

The only good thing, literally, that came out of all this was I became introduced to “technical analysis.” Technical Analysis is a method of attempting to understand the price action of an asset by looking at previous data, and then make assertions on where an assets price will likely move in the future based upon that data. Now this was fascinating to me! You mean to tell me that there is a system by which one can possibly predict where the price action of an asset will likely go in the future? Who knew! And suddenly dollar signs went flying through my young and frankly silly head. Keep in mind that I was flat broke at the time and secretly I wanted to be Gordon Gekko, you know the “Greed Is Good” guy. Being introduced to technical analysis at that time, and the theory behind it, was very intriguing to me. But little did I know that technical analysis is in fact just one tool of many which I would have to become remarkably familiar with in the future in order to be a successful trader. Well, I learned.

I have always been the type of person who wants to know how or more importantly WHY something works or fails to work.

As a child I must have driven my parents and teachers insane, literally, always asking why this and why that, constantly.

If I had a dime for every time I would ask “why” and my mother would answer me by saying “because ‘Y’ is a crooked letter,” I could have bought The Empire State Building.

This is where it all really began. My father owned a 1969 Camaro SS with a big block engine and a 4-speed transmission. I was fascinated with this thing and wanted to know how it worked. At the age of 17, before I even had a driver’s license and while my father was at work, I rolled the car out of its garage and took it apart, and I mean TOOK IT APART! My father comes home seeing his car in pieces, the engine broken down to the bare engine block. Pistons and rods here, camshaft there, etc. Must have been a truly epic scene. Well, my dad walked calmly over to me and said “ok Greg, now put it back together- and I did! I went out and bought every single book I could find and read them over and over cover to cover repeatedly attempting to learn HOW THIS THING WORKED! My favorite book was How to Hotrod Big Block Chevy’s. I eventually got to the point reading all these manuals and books that I could recite them cover to cover, no joke. I have always had a fantastic memory, almost photographic. Well, my dad was amazed! Not only did I put his car back together again, but it was way better than before- and faster! I researched the best components to put back into the engine and learned precisely how to tune it- something I am still exceptionally good at even today. My father was incredibly

supportive of me in whatever endeavor I chose to undertake. *My father died in February of 2020 after suffering a long bout with illness, I miss him a lot.*

At the time I am writing this book I do own a 68' Camaro SS with a 406 cubic inch race engine on nitrous. I also recently purchased a new 2020 Dodge Challenger Hellcat with 717 horsepower. Yes, I still retain that "need for speed."

Prior to the time that I disassembled my dad's car, I had NO KNOWLEDGE, absolutely none! Of how a car engine worked! I just wanted to see what made it tick! I learned a lot by taking that thing apart, what each component did, how it works, and WHY it works.

When I was employed an "assistant analyst" at Bear, I met one person, JUST ONE, who took an interest in teaching me the basics of technical analysis. His name was Steve and even though I have no idea today of where he is or anything, I owe him a debt of gratitude. It was because of his interest in teaching me, this one guy Steve, that I now have a compulsion to teach others about the market. I had no idea at the time what a profound influence Steve would have on my life, I thank you Steve. *-in part I should also dedicate this book to you Steve, wherever you are. I hope you are doing well.*

Well after a few months of being an errand boy, oh I mean "assistant analyst," I had had enough. So, I made my way over to see the guy who initially offered me the job, the friend of my father who's name I have now long forgotten, and told him I was going to quit- I at least owed him that. Well, he said, "hold on Greg! I can get you another job here if you like." I said ok, what is it? He then asked if I wanted to work on the trading floor. I said ok, what would I be doing on the trading floor? Instead of telling me what I would be doing, he then asked another question, which was; "do you like to talk to people?" I say yes, I like to talk to people. He said good. You will be making phone calls. Making phone calls? Yes, he said. The first thing which came to mind is the character of Bud Fox in the movie Wall Street. In the movie, Bud made phone calls and talked to people about buying stock, but I was not a stockbroker. I said, you mean like Bud Fox in the movie Wall Street? He laughed and said, well kind of, and I took the job. I mean why not? I had absolutely nothing to lose. Now this got to be remarkably interesting, and somewhat twisted. I was put to work on the trading floor of a major Wall Street bank, essentially working AS a stockbroker- having no license and no experience! I was not a broker, yet here I was selling people stock, or trying to, over the phone. Honestly, I became good at this, particularly good. I was proficient at offering people the opportunity to buy stock in companies mostly because I enjoy talking to people, I always have. Moreover, I also felt like I was helping people grow their wealth by investing in the market, a win, win. Lovely.

It was here on the trading floor that I got to see and learn A LOT about how the market works, how Wall Street works, and why. It was also here I also got introduced to the dark side of the market. I soon came to know that there were a lot of guys just like myself, acting as brokers without a license, buying and selling stocks for investors. I also became keenly aware of just how easy it was to "play the game" from the inside, with a just a hint of non-public information.

All anyone talks about on Wall Street is money, and all that keeps someone's interest in working on Wall Street is making money, any way possible. I learned quickly that there were some not so "legal" ways traders and brokers were making money using inside information. Well, being young and foolish at the time, making easy money interested me, and I will not lie about it. Today the entire financial system is based upon easy money, so looking back on it now, and in the words of my late father Joe- "it is what it is."

There was a camaraderie on the trading floor at that time, and I liked that! Quickly I began to make friends, not just at Bear, but with guys from other Wall Street banks as well, and all these people ever talked about was making money. Back in those days everything was done on paper, so if let us say for example that someone had become aware that a large order or multiple orders to buy stock in a thinly traded company were about to be placed, how easy would it be to "jump in front" of that trade? Amazingly simple. I soon became involved in a kind of a front running scheme with other "brokers" and traders. Brokers and traders not just those who were working at Bear, but several other Wall Street banks as well. We all hung out together, went to the same bars and clubs together, and let me tell you- on Wall Street people talk. What this turned out to be was a somewhat large network of trader/brokers from several banks openly sharing inside information with each other regarding trades/trading, etc. Well as I said, on Wall Street people talk. This network or people of which I was a part of, began using this information and applying it to make trades. This was a remarkably simple way of making money- and no one got hurt, yet. This kind of thing was running rampant in those days, and I am certain that it continues even today as well. This circle of trader/brokers who were involved in this front running escapade had gotten quite large, and with that, it was just a matter of time before it would get shut down, and yes that is exactly what did eventually happen. The long and short of this was that those of us who were involved in this front running thing at Bear got fired, and not even a single one of us got in any legal trouble at all! The entire thing was just brushed under the rug. Well, at that point my days of working on Wall Street were over and at that time I really did not even care. How could I possibly get another position working at another financial institution with something like that under my belt? I could not ask for a recommendation from any one of my supervisors. So yes, at that point I ended any possibility of having a career on Wall Street. Subsequently I went on to get a medical degree and practiced medicine as a Physician Assistant for 20 years, and it took the stock market crash and global financial meltdown in 2008 to pull me back in to the market in a big way.

Like many other people at the time, the market crash of 08' wiped me out of most of my investment portfolio, and I lost close to a quarter of a million dollars in paper gains. From that meltdown I learned quick that there is a big difference between paper gains in a portfolio, *unrealized gains*, and real gains. So, on paper up until that time I was doing quite well, but it was not real, none of it was. Losing nearly a quarter of a million dollars of "on paper gains" did feel real at the time, and it hurt, it also made me angry as well. What made it even worse is hearing that Wall Street got bailed out by the very people they hurt! Yes, the public, to the tune of three

quarters of a trillion dollars under the T.A.R.P program, and the people got nothing. What added to my dismay at the time is seeing how the meltdown affected other people, the suffering it inflicted on people, personal friends of mine, and that hit me hard. It was around that time that I decided to start a YouTube video blog, Gregory Mannarino MarketReport, LINK: <https://www.youtube.com/c/GregoryMannarino/videos> to discuss what happened, learn from it, open up a dialogue, a platform where people who had also been affected by the market/housing crash could come together. I poured my entire mindset into learning as much as I could about the market, the banking system, various assets, debt, currencies, the global economy, politics, trade, etc., and how it all plays together. Realizing that all of this is essentially a game, a problem, reaction, solution charade played upon the people in a rhythmic cycle, repeated over and over transcending way beyond the markets- and used as a tool to manipulate the minds of men.

So, Why Trade the Market?

To some the answer to that question is simple, to make a return on your investment above and beyond that of which can generally be obtained in any other manner, short of winning the lottery perhaps. The average return of the stock market is 10% per year, and it has maintained that percentage gain for nearly the last one hundred years. Well, a good trader can easily double the yearly performance of the average overall market return on a percentage basis. A particularly good trader can exceed, by many multiples, the average percentage gain of the S&P500. For example, at the time I am writing this book, and today is December 2nd, 2020, I have put on a gain of 120% in *Realized Gains to my trading portfolio year to date.

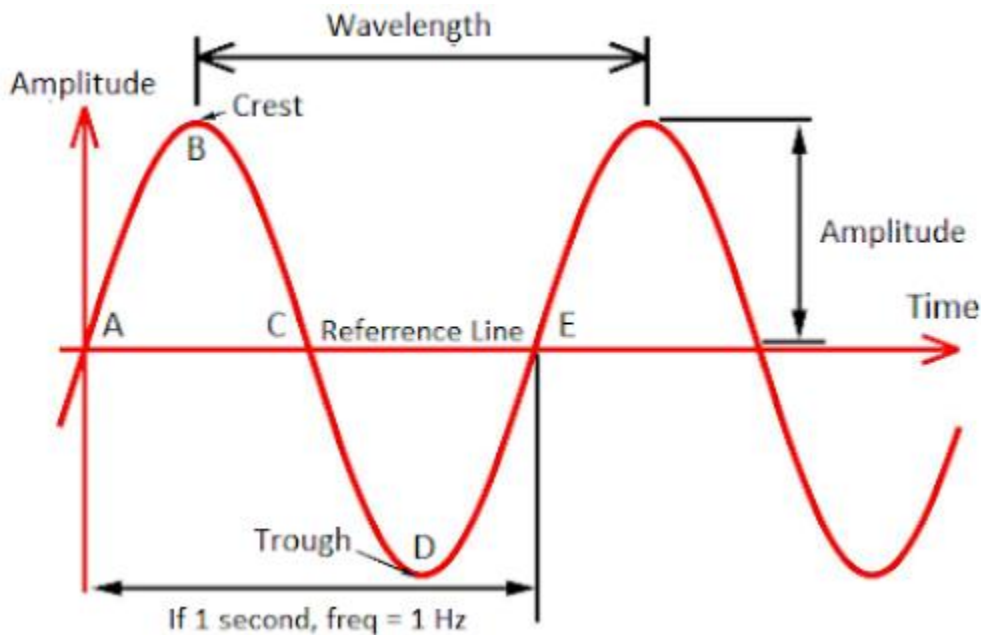
***Realized Gain(s) definition.** A realized gain results from the selling of an asset at a price higher than the original purchase price. In other words, the gains have been made real by selling the asset with a profit, as opposed to an “on paper gain.” An on-paper gain is an example of an unrealized gain, an on-paper only gain. The holder of the asset which had put on a gain, on-paper only, has yet to make the gain real by selling the asset, thereby creating a realized gain.

To me paper gains are nothing, zero. A paper gain is an illusion, something I learned firsthand with the 08’ market meltdown.

Chapter Two- Random VS Non-Random VS Predictable Outcomes Relating to The Price Action of Stocks and The Market.

The very premise of this book is based upon the concept that the price action of the stock market, or even a single asset is not random. In fact, it could be said that nothing is random- there are always statistical averages. But when it comes to trading the stock market, all price action occurs within something called a **Standard Deviation**. In short, standard deviation is the statistical measure of market volatility. (SD) is a method utilized to quantify how widely prices are separated from the average price. Nearly all the price action of either the entire stock market, or a specific asset trades within 2 standard deviations. Now, I am not going to bore you with fancy mathematical equations and formulas, but the fact of the matter is simple: the price action of any asset will move in predictable regular patterns which can be exploited for profit. Moreover, the price action of an asset, or an entire market has a “frequency” to it. When a person thinks of a “frequency,” something like a radio wave may come to mind, and within these frequencies are yet other sub-layers called Fractals, well the stock market trades in a remarkably similar ways as well.

Below is an example of a radio wave.

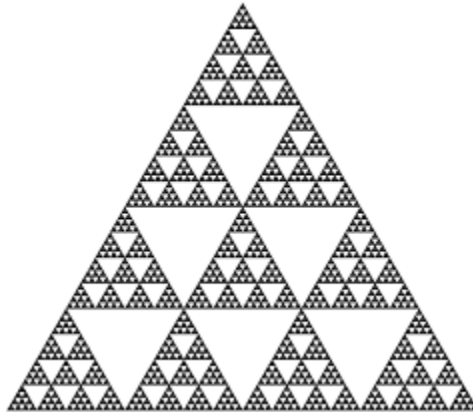


A fractal is a repetitive pattern within a pattern, which in turn continues to repeat itself down to the smallest element of the larger pattern, indefinitely.

Fractals are complex patterns which are self-similar, meaning they are images of themselves across different scales. Fractals are created by repeating a simple process in images of

themselves over and over in an ongoing feedback loop. Many traders do trade in different timelines, and in essence, they are attempting to trade within a fractal.

Below is an example of a fractal pattern.



Fractal patterns are multidimensional, fractal patterns are infinite, and are not limited to any specific geometric shape. A direct connection between the price action of an asset, or even the entire market, can be made here. Understanding that fractals are a product of nature and therefore natural law, it should make sense to you that the concept of fractals occurring in the price action of an asset should make sense. The entire universe, which includes every single sub-part, from the macro to the micro, and every single action within it is based on the principals of Geometry.

When you think about geometry, what comes to mind? Certain shapes? Corresponding lines? Mathematics? Geometry can be defined as follows: a branch of mathematics that deals with the measurement, properties, and relationships of points, lines, angles, surfaces, and solids. In a broader sense geometry is the study of properties of given elements that remain constant/never changing. A technical stock chart is a language, something which we will cover later in more detail, where there is much more going on than meets the eye. The market and trading within it involve the collective consciousness of every trader participating in the market at any given time. Therefore, the market can almost be thought as a living ever evolving entity.

The principals of geometry, including fractals, points, lines, shapes, patterns, angles, and more, can be applied to and utilized, in interpreting the price action of any asset.

To best understand how a fractal/geometry, relates to stock trading, I offer this simple example. Think of a trader, perhaps yourself, who utilizes a shorter timeline than one day. There are those who trade in extremely short timelines, like minutes. There are also others who trade in longer timelines, like hours, days, weeks, months, and even years! What are these traders/investors trying to do regardless of their timeline? All the same thing! Extract a profit from the market or an asset simply using a different “frequency” or sub-part, “fractal” when it relates to price action.

If one studies the price action of the stock market, or even an individual stock, often bizarre things seem to happen. The price action will move up and or down when just the opposite appears to “should” have happened. Much of this type of seemingly unusual price action may be occurring due to a larger “frequency” and the subsequent momentum of that frequency. If a trader however were to perhaps shorten the timeline he is trading on, or lengthen it, what appears to be random events in price action are not random at all. Many traders do use multiple timeframes simultaneously when attempting to discover price movement by observing price action using multiple charting screens. Essentially what they are doing, perhaps without even realizing it, is trading sub-parts, or fractals of the price action/momentum. How many of you have heard this before? “An Object in Motion Tends to Stay in Motion.” Yes, this is Newton’s first law of motion, sometimes referred to as the law of inertia. Newtons law also applies to the price action of an asset or again, the entire market.

Let us for a moment try to understand further Random VS Non-Random VS Predictable Outcomes.

If 20 people were to take a coin from out of their pocket and flip it 5 times, the outcome will be vastly different for each person. For some it would end up all Heads, for others all Tails, for others a mix of Heads and Tails. Each time a person flips a coin, whatever the previous flip was, has no bearing whatsoever on what the next flip of the coin will be. These are known as **Independent Trials**. Every flip of a coin has a 50% chance of being either Heads or Tails regardless of the outcome of the previous flip. Each flip is totally independent of the preceding flip. But over time, and after many flips, an “average” will be attained. Most Las Vegas casino style games are based on “independent trials,” which means that the previous round of the game has no bearing whatsoever on the outcome of the next. Now card games are a different animal altogether, especially Blackjack. If a card game is played using a standard deck of cards, the composition of that deck dictates how the next hand, or round, will play out. Cards removed from the deck as a casino game is played, changes the composition of the deck as the game plays out, skewing the odds, therefore the outcome of the next hand played IS dependent on the preceding hand- and that brings us to the next section- dependent trials. The principle of dependent trials in the game of casino blackjack are why “card counters” get banned from playing on Las Vegas.

Dependent Trials. Let us again use casino games and a standard deck of cards as an example. A standard deck of cards has four suites: hearts, clubs, spades, diamonds. Each suite has thirteen cards: ace, 2, 3, 4, 5, 6, 7, 8, 9, 10, jack, queen, and king. Thus, the entire deck has 52 cards in total. Now, let us use the game of blackjack again also as an example of dependent trials. As the game of blackjack plays out, cards are removed from the deck, or “pack” if a multiple deck game. As cards are removed from the deck or pack during play, it directly affects the outcome of the next hand(s) to be played. Therefore, the game of blackjack is based upon

dependent trials. If you were playing a single deck blackjack game and all four Aces were already dealt out, the odds of you getting a blackjack, a hand containing an Ace and a picture card on your next hand would be zero. The casino game of blackjack IS a fascinating game because a person can track, or “count,” the cards which have been played during the game and easily calculate who has the better odds of winning the next hand. I know this because I did it! Many years ago, I became a “card counter,” and got myself banned from playing the game of blackjack in Las Vegas.

What I am outlining for you here is setting the groundwork for you to understand that stock market price action is indeed based on mathematical principals, frequencies, fractals, and both types of trials- independent and dependent.

