

Hotto Discussion, Saturday, May 24, 2003

Introduction. Presentation for members of TCnet members who have joined the Hotto club. Hotto is an experienced trader who is offering many insights to fellow traders. Hotto has helped many in recent months make nice profits. Members of the hotto club have the unique opportunity to attend discussion and exchange chat with hotto in real time during the trading day. I am amazed that hotto has time to trade and still do this. Anyway, thank you hotto, for inviting me to give a presentation today. My presentation will focus on tools useful to traders -- tools I found and tools I've created. (websites, programs, utilities, scanners, etc.)

During the presentation in TCNet Hotto chat, please wait until you see an instruction that starts with three stars: ***

When you see *** please click the next link.

[Next Visual: Day](#)

Trading IQ Test

Trader's IQ Test

Answer 04 Discipline

08

Trading requires study and research. A regular rigorous regimen is required. Professionally active traders research and prepare for trading tomorrow with great rigor. Every day, including weekends, they study and prepare by scanning charts and analyze candle chart patterns. When you regularly practice such a routine, give yourself a 10. When you do it only a couple days a week a 5 would be the more appropriate score.

Answer 05 Education & Experience

10

If you worked 20+ years in a successful career and have a masters or doctorate degree, a 10 could be appropriate. For less education and/or experience, deduct points appropriately. Remember about ego... success in a prior career is not immediately transferable to trading.

This is not really a test, but a self-scoring self-evaluation questionnaire. You score yourself on various criteria such as mental agility, experience, confidence, support from family members and so on. After you finish the questionnaire, you will see your score along with a prediction about your likely success as a trader. For example:

Score > 135 = 90% Grade A = Highly Suitable for Potential Top Trader

Score > 120 = 80% Grade B = Suitable for Trading Success

Score > 105 = 70% Grade C = Will Struggle with Trading Success

Score > 90 = 60% Grade D = Guard your Capital with your Life

Score < 90 = Trader Aptitude Not Suitable for Trading

You can take this test at <http://www.worldwidetraders.com/tiqeval.html>

Taking this self-evaluation helped me pinpoint strengths and weaknesses. It also helped decide whether to continue as trader when I was struggling with it a few years ago. I suggest you take this "IQ test" and make a list of your strengths and also of weaknesses -- things that you will target for personal improvement.

[Next Visual \(MetaStock\)](#)

Extreme Candles Stock Trading System

According to Steve Nison, who first brought the idea of Japanese Candlesticks to America from Japan, certain candlestick patterns work best at market highs or lows. With this in mind, I decided to develop a system that focuses on identifying patterns at extremes. To determine what an extreme is I use Bollinger Bands and look for candles that occur above Bollinger Band tops or below Bollinger Band bottoms.

I am currently doing most of my work with 5 minute real time charts. I use Metastock and custom Metastock formulas I've created to identify the candle patterns. In some cases, I use indicators based on other technical studies such as the Chande Momentum Oscillator.

Below is a chart showing 5 winning trades that were triggered for KLAC on 3/7/2003 using this system. [Click here if you'd like to see a multimedia presentation on this system.](#) The indicators were all created before 3/7/2003 and the buy sell signals were triggered automatically by the system. Whether you use Metastock or some other system, I think you may be able to benefit from using some of the trading ideas I present in this [tutorial](#).



[Click here for other stock trading ideas](#)

Phil is also into Dance and Music Education. Click here for www.ilovemusic.com



As you may notice, the candles have different colors. Metastock lets me highlight various candles with different colors depending on whether the criteria in a formula has been met. Here, the magenta color denotes a "squat" which shows that although volume has increased over the previous bar, the price movement from high to low has slowed down." (Bill Williams first identified the squat pattern.) After a squat, the price often (but not always) reverses direction and the movement tends to be decisive. Usually the movement after a squat points to the direction the stock will move for the next several bars. For more information on squats, you may want to see the discussion about [Bill William's Fakes, Fades, Squats and Greens.](#)

[Next Visual: CyberQuant](#)

CyberTrader

Cybertrader is a broker oriented toward active traders. It has several trading platforms. The Cybertrader Pro platform has several trading tools that I really like.

CyberQuant

Menu Drive system for entering scan specifications.

Scan is in real time (updates every 15 seconds)

Here's a sample Query screen in which you give a name to the scan and specify the Primary and secondary filters. This stock scans for stocks that are at their highs. If run at the the close or in after hours, it will show stocks closing at or near their highs.

