Eliminating Emotions with Candlestick Signals

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The Candlestick Forum

Eliminating emotions -- e-book

Foreword

This book was written for completely different purpose than most investment books. Everybody wants to read about how they can make a fortune in the markets. They are intrigued with titles such as "How I turned $5000 into $1 million in options". What is our initial reaction to such a title? Boy, how I would like to be able to do that. There are many titles that instill hope that we can also become extremely wealthy by the investment secrets somebody is about to reveal to us.

Unfortunately, investing is not that easy. It requires key elements that are usually glossed over in most books that are showing you how to successfully invest. Those key elements are usually details that most people do not want to hear. Successful investing requires a proven investment program as its basis. Fortunately, as will be demonstrated in this book, there is a proven successful trading program that can be easily learned - Candlestick analysis! Unfortunately, most investors do not give full consideration to the importance of learning how to use a successful trading program properly. This sometimes takes time. It also takes understanding of why the program works successfully. This book will concentrate on how to apply the correct investment procedures, eliminating the common emotional reactions.

A successful trading program is not complete if it does not have the proper mechanics set up. And most importantly, successful investing also requires the proper mental state for implementing the program successfully. This involves knowing what to do emotionally as the results of a trade occur, results that may be positive or negative. Most people do not want to address their flaws and weaknesses. Unfortunately, "investing" is a primary force for pulling out flaws and weaknesses in the majority of investors. This book is not going to be a fun book to read. The education conveyed will be the self analysis of our own weaknesses. We all hate to lose. We hate to have our thought processes revealed, those thought processes that have created our losing investment practices. But if an investor does not learn what emotional upheavals they have to contend with during their investment career, they will never become a successful investor. Learn and understand what keeps us from making successful investment decisions. That will make understanding what to do correctly become ingrained into our psyche that much quicker.

Chapter 1

Eliminating Mental Trading Flaws with Candlestick Analysis

If I knew what I was so anxious about, I wouldn't be so anxious. Mignon Mclaughlin

There are a number of proven investment programs. People have made big profits by implementing their trading program correctly. If these programs are available, the question becomes why isn't everybody making big profits? The answer is very simple. Investors that are making big and consistent returns are implementing their trading program CORRECTLY!!! Unfortunately most investors insert one major flaw into their investment process, their emotions. The best trading program in the world will not produce good results if it is not implemented properly. The human mind is the biggest barrier of most investors for successfully making profits.

The injection of fear and greed often alters an investor's rational thinking. The elimination of emotions in investing is the key to success. However, if it was an easy process, everybody would be investing successfully. The human mind is a powerful deterrent for thinking clearly when investment funds are actually on the line. This is true for all investing. It may not be so pronounced in longer-term investing, but the shorter the trading period, the more evident the emotional impact becomes. The following information will be directed toward the shorter term trading entities, commodities, Forex, and trading the indexes. This is where emotional flaws can be clearly defined. Candlestick analysis has inherent attributes built into the graphics and the psychology that greatly eliminates the emotional factors. Their applications demonstrated on fast trading programs, such as commodities, Forex, or day-trading the indexes can easily be assimilated into stock trading.

Many investors are afraid of commodity trading. They have heard how volatile prices can move. They have heard horror stories about accounts getting wiped out. For the investor that does not want to take a lot of time and effort to learn how to invest in commodities correctly, the best advice for them is to stay away. However, for the investor that will take the time and effort to assemble the proper trading program, commodity trading can be extremely lucrative. Unfortunately, the road to successful commodity trading will involve many gut-wrenching, emotionally debilitating learning processes. Very few investors will immediately have the knack to invest in commodities successfully. Forex trading and day-trading the indexes also involve sound mental perspectives.

Three Elements for successful trading

There are three elements for making big profits. First, an investor needs a trading platform that has proven to be successful. That should be the primary factor for any trading. Without some sort of investment method that provides you with an advantage, you will just be shooting from the hip. There has to be a reason for anticipating a stock/commodity/currency to go up or down.

Many investors start committing their funds to market exposure well before they have researched a trading platform. That is part of the greed factor. That is not necessarily a bad reason for investing. Like most investors, the desire to increase one's assets is the reason for investing in the first place. Each individual has their degree of wanting to improve their financial status. The greater the greed factor, the greater the motivation for developing a trading system that reduces losses and produces bigger gains.

If you are the type of person that wants to improve your assets, your desire for investing becomes a very important aspect of your life. Many people cannot stand risk. That is why they put their money in savings accounts, treasury bonds, or let other people manage their money. That is perfectly okay for somebody that has that nature. If you are reading this book, it can be assumed your nature is one that is looking for methods to maximize your returns. You want to put your money to work. Each individual investor needs to assess their own investment criteria. The search for the "most profitable trading program" is usually done by those investors wanting to exceed the returns of common investment programs. There is absolutely nothing wrong with having an aggressive trading nature. But don't let aggressiveness get blurred with being unprepared. Unplanned overtures, into trading areas, are usually the demise of most investors. It becomes very expensive to go through a learning process with investments that can reduce your capital very quickly if not traded properly. Do not rush into investing before becoming very familiar with your trading program, your own mental abilities, and your execution systems.

If a little knowledge is dangerous, where is the man who has so much as to be out of danger? T. H. Huxley

Fortunately, candlestick analysis provides a trading program that works. Candlestick analysis is the premise of this training book. It doesn't have to be tested. It has proven itself to be a viable trading format over the past four centuries. The information incorporated into each individual signal has powerful implications. Analyzing a series of signals, establishing a pattern, creates higher probabilities of being in the correct trades at the correct time. A major benefit candlestick analysis provides is the common sense element for analyzing what is occurring between the bullish and bearish sentiments. Once you have learned how to utilize that information successfully, your trading abilities will dramatically improve, no matter what investment entity or time frame you want to trade. Candlestick signals work extremely well on their own. Analyzing where the signals work most effectively, with other confirming indicators, is provided by easy-to-learn training CDs throughout the Candlestick Forums product area. Before anybody attempts to trade stocks, commodities, currencies, or any other trading entity that involves human emotions (which is all investments) they should learn how to use their trading program thoroughly. Whether using candlestick signals by themselves or overlaying them on other trading programs, each investor should make it their own requirement to fully understand the probabilities produced when analyzing "their" charts.

Understanding why the signals work as they do creates a huge advantage for investors. Having the ability to visually recognize where a reversal might be occurring can create huge profit potential. Knowing the investor psychology that was involved to create those signals develop valuable insights into price movements. This knowledge is what the professionals have developed over many years. This dynamic allows you to evaluate what the prices should be doing versus listening to others that think they know what the prices should be doing. To trade successfully, you need to have a full understanding of what you're indicators are telling you. The story that is used the best illustrate this point is the native Indian boy who left the reservation.

The young Indian boy gets accepted to Harvard. He leaves the reservation. He graduates at the top of his class. He gets hired on with a prestigious brokerage house on Wall Street. Over the next few years he becomes the whiz kid, making millions of dollars. Then one day he gets a call from his tribe. They want him to come back and be chief. His heritage overrides his desire for fortune and he goes back to the reservation. The first day as chief, all the elders of the tribe come in his tent and ask the important question, "How much wood should we collect from the winter?" Because he had no earthly idea, he told them he would have an answer for them in an hour. After all the elders filed out of his tent, he flipped open his cell phone and called the local weather station. He asked "what do your indicators tell you about the coming winter?" They told him it looked pretty much the same as last year. He called all the elders back into the tent and told them to collect the same amount of wood as last year plus two more weeks worth, just to be safe. A few days later after they collected the wood, he called the weather station and asked, "are your indicators still showing the same for the winter?" The weather station answered that it looked like it might be just a little bit colder than first anticipated. The young chief called the elders back in and told them they needed to collect another two weeks of wood. There was some grumbling as the elders filed back out of a tent. A few days later the young chief called the *weather station again and asked whether the indicators still looked the same. The weather station answered that it might be still a little bit colder than the last projection. Once again the young chief called the elders back in and said "This time just to be safe, gather six more weeks worth of wood." There was more grumbling as the elders filed out of a tent. Few days later, just to be safe, the young chief called the weather station again. "Now what are your indicators tell you?" he asked. The weather station answered. "Oh boy, it now looks like we're going to have one of the worst winters we've ever had." With great anxiety in his voice the young chief asked, "How the heck can your computer indicators be a so out of whack?" The weather station answered, " Oh, we don't use computer indicators. We watch the Indians. The more wood they collect, the worst the winter is going to be."*

This is the prime example of why an investor should always know what is incorporated in their indicators that make them work as they do. If you take the time to learn a trading program, you will never be at the mercy of the so-called professionals again. Candlestick signals work! If they didn't, we would not be looking at them today. The most basic rule of investing is that if something does not work, it does not stay around. Candlestick analysis has been around for centuries. Learn how to use them correctly and you'll be able to control your own destiny.

The Correct Mental Perspectives

A successful trading platform will not work on its own. The profitable application of the trading platform requires correct trading perspectives. The second element for successful commodity trading is the integration of the proper mental disciplines. This aspect of investing is as important as the utilization of a profitable trading program. The best trading format in the world will not work if it is not properly implemented.

A major portion of this book will be directed toward establishing the correct mental perspective. This important aspect of investing is necessary especially for short-term trading. Most investors have a hard time gaining control of their emotions while trading stocks. Although stocks do not trade with nearly the same volatility as commodities, stock investing involves the same elements that cause most investors to lose money, 'human emotions'! The volatility and the leverage involved in commodities does not allow for an extensive learning curve. Where a small percentage-move in stocks can cause some mental pain during the learning process, a small percentage move in commodities or a Forex trade can devastate an account in very short order.

Fortunately, the use of candlestick analysis and a small number of simple trading rules/insights can lead to successful trading fairly quickly. Also, if you can control the emotional aspects of commodity trading, stock and option-investing will become very tame. The analysis would be like taking batting practice with a machine that was throwing at 110 mph. Once you became accustomed to hitting balls at those speeds, hitting against a pitcher throwing at 85 - 95 miles an hour would seem like a cakewalk.

This book will be oriented toward exposing you to the situations in day-trading and commodity trading, as well as any other investing, where control of your emotions becomes the difference between successful or unsuccessful investing. There will be many things often repeated in this book. The purpose will be to ingrain in your mind the things you need to do or not do when an emotional circumstance occurs. Even the repetition of the do’s and don'ts will not stop you from making investment mistakes. You will make mistakes due to emotions no matter how many times you read what to do and what not to do. The repetitive examples provided in this book are to make you aware of what the human mind is going to do when it comes in common investment circumstances. Even the most experienced investors get caught up in circumstances where the emotions take over. The most disciplined investors will succumb to the occasional entrapment of adverse market moves. The illustrations in this book will illuminate the common investor mistakes. They will make you aware of what you and many other investors will go through.

One possible reason why things aren't going according to plan is that there never was a plan.   Ashleigh Brilliant

Becoming a successful trader involves experiencing and resolving what to do in all aspects of trading. That will include what the human mind rationalizes when in losing positions as well as winning positions. The dynamics of profits and losses create vastly different human reactions. The purpose for exposing the different emotional reactions is to educate the investor as to what will occur when your mental state is altered by various price moves. Again, this information will not prevent you from experiencing those mistakes yourself. What the information will do is alert the investor to the fact that they have experienced a situation and be able to recognize it immediately.

This eliminates costly learning experience of having to evaluate what went wrong. Knowing what occurred and how your mind coped with it will dramatically reduce the number of times that same situation will be experienced unsuccessfully. Being prepared for the normal occurrences in winning and losing trades will greatly shorten the learning curve.

The third element for successful investing is the mechanics, the trade execution software, the charts. Many investors do not consider this area as critical. However in day trading, the platform for entering and exiting trades needs to coincide with an investors trading program. This is as important as the trading platform and an investor’s emotional state. Simply stated, an investor requires a proper execution system based upon the trading markets in which they are participating. Somebody trading the E-minis, or any of the other index trading entities on a minute-by-minute basis, will need a high speed connection as well as a trading program that provides easy visibility. One of the benefits you will receive from reading this information is the experience of the author, from his participation in commodity trading. The mechanics of one's trading program is usually not deemed as important as the trading method and the investor’s mental perspectives. That perspective should be completely ignored. The mechanics of your trading program is just as important as the other two facets. Having minor flaws in your execution system can have a dramatic influence on your mental perspective.

These three elements are extremely important for successful trading. Any one of these trading facets not working in conjunction with the other two will make producing consistent profits very difficult. The information conveyed throughout this book is based upon actual trading experience, not theoretical teaching. The fortunate component of this three legged stool is the candlestick signals. The basic assumption has to be that they work. If they didn’t, we wouldn’t be looking at them after 400 years of use. Logic dictates that if something is not working, it does not remain in the investment community. Candlestick analysis is the oldest technical analysis method in history. That allows for one simple premise. If you are losing money using candlestick signals, it is not the signals that are not working, it is you ‘not’ applying the signals correctly.

The biggest detriment for most investors making consistent profits from the markets is their own emotions. Do not read this statement passively. As often taught in the Candlestick Forum training sessions, the signals and chart patterns are the reoccurring visual depiction of human emotions. When do most investors sell? They panic sell at the bottom. When do most investors buy? They buy exuberantly at the top. It is very easy to recognize the chart patterns that demonstrate panic selling and exuberant buying. In stock investing, those indicators allow for an investor to buy at the bottom or take profits at the top. Commodity prices don't allow for the luxury of very much hesitation before making a decision once a reversal signal has occurred.

Good Chart/Trade Execution Software

The emotional reaction to a reversal on a daily stock chart may provide many minutes or even hours to make a decision for entering or exiting a trade. For the commodity investor, that time frame may be squeezed down to a matter of seconds. The creation of a trading program that fits each investor involves the comfort level and time frame of the investor's schedule. A trader that may utilize the 1 minute, 10 minute, and 60 minute chart evaluations may have a much different trading strategy than an investor that plans to hold positions for a two-to-five day time-frame.

There is a vast difference between commodity trading and stock trading. Because of the leverage and volatility of commodity prices, gains and losses in commodities occur in a much shorter time frame than most stock transactions. This creates a completely different dynamic for how and when to take profits and losses. The Candlestick Forum training programs spend a lot of effort in teaching people how to take small losses. "Cut your losses short and let your profits run" is the sage advice that most investment advisors provide for the average investor. Unfortunately, very few investment advisors have a working application for cutting your losses short and letting your profits run. Candlestick signals provide those trading platform mechanics. It works very effectively on the daily chart as well as on the one minute chart. This becomes a critical aspect of trading commodities, Forex, and the indexes. Candlestick signals indicate when it is time to get into a position and when it is time to get out. If the time to get out is indicated 10 seconds after you get in, do what the candlestick signals tell you. This becomes one of the most difficult functions for most investors. We will learn how to create successful high profit trades and how to immediately come out of trades that have negated a signal. This process involves having the proper mental disciplines.

Proper Mental Disciplines

Much of the information that you will receive in this training book will be repetitious. This is done for a very specific reason. Although we read or experience something in trading that we should or should not do, our emotions will still make it difficult to do the correct procedures the next time around. As illustrated in the book "Profitable Candlestick Trading,", investing requires repetition and practice just like any other successful endeavor. Professional baseball pitchers practice the same plays over and over each year. Can you imagine how many times a professional pitcher is required to practice how he is going to come off the mound to field a bunt down the first-base line? He is taught to circle around behind the ball so he is facing the first baseman as the batter is running by. How often does a player need to be told how to perform that play? He probably understood it after the first or second time it was explained to him. However, each practice, each spring training, each baseball season, he probably practices that play hundreds of times. What is the reason? So that when that situation occurs, he does not have to spend one split second thinking about what is the correct thing to do. It is ingrained into his mental memory banks.

What if one does say the same things, -- of course in a little different form each time, -- over and over? If he has anything to say worth saying that is just what he ought to do! Oliver Wendell Holmes Sr.

The same is required for successful investing. Unfortunately, the performance of successful investing requires one great hurdle a professional baseball player does not have to endure. The emotions!!! The emotions, involved with investing our own money, has completely different dynamics than any other rational thought process. Investing our own funds has a much greater perceived importance than most activities. It is not only a measure of your increase/decrease of personal wealth, it is a measure of your intellectual prowess. A baseball player can lose a baseball game, it is just a game. A football player can be on a team that has a losing season, some teams win, some teams lose. That is the nature of sports. But if you lose money in investing, you get a double whammy. Not only are you less wealthy from an activity that should increase your wealth, you are exposing the fact that you mentally were beaten.

Most investors lose money because of the weight of the emotional burden. The pressure of producing positive results is a streaming process. It does not end when you make that decision to buy. Unlike most decisions, the results are pretty much established once the transaction is completed. When you buy a car, the result of your going from dealership to dealership or newspaper ad to newspaper ad comes to a conclusion when you decide which car to buy. Or which big screen TV to buy! Or which house to buy. When the transaction is over, the decision-making process is over. Unlike an investment decision, the initial purchase of a position now requires continued decision-making input each minute, hour, day or month, depending upon an investor's holding period.

When you decide to buy soybeans, you have made a mental decision that is going to improve or diminish your asset value. Once the price starts moving from your point of entry, a constant decision-making process is required. Do you take profits here? Do you cut losses here? Do you continue to hold? These questions become a continued flowing process when any investment transaction is established. Unfortunately, emotions become an integral part of the flowing process. All the elements of the trading decision comes into play as a price move up or down. It does not merely involve the decision to take a loss after an initial position is put in place. The human mind brings in all the other life considerations. Will I look stupid if I sell for a loss and the price immediately turned around and goes in the direction I first projected? Will I look stupid if I had a profit and let it turn into a loss?

Man is, and was always, a blockhead and a dullard; much readier to feel and digest, then to think and consider. Thomas Carlyle

Many investment books are written based upon the successful application of a trading method or a fundamental approach. If you follow the method described in the book, you will supposedly make lots of money. As an investor, what are we looking for? We are looking for that trading method or program that is going to improve our investment abilities. A question that needs to be constantly asked should reveal some very important information. If you have gone to the bookstore, whether physical or online, more than once to find information that would improve your investment capabilities, then what was derived from the last book you read that was illustrating a successful trading program? There could be a number of answers to that question. It was not the trading style or program that you felt comfortable with. It took more time and effort than you were willing to expend to make profits. The results did not seem to be consistent in various market conditions. These are just a few of the reasons that the so-called successful trading program did not produce the results you were hoping for.

The major reason that most investors continue to look for the Golden goose, that trading program that will consistently make them money, is the lack of a full explanation of how to use a specific investment program successfully. That 'lack' of explanation is a completely different area of investment knowledge that is not included in most books. That knowledge involves what should be done when a trading program does not work in all situations. Most investment training programs explain what should be done to produce profits. They fully describe the mechanical setup of trades or investment analysis. However, they provide very little explanation of what an investor should do during adverse situations.

Reality dictates that there is no investment program that works 100% successfully. This leaves an area that is not addressed. What should be done in all aspects of price movements? Emotions become involved when the mechanics of a trade or an investment are not fully understood or not previously experienced by the investor. By learning how our own minds operate in all aspects of price movements, whether dramatically adverse or wildly successful, better decisions can be made.

Are you continuously looking for that successful trading program? If a trading method is not working for you when it seems to be working for somebody else, this should point out something important. The trading program may not be at fault. It may be your lack of successful emotional control or knowledge to implement that trading program successfully. Keep in mind, this is not an irreversible flaw. This is merely part of the overall learning process that is involved with investing.

Successful golfing does not consist of knowing how to hit the ball down the middle of the fairway or onto the green from the tee. Successful golfing also involves knowing how to hit a good shot from the rough, out of a trap, or over/under a tree. The best golf pros in the world do not hit each shot where they want it to go. What they have learned is how to hit each shot from where it lies. There is no professional golfer that hits the fairways every time.

Likewise, there is no investment program that is successful every time. Producing profits from the markets involves knowing what to do at the time.

Candlestick analysis incorporates information into the signals that produce a highly successful investment strategy. Does that mean every investor using candlestick signals will become wealthy? Not if they don't know how to control the human emotions. This book is being written because of the discrepancies between implementing a successful trading program, such as candlestick analysis, and not consistently making money.