For the market, an example of an independent trial would be some kind of an outlying event, something occurring which is outside the realm of general knowability. An independent trial or event for the market would be an incident which cannot be foreseen, a completely random event. For example, a terrorist attack, or perhaps even something less dramatic such as an analyst downgrade or an upgrade. Independent trials or unforeseen events can have a dramatic effect on the market, or an assets price. Conversely, a dependent trial for the market or an individual stock/company would be something like an earnings report, which is generally an anticipated event and may indeed move an assets or a company’s price. Earnings season for example can move the price action of the entire market.

In summary, an independent trial or event relating to the market would be an occurrence which cannot be foreseen, an outlying independent event which can potentially move the entire market, a particular stock/company, or an assets price. A dependent trial or event would be a foreseeable occurrence, like a stock split, an earnings report, a potential merger, or spinoff.

The simplest way to break down and understand how the price action of the stock market works so that we can capitalize on it is this. Realizing that just as anything else, the price action of an asset or even the entire market has a frequency to it as I have already explained, and within these frequencies are sub-parts called fractals. Understanding that the market has a kind of “rhythm” to it, combined with understanding both unanticipated/independent trials and anticipated events/dependent trials allows us to stay way ahead of the market, and that is the key to successfully trading it. Moreover, we can use technical analysis, or math, to exploit and even anticipate price action. Technical analysis cannot “foresee” independent events, nothing can.

When determining the overall health and valuation of the market, a particular company, or a market sector, we can use **fundamental analysis**. Fundamental analysis is a method of recognizing value, either in the overall market, a specific asset, a company, etc. by examining the related economic and financial factors against each other. We will cover fundamental analysis in a later section of this book.

Longer term non-random price movement in the market causes investors to move cash in to and out of specific sectors of the market during certain times of the year. This movement of capital, or sector rotation, is a common occurrence among the Wall Street investment banks and hedge funds. Sector rotation for increasing profits can also be utilized by a trader or investor like yourself, so let us delve into that now!

Sector Rotation.

Because the market does move in predictable/non-random patterns, investors and traders can deploy a strategy to take advantage of these likely events. Known as **sector rotation**, this is the act of moving investments from one sector of the market to another depending on economic cycles. Sector rotation involves the sale of assets allocated in one aspect of the market and then using the proceeds from that sale for the purchase of assets in another sector. This strategy is used to capture returns from predictable market cycles. Sector rotation operates off the premise that not all economic sectors perform well at the same time. It further suggests that a well-performing sector will fall out of favor at some point in the business cycle. Sector rotation gives even more credibility to the non-random price action **fact**, not theory.

Market sectors. A stock market sector is a group of stocks that have a lot in common with each other. Generally, because they are within similar industries.

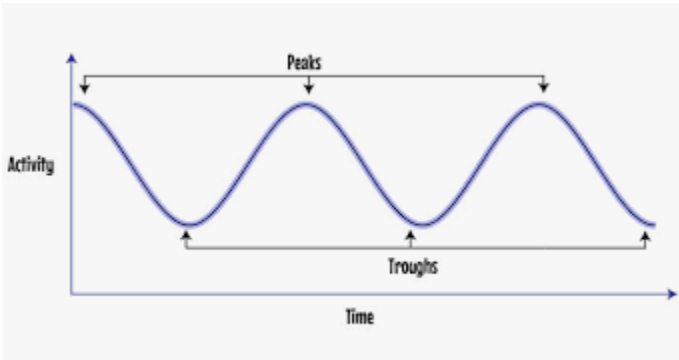
There are 11 different stock market sectors.

Market sector list.

1. Energy
2. Materials
3. Industrials
4. Utilities
5. Healthcare
6. Financials
7. Consumer Discretionary
8. Consumer Staples
9. Information Technology
10. Communication Services
11. Real Estate

The business cycle is defined the downward and upward fluctuations of gross domestic product (GDP) along its normal growth rate over a long period of time. The business cycle therefore is a driver of market sector rotation. As the name Business Cycle implies, there is a pattern to this, therefore by allocating cash into the best performing sector during the business cycle, one can maximize investment gains.

Business cycles are just what the name implies, oscillations of economic activity which occur throughout the year. Referring again to my non-random theory of the markets, business cycles occur as a rhythmic oscillation, or a rise and fall of activity that reaches a top, which is then followed by a decline. This pattern can be visualized on the graph below.



Referring to the graph above, you will notice that the business cycle, just as the stock market or the price action of any asset moves in the same “predictable” pattern. Each segment of these cycles can have varying lengths, but regarding the pattern itself each segment remains and will play out ensued by the following phase. *More on market cycles/phases in the next section.*

Patterns in any cycle can and should be expected to make rapid moves from time to time based upon data at the time, meaning business cycles, or market cycles, can start and end quickly for reasons that aren't always predictable- referring back again to my “independent trials theory of the market. An outlying/independent event can have a profound effect on market cycles in the short run.

Tracking and trading the business cycle.

By simply keeping track of economic data, and with just a little bit of common sense, an investor or trader can keep on top of what is happening regarding the economy and henceforth the business cycle. Most of the major financial channels do a fairly good job of reporting on economic happenings as to keep their viewers ‘in the know” so that they can invest and trade accordingly. Keep in mind that much of the economic data is propaganda in the literal sense, and this is where common sense comes in. By being able to see through what the real data is versus what is fake, and generally the fake data is largely obvious, it will make your success as a trader or investor that much greater.

Here I will break down each sector of the market for you according to the Business Cycle Theory along with the Exchange Traded Fund, (ETF), ticker symbol used to trade it.

An exchange traded fund is defined as a fund which is traded on an exchange. For example: the New York Stock Exchange. An ETF is a type of security which encompasses a collection of securities, like stocks. Many ETF’s also track an underlying index like the S&P500. A widely traded ETF is the **SPDR S&P 500 trust**. This is an exchange traded fund which trades on the

NYSE under the ticker symbol SPY, it is designed to track the S&P500 index. This fund is also the largest ETF in the world making it highly liquid. I personally trade this fund, SPY, almost exclusively, riding the cycles as they peak and trough.

The Energy Sector. Oil and gas producers tend to perform well during periods of high oil and gas prices. Here it would be important to follow the price of crude oil. One could take advantage of the price action of the energy sector by investing in or trading ticker XLE.

Materials Sector. The materials sector is made up of businesses engaged in the discovery, development, and processing of raw materials. In this sector are the companies which are geared towards supplying the materials used in construction. These companies tend to do well when the economy is strong. An investor/trader can take advantage of the price action of the materials sector by trading ticker XLB.

Industrial Sector. The industrial sector is comprised of companies that make or sell machinery, equipment, or supplies used in manufacturing and construction. Performance in the industrial goods sector is largely driven by supply and demand for building construction in the residential, commercial, and industrial real estate. These companies tend to do well when the economy is strong. An investor/trader could capitalize on the industrial sector by trading ticker XLI.

Utilities Sector. The utilities sector refers to companies which provide basic amenities, such as water, sewage services, electricity, dams, and natural gas. Investors buy utilities in general as long-term holdings for their dividend income and stability. The utilities sector has a tendency to do well as a “defensive play,” utilized against macroeconomic downturns. One could trade the utilities sector via ticker XLU.

Healthcare Sector. The healthcare sector comprises businesses which provide medical services, medical equipment, drugs, and provide medical insurance. This industry is affected by clinical data. Better than expected clinical data can cause stocks in this sector to appreciate significantly. One could gain exposure to the price movement of the healthcare sector by trading ticker XLV.

Financial Sector. The financial sector is made up of firms and institutions which provide financial services to commercial and retail customers. This includes banks, and investment companies. When the economy is strong, consumers generally earn more, so people look to borrow and invest. An investor/trader can gain exposure to the financial sector by investing/trading ticker XLF.

Consumer Discretionary Sector. The Consumer Discretionary Sector encompasses industries that are most sensitive to economic cycles. It includes automotive, household durable goods, textiles, apparel, and leisure equipment. In strong economic conditions consumers have more income to spend on discretionary items, and this leads to a greater demand for consumer discretionary products. XLY is the ticker symbol for those seeking exposure to this sector.

Consumer Staples Sector. The consumer staples sector includes companies that produce food, beverages and non-durable household and personal products. Persistent demand of these companies’ products make businesses in this sector thought of as a “safe haven,” even in

recessionary periods. Consumer staples stocks tend to decline far less during market downcycles than stocks in other sectors. XLP is the ticker symbol for those seeking exposure to this sector.

Information Technology Sector. The information technology, (IT), sector consists of companies that make and produce software, hardware, or semiconductor equipment. It also includes companies who provide internet related services. Here again (IT) tends to perform well in strong economic conditions as investment into the sector and the industries within it grow. XLK is the ticker symbol for those seeking exposure to this sector.

Communication Services Sector. This is the newest sector and includes companies like Facebook, Google, Netflix, and Comcast. XLC is the ticker symbol for those seeking exposure to this sector.

Real Estate Sector(s). The residential sector focuses on the buying and selling of properties used as homes or for non-professional purposes. The commercial sector consists of real estate used for business purposes like shopping malls, retail, office spaces, and hotels. XLRE is the ticker symbol for those seeking exposure to this sector.

On the topic of ETF's. As I have explained, I almost exclusively trade the **SPDR S&P 500 trust, ticker SPY**. The reason for this is simple. By getting familiar with the trading dynamics of a single asset, in this case the SPDR S&P 500 trust, it becomes easier to follow its common cycles. Every asset, ETF, individual stock, falls into its own "rhythm" so to speak, and that is because many of the same people tend to trade the same asset. By following the price action of a single asset, trading it becomes easier, more predictable, and therefore more profitable.

Market Cycles.

Earlier in this book I covered market sectors and sector rotation, now I will break down market cycles into four phases.

Market cycles, business cycles, stock market cycles, etc. all complete four distinct phases. They all rise, then peak, subsequently dip, and then finally bottom out. These phases follow each other sequentially and are therefore not random. When one market cycle ends, the next one simply begins. Keep in mind that market cycles will invariably have differing lengths, and can each play out dramatically different, but that still does not change the fact that these cycles progress from one cycle to another in repeating patterns.

The Four Market Cycle Phases.

1. **Accumulation Phase.** During this phase, the valuation of either a particular asset, or even the entire market is low, which makes it attractive however, the general sentiment is still bearish. It is during this phase that institutional investors, or savvy traders begin to buy. The easiest way to capitalize on the accumulation phase is to "dip your toe in" so to speak. Open an initial position seeking to add to it as the asset moves in the expected direction.

2. **Mark-Up Phase.** Here the market or asset is beginning to move higher and there are clear signs that investors are interested in owning the asset, or again the overall market. A good technical analyst will begin to recognize distinct patterns in the charts which further establish to him/her that sentiment has changed and are now positive.

3. **Distribution Phase.** In this phase of the market cycle prices are topping out, which will bring sellers in, who are either pulling profits, or others who are seeking to sell the asset short, (bet against the assets). This phase is complex because the sentiment is still bullish. Here asset prices can stay trapped in a trading range which can last for some time leading the way into the final phase.

4. **Markdown Phase.** This is the final segment of the market cycle, after which a new phase cycle will begin. In the markdown phase prices fall, catching many off guard which in turn leads to more selling until a “bottoming out” occurs. Then, the entire cycle repeats.

No matter what part of or sector of the market you are referring to, all of them go through the same phases and are cyclical, therefore they are not random.

By far, most investors and traders fail to recognize that markets are cyclical. The understanding of cycles is essential, and simple, if you want to maximize your investment or trading returns.

General Market Performance Month by Month.

By looking at historical data, one can have a fairly good idea of what to expect regarding the performance of the stock market monthly.

Let us break this down.

January. How the S&P 500 performs in January, has a strong tendency to affect the entire year. It is therefore important to pay attention to how the market performs during this month. If the month of January is a weak one for the market, you can expect the stock market to underperform all year. Conversely, a strong market performance in January generally plays out to be an exceptionally good year for the overall market.

February. The month of February has historically proven to be a weak one for the market, traders should exercise caution being on the long end of the market in February.

March. The month of March tends to be volatile; traders can generally expect the market to perform well moving into mid-month, however, expect some weakness towards the end.

April. Historically, April has played out to be a strong month for the market. In April, traders should be seeking opportunities to be long the market.

May. There is an old Wall Street adage which goes like this, “sell in May and go away,” this is because historically May has proven to be a weak month for the market.

June. In this month, the market tends to pick up some strength, and traders should look for more opportunities to get long the market.

July. Historically July tends to be a strong month for the market and here again, as in June, traders should be looking for more opportunities to be long stocks.

August. After a strong performance of the market during the months of June and July, August has historically proven to be weak.

September. Here again following the month of August, the month of September historically has proven to be a weak one.

October. The month of October has a bad reputation as several major market crashes have occurred during this month. However, despite its bad reputation October is a good time to look for more opportunities to be long the market.

November. The month of November has historically proven to be a strong one for the market.

December. Here again in December, the market tends to perform well.

EXCEPTIONS TO THE NON-RANDOM PRICE ACTION THEORY...

In a word, manipulation. Exceptions to the non-random theory of price action are driven by the deliberate falsification of an asset(s) price, or by “fixing” of market conditions in such a manner as to fake the system.

Below are just a few examples.

- ^{1.} Manipulation of the London Inter-Bank Offered Rate, known as the **Libor scandal**. This was a series of fraudulent actions connected to the London Inter-Bank Offered Rate. Libor is an average interest rate calculated through submissions of interest rates by major banks across the world. Major banks were falsely inflating or deflating their rates as to profit from trades.
- JP Morgan Chase**, the largest bank in the world by assets, paid a \$1 billion dollar fine to resolve government investigations into the manipulation of the metals and Treasury’s markets. Major banks around the world participate in the trading of commodities like gold and silver, and in 2015, suspicions of price fixing led to investigations from authorities in the European Union and Switzerland. **Deutsche Bank** ended up settling claims among gold and silver investors for a total of just under \$100 million in 2016.

3. **Deutsche Bank** paid \$15 million to resolve claims it conspired to rig prices of bonds issued by Fannie Mae and Freddie Mac, becoming the first of 16 financial services companies to settle litigation by investors.
4. Wells Fargo's fake account scandal. In September 2016, federal bank regulators imposed a fine of \$185 million on **Wells Fargo** for allegedly creating millions of accounts on behalf of customers. As a result, millions of Wells Fargo customers had credit card, checking, and other accounts without even knowing about them.
5. Money laundering. In February 2018, **U.S. Bancorp** settled charges from the U.S. Department of Justice that alleged that the bank's efforts to fight money laundering were insufficient. U.S. Bancorp paid \$610 million to settle the case.

Listed above are just a few examples of instances where major banks have been caught deliberately manipulating the market(s) for profit. If a person were so inclined, he or she could write a multi-volume set of books simply by covering instances of fraud committed by the major banks.

Chapter Three- Fundamental Analysis. A Major Key to Investing and Trading.

How to use fundamental analysis for investing and trading.

Knowing the basic principles of fundamental analysis, (FA), which are that it is a method of determining the current value of the overall market or an individual company by looking at factors which determine its current and even future value, are important. Fundamental analysis is a methodology more useful when looking at the market or an individual company from a longer-term perspective. For the shorter term, arguably a better way of judging the current value of the market of an individual company would be by using technical analysis- which we will cover in detail later.

Here I will outline for you how to utilize a fundamental approach to determine whether or not you should even consider putting your cash to work by either investing in an individual company, or in the market overall.

Using a fundamental approach for valuing a company, or the market as a whole, is based on first having an understanding of the current economic conditions. An investor or trader will use his or her understanding of the economy to forecast the current value of the market or company's stock. For example. If the current economic conditions were positive, you would then expect that consumer demand would be high, and this would be positive for the market. I would expect stocks to gain in value. Conversely, in a slowing economy generally one would expect the stock market and individual companies to lose value- that is unless you had a central bank utilizing “easy money policies” which would include artificially suppressing rates, buying debt, and issuing debt. Quantitative easing would be an example of an easy money policy. Quantitative easing/QE creates an environment of risk, that is investors and traders seek yield by putting cash to work in risk assets, like stocks. QE can be simply understood and defined as this: the introduction of new money into the money supply by a central bank. QE is massively stock market positive, as a central bank buys debt with cash created out of thin air therefore suppressing rates. In other words, the central bank will create massive amounts of cash out of thin air to buy the debt, and other assets. The effect of artificially suppressing rates and creating cash devalues or steals purchasing power from the currency, and a weak currency is also stock market positive. It takes more weaker dollars to buy anything, even shares of stock.

Understanding the current central bank monetary policy is KEY to also predicting where cash is going to go. In an easy money situation, cash will make its way into stocks and the stock market inflating them, or in some cases, hyper-inflating them causing a market bubble. A market/stock market bubble can be defined as a type of economic bubble, which occurs when market participants and the current monetary policy of a central bank, drive stock prices well above what would be considered normal valuations again based upon current economic conditions.

A trader can use fundamental analysis as an instrument to make informed predictions regarding the value of the market or an individual stock. Is it overvalued? Or undervalued?

Fundamental analysis can discover opportunities to either trade or invest, or not to trade or invest, in the market as a whole or an individual company.

The first step a trader or investor should be looking at when attempting to use fundamental analysis, is to look at the entire current economic environment. When looking at the current economic environment, one must look at the global picture. Today we live in a global economy, and nations are dependent on each other for trade. An investor/trader must consider events that could affect the market overall, or a specific company's stock price. Geopolitical events are also a key to determining price action/reaction. As an example, are there regional conflicts which may affect the price of crude oil? Or a trade embargo, or tariffs? These occurrences could dramatically affect the market, the economy, or a company's ability to acquire materials needed for product. There are other factors as well, such as interest rates, inflation, deflation, money velocity. I consider money velocity a major factor when I am looking at the fundamental picture. Money Velocity is defined as the rate at which cash is moving through an economy. A strong or "booming" economy would have a HIGH money velocity rate. Conversely, a slow or weak economy would have a low money velocity. Fundamental trading analysis involves extensive research, developing a clear understanding of how the market works, and why it is working at a particular moment in time. Understanding that data is always changing and can also be interpreted differently makes this a game of incomplete information, which in turn makes an investor or trader a speculator in the market. A trader or investor seeking to put cash to work by buying stock, or even trading a company's stock, should consider reviewing that company's financial statements. This involves examining a company's cash flow, its income statements, and balance sheet(s). This is not as hard as it sounds. All this information is available to the public regarding a publicly traded company. When examining a company's financial statements, you should be looking for signs of growth. In general, fundamental analysis should be applied strategically, over longer periods. For shorter term trading, technical analysis is arguably a better approach however, having a general fundamental picture will help the trader in any case, make better decisions. Trading is about making more right decisions than wrong ones. Every trader, no matter their experience will make mistakes, and there is no way out of that. The key is to keep those errors to a minimum.