Edit Query

Query Name: Refresh Period:

Primary Filter (Required)

From the: List

Select the: Values

Secondary Filters (Optional)

Available Filters:

- Current Price
- Volume
- High
- Low
- Open
- Close
- Daily High Count
- Daily Low Count
- 52 Week High

Selected Filters:

- Current Price
- Current Price

Select stocks whose:

and

is:

and

OK Description... Cancel

Here's a list of stocks that was produced by the above scan on May 22, 2003 (in after hours).

List: shaved_top

Symbol...	Daily Low Count	Volume	High	Low	Open	Close
YHOO	7	15213467	28.51	26.90	27.00	26.89
WWCA	18	1826791	9.90	9.36	9.62	9.57
WPI	6	1096800	36.58	35.98	36.17	36.25
WEC	0	856400	28.05	26.86	26.86	26.85
TSN	4	1678400	9.23	8.95	9.00	8.90
TLRK	11	1007357	9.30	8.85	9.02	9.02
SYU	11	1031100	30.00	29.76	29.99	29.99
SOHU	7	2599338	24.55	22.95	22.98	22.77

When you click on a column head you can change how the stocks are sorted. When you click on the symbol for a stock, a chart almost instantly pops up. (Cybertrader is very fast.) When I clicked on YHOO, this chart came up. (I added the notations.)




[Next visual: Executed ECN Orders.](#)

Executed ECN Orders



Symbol	Quantity	Price
CSCO	400	15.72
JEC	100	39.92
SIRI	900	1.32
ORCL	2000	12.11
CIO	1300	0.27
MRVL	500	32.10
ERTS	500	63.15
CMGI	110	1.35
SIRI	7120	1.32
IMMU	1500	6.35
LOUD	1200	0.44
KLAC	500	40.10
BRCM	80	21.95
VRSN	80	13.60
SEBL	300	8.83
INTU	68	43.50
ATAR	100	5.27
OSUR	200	6.85
CORV	4000	1.23
CORV	1000	1.25
PSFT	110	15.00

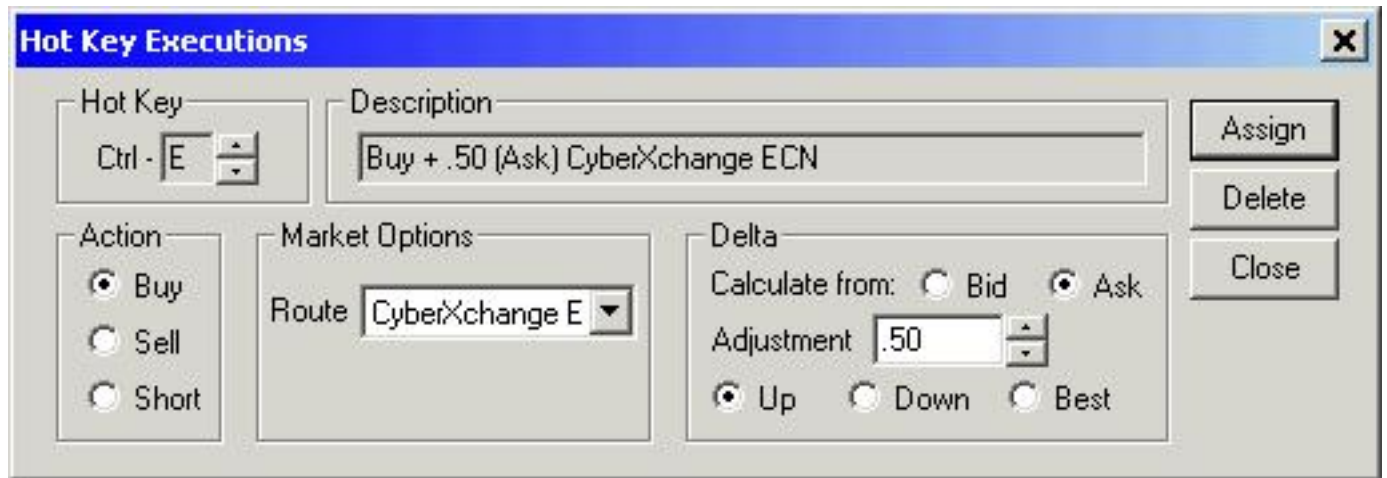


This window shows all actual trades occurring in real time on the ISLD ECN: the symbol and number of shares, and the price. These trades happened near the close of **extended hours trading on May 22, 2003.**

In extended hours, a burst of trades for a single stock appearing in this window alerts you that something is definitely going on with the stock in question. If the symbol is RED, the transaction was a sell. If green, it was a buy.