Logic dictates that if a trading program is consistently successful, you should be able to make money with it. If you're losing money with a successful trading program, it is not the program. It has to be the application. One of the hardest realities is learning that we do not always do things correctly when it comes to investing. The human mind is a powerful force. Successful investors will reveal that they went through many emotional traumas before they established their success. They have learned what to do in all aspects of the trading programs. Take advantage of the knowledge of successful candlestick investors that will reveal the human emotional roller coaster ride that is involved with profitable investing.

Chapter 2

Emotions – Fear and Greed

Nothing in life is to be feared, it is only to be understood. Now is the time to understand more, so that we may fear less
-- Marie Curie

Prices do not move based upon fundamentals. Prices move based upon the perception of fundamentals. Most investors have the misconception that profits are made by finding a trading entity such as stocks or commodities, etc. that are going to move in respect to what the fundamentals should be dictating. Unfortunately, it is not fundamentals that move prices, it is investor perceptions of the fundamentals that move prices. This was clearly illustrated in the stock market during the late 90s and early 2000s. The bullish sentiment was so rampant the I.P.O. community could not throw five people together fast enough, create an Internet related company, and then put it out as an I.P.O. With absolutely no track record, no sales, or no prospects, a new issue would be priced at $20 a share, open at $40 a share and immediately go to $50 a share. This price movement had nothing to do with fundamentals. It was exuberant bullishness and greed, paying up for a stock price, that had nothing to do with the underlying fundamentals.

Emotions are what move prices. When the stock market goes up and IBM moves two points higher, absolutely nothing changed in IBM's fundamentals from one day to the next. When the markets are plunging, the best financed and managed company will witness their stock price decline even though their fundamentals have remained very strong. When an investor realizes profits can be made based upon the emotional import into a price trend, that is when they will have a much better understanding of how to extract profits from any market.

Emotions are the demise of most investors. Investing our own funds have a different ramification than most other decision-making processes we encounter in life. Many people become very irrational when it comes to their family/loved ones. Many people also can become emotionally out-of-whack when it comes to investing their own funds. Have you ever put on a trade with a well thought out entry and exit strategy? Then once the trade is established, you find you are working off a completely different thought process? This is not unusual. An emotional reaction can occur in every form of price movement after funds have been committed to a trade.

The price can move up dramatically, creating the fear of losing profits. Price can move down dramatically, creating the fear of devastating the account. Prices can stay flat, creating the fear that your analysis is wrong. Prices can move up slowly, prices can move down slowly, all creating a different emotional reaction. This book is written for the purpose of identifying what emotional situations are going to occur. This will not necessarily eliminate your emotional incorrect decisions. At best, being aware of what fear and greed oscillations you will go through will make you better prepared. You will go through emotional upheavals. Being aware of the reactions you probably will go through will have you more conscious of what should be done. Instead of making the same mistakes five times before it sinks in, maybe it will only take two times before your mental discipline takes over.

Rest assured, you will make mental mistakes. Professional traders had to go through the emotional process that eventually established their discipline. Without going through the mental anguish/pain, of investment decisions clouded by emotional decision-making, one will not establish the mindset required for successful trading. One of the most important elements for profitsble trading is not only knowing what to do, it is also knowing what not to do. If you are forewarned for the type of fear/greed emotions you will experience during different circumstances, your mental training will move along much quicker for being able to master profitable investing.

The investment arena is filled with hundreds of promoters touting their "secret" for successful trading. These secrets usually involve simple techniques that anybody can use. One basic rule that should always be remembered about investing, if something works well, everybody will know about it very quickly. If you are investing based upon one of these successful "secret" trading methods and you are making mega bucks, wouldn't your friends know? Then wouldn't their friends know, and their friends? What most investment programs do not tell you is that for the program to work successfully, you have to implement it correctly. That implementation is not only mechanical but also mental. Most trading programs have their little nuances. Do you know what to do when each of those little nuances appears? Probably not, but the person that promoted it to you probably has had many years of experience reacting correctly to each one of those nuance situations.

Money was never a big motivation for me, except as a way to keep score. The real excitement is playing the game. -- Donald Trump

Becoming a successful investor is exhilarating. But it takes a reasonable amount of applied study and the proper frame of mind. Being a professional golfer is probably exhilarating, especially if you're walking up to the 18th green on a sunny afternoon with thousands of people watching you. You realize all you have to do is two- putt and you walk away with an extremely large paycheck. It looks easy, you wish you had the talent as those professional golfers. But like any mastery of any activity, those talents were developed with many hours upon hours of practice. Ask any professional golfer what their main activity is between major golf tournaments. You will get one consistent answer. They would hit hundreds of buckets of balls between the last tournament and the next tournament. They have hit thousands and thousands of buckets of balls to get to where they are today.

'The following chapters will illustrate, in depth, the many different scenarios that will inflict emotions into price moves. Following the discipline & execution mechanics of candlestick chart buy/sell signals will take the emotions out of the trades and how important keeping a journal of your trades is in analyzing/improving your discipline & execution mechanics The information in this book may not be fun to read. It will come too close to home when exposing the mental flaws that most investors experience. People do not like their weaknesses pointed out. Investment books are fun to read when they pump you up and demonstrate to you how easy it is to make money. The following illustrations are not theoretical circumstances. These come from the experience of full-time traders. Without these insights, the road to successful investing becomes very long and tenuous. Not having the correct understanding of what is required to invest successfully can make the road of hard knocks very expensive, often so expensive investors run out of investment funds well before they have learned the proper mental perceptions to continually extract money from the markets.

Utilize the information for your own self analysis. One of the most frustrating aspects of investing is realizing that we keep making the same mistakes over and over. The development of good discipline requires acknowledging the areas of our weaknesses and trying to correct them as quick as possible. If you are reading this book, it can be assumed that you have an excessive desire to improve your own investment habits. Training yourself to be a consistently successful investor includes addressing thought patterns that are not going to be very pleasant. Once those glitches are resolved, you will find that investing correctly becomes extremely enjoyable.

Chapter 3

The Dynamics of Money

With the choice between changing one's mind and proving there is no need to do so, almost everybody gets busy on the proof.
-- John Kenneth Galbreath

Profits and losses are not merely money in the account or not in the account. A profitable balance in an account creates a much different mental outlook versus a losing balance in an account. The emotional dynamics of profits and losses produce dramatic influences on an investors trading strategy. Profits and losses are an emotional scorecard. Think back to your own experience. You have just executed a trade that produced good profits. What are your feelings? You feel great, invincible, like you are the smartest person in the world. What are the elements of a profitable trade?

Winning trades - how they affect us

A profitable trade is the results of analyzing where to place your funds. You are taking knowledge you have developed and applying it to your analysis. You have evaluated all the factors for whether to place a trade or not. The decision to enter a trade inherently involves the 'intelligent' thought process you possess. No matter how mechanical you make your analytical process, the final decision is based upon the human factor. When you place a trade, you mentally are inferring that all your analysis should now be producing a profitable situation. This involves a slight piece of your ego. You have put your 'intelligence' factor on the line.

Controlling those emotions created by a winning trade or a losing trade is very important in maintaining a profitable trading account. Taking profits on a huge gain is the ultimate goal of every investor. It is like hitting a homerun. The adrenaline is running. Your mind tells you that you are exceedingly smart. That is a result of putting your mental energy into analyzing a positive trade and it works exactly as intended. You cannot help but feeling exhilarated, invincible, powerful. These are fun feelings. However, those feelings/emotions need to be checked before going into the next trade. There is a very powerful inclination to go right into the next trade. You just correctly evaluated the previous trade and made big money. Your self-intelligent factor, essentially your opinion of yourself, is mighty high. You want to put your money right back into another position because you are on a roll. *Don't!!!*

Success covers a multitude of blunders -- G. B. Shaw

The human mind has a great tendency to negate logic factors when it is in a state of euphoria. The reason the previous trade became a big winner was the careful evaluation you put into it. It worked! You want to put your money right back into something that performs just as well. Unfortunately, most people will jump in the ‘something’ without anywhere near the evaluation required. The expectation of being in another winning trade is more the mental euphoria speaking versus what is actually occurring on the next chart. A tendency to make another quick trade also results from the profits just made. We are now using other people's money. The rationale being, if we lose a little bit, no big deal. We already have profits padding the account. This is the same process of playing more loosely at the Las Vegas gaming tables. People are more willing to bet aggressively when they are betting with winnings.

The best trading practice, after taking profits on a big trade, is to relax. Enjoy the rest of the day. Know the money is now sitting in the account, waiting to be compounded in another well thought out trade. The voice of experience advises not to jump into the next trade. Much too often you will find yourself asking "Why did I get into that trade?" when it immediately starts eating into the profits you just made. One of the facets of reality is coming to the realization that no matter how great you think you are after just making a huge profit, the world does not revolve around what you do. The markets move in the manner that they want to, not in the manner your euphoric state hopes for.

Losing trades -- How they affect us

Losing trades can have a dramatic negative effect on an investor's perceptions. Profitable trades create a tendency for investors to reinvest too loosely. Losing trades have the opposite effect. After a big loss, most investors tend to pullback, trading less or trading smaller amounts. This is the reason why having an established trading program is very important. The evaluation and establishment of a trade should be based upon the chart, not the previous trade. Whether commodity trading or stock trading, a pre-determined position size should always be maintained.

The probabilities of the next trade being successful has nothing to do with the result of your previous trade. The evaluation of the next trade should be based upon one simple question after the analysis. "Would I be buying this position?" If the answer is yes, the size of the position should not be influenced by a losing trade or winning trade just previously closed.
Losing trades are tough. Not only do they lessen your net worth, they put some doubt into your self-worth. It is important to analyze candlestick trades based upon the assumption that all trades are not going to work. There is an old adage in the commodity trading area. If you can be correct on 55% of your commodity trades, you will make a fortune. This leads to one simple practice.

Cut your losses short. This often expressed sage advice rarely comes with a game plan of how you cut your losses short. Fortunately, candlestick analysis provides an excellent visual format for establishing stop-losses correctly.

Unfortunately, there will be times when a series of losses or one major uncontrolled loss can put an account into negative balance. When an account goes negative, new dynamics pop up in the mind. Nobody wants to have a losing account. The tendency is now to trade in a manner that will catch the account back up to even. This often entails moving away from the original strategy. Some investors start over-trading, going into a day-trading mode. This produces different pressures or stresses. If one is not used to day-trading, the stress of having to sit in front of the screen all day will have an affect on the evaluation process. Other investors may dramatically increase the size of the positions. This also moves the trading outside of a comfort zone. Some traders dramatically reduce the size of their trades. This creates more anxiety in the sense that it is taking much longer to recoup the losses.

The folly of one man is the fortune of another
-- Japanese proverb

If stop-loss procedures are placed correctly, the losses should remain manageable. Unfortunately, in every investor's trading career, there will be losses that cannot be anticipated or averted. Nothing can be done if you wake up one morning being long live cattle and hearing about a mad cow scare. Or being short soybeans and waking up one morning to the news that the Brazilian soybean crop was dramatically reduced by a freak freeze, setting soybeans up the limit for three days in a row.

These losses cannot be helped. But the purpose of investing is to have a trading program that consistently produces profits based upon the normal flow of supply and demand. When a big loss does occur in the account, nothing should change as far as the trading program. If the loss is substantial, the next trade should be the same trade parameters as always. Buy a unit/position that you'd normally buy. If it is a percent or dollar amount, the next position may be reduced based upon the reduction of equity in the total account. This does not mean you immediately start making conscious decisions to decrease the size of the next trade based upon your existing parameters.

The benefit of candlestick analysis is that each trade analyzed correctly provides a favorable probability of being in a correct trade. The manner in which a big loss should be recovered is not to try to get it back in one trade. The compounding effect of a number of correct trades is very strong. The strategy of producing big gains in stock and commodity trading is to consistently produce decent profits on each trade versus trying to make a killing on each trade.

A very powerful learning component for investing is to constantly maintain a journal. Write down what you were thinking when watching a winning trade or losing trade. This may seem very elementary but the human mind has a tendency to forget things that it wants to forget and remember the things that it wants to remember. What was different in a trade that created a loss? Were there other indicators not confirming? Why did I lose money on this trade?

Chapter 4

Defining Our fears

No passion so effectively robs the mind of all its powers of acting and reasoning as fear -- Edmund Burke

Fear presents itself in many forms when involved with people investing their money. It can be produced by losing positions. It is produced by winning positions. It can be produced by the prospect of looking stupid. Fear is mostly derived by not having the proper game plan when a position is first established. That is why a well-established trading program is so important.

Everybody is looking for the golden goose. The trading program that will produce winning trades! These programs are in existence. However, the most important aspect of a successful trading program is knowing how to use it correctly. Unfortunately, most investors want to find the trading program that tells them when to buy and when to sell. These are the type of programs that can constantly be found advertised on late night TV. An investment guru is going to tell you the “secrets” of his new technique that consistently makes big profits. It can involve trend channels. It can involve a green arrow and red arrow. They all demonstrate how this newly discovered technique has performed in the recent past, producing huge gains. But this brings us back to rule number one on Wall Street. If something works, everybody will know about it. Word-of-mouth is the strongest advertising.

A reality check will reveal that most investment programs, although successful during certain market conditions, may not work in all market conditions. Additionally, even the most successful programs may not always work in their optimal market conditions. Very little emphasis is put on what an investor should do if a ‘buy’ signal is not working or the expected ‘sell’ signal never appears. It does not take too long for investors to discover they have to find indicators that will improve the system. When this occurs, reality sets in. There is going to be more to the expectations of buying when a program says to buy and when to sell. Without knowing all the trading rules applicable to a trading system, the possibility of incurring losses becomes that much greater. Just like touching the stove. It does not take too many times of taking losses with a trading program that has promoted how easy it is to buy and sell at the appropriate times to put that learning experience in an investor's mind. A trading program doesn't work all the time. Having that knowledge, without instructions that indicate when it is not working, is additional fodder for the fear factor.

Fear is the result of not knowing what should be done or should have been done at specific price movements. That is the major benefit that candlestick signals provide. Each signal and pattern has an expected result. They also can quickly be ascertained as to when the result is not occurring. This allows an investor to have a complete set of decision-making processes once they have established a trade. The biggest deterrent of fear and greed is knowing what to do in all price circumstances. This may seem like an overwhelming task, but it is relatively simple once you have learned how and why the 12 major candlestick signals are formed and how candlestick price patterns are formed. Once an investor is familiar with these simple rules related to candlestick signals, fear should be eliminated from investing. At that point, fear becomes an alert. If you are experiencing fear, then you should immediately realize that one of the simple rules provided by the candlestick signals was violated.

Again, as the example of touching a hot stove becomes a fast learning process, it does not take very long for an investor to develop the correct investment disciplines. Experiencing fear, after knowing what the candlestick signals revealed to do or not to do, becomes a quick education process.

The following will be a description of common occurrences that create fear. They will mostly involve fear created by losing positions, winning positions, and the prospect of looking stupid. Each situation will be provided with features candlestick analysis can provide to eliminate the fear factor.

Recognizing fear

Candlestick analysis has the advantage of being a very visual analytical technique. That allows for easy identification of what is occurring in investor sentiment. Candlestick reversal signals have their function. Obviously, they illustrate when there is a potential change in investor sentiment. But candlesticks have another valuable function. They also illustrate the magnitude of investor fears and exuberance. These are illustrated by the length of the long candlestick bodies at the extremes of a price trend. Where do most investors sell? They panic sell at the bottom! Where do most investors buy? They buy exuberantly at the top! Will bar charts show the same price movement? Yes, but not with the visual clarity that is found in a candlestick body.

What is the definition of a losing investor? Selling at the bottom, and buying at the top. A great learning experience comes from knowing that you are the type of investor that is constantly buying and selling at the wrong time. Being able to visually recognize when you normally would be selling and when you normally would be buying provides a very dramatic realization. The charts will show the conditions that created the emotional decision-making that has lost money for you in the past. When you can see that situation, and understand what the chart was demonstrating when it was time to be prepared to buy, your investment decision-making process would turn around 180°. The question should always be asked, "When everybody is panic selling, who is buying?" It is usually the smart money.

Why is everybody selling at the bottom? Human nature remains constant through the years/decades/centuries. When prices are moving down, everybody can come up with reasons why a stock or an industry should not be bought. Today's instant news dissemination creates an immediate information overload. The financial news TV commentators will regurgitate the common views related to a stock/industry that is being expressed by their sources. This usually includes analysts and feedback on the Internet blogs. They expound on the information that has driven prices down for an extended period of time. However, they are usually reporting the negative information when the prices have made it newsworthy. It is after prices have declined 20%, 40%, 60% or greater that they start providing the insights as to why there has been a big price decline. This increase in information adds fuel to the fire. Investors that may have held a stock through a major decline were probably hoping for a reversal at some point. However, when they start getting more information about how bad the situation has been, and the future looks bleak, they start selling with more vigor because they can't stand the pain anymore.

Prices start accelerating near the bottom. Being aware of this phenomenon allows an investor to take advantage of opportunities on the buy side. Hopefully, once an investor becomes familiar with the basic rules of candlestick analysis, they will not find themselves in situations where they are participating in the 'panic selling' price drop. That would be the optimal situation. Candlesticks signals will put us in much fewer situations of having to experience panic selling. However, there will be circumstances that you may be caught in those situations. When experiencing that circumstance, fear should not be involved. Anticipate the bottom is very near. This provides the opportunity to develop a rational trade strategy. One strategy may be selling the position quickly if there is potential for some more downside, then being prepared to buy back immediately upon witnessing a buy signal. If the price appears to be very close to the bottom, holding the position might be the wisest choice. Upon seeing a buy signal, add more to the position. This is only recommended when there was no other alternative to being in that position in the first place.

What Accelerates Prices?

Why do prices usually accelerate when a downtrend has persisted for a while? Emotions! Not fundamentals. Whether trading on a one minute chart or a daily chart, watching a price decline changes the investment thinking from what the true value of that trading entity is worth to what is happening to my account. The hedge fund manager may feel that crude oil prices are worth $75 a barrel. Continuing to hold the position for big losses as it is heading down below $50 a barrel may be affecting the hedge fund returns. The crude oil fund position is now sold based upon the fear of what lower crude oil prices could do to the fund's total returns. Those returns having a direct effect on the fund manager’s bonuses.

The day-trader could be panic selling their gold contract they bought in the morning because it is trading down hard and fast. It may be approaching support levels and oversold conditions but the fear that it might not hold those levels will induce the panic selling.

The Power of Emotional Forces are Extremely Strong and Predictable.

Emotional forces perform consistently. Price movements are the accumulative results of everybody buying and selling. The vast majority of “everybody” is the investor that has not had professional investment training. That training does not necessarily mean being educated on what each investment vehicle does or how they are traded. Professional training also requires understanding what normal emotional traumas occurred during price movements. Unfortunately, there is no place to learn how to control your emotions. This has to be done through experience and awareness of what price movements can do to thought processes.

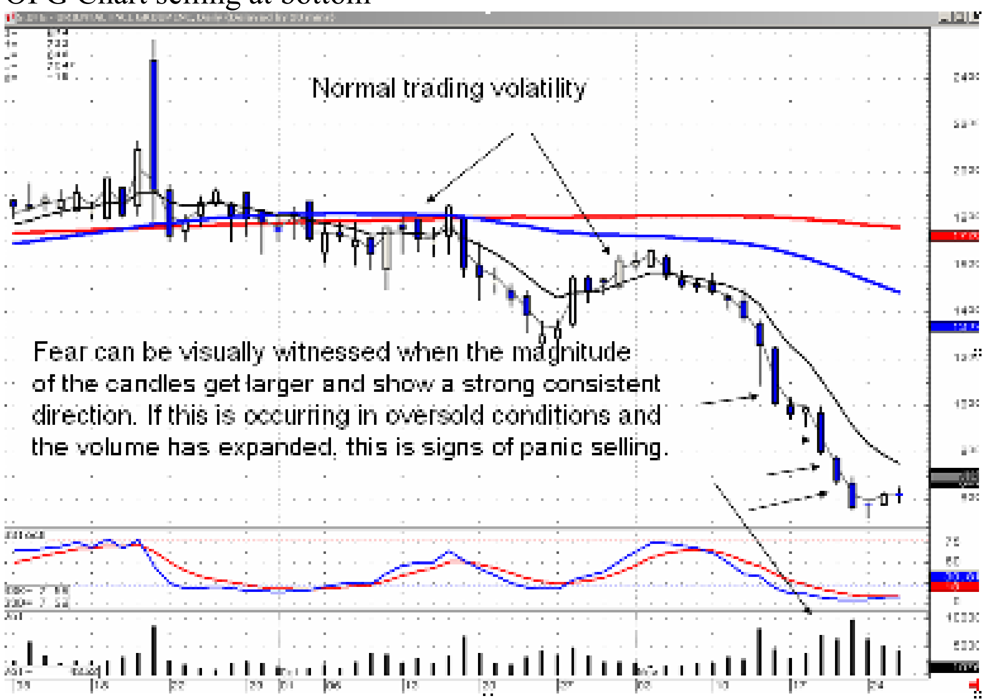
Fear can be greatly diminished by education. The education of what is likely to happen in specific circumstances and price levels. Viewing the following charts allows the mind to recognize the symptoms of fear in a graphic depiction.

