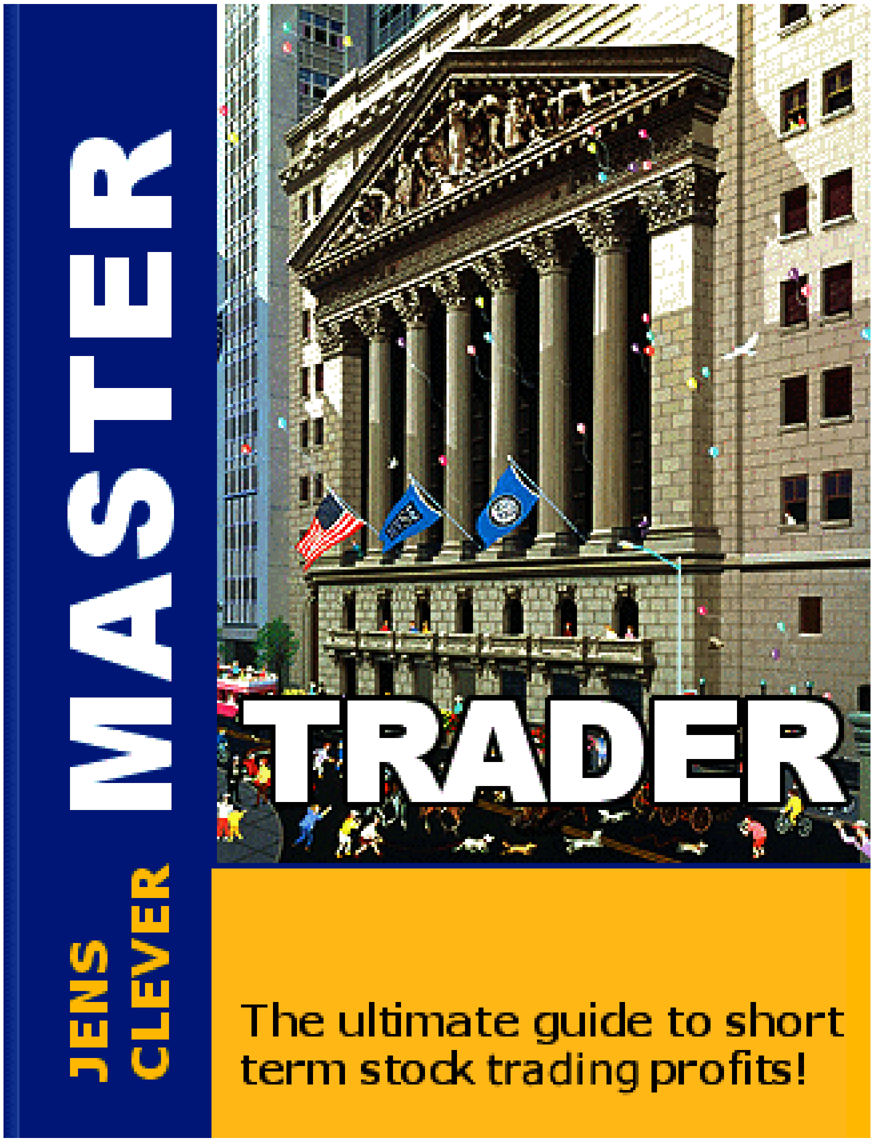

MASTER
TRADER
JENS
CLEVER
The ultimate guide to short
term stock trading profits!

Contents

Introduction:

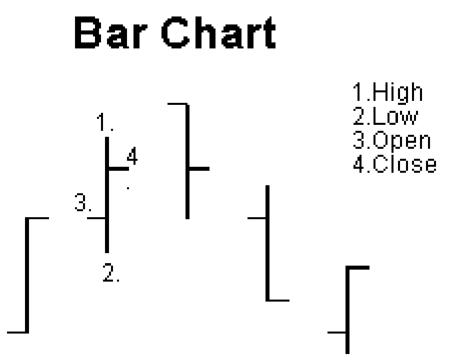
This book is designed to introduce you to the exciting world of active trading. Active trading means to actively participate in everyday price movements of the financial markets. Active trading enables you to actively manage risks and to participate from both rising and falling prices. The trades I am describing in this book can be from as short as a few seconds to as long as a few days. Many of the strategies can be applied to various timeframes. The difference between active traders and investors is that active traders trade the actual price movement versus investors who make their decisions based on the anticipation of future price movements. I tried to make this book as complete as possible. However, you will find as many strategies as traders. As you gain more experience you will realize that most strategies are based on the same basic principles and that there is really no holy grail out there.

