MOMENTUM INVESTING

Complete Guide to Daytrading High

Percentage, Volatile

Momentum

Stocks

By

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FORWARD

I have spent most of my adult life working for myself. Having owned several businesses, I have grown to love the freedom and sense of personal satisfaction that self-employment affords. Over the years, however, as it has become increasingly difficult in this economy to hold a small business above water, I found myself searching for other avenues of income requiring a relatively small investment, low over-head, and providing fantastic yields. I needed a way to provide for my family while retaining my freedom and independence.

My interest in the Stock Market began over thirty years ago while working as a Systems Analyst for a large computer manufacturer. I first began to actively trading stocks several years ago when I invested $6000.00 in a Canadian oil company. The company was drilling in Nigeria, where I knew there were successful oil fields nearby, and I thought they had a good chance of hitting. They did hit and I sold for a total return of $10,000.00 profit in two days. I was instantly hooked on trading stocks.

I wanted to make a living at stock trading, but only had a small amount of money ($6000.00) in my portfolio to begin with, so I knew I could only invest when it appeared to be a sure thing. I had to keep my losses at a minimum and my profits at a maximum. I needed fantastic percentage returns to be able to trade full-time.

I read all the books and articles I could get my hands on about stocks, the Market, and trading. Everyday I watched, studied, and charted how stocks moved. Gradually I found patterns and began developing investment methods that consistently provided profits, allowing me to sell my business and become a full-time Stock Trader.

A few years ago I began teaching my methods to a select few. The satisfaction I feel at sharing in their successes and new-found independence and freedom is indescribable. I consider it a triumph for the struggling middle-class families of America. My sincere hope is that by sharing these methods with you, through this course, you will also find the sense of freedom, accomplishment, and security that financial independence can bring.

INTRODUCTION

The purpose of this book is to provide clear, step-by-step instruction on how to invest your own money in the Stock Market, through your personal computer, using my methods of investing, which I believe to be the safest and most profitable system of trading stocks for the small investor. I have honed my methods over the years to expose the near sure-things on Wall Street and gain profits that far exceed the best of mutual funds. Using my methods, it is possible to make a living trading less than $20,000 and can be used by the beginner as well as the seasoned daytrader. I have successfully taught amateurs and professionals alike to gain as much as 80% increase in their portfolios while learning to trade my methods, in as little as two months.

Imagine working at home, living anywhere you wish, and making a good living! I have one student trading on a 36 foot sail boat, who took a $3000 investment to $33,000 in one month.

I am willing to reveal my trading methods because I am tired of seeing middle income families getting a pitiful return on their investment dollars. Stock Brokers average $120,000 salaries for selling their latest and greatest investment funds, which I feel provide minimum returns compared to the amount of potential that exists in the Stock Market. Using my methods, the small investor has the power to independently earn safe, consistent, high returns on their investment dollar.

How My Methods Are Different

My system of daytrading is different than other daytrader systems. Many daytraders will spot a stock being bought at the high of the day and because of the heavy buying will buy only to see a small increase in price and then a quick fall. Stocks can turn quickly and losses can be heavy. I buy at the bottoms where the momentum has just begun to catch the early part of the "wave."

Only The Highest Percentage Trades

I will patiently allow the Market to bring a high percentage trade to me and I generally make fewer trades than most daytraders. I rely on high percentage trades to provide profits and take much fewer losses. I have found that commissions tend to eat up profits with a busy daytrader making 10 trades per day to catch 2 or 3 winners. I will generally do 10 trades and have one loser. I never gamble with my trading. I like to know the percentage of success I can expect with every trade before I do it. If I do not know how a particular type of trade will go most of the time "I WILL NOT DO IT."

I will allow many winners to slip away waiting for "my" trade rather than to accept extra risk. I feel this is a key element for the small investor. Most traders lack discipline to follow clear guidelines to govern their trading and give up gains eventually, especially when the Market changes. I have often seen traders making good money during a Bull Market only to lose when the Market changes. They end up confused and broke most of the time.

Exploit 4 Niche Patterns

I play only 4 types of patterns that I have tracked over the years. Dumpers, Gainers, News, and Publication stocks (such as Business Week). These provide the consistent springboard from which I can spot patterns that repeat over time and continue to repeat over and over again. You will be taught how to recognize which of the four patterns are active and how to play each one.

Limits Losses to absolute Minimum

My system normally limits losses to 1/8, because I exit the trade at a pre-determined exit point. I NEVER RIDE A STOCK DOWN. My approach is to keep the emotions in check by having a pre-determined sell point. I allow the stocks momentum and the particular type of trade tell me how to react, not my emotions. Those that cannot control their emotions usually BUY at the high and SELL at the low, and in the end lose.

Reduced Trading Hours

When I am trading, my day usually is only 4 hours long. Most of the trading action occurs before 9:00 am pacific standard time. Normally stocks will find a fairly narrow trading range by then eliminating most of the opportunity for profits. If I feel like working all day I will scan my news sources for hot stories but I generally only get about 2 per month. I will always be working the last one hour of the Market to see how the momentum stocks are behaving.