Selling at the bottom

Illustrated in the Oriental Financial Group Inc. chart, the fear can be visually identified when the magnitude of the dark candles expand out of the normal daily trading range. Price moves become more dramatic. The fear can be better recognized when the volume is confirming the price action. Excessive selling occurring in already oversold conditions becomes an alert. This now prepares the candlestick investor for watching for the formation of a candlestick buy signal.

Panic selling can also be illustrated when prices gap down. As seen in the WCG. Chart, the consistent downtrend produced buy signals. However, those signals only represented a bounce during a downtrend. The most compelling signal was the gap-down Spinning Top signal formed with excessively large volume. This definitely revealed the panic selling at the bottom. It would be in this area where watching for a candlestick buy signal has better results. This is based upon the common sense perspective that candlestick rice traders evaluate price trends. Because most investors do not have the "professional training" for controlling their own emotions, recurring chart patterns will always be available. Having the knowledge of what the untrained investor is likely to do produces a huge advantage. It establishes situations that can be visually recognized to have high probability results. Your knowledge of what should occur in these situations would dramatically reduce the emotional elements most investors experience.

OFG Chart selling at bottom



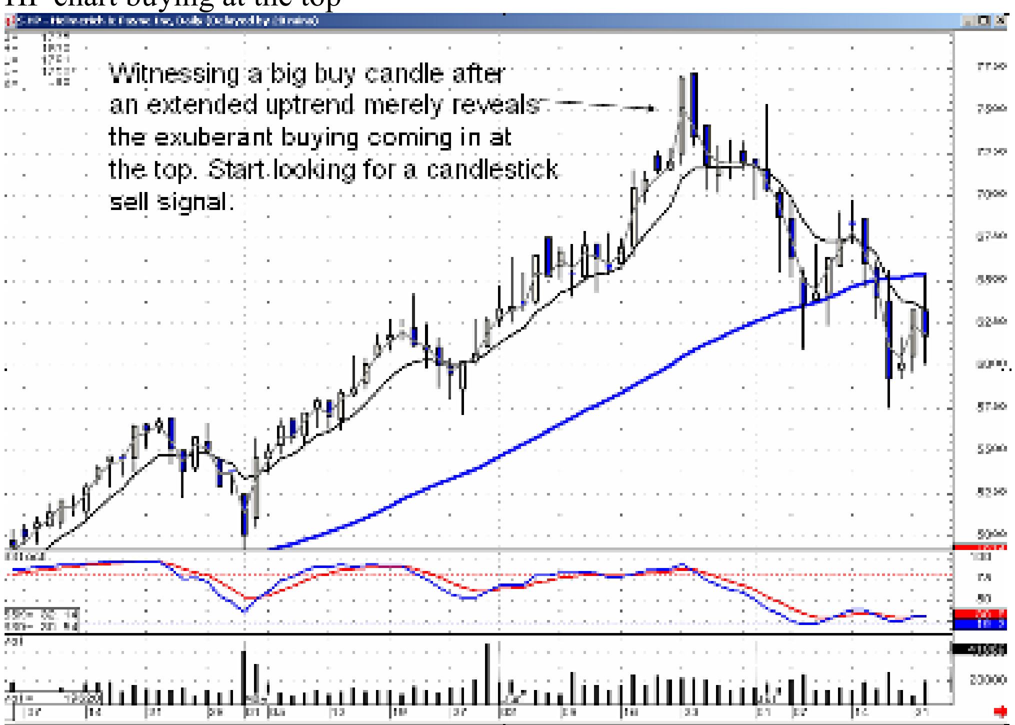
WCG chart - A gap down at bottom reveals capitulation

Buying at the top

The same lesson can be learned when seeing exuberant buying at the top. Why is everybody buying at the top? When prices move up steadily, they finally convince everybody the future is going to be fantastic. Up until a few years ago, most investors got their information predominantly through their stockbroker. Unfortunately, it is assumed that stockbrokers were professionals. Reality dictates that most stockbrokers were hired because they had a special interest in the stock market AND they could sell. Somebody could became a stockbroker with the same background as a Xerox copy salesman, a used-car salesman, or a real estate agent. There were no requirements or training by the brokerage firms that taught people how to be a good stockbroker. Most training involved the rules and regulations of the securities industry.

So why do people buy exuberantly at the top? Years ago it was because stockbrokers became enthusiastic about buying stock when everybody else did. Very rarely did you get a call from your broker when the markets or prices were at the bottom. They did not have the confidence to buy, so they would not have had the conviction to make the customers buy. Additionally, it was a much more difficult sale trying to get the uneducated investor to buy in the midst of all the negative sentiment. It was much easier to earn commissions selling stocks when everybody would be buying stocks, after they had moved up. There was an old adage that when the average Joe on the street started buying, that was time to sell.

HP chart buying at the top



SWIR Gap up at the top

The same rationale for why people sell at the bottom can be applied to why most people buy at the top. After a stock/sector price has moved up 40% over the past three months, what do you think is being reported by the financial news stations? Obviously, why everything is great for this industry! The future looks great, prices are going to go through the roof. A simple rule of thumb can be used when analyzing the candlestick charts. When the news media starts expounding on the virtuals of an industry, watch the charts for a candlestick 'sell' signal. When the news media starts reporting about how bad industry's future is going to be, start watching for a candlestick 'buy' signal.

Watching a one minute e-mini chart can cause the same reaction. If the chart shows the price starting to skyrocket, it becomes very difficult to not want to jump in. What is the first thing that goes through in investor's mind? Something big must be going on, I would hate to miss this move. However, prices move on the one minute chart just as they would move on a daily chart. After 15 minutes of a price move in an upward direction, confidence starts building up to the point where everybody starts buying. This causes the surge at the top.

Live Hogs

What Are the Charts Telling Me?

How do you make money in the markets? Buy at the bottom and sell at the top. How often have you heard this statement? And most of the time it is said in a glib manner. The reason is most people have very poor investment disciplines to figure out how to buy at the bottom and sell at the top. With the common sense investment principles built into candlestick signals, investors have inherent disciplines built into their chart analysis. This alone reduces the elements of fear and greed. The signals are observed results that have occurred with a high percentage probability. A basic premise built into candlestick analysis is the simplicity of its analytical value. When considering what the charts are revealing, one simple question can be asked, "What are the charts telling me?" That simple statement would dramatically reduce the fear and greed that clouds our decision-making process.

Education! That is the source for limiting the fear that is involved with investing. This education refers to knowing what prices will do. Obviously, that is what every investor wants to know. The value of candlestick investing is that it allows you to understand what the signals are illustrating, what the patterns are illustrating, and what investor sentiment produced the signals and patterns. When you learn how prices should react, you leave much less room for emotions to play an active role.

Chapter 5

Fear of taking profits

How does one kill fear, I wonder? How do you shoot a spectre through the heart, slash off its spectral head, take it by its spectral throat? -- Cervantes

A price moves in the direction you are expecting and you have a big profit, what becomes most investor's fear? One, giving back profits and two, selling too soon!

This becomes a diabolical corundum. How do we know when to take profits so as not to give up the gains? How do we know when to continue to hold so as to not miss out on more profits? This is where many investors do not have a game plan. This leads to emotional reactions versus a rational strategy. Candlestick analysis provides a format for addressing specific market/price moves. This is not accomplished by having specific strategies for specific price movements. It is the result of recognizing what usually occurs to investor sentiment based upon specific price movements.

What will you witness during a strong price move? Large bullish candles! Does a strong price move continue in a consistent upward manner? Very rarely and that is where understanding candlestick signals and price patterns dramatically reduce the emotional decision-making! What usually occurs after a strong price move? Unless there is an unusual pending circumstance, most strong price moves eventually encounter profit-taking. This is not any great revelation. However, when a strong price move does occur, how does an investor decide whether to take profits or continue to hold? Candlestick signals provide that answer. The same analysis can be applied to the one minute chart when day-trading as it can to the daily or monthly chart when long-term investing. No matter how strong the potential for a price to increase, there will be investors that will want to take profits. Candlestick analysis is based upon buying when the candlestick signals indicate it's time to buy, and sell when the signals indicate it is time to sell. There are multitudes of reasons for why investors buy and sell. Some investors take profits after they reached a specific threshold, such as a 10% gain, or a 20% gain, or whatever gain they have preset in their trading program. Some investors will sell if the price comes back up to where they bought it, because they are tired of holding a losing position. The reasons for buying and selling are greatly varied. Candlestick investors will want to sell when the signals reveal it is time to sell. Being aware of the signals and patterns that illustrate a change of investor sentiment becomes their format.

Most investors have a preconceived notion of what should be common investment returns. For many years, it has been preached by the Wall Street community that making a 10% annual return from the stock market was reasonably good. That fits into the statistical average over a long period of time. That does not take into account that most investors and investment firms do not have a reasonably accurate market evaluation technique. How many times have you heard the professionals profess that the best way to make money is to buy and hold? “You cannot time the market!” These are usually the teachings of those that don't have the capabilities to time the market. They gladly educate investors with a very low threshold for market returns potentials. Obviously this makes them look that much better when they produce very mediocre annual returns. This indoctrination produces a mental barrier for many investors. If a stock moves up 25% in a two-week period, that now becomes considered dramatically out of the ordinary. Profits are then taken based upon what is considered being out of the ordinary versus what the potential price can be doing. The fear of losing existing games becomes a great deterrent for many investors.

Analyzing the candlestick formations provides a powerful visual element that can greatly relieve the fear of giving back profits. Bullish candles can provide different information. A decisive bullish candle, at a potential profit level would not warrant taking profits yet. A Doji, a Shooting Star, a Bearish Harami or Bearish Engulfing Signal would provide a completely different story. Simply stated, the candlestick formations will indicate the proper time to take profits. The fear of giving back gains can greatly reduce the upside profit potential. Having the knowledge of what price patterns can occur during strong price moves can greatly benefit.

The common price pattern that occurs after a strong price move is the Jayhook pattern. This provides very simple guidelines for when to take profits. The utilization of this pattern reverts back to simple candlestick basics; PROBABILITIES! A strong price increase will usually have moved stochastics into the overbought condition. That becomes a time to start watching for the potential candlestick sell signal. Until that occurs, the uptrend should be considered still in progress. When a candlestick sell signal does appear, what should be done? It boils down to one very simple question, "If you see a candlestick sell signal in the overbought conditions, what do the probabilities tell you to do?" Obviously the answer is to take profits! Could the price go higher? Certainly, but the probabilities say it is time to take profits. Keep in mind, where did these probabilities come from? Through hundreds of years of observations and actual trades produced by the Japanese rice traders. Why go against the probabilities???

The meaning I picked, the one that changed my life: Overcome fear, behold wonder -- Richard Bach

When you see that sell signal in the overbought condition, what should you expect? The price moving down! Does that mean this trade is over? Not necessarily but from the information that is being provided in the chart at that time, it was time to take profits. However, a Jayhook pattern can still be a high probability situation. Why? The prerequisite of a Jayhook pattern is an initial strong price move. If that is what has occurred, it becomes very simple to watch which candlestick signals form over the next few time frames. Again, the time frames can be each minute on a one minute chart or the daily charts.

An important element that most investors forget to implement in their thought process is the probabilities. The thought of taking profits at a specific price level, even with strong evidence a reversal is occurring, and then having the price continue to move up, is an overwhelming mental hurdle for many investors. This often leads to holding a position that had big profits until it comes back down to their original purchase price. This often evokes the reoccurring question, "Why didn't I take profits when I had them?" Unfortunately for many of us, the term "reoccurring" should be a strong reminder that our mental thought process is somehow flawed.

The Jayhook pattern helps alleviate that problem. When a sell signal occurs, the assumption is the uptrend is 'currently' over. The term 'currently' is applied because of the initial strong price move. It is usually the first leg of a potential Jayhook pattern. There is no guarantee that a Jayhook pattern is going to occur. The price may retrace back down into most, if not all, of the previous uptrend. Knowing what to anticipate in the formation of a Jayhook pattern allows for the proper reentry into the position.

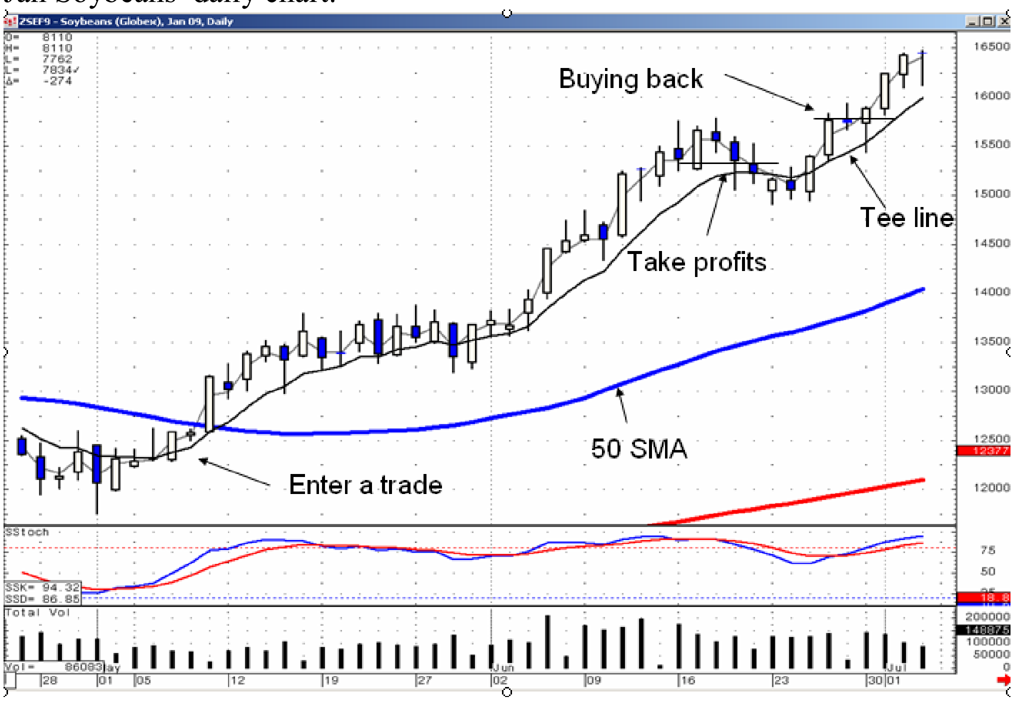
A few days of selling, followed by indecisive signals, becomes the anticipated evidence needed to confirm a Jayhook pattern. A couple Doji's, small Hammer signals, Spinning Tops, are all indicators showing the selling pressure has now diminished. Upon seeing a bullish confirmation candlestick produces the right environment to get back into the trade. As described in the 'Patterns chapter' the confirmation or failure of the Jayhook pattern can then be easily identified.

As illustrated in the January soybeans chart, good profits had been made up until the time an Evening Star signal showed that it was time to take profits. Simple analysis can be done based with the few confirming indicators on the chart. The uptrend was maintained by staying above the T-line. Why would this have been time to take profits? Despite the fact that it had not closed below the T-line, this was the first major sell signal during this uptrend. The uptrend had produced substantial profits. Was there not a good possibility the trend might support on the T-line? Of course, but why hold a position that now has a major candlestick sell signal in the overbought condition? Take profits, there is no guarantee the selling is going to support at the tee line.

The advantage candlestick signals produce is the visual representation of investor sentiment. What were the possibilities from this level? First, the Evening Star signal could be demonstrating a reversal of the trend. The price could have a major pullback. The 50 day moving average could be a possible target. Second, the pullback could support at the tee line, forming a possible Jayhook pattern. How will we know that a Jayhook pattern could be forming? By observing what type of candlestick formations are forming over the next

few days at or near the tee line. In this case, there were three days of indecisive trading, two Doji days and a small Hammer day. The direction of investor sentiment was revealed only after the bullish engulfing signal coming back up through the tee line. The next day confirmed.
A small amount of profits that was foregone. Coming out of the position when the signals said it was time to come out and getting back in to the position when the signals that it was time to get back in was just the insurance costs of not riding a position back down.

Jan Soybeans daily chart.



The patterns work as effectively on a one minute chart as they do a daily chart. The same price action can be seen in the May Cocoa one minute chart. When day-trading fast-moving trading entities, the indicators have to be acted upon almost instantaneously. There is very little time to try to assess what might be occurring because of a price move. Delaying just a matter of seconds before hitting a buy or sell button can cost quite a few hundreds, if not thousands, of dollars. Upon witnessing a sell signal confirming, there is very little time to evaluate how far the trend may pullback. Knowing what are the elements that make up a Jayhook pattern allows for a quick buyback of the position. Although it has given up some of the potential profit of the trade, that information was not known at the time the sell signal occurred.

May Cocoa 1 minute chart

Applying knowledge of other confirming indicators can also improve the probabilities of taking profits at the correct time. The use of moving averages can demonstrate when a price has moved too far, too fast. This is especially useful when trading fast-moving entities such as commodities or the Index futures. It represents the same thought processes of other investors thinking a price has moved too big a percentage for normal circumstances. Slower moving trading entities such as stocks may allow enough time to take advantage of a signal appearing. However, soybeans might have a price spike of six cents over the next 90 seconds. This is a big move if you are following the one minute charts.

As an investor, you will sleep much better at night knowing that you've taken profits when the probabilities indicated it was time to do so. For every time a position is held, in spite of what the signal probabilities indicate, and it goes on to make a big profit, there will be 50 times when the signals indicated it was the correct time to take profits. That definitely offsets the pain of missing the one trade that goes up after the signals indicated it was time to sell. The amount of profits put into an account when the signals indicate it was time to sell will have a dramatically huge compounding affect versus that one missed trade.

The day-trader should be looking to take advantage of 'all' the indicators that will improve the probabilities for making profits. This includes witnessing sell signals at important resistance levels. Moving averages, trend lines, or Fibonacci numbers are all technical levels where candlestick sell signals reveal investor sentiment immediately. Prices, moving too far away from moving averages, is another alert for watching for a reversal. Fortunately, these techniques are not difficult to learn. They will become obvious when they can be recognized before hand.

Today’s trading technology allows for the entry and exit of a position to be done instantaneously. The fear of missing a substantial price move should be inconsequential. Do all candlestick signals work? Definitely not, but a large percentage do. For the smallest percentage that don't, once that signal is negated, continuing the uptrend, the position can be reestablished very quickly.

Our Ego Gets in the Way

What type of trade do we want to perform to be able to tell our bodies? The US dollar went up 10 points today. We bought it on the exact low and sold it on the exact high. Or we bought SanDisk on his low tick of the day and sold it within two pennies of its high. Those are the type of trades we want to reveal to others to show how adept we are at trading. Even though we may not have anybody that we would discuss that topic with, our ego wants to have that type of performance. If not anything more than to prove to ourselves that we beat the market. Unfortunately, it is this type of thinking that produces unfounded fears.

Very rarely do you hear somebody discussing how they made most of the province produced from a price move. The human ego wants the satisfaction of extracting all the profits out of a profitable trade. We all want to hit that home run that will greatly increase our wealth. Unfortunately, the mega home run are few and far between. For every story about somebody buying a stock at three dollars and selling it at $150 there are hundreds if not thousands of stories of people who bought a stock at three dollars, rode it all the way up to $15 and then rode it all the way back down to three dollars.