Chapter Four- How to Trade Options Successfully.

I will start this chapter off with the statement below, and you should never forget it!

TRADE THE MARKET YOU HAVE.

The number one reason bar none which causes traders to lose money is this- attempting to pick market and or asset bottoms and or tops. Attempting to pinpoint price action tops and bottoms is a losing endeavor, period. Successful traders seek out and consequently trade trends, always.

Many people trade the market THEY BELIEVE is coming in a day, a week, a month, a year... Yes, it is imperative to follow the markets and attempt to figure out where the market will go in the future, but when you are sitting in front of your trading platform/screen and are about to execute a buy or sell order, it is then that you trade the market right in front of you-I hope that makes sense. Once you discern what cycle of the market you are in, you then trade the market appearing on your computer screen(s) accordingly.

Let us move on.

What are options? An option is a contract which gives the buyer of the option, the right, but not the obligation, to buy or sell an underlying asset at a specified strike price prior to, or on a specified date. Options contracts are specific.

When a trader buys an options contract, he then controls 100 shares of the underlying asset. One contract = 100 shares. So, if the cost of the option is \$1.00 the contract costs \$100.00

Let us break down an option. This is what an option looks like, (the following is a trade I am currently in as I am writing this.).

SPY March 19 2021 \$365 call. What does this mean? First, looking at the \$365, that is the **strike price**. The strike price refers to the specific price at which an options contract can be bought or sold when it is exercised. One can buy an option which is below the price of the underlying asset, or in the money, or above the underlying strike price, which would be out of the money. I will cover in more detail later how strike price, and ITM/OTM options work.

SPY refers to the ticker symbol. **March** refers to the month, **19** the day, and **2021**, the year in which the option expires- or the contract ends, and **\$365** is again the “**strike price**” of the option.

A “**call**” option is a bet that the price of the underlying asset will gain in value. A “**put**” option is a bet that the value of the underlying asset will fall in value. Let me break all this down further.

What is a **Ticker Symbol**? A ticker symbol is an arrangement of characters, usually letters, which signify a particular security listed on an exchange. For example, Apple trades under ticker

symbol AAPL. When a company issues shares of stock for sale on an exchange, it chooses an available ticker symbol for its stock. Simply, a ticker symbol allows investors and traders to transact orders.

Options are agreements/contracts, between two parties that give holders of the option the right to buy or sell an underlying asset at a certain price within a specific amount of time. **Options** are securities themselves however, because they derive their value from an underlying asset, they are called derivatives.

An **underlying asset** is a financial asset upon which a derivative's price is based, and a **derivative** is a contract, as in an option, that derives its value from the performance of an underlying entity-for example, a stock.

An **option** is a securities contract, a “call” or a “put,” that gives you the right to buy (call) or sell (put) the underlying equity, index, or ETF. In simpler terms, an **option** allows you to pay a certain amount of money, which would be the cost of the **option**, which then allows you to buy or sell the underlying asset, as a in a stock, at the price (strike price) you decided on when buying the option.

Before I discuss how to trade options, I will continue with this chapter starting with a question.

Why trade options at all?

In a word LEVERAGE! Leverage is a powerful tool, and when it comes to trading, all traders use it. By using leverage, it becomes possible to turn small amounts of capital into significant profits. Options by their nature offer high leverage without having to “borrow funds” as “on a margin.” To buy on “margin” refers to using borrowed funds, which are borrowed from a broker to purchase securities. A margin account is a type of brokerage account in which the broker lends cash to the trader/investor to buy more securities, to gain leverage. Using “margin” to purchase securities is a collateralized loan, based upon the equity in the trader/investors account. Trading on margin includes periodic interest rate that must be paid/taken right out of the trader/investors account. Using margin increases risk, by using money borrowed from the broker, both losses and gains will be magnified as a result. The margin can be “called” by the broker, resulting in a “margin call.” A **margin call** will occur when the value of an investor's margin account falls below the broker's required amount minimum. A margin call refers to a demand by the broker that a trader or investor deposit additional money, or securities, into his or her account. A margin call will occur when the securities held in the margin account has decreased significantly in value and the risk of loss is great.

Looking again at leverage, now that you have a better understanding of it, the greatest benefit of trading options is that options contracts themselves are a leverage tool by design, and they allow you to greatly multiply the power of your trading capital. Moreover, options contracts allow you to control a greater amount of the underlying security than you possibly could by trading just the

stock. Put simply, if you had a certain amount of capital to invest, much higher profits can be had by trading options than you could ever wish to have via just buying stocks. Another major benefit of buying options is that the cost of options contract(s) is much lower than the cost of the underlying security/stock.

The ability to use leverage to multiply potential profits in the market is THE KEY advantage trading options. Leverage with unlimited upside and limited downside. If say you were to buy a particular stock, and for example, the price of that stock rises 1%, well if you had bought the option instead, that 1% move would translate to a 10% move in the option, more or less.

Small moves in the price of a stock/underlying asset, mean big moves for the option, and that is why all traders use options to gain leverage in the market.

Options have limited downside. As an example. If you were to buy call options on a particular asset, and the asset price goes to zero, all you can lose is the cost of the option. Now, if you were trading the asset on a margin, and the asset went to zero, you could potentially owe many multiples on the money you borrowed from your broker, and a margin call would certainly be issued to you.

Options have unlimited upside. If you owned call options on an underlying asset whose price continued to rise, your potential profit is unlimited.

The downside to trading options. Yes, there is a downside to trading options.

Options offer traders the opportunity to massively increase their profit potential via leverage but there is a cost. An option is a time decaying asset, that is every day that you hold the option it loses value. Think of it like this. If you were to put an ice cube out on your countertop, over time it would eventually melt and decay. The same is with options as they are time sensitive financial instruments which will fall in value the closer it gets to expiration.

Options suffer what is known as **Time decay**. Simply, time decay is a measure of the rate of decline in the value of an options contract due to the passage of time. Time decay also accelerates. The closer an option contract gets to its expiration date, the faster it will fall in value. **Time decay** is also called theta, and is known as one of the **options Greeks**, more on **The Greeks** in the following section.

When buying options contracts, or options, the owner of the option needs the underlying asset to move in the expected direction rapidly as to maximize profit and minimize losses. Discovering the expected direction of an underlying asset is not as hard as it may sound. By utilizing what we will learn in this book, regarding cycles, sector rotation, both fundamental and technical analysis, we can gain an accurate perspective on the expected direction of assets.

Will we be able get the direction right 100% of the time? No, but we will get the direction correct most of the time, and that means profits!

***Options Greeks.**

The Greeks are a way of attempting to understand risk relating to options.

There are four Greeks and are thus explained.

Delta is a measure of the change in an options price resulting from a change in the underlying asset. As an example of Delta. If a put option has a delta of -0.41, and the price of the underlying asset increases by \$1, then the price of the put option will decrease by \$0.41. Delta is not “fixed,” and will fluctuate as the option gets closer to its expiration date.

Theta measures price decay as time passes. As I have explained, options suffer time decay, and every day a trader holds an option, it will lose value as it gets closer to its expiration date. That is Theta.

Gamma measures the rate of change in Delta over time. An example of Gamma is this. Let us assume that a stock is trading at \$100 a share, and its option has a calculated delta of 0.5 and a gamma of 0.1. Then, for every 10 percent move in the underlying stock's price, the Delta will change by a corresponding 10 percent. This implies that a \$10 increase in the price of the underlying stock will mean that the option's Delta will increase to 0.6. The initial Delta of 0.5 at a stock price of \$100 plus the 0.1 Gamma gives you the 0.6 per 10 percent stock price gain. Conversely, a 10 decrease in the price of the stock would equate to a Delta of 0.4.

Vega measures the risk of changes in ***implied volatility** of the underlying asset price. Vega is expressed as the expected price change of an option relative to each 1% change in implied volatility. The value of Vega allows you to estimate how much the price of an option should increase by for every percentage point increase in the implied volatility of the underlying asset.

What is ***Implied Volatility**? Implied volatility is a measure which attempts to convey the market's view of possible changes in a given security's price.

Regarding the Greeks and implied volatility. Most traders I know, including myself, whose trading strategy revolves around **buying calls and or puts, pay little attention to them. However, if you are **selling calls and or puts**, paying attention to the Greeks and implied volatility is important. My job as a trader for many years is simple; to pull profits from this market. In the numerous years I have traded these markets successfully, I can honestly count on one hand how many times I have even considered using The Greeks or implied volatility to execute a successful trade.*

Here is my overall problem with the Greeks or implied volatility. The market is extremely fluid, that is *changing* all the time due to various data points. If one were to take the time to calculate the Greeks or implied volatility prior to executing a trade, the work required would not be worth the effort in my professional opinion from a profit standpoint. Study put into understanding the macro environment behind executing a trade invariably will be much more beneficial from a profit perspective than calculating Greeks or implied volatility prior to executing any trade.

Having a keen understanding of the macro-trading environment, and that is essentially what this book and my own personal perspective on the markets is about, is the key to making large profits as a trader.

As an options trader, the only Greek you should be concerned with is Theta, or simply time decay. Time decay is the enemy of an options trader who is buying calls or puts however, time decay can be used as an ally as well, IF one is **SELLING** calls or puts.

Should you buy options or sell them?

A trader can capitalize on this market in many ways, and another common trading strategy is selling calls and or puts, and I will cover that here.

I believe that by this point you have a clear understanding of how “buying” options work, but you can also “sell” options as well. By selling an option you collect premium and benefit from Theta.

When you sell options, the options buyer will pay you money, known as a premium, upfront. Yes! When you **sell an option**, you get paid right up front and receive a credit to your account. Keep in mind that when you sell an option, you are **obligated to buy back the stocks at the agreed price if the option buyer *exercises the option.** Many traders do not like to carry the added risk that if you sell an option, they buyer may exercise it.

***What does exercise an option mean?** To exercise an option means to put into action the right to buy or sell the underlying security specified in the options contract. Remember, when you buy an option, you buy the right, *but not the obligation* to buy the underlying asset at a specific price before the options contract expires. If the holder/buyer of a call option decides to exercise the contract, this means he will buy the underlying security at a stated price within a specific timeframe. Conversely, If the holder/buyer of a put option decides to exercise the contract, this means he will sell the underlying security at a stated price within a specific timeframe.

Selling a call option means that you as a trader is betting on the market not going up, wanting it to fall. Conversely, if you sell a put option, you want the market to rise. Remember, there is always two sides to a trade, and who wins over the long run simply depends on which person on either side of that trade has done more homework.

What makes options trading even more attractive, beyond the fact that they have leverage built into them and offer unlimited profits with limited loss, is the fact that a trader can do so many things with them. Buying and selling options offer us a myriad of choices regarding which strategy is best utilized when contemplating a trade. Investors who are bullish can buy a call or sell a put, whereas if they are bearish, they can buy a put or sell a call.

Here I want to expand a bit on the value of an option. An options value is made up of **intrinsic value** and time value. If you were to buy an option which is ***Out of The Money, (OTM)**, it

only has time value, **extrinsic value**, nothing more, and therefore the option cannot be exercised. If, on the other hand you buy an option which is ***In The Money, (ITM)**, the value of the option includes not just time value, but real value because the option can then be exercised.

***In the Money definition:** "In the money" (ITM) is referring to an option that possesses **intrinsic value**. ITM indicates that an options strike price is lower than the price of the underlying asset. For example: you bought calls on ticker SPY with a strike price of \$364 dollars and SPY is now trading at \$366 dollars, the option is ITM by \$2. You can now exercise the option and buy SPY for \$364 even though SPY is trading higher at \$366- this gives you a tidy profit. Generally, an options trader does not want to "buy the stock," he just wants to sell the option, pull his profit, and then roll into another position.

***Out of The Money definition:** "Out of the money" (OTM) is a term used to describe an option contract that only contains extrinsic value, or time value. If a trader buys an OTM option, he is betting on the option moving either closer to the money, or into the money. The closer an option gets to the money, the more extrinsic, or time value it has. If a trader is holding an option which remains OTM by its expiration, the option will expire worthless, resulting in a total loss for the trader. Many traders do buy OTM options because they are cheap. ITM options are more expensive because they have value beyond extrinsic, or just time value.

Take away- OTM vs ITM options.

As examples. An OTM call option will have a strike price that is higher than the market price of the underlying asset. An OTM put option has a strike price that is lower than the market price of the underlying asset. In either case, the holder of the option is betting that the price action of the underlying asset will move closer to the strike price of the option. The value of an option becomes more profitable the closer, or deeper into the money it goes. Conversely, an option will lose value the farther from the money it gets. Options contracts that are out-of-the-money have lower premiums.

What is an options premium?

A premium is the upfront fee charged to the buyer of an option. An OTM option generally has a lower upfront fee associated with it, and lower premiums are yet another reason why many traders choose to trade them. An ITM option will have a higher associated premium because of its extrinsic value. If a trader is buying an option as opposed to selling them, premiums paid become a greater obstacle. Remember, the buyer of an option must contend with time decay, that is that the option will lose time value the closer expiration it gets. When a trader is selling options, he collects the premium upfront. Keep in mind that when you sell an option you are obligated to buy back the stocks at the agreed price if the option buyer exercises the option. In truth it is rare that the seller of an option will be forced to buy back the stock if buyer exercises his option. Options traders generally trade options, they have little interest in owning the stock however, it is a risk. The buyer of an option is insulated from the risk of someone else exercising their option, but that protection from risk has a cost, *time decay*, which constantly works against the buyer of an option.

Fundamental Options Strategies.

There are just four basic options trades, just four! However, there are many ways in which to play them. Variations on how to set up a trade depend on several factors, but it all boils down to this; you can either buy or sell call options or, buy or sell put options. In any of the forementioned situations, you are making a bet on the price direction of the underlying asset, and that is it.

Trading options is very straightforward. As a trader, you evaluate the current environment/market conditions and trade accordingly.

When a trader buys or sells an option, how is the initial trade executed and then subsequently closed?

If one were to **buy** an option(s), he would place an order to; '**Buy to Open.**' Subsequently, if after buying the option the trader wants to sell the option he bought, he would '**Sell to Close.**'

If a trader wanted to **sell** an option, he would '**Sell to Open,**' and to close-out the trade, he would '**Buy to Close.**'

After the trader has evaluated the current market environment, he will then decide how to capitalize on the situation. If the trader is bullish, he can buy a call or sell a put. So how is this done? First the trader must choose an underlying asset if he is going to trade the option. How is that done? The simplest way is to trade an index using an ETF. I invariably trade **SPY**; this exchange traded fund tracks the S&P500. SPY is highly liquid; it is the most widely traded ETF in the world. A "**highly liquid**" asset means that it can rapidly be bought and sold. If for example, a trader wanted to trade an asset which is not highly liquid, the spread between the **bid** and **ask** price will be large.

Bid and Ask Price defined: The **bid** price is referring to the highest price a buyer will pay for a security. The **ask** price refers to the lowest price a seller will agree to sell a security. The difference between these two prices is known as the spread: the smaller the spread, the greater the liquidity of the given security. A smaller spread is ALWAYS more desirable. A large difference between the bid and ask price is not generally good from a trading/profit standpoint moreover, a thinly traded stock or ETF presents another negative beyond wide spreads, and that is the ability to sell your option at the price you want rapidly.

Market orders vs limit orders. A market order is an order to buy or sell a security at the current market price. A limit order is an order to buy or sell a security at a certain specific price. When a trader is going to execute an order, he has a choice, to either use a market order or a limit order. When a trader uses a market order to buy, in effect he is saying that he is willing to pay whatever the market wants- therefore is guaranteed to get ripped off. Conversely, if a trader is willing to sell an option using a market order, he is in effect saying that he will accept any price for his

option, again he will get ripped off. Always, and I cannot stress this enough, **always execute your buy and sell orders using a limit order.** Wall Street market makers will rob you blind if you use market orders to trade. So again, never use market orders to either buy or sell into the market.

Now that you understand how options work, both the positives and negatives, it should be obvious that if you are **buying** an option it is always better to buy options which do not expire for at least 3 months if you are swing trading. **A swing trader will hold an option from a few days to several weeks.** Think of it this way, when you are buying an option you must give it time to play out. As a trader buying an option, either a call or put, you must always be mindful that the option will suffer time decay which will accelerate as the option gets closer to its expiration date. Now, if you are **selling** an option(s), it is always better to sell them with expirations ending sooner, say one month out maximum, this will allow time decay to work for you.

There are many options strategies which attempt to limit risk and maximize return but remember, no strategy can ever guarantee a successful trade. Taking on risk is how a trader makes money in the market, that is what traders do, take on risk-**but smartly.**

Used correctly, options traders can easily take advantage of the flexibility and strength that options provide.

Number one. Traders use options to gain leverage in the market, this is THE main advantage of trading them. A trader can use a combination of calls and or puts to limit risk, but again, a good trader wants risk and knows how to capitalize on it by studying the market. Risk can never be eliminated; however, it can be dealt with smartly. The best way to attack any problem is to look at the macro-environment first, and a trader does this by utilizing a fundamental approach.

The basic strategy of calls VS puts.

Long Call, or just Call. A long call is simply owning/buying a call option. You will purchase a call option if you believe that the stock is going to rise, since the value of a call goes up if the underlying stock price goes up.

Put Option. A put is the opposite of a call. You will purchase a put option if you believe that the stock is going to fall, since the value of a put goes up if the underlying stock price goes down.