[Next Visual: hotkeys for trading](#)

Using Hot Keys for Order Execution



This means: when the stockbox is selected and I press CTRL-E the system immediately sends out a CyberExchange ECN **buy** order at the best available asking price.

As many shares as possible will be filled **instantly**. If the entire order is not filled, the system will keep targeting the next available best asking price. It will keep going until my entire order is filled. Exception, if the price rises more than 50 cents (from current price), the system will not chase it any more. (That's what Adjust .50 means in the above Hot Key Executions dialog window.)

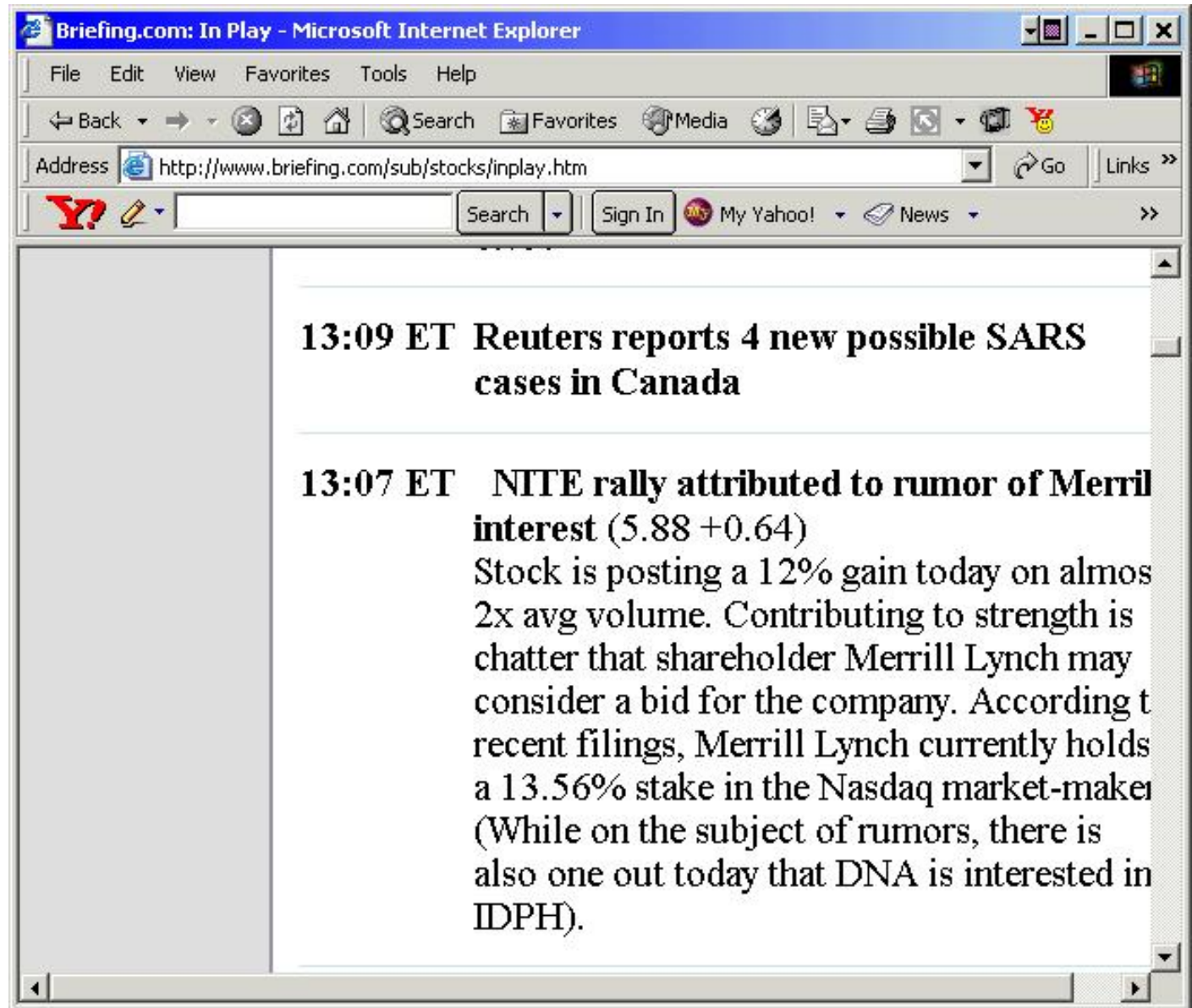
This is especially useful in after hours trading when a stock may break either up or down depending earnings and guidance. If the stock tanks, I press Ctrl-H to issue a similar CyberExchange ECN short order.