Offer Hands On Instruction With Actual Real Time Calls

I offer hands on instruction in my private internet teaching room with real time calls, NOT after the fact calls. Many traders will say they bought a particular stock a few seconds after it has increased in price to boost their egos in trading rooms. Hindsight is always 20/20. I allow my students to trade while they learn and understand "why" they choose a particular stock to trade. They can earn money while they learn. I teach the basics to advanced methods during real time Market conditions. They "always" know why I am looking at a particular stock to trade and how I expect it to go. This type of instruction is offered no where else that I am aware of. For more information on how to join my Private Internet teaching room, please visit my Web site at;

http://www.mtrader.com

Or if you simply have questions about the book, please visit the web site for more information on how to contact me to answer your questions.

Takes advantage of Market Momentum, Bull or Bear

I believe anyone of an average mentality and the ability to follow rules, can successfully make my methods work for them. It does not take a genius to make my system work. Market fluctuations do not effect my style of trading. My methods only demand movement, up or down. I have made money on some of the most down days on Wall Street. Corrections only enhance opportunity. It also does not matter how many get in on a momentum trade because it only provides more momentum. The more, the merrier! It is my desire to create a family of investors that support and help one another to achieve unselfish success that lasts as long as Wall Street does.

What You Will Learn

During this course you will be taught the nuts and bolts of home stock trading, from the use of Hardware, Software, and Brokers, to Quote services, and which ones in my opinion are the best. I have spent thousands of dollars learning these things the hard way, and would have paid ten times the amount of this course to learn what I am presenting. At one time I had two accounts with two different Brokers. I did the exact same trades at the same time, and one Broker made me half as much as the other because of slow executions. That is an expensive lesson.

You will also be taught how to choose and trade your stocks; how to know when to get in and when to get out. There are repeating patterns in trading that occur, and you will learn to recognize them and to take advantage of them while they last. The only way an investor can be sure of the direction a stock will take, is to wait until it starts in that direction. The trick of making money based on momentum is to know when the momentum starts and stops. There are methods of knowing the starts and stops, and you will be taught them.

I think the most important key word used in my trading techniques is PATIENCE. I do not worry when I miss an opportunity because I know there will always be a next time. I believe in purchasing opportunity with every trade, and unless I feel excellent gains are to be made, I stay out. You will learn patience in trading and "loss control" to minimize your losses.

If you have a problem admitting your mistakes, trading is not for you. Capital preservation depends on you knowing when you are wrong, and responding as soon as possible. I have watched traders purchase a stock, then watch it go down, down, down, and not act until it hit bottom. In response they would do a panic sell, and watch as it went up off the bottom to their entry price.

There is a saying that is generally true on the street, "Buy the rumor and sell the story." You will be taught how to take advantage of that truth. There is another saying, "Buy when there is blood on the street but wait for it to stop flowing." We can also take advantage of that truth. Another truth that allows us to make money is "The Market always overreacts."

Don't worry if all of this sounds confusing right now. We will start from the beginning, slowly and carefully building your understanding of stock trading until, before you know it, you will be sitting in front of your computer, confidently buying and selling, on your way to financial freedom!

Chapter One

There are three major exchanges where stocks are traded. The New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and the National Assoc. of Securities Dealers (NASDAQ). The NYSE and AMEX stocks are traded on what is called a trading floor which is located at a physical location. The stocks are traded by representatives of Brokerage houses around trading pits. Your Broker will contact a person on the floor of the exchange to execute your trade. The NASDAQ trades occur on computers tied into a large trading system and is generally a faster system of trading.

You can enter and exit a position faster on the NASDAQ. Most of my trades occur on the NASDAQ. The importance of being executed rapidly is that you get fast confirmation on trades and you can react faster should you need to exit your position quickly.

Stocks are traded on the NASDAQ exchanges by Marketmakers. They are responsible for buying or selling the stocks to the investor. They sell their stock at a higher price than they buy it for, and this is how they make their money. The price he buys it for is called the "Bid" and the price he sells it to you for is called the "Ask". The difference between the Bid and Ask is called the "spread." If a Marketmaker asks a price of 5 dollars per share and bids a price of 4 7/8, the spread is 1/8.

Marketmakers are overseen by the exchange where their stocks are traded to assure a fair price and a small spread. Many times the spread is determined by the average daily volume of trades on a stock. The profit he makes is then determined by the laws of supply and demand. If a stock is not traded very much, the Marketmaker will need to make more money per trade to make it worthwhile for him to make a market in the stock. I will not normally deal with stocks with a spread over 1/8. This is beneficial for loss control.