There are very few educational sources that teach people how to invest correctly. Part of that correct trading program should include the trading practice of buying when the indicators say to buy, selling when the indicators say to sell and buying back when the indicators say to buy. This goes against the grain of most investor's emotions. If the US Dollar contract produces $1000 gain on a particular day, most investors find it difficult to rationalize that they made $700 trading in and out that day. Why? Because the first reaction from most people hearing those results would ask, "why didn't you just hold the position without trading in and out?" At first glance, this may seem like a rational question. However, this is merely a Monday morning quarterback reaction. When that trading days started, who knew which direction the price is going to move. After the first $250 move to the upside, who knew whether the price was going to continue higher or go back down? After the prices moved up $600 on the day, who knew whether it was going back down or going up from there?

There is nothing wrong with selling a position when the signals indicate it is time to sell and buying it back at a higher price if that sell signal is negated. The purpose of investing is to maximize your profits in your account, not to maximize the profits from each potential trade. Having this mindset now eliminates the fear of missing out on a price move that may continue after you have sold too early. Buy back in if these candlestick signals show the bullish sentiment continuing.

Your mindset

What should be the mindset of a successful investor? To make profits! This means making profits for the account, not maximizing the profits from every trade. That will often mean that when the US dollar had $1000 gain per contract today, the successful investor may have made $700. That was from buying when the probabilities said it was time to buy and selling when the probabilities said it was time to sell. This will make the trading program the predominant factor for your trading decisions. Most people lose money in the markets because of preconceived targets, expectations, and hopes for a price move. This creates the trading platform for producing profits in the US dollar on days when it finishes flat.

Enthusiasm, n. A distemper of youth, curable by small doses of repentance in connection with outward applications of experience. -- Ambrose Bierce, the Devil's dictionary 1881 -- 1911.

Making profits for the account should be the number one priority. Investors often lose sight of this function. As soon as a trade is placed, they let the trade become the most important parameter. They allow the trade to become a personal stake. They have to beat the trade. The ego is involved.

Eliminate your fear of coming out of a trade too early by placing the importance of your decision-making factors on what your indicators are telling you. This is the information that should dictate your decision-making.

Chapter 6

The fear of Re-entering Trades

The only thing we have to fear is fear itself --- nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance -- Franklin D. Roosevelt

When taking profits, it should have been done when the signals illustrated a change of investor sentiment. A sell signal demonstrates the end of an uptrend, potentially. When everything is in alignment, a candlestick sell signal, stochastics in the overbought condition, the probabilities clearly indicate it is time to sell, profits should be taken. The probabilities are more compelling when the sell signal occurs at a major resistance level. But what happens if prices turn right around and head back up after you have closed the position? That indicates another dynamic. The sell signal showed when the

Bears were taking control. The negation of that signal illustrates the Bulls are still in control.

What are most investors thought processes in this situation? For example, if a stock was bought at $21 a share, and moved up to $28 a share fairly rapidly when a sell signal occurred, that is when profit should have been taken. But after one day of consolidating, it moves back up to where it began its the sell signal. Why won't most people buy back in at $29 a share? Because they do not want to look stupid! How tragic it would **be** for one's ego to sell a stock at $28 a share, buy it back at $29 a share when the sell signal was negated, and then have it drop back down to $26.50 a share. Boy, would that make us look stupid.

The truth of the matter is that it will happen to everybody. How the trading situation is perceived can alleviate the fear of buying back at a higher price. What do we have for analytical facts in a price move? If a price moved exceptionally strong in a short period of time, there was obviously strong buying sentiment developed for some reason. That becomes an important factor. **There was strong buying for some reason**. When the price moved to the overbought condition very rapidly, additional expectations come to the forefront. Simple candlestick analysis tells us to sell when a sell signal appears in the correct conditions. Candlestick analysis also prepares us to watch for potential patterns, such as the Jayhook pattern. But that does not necessarily mean the profit-taking will not be short lived, selling off fast and recovering very fast. That indicates the Bulls are still in control.

The fear factor of getting back into a trade after coming out is usually developed by the lack of a viable trading program.. That could have been produced by taking profits on the first signs of selling in a strong uptrend in previous trades but not knowing that selling was not a candlestick reversal signal. Knowing the difference between selling in an uptrend and a candlestick reversal signal can dynamically change an investors analytical perspectives. Other bad learning experiences can occur by taking profits when a candlestick sell signal did occur, the investor not knowing that it was a sell signal, and buying back the next day on lastgasp buying before the second sell signal appeared, reconfirming the previous sell signal.

Whether trading Forex, commodities, the Indexes, etc., having the right frame of mind when getting into or coming out of a position is very meaningful. The aspect of ego has to be taken out of the equation. It needs to be replaced with the concept of probabilities: is this a situation that is likely to make profit and/or make more profits? When investing is looked at in that context, each trade is placed based upon the knowledge of what is occurring in investor sentiment. The decision-making process becomes more businesslike. Entering a trade and having it go against you is part of doing business. You will sleep better at night when you can rationalize that each trade was placed based upon a high percentage of producing profits.

Buying at the bottom

The concept of the cost of doing business can be applied to the same principles when initially buying a position. When all the parameters are in alignment, a candlestick buy signal, stochastics in the oversold condition, and confirming indicators also lining up, it is time to buy. There will be times when a trade is entered and immediately fails. The price closes lower, negating the buy signal, causing the trade to be closed for a loss. The next day another buy signal occurs, the prices move higher. Many investors have the same mental problem as one taking profits. Boy, would I look stupid if I bought a stock at $20.50, sold it at $19.50, buy it back at $20.50 and then have to sell it again at $19.50! Again, this becomes a deterrent because of the fear of looking stupid.

The major problem with the fear of looking stupid is that it is mostly an ego problem. Who are we afraid of looking stupid to? Probably 99.9% of the time nobody but ourselves knows what trade we are putting on. The other one 10th of one percent have their own problems, they're not really concerned about your trades. That only leaves one person that we are afraid of looking stupid to. That is ourselves, our own egos. Once again, buying a position and immediately closing it for a small loss when a buy signal is negated needs to be considered the cost of doing business. Not every position is going to work or work immediately.

As illustrated in the January Soybean chart, A Morning Star signal formed when the stochastics were in the oversold condition. The third day of the signal closed very close to the T-line. This made for a very high probability trade. If the price opened higher the next day, it would be producing two positive confirmations. First, it would be confirming the Morning Star signal. The Bulls were still participating. Second, it would be demonstrating the T. line was not acting as resistance. These made for excellent factors for buying into this trade. However, the price closing more than halfway down the previous day's candle demonstrated the Bears were still in control. The position should have been closed out.

Jan Soybeans - A buy signal Negated

If a position shows a buy signal in the right conditions, it is time to buy. If that signal is negated, that does not mean the trade is still not to be considered. Why was it being bought in the first place? Because a candlestick buy signal had occurred in the oversold condition, and maybe some other indicators were confirming. Because the initial buy signal did not produce a bullish move, the rest of the parameters did not change. The next buy signal will also demonstrate the same message. The Bulls were starting to take over in the right conditions. Buying a position and selling a position two or three times before the price trend moves significantly is merely the cost of doing business. The probabilities are indicating to be in your favor.

Jan Soybeans Confirming a few days later

Make your decisions based upon your parameters

Investment decisions should be made based upon what works. The reason for analyzing and implementing trades is to participate in trade situations that have worked in the past. Not all signals or indicators are going to create the expected price movement immediately. Some do and some don't. That has to become part of your investment perception to become a successful trader. Even the most accurate trading programs will not work 100% of the time. Not every perfect trade set up is going to work 100% of the time. Not every trade that does work successfully will respond immediately after a signal. A good percentage of trades require a few days to fully confirm.

There should not be any hesitation in buying a position that has all the parameters in the right place. There should not be any hesitation in closing that position immediately if it negates one of the parameters.

The ACM chart illustrates how one's parameters can make trading very mechanical. It shows how the majority of the profits can be taken out of a trend. The portion of the profits that aren't made are in conditions where the probabilities could be going against the investor.

ACM trend analysis

Point A is the buy point, based upon previously established parameters. A candlestick buy signal followed by bullish confirmation and a close above the T. line. Point B. is the time to take profits; A Bearish Harami signal forming right on a major moving average, the 50 day moving average. But the T. line remains as one of the critical parameters. Watching what the candlestick signals do at the T. line over the next few days provides valuable information. The T. line acts as support. This allows for confident buying at point C. when prices come back up through the 50 day moving average. Keep in mind, there are some simple rules about resistance levels. If a resistance level is touched and failed, watch for the pullback followed by a successful test of that resistance level. In this case, it becomes easy to see the 50 day moving average acted as resistance, the pullback was supported at the T. line, followed by prices coming back up through the 50 day moving average.

This makes the next potential resistance level, the 200 day moving average, the next viable target. The same parameters can be established at that level. A Spinning Top and small Hanging Man signal represents indecision at that level. A simple stop loss/profit taking strategy is to close out a position if it comes back down through the low of the signals. This clearly illustrates the Bears are now in control. The same strategy can now be applied as seen at the 50 day moving average. Once the T. line reveals it is acting as support, the next buy area is when the price comes up through the 200 day moving average. This illustrates the second time a resistance level is tested, it will usually go through. The broader vision for these reentry points shows Jayhook pattern formations.

Applying the information and knowledge about how price movements react, coming out of trades at the proper time and going back into trades at the proper time can be done from a trading program versus emotions.

Establishing a trade

Once the analysis is performed, the decision to enter a trade is based upon specific parameters. The buy signal, stochastics, and support levels make for high probability candlestick buy situations. Once everything has been mechanically analyzed, the last aspect of place in a trade comes into play. The human decision to buy! Once the trade is established, what is anticipated? The price to move in the direction the buy signal indicates. However, being that the trade is placed based upon a high probability the direction is correct, there is the possibility that trend will not move in the manner anticipated. That could be revealed by a candle formation that negates the reasons for buying.

When that occurs, close out the position. Once investors obtain the mindset that all trades are not going to work perfectly, they can become better investors by moving in and out of positions without the ego factor involved. That how candlestick analysis cuts losses short. But there are still other possibilities that can occur after that position is closed. The Bulls can show evidence they are still participating in the trend.

Examine how establishing a position in TAM should be approached. A morning star signal formed in an oversold condition That candle had demonstrated the Bulls were in control. The following day, point A, showed a positive open. This would have given significant cause for entering the trade. By the end of the day, the price closed more than halfway down the previous day's candle. That candle had demonstrated the Bulls were in control. A close more than halfway down that candle demonstrated the Bears were still in control. It should have been closed that day.

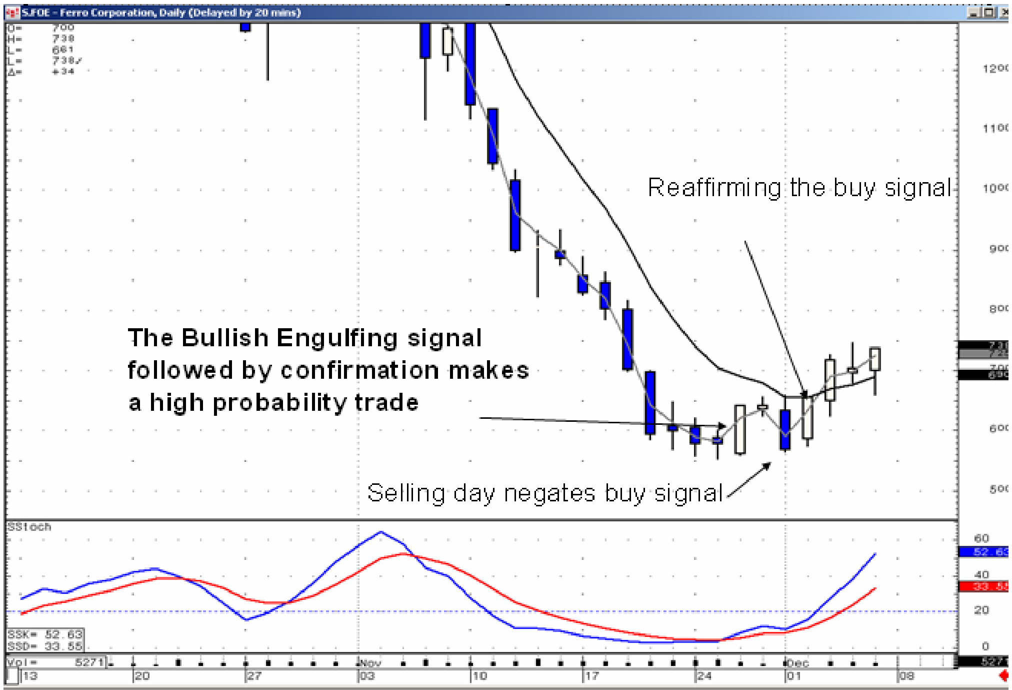
When this situation occurs, what is usually the thinking of the investor? There is a negative atmosphere after taking on small loss. Why? Because everything had set up for a high probability situation, we put in our mental input, and the trade turned against us. This does not leave a good taste in our mouth. What do most investors do at this point? Clear the chart from their screen and look for another trade situation. The main flaw with this procedure is that it is eliminating the potential of a very strong buy position. Why was this position established in the first place? Because all the parameters set up perfectly! The fact that the trend did not immediately move in the direction expected does not diminish where this trade was starting to show buy signals. Those parameters are still present. The price is still in an oversold condition. The buyers just did not participate during the next time frame. Point B is the next place to buy. It shows valuable information. The price has now moved up through the T. line. It is now formed a second Morning Star signal. If a Morning Star signal illustrates the Bulls are taking over in the oversold conditions, to Morning Star signals provides that much more confirmation the Bulls are taking over. Buying at point B now has much more buying information conveyed prior to the point of where this stock should be bought.

After the initial trade, an inherent level of apprehension enters most investors' thought processes. What if I bought this stock again and it immediately went against me? Boy would I look stupid!

TAM

The Ferro Corporation chart illustrates a perfect buy signal with a Bullish Engulfing signal following a Doji. This occurring with the stochastics in the oversold condition! The following day indicates bullish confirmation. However, two days after the bullish engulfing signal, a bearish candle closes more than halfway down the bullish engulfing signal candle. The position should have been closed. On that day, there is nothing to indicate the Bulls are participating in an uptrend. The following day opens positive and closes right at the T. line. Although this is not a signal, it does confirm the information prior to that day. The bullish engulfing signal is still back in effect. The following day, the purchase can be made again as prices are moving up through the T. line. Being able to visually see the accumulative results of buying pressure in the oversold conditions should eliminate the fear of reentering a very viable trade.

FOE



Many investors would pass up re-entering trades that they have just lost money in. Why do they not want to come back into a trade? Because they lost money the first time! They do not want to look foolish and possibly lose money again. What is the best way to resolve this mental problem? Look at the chart! Is the chart indicating that it is time to buy? Disregard the fact that you have been in this position and lost money two days ago. Look at the chart with a completely objective point of view. Would you be buying this chart? If the answer is yes, repurchase the position. It should now have more credibility for buying than it did the first time. There will be more signals demonstrating bullish participation.

Many investors take losses personally. They think the market or a stock is out to get them. Always keep in mind, the markets don't give a hoot what you have bought, what you have sold, what you think or who you are. The markets are going to move with or without you. There is nothing wrong with buying a position, losing 3% on the first trade. Buying the position again and losing money on the second trade. If the parameters are still showing that this is an excellent place to buy based upon signals in the conditions of the trends, buy the third time based upon those same conditions. If that trade eventually produces a 40% profit, the small losses were merely the cost of doing business to be in a trade at the right time. The more an investor understands the credibility of the signals and parameters, the less unfounded fears will play into the decision-making.

Chapter 7

Stop Losses - Dual Function

Our military plans should be based upon the assumption of unpredictability, rather than on carefully drawn, static models of the world- James Fallows

Most investment advisors advise investors to preserve capital. This is very logical and sage advice. More so for the candlestick investor! If it can be assumed that the candlestick signals produce an extremely high probability of being in a correct trade at the correct time, the preservation of capital is more important. Not so much for merely preserving capital, but maintaining the capital base so it can be applied to future trade situations that have a high probability of producing profits. Cut your losses short and let your profits run. This is common sense, correct? However, have you ever heard investment professionals give instructions on how to cut your losses short and let your profits run?

Many investment advisors tell you to close out a position after you had a loss of 3%, 5%, 6%, or some arbitrary percentage that they have deemed as the proper loss amount. There is one great fallacy in this approach. The market does not give a hoot of where you've established a position. Do you buy at the ultimate bottom? Were you more conservative and waited for a candlestick signal confirmation? Where you bought a position should have been based upon the identification of a bullish reversal signal. An aggressive investor may have bought while a signal was forming in the oversold condition. A more conservative investor may have bought during the next time frame as the signal was being confirmed. Where you should put a stop loss has nothing to do with the percentage price move going against you.

The proper stop loss technique involves identifying the price level that negates the signals. The signals were created by a change of investor sentiment. A bullish candlestick signal has facets that we can visually identify. That signal involves the graphic depiction of when and where bullish sentiment was taking control of a trend. A critical factor for successful stop losses is identifying a level that would negate the bullish signal. This has nothing to do with a pre-established percentage loss. A proper stop loss level for one trade may create a 1% loss whereas the proper stop loss level of another trade could be a 12% loss. The variation in the percent losses has to do with the magnitude of the bullish signal. The advantage of candlestick analysis is the easy visual identification of a price level that would make what looked like a good trade, not a good trade.

The first question investors should ask themselves after they've analyzed a good bullish signal is "What level would prices have to move back down to negate what the bullish signal was revealing?" This can be done much quicker and easier than calculating where a 6% loss would be after your purchase. A predetermined percentage loss may have nothing to do with the volatility of a price. For example, if trading the E-mini's or soybeans on a one minute chart, a 6% loss or even a 1% loss may have devastating ramifications for the trade and the account. Candlestick analysis has the benefit of telling us when to be in a trade and the logical level to be back out of that trade.

Successful stop loss processes are very important in commodity trading or any fast trading entities. This stems back to the volatility that can be found in trading entities. Candlestick signals produce a high probability of being correct. Each person's definition of high probability can be different. The adage in the commodity trading area is that if you can be correct 55% of the time in your commodity trades, you will make a fortune. Twenty years of utilizing candlestick signals has produced an unofficial correct trade ratio of 65 to 70%. The important qualifying word in this past sentence is "unofficial." When it assumed that candlestick analysis produces results somewhere above the 50% correct trade ratio level, stop losses have a very important function.

The preservation of capital is the first criteria. Even if the correct trade ratio was 90%, that would mean that 10% of the trades were unsuccessful. If an unsuccessful trade is not controlled properly, producing profits in an account becomes an extreme uphill battle. The difficulty for producing profits becomes compounded if the correct trade ratio is 55%, 60%, or even as high as 70%. If losing trades occur 30%, 40%, or even 45% of the time, stop losses become an integral part of any trading program. Establishing a trade using candlestick analysis merely puts the investor in a favorable probability situation. Always keep in mind, the term probability implies favorable results but leaves room for the possibility of unfavorable results. The purpose of the stop loss is to minimize the possibility of prices moving severely in the wrong direction.

Obviously, recouping a $300 loss is much easier to accomplish than trying to regain a $4000 loss. Although this may seem like a very simplistic statement, many investors will watch a trade go against them without taking immediate action. Why? This comes back to the simple emotional problems. A trade was evaluated. We put our mental processes into motion. Our analysis was that a buy signal had occurred at the proper place of a trend with the confirmation of other indicators. We should make money! However, immediately after we put the trade on, the price reverses and heads right back down through the signal that told us the Bulls had taken control. Why do many investors hesitate to close out the position? Because our mental evaluation, which involved our intellectual acumen, just told us that we saw a buy signal had occurred in the proper place of a trend with confirmation from other indicators. Because our intellect, which has developed when learning where good candlestick signals should appear, was put to the test from what we know, our ego says this trade should work. That minor conflict will make most investors rationalize to themselves; they saw a buy signal that should work. Even though the price is now going against that wisdom, most investors do not want to do anything in hopes that the results they were expecting reverses in the losing trade they are now in. Unfortunately, reality is that the market doesn't give a hoot what each investor is hoping for. A stop loss is put at a level where rational analysis says this trade is not working. It needs to be placed mechanically after the trade is established. Do it!!! Take the decision making process away from any emotional influenced situation.