Understanding Market Volatility. Volatility is the degree of variation of price action over time. Volatility is what drives deviations in the price action of the market, or even an individual asset/stock. Higher volatility equates to more risk. From a trading standpoint, volatility is a good thing, as traders need to take on risk in order to profit from the market. Volatility characterizes how large an asset's prices swing around the **mean price**-the mean price is an average over a specific period of time. Traders can take advantage of divergences from the mean price using

standard deviation. I will cover more on standard deviation in the Technical Analysis section of this book.

Money Management.

This chapter would not be complete without addressing how to manage your trading capital. It does take money to make money, and that is the truth however, it does not take a lot of money to get started trading options. The very structure of options makes them ideal instruments for trading. The fact that the cost on an option is a fraction of that of the underlying stock, while at the same time having built in leverage, is the sole reason for trading them. Options were made for traders, and all traders utilize them to capitalize on the price movement of an underlying asset.

Core Positions. Generally, as a trader/investor it is a good idea to hold/own several core positions as part of wealth building and money management. A core position(s) is defined as a long-term holding/ownership of a given company's stock. I personally like to own stock(s) in ***large cap** companies who pay a **dividend**. A dividend is defined as the distribution of some of a company's earnings to its shareholders. The beauty of a dividend is it will generally always be paid out to the shareholders every quarter, even if shares of the company's stock fall under pressure. Receiving dividend payouts are a nice way to build wealth over time.

***What is a large Cap Company?** Large cap is also sometimes called big cap and refers to a company with a market capitalization value of more than \$10 billion. "Large cap" is an abbreviated version of the term "large market capitalization." Large cap companies are the "Blue Chips." Blue Chip companies refer to a corporation(s) with an international reputation for excellence, trustworthiness, and possesses the ability to operate profitably in any market condition.

How much cash do I need to start trading?

So how much capital does one need to open a **Brokerage Account** and start trading/investing? Let us define what a brokerage account is. A brokerage account is an account that holds financial assets such as securities/dollars/capital on behalf of an investor. Opening a brokerage account is quite easy; a prospective trader/investor can simply research a brokerage online and then open an account in minutes. Opening a brokerage account does require the deposit of some capital, some as low as one thousand dollars. If you plan on trading, never play with cash which you cannot afford to lose! In order to learn correctly, one should expect to make many mistakes in the beginning, mistakes which will cause you to lose cash. As time progresses, and with study and practice, you will learn to minimize your mistakes. You must also overcome the anxiety which does come with trading real cash and **starting off small is an excellent idea**. Deposit the minimum amount required into your brokerage account and play with it utilizing what you have learned, and will learn, in this book, and then over time you will build confidence in your ability to beat the market.

Never go “all in” on any single trade. When you decide to commit yourself to a particular trade, you should open an initial small position. That is, let us say for example that you have an account worth five thousand dollars, commit no more than 10% of your entire capital to opening an initial trade, perhaps as low as 5% would even be better. As the position moves in the expected direction you can add into the position maximizing profits. Now, I want you to remember what I am about to write here in all caps **YOUR NUMBER ONE JOB AS A TRADER IS TO PULL PROFITS!** That is right, your only job as a trader is to extract cash out of this market. Simple enough? So, what I am saying is this, it is never ever wrong to pull profit. I will write that again in all caps, **IT IS NEVER EVER WRONG TO PULL PROFITS!**

As your account grows you will commit more capital to work in your trades but remember this, it is **ALWAYS** better to trade conservatively, greed is not always good. In fact, being too greedy will cause you to suffer losses, so never be a **PIG**. As a trader, and not a pig, you must learn to accept smaller consistent profits over time, as these add up to large percentage portfolio gains as time progresses.

Bulls Make Money, Bears Make Money, and Pigs Get Slaughtered.

More on options trading and brokerages.

If you are brand new to options trading, brokerages will at first place limits on what you can trade, and how you can trade. Brokerages want to first see if you can trade without getting destroyed financially. Once you enter into the realm of options trading, you are competing against sharks, *people like myself*, and these can be dangerous waters to swim in if you do not know what you are doing.

Brokerages assign trading levels from 1 to 4; with 1 being the lowest and 4 being the highest. A trader with a low trading level will be relatively limited regarding the strategies they can use, while a trader with the highest level will be able to trade whatever trade they want. Trading levels are earned over time, and many new traders do find the process of gaining a higher level of trading frustrating, but do not fret about it.

After a few weeks of trading at a lower level, simply contact the brokerage and ask to be moved to a higher level and invariably by just asking you will get a higher level. Moving up the trading level ladder will involve/require a higher minimum cash deposit to your account in many cases.

With a trading level of 1, a trader will only be able to buy and write/sell options where he has a corresponding position in the underlying security. For example, if you owned stock in company XYZ then you would be able to place a **buy to open/sell to close** order(s) for put or call options on company XYZ stock. These are called “**covered**” positions, and there is nothing wrong with trading covered positions.

A trading level of 2, will allow you to buy call and put options without having a corresponding position in the underlying security. These are called “**naked**” positions.

Trading level 3 allows for the writing/selling of options for the purposes of creating “spreads.” For example, a **debit spread**. A debit spread results when an investor simultaneously buys an option with a higher premium and then sells an option with a lower premium in the same stock. You can also create something called a ***credit spread**. A credit spread is a trade created using options which pays an upfront credit, henceforth why it is called a “credit” spread.

A trading level of 4 requires an account with a minimum of twenty-five thousand US dollars, and a corresponding margin account.

***Credit Spreads: Get Paid Upfront to Trade Stocks.**

Here I am going to show you exactly how to get a net credit to your trading account every time you enter a trade using a simple straightforward strategy. This IS the secret that Wall Street does not want you to know about! There exists a remarkably simple strategy which any trader can execute that pays you immediately upfront for simply placing a trade, yes this is true

I am going to teach you how every single time you execute a trade, in the manner which I am going to outline here, you will get a net-credit to your account, (yes you read that right)! Moreover, as an options trader using this strategy you will use the arch enemy of traders, time decay, as a way of putting cash in your pockets. Let us first look at basic trade using simple calls, (hoping to take advantage of an upward price movement of the underlying stock). Say you are bullish on company XYZ and therefore go out into the market and buy calls. Well, if you are bullish on a particular stock buying calls is a remarkably simple way you can make money in the market no doubt however, immediately once this trade is executed you will get a debit on your account, which is the cost of buying the option, and then immediately after you execute the trade, time decay begins to work against you. Simply, a debit from your account means that you paid for the call option you just bought. Now for this trade to work, you need several things to fall into place. Number one, being that you bought a call you need the stock price to move higher, it cannot move sideways or down. If the call option(s) you bought on stock XYZ do trade sideways and makes no change whatsoever in price action you will lose money every single day that you have the trade open because of time decay also called theta. Again, with buying a call option you need the stock to move higher and quickly because time decay is working against you. Let us look at another example using puts, (speculating that the price of the underlying stock will drop). Say you are bearish on stock XYZ and you decide to go onto the market and buy a put, that is betting that stock XYZ will fall in value. How would this play out? To execute this trade, you must go into the market and lay out money/debit your account, to purchase/buy this put. What now must happen for this to be profitable? You need stock XYZ to move lower and quickly. If the price action of the underlying asset trades sideways, you lose money every single day because of time decay. Moreover, if the underlying stock price moves higher, you lose even more.

Now I want you to think about something for a moment.

How does a department store make money? Simple, they sell you a product. Well, the same thing works with stocks and options. For any transaction to take place in the market, there needs to be both a buyer and a seller. Well, what would happen hypothetically if instead of buying a put or a call you were simply to sell one? How would that work? And how is this done? What is the risk? And can that risk be minimized? Let us begin here with a couple of examples and answer the above listed questions. Let us say you are bullish on stock XYZ, that is you believe the stock will rise in value. Well, why couldn't you sell a put in this situation? Here is a simple answer: you absolutely can! (However, selling calls or puts onto the market is risky, but this risk can be mitigated, and I will cover this shortly). Now how can this play out? OK, so you are bullish on stock XYZ are you want to sell a put. In this situation again, you believe that stock XYZ is going to go higher so you want to sell a put(s) onto the market. What this would do is work TWO ways in your favor, (even THREE ways depending on other factors which I will cover soon).

1. If stock XYZ happens to move higher as you expected, the put(s) you sold make money or,
2. If the stock stays flat you make money, because if you sell an option time decay is not your enemy but an ally.
3. (we will get there, keep reading!) Plus, once you sell this put on to the market you get an instant credit to your account! Yes, you do. Now let us assume that the stock begins to move higher or simply stays flat. - Every single day you collect money from time decay. Yes, you heard that right! In this situation, time decay works in your favor. So, if stock XYZ moves higher, or stays flat, the put you sold will make you cash.

Let us recap. If you buy a call you will only make cash if stock XYZ moves higher and quickly, the converse is also true if you bought a put. If you sell a put as in the scenario I just went over, as stock XYZ moves higher or even stays flat you make money, (two ways), and you got a credit to your account immediately, the converse is also true if you sold a call.

Now, would not you rather have two ways to make cash other than just one? And get paid upfront for doing it? Of course, you would! Now I know what you are thinking, "selling a call or a put into the market is risky because you can lose more than your actual initial investment," and you would be right. But what if I told you there is a way that you can keep your losses to a minimum even if the trade goes against you?

Here is how this scenario would work. Let us say you believe that stock XYZ is going to move higher, well you can attempt to capitalize on this in two ways. 1. You can buy a call, or 2. You could sell a put. However, there is another way! A way which covers you from a big loss if the trade goes wrong. This is called a "credit spread." It is called a credit spread because you get paid right up front by placing this trade and, your downside risk is minimized. Let me show you two examples of how you would set this up, (a credit spread).

So, today you are bullish on Facebook, ticker FB. Hypothetically, let us assume today's date is Friday, July 27, 2018 and the price of Facebook stock is \$173.69. I am now going to set up A credit spread for you.

The name of this strategy is "Bull Put Credit Spread." In this situation you are going to buy FB, 7 (seven), August 10, 165 puts- this is trader lingo for (seven contracts which expire on August 10th with a strike price of \$165.00). Now, at the same time you are going to sell 7 August 170 puts. In this situation You are a net seller of puts onto the market. The debit on the 7 puts you bought would be \$1,120.00 and the credit to your account which you get immediately for selling 7 puts would be \$2,065.00. Therefore, the moment you place this limited risk trade you collect \$945.00 (this is credited to your account). Now if the price of Facebook in this situation remains above the strike price of \$170.00 on the calls you sold at expiration, you get to keep the entire credit to your account! Yes, you read that correctly. A Bull Put Credit Spread as outlined above is used when you believe that the price of the underlying equity will rise. You sell a put(s) with a strike price which is higher than the ones you bought and receive an immediate net credit to your account in doing so. We purchase an option using "Buy to Open." We exit an option position which we bought by using "Sell to Close." **We sell an option onto the market using "Sell to Open." To close an option position in which we sold onto the market we "Buy to Close."**

Now think about this! In the preceding scenario I outlined that the current price of FB stock was currently trading at \$173.69. So even if FB trades lower, even though you sold puts, as long as it does not trade below the \$170.00 strike on the puts you sold onto the market-you still get to keep the entire \$945.00 premium. So, in this situation if FB were to trade sideways, move higher in price, or even move lower in price up to the strike price of the puts you sold-you still make the entire premium. Yes, this is real. **This is the #3** which I alluded to earlier.

Let us set up another trade. Suppose you are bearish on QQQ. Let us assume today is Again July 27, 2018 and QQQ is trading at \$177.29. I am now going to set up another credit spread for you and this is how it would work. The name if this strategy is "Bear Call Credit Spread."

Hypothetically, you could have sold QQQ, 10 August 17 \$180.50 calls onto the market for an instant credit of \$1,500.00 to your account, while at the same time buying 10 August 17 \$182.50 calls-which would have cost you \$830.00. Now, because you were a net seller onto the market, subtract the cost of the calls you bought, \$830 from the credit of \$1,500.00 from the calls you sold, and you will have an immediate net credit of \$670.00 to your account. Now as long as the price action of QQQ in this case does not move above the strike price of the calls you sold onto the market; you get to keep the entire premium upon expiration. Also, in the above situation QQQ could have moved sideways, lower, or even higher, if it does not move above the strike price of the calls you sold at expiration you keep all the premium. In each of the above scenarios, the calls and or puts you BOUGHT should be thought of as an insurance policy-you do not care at all if they expire worthless. All you are concerned about is keeping/collecting the premium for the calls and or puts you SOLD at expiration thereby keeping the credit to your account which you received by executing this strategy. The Bear Call Spread Strategy as I outlined above is

used when you believe that the price of the underlying equity will fall. You sell a call(s) with a strike price which is lower than the ones you bought and receive an immediate net credit to your account in doing so. You can set up these credit spreads in many ways. If you are setting up any Credit Spread, you can buy and sell any combination of calls and or puts with different strike prices and expirations which could give your trade more room to “move around.” You could enter positions which expire further out, or even the next day.

The general rules are as follows: A Bull Put Credit Spread is used when you believe that the price of the underlying equity will rise. You sell a put(s) with a strike price which is higher than the ones you bought and receive an immediate net credit to your account in doing so. The Bear Call Credit Spread Strategy is used when you believe that the price of the underlying equity will fall. You sell a call(s) with a strike price which is lower than the ones you bought and receive an immediate net credit to your account in doing so. How you ultimately set up one of these strategies is simple, the bottom line is instead of “paying cash out” of your account to enter a position, you get cash immediately added to your account using credit spreads hence why they are called Credit Spreads.

So, what is the risk? If at expiration these trades turn against us, we will lose the credit which was applied to our account on the calls and or puts we SOLD, (depending on the strategy) onto the market. However, we profit from the calls or puts we bought, (again depending on the strategy), this keeps our overall loss to a minimum. Now, the calls and or puts that we sold onto the market would have to be bought back, or “bought/buy to close” from the market at a higher price PRIOR to their expiration or you will be “assigned.” An **options assignment** is when the **options** seller must fulfil the obligation of an **options** contract by either selling or buying the underlying security at the exercise price. If you hold an options contract which you sold onto the market past expiration that expired in the money, you are contractually obligated to supply the stock at the strike price to the buyer. **So, to not get assigned simply be sure to close any position which you sold onto the market prior to its expiration.**

Remember! With options well, you have “options.” That is, you can exit any position at any time but be sure to “Buy to Close” any in the money options contracts you sold prior to them expiring.

Now here is another perk of being a net seller into the market. Let us say your trade goes exactly as you planned and the options you sold into the market are closing nowhere near the strike price you offered them at. Keep in mind that this is exactly what you wanted, and this also means that the options you bought are about to expire worthless-again which is exactly what you were counting on when you opened the credit spread. The options you bought were simply and “insurance policy” and just an added cost to doing business-all you are concerned with using credit spreads are the contracts you sold! You want that premium.

Here is the added perk.

If the trade goes as you planned you simply allow the options you BOUGHT to expire worthless, so no cost to trade out or “sell to close.” Moreover, regarding the options you sold-the credit simply stays in your account.

As with any kind of speculation in the market there is inherent risk however, trading using credit spreads is much less risky over the long run than buying a straight up call or put-having to deal with not just time decay working against you every day, but also only making a profit if the underlying stock moves in the expected direction. Placing your trades in this manner, using credit spreads, gives you cash immediately up front which in my book is huge. You also get the added perks of still winning the trade if the underlying stock moves sideways, or obviously in the direction you want, and even if it trades in the opposite direction as long as the strike price on the options you sold are not crossed. By using credit spreads to trade not only do you receive cash immediately into your account upon placing it, you have not one, not two, but THREE ways you can profit. If you stick to simply buying calls and or puts sure you can make money, but first you have to debit your account for the cost of the option and you have only ONE way to make a profit, and that is for the underlying stock to move in the expected direction and quickly as to not allow time decay work against you. I would suggest trying to implement these “credit spread strategies” using a paper trading account at first so you can get used to how they work in real time. Most major brokerages like TD Ameritrade, Fidelity, Interactive Brokers, etc. all offer a 100% free paper trading platform. Get comfortable trading credit spreads and I believe that you will be incredibly happy with your future trading results. Being able to capitalize on either the price action of the underlying asset trading flat, moving in the expected direction, or even against you, while getting paid a credit immediately upfront is tremendous. Happy Trading!

Wall Street Algorithmic Trading.

Algorithmic trading systems execute orders using an automated, programmed set of variables based on **technical analysis**. *We will cover technical analysis in the next section.* It certainly is no secret that many Wall Street institutions utilize an algorithm to execute trades. Algorithms are programs run by computer software which execute trades when specific parameters are triggered. These “algos” are proprietary and unique from one institution to another, moreover, the parameters used to trigger trades changes randomly. Major financial institutions algorithms execute trades after triggering specific parameters, these parameters are programmed to change at random. The reason why algorithm parameters change at random is to not allow the proprietary algorithm to have its codes broken.

Institutional algorithms are not to be feared and are not always right either. Financial institutions who do utilize algos are competing against each other, and not traders like you or me. It is also interesting to know that major financial institutions pay a lot of money to have their computer servers placed as close to an exchange as possible, here is why. Today trades are placed at incredible speeds, and if for example a financial institution can have their trades placed first,

even by milliseconds, it gives them a financial advantage. A financial institution having its servers placed closer, or even in an exchange, gives that institution a trade execution speed advantage, but it gets even better! Another reason why a financial institution wants to have its servers placed as close to an exchange as possible is this, **electronic trading frontrunning**. Financial institutions who by having their servers as close as possible to an exchange can also use another type of software, a program which tracks trades being placed and then jumps in front of the trade. The practice of having software which recognizes when a trade is executed and is then able to jump in front of that trade is called electronic frontrunning. **High-frequency trading**, (HFT) utilizes computer algorithms to perform large numbers of trades in fractions of a second. HFT systems are positioned as close to an exchange as possible allowing the fastest possible execution speeds. HFT is used to front run trades at incredible speeds by institutional investors who are competing against other institutions, and not traders like you or me.