[Next Visual: MagicBriefing](#)

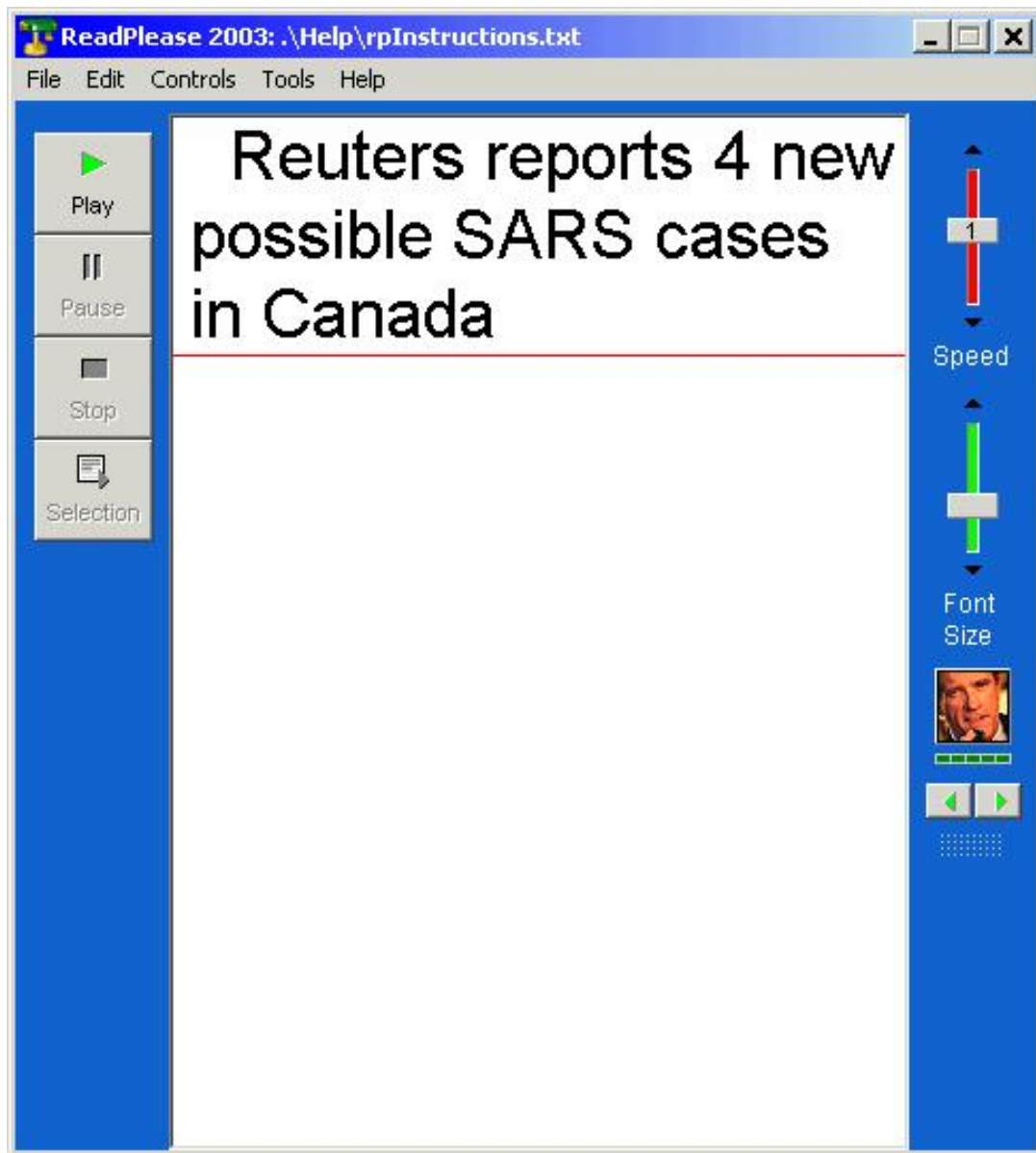
MagicBriefing

MagicBriefing Scans headlines in Briefing and actually reads each headline aloud to you. This really catches your attention. It allows you keep looking at charts while at the same time catching every important headline a few seconds after it appears in Briefing.

Here's a sample Briefing screen.