When you place a trade, your Broker will call the Marketmaker and place the order for you. You can place the trade at a specific price called a "limit order" or you can place the trade at the going rate at the time the Marketmaker receives the order called a "market order". I almost always place limit orders to buy, and market orders to sell. Limit buy orders protect you in case of a fast run up, and market sells protect you against a fast sell off. **When I want out, I want out.**

It might be helpful to think of the Stock Market as a grocery store. The store owner is the marketmaker. He purchases groceries and resells them to the public. He will purchase a loaf of bread for $1.00, and sell it for $1.125 or 1 1/8. His profit is $.125 or 1/8. The price he pays for the loaf of bread is called the "BID", and the price you purchase the bread from him is called the "ASK." The difference between the two prices is called the "spread."

Your broker is the guy who goes to the store for you, and purchases the groceries you tell him to buy. He does this for a fee called a "trading fee". He will charge you the fee every time he goes to the store to buy, and again when he sells. My Broker charges $20 for each transaction. I can purchase up to 5000 shares of any company for $20. If I purchase more than 5000, he will charge me an extra penny per share for the whole lot. If I purchase 6000 shares, the cost would be $20 plus one penny times 6000 or $60 for a total transaction fee of $80. When I sell the 6000 shares it will cost me another $80. Because of the added transaction cost, I rarely buy more than 5000 shares.

When your broker goes to the store for you, he will loan you twice the amount of money you have in your account. If you have $20,000 in your trading account, he will allow you to purchase $40,000 worth of stock. This is called a "margin account". Borrowing from your broker and investing over your account balance is called "going on margin". There are some limitations regarding the price of a stock your broker will allow you to margin. Contact your broker for the limitations. My broker will not allow me to margin any stock selling for under $5 per share.

One of my trading rules involves writing down the time that I place my order. There have been a few times that my order was not exercised in a timely manner. I contacted my broker and complained about the execution, which resulted in them honoring my trade, and giving me the price the stock was trading at the time of the order. Always question your broker if there is something that occurs out of the ordinary; they are human and can make mistakes.

For the New York and American Stock Exchanges, the stocks are denoted by one to three letter symbols representing the name of the corporation, while the NASDAQ stocks are represented by four to five letter symbols. The fifth letter on NASDAQ stocks has various meanings as follows:

- **A or B**. The class of stock. Some companies issue two classes of common stock, whose owners have, say, different rights to elect corporate directors or restrictions on who may own the shares.

- **Temporarily exempted from NASDAQ listing qualifications.** The NASDAQ qualifications for listing a stock is not as stringent as The New York and Amex stock exchanges. Don't buy a stock that does not meet the minimum listing qualifications unless you know why.

- **Delinquent in legal filings** required by the government for public sale on any exchange. DO NOT BUY!

- **A foreign corporation**; one that operates under the rules of a foreign government.

- **Convertible Bond**. Like any bond, a convertible bond obliges the issuer to pay interest on terms set down in the agreement. Unlike ordinary bonds, however, convertibles may be exchanged for stock at a specified conversion rate; for example, one bond for 22 shares. Convertibles pay lower rates of interest because they allow an investor to take advantage of any stock price increase and also get a guaranteed annual return.

- **Non-voting stock**. These stocks do not allow you the right to vote for corporate officers. They aren't as valuable as voting shares.

- **Preferred Stock**. Preferred stock owners get paid a specified dividend before any common stock payments are made. They are also cumulative. If a company fails to pay dividends for three years they must pay three years of dividends to the preferred stock owners before a penny is paid to those who own common stock.

- **In bankruptcy proceedings**. Know the story before you buy these stocks!
- **Companies will issue new shares** and give existing shareholders the right to buy the shares for a brief period at a specified price. If this price is below the market value, the rights have a value in themselves. Rights can be freely traded.
- **Warrants**. Warrants entitle the holders to purchase shares at a specified price. Warrants are entitlements that last for years and sometimes indefinitely.
- **American Depository Receipt**. These are receipts proving that the stock is being held by an American bank. It is a way a foreign company can trade their stock on the U.S. exchanges without meeting the disclosure requirements of the U.S. securities laws.

NASDAQ stocks will adjust their prices before the market opens, reflecting the overnight action. This is beneficial for the overnight investor, as it gives an indication of the direction of the stock, and the percentage up or down it will open at. If my stock is going to open up providing a nice profit, I will sell a few minutes before the open. I will then watch for the sell off and buy again.

The direction of a NASDAQ stock at the open is very tough to determine because the trades are delayed due to a bottleneck of information sent by the NASDAQ exchange. This is generally true with the other exchanges as well. Trading at the open is very risky due to this delay. The only way you can tell the direction is when the BID and ASK changes. Always be very cautious at the open because of this problem. The bottleneck effect will usually clear up in 5 to 10 minutes depending on the volume of trades.

Chapter Two

My day starts at 5:30 a.m. Pacific Standard Time when I turn on my computer and start listening to CNBC on television. I start my real time quote and news programs, and look for anything exciting on the news ticker or CNBC. I will open my communications software to be ready to trade. I place all the stocks that I am interested in on my quote screen, and watch their patterns of trading. I watch for large swings in price in any direction. I wait for opportunity by constantly reading the news headlines, and listening to CNBC. The trading day ends at 1:00 p.m. when I usually quit my working day.

