# Chapter 10

## ARE YOU A LOSER?

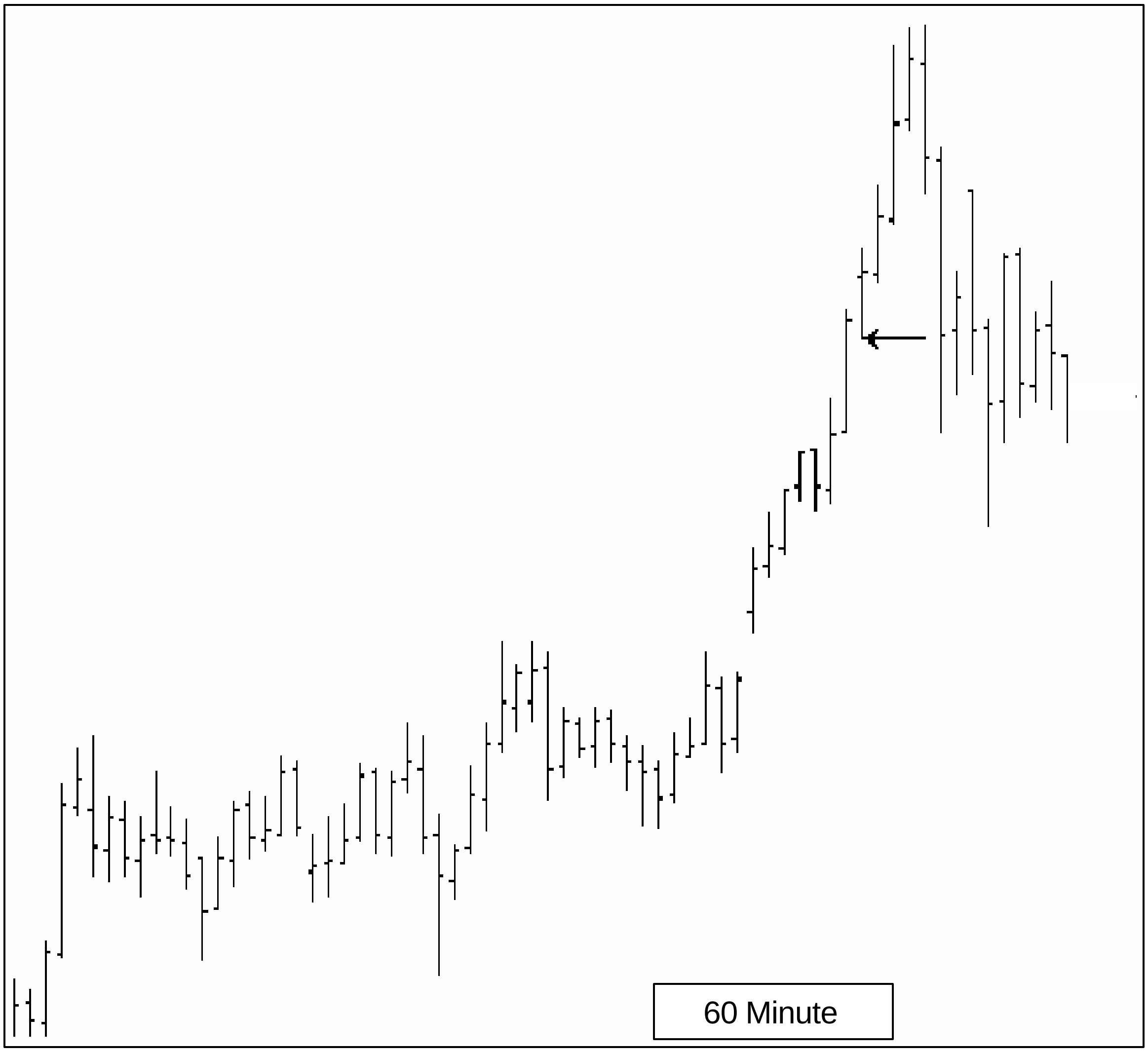
Are you cutting off your *nose* to spite your face?

Do you remember the life of Vincent Van Gogh? Good old Vincent discovered his girlfriend didn't like him, so he cut off his ear. Some of you don't like having money, so you cut yourself off from it by losing it in the market. You'll never convince us you really like money when you're so eager and quick to lose it.