When MagicBriefing saw the SAARS headline today, it grabbed it and fed it to a wonderful (free) text reading program called ReadPlease. MagicBriefing pasted the headline into ReadPlease and then instructed ReadPlease to read it aloud.



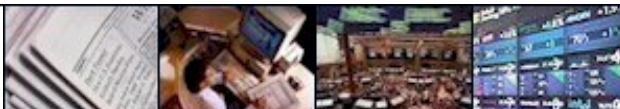
Notice that ReadPlease lets you pick the reading speed, the voice and size of the font. This is useful when you want read a long body of text (like a Hotto log).and follow along reading it silently yourself The professional version of ReadPlease also has other options.

[MagicBriefing may be downloaded here.](#)

A two week trial of Briefing is available at www.briefing.com

MagicBriefing is also compatible with the free Briefing In Play screens at Cybertrader and Etrade.

(This is the Last Visual for the Hotto Saturday Presentation)



*....where long term investing is
holding a stock over the weekend.*

JOIN

MEETINGS

ADVERTISE

DayTradersU\$A

Trader IQ Test

Abridged version published in

Active Trader Magazine, August 2002 Issue

Click [Article](#) to View

Name:

User Name (members):

City, State, Zip Code:

eMail address:

Trading Experience (Months):

Below is criteria developed to help evaluate Trader IQ in terms of both length of time to learn our trade and the various ingredients considered in the traders development regimen.

<u>Grade</u>	<u>Learning Time</u>	<u>Intelligence Level</u>
10	Born with it	Super Genius
09	Born with it	Genius
08	One Year	Mental Giant
07	Two Years	Above Average
06	Three Years	Average
05	Four Years	Some Learning Difficulty
04	Five Years	Great Learning Difficulty
03	Never	Insufficient Aptitude

After analyzing the levels of human aptitude, we then examine other ingredients of trader success. These 15 categories help to analyze trader potential:

Number	Category
01	Aptitude (Trader IQ)
02	Attitude
03	Confidence
04	Discipline
05	Education & Experience
06	Focus
07	Life Style
08	Money Management
09	Patience
10	Personal Goal
11	Perseverance
12	Psychological Makeup
13	Risk Management

14	Social Needs
15	Success in Prior Life Works

The brief definition of each of category provides a forum for your completion of the Trader IQ Test. Each of the 15 categories has a potential value of 10 points making 150 a perfect score. No perfect scores are anticipated since neither Einstein nor Newton are expected to be taking the test.

Note: *This evaluation has not been evaluated by a qualified psychologist and therefore may misstate stringent rules defining concepts of psychology. We're simply trying help readers grasp the concept of Trader IQ so they may understand the range of consideration elements that need to be evaluated prior to launching into the business.*

Enter a number between 1 and 10, 10 being best, into the drop down adjacent to each category; click submit when you are ready for your test to be evaluated. Your evaluation will be returned by reply eMail. To obtain evaluation of your test, submit your test. We will look at your scores in comparison to other traders' input to produce objective analysis. Your input will be maintained in the strictest of confidence.

Answer	01 Aptitude (IQ)
	Think of this as all mental faculties including memory, ability to grasp complex concepts, speed of identifying all activities needed to get ready to execute trade entry and exit, selecting the right course at the right time and being able to put it all together. If you graduated from college at 17, give yourself a 9. If you needed special tutoring to get through 9 th grade mathematics, score yourself 5. Since you are not Isaac Newton or Albert Einstein, you are likely ineligible for 10!

Answer	02 Attitude

Norman Vincent Peal wrote The Power of Positive Mental Attitude and many have read it. I am confident you come to the 'trading table' with a positive attitude. That's not enough! The fact is that, after some trade losses, your attitude will become altered from positive to negative. You must be on guard to manage such an attitude change and reverse the trend. When it happens, you must step aside from trading to enable "Attitude Adjustment." If you wake up every morning ready and eager to observe the market open and have completed your daily research the day before and are ready to trade, give yourself a 10 in this category. This is one of the few "10" scores expected of a trader.

Answer 03 Confidence

Self-confidence counts for a lot in life but even more in trading! Without confidence, you will not succeed and, like attitude, your confidence will change when you suffer losses. Expect losses but keep them small with tight stops. If you wake up every morning confident you will make money today, give yourself a 10. Just know to quit trading on days when your confidence fails you. Remember the market must cooperate with your assessment of it. Choppy trading days are better abandoned for more rewarding time with sweetheart, children, beach, golf or bowling.