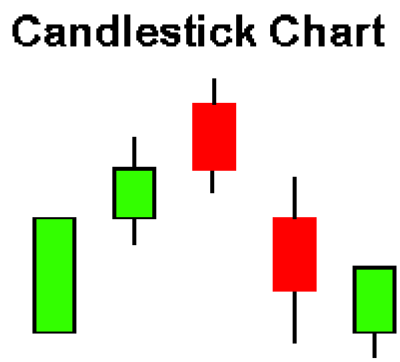
I have been trading and coaching for many years now. The need to be independent certainly was the biggest reason for me to enter the world of trading. In what other job do you have the freedom to work from anywhere in the world where you have access to the Internet? I started with investing but always felt that there has to be more to the stock market. That's when I started watching quotes in real time and realized how big the profit potential must be if I could just cut out a small piece of the everyday movements. There are many obstacles to conquer though in order to get to a consistent success. A solid strategy, a neutral state of mind and rigid risk management are only some of the key traits needed to be successful.

Whether you are planning to trade full time or just part time, this book will give you very valuable insight into the whole business. Even if you are just planning to invest you should read this book and take some of the basics of technical analysis into consideration when making your next decisions.

Types of charts:

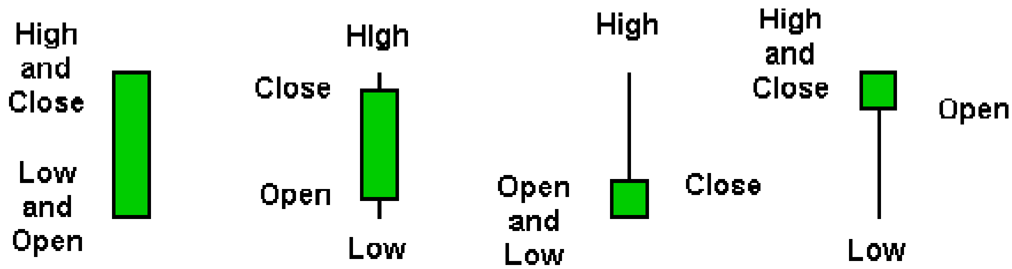
The most common way to display charts is the line chart followed by the bar chart. **In the bar chart the vertical line marks the high and low, the left horizontal line marks the opening price and the right horizontal line marks the closing price**. If you selected a 5 min chart, that means that each bar reflects the price movement of only 5 minutes. In a daily chart each bar/ candle displays one entire days movement.



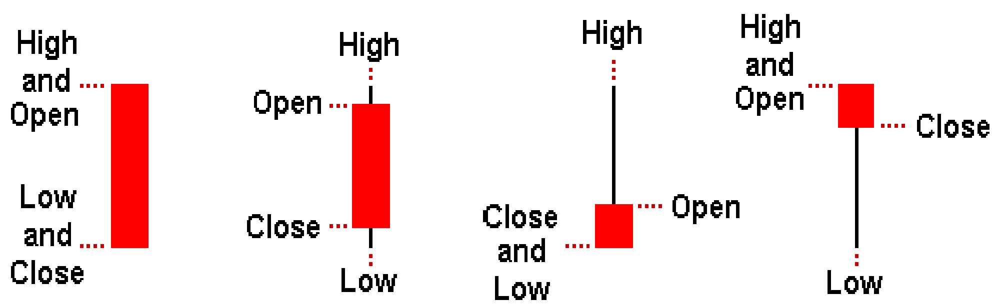


The type of chart used most by active traders is the candlestick chart. This type of chart has been in use for over 100 years and has its origin in Japan. It is also referred to as a Japanese candlestick chart. **The color of the candlestick itself tells us if there was an up - or downtrend** in that particular timeframe and makes reading them very easy. There are also numerous indicator based on the shape of the candlestick itself. I will talk about the most common ones later.

The following candlesticks **are open candlesticks, meaning that their opening price was lower than the closing price and therefore reflect an overall uptrend** in the timeframe you selected. The color used here for an open candlestick is green; sometimes people will use white instead.



If the opening price was higher than the closing price you get a closed candlestick that reflects a downtrend. The colors used are usually black or red.