Hedging Your Trades....

Hedging is like buying an insurance policy for your trade(s). Choosing to hedge a trade will never eliminate risk, it will just minimize it. Hedging a trade will also limit gains. In other words, a reduction in risk also means a reduction in potential profits. Hedging is a technique that can reduce a potential loss, and a trader who hedges is simply moving risk around in an attempt to shield himself from a large short-term loss. As traders we want to take on risk, so hedging a trade should be done very infrequently moreover, intra-day trades should never be hedged. **Trading intra-day is by definition an attempt to take on high risk**. An intra-day trader is generally buying calls and or puts with expiration dates out just a few days, therefore using leverage multiples to take on risk. Now, there are times when a swing trader may want to hedge a trade. Let us say for example that a swing trader just bought OTM calls on company XYZ which do not expire for three months- a typical swing trading strategy. What this means is the trade has time to play out. A trader can hedge this position simply by buying an ITM put which expires out say a week to ten days.

I will break down a hedged trade here.

A trader buys calls on company XYZ which do not expire for three months, the cost of the option was \$1,000

This same trader can simultaneously hedge his position by buying puts on company XYZ which expire in seven days at 1/10th the total cost of his call option. So, in this case the total cost of the put options hedge is \$100, or 1/10th the cost of the main trade.

A good strategy to follow when hedging is the 1/10th rule. The cost of the hedge should be 1/10th of the price paid for the main trade.

By entering a trade with an expiration out three months and hedging that with 1/10th of the overall trade expiring out just seven days, the hedge will act as a buffer to any short-term shocks regarding the main trade moreover, the most a trader can lose is the cost of the hedge, or just

1/10th of the main trade. Using a strategy like this can “take the edge off” if the trade goes wrong short term.

Remember by buying an ITM option which expires out just a week, the leverage is greatly multiplied compared to the longer option trade which expires out in three months, and that leverage multiple is exactly what you are counting on when you hedge.

I will leave off this chapter with an important piece of advice. **Never trade outside of your comfort zone.** That is never over-leverage yourself by committing an unusually large amount of your trading capital into any single trade. As a rule, never commit more than 10% of your entire portfolio to any one trade, better yet, 5%. If you commit more capital than you are comfortable with in any given trade, you will make bad trading decisions, and that will cost you money in the long run.

Chapter Five- Technical Analysis, Tracking Price Movement.

In this chapter I am going to teach you how make use of a critically important trading tool, and that tool is called technical analysis. I am going to also build you a simple straightforward and effective technical chart, one which you can replicate on just about any charting system with relative ease.

Let us define what technical analysis is. Technical analysis is a type of strategy which is used by traders and investors to evaluate the price action of a particular asset and identify opportunities to trade the asset profitably.

If you recall, earlier in this book I covered fundamental analysis, which attempts to evaluate a security's value based on business outcomes such as sales, earnings, forward guidance, etc. in contrast, technical analysis focuses on the study of price action movement. A **Market Technician** will utilize technical analysis to generate short-term trading signals, and technical analysis is an excellent tool for traders who are looking to trade trends.

Allow me to put something to rest right now. Technical analysis, nor any other study or method known to exist should ever be used to try and pick market/asset price movement bottoms and or tops. Any trader who believes that he or she can accurately pinpoint asset tops and bottoms over time will soon learn that he cannot, no one can. Attempting to pinpoint price action tops and bottoms is therefore a losing endeavor.

By utilizing technical analysis, we can “stack the deck” so to speak in our favor when setting up a trade. I will explain.

In my casino blackjack card counting days, I would track the composition of the deck by tracking the cards, or “counting them.” A fantastic way to track the deck and get in on the game when the deck is favoring YOU the player is by “back counting.” Back counting is when a card counter stands behind the players as the game is just beginning, counting the cards, and jumps into the game only when the deck is skewed in favor of the player winning. Playing blackjack like this, back counting, gives the counter a long-term edge over the game. Casinos have become aware of blackjack “back counting,” and may now prohibit “mid-shoe” entry. Regarding trading, using technical analysis for trading, like blackjack back counting, technical analysis helps us to skew the odds of entering a successful trade in our favor, and just like blackjack, gives you a long-term edge.

What we as traders can in fact successfully do by applying technical analysis is find trends, and trends is what we as traders will capitalize on. Do not attempt to pick tops and or bottoms either in the overall market or a single asset, because doing so will cost you a lot of trading capital in the long run. Do not believe me? Ok, you will learn the hard way then.

Technical analysis can be used on any security/asset profitably over time and should be thought of on the same pretext as learning a new language.

If we understand the ‘cycle theory’ which I covered earlier, and my subsequently theory that the price action of assets and markets are not random, we can apply this to technical analysis.

There are several keys to utilizing technical analysis successfully for trading, and here I am going to break down several important ones for you.

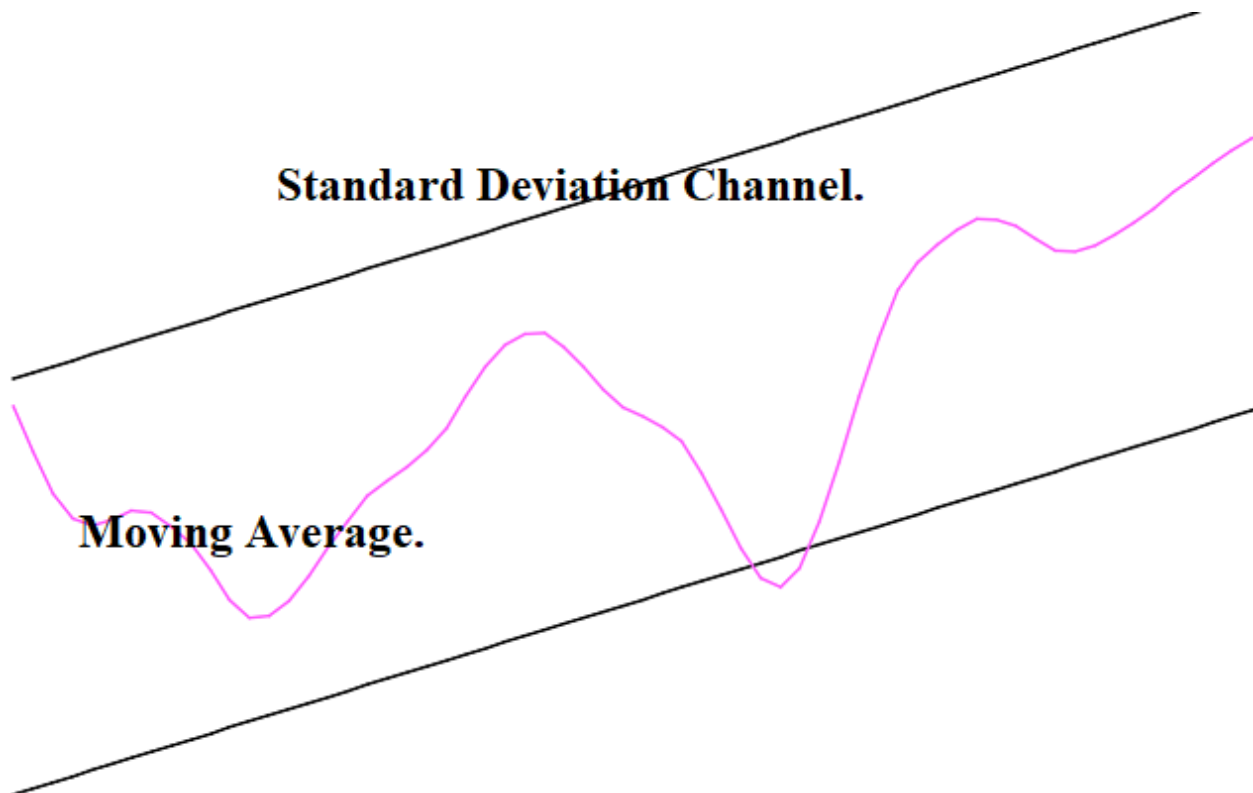
Standard Deviation.

Regarding the price action of options. Within 1 standard deviation will occur 68.2% of all price action. Within 2 standard deviations will occur 95.4% of price action, and within 3 standard deviations will encompass 99.7% of all price action. Understanding standard deviation is important, because it allows you to anticipate when a change in price action is likely to occur.

Using standard deviation along with a ***moving average** improves our ability to recognize a new trend.

***What is a moving average?** A moving average is a tool used to determine the “average” price action of an asset over a specific period of time. A moving average smooths out the price action which allows you, the trader, to better gauge asset price direction and trend.

Below is a chart using a standard deviation channel, (black), and a moving average, (purple).



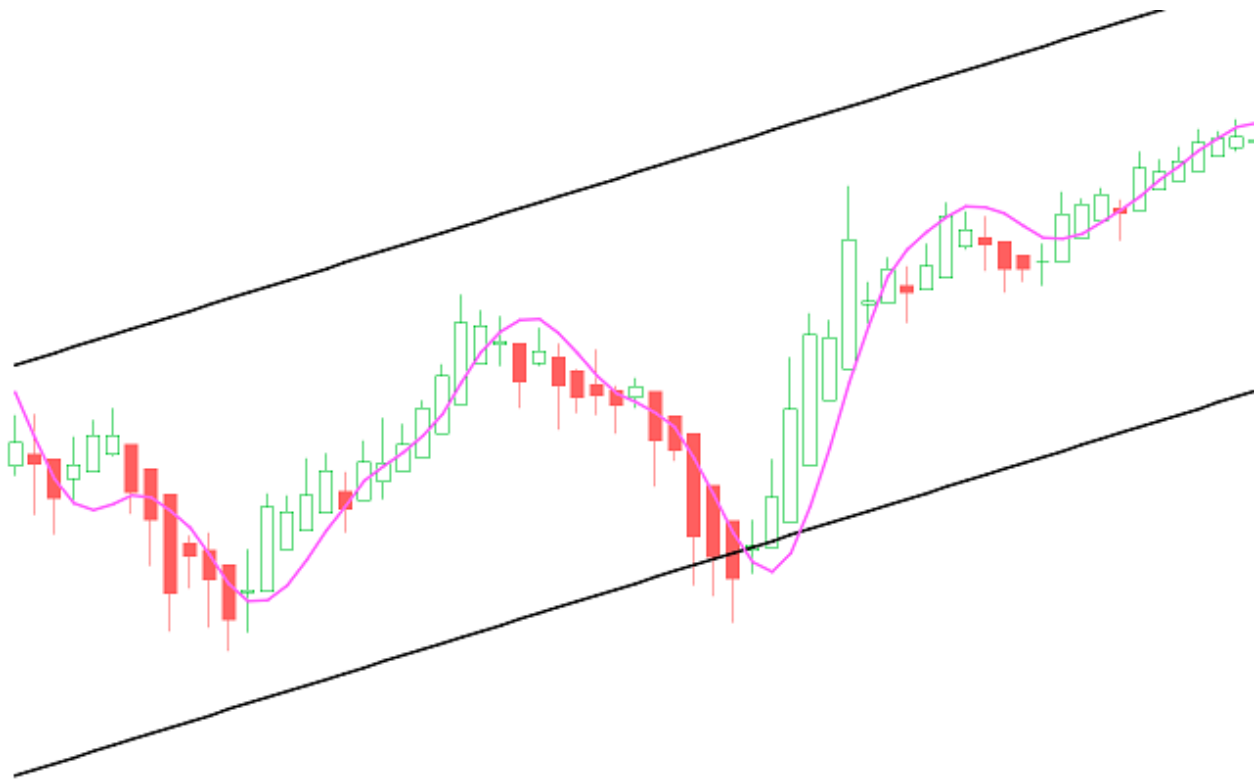
Looking at the chart above, several things become clear.

Number one, **TREND**. The standard deviation channel is angled upward towards the right, this denotes an uptrend.

Number two. Observe how the moving average remained between the standard deviation channel until about mid-chart, where the (MA) fell beneath the lower channel only to quickly reverse.

Next, we need an accurate and understandable way to denote price action within a specified time frame, one which will allow us to recognize trends. One method of doing this, which I believe is particularly good at denoting trends, is Heiken-Ashi, which means "average bar" in Japanese. Traders can use Heikin-Ashi charting to recognize when to stay in trade, and therefore ride a trend longer for larger profits.

Let us again look at another chart and add Heiken-Ashi.



On the chart above we see the standard deviation channel, the moving average, and Heiken-Ashi bars. When utilizing Heiken-Ashi it is important that when you recognize a change, say from a red down bar to a green up bar, that you **wait for the following bar**- after the change, to determine if the trend has really changed. You would also look at the direction of the moving average and where the price action is in relation to standard deviation. Overall, never forget to look at the bigger picture. Look at the chart and determine the overall trend. Never bet against the trend! The trend is always your friend.

Specifically, the chart above is a plotted using a 3-month timeline, day. The standard deviation channel setting is at 1.5 and the moving average setting is Hull, 10.

We can further enhance our technical chart as well.

MACD, which is short for moving average convergence/divergence, is an especially useful trading indicator which is used in technical analysis and is designed to uncover changes in the strength, direction, momentum, and duration of a trend in a stock's price. The MACD is a particularly useful tool in determining trends.

On the chart below I have simply added the **MACD, 2-lines** to the chart system we have been learning about.



Look carefully at the chart above and notice how the MACD can recognize trends.

The settings on the MACD in the chart above are as follows. Again, MACD two lines, (12, 26, 9, exponential). These settings are referring to the time periods and particular moving average used.

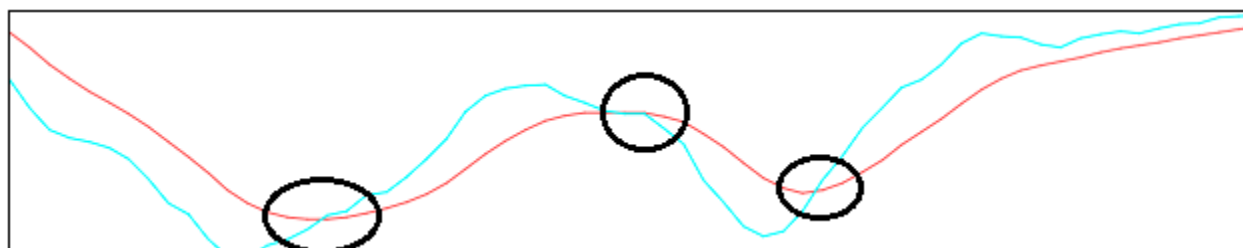
The chart I created can easily be set up on just about any charting platform. There are very many more indicators and settings which can be implemented in setting up a charting/technical chart however, in truth all you need is the ability to recognize trends. The simple charting system I have just put together for you here is really all you need to find and trade trends..

Let us delve a little deeper into the chart I set up here and recognize trading opportunities.

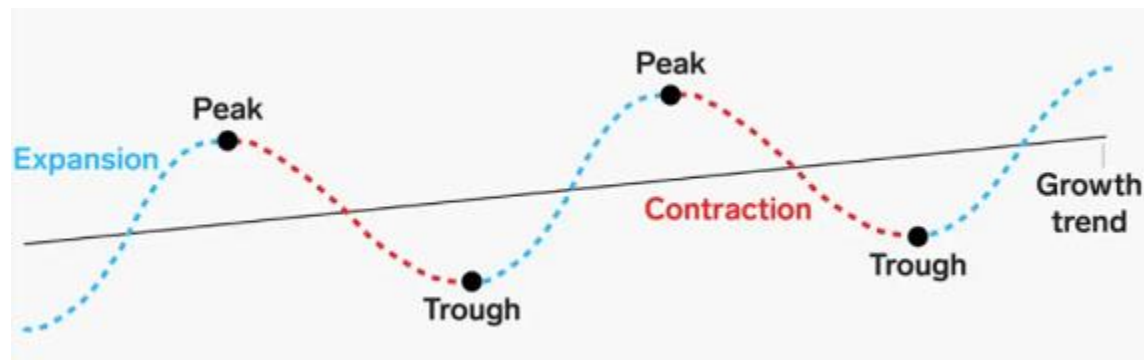
Remember! We are not attempting to find tops and or bottoms, we want to trade trends.

Let us start by looking at the MACD.

On the chart of the MACD below, I have circled three crossovers, these crossovers denote the beginning, or end, of a new trend.

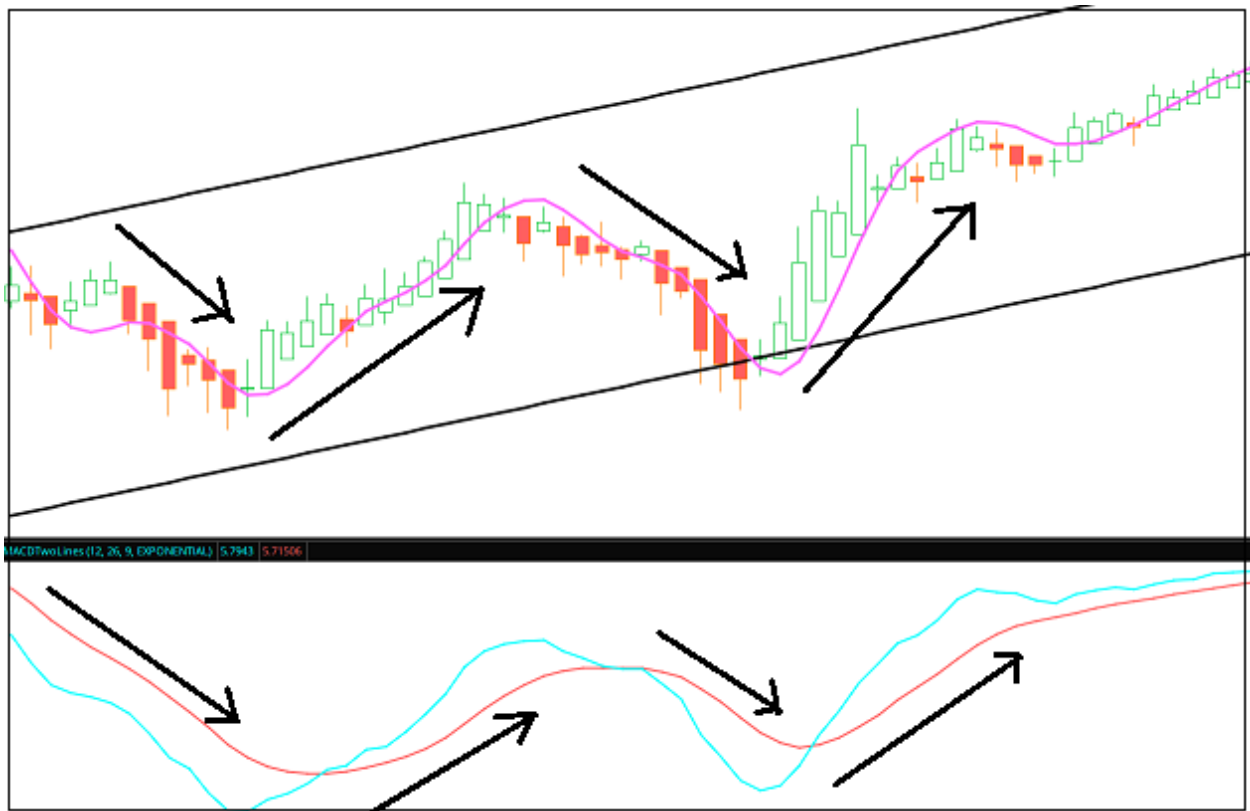


The above chart should look somewhat familiar to you as earlier in the book, when I was going over “cycles,” I showed you this chart below.