Answer 04 Discipline

Trading requires study and research. A regular rigorous regimen is required. Professionally active traders research and prepare for trading tomorrow with great rigor. Every day, including weekends, they study and prepare by scanning charts and analyze candle chart patterns. When you regularly practice such a routine, give yourself a 10. When you do it only a couple days a week a 5 would be the more appropriate score.

Answer 05 Education & Experience

If you worked 20+ years in a successful career and have a masters or doctorate degree, a 10 could be appropriate. For less education and/or experience, deduct points appropriately. Remember about ego... success in a prior career is not immediately transferable to trading.

Answer	06 Focus
	<p>Trading requires concentration. It will be difficult to trade effectively if your children enter your trading space during market hours. Avoid reading your eMail and turn the phone off. Discourage friends and family from contacting you during this time. Instruct your trading associates to allow you quiet undisturbed time to focus. Handle pressing life matters during market doldrums and then get back to work. Take two 15-minute breaks during market hours and then take a longer break after the close before you begin the daily research regimen. Focus may be the category in which you rate yourself the lowest. If you are able to handle only the work of trading from bell to bell except for a quick bite to eat and necessary trips to satisfy human needs, give yourself a 10.</p>

Answer	07 Life Style
	<p>Successful <i>part time traders</i> are rare. Successful part time traders are those rare individuals who took time off from their other life's interests and learned to trade effectively and now have found newer interests more fulfilling than trading on a full time basis. These traders know how to screen for trades a couple days a week, place their few choice trades, protected by appropriate stops, and then move on to their main career interest the remainder of the day. But my personal belief is that to trade well requires full-time focus on trading; so to learn it, you must like it. I know you want to make money trading but I'm not certain you're willing to pay the price to get it.</p> <p>To become successful, you must climb into the profession with both feet and become immersed in the cloak of learning and learning and learning only what is essential to trade effectively. You must learn what information to embrace and what information overload to cast to the side of the stream as you navigate your way through treacherous waters.</p>

If you notice the life style to be demanding, especially on the west coast where the markets open at 6:30 AM, and this timing is not for you, immediately abandon your course or learn how to live with it. If you have anyone who demands attention when you're trading, perhaps you should trade away from home in an office. If your wife, parents, or other confidants are negative to your trading interest, quit. Their negative influence will poison your course and you will quit eventually anyway... so, you might as well quit now... ahead of the almost guaranteed draw down in your account. There is no point in waiting to quit just after losing some money... especially so they can say... "I told you so!" Be confident you will lose some money in the market. Think of loses as one element of training, education and experience tuition. If your life style is *absolutely* in line with your interest in the markets, give yourself a 10.

Answer 08 Money Management

The main thrust to risk management is knowing where and when to stop. Every trading book I have read or reviewed... more than 25 at latest count... has a section on this topic. For example, never risk more that 1% or (2% maximum) of your trading account. Stop trading after three consecutive losses on the day. Stop trading entirely for a temporary period if you lose a lot of your account.

Example Account Control System: Regardless of wealth, I recommend new traders start trading with a minimum capitalization of \$50,000 but with only a deposit of \$30,000 in their active trading account. The remainder must be kept in liquid form at a bank where it can easily be wired to your trading account as needed. In order to protect your initial capital, I recommend you state a promise to yourself that before you lose 40% of it, you will quit trading -- at least for 90 to 180 days while you obtain more education, training and experience in trading.

Trading Account Handling Formula:

See example at: <http://www.bigheadconsulting.com/PDF/tiqaccount.pdf>

Answer 09 Patience

It has been my observation that the optimum trader would have been an arcade game enthusiast as a child, skateboard pipe rider as a young adolescent and surfer in the late teens. Surfers searching the rambling ocean for the 'right' wave two hundred yards in the distance learn patience and judgment. Judgment in trading makes all the difference intraday. Intraday traders must await confirmed setups and then pounce... just like a bear fishing in a cold mountain stream. Just imagine the bear looking into the stream searching for the right fish. There is only one 'right moment' for each trade. Finding it requires calm patience and critical judgment. The best teachers have patience. People who revert to road rage lack patience. You know your own patience and whether or not you have it, so if you are a patient person, rate yourself high.