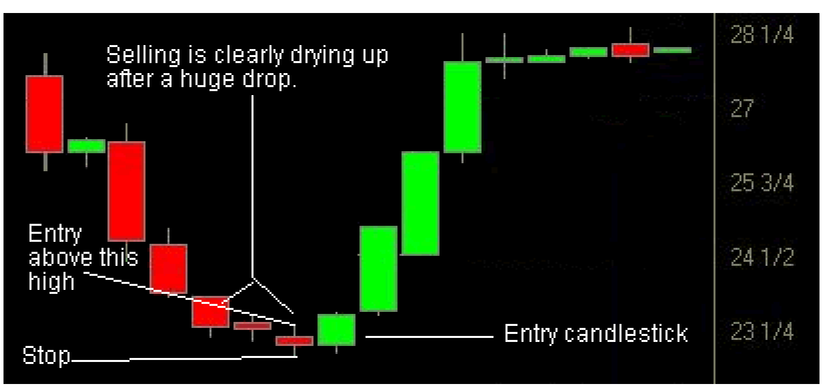
The vertical line on the top of the candlestick is always the high, no matter what color the candlestick has. The line on the bottom always marks the low. These lines are also called shadows (upper/lower) or tail. There might be no shadows at all if the opening price marks the high and the closing price the low or vice versa. **The colored part is always referred to as "the body" of the candlestick.**

The pivot setup:

The pivot setup is a reversal setup that I am looking to trade long (buy). It is taking place on a 15 minute chart. Once in a while I will also trade it based on the daily chart. I am looking for a stock that is in a strong intraday down trend that extends over a few 15 minute candlesticks. After this sell off I will be looking for a consolidation marked by one or more candlesticks with a tight range. Preferably there will be a doji candlestick (see candlestick indicators) forming, which is a reversal indicator itself.

My buy entry criteria is met once the high of the current candlestick goes over the high of the previous candlestick. The initial stop is set below the low of the previous candle-stick, which is ideally the intraday low. The more narrow the range of the candlestick prior to the entry candlestick is, the smaller my stop! I will only trade this setup if the stop is small enough for my risk tolerance.

Sometimes the chart can be a little irritating. Make sure that the stock has actually fallen a significant amount to justify an entry and there is enough potential. My criteria is that the stock had at least a $2 sell off, unless it is a low priced stock. Remember, a $2 sell off leaves you with $2 room to the upside whereas a $0,5 sell off only gives you that amount. In case the stock is not re-versing it might also be shorted (see continuation pattern).

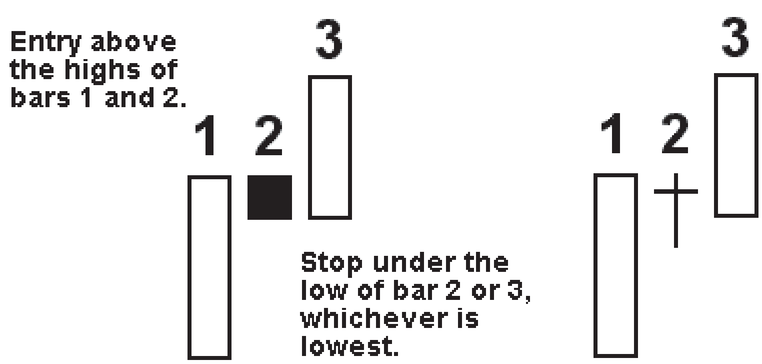


Note: Recently the pivot pattern has worked best after pull-backs (price decrease) in stocks that were in an overall uptrend and up for the day itself. This scenario is less risky as well.

Continuation patterns:

Continuation patterns are trend-confirming setups. They can occur in virtually every timeframe. I was especially successful using this setup based on 15-minute charts. **Continuation patterns allow you to find an entry in stocks that are already in a trend and moving.** I find the pattern equally interesting for both longs and shorts. My example here describes a long setup. Again, vice versa is true for shorts. **The pattern consists of three candlestick bars:**

1. **A wide range bar** (a candlestick with a relative large range in which the lows are near or at the open and the highs near or at the close of that particular time period).
2. **A narrow range bar** (a candlestick with a small range). The candlestick has to be in the upper half of the first candlestick and the high can only be slightly higher than the high of the first candlestick. Ideally, the range is in the upper half (or higher) of the first bar and builds a doji candle, which serves as an additional continuation indictor in this example.
3. **A breakout bar** that breaks above the highs of bar 1 and 2 and signals the entry.