HARDWARE

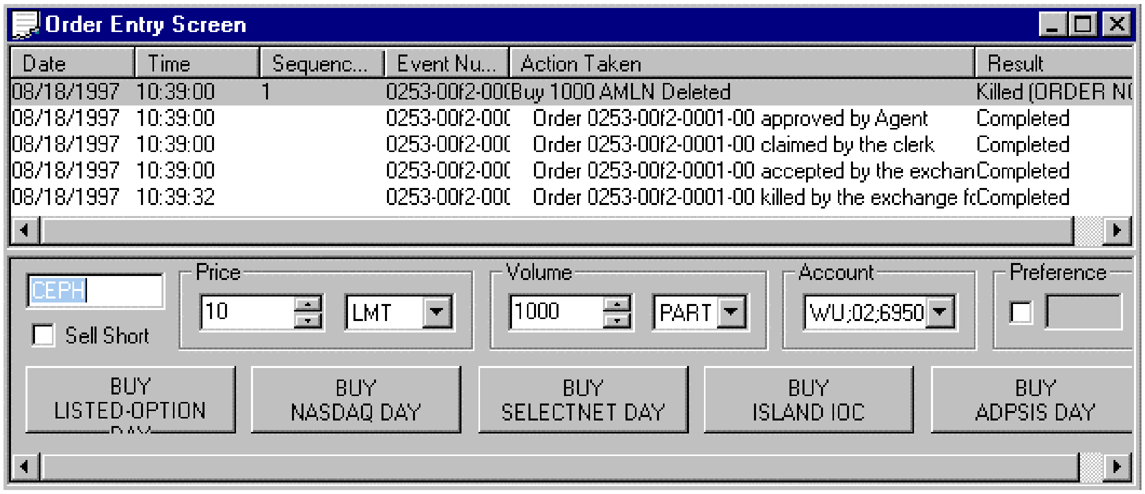
I recommend a Pentium computer with at least 32MB of RAM with a modem that operates at 33600 baud or more. I use an IBM compatible PC. I am able to run my trading software, quotes etc. with one computer. You should have a high quality monitor with a minimum size of 15". My trading software occupies the lower 2/3 of my screen while I have my chat room on the upper 1/3. I recommend purchasing your Computer locally to give you quick access to any problem solving technical support.

COMMUNICATIONS

I use two phone lines, one dedicated to the computer and the other for telephone calls. I am currently using A B Watley (www.abwatley.com) as my Broker and quote feed. I can place a BUY or SELL in a couple of seconds and usually get a confirmation within 5 to 10 seconds following a trade. A touch-tone phone is a must with your Brokers number preprogrammed.

You will also need to set up a TV where you can see it from your computer. This will be necessary to receive CNBC.

As previously mentioned my news and quotes service is AB Watley who also serves as my Broker, the quotes are provided through them by PC Quotes. I am able to connect onto the Internet using a local Internet provider and run my trading Software provided by AB Watley. I have executed trades with confirmation in 1 second but it can take longer depending on the trading volume. I find that their SOES (Small order execution system) is an excellent tool for the novice and professional.



Example of AB Watley Order Screen

I can double click the ask on my quote screen and instantly have a 1K order placed on my screen and likewise do a sell as easily by double clicking the bid. I then only need to choose the system of execution and the trade is done. This service has been extremely helpful with stocks that have important News. All my students are happy with their level of service and professional manner in which they conduct their business. Their Web address is www.abwatley.com.

I highly recommend finding a local computer store to give you quick service if any computer problems occur. Down time costs you missed opportunity.

I use two Internet Providers at $20 per month to provide myself with a backup when one service may be having trouble.

SOFTWARE

Your communications software should be easy on the eyes and color coordination should be a consideration. The judgement of a stock's direction is a very visual experience. You should be able to shrink the communications software window to be able to see your trade at all times, and at the same time dial up your Broker. Your communications software should also include the ability to use macro keys. Macro keys allow you to assign numbers, such as account number or telephone number, to one keyboard key. This saves crucial time in placing a trade.

I have tried to keep the software as simple as possible and have found what I use to be quite adequate. I have set up my columns in such a way as to track a stock very easy visually. My first column on the left side of my quote screen is the SYMBOL, then TRADE VOLUME, TRADE PRICE, BID, ASK, NET CHANGE, HIGH OF THE DAY, LOW OF THE DAY, OPEN PRICE, TOTAL VOLUME, AND PREVIOUS CLOSE.

You will need to practice watching each trade and quickly deciphering it to be a buy or sell to get the feeling of the movement of the stock. AB Watley's quote screen makes it easier in that the color of the last trade is red for the sells and green for the buys. Some old time traders used to get a feeling for the movements of stocks by watching the ticker tape. It became an art form for some. Our computer quote screen is much like the ticker tape in that you can spot buying and selling patterns and intensity. You should begin by watching only one stock trade every day from the open to the close. Try to pick one that has heavy volume.