We're going to give you a real life example of how to mismanage your money and turn a winning trade into a loser. The trade took place earlier this year, when we witnessed a professional trader (PT) making a self-defeating move like the one we will show you.

First we'll show you how the chart looked. Then we'll talk about what the trader did, what he would have done had we not been there, and what he should have done that he didn't do, despite the fact that he came to us to have us coach him in day trading.

PT was day trading from a fifteen minute chart. He also looked at hourly charts for perspective. Five minute charts gave him a more minute vision of what was happening in the markets, and a way to optimize his entries. Let's have a look at his method of entry, his reasons for entry, and where he made his mistake. By the way, this man is an excellent trader. He came to us because he was experiencing a severe equity draw down.




The arrow shows the sixty minute period in question. It is the opening hour of stock index trading in the U.S.

(First arrow): Viewing the sixty minute chart gave PT an overview of the market. The price bar shows that prices had been in and remained in an uptrend.

(First arrow): The same price bar shows that prices opened on a gap up from the previous day's close. A gap opening usually means the insiders may initially attempt to trade to the short side. PT's plan was to use the momentum of the insiders to fade (take the opposite side from the direction of) the open, figuring that the insiders might actually double their shorts based upon the gap.

PT then went to his fifteen minute chart for verification of what he was seeing.


(15 minute chart): According to what he told us, PT was looking for a pull back of at least 3/8ths of the last up upswing that had started the previous day. Although he doesn't use the 1-2-3 low formation per se, we took the liberty of marking the chart so you could see the beginning of the upswing (arrow on the chart). We also marked the high of the opening fifteen minute bar as a Ross Hook (Rh), which came into effect as the second fifteen minute bar opened lower than the opening fifteen minute bar, and went no higher.

PT's plan was to short a breakout of the low of the opening fifteen minute bar.

In order to optimize his entry, he went to the five minute bar chart looking for an entry formation that might get him short ahead of the actual breakout of the fifteen minute low. It was interesting to watch him because what he was looking for was the equivalent of a Trader's Trick entry, or the breakout of a congestion prior to the actual taking out of the low.


(5 minute chart): As it turned out, there was no Trader's Trick entry available prior to the taking out of the opening bar low. Nor was there a congestion breakout to assist his entry. The opening bar low (left arrow) was taken out (right arrow) in the time between twenty-five and thirty minutes after the open. You can see by the extra length of the bar that the insiders caught some stops resting just under the opening bar low. Those sell stops placed there as protective stops by those who had gotten long after the opening five minute bar high was

violated, as well as those who wanted to short a breakout of the opening bar low, caused an extra long “thrust” type bar to occur as the opening bar low was taken out.

Earlier we noted that PT had made a mistake. He had turned a winning trade into a loser. How did he do that? Good fortune actually got him in his short position two ticks better than a breakout of the low of the opening bar. Prices then moved down to a point where he was $250 to the good in the trade. Because he was trading lightly during the coaching session, he entered the market with only a five lot. He failed to take off some of his contracts, even though his commissions and costs are only $9/round turn .

When the bar subsequent to his entry bar (35 minutes after the open) threatened his entry point and then closed in the lower half of the bar, we breathed a sigh of relief and encouraged him to take off the entire position. He would have had over $325 of profit on a five lot. But he didn't cash in the trade. Instead, he wanted to discuss it. When the next bar (40 minutes after the open) failed to go any lower, and in fact was an inside bar that closed on its high, he finally set his stop at break even.

Finally, he was stopped out above breakeven for a $150 loss plus costs. What could have been a nice profit had turned into a loss. This error turned out to be what was wrong with PT’s trading. He had gotten off track. He was failing to take the money while it was there. We hope many of you can learn from his mistake. PT’s goal was to take at least two full points out of the trade. But he was being stubborn. Stock index prices were not going to give him that many points on that day. The market was telling him that the only thing that happened at the opening low was that the insiders had run the stops. When he saw that prices were not plummeting down from there, he should have had an alternative plan to take what he could get from the market while he could get it.

There was nothing wrong with PT’s plan to fade the open. In fact, it was a sound plan, one anyone one of us might frequently follow. It was his management that was faulty as well as his discipline.