Answer 10 Personal Goal

What do you want? Do you want to double your trading account? By the way, let's talk about trading account size as compared to personal wealth. Currently, the SEC and NASD require pattern day traders to maintain a \$25,000 balance in their account. Therefore, to avoid margin calls, you need to maintain your trading account at or above \$30,000. My personal opinion is for all traders, new or experienced, regardless of prior market trading success, to maintain between \$30,000 and \$40,000 in the trading account. This will enable you to pay yourself weekly or monthly as you grow your account. Remember, you don't need \$100,000 or more to trade well. I know a trader who earned \$250,000 starting with \$11,500 in six months. This trader paid himself every week (sometimes twice) not allowing his account to exceed \$50,000 generally.

Answer 11 Perseverance

Sticktoitiveness is a special word for drive and determination. There are wandering geniuses searching for interests, causes and direction throughout the world. As an interested trader, you have temporarily completed your search and embarked on one extremely difficult journey. Perhaps you've embraced trading as an interest because good fortune amassed some money within your control. Many, actually most, individuals get only one chance... the chance to keep their money or, possibly, learn how to grow it.

Blindly jumping into trading for a living before you know everything you need to know will put you in the poor house so quickly it will produce insurmountable doubt. Just ask about a hundred thousand "*temporarily wealthy*" individuals who lost considerable amounts of money in 2000 and 2001 trying to play in the major league. Look around at others interested in trading wherever you are. Imagine being able to identify the one in 20 who will remain in the game a year from now. Will it be you? It will be only if you persevere. I don't care how smart you are. Your IQ could be genius level but, unless you commit to this interest as a full time career as well as your desirable life style, you will fail! If you are trading in one year with some trading losses and some trading gains but are in **complete** control of your stop loss system, assign a higher grade to this factor.

Answer 12 Psychological Makeup

How bad do you want it? You must want it more than anything before in your life because it will be harder than anything you've ever tried before. Trading attracts a lot of successful people.... successful in former careers. How else do people get money to trade aside from becoming successful in their walk with life? Steal, swindle, con, deal drugs, rob... I don't think so! To trade, you must be smart, and you must want to do it so badly that you know you can stick with it through the tough learning curve... required seat time.

Here is the problem: Successful people suffer from ego. Many would be traders believe that, because they have been successful in their prior career, they will just be a natural trader.

Trading is war! Trading requires more discipline than any other profession I know. Traders go to war daily, fighting money battles throughout each long day. Recognize this: Firemen don't fight fires every day. Police don't fight with fugitives every day, nor is the military at war and engaged with the enemy every

day. Professional boxers fight only occasionally. Sparring with boxing partners is not a fight; it's just practice where the combatants wear head protection. But traders enter into battle every day they put money on the line.

Think about it! Do you have the stamina to sustain the bruises to your pocket book when the market turns quickly on you? Can you stay in there fighting day in and day out to get the job done? Be careful now. Don't just answer yes (because you really want it) without thinking deeply about risk, because there are many variables that you will undergo as you develop. Any number of these variables will put you out of the business. You must be strong to survive the game. If you have humility, knowing the financial markets are smarter than you, and can live with having your ego crushed three days out of five, rate your score higher.

Answer	13 Risk Management
---------------	---------------------------

The main thrust to this category is knowing where and when to **stop**. In addition one must clearly understand the upside potential for a trade along with the downside loss. When you are able to calculate the Reward to Risk Ratio in your head before every trade, you are ready to rate your self a 10 in this category. Every trading book I have ever reviewed... more than 25 of them... has a section on this topic. For example, never risk more than 1% or 2% (maximum) of your trading account on trade positions. Stop trading after three consecutive losses on the day. Stop trading entirely (temporarily) if you lose a significant portion of your account.

Answer	14 Social Needs
---------------	------------------------

If you are young and like to stay out partying all night, this profession is not for you! If you are young and have your social life under control, you are a contender. Adequate sleep is essential to be at your best when researching as well as when actually trading. You must be stable in your life environment to succeed in this vocation. In times of layoffs producing career change, many embrace the profession of trading as a possible consideration. Consider it, but enter knowing full well that it is a new career and the learning curve is years, not weeks or even months. If your social environment and personal needs lend themselves to isolation, focus and concentration of trading and learning everything you will need, mark your score high.