Yes, it is true, stock price action does indeed rotate through cycles.

Let us again look at our entire chart below.



In the chart above a total of five trends are revealed. One is the overall trend which is higher denoted by the standard deviation channel. Within the larger trend are recognized four smaller tradable trends. Don't these appear as cycles to you? Indeed, they are!

When the trend overall is higher, a trader will want to look for opportunities to go long, or buy calls, conversely, if the overall trend is lower, a trader will look for opportunities to go short, or buy puts.

Looking again at the chart above, recognizing opportunities to enter a trade looking first at the MACD and then working upward should be simple.

We can take this one step farther.

Early on in this book I discussed fractals, or sub-parts of a larger structure. If one were so inclined, you as a trader can utilize the charting system I have set up for you here as your “bigger picture” so to speak chart, and then supplement it with a second chart—**simply on a shorter timeline**, say fifteen minutes. By doing this you would be able to better pinpoint trade entry and exit points.

Let me break this process down for you here.

Let us say for example that you are looking at your standard bigger picture chart, the one we have built here, and you recognize a trend you would like to capitalize on. By then looking at a fractal, or a smaller segment- shorter timeline, you should be able to more closely zero in on a better entry point, and subsequently a better exit point as well.

For your sub-part chart, simply change the timeline on your bigger picture chart to one say day, one hour, or less. Now in essence you are using two charts, a bigger picture one to recognize a trend, and subsequently a shorter timeline to recognize a trend within a trend. I should also point out that it is an impossible task to consistently get into or out of a trade at the best price. Sure, by utilizing the simple strategies I have outlined here for you, it is possible to narrow down/get close to the best buy/sell price- and there will certainly be times when you do get in and or out at the best price, but instances like that are few and far between.

I will also re-emphasize that as a trader, no matter how much effort you may put into building a successful trade- you will suffer losses. For traders and investors alike, losses are a part of the game. Remember, trading is a game of incomplete information, and constantly changing data. You may put many hours into evaluating a specific trade based upon the information available to you at the time and still suffer a loss. Embrace your losses, learn from them, expect them, and realize that losses are a part of the cost of doing business. **If you are swing trading, that is intending on holding a position from a few days to a couple of weeks, it is best to buy options with an expiration date out three months.** Choosing an expiration date out three months will help you when it comes to time decay, remember, the last thirty days closing in on an options expiration time decay accelerates.

HAVE AN EXPECTATION/GOAL WHEN YOU ENTER A TRADE.

There is not a trader alive who would not like to see his trade(s) go to the moon however, this is not a realistic goal. When you enter a trade, it is imperative to have a plan of when to pull profits. Ask yourself; how much profit from this trade will make me happy? 5%, 10%, 20%? Let me ask you a question. Would you be happy turning a 5% profit from 90% of the trades you enter? Would 10% do it? What I am trying to convey to you here is you should have a percentage price target, then when you hit it, you pull profits. Sure, the option you are trading may go on to gain much more but so what! You pulled a profit... and pulling profits is the number one goal of a trader. If you get yourself into this “rhythm,” that is always have a percentage goal per trade and you stick to it, over time your trading portfolio will grow exceptionally large.

Let us take this a step farther.

We all know that it takes money to make money, and the larger your trading portfolio, the more capital you have available to play with, so how much per trade? It is a good rule of thumb to

never commit more than 10% of your entire portfolio into any single trade. As I have explained, you must have a goal, a specific percentage price target in mind the moment that you enter a trade. What also means is you must have a **stop-loss**. A stop-loss is defined as: a specific target, on the downside, which when struck, you close out the trade. A stop loss limits losses. If you have a 5% upside target, it is also a good idea to have a 5% downside target. Never allow yourself to lose more than your upside percentage price target on any given trade.

Day Trading.

Day trading should really be called intra-day trading, and many traders do it however, only a fraction of those who attempt to day trade really make money. I used to be a terrible intra-day trader, therefore for most of my trading career I have utilized a swing-trading style, that is holding a position from days to weeks, but lately, say over the past few years, I have begun to switch it up. Market conditions can make it necessary to flip from a swing trading strategy to an intra-day one. There are times in the market when there is high volatility, and those are the times to switch up and day trade.

Intra-day trading involves trading on short timelines, I have had a lot of success doing this using a 15-minute timeline. The same “cycle” principals apply here that we covered earlier. If you were to take the charting system we built earlier and simply shortened up the timeline to 15-minutes, you could also utilize it for intra-day trading. The same rules apply, when you enter an intra-day trade, it is of utmost importance that you have a price percentage target ready, so when you hit it, you close the trade. Be certain to adhere to realistic, easily achievable goals. If in fact you are intra-day trading on a 15-minute timeline, more times than not, you will have multiple opportunities during the day to execute trades. Here, when utilizing a 15-minute timeline, I would suggest having a price percentage goal of 5 or 10 percent. When intra-day trading, you should be buying calls and or puts depending on the situation, which are in the money with an expiration date out no more than a week, 2-4 days is even better. Avoid intra-day trading out of the money options, time decay will eat you alive.

Lastly, learn to be happy with small consistent gains as a trader. Sure, we would all like to make HUGE gains on each of our trades but again, this is unrealistic. You must have practical goals, and if you can be of the mindset that you want small stable gains over time- this equates to HUGE gains in your trading portfolio again over time, and that is the goal.

Day Trading Target Profit.

If you intend to day trade, you must set a daily profit target. It is critically important for intra-day traders to establish a daily price target, a realistic goal. ALWAYS set realistic goals. If you have a trading account with twenty-five thousand dollars, \$25,000 is the minimum amount a trader must have in his/her account in order to intra-day trade unlimited times, what should a good intra-day trader expect as a realistic goal? If a conservative intra-day trader has a trading

portfolio of twenty-five thousand dollars and commits 5% of his portfolio to a single day trade, or \$1,250, and if he is buying ITM calls and or puts depending on the situation which expire in say 3 or 4 days, a realistic profit expectation would be 5% of that trade which comes to \$62.50. Keep in mind that an intra-day trader who is trading on say a fifteen-minute timeline, may also have several opportunities to place a trade like this. If for example a trader with a \$25,000 portfolio is committing 5% of his account to a single trade and is able to make five intra-day trades per day, that comes to \$312.00 per day. Now the scenario I just described is very conservative and easily achievable, an aggressive trader who knows what he/she is doing could easily double or even triple that. Aggressive traders tend to make a lot more money than conservative ones however, aggressive traders will also experience wild swings, ***variance**, in their trading portfolio.

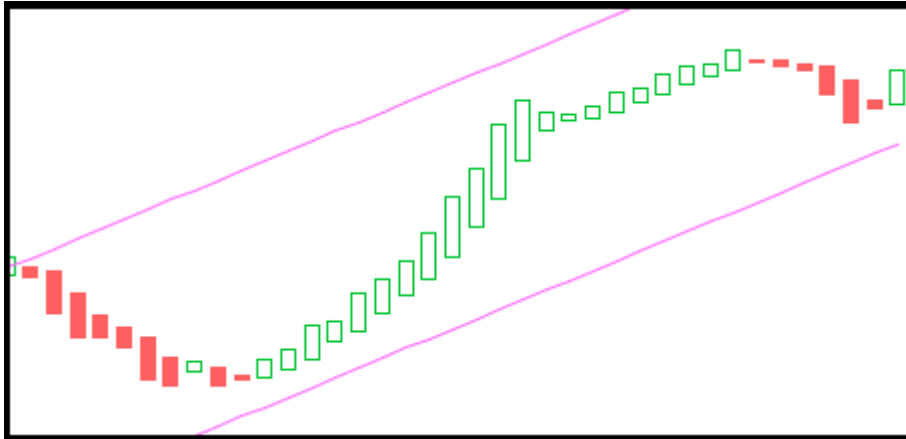
*Variance here is defined as swings in a cash portfolio which waver, at times, significantly above and below the mean.

A good relatively conservative day/intra-day trader with a \$50,000 trading portfolio can realistically make \$375 every trading day. Hypothetically, if a trader has a 50K portfolio, and is executing each trade using 5% of his portfolio, or \$2,500, pulling profits at a 5% gain, that comes to \$125 profit per trade. If he executes just 3 trades per trading day, an exceedingly realistic target, that amounts to \$375 per trading day. This comes to an average of \$1,875 a week or \$97,500 a year. Even if a day trader with a 50K portfolio were to only execute just 2 trades per day, that comes to \$250 every trading day, (same scenario as above, 5% of his portfolio per trade pulling profits at 5% per trade), that comes to \$1,250 per week, which amounts to \$65,000 per year.

Lastly regarding intra-day profit targets. If you focus on achieving a specific daily target goal, exercise discipline and execute a proper strategy, more times than not you will hit your intra-day trading goal.

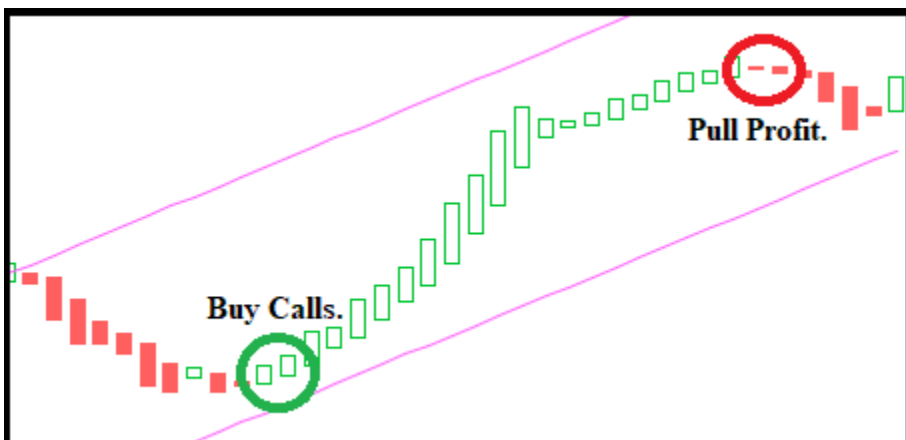
Remember this... **the trend is your friend**. So, never bet against the trend! Before you enter a trade, be it on the long or short side of the market, stock, or otherwise, first and foremost be sure to establish the current overall trend. Finding the current trend is exceedingly simple.

Below is a ten-minute chart using standard deviation channels, look at the angle! It is clearly in an uptrend.



How would you trade this?

In the chart below I have outlined how you should trade a pattern like this.



Let us look at the above chart more closely.

Where I circled, **Buy Calls**, on the chart. Notice how the price action was near the lower end of the standard deviation channel. Well, the price action being near the lower standard deviation channel combined with two Heiken-Ashi green bars made that a good entry point. The red circle, I wrote **Pull Profit**, you will notice two red Heiken-Ashi bars. I also DID NOT say to short the stock where I said pull profits, why? Because the stock was trending higher! Remember again, **THE TREND IS YOUR FRIEND!** If you look farther to the right on the above chart you will notice a new green Heiken-Ashi bar forming again near the lower part of the standard deviation channel. If a second green bar were to appear, that would signify a high probability of a new uptrend forming and there you would buy calls or sell puts.

Trading Comfort Zones.

For me as a professional trader, I have always found it easier to swing-trade rather than intraday trade. What trading comes down to, after all the analysis, is a comfort zone, or risk tolerance level. I personally feel more at ease with swing trading, it fits better into my style and therefore

understanding of the market cycles on a longer-term basis. It is critically important for every trader to find their own comfort zone when trading. Obviously by design and implementation, day/intraday trading carries with it greater risk, and for some a higher risk/reward environment may be exactly what they are looking for. As traders our job is to take on risk, because without risk, there is no reward. Every trader will function differently given the same circumstances. In fact, it is possible to put two traders sitting next to each other using the same system, same bankroll, same data, etc. and get two vastly different outcomes regarding a long-term trading success rate. Why? Because one trader will be more comfortable with that level of risk.

How should a new trader begin? Slowly and methodically. I tell everyone who asks, learn to paper trade first. Paper trade for at least several months and prove to yourself that you can beat the market over time. That is how you build confidence! Do not ever expect that you will never suffer a loss, whether paper trading or trading with real cash, losses are a part of trading and there is no way out of them. It is certainly possible to suffer a series of losses, and you must expect this to happen from time to time no matter how much experience you have trading. Trading, either swing trading or intraday trading, is a process of taking on risk which over time if done correctly will lead to large profits.

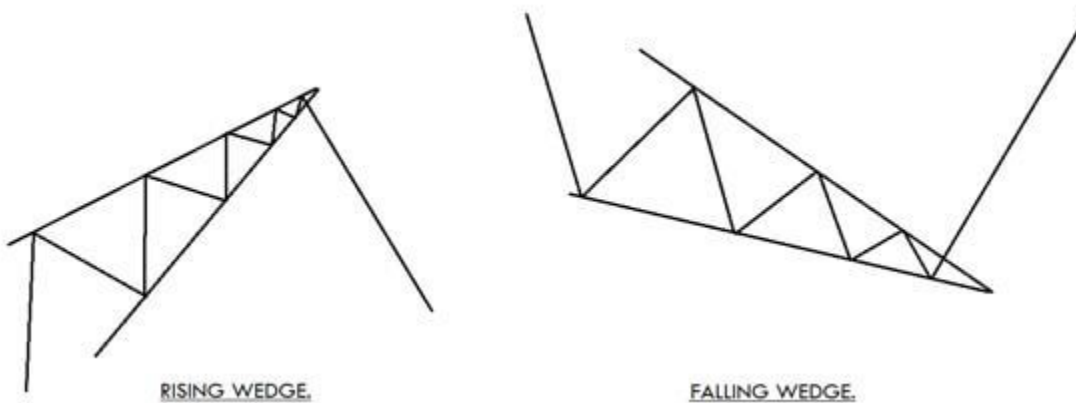
I would like to present you here with just a couple of important chart patterns. These are simple to recognize and show up often, so I thought it would be important to include them.

Wedges.

In the introduction section of this book, I had said that I would not fill this book with stock chart patterns for you to study, but I want to include just a few here based on “wedges.”

A wedge pattern is a model, so to speak, which is a type of formation in which trading activities are “confined” within converging straight lines. These patterns have a rising or falling slant pointing in the same direction.

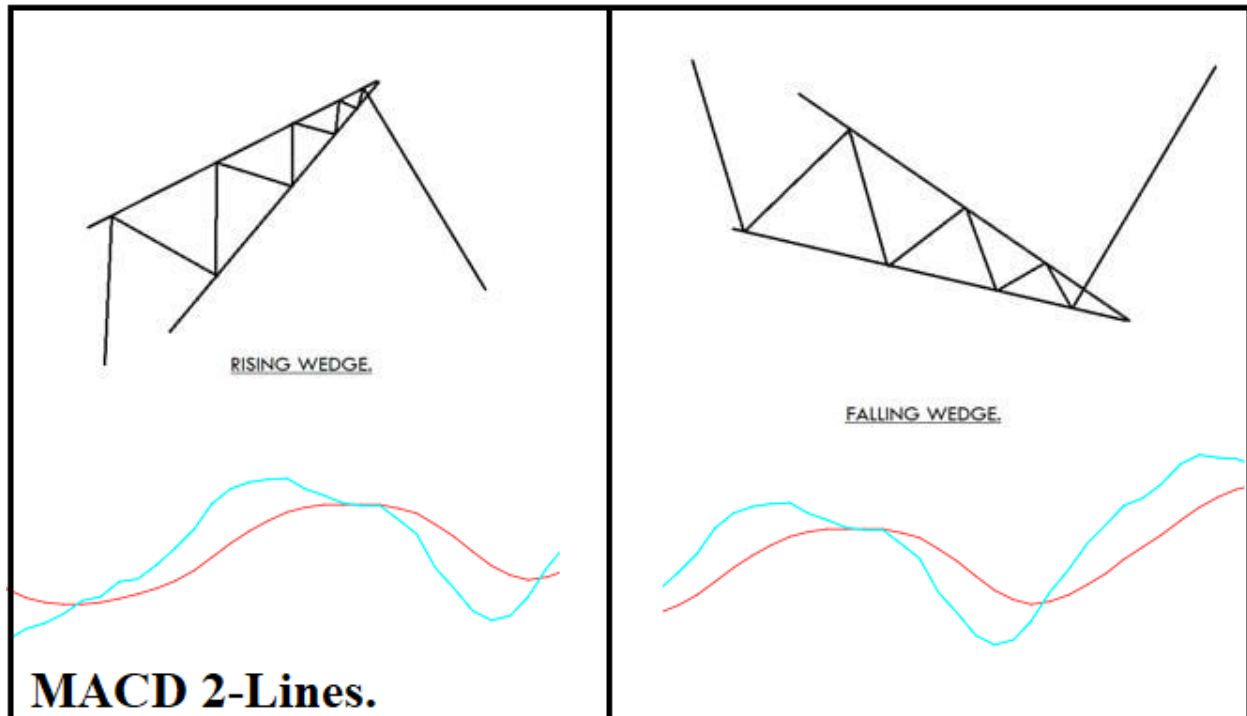
Below are examples of important wedges.