Trade Management:

For most traders entering a position is no problem, the exit however is by far more difficult. I use four different types of exit strategies for my trading:

1. **The initial stop: The initial stop is your insurance against big losses** and by far the most important aspect in trading overall. You should never enter a trade without knowing exactly where your initial stop is. **Not keeping stops is the biggest reason for potential failure.**

2. **Partial gains: Taking partial gains means to sell part of your position after the first "reasonable" move in your favor.** A reasonable move would be a move into a resistance area (for longs). This resistance can be of technical nature or of psychological (whole number resistance). Partial gains play an important role in my trading. I have seen many of the most successful traders using this concept. Taking partial gains is especially powerful in conjunction with setting the stop for the remaining shares to breakeven. Many traders have trouble with letting profits run. **Taking partial gains can be a tremendous help because of it's very positive psychological influence**…imagine being in a position where you already took partial gains and the stop for the rest of your position is set to breakeven…**you can let profits run without having to be afraid of potential losses.**

3. **The breakeven stop:** This stop is getting interesting once your trade is inside positive territory enough so that you won't end up loosing on it, but there is still more room for potential gain. **Breakeven means to set the stop just below the price where you initially bought the stock or where your entry price was set at.**

Keys to success - psychological aspects:

I believe that the right state of mind is by far the single most important key to successful trading. Yes, a solid strategy is an absolute necessity too; but without being in the right state of mind it won't make you successful either. I state in the "philosophy" section of my website that I don't think trading needs to be complicated and that keeping it simple is the way to success. The most successful traders I know only use a few basic strategies. What made them so successful was their confidence in their strategy, their ability to stay neutral and to execute according to what they see. Other people I met had very sophisticated and complex approaches using several indicators. And guess what, a lot of them were successful too. I doubt that the indicators themselves made them successful though; more important was their confidence in their strategy. Some people can only work with very sophisticated approaches just because they don't believe that simple things work. They say: "it can't be that easy". My point is that there are many approaches. I don't want to judge whether one is better than the other. As long as they work for you the goal is achieved. No one holds the Holy Grail to success. Personally I don't like advanced technical indicators too much. The reason is that there are too many variables that can be adjusted. I like to get clear entry signals based on absolute prices (i.e. highs and lows), which I am not able to alter. This gives me less room for personal interpretation and more clear signals.

Going back to the mental aspects, I would like to point out some of the key traits of successful traders:

1.They stay neutral:
Staying neutral means to be emotionally detached from your trading decisions. You probably know guys for whom the world sucks if they take a loss of $100 and if they make $1000 they are on top of the world. They are definitely not neutral.

Disclaimer:

THE RISKS OF DAY TRADING

This book is dedicated to providing sound and proven trading techniques and support for those who wish to enter the business of day trading. Most of those who attempt to day trade are thwarted by their own lack of understanding and discipline. They have no rules and lose money trying many unproven strategies.

None of the techniques discussed in this book should be undertaken without extensive study, back testing and paper trading analysis. The author makes no warranties or guarantees to the content or accuracy of any information.

Please be aware that the risk of loss in electronic trading can be substantial. You should therefore consider, whether such trading is suitable for you in light of your circumstances and financial resources.

Potential Daytraders should be aware…

That day trading can be extremely risky. Customers should be prepared to lose all of the funds that they use for day trading. They should not fund their day trading activities with retirement savings, student loans, second mortgages, emergency funds, funds set aside for purposes such as education or home ownership or funds required for current income.

That customers should be cautious of claims of large profits from daytrading. Customers need to be wary of advertisements or other statements that emphasize the potential for large profits in day trading. Day trading can also lead to large and immediate financial losses.

That day trading requires knowledge of securities markets. Day trading requires in-depth knowledge of the securities markets and trading techniques and strategies. In attempting to profit through daytrading, an investor must compete with professional, licensed traders employed by securities firms. An investor should have appropriate experience before engaging in day trading.

That day trading requires knowledge of a firm's operations. An investor should be familiar with a securities firm's business practices, including the operation of the firm's order execution systems, procedures, and should confirm that a firm has adequate systems capacity to permit customers to engage in day trading activities.

That day trading may result in large commissions. Day trading may require an investor to trade his or her account aggressively, and pay commissions on each trade. The total daily commissions that they pay on trades may add to losses or significantly reduce earnings.

That day trading on margin or short selling may result in losses beyond the initial investment. When customers day trade with funds borrowed from the firm or someone else, they can lose more than the funds originally placed at risk. A decline in the value of the securities that are purchased may require additional funds to be paid.

I feel nauseated when I see all the overpriced and overhyped garbage trading courses and systems floating around the web. I guarantee you that Master Trader will be <u>all you ever need</u> in order to make money in the markets.

October 10th 2009

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