Taking small losses is like taking bad tasting medicine. You may not like what is happening right now but you will sure be happy in a little bit when the results are tallied. Taking a $300 loss two minutes after you establish a trade is much better than trying to figure out what to do if your position is now down $2000. Many investors become mentally debilitated when caught in a big loss. The investment thought process becomes completely skewed. If a $300 loss was taken, the next evaluation would be, where is the best high probability profitable trade? The money is sitting available and ready to be placed someplace else. The mind is clear. It is looking for chart patterns and signals that have a high probability of producing the next trade profit.

Sitting in a $2000 loss position narrows the vision of what to do next. The predominant thought process is "What do I do with the position now to recoup some of my losses?" That may not be the best place to have money sitting at that juncture. However, most investors want to beat the trading entity. They have just lost money in their soybean/gold/dollar/cattle trade and they want it back. As this scenario illustrates, being in a trade that was not stopped out at the proper place produces a completely different investment strategy. Unfortunately, that strategy is usually not the correct one.

There are times when fear is good. It must keep its watchful place at the hearts controls. There is advantage in the wisdom won from pain - Aeschylus

Sitting in a large loss position usually brings an investor's attention solely to that position. "What do I do to repair the situation?" That becomes the most important factor. Instead of having a clear mind and evaluating all the other trading entities, the losing position occupies most of our attention. The result of this debilitating situation is that other open positions are not supervised appropriately. The losing position dominates the investors attention. This is not an uncommon result of being in a bad trade. The solution is very simple. The higher the volatility of a trading entity, the more quickly one should put the appropriate stop loss into action. This dramatically reduces the possibility of being in a big loss situation.

Referring back to the probabilities, even with a 70% probability of being in a correct trade leaves essentially one out of every three positions with the possibility of being a bad trade. Whether trading a fast-moving commodity or a slow moving stock price, a factor of losing positions needs to be addressed. A successful trader requires a thought process that acknowledges that every trade is not going to be successful. This is an important fact to remember. It is also an important facet for becoming a successful trader. If you realize before a trade is put on, it has a one in three chance of not working successfully, the investing perspective will alter dramatically.

Candlestick signals provide that favorable opportunity to be in a successful trade. That is the point of investing. Placing funds in opportunities were the probabilities are in your favor. The mental safeguard should be having the knowledge that a trade has a good probability of working but be prepared for that percentage of trades that do not work. If one can rationalize that when they put their money into a position, based upon analyzing the factors being in the right conditions, they should make money. Being prepared to come out of positions that are not confirming what the analysis has indicated makes the investment platform economically and mentally successful. Eliminating the aspect of sitting in a large loss frees up the mind to look for the next trade for the probabilities are favorable.

Economically, the concern for recouping a small loss reduces the tendency to find the next trade that will produce big gains that 'have' to be made to offset a large loss. What do most investors tend to do after taking a large loss? Find a trade that will make a big gain. Of course, that is what the use of candlestick analysis is supposed to do, buying the potential big price move gainers. However, trading a price move appropriately can be dramatically influenced by thinking that a trade has to produce a certain profit. Especially when appeasing the pain of a big loss. The next trade may not have the capability of being a big profit trade. It may incorporate a series of smaller profit trades. But if the expectation/hope and desire of an investor is to regain all their losses from the next trade, the appropriate trading strategy may be forgone. All elements of what the trade is actually doing is usually glossed over when investor is "hoping" for something different.

Use stop losses always. What is the biggest fear most investors have about a stop loss? That "they" will hit our the stop loss. The price comes down and picks it off. Then “they” move the price back up in the correct direction. "They" being the proverbial traders that can control the market. Whether the traders can control the prices does not matter. Every investor fears being “picked off.”

The inherent factors built into candlestick signals demonstrate what should be going on in investor sentiment. A bullish candlestick signal in an oversold condition should be the prelude of prices moving higher. "If" traders have the capability of moving prices around, logic still dictates that a bullish candlestick signal should not be weak enough for traders to move a price back down to where it would pick off a stop loss entry. The assumption should be the bullish forces are taking control. The price, for whatever reason, should not be able to move back down to the stop loss point.

Will there be times where your stop loss gets picked off? Probably! But the percentage of times that occurrence happens should be very minimal if the signals are providing correct information. What is the worst that can happen if your stop loss gets picked off and the price immediately starts moving higher? You can immediately buy back the position. This now becomes a new position. The previous one did not work. A new position is now established based upon the confirmation of a bullish signal. If you enter a trade, what should be your first activity? Establishing where your stop loss should be placed! It is immensely better to be stopped out with small losses an extremely small percentage of the time because somebody came back and hit your stop than to be holding a big loss position because you were afraid your stop loss was going to be picked off.

For every trade where you get picked off after placing a stop loss and the price then moves back in the direction it should, you will experience 50 trades that when your stop loss was activated, you are happy to be out of the position. Keep in mind, the basis for your stop loss position was too eliminate a large losing trade. The evaluation of where to place that stop loss was based upon the candlestick analysis of where the bears may be back in control. The assumption should be that most trades that you place should work in your favor. A smaller percentage of trades will be stopped out. Out of the number of positions that are stopped out, an extremely small number of those positions will be stopped out and then move back in your favor. This means a very miniscule percentage of the time your stop will be hit and then the price will move back in the direction you were expecting it to. Do not let this very miniscule percentage of trade situations deter you from using stop losses effectively.

If you are experiencing an inordinately high number of times that your stop losses are being hit and then the trend continues back up in the direction you are expecting, this is merely a function of resetting your parameters for where the stop level should work most beneficially. It is much better to have a few small losses while tweaking your stop loss positioning than having a few huge losses that you now have to recoup.

Another factor for recouping equity after large losses is the equity base itself. Losing $5,000 out of a $20,000 commodity trading account is not difficult. However, making a $5,000 profit off a $15,000 base is more difficult. A smaller equity base means smaller trade positions to recoup profits to get back up to the original $20,000 base. This again illustrates the importance of preserving capital. Playing catch-up after large losses becomes exponentially more difficult than working off a bigger equity base to recover small losses.
Investing should be enjoyable. Losing money is not enjoyable. Whether losing original principal or losing profits, the results are the same. The ego is injured. We question our intellect. We question whether we are smart enough to be investing our own money. The same protective procedures should be established when protecting profits. To make $10,000 to be followed by a loss of $2000 hits the ego. Taking an account from $20,000 to $30,000 is what we are supposed to do. That is our money. Losing $2000, bringing the account back to $28,000, is not what should happen. It can always be rationalized that you still made $8,000. If this was done over a one-month period, that would be a good living. However, the human mind does not work that way. The account was worth $30,000 at one time. We earned it. It was our money. Losing $2000 starts setting new thought process is in motion. Were we just lucky to make this $8,000? Was this an unusual condition of the market?

Establishing the correct stop loss procedures when trades are profitable are just as important for building equity as they are when first establishing a trade. The point of being in the trade in the first place was to make a profit. It makes little sense to make big profits, then hand a good portion of it back. Candlestick analysis makes for very easy exit strategies for maintaining a majority of the profits. Please recognize the word majority. As with all candlestick trading, the purpose of investing using candlestick signals is not to try to get in at the absolute bottom and out at the absolute top. The wise trading strategy is to take the low risk, bulk of the trade profits out of the middle. The high risk absolute tops and bottoms can be left to others. In commodity trading or leveraged ETF trading, being aware of when the top may be forming is very critical. With the volatility being much greater, the other traders involved with a trading entity will be moving relatively quickly to be in and out of trades at the appropriate times.

Establishing stop losses for volatile trading entities is done pretty much in the same manner as for stocks. The difference will be the speed in which that positioning should take place. Utilizing the information conveyed by the signals in the patterns allows the candlestick investor to take advantage of potential reversal situations at the optimal times. Trailing stops can be utilized. Depending upon the time frame an investor is investing, where stop losses are placed will differ based upon each individual's trading style. Somebody using a one minute and five minute chart combination may have much shorter stop loss parameters than an investor that may be utilizing a one minute, 10 minutes, and hourly chart combination. We will illustrate each of these aspects in the following charts. As you will notice in the following chart examples, the same applications for stop losses can be instigated on the short-term commodity chart just as they are for longer term stock trading charts. The important difference will be the application of stop losses in commodities or e-mini's is used as part of the trading program. The use of stop losses for trading stock is more for the protection of capital.

The volatility of leveraged trading entities makes placing stops essential. Minor changes in investor sentiment or minor changes in the world markets can change the price of a commodity/currency dramatically in the matter of minutes or even seconds. Having that knowledge makes protective measures a much more integral part of commodity trading. Candlestick analysis provides an analytical format for evaluating a trend or a trend reversal. That analysis usually incorporates the normal supply and demand producing a trend move. However, a hailstorm in the Midwest can dramatically alter the price of soybeans and wheat. The prediction of a heavy snow can suddenly increase the available supply of cattle in the Midwestern slaughter yards. An unexpected rate cut can change the direction of bond prices instantly as well as the direction of the U.S. dollar. Crude oil prices can be affected by a multitude of influences around the world. The vast majority of the time, candlestick analysis can produce a fairly accurate picture of what is going on in a trend. There will be surprises! Stop loss procedures provide a safety net for protecting capital during volatile situations. If you have a trading program that works in your favor, make sure you have the capital to always benefit from those favorable conditions.

Chapter 8

Preservation of capital -- duh!!!

I'm a great believer that any tool that enhances communication has profound effects in terms of how people can learn from each other, and how they can achieve the kind of freedoms that they're interested in.
- Bill Gates

Preservation of capital, what does that mean? Most professional money managers often profess that one of their main criteria is the preservation of capital. Wouldn't that seem obvious? What is implied by that statement? It is understandable if an investor is extremely wealthy and does not want to lose the assets they have already earned. Preservation of capital is likely to be much more important to them as far as a sales pitch than somebody that is trying to get ahead financially.

Does preservation of capital mean the funds are going to be invested with the least risk possible? If that is the case, is it assumed the upside potential is going to be very limited? But despite the size of somebody's account, does not the definition of investing imply that not only is the original capital going to be preserved, but additional funds, profits, are going to be added to the account. The use of the term "preservation of capital" has been overused, thus diluting the importance of what preserving capital should represent. Obviously, everybody intends to preserve their capital. They would expect that whether they were managing their own funds or having somebody else do that for them.

Preserving capital has a much more compelling meaning when it is used for day trading or swing trading accounts. As described in the "Dynamics of Money" chapter, investor sentiment alters dramatically based upon the profit or loss condition of their account. Time is money! The human mind is all too cognizant of the fact that a losing trade has multiple ramifications. It reduces the balance of the account. It also implies that more profitable trades have to be executed to get the account balance back to even. Getting the account 'back to even' does not necessarily mean getting it positive overall. Each investor may have made different mental benchmarks where the breakeven point is considered. Whether an account is positive or negative overall may not matter to some investors. They mentally may consider breakeven being a positive trading 'day.' Although the account may be up 150% over the past two months, being down for the day will produce a different mental dynamic for many investors. They consider what was in the account at the open of the day as the mental benchmark. A losing day is having less funds than what was in the account the previous day. Once the money is in the account, although it might be profits, many investors consider that it is theirs. They earned it, it was in the account, to not have it there anymore is considered a loss.

This mental attitude can be a attribute or a detriment, depending how it is applied to your investing program. Having too stringent interpretation of what is considered a profitable trading program, such as having to produce winning trades every single day, could cause the wrong decision making. Once a losing day has occurred, the set-in-stone attitude could continue trading well beyond what should be occurring that day. This refers back to the "catch-up" trading phenomenon. The losses have to be made up before the end of the day. However, this sometimes instigates trading that is not well thought out and based upon an emotional factor, requiring a breakeven or winning day. This is where the concept of 'preservation of capital' comes into play.

There will be days when trades from the previous day open up in the complete opposite direction of what was expected. Or they open up in the direction that was anticipated but showed little probability of moving in that direction. Whatever the cause, the reversal in the direction has now depleted some of the previous profits. The first inclination is to try to immediately trade in a manner that can make back those losses. Don't!!! If the reversal in price occurs, hopefully the previous rational well thought-out stop loss application has closed out the positions immediately. This is part of the preservation of capital. Every day might not be a winning time frame. Hopefully, the majority of days are positive. The losing days are fewer and also are smaller in magnitude. This should be the case if your trading program works effectively and you are implementing it effectively.

If a trade is not performing in the manner expected from your analysis, close out the trade immediately. Preserve your capital! The reason is very simple. It comes right back to applying the proper probabilities to a trading program. Some trades are not going to work. When you feel that is happening, close the trade so that you can concentrate on what to do next. It is better to close out a trade that is producing a $400 loss than wait for better clarification after a $1200 loss. This may sound like a very unsophisticated statement but many investors get caught up in the trade itself. They want to make the money back. Even with trades that are profitable, but now some of those profits are being given back, creates a different mental outlook.

In the business world, the rearview mirror is always clearer than the windshield. Warren Buffet

The trade is moving in the expected direction for the past two days. The potential target is being approached. Then something changes the direction of the trade. It is not doing what it is supposed to. Because it has started in the direction that our analysis expected, our minds have a way of becoming stubborn. The direction was right. Next, the expected target should be reached. The fact that the direction is not going toward the target anymore does not fully compute. Our mind said it 'should be' going in that direction. The realization that a trade may be not working as fully as expected is minimized.

Re-Analyze When Expectations are not being Achieved

What is the proper action when a trend or price move is not performing as expected/? Analysis! Take a step back, look at what is happening. Force yourself to analyze the current conditions based upon what the chart is telling you. If it is not fully understandable, close the position. Put the funds back into the account as cash. This is considered preserving your capital. You are now back in a condition to be able to clearly analyze what you should do next. Continuing to hold when there is not full clarity acts as a double whammy. It may continue to reduce the equity in the account. It also takes time away from analyzing other trades that have a higher probability of producing profits.

The US dollar 10 minute chart illustrates a trade that has worked successfully. Now a decision has to be made. The gap-up Doji in the overbought condition is usually an indicator. The exuberant buying at the top has occurred. Although no severe sell signal was produced after the Doji, the bullish strength is becoming questionable. Stochastics are in the overbought condition, just beginning to start down. What has been a very profitable trade for the past few hours is now reaching a stage where the upside potential may not be worth the risk. This is where preserving the profits becomes viable. Could prices go up from here? Certainly! Could prices start turning down from here? Certainly! When a price trend does not have any indications where the probabilities are more favorable in one direction or the other, why stay in it?

US Dollar 10 minute chart

Holding the position for another 20 minutes would have depleted some of the gains. More importantly, the time spent watching for the results of a questionable position probably took time away from investigating other good potential chart patterns that were setting up at that time.

US Dollar Ten Minute chart 20 minutes later

A function of preserving capital is coming out of trades where the probabilities do not indicate anything favorable, then moving funds to a position where the probabilities are clearly enhanced. Closing out the US dollar trade now creates the opportunity to place those funds back into a trade where the probabilities of making money is much greater in your favor. The decision of coming-out of an 'iffy' trade situation becomes much easier if there is a better place to be positioned.

Shorting Live Cattle on the Five minute chart appears to have a much greater potential of making profits. The 50 SMA appears to act as resistance, indicated by a Doji. The stochastics indicate an overbought condition. The gap down in price illustrates a strong force to the downside.

Live Catttle 5 minute chart

Candlestick analysis creates visual signals that demonstrate when the probabilities are favorable. Those situations will occur every single day somewhere. The point of having a successful trading program is to take advantage of the high probability trade setups. Not having the capital to take advantage of those situations would dramatically reduce the potential of making profits when profits are available. This requires a mindset where trades have to be considered as a continuous supply. Maintaining capital is a function of liquidating a trade when the probabilities cannot be clearly deciphered. This leaves money available for the next trade that can produce favorable results. The candlestick signals are indicators of what price movements should occur in the future, with a reasonably high predictability. If the trend/price movement, after the candlestick signal, does not produce the results expected, or the price action starts creating some concern, close out the position. The reason for establishing the trade was to benefit from the probabilities established from historic previous results

The most important aspect about investing is the ability to put the probabilities in your favor. The primary function of candlestick signals is to identify high-probability investments. There is a purpose of the step-by-step analysis of the markets, sectors, related stocks, and other trading entities. The reason for a candlestick signal to be acted upon is to take advantage of a high-probability correct trade scenario.

The primary reason for establishing a trade is the identification of favorable indicators. Taking advantage of centuries of observations of investor reactions has created signals that make a profitable trade very plausible. That was the reason for putting on the trade. The investor has made an evaluation of a trade set up that has worked correctly in the past. The candlestick signals are indicators of what price movements should occur in the future, with a reasonably high predictability. If the trend/price movement, after the candlestick signal, does not produce the results expected, or the price action starts creating some concern, close out the position. The reason for establishing the trade was to benefit from the probabilities established from historic previous results.

Why remain in a position where the favorable probabilities appear to have diminished? Remaining in the position puts your investment funds exposed to market moves that do not enhance your profit potential. A high probability profitable trade signal still has the potential for creating losses. Hopefully the potential of a loss is diminished. Keeping funds exposed to a position, where the favorable probabilities have disappeared, makes the potential of losses that much greater.

For the trader, preservation of capital should have a completely different meaning. It should create a mindset that instigates the quick closure of trades that are not working as expected. This could be due to the lack of confirmation of a signal or the changing of confirming indicators making a trade less attractive. When an "iffy" trade is closed, the mind can now concentrate on analyzing the trade setups that have much better potential. When in doubt, get out! The advantage candlesticks provide is the easy analysis of multiple trading entities with a mere glance. This allows for many opportunities to produce profits elsewhere. Preserve your capital! There will be more opportunities each minute, each hour, each day.

Chapter 9

The correct analysis – incorrect trading

There is no calamity greater than lavish desires. There is no greater guilt than discontentment. And there is no greater disaster than greed
Lao-tzu (604 BC – 531 BC

The purpose for having a successful trading method is to provide criteria that puts the probabilities of being in the right position at the right time in your favor. Most investors spend much of their time trying to find a trading program that works successfully. Too many investors jump from one program to another when they do not seem to work as expected. This is usually a function of investors expecting a trading program to work automatically without having to learn how it operates.

A major frustration can also be identifying a trading program that works effectively but then not using it correctly. There are trading systems that work with a favorable statistical probability. Like any investment program, not all programs of work 100% of the time. A major mental fupaw is utilizing a trading program that works effectively but not applying the trading rules. What is a trading program supposed to do? It should establish parameters that makes a series of identifiable characteristics usable for producing profitable trades. When a good trading program is found, it should be studied and applied with the correct procedures. Too often, investors spend time and effort evaluating what a specific trading program has produced for a profitable trade but then do not execute the trade appropriately. This is still a function of human emotions becoming involved after the funds are exposed to risk.

Courage is the resistance to fear, mastery of fear -- not absence of fear -- Mark Twain

Have you ever analyzed the trade, put the trade on, and then failed to execute the trade as you had planned? We all have done that. Consider the fallacy of that process. Many hours, days, and weeks are spent searching for a trading program that works effectively. Part of that effectiveness is identifying a program that fits into our trading style. Once we find something of interest, we spend many hours studying what and why that program works. We may test it with paper trading or with very small positions in the market. We spend hours listening to somebody teach how to use it effectively. We read up on it. We tweak it so that it fits the trading style we want to do. We eventually use it enough to be confident in its capabilities.

Then when a specific trade situation develops, we spend time planning what our trading strategy should be. The price should open in a certain direction. It should eventually move to this support or resistance level. When it gets to that level or near that level, we may take half the position off to lock in some profits. The trade planning is done usually when the markets are closed or there is not any great activity occurring. The planning is done in a very rational manner when the market is not affecting our thought processes. We establish when to get in and when to get out. But after the trade is executed, our mind goes into a completely different mode. Fear and greed start to take over.