Wedge patterns like these above, are simple to recognize and once you see one of these develop on a stock chart, look for them to “play out” as pictured most of the time. Wedges are important.

If you recognize one of the above wedge patterns at either the top or bottom of a cycle, by observing the MACD, you should expect a large move in the price of the asset in the corresponding direction.

Below are examples of wedge patterns and the MACD.



If while observing the MACD, (lower half of the chart above), you recognize a corresponding wedge, the triggers are the crossovers regarding the MACD.

AS A TRADER YOU HAVE ONLY ONE JOB.

Bulls make money, Bears make money, and Pigs get slaughtered.

You as a trader have only one job, and that is to pull profits from this market!

You are NOT in the business of picking market tops nor bottoms; YOU ARE in the business of finding and riding trends. Finding and riding trends is how you make money in this market. As a trader you absolutely must NOT be a Pig, meaning that once you have a profit in a trade, pull it. Be certain to set and have a price percentage target in mind with every single trade you enter, and when you hit it, close the trade. Be happy to accept small consistent gains, because over time small consistent gains equate to large profits in your trading portfolio- vastly beating the overall market.

Rules Based Trading.

Establish for yourself a specific set of rules to trade by and never deviate from them. For example, never commit more than 5% of your trading portfolio into any single trade, establish a percentage price target for every trade you enter and once it hits, you then pull profits. Having a set of rules for trading is an excellent way to establish a key component to becoming a successful trader, and that key is discipline. Your “rules” should extend to not just gains, but also to losses. If for example, you choose a 5% profit target to exit all your trades, then never allow yourself to lose more than 5% on any given trade. Rules should also extend to the technical analysis aspect of your trading. When specific parameters are met, you then and only then execute a trade. By having an established “standard” so to speak, or rules, it takes the guesswork out of executing your trades.

More on trading rules from a technical standpoint. As much as you may want to, do not **“jump ahead”** of the chart. **Jumping ahead** of the chart is when a technical trader is applying technical analysis but instead of waiting for specific parameters to be met, he decides to open, or close a trade prior to the chart signaling that NOW is the right time to execute the trade. Invariably, it is always best to wait for your technical trading signals to develop. Keep in mind that you will RARELY get in or out of a trade at precisely the best price moreover, you are NOT in the business of picking tops and or bottoms- you are attempting to catch and ride the trends. I understand that often it is very tempting to try and anticipate a market or asset price move based upon gut instinct, but you must avoid this! As a trader you must possess an extremely high level of discipline and do not deviate from a set of rules that you will trade by consistently

I would like to cover with you here just three more technical indicators which I would like you to become familiar with and may also find useful.

Other Useful Charting Indicators.

The charting system I have set up for you is exceedingly simple and effective however, if you are so inclined, you can add other indicators to your chart which some of you may find useful. I will cover three below.

The first is the DMI, or Directional Movement Index. This is an indicator which attempts to identify if an asset or the market is trending, and as you know, finding and trading trends is exactly what we as traders want to do. We do not attempt to pick tops and or bottoms because that is a losing game.

The second is the Correlation Trend Indicator. This indicator estimates the current direction and strength of a trend, and again trends are what we are seeking to trade!

Lastly there is the RSI, or Relative Strength Index. This indicator is used to chart the current strength or weakness of an asset based upon the closing prices over a specific trading time-period.

Now I am not saying that you must include any one of the indicators I have just mentioned to your chart however, you could try adding one or two of them to your chart just to see if either one or another gives you a further insight into tracking price action and finding trends.

Chapter Six- The Number One Driver of The Markets.

So, what propels asset prices? It is company earnings? Current price to earnings ratios? Forward guidance? An analyst upgrading or downgrading a stock or market sector? **How about it is none of these.**

The main driver of the markets is monetary policy which is dictated by central banks. Think about this for a moment. Global monetary policy, that is the operation of the entire financial system is ruled and governed by non-government entities. Central banks are private institutions and answer to no one. The Federal Reserve is no more Federal than Federal Express! Meanwhile, central banks whose sole product is debt, have absolute and ultimate dominance over the entire global financial system.

World central banks manipulate debt to drive the markets, they do this by either expanding or contracting the money supply and buying assets. The largest part of the financial system is the ***debt market**. In fact, it is the price action of the debt market which dictates the price action of everything else, and this is specifically why central banks manipulate rates. It could be argued that because it is the debt market which sets the price of other assets, for example low rates inflate stock market valuations and real estate, that these and other assets act as derivatives of the debt market. Remember, a derivative is an asset which derives value from another underlying asset, so if in fact individual stocks/companies, equity markets, and housing/real estate do derive a major portion of their value from debt market action, they are indeed derivatives-by definition.

***What Is the Debt Market?**

The debt market is also called the bond market, and or the fixed income market. The debt market in aggregate is referring to the issuance of debt instruments, and the debt market as a whole refers to the issuance of several different kinds of securities. There are government bonds or treasuries, corporate bonds, municipal bonds, emerging market bonds, and mortgage-backed bonds.

Central banks have the power to manipulate interest rates by first “setting a target rate,” and then purchasing government bonds. This process keeps interest rates low, and therefore monetizes government debt. Where does the cash come from to buy the bonds? The central bank just creates it, right out of thin air. In a low, or perhaps even negative rate environment- yes rates can go negative, and an environment of risk is created. A low/suppressed rate environment drives cash into the stock market or risk assets. A low-rate environment also drives cash into housing/real estate. The suppression of interest rates for long periods of time creates massive distortions in the market and are responsible for creating asset bubbles. If a central bank is creating cash, monetizing the debt, and purchasing assets, it also has a negative effect on the currency. A weak currency is stock market positive, although it robs purchasing power away from a nation’s citizens. Low rates have another negative effect, savers get punished. In fact, in a

low/suppressed rate environment banks can offer savings rates much lower than the actual rate of inflation.

If you want to know where the overall direction of the market is going, focus your attention on the central bank's balance sheet. The more assets a central bank purchases, the larger its balance sheet will become. An inflating central bank balance sheet is extremely stock market positive. Here in the United States anyone can see the Federal Reserve's balance sheet by simply going to the Federal Reserve's website, <https://www.federalreserve.gov/>

The next thing you want to look at, to gauge the direction of the market is the value of the currency in relation to other currencies. Here in the United States, you would simply look at the dollar index, or the DXY. I have free charts, including the DXY, posted right on my website. I would strongly suggest that you follow them. TradersChoice.net <https://traderschoice.net/>

Keep on top of central bank monetary policy, because it is the number one driver of the stock market.

More on Central and International Banking.

The entire global financial system, which is 100% run and managed by central banks and international banking cartels, is responsible for monetary policy on a worldwide scale. These institutions in the literal sense control the world. By allowing these organizations to have absolute unchecked power over the issuance of our modes of transaction, *the currencies which they issue*, it is they who dictate the rules. Moreover, in a greater scope and perspective, it is world central banks who by the manipulation, issuance, and acquisition of debt, both on the buy and sell side, they control every single aspect of the global financial structure, including the world's stock markets.

These institutions, via this financial integration, transfer risk away from themselves and onto a deliberately misinformed public. In other words, the system they have created puts systemic risk on and in the public realm. The creation of a central and international banking connected system has established cross-country interlinkages, further assuring that systemic risk does not fall upon them in a time of "crisis." Instead, they can easily transmit shocks from the banking system itself, directly onto the backs of global citizens. None of this would be even remotely possible had it not morphed itself from NOT just the central/international banking system, but into the global governing system as well.

For a globally interconnected financial system to function, world governments themselves are now married to, and are subsequently managed by, the central/international banking system. The entire financial and government structures have become one. Thus, internationally connected banking and government corruption can and does go totally unchecked, essentially bringing about a new paradigm.

The stability of the current managed global financial system today is determined by interlinkages between banks and world governments, and neither entity can be isolated from the other. The worldwide framework of both legal and illegal agreements, both formal and informal, along with economic “actors” via media outlets together facilitate the illusion of a free market structure. Further expanding on my non-random theory, whatever events may take place in government and the financial markets- is no accident, and therefore not random. Global financial or geopolitical “shocks” today may indeed seem like outlying or unseen events, independent trials, but are independent of nothing.

The global banking system is a network of unchecked criminality.

The major banks have been involved in blatant criminal behavior over the course of many years, even decades, and are the among biggest names in the world, including JPMorgan, Goldman Sachs, HSBC, Morgan Stanley, Citigroup, and more. Standard Charter Bank and Bank of New York Mellon. Of these, institution after institution continues to get caught red handed rigging every aspect of these markets, repeatedly, and yet market “engineering” and manipulation continues, on an epic scale. Under existing laws, financial institutions are required to file suspicious activity reports, (SARs), that point to potential criminal activities within the organization. Suspicious activity reports exist for one reason, to shield banking executives from criminal prosecution. Here is how it works. So long as a bank files an (SAR), suspicious activity report, stating that it may be enabling criminal activity, whatever that may be, and is actively pursuing ways to correct it, **the SAR immunizes the institution and its executives from criminal prosecution.** Simply by filing a suspicious activity report essentially gives the bank and the executive staff a free pass. There are rare cases where authorities do, despite the filing of a suspicious activity report, decide to act. This then involves the making a deal in which the bank then agrees to pay a fine, but never is the fine imposed on the executives involved. It is paid instead “for by the bank,” and treated as an operating cost.

Chapter Seven- “Alternative” Investments.

Cryptocurrencies.

What are Cryptocurrencies?

A cryptocurrency is a digital asset, or sometimes called a virtual currency. These are non-central bank issued instruments, and therefore are OWNED by the holder. This is unlike a central bank issued note, say a US Dollar, which is owned by the issuing central bank and owed back to the issuing central bank plus interest that the central bank creates out of thin air. The issue of the ownership of a said cryptocurrency is what interests me in holding it. Also, unlike a central bank printed note, these virtual currencies are secured by cryptography. Cryptography is a method of protecting information and communications using codes, moreover, having an asset secured via cryptography means that it impossible to counterfeit. Cryptocurrencies are based upon decentralized networks based blockchain technology. Blockchain technology is a type of ledger secured on and by a network of computer systems. The defining feature of cryptocurrencies is that are they are not issued by any central authority or central bank, rendering them theoretically immune to government interference or manipulation. I say theoretically here because it is now common knowledge, and I have addressed this issue many times in interviews, on my blog, and the like, that Bitcoin futures CAN be manipulated.

Cryptocurrencies are financial instruments which allow for the secure payments denominated in terms of virtual "tokens," which are represented by ledger entries internal to the system. Encryption algorithms and cryptographic processes protect transactions involving cryptocurrencies. Encryption mechanisms include elliptic curve encryption, public-private key pairs, and hashing functions. Integral to the functionality of Bitcoin and other cryptocurrencies is again the Blockchain technology. Blockchain technology is utilized to keep an online ledger of every single transaction which have ever been conducted. Banks, who's bottom line is always making profits, see blockchain technology as a way to lower transaction costs by streamlining payment processing moreover, cryptocurrencies allow transactions to occur directly between two parties without the need for a trusted third party, like a bank or credit card company, and this mechanism in turn lowers transaction costs.

Cryptocurrency systems utilize a user's wallet, or account address, and have a public key. The private key is known only to the owner and is used for private transactions, the public key allows others to make deposits into someone else's wallet. Arguments against the use of cryptocurrencies would include the semi-anonymous nature of cryptocurrency transactions. The “semi-anonymous nature” of these assets makes cryptocurrencies well-suited for a host of illegal activities however, my personal argument against that claim would be simply this; **the US Dollar, BY FAR, remains the number one mode of transaction used in illegal activities globally.**

It could be argued that cryptocurrencies, although they can and are used for transactions, are more like speculative bets than actual currencies. For a currency to work as a currency, number one it must be stable. A currencies ability to remain stable, although its value will fluctuate somewhat depending on many factors, is important. Bitcoin for example has had epic swings in value, along with several other virtual currencies since their introduction. Wild swings in the purchasing power of a currency are not a desirable characteristic. Still, I personally see the demand for cryptocurrencies growing substantially in the future as more people want to hold them as opposed to central bank issues notes.

Gold and Silver. Both gold and silver are universal money, there is no exchange rate, and neither must be converted into another form of currency in order to transact. Gold and silver are real money, and they have been for many thousands of years. Gold and silver are ANTI-debt units, as opposed to a central bank issued note which is owned by the issuing central bank and owed back to the issuing central bank plus interest which they create out of thin air. The dollars in your bank account/wallet are not yours, they remain the property of the issuing central bank and owed back to them plus interest, and where does this interest come from? Again, created by the issuing central bank out of thin air. When you own a piece of physical gold or silver, you are holding a piece of real wealth, moreover, you own it, it is yours. Moreover, you do not owe It back to any issuing central ‘authority.’ Regarding the market and its cycles, both gold and silver play critical roles. Most investors think of gold and silver as inflation hedges, which they are however, regarding market cycles the role both gold and silver play is much greater. The market operates in two distinct cycles, and these are RISK ON, and RISK OFF. In a **risk on** environment cash makes its way int risk assets, like stocks. In a risk off environment cash makes its way into assets with less risk, like physical gold and silver. Understanding risk on/risk off, allows you to buy assets on either side when they are “on sale.”

When the overall market is in a risk on cycle, **risk off** assets literally go on sale, and the opposite is also true, during a risk off cycle, **risk on** assets also go on sale. The reason for this risk on/risk off phenomenon occurring is simple, cash simply seeks yield. The movement of capital into one phase of the market of the other is based on a theory called “**The Fluidity of Money.**”

Other assets.

Tangible things are generally good long-term investments. Some examples of these include artwork, vintage musical instruments, classic cars, real estate, collectable toys, rare weapons, sports memorabilia, historical documents, wines, artifacts of one type or another, etc. It is good to be diversified, that is do not put all your eggs in one basket.

Chapter Eight- Break the Chains of Debt.

Just imagine for a moment not owing money to anyone, trust me it is a great feeling and I want you to feel that way all the time. Breaking the chains of debt is freeing yourself from a terrible form of indentured servitude. When we are in debt, we become slaves to servicing that debt for years, as well as paying multiples on the initial principal and this my friend is a sure-fire way to stay broke for life. Now I am not talking about a home loan, a car loan, or a student loan. Each of these types of loans fall into a totally different type of debt, and these are not necessarily bad. However, I would consider every type of **unsecured debt** as bad debt in the sense that these types of loans can never create equity/wealth over time, unless of course a loan of this type is used to buy an asset which can be sold for profit. However, it is these types of loans (unsecured) which we can easily get out from under, and that is what this chapter is all about! Truthfully, I love this stuff, and even if the credit card companies and banks were to offer me cash not to put out this information in print I would probably refuse, unless it was a real lot of money I suppose! I have heard someone say, "money is the root of all evil," however I would say being in debt due to the lack of money is the root of all evil. Having wealth is comfortable and I am not going to lie about it. I enjoy having money and being able to acquire assets. In truth, people do not need a lot of cash; they just need enough to cover bills comfortably without having to struggle. But not having money enough for your expenses can be devastating emotionally across the board. So, what is our plan? Simple. Our plan for getting you debt free involves a straightforward strategy and I am going to outline for you just how to do this now.

First, I want you to gather all your unsecured debt together and obtain statements on each of your accounts. I want you to now place them in order from the lowest amount owed to the highest. What we are going to do is tackle the smallest accounts first and I will tell you why. If you begin to get a handle on this and start to see progress it will be an emotional boost for you. Beginning today you are NOT going to stop paying these bills, what you are going to do is each month send just five dollars to the lender when your bill arrives regardless of what the actual bill is for, and you will do this for all your accounts across the board. This serves two purposes and the first is this: it is a good faith offering to the lender which keeps you from becoming an enemy of that said lender. Keeping a relationship with the lender is important and we will go over why later. The second purpose in sending the lender a good faith payment is it will keep you out of trouble, what I mean by that is this: if you cut off all communication with a lender and do not at least make a good faith payment, the lender can and often will win a legal judgment against you for the entire amount of the loan/line of credit. If this happens you will then be forced to pay the loan in total. If a judgment is won against you in that circumstance, the loan will be either placed as a lien against property you may own or taken directly out of your paycheck. So, let us stick to the plan I am laying out for you. Now, the lenders are not going to like the fact that you are just sending the five dollars, therefore they will begin to call, and even harass you in an attempt to get you to increase your good faith payment up to the minimum amount of the bill. Now in truth you do have a choice here and let us go over that now.

You can choose to talk to your lender(s) or not, my advice is this- talk to them. Explain that you can only afford to pay five dollars a month, do not get angry and keep your cool. Remember I want you to keep a reasonable working relationship with your lenders. Some people cannot tolerate the phone calls as you will get them, and they can be very annoying, even harassing. If you really cannot deal with them or if they begin call your place of work, you can send them a cease-and-desist letter via fax and legally they cannot call you after that point. However, I want you to try and deal with the calls and stick to your story that you cannot afford to send them any more than your good faith five dollars a month. If you cut off all communication with a cease-and-desist letter it will make it harder for you to deal with the lender later. Keeping communication with the lender is a ploy you are using to establish a “working” relationship with the lender for which you are going to use to your advantage later. Now regardless of that, the lenders are going to attempt to scare you with threats of late fees and interest rate increases however do not be intimidated, as long as you stick with this plan, they have no recourse, and you are in control. The late fees and interest rate increases do not matter at all, more on this later. Now over the next few months I want you to accumulate some cash, once you have saved about 25 percent of the loan you are going to call the lender and make them an offer to settle the account. If you have done this within six months of beginning this process the loan most likely has not “charged off” yet, that is the lender still owns the loan. If a loan charges off, that means the lender has sold your loan to a collection agency or secondary party who has bought your loan for pennies on the dollar and now you will have to deal with them at that point. It really does not matter who you deal with, either the original lender or the collection agency/secondary party, it will still work out nearly the same for you in the end. If you can work with the original lender before the loan charges off you can often get a better deal, but if you cannot, you cannot, do not worry about it. So whatever time frame you work out, and whether you are dealing with the initial lender or a secondary party you will establish communication and make them an offer to settle the account. Most often you can settle any unsecured debt for 40 percent of the initial loan, any late fees which have accrued will be removed in total as you settle. Now you may be able to settle these accounts for much less than 40 percent of the principal. Many years ago, I had a \$25,000.00 line of credit with Bank of America which I settled for \$6,000.00, that’s just 25 percent, but on average you will be able to negotiate for 40 percent of the principal. You have other options as well, once you do reach a settlement on the account(s), you do not have to pay them off at that time unless you want to, you have 3 months to do it.