My stock charting is handled by "Windows on Wallstreet" by Market Arts. I receive updated daily stock information through Dial Data. Another good service you may want to check out for complete news on any company along with an historical price chart, is Investor Insight. There are many helps on the Internet and you can search by using keyword searches like "Daytrading" etc. America on line has many sources valuable to the daytrader.

Chapter Three

GOLDEN RULES OF TRADING

- Clear Your Spread. Know The Direction
- Trade The Rule Not The Exception
- Stay Away From Low Volume Stocks
- Stay Away From Stocks With Spreads Over 1/8
- Know Why You Choose To Invest In A Stock And Get Out A.S.A.P. When It Turns Against You
- Paper Trade Until Your System Trades Above 90%
- Take Profits When You Have Them! You Will Never Go Broke Taking Profits!
- Write Down The Time To The Nearest Minute You Placed Your Trade

These Golden Rules of trading have been developed by me over the years and should be memorized by the student. Breaking them will result in your long term trading averages decreasing dramatically. I suggest you print them on a poster and put them on the wall where you trade. The breaking of trading rules leads to confusion and losses. You will no longer be confident and exercise good judgement. I have had students toss out the rules by "trying things." When you have fast profits there is the temptation to experiment with them. If you are successful at first it only reinforces "bad habits." The losses will come fast and I have seen traders lose nearly all they have. If you do not know why you are losing you are in big trouble. I look at losses as tuition if I learn. I try to not get upset if I have followed the rules and executed a high percentage trade correctly. Every trader must deal with losses. If you are upset over a loss it is good to go for a run or exercise to help relieve the anger and stress. One of my students goes to the gym and works out after a hectic trade. Do not be tempted into a "forced trade" to try to make up a recent loss. PATIENCE is your friend. Take only what the market offers.

Golden Rule #1. Clear Your Spread.

The only way to know the direction of a stock is when it is being bought so heavily that you are forced into saying, " This stock is going up, I better hurry to get my buy order filled!" You feel the anxiety of seeing all the buying and hope you get in. When that occurs you will clear your spread most of the time.

MACR Bid 9 3/16 **Ask** 9 1/4 **Vol** 433600 **High** 9 1/4 **Low** 9 **Current** 9 3/16

Clearing your spread would mean buying MACR at 9 ¼ and have enough buying occur so as the bid upticks from 9 3/16 to 9 ¼. If you had to sell at this point at 9 ¼ you would get out even with the only cost being your commission.

You have purchased opportunity, do not fall into the trap I see all the time of predicting the price it will go through. Deal with the here and now and not with the pie in the sky. You have succeeded in your trade when the spread is cleared, that is your goal. The minute the buying stops and the exact opposite begins to occur, I sell! I do not care what the price is. What you have made is irrelevant. The reason you bought the stock is no longer true when selling starts.

I look at selling as purchasing an insurance policy. You can never know how low a stock will go. Never get caught with the following on your lips, "it can't go much lower." Once you learn to recognize lows and highs you will clear your spread most of the time. After you clear your spread the rest will be determined by the mood of the market concerning your trade. Don't marry your stocks, some make poor bed fellows.

Golden Rule #2. Trade The Rule Not The Exception.

Once you have adopted rules of trading the stocks that present themselves for a trade MUST fit into the guidelines of your rules. This is what is meant by a trading model. 20/20 Hindsight is the biggest cause for breaking rules. 5 Seconds after a stock has started either up or down a trader always says to himself , "I should have known it would do this!" The more a stock moves up the worse you feel for not "trying" the trade. Many times I have purchased a stock, cleared my spread and sold at the first hint of selling, making 1/4 of a point. The stock would go down as I expected and then start up to go another dollar. Unless you know that a large percentage of the time the trade does that, you will be tempted to stay in stocks that erase your profits and start you losing.