We establish the trade. It immediately moves in the direction we're expecting. We are kings. We are winners. We gain an aura of invincibility. The price moves a good percentage right to our projected target. What does our mind tell us? Stay with it! If we were clever enough to figure out how to get into a profitable trade, maybe the price will go even further. Our mental thinking now has the adrenaline created by how correct we are. The price moved to exactly where we thought it should. Exactly where we thought would be the first place to take profits. That was easy. We are smart. If we are that good at identifying a price move, it should go even further. What has happened during this scenario?

The evaluation of the potential of this trade was made using parameters that utilized logical assumptions. The support or resistance level was a likely target. A trendline, a moving average, a Fibonacci number may have been a likely place where everybody else would be watching to see if it was time to take profits. This evaluation was made from a rational investment point of view. Once the trade was established and moved to that target, the mind moved to another mode. Self adulation crept in. Greed and euphoria took over. If the analysis, that our mental capabilities produced was so correct, we are probably even smarter than we think. The price should now move past are expected target because we are smart and will be rewarded. The decision to continue to hold is now based upon hope, not the logical process that was originally applied.

What usually happens from there? The price reverses at the obvious resistance level and starts to retrace. Now a whole new set of mental dynamics enters the picture. When analyzing the trade, expected profits could easily be calculated. That's what became established in our minds if the target was reached. That's why we were putting on the trade in the first place. Now when the price has reached that level and started retracing, our ego gets activated. We confirmed to ourselves we were smart enough to identify a profitable trade. We were smart enough to know exactly where it should go. We made plans to take profits at those levels. Now that the price has reached it, we affirmed how smart we really are. But when the price starts backing away from that level without taking profits, the thought process turns rapidly into a different direction. We're not going to sell now, we deserve the profits we first anticipated. If we sold for less than what we expected, boy would we look stupid that we didn't sell at the point we knew the price was going to move to. Now our ego has taken control. It does not matter what the charts may be telling us. We are going to wait until the price moves back to our target again so we can take the profits we were expecting In our own minds, that is the profit we deserve. We feel entitled to those profits because we analyzed what the trade should produce for us.

The fact that we did not execute the trade when we should have is now a consequence. Because we are not going to take any less profits than what we had anticipated, the position continues to be held. We do not want to appear stupid in our own minds. After analyzing and executing a trade that moved exactly as we expected, we would feel foolish, after circumstances that most investors have a hard time even identifying, let alone executing, by taking less profits than what we had projected.

WBMD buying with a projected target

What is usually the final result? The position is held all the way back down to breakeven or even a loss. What changed in the dynamics of this trade? The reason for buying and holding the position change dramatically. Buying the position was based upon what the indicators illustrated. Once the price met the objective and was not executed as planned, a new reason for holding the position came in to play. This was induced by emotions.

WBMD sell

Finally the price moves back to where we bought it or even below. The trade is now closed at a breakeven or even a loss. This is not an uncommon scenario. Unfortunately, it is the human flaw that creates a situation. When everything was going just as planned, the human mind kicks into another gear. The well thought-out trade was based upon expected results from identifiable indicators. Once a trade was in place, emotions circumvented from the mechanics of the trade to the extraordinary intelligence of the trader. The market does not care what each individual investor hopes for. The market is going to move in the manner that it always has moved.

What is the lesson that should be learned from this situation? (And this is a situation that everybody has experienced or is going to experience.) The euphoric chemicals that get shot into the brain when a correct trade occurs just as planned puts the emphasis on what we, the trader, deserve. Always stick with your plan. The purpose of investing is to maximize your returns for your account, not to maximize your returns on every single trade. The successful investor need to establish a mindset that keeps profits in the account. Trading and investing needs to be considered the same as a successful business. Your paycheck is based upon pulling profits from the markets. Part of that process is being mentally disciplined.

Resolving emotional decisions

Holding the position after that point was based upon emotional decision-making. The ego got involved. How do you resolve this type of investment mistake? Go back to the basics. Ask yourself, "What is this chart telling me to do?" This one simple procedure will immediately resolve many investment Fupaws. This question will also move you out of an emotional dilemma and back into rational evaluations. Asking the very simple question, "What would I suggest somebody else do with their position based upon what the chart/signals are telling me right now?" That one basic analysis will bring you back to what you should be doing versus what you hope will happen.

There will be times when we do not take profits fast enough. That is going to happen to everybody at some point in time. The question that one should ask themself is not based upon what should have been done, but what should be done right now. Everybody would like to think as themselves being perfect investors. Once you realize that you are not, using the candlestick charts allows for much better investment decisions. Having a trading program that is well proven, such as candlestick analysis, allows for a much better self analysis and assessment. It allows for entry and exit strategies that are going to be correct a majority of the time. This takes out a degree of emotions when deciding when to buy and when to sell.

Develop the best strategies for you

Many people have problems! We have often heard that until one admits they have a problem, they will not be able to solve it. This philosophy usually comes from problems such as alcoholism or drug addiction. The same rationalization can be applied to investing. But it does not have to be a heavy realization! Most people realize they have a problem when it comes to investing, otherwise they would not be constantly searching for something that makes investing easy for them. If you have found yourself asking the same rhetorical questions over and over, such as “Why did I continue to hold this position so long?” Or “Why didn't I buy this position when I saw the buy signals?” If you find yourself yelling grave obscenities at yourself for constantly doing the same things that are reducing your profits, take time to analyze why that is happening. Ask yourself, “Why can't I take profits?” These self analytical questions are not going to be devastating. Besides, you're asking yourself, who else is going to know? If you understand that you have a problem taking profits, finding the solution becomes that much easier.

Make a special section in your journal dedicated strictly to improving your trading. Write down, ‘Why can't I take profits?” Then start analyzing what keeps you from selling positions at the appropriate time. You may discover you have the fear that once you sell, the price will skyrocket. You may discover that you have fantasized the price going to a particular level. This level may have been derived by the profits it would produce. That profit number may have been the amount you needed for buying a new car or getting enough funds to join a country club, etc. Analyzing why you were waiting for a specific price level should have illustrated the fact that what you wanted to happen had nothing to do with what the market was actually doing.

Assessing the reason for your lack of success in selling at the right time will help pinpoint what to do to alleviate that problem. The solution may be to take profits in increments. The Japanese rice traders say “sell the fourth bag of rice after the reversal has occurred.” This translates into one should be selling the position as it is approaching a sell signal and confirmation.

Develop strategies for yourself

Developing a plan for liquidating a position reduces the emotions for executing the sale. This should be done when the position is established, both for the immediate close of a bad trade or based upon the estimated target area. Applying a strategy for exiting a trade inherently adds more diligence to studying the indicators that have worked in the past. Different strategies base for the reduction of emotional decisions at different areas of a trend. A candlestick sell signal, appearing after profits have been made in a trade, but not in the overbought condition might warrant one quarter of the position to be closed. The balance of the trade would be closed if the signal confirmed the next day.

Plan on selling half a position when it reaches the first target area as a possible sell signal occurs. The other half would be sold upon confirmation of the signal.

If the price moves an inordinately large percentage in one day, take off X. percent of the position. The X percent would be a value that is significantly greater than the normal trading range of what ever that trading entity is. Keep in mind, most investors have been indoctrinated to the fact the stock market can produce a 10% return in a good year in the markets. If a stock price moves 10% in one day, what is the normal reaction? Some people are going to take profits. Put some of those profits in your account. Develop a trading strategy that does not leave you in a position of regretting doing something or not doing something. A 10% stock move in one of your stock positions may warrant taking half the position off. Mentally we can rationalize that we took some profits that were larger than expected in one day. If the price goes higher, we still have the other half of the position making money. If the price goes lower, we can close out the remaining half position, rationalizing that we got most of the profits from that move.

A trading method allows for the identification of high probability situations. A trading plan applied to that trading method establishes rules that should work a high percentage of the time. Combining these two aspects of investing greatly reduces the 'shooting from the hip' emotional reactions.

Chapter 10

Maintain a Journal

What is the self inside us, the silent observer, severe and speechless critic, who can terrorize us and urge us on to futile activity, and in the end, judges still more severely for the errors into which his own reproaches drove us? T. S . Eliot

The mind is a very fickle mechanism. Nature has a way for the mind to eventually erase bad situations and remember the good situations. This is especially true when it comes to the pain and exhilaration of day-to-day investing. Most investors do not remember what they did in the markets two days ago, whether good or bad. They are usually concentrating on what is going to occur today. Even if they wanted to remember what they did two days ago, most investors would have great difficulty. The reason is very simple. Each day and each trade consists of the market actions specific to that day. It has nothing to do with what is currently occurring in today's trading. After hundreds and thousands of trades, one will not be distinguishable from the next.

The problem with not being able to recall what occurred on good days of trading or bad days of trading is the likely reoccurrence of the same behavior. Our trading results were based upon what we normally do. Having a journal next to our trading screen becomes an important tool. The mind has a tendency to downplay the bad trade decision-making. Every time we make a bad trade, our immediate thought is "I am not going to do that again". We think that because we know that we are smarter than that. The problem involves normal human emotions. The reason the bad trade occurred was based upon the influences derived from emotional thinking. For example, that may have resulted from executing a trade and it immediately moved against us. The correct trade procedure may have been to close out the position immediately. However, our mental thought process was, " I just put on this trade, it should work." The pattern set-up was observed. The stochastics were in the right place. The signal presented itself. Everything indicated the trade would work.

After the trade is finally closed, for a much greater loss than it should have been, an investor might sit there for a minute or two recovering from the blow to the ego as well as the account value. The investor might go as far as analyzing what they did wrong in that trade. The analysis may have been as simple as realizing that once the trade was executed and the price did not move in a manner expected, it should have been closed out immediately. Realistically, the thought process is dramatically different when analyzing what should have been done without the pressure of an open trade versus being involved in a trade as it is occurring.

The purpose for maintaining a journal is to immediately write down what you are thinking. What were you feeling as a bad trade or a good trade was progressing? Writing it down provides much better clarity. In print, it is much easier to remember what occurred right at that time. (This is somewhat along the same lines as trying to remember a dream. If you do not write down what you have just dreamt after waking up, the memory will be lost very quickly.) Having written down those thoughts allows an investor to come back and reinforce their memory of what was occurring in their mind at that specific time and circumstances. This is not necessarily going to immediately correct your thinking the next time the same situation occurs. However, the next time you do the same thing, which you will, writing it down again further reinforces your self discipline to incorporate the correct trading strategy for the next time. When you start reading back through your journal, you will probably find the same analysis of what you did wrong in more than one place. The mind then can take a much stronger account for being prepared the next time that same situation occurs.

If you have found you have written entries such as, ‘When I opened the trade, it immediately moved back down through the open price of the previous candle. I should have closed the position immediately at that point.’ It will start to sink in. Seeing that same entry four or five times will now make it much more evident when that situation occurs, mentally you have a problem immediately closing the trade. Good investing is usually developed through experience. The length of time that it takes for experience to produce good results is a direct function of how long an investor requires to change their habits. Without writing down what you did right or what you did bad greatly lengthens your mental education process. Writing down what you are thinking each time a particular bad trade situation occurs allows for much better analysis of what you need to do to change your thinking.

Having a journal speeds up the education process. A quick study may learn to not do the same bad habit after three or four times. The average investor, that is trying to improve themselves, may take five or six times of experiencing a situation. But this will dramatically reduce the number of times an investor may do the same mistake if they didn't write it down. Maybe after 12 or 15 times it will finally sink in. That is, if an investor has the patience and the assets to go through an extensive learning curve.

Happy are they that hear their distractions and can put them to mending -- Shakespeare

The same process will quicken a positive trading experience. As mentioned before, the mind has a much better tendency to remember the good things. But the faster that reinforcement can be put into place, the faster profits can be brought into the account. For example, witnessing a Fry Pan Bottom pattern set-up on a 10 minute chart, producing a strong price move as it breaks out, will obviously be remembered with much better clarity. Write down what you were viewing and what your thought process was at the time. The additional reinforcement of recognizing a potential positive trade and participating in it creates better preparation for the next time the same set-up is occurring. You will develop more confidence in participating in that position. Last time you may have bought two contracts of December soybeans. The next time you see the pattern setting up may be in the US dollar. Establishing 4 contracts might now be in your comfort zone.

Reading back through a journal, where you have made honest assessments of why you created a loss or created a gain, will greatly enlighten you as to what you have been doing wrong and what you have been doing right. It will reveal some things that you may not want to know. For example, you are the type of investor that likes to trade commodities. You like to have some positions established for swing trades and also you like to day trade. However, as you read through your journal, you see that you are obviously losing money on your daytrading but you are making money with your swing trades. Although you love to day trade, reality may be telling you that you are not good at it. Without a written self-analysis each day, that realization may not have occurred for weeks, months, or years down the road and after a very expensive education process.

The end of the week is a good time to go back and review what occurred during that week. Whether there were the gains or losses in the account, an analysis should be made. When there are gains made, the tendency is to pat ourselves on the back. Because we made money, the necessity of analysis does not seem to be as pressing. However, in all likelihood, the gains could have been better. The question should be "What did I do that made the good trades good and the bad trades bad?" If the account was positive $2000 for the week, self-analysis is usually sloughed off. We made the trades as the program indicated. We took profits on some winning trades. We cut some losses on losing trades. The inclination is to not look too deeply into what occurred during the winning week. Our minds tell us there is no need to. We did things as they were supposed to be done.

How Do I Improve my Results?

The truly serious investor will look at all the transactions that occurred during the week. If the account was up $4000 at one point during the week and only $2000 was retained, there is obviously some analysis that needs to be done. How could the trading have been improved to retain more of the gains? Some weeks might have had a scenario where the account was up $2500 at some time during the week and ended up being positive $2000 at the end of the week. It should not be expected that every last dollar of a gain is going to be captured. But the process of analyzing what might have been done to improve the trading has side benefits.

Reviewing the price movements and the thoughts related to those movements will quickly hone profitable trading practices. It will constantly reinforce the trading rules associated with your trading program.

Example -- the week of November 7, 2008 produced a $1900 loss. Reading back through the daily notes will provide insights as to why those losses occurred. After analyzing the charts, the written observations may look like this:

A. ***Should have covered Lean Hogs short position as soon as it confirmed the Piercing signal when stochastics were in the oversold condition. It was also illustrating the same oscillating pattern as the past few months.***

Dec Lean Hog

Waiting until Lean Hogs, opened positive the next day after it closed above the T. line cost the account another $300. The same type of wave action had occurred the last few times the stochastics were in the oversold condition and showing bullish signals. Closing this position on the close of prior day would've saved $300 for the account.

B. ***Live cattle trade had been closed the prior day, taking good profits. It was closed out on the open. Then the price proceeded to pull back and test the T. line. Friday, November 7, it gapped back up and proceeded to show strength. The position was rebought, anticipating a day of profit-taking had occurred, then the uptrend resuming. Should have put a stop at the previous day's close. If in a bullish uptrend, the price should not come back down to that level.***

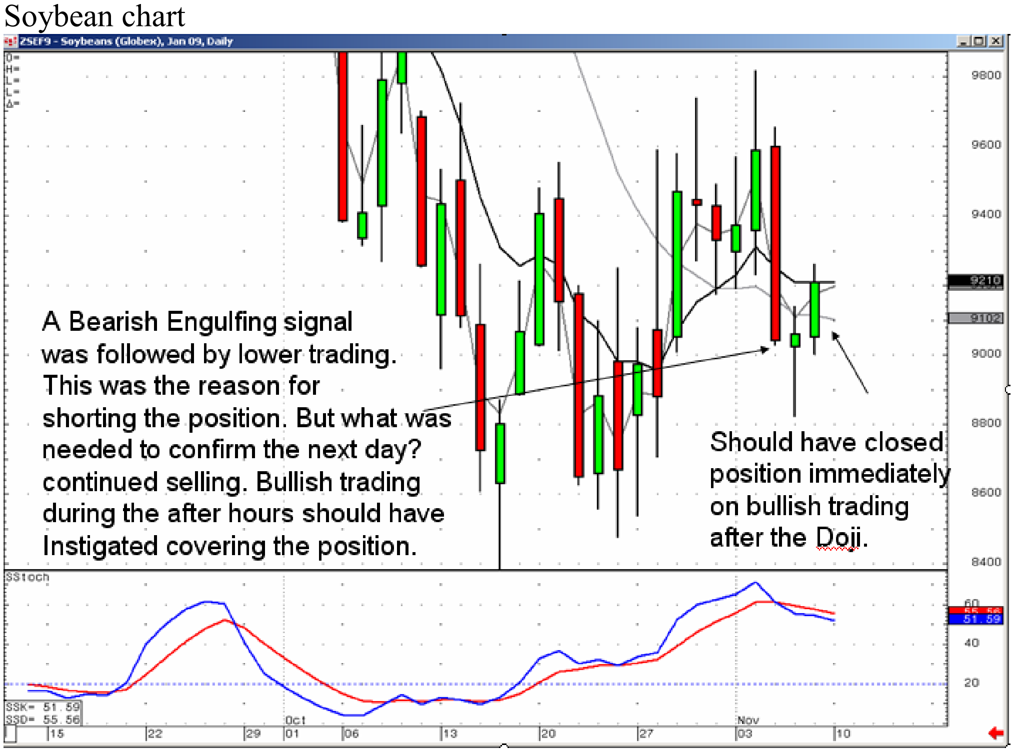
Live cattle re-entry

The difference of stopping out at the previous day's close versus the close of the day turned a $350 loss into a $900 loss. The $350 loss was the calculated loss for this trade. The additional $550 was due to not having the stop loss in place.

Stop losses are a very important part of trading. Writing down the fact that you did not place a stop loss at the proper level will reinforce that simple mechanical process the next time you put on a trade. In this case, it was not put on because we "thought" the price was going higher based upon a positive open after testing the T. line the previous day. This lesson once again revealed the fact that the markets are going to move in the direction that they are going to move, not the direction one thinks it's going to. That is why placing a stop at a level where it should not come back to should be a very simple mechanical process.

C. ***Should have closed out January soybeans when it showed positive trading after the Doji. Most of that higher trading was done after hours, in the evening session. This was not given as much relevance as the trading during daytime hours. Unfortunately, once again realized the trading during any time frame is based upon accumulative investment knowledge by both the buyers and sellers.***

Soybean chart



This analysis points out a definite lack of discipline. The reason for knowing the rules of candlestick signals is to take advantage of what has occurred millions of times over the past four centuries. What was the anticipation of this trade? Bearish Engulfing signal, closing down below the T. line revealed a downtrend was in progress. Observing a bullish trading following the Doji should have negated the immediate downtrend possibility. Continuing to hold that position until it closed right at the T. line involved "hoping" the Bearish Engulfing signal was still the signal controlling the trend. The bullish trading after the Doji should have alerted otherwise.

No great improvements in the lot of mankind are possible until a great change takes place in the fundamental constitution in our modes of thought -- John Stuart Mill

Writing your own self-analysis dramatically reinforces the reasons for observing the rules of the trading program. In this case, a trader should have gleaned some simple observations. Close out positions immediately when the signals and indicators start going against you. Additionally, it was illustrated to place stops at levels that obviously revealed the trend was going against you. Reentering a trade, after the initial profits had been made, means the new trade is being placed when stochastics indicate already overbought conditions. The risk in this trade is much greater. Stop losses are even more important in these situations.

Identifying the situations and thought processes that lost money for you during a specific time frame, whether on a daily basis or intraday day basis, and then a review at the end of the week, will make you better prepared for the next round of trades. This is a much better situation than making trades, making gains or losses, and then not fully analyze why they occurred. The sting of a losing day or losing week or losing months is somewhat nullified when understanding what you did wrong and how to correct it.
Keep a journal. If you are sincerely interested in making money in the markets, you have to know your own flaws and talents. Most investors do not develop a system for learning what are their strong points and their weak points. That is why they consistently lose money. Document what you do well and what you do poorly. This self evaluation process will become a very valuable tool if you listen to what you are actually doing and experiencing.

Chapter 11

Enjoy your Investing

A man can scarcely be said to have made a fortune if he does not know how to enjoy it – Luc de Clapiers de Vauvenargues

There are many reasons for investing your own account. It might be that you've gotten to the age where you realize you need much better returns than what you've been getting if you want to retire comfortably. Or you may have realized the so-called professional advisors don't produce any better results than you could. Or you just out and out really enjoy investing. Investing is just like any other activity in life. If you don't enjoy investing, the grind of having to constantly do it may not produce the results you are hoping for.