So, let us say you owe ten thousand dollars on account XYZ and you settle for four thousand, (forty percent), you can split this into 3 payments with no fees or interest. If you have multiple accounts with unsecured debt you can repeat this scenario for each one until you are debt free. Once the lender or secondary party (collection agency) settles with you, you are legally free and clear from any obligation towards the said debt(s) forever ah yes!

So, you had no idea it was this easy, did you? And this is what all those companies who advertise offering “debt relief” are counting on, you not being aware. Glad I could help!

Now it is time to repair your credit. By getting yourself debt free in this manner and saving yourself enormous amounts of capital, your credit score will be affected negatively, but fixing your credit score is a snap to do! Keep this in mind that the credit reporting agency's which are Transunion, Experian, and Equifax; sole job is to simply collect information and then sell that information to anyone who wants it. These credit reporting agencies do not care if the information which they collect is accurate or not.

My advice to you at this point is this: while you can do what I am going to outline next for yourself, consider hiring a reputable credit repair agency, here is why. Because firstly they are cheap to hire, some as low as \$29 dollars a month, and if this is not done properly it can take much longer to repair your credit. On average the credit repair agencies can fix your credit in a year or two at most, if you do this yourself it can take twice that. Here is how it works and again you can do this yourself, but I do not recommend it.

Number one. Obtain a copy of your credit report, and this can be done easily via several online sources for free. If you decide to go this on your own, you simply dispute each negative comment which will be placed there by each of the lenders you have settled with. These will show up as charge offs, settled for less than full amount, late payments, and other negative things. You simply write a letter to each reporting agency stating that the information is inaccurate. The agencies by law must now investigate your claim and how they do that is this: they contact the said lender to verify whether or not the information is correct, if the credit reporting agency does not hear back from the lender within 90 days, the negative information is removed, and your credit score improves. It is that simple. You can repeat this over and over until the negative item is eventually removed. Now there is a pattern to this, and in order for you to get the quickest result this pattern must be followed, and this is where hiring a credit repair agency can be beneficial as they know how to work the system. But before you hire a credit repair agency do a little research online about the agency's performance. Most of the agencies are legit and will help you with repairing your credit and the price they charge is worth what you get out of it. Alright now, one more thing. Come tax time you receive a statement from your now previous lenders which will detail your "discharged debt," what this represents is the amount of cash which was removed from your debt. For example: say you had a five-thousand-dollar balance which was settled for two thousand, Uncle Sam now counts the difference, which in this case would be three thousand dollars, as income and will tax you on it. Total nonsense, right? I agree, but that is just the way it is. Still, overall, you will have saved yourself thousands of dollars. Heck, maybe I should more charge for this book just based on this chapter! What do you think? Just kidding.

So, you want to acquire substantial wealth, OK this is not as hard as you may think it is my friend. The first thing you need to do once you are debt free and have fixed your credit is begin to acquire assets, own things. Obtain a home of your own, buy a car, and obtaining these things is going to be so much easier for you once you liquidate your unsecured debt and improve your credit score as I have outlined for you. So, eliminating your debt burden has paved the way for

you to gain real wealth. Having this bad debt off your credit report is also a major boost for you and that will allow you to obtain better terms on any subsequent “good” debt you may acquire. Good debt exists, the kind in the financing of a home for example, or vehicle although to a lesser degree because the vehicle will more than likely depreciate in value, however it will still retain some value. At this point you should also be looking into investment vehicles and there are many.

Chapter Nine- Develop A Winning Attitude.

You are going to re-program your brain to think like a successful and prosperous person does, and this is not an easy thing to do because like most people since an incredibly early age your thought processes have been hard wired to be average, which is the opposite of successful or prosperous.

Your brain has been trained to conform and live your life as the average person does, virtually assuring that you will always remain this-just average. In the past being an average person was not such a bad thing, but today it is a totally different animal. Today forty four percent of the population of the United States alone receives some type of government assistance and that is just simply ridiculous. Today 63% of the US population lives paycheck to paycheck. Moreover, the overall average person has little or no net worth, in fact a negative net worth if one were to subtract what the average person my owe/debt burden. Sadly, if the average person were to lose his or her job at best, they could survive maybe 1.5 months from any acquired savings, and this is just pathetic as well. At the time of this writing the average American citizen would have a hard time coming up with even \$400 if an emergence should arise.

OK, now that you have a straightforward plan to begin taking your life back from the slavery and anxiety of being in debt, Chapter Eight, you now need to develop a picture in your mind of how you want your life to be. Forget about living in the moment anymore, because it was that type of thinking which got you into the situation of which you are now getting yourself out of. It is now time for you to begin to think long-term. Children and animals live in the moment, and so do most adults, and that is why so many people are in such dire financial condition. A successful person almost never lives in the moment, their mental world is expansive and is multidimensional. The simplest way to show you an example of how an average and unsuccessful individual goes through life is this: watch the way they walk through a public place. Sounds crazy? Allow me to explain: the average adult walks with their head pointed in one direction with their eyes fixed in one position, rarely looking at anyone or anything, and seemingly oblivious to their surroundings. In contrast, a successful person who is master of his/her domain almost never behaves like this. As he or she walks around they are constantly observing, listening, making brief eye contact with other people, perhaps sharing a smile, or saying hello to people whom they have never met, getting involved in the situation, even if it is just a simple walk. A successful person is continuously interacting with their environment, and taking command of it, not on an overpowering way, but gaining strength by being an integral part of their surroundings all the time, a participant, and not just an observer.

A successful person is engaged with life and knows how to live it! This pattern of behavior pervades every aspect of a successful person's character and therefore bleeds off into everything they do, and into every person they meet. In order for you to rise above that which society expects of you, that is to be a conformer who simply follows and does not lead, drastic changes across the board are going to have to be made by you and it all begins with an attitude.

You must purge yourself of decades of being forced into accepting societal dictation on what you are supposed to be, average, and forge your own path towards a lifestyle which you desire to achieve. The easiest way to start to do this and begin to think “outside of the box” is simple: do the opposite of what the average person does. For example: when it comes to trading or investing, a professional generally gets in on the opposite side equation. That is if the public is acquiring an asset or “bullish,” the pro is looking to get in on the short side of the trade. Conversely, if the general attitude towards an asset is “bearish” the pro is looking to get into the long side of the trade. Now keep in mind with financial assets as presented in the preceding scenario, the pro most likely is taking up positions on both sides of the equation or “hedging,” to maximize gains while at the same time limiting any possible losses. This situation can also play out regarding situations in everyday life, that is a rich or successful person does not follow the heard, ever. What a prosperous person does is perform the opposite of what is generally expected of them and hedge themselves effectively, to make the best out of every situation, and this is exactly what you should be doing starting today.

Next, learn to observe. Do not just look at things, focus on them, gain knowledge of whatever it is you are looking at and try to think about why it is that this thing caught your attention in the first place. Observation exercises allow your brain to work independent of conscious thought and after a while of doing this you will be simply stunned as to how such a simple thing, observation, will begin to affect the way in which your brain allows you to process information. Starting today it is imperative for you to begin to allow your brain to process unconscious thought, and you will do this by simply observing. Next, learn to listen. I do not care how smart you may think you are, in fact if you believe that you are smart enough, and know more than everyone else, the truth is you are probably the stupidest person in the room. Me, I never think like that. I realize clearly that I have a lot to learn from every person I meet and that is the attitude I want you to adapt right now. Once you start to listen to people and not just hear them, an entire new world will open for you.

Next, engage in conversation. Engaging in conversation with people once you learn the skills of observation and listening is going to transform you like you cannot believe. Once you can observe and listen, each conversation you have is going to be incredibly rewarding for you. I also want you to start asking questions! People today do not want to “look stupid,” so they do not ask questions. In my opinion not asking questions is one of the stupidest things anyone can do! An inquisitive person is a thinking person.

Next. Never, and I cannot stress this enough NEVER! Prejudge anyone. A vast percentage of people worldwide have developed a horrid psychological issue, and that is the prejudgment of people based upon a plethora of things. Think about it for a moment, do you prejudge people? I want you to as of this very moment cease to do that. This type of thinking stifles free thought perhaps more than anything else. It is also this type of thinking which places you at a great disadvantage. By cutting yourself off from others for whatever reason based upon your own ignorance, you are not allowing yourself to grow intellectually. Moreover, while others are

continuing to develop in this manner you will be stagnated. It is you then who will be prejudged by others and thought of as ignorant. People will isolate you, and not want to be involved with you. If you have a particular issue with a specific type of person, I want you to consider why that is. Then as an exercise I want you to go out, find a bench somewhere and locate a person or group of people who fit into your predetermined mental picture, sit there and without being overt about it observe that person/group of people. I then want you to engage in conversation with a person fitting into your predetermined criteria, listen to and know that person. I know for a fact that after you do these things you are going to shock yourself and understand why I am telling you that prejudgment of a person or class/creed etc. of people is not hurting them, it is destroying you.

A successful individual is always seeking to engage and be involved with others at every level and create a persona of approachability, people find themselves drawn to individuals who display these qualities.

Moving on. After and not before you create this new you so to speak, I want you to again envision how you want your life to be. If you have allowed your brain to process unconscious thought by breaking the mold which society has pressed you into, it will be your mind which will lead you on the path of prosperity. Allow me to explain. By reprogramming your brain to process unconscious thought, the path propelling you to success will be literally laid at your feet, and not just financial success, but great accomplishments in all aspects of your life. Subconsciously your mind will process thoughts which will direct your actions leading you down a road of happiness and triumph. Doors which had been closed to you for years, perhaps forever up until this point, will simply open for you. All this and much more will have all come about by simply altering your conscious thought, which subsequently will allow your unconscious thought to help you achieve your true self.

The average person rents, borrows, and leases, his or her way through life and in the end has nothing to show for it. That is the definition of how to stay broke, indentured, and miserable. Let us lay this all out; renting equals broke; Borrowing equals indentured; And Leasing equals miserable. Any questions?

As I have been explaining, if the average person is doing a particular thing, you, now as a successful person should be doing the opposite of what they do, and that is OWN things and acquire assets.

Why are rich people rich? They own, it is that simple. I am not going to debate on whether or not now is a good time to purchase a home, but all things being equal the benefits of owning a home greatly outweigh the prospect of renting one. I will elaborate: if you choose to rent you are investing in another person's future, not your own, and every single dollar you put towards renting that property is gone. Conversely, if you owned that same home each dollar used to pay the mortgage is recoverable-that is when the time comes for you to sell your home a large percentage, if not all of the monies vested up to a potential profit exist, and therefore you have in

fact lived in the home for free. Now if that is not a major benefit over renting, I sincerely do not know what is.

Rich people rarely acquire unsecured debt, almost never actually, and the only time they lease a vehicle is if it can be written off as a business expense. If you lease a vehicle the scenario is almost the same as if you rented a house, in the end you get nothing but an empty garage. Let us say you purchased a vehicle, car, motorcycle whatever, and the amount borrowed was 30K. An average monthly payment on a loan of this type would be around \$650.00 over 4 years. Now let us assume 4 years have passed and you are tired of the old thing and decide to sell it. Some nice fella comes along, and you agree to let it go for 15K. In essence that vehicle only cost you \$325.00 a month because at the end of the loan the vehicle had equity in it. Now, if you had decided to lease that same vehicle for the same term, 4 years, your payments maybe would have been somewhere around \$500.00 a month, a bit less however, in the end when you returned the vehicle you would be out the entire amount, \$500.00 a month x 4 years. So, the new you does not rent, would not even consider borrowing, and laughs at people who lease. Any more questions?

Important terms/definitions every trader and investor should be familiar with.

Ask Price. The ask price is referring to the lowest price a seller will accept for a security.

Assignment/Assigned. This is when an options seller must fulfil his obligation pertaining to an options contract. He will do this by either selling or buying the underlying security at the exercise price.

At the Money. Abbreviated (ATM). This is a situation where an option's strike price is identical to the price of the underlying security, so you are ATM.

Bid Price. The bid is the price which is offered for an options contract. The bid price is lower than the asking price, or “ask”, and the difference between them is called a bid-ask spread.

Brokerage. This is a firm, of which there are many online, which acts as an intermediary between an investor and a securities exchange. Traders and investors place their orders to buy/sell via brokerages.

Business cycle. This is defined as fluctuations of gross domestic product (GDP) alongside its normal growth rate.

Call. Call options are contracts which give the option buyer the right, but not the obligation, to buy the asset at a specified price within a specific time period.

Covered Position. This a financial transaction in which the investor trading options owns an equivalent amount of the underlying security.

Credit Spread. This is an options contract which includes the purchase of one option and the sale of a second similar option with a different strike price resulting in a net account “credit.”

Dependent Trial. A series of events by which the previously occurring events directly affect the outcome of the next event.

Derivative. A derivative is a financial instrument that derives its value from another underlying entity.

Dividend. This sum of money paid typically each quarter by a company to its shareholders out of its profits.

Exchange traded fund is defined as a fund which is traded on an exchange.

Extrinsic Value. Extrinsic value is the difference between the market price of an option and its intrinsic price.

Fractal is a repetitive pattern within a pattern, which in turn continues to repeat itself down to the smallest element of the larger pattern, indefinitely.

Front Running. This is the illegal practice of entering into an equity trade based on advanced, nonpublic information

Fundamental analysis. This is based upon the analysis of a business's financial statements and markets. It also encompasses the overall state of the economy, production, employment, GDP, housing, manufacturing, global trade, debt, deficits, and central bank policy.

Heikin-Ashi. In Japanese this means "average bar." The Heikin-Ashi technique is utilized to track price action movement as to recognize market/asset trends.

Independent Trials. A series of events by which the previously occurring events have no effect on the outcome of the next event.

In the Money. (ITM). This refers to an option whose price is now higher, in the case of calls, or lower, in the case of puts, than the underlying asset.

Intrinsic Value. The intrinsic value of an option is based on the current market value of the underlying instrument, and the time value of the option.

Jumping ahead. This is referring to a trader, "thinking ahead" of the chart. It occurs when a technical trader is using technical analysis, but instead of waiting for specific parameters to be met, he decides to open, or close a trade prior to the chart signals confirming price action movement.

Leverage. With options, leverage is the cash equivalent multiple of the options position relative to the actual cash price of the underlying asset.

Large Cap. Large-cap corporations have a market capitalization of \$10 billion or more.

Limit Order. a direction given to a broker to buy or sell at a specified price or better.

MACD. This is short for moving average convergence/divergence. The MACD is a trading indicator used in technical analysis and is intended to reveal changes in the strength, direction, momentum, and duration of a trend in a stock's price.

Margin Call. This is a demand by a broker that the investor deposit additional cash or securities into their account to cover possible losses.

Market sector. The phrase market sector is used in economics and finance to describe a part of the economy.

Market cycle. Market cycles refer to trends which occur during different market or business environments.

Market Order. This is a bid by an investor to buy or sell a security at the current market price. (It is never a good idea to use market orders to buy or sell, you are asking the market maker to rip you off, and they will).

Moving Average. (MA). This is a stock indicator commonly used in technical analysis to determine price action movement. A moving average is a computation which calculates the mean of a given set of prices over the specific number of days.

Naked Position. A naked position is referring to a securities position, either long or short, which is not hedged. In options trading, naked, refers to an option sold by a trader without an established position in the underlying security.

Options. an option is a contract which gives its owner the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified strike price prior to or on a specified date.

Out of The Money. (OTM). This is referring to an option with no intrinsic value, only extrinsic value. A call option is OTM if the underlying price is below the strike price, and A put option is OTM if the underlying price is above the strike price.

Put. A put option is a derivative instrument which gives the holder the right to sell an asset, at a specified price, by a specified date to the writer of the put.

Realized Gain(s) definition. A realized gain results from the selling an asset at a price higher than the original purchase price.

Rising Wedge. This occurs when a security's price has been rising over time, generally an early sign of a price action reversal lower.

Sector Rotation. Sector rotation is the movement of money invested in stocks from one industry to another as investors and traders anticipate the next stage of the economic cycle.

Small Cap. A small cap company is a company whose market capitalization is under \$1 billion.

Standard Deviation. (SD) is the statistical measure of market volatility, measuring how widely prices are dispersed from the average price.

Stop-Loss. Concerning an order to sell a security at a specified price to limit a loss.

Strike Price. A strike price is the set price at which a derivative contract can be bought or sold when it is exercised.

Technical analysis. An approach utilized to calculate and recognize price action trends.

Ticker Symbol. A **ticker symbol** is an arrangement of characters representing securities listed on an exchange.

Time Decay. This is a measure of the rate of decline in the value of an options contract due to the passage of time. Time decay is also called theta and is known as one of the options Greeks.

Trend. Trend analysis is the widespread practice of collecting information and attempting to spot a pattern.

Underlying Asset. Underlying assets are the financial asset by which a derivative's price is based.

Unsecured Debt. Unsecured debt refers to loans that are not backed by collateral.

Variance is defined as “swings” or variations in a cash portfolio which move at times significantly above and below the mean.

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