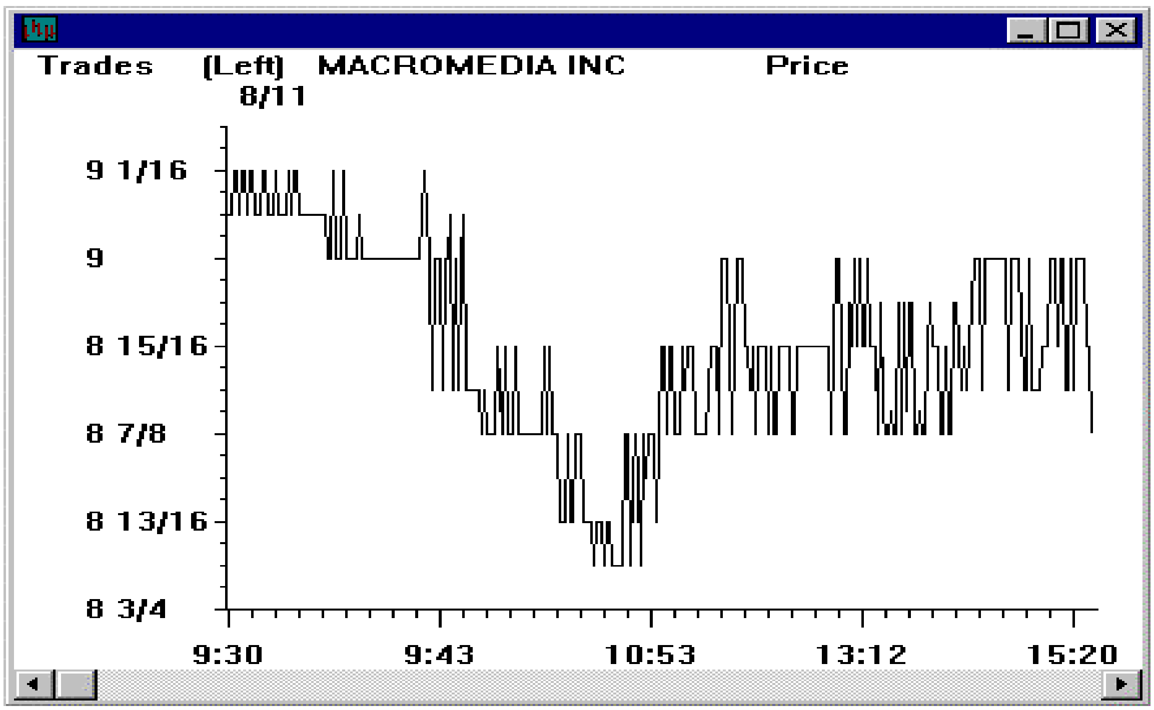
Some stocks can fall quite rapidly leaving you with huge losses. I have seen traders lose a months worth of profits in one of these trades. You are purchasing insurance against that happening by selling as soon as the reason for the purchase is no longer valid. Know how the trade usually goes by careful tracking. Find the general patterns that occur with every type of momentum stock.

Know the rule and let the exception go. An exception will reinforce bad trading habits, especially if you make money. Quite often I see traders who make huge one time profits breaking rules, only to be down significantly shortly thereafter. My rules of trading have successfully preserved my profits through many market changes.

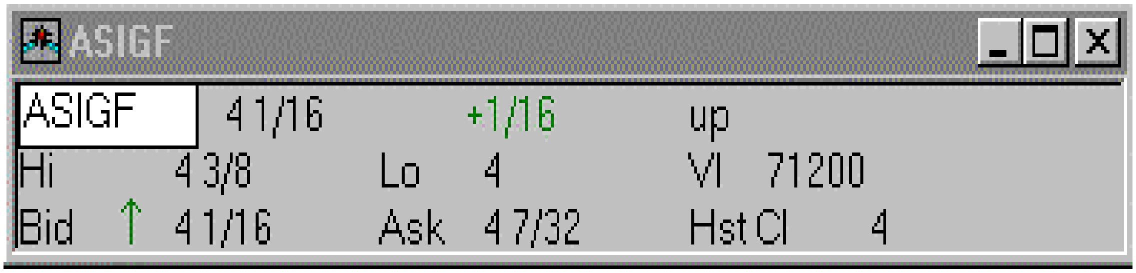
Golden Rule #3. Stay Away From Low Volume Stocks.

Low volume stocks generally have high spreads and move extremely fast on low volume. What goes up fast, will go down faster. If you are on the wrong side of a low volume stock trade your losses can be excessive. My only exception is if I got a story 4 minutes before the market close, and I knew the story to be exceptional, I would do a market buy.

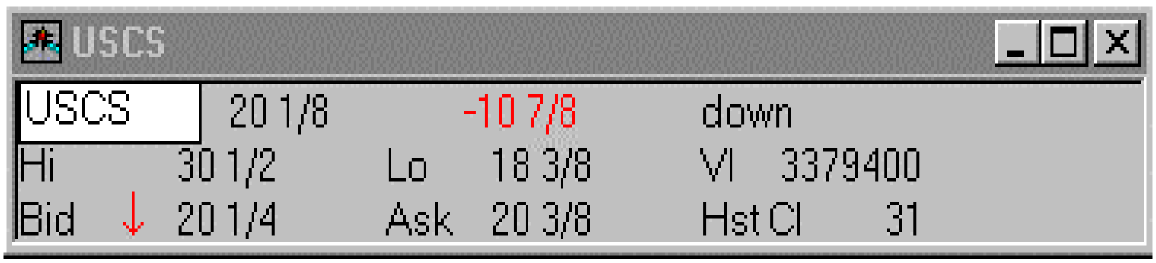
Recently a news story hit the wires on a low volume stock and I advised a student to stay out. The stock went up 3 dollars, which was the exception. He was lamenting all day long that he did not do a market buy at the beginning. The stock moved so fast from the initial rally price that a market buy is the only way he could have gotten in. When you do a market buy you are trusting your Broker to execute in a timely manner. In a fast moving stock your execution can be several minutes from the time you place the order. You will get exercised at the top of the rally and not know it. By the time you confirm the order you are down the 3 dollars. I know, I have done it, only once. I learned fast.