If you find yourself waking up every morning, dreading having to go to your job, logic dictates that you probably should be looking for another job. Your lack of enthusiasm will probably reveal itself to those working with you, decreasing the opportunity to advance. If you dread having to drive the car you're driving because sometimes it doesn't start or it doesn't steer correctly or it is making unwanted noises,you have a couple of options to relieve that dread. Either fix the problems or get another car.

Investing should be an enjoyable endeavor. For the person that really enjoys investing, there are additional beneficial ramifications other than improving your returns. Investing means you are putting your mental capabilities up against millions of people throughout the world. There is the challenge of developing a strategy/trading program. Being able to take profits from the market means you have created a smarter system than many other people. Making profits is exhilarating. It confirms that our mental prowess is better than the opposing side participants of your trades. The exhilaration of taking profits from the market gives us the feeling of empowerment.

The emotional impact of investing is tremendously diverse. Losing money has multiple negative ramifications. Not only does it diminish our assets, it creates a very negative point of view of our self-worth. The experience of losing money is so mentally severe that most people do not want to partake in it. They would rather have other people invest their funds so they don't have to contend with the mental results of losing money.
The persons that have that great desire to invest their own funds usually have a personality trait of wanting to get ahead. They will spend the time and effort to find the trading program that allows them to increase their wealth. The result of producing winning trades becomes a passion. The exhilaration of consistently making money is the result of having more winning trades than losing trades. The account is profitable. Their mental state now has an extremely positive outlook on life. The exhilaration of winning trades is amplified by knowing what the pain of losing trades feel like.
Candlestick analysis becomes the focal point for profitable trading. It was developed based upon Japanese rice traders learning what was producing profits and what was producing losses. The cultivation process has now passed on a common sense analytical tool that we can use today. This is the first step towards enjoying profiting from the markets. Candlestick signals and patterns reveal the high probability situations. Taking advantage of that information will be an enjoyable process.

If all the elements of candlestick analysis can be assumed to be true, an investor can develop their own investment strategy that greatly reduces the emotional trauma of being exposed to market conditions. Each signal and pattern has been identified as producing high probability correct trade situations. They also clearly reveal when those situations are not working. This is the true format for cutting losses short and letting profits run. Once an investor has developed the discipline for using candlestick signals properly, it becomes a very enjoyable trading process with very little anxiety.

Anxiety -- let it work for you

When should you feel anxious when investing? The correct answer is that you should never feel anxious. Many investors will say this is not possible. We do not know what the market is going to do. We do not know what the government is planning to do. We don't know when or if Iran is going to cut off crude oil supply. There are many answers for why somebody could feel anxious when they have investment funds exposed. However, what do candlestick signals reveal? If you go back to the most basic explanation of the formation of candlestick's, it will resolve anxiety. ***Candlestick signals are the accumulative knowledge of everybody that is buying and selling a particular entity during a particular time period.*** If you read this statement closely, it has a profound common sense element that relieves the stress of feeling there are questions that need answers. Candlestick analysis provides an extremely accurate assessment program for which way the general stock market indexes are moving. The same is true for bond prices, crude oil prices, gold prices, or any other investment entity. All these trading entities have outside influences. Their price movement is predicated upon the accumulative knowledge of everybody buying or selling those entities. The smart money/knowledgeable money has done their homework. They are making their decisions based upon what they have found. If crude oil prices are moving lower, then many big-money players have done their evaluation that in current market conditions there is nothing that is causing crude oil prices to move higher.

Will there be surprises? Definitely, but that is why they are called surprises. The majority of the time, prices move based upon the information available for everybody to assess. That allows for extremely high degree of accuracy for projecting which direction prices are moving. With candlestick analysis as a primary tool for projecting trend directions, an investor should have relatively good peace of mind that they are on the right side of the market. This means waking up in the morning feeling anxious about positions becomes an alert. It should illustrate that you may be on the wrong side of a price trend. If it can be assumed that candlestick signals demonstrate with a high degree of accuracy which direction a price should be moving and you feel anxious, that should imply you were in the wrong positioning. Close-out the positions that are bothering you immediately.

If everything is in place with your trading program, there should not be any anxiety in your mind. The purpose of understanding a trading program thoroughly is for having complete control of the mental and execution facets of investing. This implies one has become very comfortable with the assumptions made by their trading technique. If this is true, then the only time a feeling of anxiety should exist is when everything is not in accordance with the trading program. Anxiety presents itself at three basic levels. Each individual trade, market conditions in general, and your trading program results.

Individual trades

Size of position too large

As described in the “Trading Comfort” chapter, any time you are feeling anxiety, something is wrong with your normal trading implementation. It may be you have too big a position working somewhere. If your normal commodity trade is a $5000 position or your normal stock trade is $10,000 per position, our comfort zone tells us to stay reasonably close to those levels. If for some reason you have established a trade that is almost double those amounts, what occurs in your mental processes? You start paying much more attention to that trade. That creates a couple flaws in the trading program.

First, you may start overreacting to little price movements. The normal small negative price move, one that you would not react to with a normal sized position, may now have you closing the trade too quickly with a loss versus letting the chart take its course. On the other side, a small profitable move may induce taking profits too early based upon the dollar amount versus what the chart is telling.

Secondly, because one position is now creating some anxiety because of its size, there is a tendency to neglect the other positions. Their size now being smaller than this one position, their importance becomes less. When you find you are feeling anxious about the amount of money exposed to one position, do the correct mechanical thing. Closeout enough of the position to bring it back to your comfort level. Why spend anxiety energy on something that you can readily resolve?

Size of positioning too small

If you are feeling anxiety because you are not making enough profits when you do trade correctly, that should be telling you that you have positions that are too small for your potential comfort area. That should be an alert that you may have reduced your positioning size too much. After a few losing trades in a row, the fear factor steps in. It may be decided to cut the position sizes to half of what they were. This can work is a detriment to your mental state. The profits that should be made based upon the probabilities of what the signals are telling you are now being diminished. Adjust your position size back up closer to your original size.

Positioned in the wrong direction

If a position is causing anxiety because you are now not sure whether you should be holding it, that is telling you something. The signals may not be confirming the direction you anticipated. The price move is now negating a buy signal and you have disregarded it. You might have ignored one of the simple rules of your trading program. The anxiety is being produced because you are "hoping" things move back in your direction.

Relieving this anxiety involves one simple procedure. Look at that chart with a completely objective point of view. Tell yourself that you do not have an open position as you look at the chart. Ask yourself what you would do with what the chart was telling you right now. If you can honestly say," I would not be in this position." Then close it out immediately. The anxiety that this one position may be causing is taking time and energy away from properly assessing the other trades you have on.

Better to do a good job of enjoying leisure than a poor job at work -- Japanese proverb

Market direction

When you wake up in the morning and feel anxious about whether you were going to make money or not today, you need to do an immediate evaluation of your total portfolio positioning. If last night or the last couple of nights you have analyzed that the market in general is starting to turn back down and you are holding mostly long positions, that anxiety tells you to take action. Many investors freeze up when they have to make decisive decisions. Candlestick analysis applies visual interpretation of what is going on in general investor sentiment. That can be done by analyzing the market indexes.

If individual stock charts are appearing to be confirming what the market indexes are revealing, the market is starting to turn down, take immediate action.

New long positions that may have been recently established had great prospects but are now showing possible weakness. There is nothing wrong with closing out positions that do not feel comfortable anymore. The anxiety level that you felt should be an indicator that you might not want to be so heavily positioned in one direction under the current market conditions.

There are times to be heavily long. There are times to be heavily short. There are times when long positions and short positions should be about the same. If you are not feeling comfortable with your existing portfolio weight in one direction or the other, a quick analysis of candlestick charts will reveal which positions to close. This now brings exposure to the markets back into a comfortable range. The relief from anxiety will make it much easier to correctly analyze what to do from this point.

Your trading program

If you wake up in the morning and you are not looking forward to investing that day, then you have to take a look at your trading program. The anxiety that is surfacing about investing in general is a strong warning factor. If your trading program is working correctly, you should enjoy investing every day. Candlestick analysis provides the opportunity to be in positions with a high degree of profit potential. When a trading program is implemented correctly, each day should be looked forward to with great anticipation. Candlestick signals make it so the probabilities of being in a correct trade at the correct time is greatly in your favor.

This should make in investor excited about what will happen when the market opens. An investor with 10 stock positions in their portfolio should anticipate a profitable day. They may not know which or how many positions will be profitable on any given day but the concept should be at least the majority should be positive and the net result produces a profit. The commodity trader or Forex trader should be anticipating price moves in the direction that they are expecting based upon candlestick signals. That produces a positive anticipation of the markets opening.

If you're investing is not enjoyable, probably indicating you are not making profits in the recent past, analyze the trading program. The trading program was established because of its historic record for producing profits. If you are not profiting from it now, see what has changed in your analysis or what confirming indicators need to be tweaked or added. The benefit of today's technology is the availability of hundreds of computer generated analytical tools.

Sometimes the market will be choppy, producing a trading environment that does not allow for profits to be made. That occurred during the summer of 2008. With the development of a Dumpling Top pattern, the indecisive trading nature of the market made it so neither long or short positions could produce any reasonably profitable trades. Not being able to make money during this time frame was not an individual's problem. It was everybody's problem.

DOW Dumpling Top Summer of 2008

When not to be investing

There will be times when the candlestick signals indicate the market is not producing an environment that is conducive for making profits. The value of this assessment comes from identifying the fact that one might not want to be exposed to these market conditions. There will be investors that try to squeeze profits out of any market conditions. However, the use of candlestick analysis can reveal periods when it is not worth the time and effort to try to force profits. Do not let that be a drag on your emotional status. There is a difference between a choppy market and an un-tradable market. A choppy market can swing between a top of a trend channel and the bottom of a trend channel. The signals will reveal what is occurring at those levels.

The un-tradable market does not have definable tops and bottoms to a channel. It merely moves from one direction to another without any indication. These market conditions can be extremely frustrating. It can whipsaw an investor's account down to nothing if they are not aware of the market conditions. Most of the time, candlestick analysis will allow investors to take profits out of the markets, no matter whether the direction is up, down, or sideways. There are rare occasions when candlestick analysis reveals a lack of direction in the markets. This is just as valuable information as being able to identify trend direction. Having the insights, for identifying when to be or not to be in the market will dramatically reduce emotional anxiety. Not being able to produce profits can easily be market conditions. Your frustration level will be dramatically reduced when sitting out of a market that has a low degree of profit potential.

Death is more common than life, everybody dies but not everybody really lives. Chinese proverb

Many investors that truly love investing have to be in the market all the time. If they are not, they feel like they will be missing out on opportunities. Investing is just like any other activity. Too much for too long can start dulling the senses. There are times when it is better to take a break and come back refreshed. When it can be analyzed the markets are not conducive to be trading, use that time as your opportunity to take a break. There is absolutely nothing wrong with getting away from the trading screen for a week or two. This allows the mind to clear itself up. If the non-trending conditions remain when you come back, it will be easy to see. This fresh outlook can be used to visualize any potential patterns developing.

Dow Oct/Nov 2008

However, if you find you're not making money when the market trends are reasonably identifiable, check your confirming indicators. Sometimes you may have to move to shorter moving averages for confirmation. Sometimes you have to change the duration of your holding period.

DOW –easy trend identification

Find the parameter that you need to get a better view that a trade is confirming correctly. For example, short-term traders may use the combination of a candlestick buy signal in the oversold condition AND the price closes above 8 exponential moving average. This is one of the simple parameters used on the Candlestick Forum site. If market conditions do not make this a working scenario, add something to it to provide additional confirmation. That may be as simple as adding the 2 exponential moving average having to cross up through the 8 exponential moving average. This little tweaking may keep you out of some whipsaw trades during choppy market conditions.

Adding 2 EMA crossing the 8 EMA

Not enjoying trading -- alert!

It has to be assumed the reason most investors take it upon themselves to invest their own funds is because they enjoy that activity. Your enthusiasm was probably enhanced by discovering a trading platform that was making money for you. That is what made trading fun. Logic dictates that if a trading platform was consistently losing money, that did not create enjoyment. If that was the reason you initially started your trading, and it is not working now, something has changed. Take the time to analyze whether you are trading has changed or something in the market has changed. Once you have discovered what is causing the lack of profitable trades, the possibility of turning things around becomes that much stronger. When things were working correctly, you were enjoying what you are doing. Do not be afraid to explain your situation to invest with a friend or partner. They may be able to find the change much faster than yourself. Sometimes a fresh pair of eyes can see better what alterations occurred in your trading style.

If nothing gets you excited about trading anymore, it may be time to move onto something else. Investing/trading is like any other career activity. After a number of years, one may want to find something else to do. There may not be anything that will get you back to enjoying trading. But for those investors that have a great passion for investing but are now dreading getting up each morning and waiting for the market to open, find the elements that will put your investing back on track. That is the best way to get back to what you really enjoy doing.

Let anxiety work as a good thing for you. Once you have discovered your successful trading platform, any anxiety feelings should become a warning that something has moved out of the comfort area. Just as a successful investor needs to control their emotions, they should also recognize that some emotions can be used to their benefit. If something is causing anxiety, define it and correct it as soon as possible.

Chapter 12

Trading comfort

A moderate addiction to money may not always be hurtful, but when taking in excess it is nearly always bad for the health -- Clarence Day

One of the most important elements to successful trading is an investor's comfort level. Successful investing is difficult enough without also being in an uncomfortable situation. Being uncomfortable about a particular facet of one's investing program merely adds that much more pressure. Each investor needs to find their own comfort level. This includes the amount of time they can spend each day or week with their trading program. The account size, position size, the actual physical trading room environment, and most importantly, how much you actually enjoy investing. Any one of these elements getting out of whack can cause a flawed investment perspective.

If the opposing pitcher is in a groove, mowing down one batter after another, what does the next batter do? He steps out of the box, cleans his cleats, stretches a bit, takes an extra long time looking down to his third-base coach looking for a sign. What is he really doing? Throwing the pitcher off his rhythm! This is what occurs when an investor gets out of their comfort zone. They now have another facet to think about, diminishing their concentration on what they know works well for them. This is where having a journal can reveal things that took you out of your comfort zone. It may be as simple as having trouble keeping the cat from sleeping on the keyboard to figuring out where to put your mother-in-law when she moves into the house.

Time

Time is a very important parameter for having a good comfort level with your trading strategy. Obviously, if you think you want to day trade but you're working at your job eight hours a day, you do not have the correct trading program for the time you can allot. If you are day trading but have activities scheduled during the day, you need to establish a trading time that fits your schedule. That might involve only trading three hours in the morning and closing the positions out during that time. Some investors may only have 45 minutes to an hour to allocate to their investment program each day. This may lead to a swing trading program where positions are put on or taken off every few days.

Sitting at the screen for eight hours each day may be too tiring for some investors. They will need to discover what is the best time to be trading. That may be the first two hours when the market they are trading opens and the final hour of the day. Each investor needs to research what is the best trading system for the time they can allocate to their investing program.

One candlestick student complained that he was making good money during the first hour and a half and the last hour of the trading day. But he was constantly losing most of what he gained during the middle part of the day. The advice to him was very simple. Don't trade during the middle part of the day. This may seem like the story of the patient complaining to his doctor that his arm hurt when he raised it up above his head. The doctor said, " Don't raise your arm above your head."

There can be different trading environments and expectations during different times of the day. Most trading activity occurs during the early part of the trading day. The middle part of the day is usually more quiet. Volatility usually decreases. The final hour exhibits more activity. If expectations have been developed based upon the activities of the first and last hour of each day, and those expectations are being traded successfully, the middle part of the day may produce different results. Price moves may be less volatile. Trading volume may greatly diminish during the middle part of the day. If good profits are made during the first hour, what do most investors expect? The same performance for the rest of the day! The trading strategy that made good money for the account during the first hour may not function at all for the next few hours.

Money is time. With money I buy for cheerful use of the hours which otherwise would not be in any sense be mine, nay, which would make me their miserable bondsman - George Gissing

Trading ranges may be smaller. Trying to get into and out of positions with less volume may be more difficult. With less price movement, there may be more whipsaw action. If you discover you are giving back a good portion of your profits during specific times of the day, there are two methods to resolve the problem. First, do a self analysis of what is occurring in your trading program during the specific hours. Should you be trading more often but expecting smaller gains? Should you be trading less often with closer stops?

Analyze what you are doing or thinking differently during the times you are handing profits back. This is another case where having a journal would identify when and where problems were occurring.

Size of the account

The size of an investor's account has to be comfortable for what they are trading. This is a function of the risk factor incorporated into each trading entity. One investor might be comfortable with $1 million in a bond account while having $200,000 invested in stocks. Another investor may be comfortable with $200,000 in stocks and $30,000 in their Forex trading account. Yet another investor may be comfortable with having $20,000, everything they have for investing, in a commodity trading account.

Each investor needs to find what is the proper account size for each investment area. Somebody that is comfortable with $200,000 in their stock portfolio and $20,000 in their commodity a trading account will have a much different perspective if they decided to have $150,000 in their stock portfolio and $70,000 in the commodity trading account. Having a disproportionate amount of their assets in a much higher risk trading area might skew their trading perceptions. Although the percentage returns might be much greater in the commodity trading area, having too much of total assets in the wrong place can invoke too aggressive trading in one area and too passive trading in another area.

Conversely, having too little money in one trading area can also alter the comfort zone. If somebody is comfortable with trading $20,000 in a commodity trading account or in a Forex trading account, but can only put $10,000 into the account, that can create some uncomfortable conditions also. With a $20,000 account, an investor may have been comfortable with trading four Forex contracts at one time. A $10,000 account would then warrant trading two contracts at a time. However, being accustomed to trading four contract time, trading only two contracts at a time can dramatically change the investment perspective. Making one half the profits while allocating the same amount of time and effort may create boredom. Knowing that less is being exposed on each trade can cause a more lax discipline for cutting losses.

A $10,000 account may not be enough to trade two crude oil contracts where as a $20,000 account could accommodate that trade. Reducing trading activity to one contract can dramatically alter an investor's successful trading practices. For example, with a two contract position there is more flexibility when it is time to take profits. A potential candlestick sell signal may appear after a good profit move. With two contracts, a successful trading program may have been developed by closing one of the positions and holding the second position to see if there is further gains. Being restricted to buying only one contract at a time eliminates that flexibility. When a candlestick sell signal appears, do we sell the position or continue to hold anticipating a possible next leg up? These circumstances illustrate how too little money in a trading account, as well as having too much money in an account, can create uncomfortable trading situations as well as having too much money in an account.

Size of each trade

The size of each trade needs to be comfortable also. Being accustomed to placing two contracts at a time establishes some built-in mental tolerances. Investment experience might have acknowledged that once a trade has been placed in a specific entity, such as buying two contracts of the British pound, there is a likelihood of a certain level of losses while the trade is developing. Losing $300 before moving back up to a positive trade may be in the tolerance level. However, once deciding to move to a four contract level, small price movements have a completely different importance. If prices retrace based upon our normal tolerance level, there is now a $600 loss. Although the percentage move is the same as a two contract position, the perception of what is being done to the over-all account is greatly different. A $600 loss, if not fully mentally prepared, can create a panic reaction.

The larger dollar movement may start causing altercations as to where to set stop losses. Tightening the stop loss parameters may start more stop loss positions to be executed when they should not have been. The size of each trade needs to be established based upon what each individual's mental perception is accustomed to. Moving from a two position to a four position trade may be too drastic. Step up to a three position trade until that comfort level has been established. That might mean a change of investment strategy. Whereas taking half the position off at the first profit target might have been a successful strategy with an even number of positions, now taking two of the three positions off in the initial profit-taking might be feasible. As confidence builds, that can then be moved to one position off a quick profit-taking holding the final two until the whole position should be closed.

It is extraordinary how many emotional storms one may weather in safety if one is ballasted with ever so little gold -- William McFee

If by accident you find yourself in a much bigger position than you anticipated, such as a mistake pushing the buy or sell button, get back to your comfort level as quick as possible. To become a good investor requires consistent analysis of what the indicators are illustrating. It also requires maintaining control over your emotional characteristics. This is difficult to do for most investors. When you all of a sudden throw in a new dynamic, such as realizing you are too heavy in a position, the rational process that usually takes place will now disappear very rapidly. The extra element of fear and greed in uncomfortable conditions will reduce an investor's ability to execute trades correctly.