Answer	15 Success in Prior Life Works
---------------	---------------------------------------

	<p>In the category above, the topic of ego was discussed. Guarding against the detriment of a big ego, you can look back into your prior career success. To the extent you have been successful, you can count on being successful at trading, but only after learning the essential ingredients of all 16 compartments of knowledge discussed in my paper, <u>The Ice Tray[der] Story at:</u> http://www.bigheadconsulting.com/PDF/icetraderstory.pdf.</p>
--	---

Click to Calculate your Total Score

Legend:

Score > 135 = 90% Grade A = Highly Suitable for Potential Top Trader
Score > 120 = 80% Grade B = Suitable for Trading Success
Score > 105 = 70% Grade C = Will Struggle with Trading Success
Score > 90 = 60% Grade D = Guard your Capital with your Life
Score < 90 = Trader Aptitude Not Suitable for Trading

Disclaimer: Trading in securities may not be for all individuals. Consult your advisor or other professional to determine your suitability. This is not an offer to buy or sell securities. The information given is of a general nature and should not be taken as a recommendation to buy or sell securities. Anyone using this information agrees to take full responsibility for their own trades.

Website Maintained By: [BigHeadConsulting](#)

Using Fakes, Fades, Squats and Greens in Stock Trading by Phil Seyer

This discussion of
stock trading
courtesy of
www.ilovemusic.com

In my stock trading work, I am identifying four types of trading sessions identified by Bill Williams in his book [Trading Chaos](#). He calls them Fakes, Fades, Squats, and Greens.

[Stock Trading
Resources](#)

Fakes. A fake happens when price moves more efficiently in relation to volume, but volume has actually decreased. The idea of a fake is that floor traders are moving the price just enough to cause stop losses of off-floor traders to be hit. This then sparks further movement for a while. But since there is no true volume behind the price action, the price eventually reverses.

Fades. A fade happens when price moves less efficiently in relation to volume and volume decreases. The market is bored. When a fade session occurs, price will often move in the opposite direction.

[Free multimedia
tutorial on using
Fibonacci
Retracements.](#)

Squat. A squat happens when volume increases from the previous session, but price moves less efficiently in relation to volume. It is as if the stock is squatting (like a runner) and getting ready to move. The idea is that the movement after the squat gives us a clue to future direction.

Greens. A green session is one in which volume increases and price movement efficiency also increases. More activity is occurring and the price is moving more efficiently.

By now you may be interested in these four types of sessions and wondering how one might measure price movement efficiency. William's called his measurement of this efficiency the "market facilitation index" (MFI). The formula for this is simple:

[Recommended
books on stock
trading](#)

Total Price
Range/Volume

Total Price Range for a session is simply the high price of the session minus the low price.

So if a stock moves 5 points in a session and the volume is 1,000,000 shares, the MFI index would be $5/1000000$ or 0.000005.

[Phil's I Love Music Web Site](#)

This MFI value is thought to be a measure of the how easily the price moves with respect to the volume that it took to move it.

MFI by itself is not too useful, but when you combine MFI with volume, you can identify the four kinds of sessions I described earlier: fakes, fades, squats and greens. Here is a summary:

Type of Session	MFI has...	Volume has...	Watch for price to...
Fake	Increased	Decreased	Continue in same direction, then reverse.
Fade	Decreased	Decreased	Reverse soon.
Squats	Decreased	Increased	Break out in one direction or the other.
Greens	Increased	Increased	Continue in same direction.

[Save Money on long distance calls.](#)

I am still researching this way of categorizing trading sessions. Here is one interesting observation I have made. (NOTE: in this discussion, I assume you understand [Japanese Candlesticks](#) and [Bollinger Bands](#). If you don't understand these terms, you may want to explore the above links before continuing.)

When my system see a fade, a **buy signal** is generated when:

1. The previous candle was a fade which closed below the lower Bollinger Band, **and**
2. The current candle is hollow and has closed up above the lower

Bollinger Band.

Here's an example from a 5 minute chart of Applied Materials. Each "candle" on this chart represents a 5 minute period.

[Elliott Wave Analysis for Stock Trading](#)



Using Metastock, I am able to calculate when a fade happens and color the candle blue for easy identification. Notice that a fade happened and that the candle closed below the lower Bollinger Band.

When the next candle closed back above the Bollinger, my system generated a buy signal.

The blue arrow you see was placed on the chart automatically by my "Extreme Candles" a program I wrote that runs under Metastock. Notice how the price moved up nicely after the fade below the lower Bollinger Band. In the chart above, you will also notice some "Greens," fakes (red candles) and a squat (magenta). My strategy is to study the interaction of Bollinger Bands, Price Level and Session type to see what generalizations I can come up with. So far, the buy signal shown above seems fairly reliable. I plan to do more research. At a later date I will report the winning rate for this signal on various stocks in various time frames.

If you'd like to explore Bill William's ideas in more detail you may want to consider getting his book [Trading Chaos](#).