There is a funnel effect with hot stocks that prevent you from doing a fast market buy. Everyone wants in at once. My advice is don't play with excessively volatile stocks and low volume stocks can be just that. Loss control is the most valuable tool for any trader.



LowVolume Stock



High Volume Stock

ASIGF had a total volume of 71,200 shares traded at the closing bell. Stocks like this move up and down randomly and are impossible to daytrade with any consistency. Almost every low volume stock that has any movement in it at all, has huge spreads of ½ to 1 full point. Stay away from stocks like this at all cost unless it is one who has just invented the cure for cancer in the last 10 minutes!

MACR on the other hand had decent volume and only a 1/16 spread. The top at the open is clearly definable as is the bottom or low of the day. This is the perfect stock to trade.

Golden Rule #4. Stay Away From Stocks With Spreads Over 1/8

This rule is in place to limit your losses. Any stock that changes the spread dramatically should be avoided. I have been in trades, not too often, that can be under heavy buying when the market maker drops the bid 3/8 for no apparent reason. I think many times they anticipate the sell off and are taking the profits from traders. When I see this I exit immediately and never trade that stock again. 3/8 plus 1/8 original spread cost me 1/2 a point loss. Any selling at all and you will be down one dollar in a hurry.

DATM BID 38 1/2 **ASK** 39 1/2 **HIGH** 39 1/2 **LOW** 36 7/8 **CURRENT** 38 1/2

MACR BID 9 3/16 **ASK** 9 1/4 **HIGH** 9 1/4 **LOW** 9 **CURRENT** 9 3/16

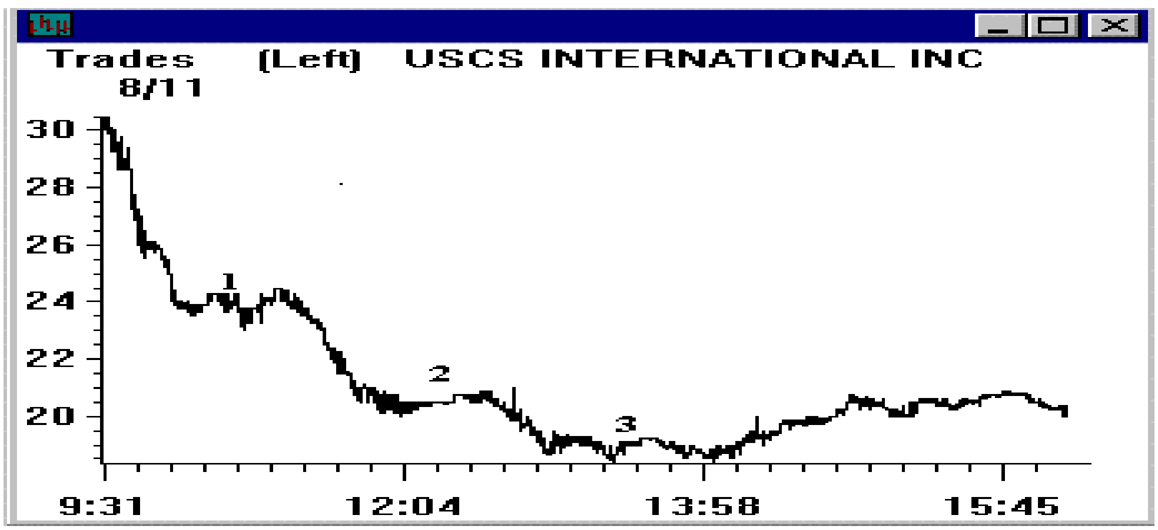
Notice the Spread on DATM above is 1 full point, and the volume is only 92K. Not with a 10 foot pole should you touch a stock like this no matter what the action or upside. If you buy DATM at 39 ½ thinking it may go up, and the buying stops and selling comes in, even without a downtick you are already down 1 full point. If you had 500 shares of this stock, you would be down 500 dollars from the start. MACR on the other hand, if you bought at 9 ¼ and selling came in, you would only lose 1/16 before the downtick. If you were in it for 2000 shares, that is only a loss of 62 dollars, quite a difference.