Commodity trading - Comfort level 'specifics'

Quite often, information conveyed in most books give good solid advice. The information can be applied to a number of different trading situations. Most readers would like additional specifics. The specifics may or may not pertain directly to their account situation, but at least provide more details that may be drawn upon for their own investment situation. The following illustrations will be directed toward commodity trading. The results of investing, especially in a fast moving, high leveraged trading entity such as commodities, will have a major impact on your mood. The mood can remain in effect, not only during the trading day itself, but up until the next trading day, where any restitution for a previous bad trading day can be resolved. This makes the emotional control of how you trade effectively an extremely important element of your trading program. It also is required so that you are not kicking the dog too often.

It is better to have a permanent income than to be fascinating
-- Oscar Wilde

Investing, like many other activities, has a set of do's and don'ts. The results of an investment account are the closest review of our own egos. Of course, we all want to win. Winning trades are the expected. Our minds have already told us we are smarter than the average investor. Winning or positive trading is the confirmation of that thought process. Conversely, losing trades completely goes against what our mental aptitude is telling us. Losing trades imply we are less smart than the rest of the market. Even the most stupid of us don't want to be reminded we are stupid. This creates a completely different arena than most activities. The dynamics of winning or losing trading days becomes a direct reflection on our mental capabilities. We have to produce positive trading results or we will have a lower itself image. This self-image carries into the rest of our living environment. Playing a round of golf, where you shoot six strokes below your handicap, will not carry over into the results of your trading day, making for a positive trading day. However, a good trading day or a bad trading day will probably have a direct correlation in how you play your golf game later that day.

The first thing that needs to be established is your comfort level. The comfort level is 'how often you plan to trade each day and the size of your position.' The first objective in any trading is the preservation of capital. As expressed previously, maintaining your capital level allows an investor to participate in chart patterns in the future that have a high probability of performing successfully. When a trade is not working, the purpose for cutting losses is twofold. First, of course, is to limit the loss, second is to have those funds available to put back into a successful trade.

The size of the trade has to be in line with what is each individual's comfort level. For example, with a trading account of $20,000, one should establish what amount of those funds should be exposed to market risk at any one time. Obviously, with the amount of leverage and volatility involved in commodities, only a small portion should be committed to trades at any one time. A stock portfolio may have a completely different set of parameters. 100% of the funds may be exposed to market conditions. This may include 80% of the portfolio in long positions while 20% are in short positions. This is common sense risk management. In highly leveraged investment vehicles, having the majority of a trading account funds committed to the markets at any one time heightens the possibility of not only reducing the initial investment capital dramatically but also completely wiping out the total equity. This is never expected, but not out of the realm of possibilities. Always keep in mind, candlestick analysis provides a trading format where the 'probabilities' are in your favor. This should clearly imply there are no guarantees to your investment returns. There are always market situations that can create surprises. Crude oil supplies being cut off by Venezuela, mad cow disease, a late snowstorm in the corn belt, many things can occur that could create an adversity in a trading position. Again, the probabilities will be that they don't occur, but risk management of a trading account has to factor for possible surprises. 99.999% of the time trading patterns will represent the normal price movements of a trading entity. Those are the percentages that you want to exploit. That other minor percentage of time is what you want to protect against.

Each investor needs to decide what is their comfortable trading level. That becomes a function of the type of trading each investor wants to participate in. An aggressive trader, that can watch their trades each and every minute of the trading day, may want to have a much larger portion of their equity exposed to the market. Obviously, they will be there each minute placing trades and immediately placing stops to protect capital. Other traders may have trades on during the day, being able to watch them most of the time, but have other activities going on.

Having the ability to watch the trades most of the day can allow for higher number of positions and equity committed to the market. The comfort level for that level of participation is two or three trading positions open at any one time. Depending upon the amount of trading activity during the day, two positions may be established as swing trades, with the anticipated holding time frame of two to five trading days. The third position may be established for a faster daytrading program. The total equity exposed to the market at any one time might be 40%.. What established these parameters? Finding the proper comfort levels! Being able to watch two swing trades positions, while day-trading a third position, was the level of trading that fit the amount of time and concentration that was able to be given to the trading program. This was not developed by any scientific formula. It will come from experience.

An investor that does not have a lot of time to watch the daily trades may be more comfortable with two swing trades open at any one time. Instead of a 40% market exposure, they may be more comfortable with only 20% exposed to the market. Establishing the right mix for each investor is based upon a level where they are not feeling anxious about the positions they have opened.

The amount of equity exposed to the market also is a function of the margin required for each trading entity. These margin requirements are usually established by the trading exchanges. Each brokerage firm has input as far as how tight or loose they want to be for each trading entity. The margin requirement is usually based upon the volatility of the trading entity. For example, if soybeans are trading in a relatively slow and flat trading range, the margin requirements will be fairly small. If the price of soybeans fluctuates by three cents to seven cents each trading day, the margin required for buying or selling one contract of soybeans may be $1400. When activity starts picking up in a trading entity, the exchange and or the brokerage firm may come back and expand the margin requirement. If soybeans, after three months of an average trading range of three cents to five cents each day, starts to show more volatility, the brokerage firms and the exchanges want to make sure an account is not too exposed to higher volatility trading. If the average trading day now has volatility of $.10 to $.17, they may move the margin requirement up to $2000 per contract.

The margin requirements are based upon volatility. Crude oil may have margin requirements of $6,300 per contract while a less volatile trading entity such as oats may only have a margin requirement of $850 per contract. This creates the parameters for the number of contracts for trading entity as well as the total number of contracts open in an account. A $20,000 trading account should not be buying two contracts of crude oil if the total margin required is $12,600. If you have set your comfort level that having only 40% of your equity exposed to the market, obviously only one crude oil contract can be bought or sold at a time. Having four contracts of soybeans open, using $8,000 of your equity and to contracts of another trading entity that may be using another $4500 of your equity puts you in the same position. A total of $12,500, too much money exposed to the market for your comfort level.

Why is staying in your comfort level so important? If you are mentally prepared to be trading based upon the amount of positions that are in your comfort range, you have much better clarity making analytical decisions. Once you step out of of that comfort level, your decision making process now becomes influenced by what/ifs. Always keep in mind, price movement has a severe effect on your mental decision-making process. If a position is too big, your analytical process now gives way to fear and greed. A small pullback in a normal sized position is something you have already experienced and may not feel uncomfortable. A small pullback in a position you know is too big for your comfort level, you start to think of the ramifications if that extra big position started moving against you severely. You start making decisions based on a fear factor.

Summary

Investing requires the analysis that provides favorable probabilities. It also requires mental control that is much more difficult when investment funds are on the line. This takes time and effort to get to the level of proficient trading. Keep your trading circumstances comfortable for you. Any time something new is added to your current system, be mentally prepared. If you have developed a successful trading program and built your account up to a good increase over your initial investment funds, establish the next step up that keeps you mentally comfortable. Add more contracts to each trade or increase the number of positions open at one time. Do it in a process that does not alter your anxiety level.

To know things well, we must know them in detail; but as that is almost endless, our knowledge is always superficial and imperfect. – La Rochefou cauld

Back in my college days, we would play a lot of bridge. We had a wealthy alumni that would often visit the University and stay in the guest room of our fraternity house. He would stand behind us as we were playing. Occasionally, you would hear his little murmurs of admonishment when we would play a card. Of course, we would ask him what we should have done. He would answer by saying something like we should have finessed for the eight of diamonds. Obviously, he was a sophisticated bridge player. He told us he made quite a bit of money playing bridge in New York City.

We asked him if he's ever played Goren. He said yes, Goren was an easy mark. We asked, "How could Goren be an easy mark, he has written books on playing bridge and is supposedly the master." His answer was, "At $50 a point, he would crumble like a house of cards." This is a perfect illustration that even a master will become ineffective once he is out of his comfort zone.

If you find that the new additions make you excessively nervous and you feel you are not trading at your optimal level, reduce back to where you were. Making a profit is the most important element of investing. When you alter that condition, step back and analyze what you were doing previously to produce consistent profits. Structure your trading program in a manner that allows you to enjoy what you are doing

Chapter 13

Trading is a business

Anyone who stops learning is old, whether at twenty or eighty. Anyone who keeps learning stays young. The greatest thing in life is to keep your mind young. Henry Ford

Investing utilizes the same elements required for any other business. Time, energy, and capital! Whether you are trading for a living or for an additional income, processes should be put in place, the same practices and controls as any other established business. Obviously, the basis of investing is to create profits, just as any other business. All the aspects of running a business is also required for successful trading. The office surroundings, the equipment, and risk management, are all aspects for maintaining an environment conducive for good investing practices. Being successful with investing is the same as being successful at your job. You should like where you are going to do your business.

Work environment

Some investors require a quiet, enclosed office area to be able to fully concentrate on trade research and executions. Other investors can trade from a laptop while driving a water ski boat. Each investor needs to find what is their working conditions comfort-zone. If trading out of the house, there might be some concessions as to when you can trade. If you find you do not do your best investing when helping the kids get ready for school or when they get home from school, input that into your trading schedule. Establish what type of investing best fits your locale. Do you require a neat and orderly desk environment to think clearly? Are there things that distract you? These are all environmental aspects that need to be ironed out before you commit heavily to a specific trading program. What conditions do you require to make sure your trading environment comfortable?

If you discover you do not trade as well when there is commotion near your investment locale, establish the best trading strategies that accommodate those conditions. Establish your own rules for what type of trading you would do under specific conditions. If you are much better at daytrading when nobody is around, coordinate that with whatever expected activities may be occurring. A visitor, houseguests, kids come home from school can all change the concentration level. This requires a change of trading strategies. Distractions may cause less time or concentration on the trading screen. If that is anticipated, alter the trading strategy. Holding periods may need to be lengthened and stop losses given a little more latitude. Learn what is your best trading abilities and concentrate on producing profits with those abilities. But like any other business, when conditions may temporarily change, know how to strategize for the best performance under those conditions.

Trading equipment

Your work equipment is extremely important. If you are trying to trade the e-mini's on an extremely fast basis, a dial-up or DSL may not be the best connection. A three-year old computer may not have enough power to smoothly run your trading charts and your execution software. Stepping up to a more costly CPU unit has to be considered a cost of doing 'business'. Having one computer screen may not produce the optimal system for what you would like to do. Flipping back and forth from your charting screen to your execution screen may be cumbersome. If you plan to be in front of your trading screens many hours each day and for many days each month, having large screens may be more conducive. If you are a truck driver, you want your rig to be well-maintained, provide comforts while you're on the road, and have good power controls for making the driving relatively easy. If you are a doctor, you want your offices set up efficiently, well-stocked with the proper equipment and supplies. As an investor, having a strong computer, fast connections, and the correct software programs are a necessity as your business tools.

Financing

The financial aspect of investing relates more to how much money you are going to commit to the trading program. This topic refers back to the "Comfort Level' chapter. Having the correct amount of funds in the trading account is an important aspect for proper mental focus. Is there a enough money in the account to produce the income you require each week/month/year? If you are planning to trade full time, you need to decide how much money can be allocated to the trading account to make enough profits each month to make a living. If you are trading the e-mini's with a $15,000 account, your expectations of profits need to be commensurate with the size of your trading account. If you are quitting a job producing $7000 a month income, more than likely a $15,000 account is not going to provide the same income. It may take a $60,000 account to comfortably produce a $7000 a month income. This is all dependent upon how active and aggressive your trading program will be.

Money-management is involved when deciding how big or small the trading account should be. Many dynamics come into play. Using $60,000 of the families savings or investment funds might put extra stress on living conditions. A spouse may be extremely uncomfortable about putting that much money into a particular area of risk investing. As with any other major decision, if the amount of funds in the trading account is causing additional stress, that is going to affect the mental attitude while investing. It can enhance the fear factor. Trading 'scared' can be a great deterrent for producing profits.

Having too much money in a particular trading area can throw the thought processes out of whack. The same is true with having too little money in a trading fund. If a trader has become proficient at producing consistent profits, such as taking a $20,000 account up to $35,000, although the results are good, the greed factor can also throw the mental process out of whack. The consistent creation of profits through a successful trading program may cause overtrading in the pursuit of dramatically increasing the income. If the trading program has been producing $2000 a week profit, and is being done so at a very good comfort level, a change will usually occur in most investors minds. The question of how to make more money. "If I can make $2000 a week comfortably, now I want to move up to where I can make $4000 a week". Trying to make that move in income with the same amount of investment funds now leads to overtrading or more aggressive executions than what the current trading program has been producing. This now becomes a business decision as to increasing the trading funds in the account. This is nothing more than making the same decision if you are selling widgets. You discover the sales of your widgets have reached a comfortable level. Now you want to double the sales volume. That brings into question the issue of whether investment is required into new equipment and additional labor.

Running your trading as a business may appear to be an auxiliary topic when discussing how to eliminate emotions out of your investing. Actually it is one of the first areas that should be addressed before rushing into an investing program. The proper mental attitude is extremely important when it comes to investment funds, especially our own. Any factors that are going to play on our emotional stability has to be assessed before they become deterrents. If there is discomfort in the basics, that is going to distract from being able to fully concentrate on the trading itself. If where you are trading is not comfortable, too dark, too light, too cold, or too hot, create the right conditions or move to the right conditions. When an investment trade is not working properly, clarity is required to offset the emotional push and pulls. That is hard enough without having external influences bothering you.

The more concise you are running your trading like a business, the more comfortable your mind will be for concentrating on the profit center of that business, implementing profitable trades. When sales are bad, the sales division meets to discuss and analyze why they are bad and how they can be improved. What has changed in the sales approach? What has changed in the market conditions. The same business analysis needs to be applied for analyzing the profitability of your trading. If losing trades are becoming more prevalent, analyze what is reducing profits. Have market conditions changed? Has anything changed in our interpretation of what our trading program is indicating? These constant assessments are required in any successful business venture. It is not any different than trying to refine investment profits.

Chapter 14

Eliminating Emotions Conclusion

An educated person is one who has learned that information almost always turns out to be at best incomplete and very often false, misleading, fictitious, mendacious - just dead wrong.
- Russell Baker

Investing is a very difficult mental process. Most investment success is developed through persistent experience. Unfortunately, the cost of that experience is usually too expensive for most investors. The fundamental investor puts very little credence in the attributes of technical analysis. The vast majority of investors gain their initial experience by following the advice of the so-called professional investment advisors. "Buy the companies that have good fundamentals and good management." It usually takes many years to discover that this is not the criteria for successful investing.

Investor perceptions create patterns in price trends. Candlestick analysis is the basis for recognizing what is occurring in investor perceptions. The Japanese Rice traders concentrated on what investors perceived to be the results of the fundamentals. Recognizing the fact that most investors are not taught how to invest correctly allows the candlestick investor to exploit the mis-education.

It should have been evident throughout this book of one major function that can lead to eliminating emotional decision-making. Education! The more an investor understands how investors think and react, the better they control their own the emotions. The candlestick investor has a few major advantages not found in other trading methods. Investor sentiment can be fairly accurately analyzed through graphic depictions. Understanding the strength or indecisiveness of each signal allows for better evaluation of what is occurring during a price trend. There was one recurring solution for eliminating emotional decision-making. Step back and analyze what the charts are revealing. This is a very viable solution whether using candlestick analysis or any other trading method that has historically proven positive results.

Most investors' experience, for learning how to invest successfully, usually involves a mishmash of trading programs. What was your own experience when you started investing? Did you study a successful trading method for four weeks before stepping in to the markets? Or did you buy a stock that your brother-in-law convinced you was going much higher based upon the 'hot tip' rumor mill? Most of us started investing because we heard about a company that was going to be bought out, get a huge contract, was going to have exclusive selling rights to China, or a multitude of other reasons for buying. Not only did most of these suggestions not pan out, but we found we had bought at the very top of an extended price trend. Establishing the position was based upon the excitement of our greed. The result usually was a large loss. The reason for buying was not based upon any sound investment judgment. The closure of the position usually has no planning.

Most investors start their investment career without a trading plan. This eventually leads to disastrous mental perceptions. The lack of investment trading program eventually leads to the lack of good trading disciplines.

Reactionary practices become the first things established in our minds. These incorrect thought processes now have to be overcome when relearning the correct decision making procedures. It is difficult to learn the correct decision making aspects of investing let alone having to overcome mentally ingrained incorrect thinking. Unfortunately, very few investors end up in circumstances where they are learning how to invest correctly from the beginning.

Unless we were lucky enough to have somebody guide us from the first day they started investing, most investors usually participate in incorrect trading practices. How do most investors start their investment career? They put money into positions they expect to go up. That does not seem like a very difficult process. People become educated when they find out that it is not as simple as that. The next process is to discover what trading programs or techniques work effectively for producing profits. The search process may take years. Even the most successful trading programs don't seem to work for everybody. There is one major reason for that result. Nobody ever advises investors that there are two major attributes for investing successfully. The first element is finding trading programs that have shown consistent results in the past. Unfortunately, this search is worthless without understanding the second major facet of successful investing. Controlling your emotions! Those two facets have to be accompanied with a good execution system. Otherwise, the mental considerations for successful investing get thrown out of skew.

Without any instruction or awareness that a successful investing program requires its implementation incorporated the right emotional state, no investment program is going to work successfully. This is the reason many investors jumped from one program to the next. They are trying to find the program that works for them. However, unless they have been made aware that none of the programs are going to work successfully if they do not have the correct mental controls applied, they will be looking for that ‘golden goose’ for the rest of their lives.

Fear and greed is an integral part of price movements. Prices move based upon emotions much more than they do fundamental results. Why? Because there is no teaching institute that addresses how to counteract emotional investing. Candlestick signals were discovered based upon the reaction of investor sentiment. The signals work just as effectively today as they did 400 years ago. That clearly illustrates that nothing has changed in investor mentality over the past four centuries. Unless there is a massive education program about investment emotions, the same results are going to occur for the next four centuries. There are two basic elements required to take advantage of the flaws in investor thinking.

Candlestick signals were developed by recognizing those flaws. Learning how to use candlestick signals effectively will allow an investor to easily interpret what is occurring in price movements. However, like any other investment trading program, the second major element needs to be mastered. Understanding your own investment weaknesses! This is exactly what is producing the accuracy found in candlestick analysis.

How does one learn to control their own emotions when it comes to investing? If this was a simple process, everybody would be learning how to overcome their weaknesses. Unfortunately, most people do not even know they have to address the problem. When they do poorly investing their own money, they simply blame it on the fact that they don't know how to invest. This leads them to putting their investment funds with somebody that can manage the funds for them. Who are these people? Most money managers don't have any more insights or mental control than the average person on the street. They are managing other people's money because they have ‘some’ experience utilizing a trading program. They also have some experience of controlling the emotions. This usually comes from learning from previous mistakes.

Learning to control your investment emotions requires the same realization as any other problem. Each person has to acknowledge they have a problem. Unlike alcoholism or drug addiction, acknowledging that we have mental flaws when it comes to investing is not a life altering realization. Everybody has these flaws. Lives will not be destroyed if this problem is not addressed. But for the investor that wants to become successful, they have to realize that controlling their own emotions has to be mastered if they want to make money in the markets.

Once an investor understands that profitable investing involves a successful trading program as well as the proper mental attitude to implement that program, the major portion of the battle is won. Maintaining a journal is a powerful corrective measure. For the investor that is sincerely interested in mastering a successful trading program, identifying your own weak spots is a vital process.

Investing is a very difficult mental process. It works contrary to our rational thinking. The human psyche has to be trained just like any other obtainable talent. You can learn what your mind is going to do in specific situations. You may not always be able to immediately control the results of your thinking.

However, being aware of the normal reactions that most people experience allows for a much stronger conscious effort to control our own emotions. This is the most important aspect between successful and unsuccessful investing. There is a vast difference between applying a successful trading program and being profitable. Become aware of what your mental thought processes are. Correct the thought processes that keep you from making good profits. You were a good portion there. Reading this book will start to clarify in your own mind what you need to master.