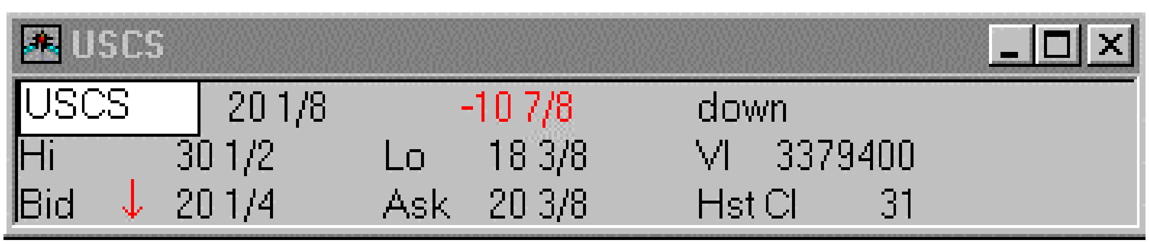
Golden Rule #5. Know Why You Invest and Get Out When The Reason Is No Longer True

This rule is probably one of the most difficult to teach as it involves ego with each trader. It is especially difficult early on in a trade to admit the stock is heading the opposite direction you expected. I have seen traders paralyzed to inaction when the buying turns to selling. This is especially true when you have profits in a trade, but the profits are not as great as you had hoped.

When selling starts your insurance policy against a fast and continual retreat down is your sell. When the trade dips down and starts back up to a higher price (movement that I call stair-stepping) 20/20 hindsight always seduces you to hold the next trade and not take early profits. Only hold through stair-stepping if you know

that a high percentage of the time the type of momentum trade you are in usually stair-steps in your favor. I cannot emphasize enough, SELLING THE TRADE IS YOUR INSURANCE POLICY.





Notice that USCS made three bottoms, the first at 24, the second at 20 1/4 and the third at 18 3/8. I recently had a student who purchased this stock at the first bottom, made 1/8 and then bought it again at the second bottom. Notice it did not bounce from the second bottom and the logical exit point was 1/8 below his entry. The reason he bought the stock was no longer there, it was no longer getting bought and the selling came in. He did not sell, and lost nearly 1000 dollars when he finally exited the trade at the third bottom. Know why you bought and when that reason is no longer there, exit the trade at your predetermined exit point, EVERYTIME!

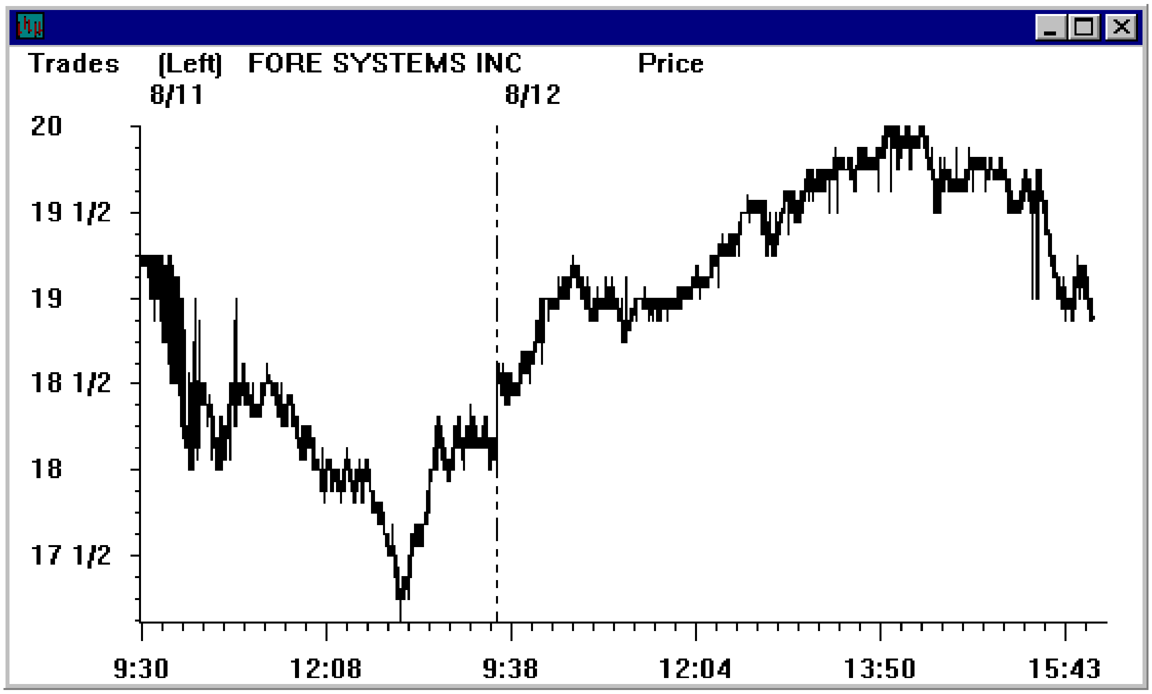
Golden Rule #6. Paper Trade Until Your System Trades Above 90%.

The small investor cannot afford losses. His system of trading must allow him tremendous gains to make a living. Paper trading is an exercise in PATIENCE and in the long run keep the money in the proper pocket, the traders. Every time I try something new without paper trading first, I lose. No matter how good it sounds in theory. If it is a solid method it will hold up over time. I have known traders who were addicted to trading and were continually trying new methods. They wound up confused, frustrated, and broke.

Golden Rule #7. Take Profits When You Have Them! You Will Never Go Broke Taking Profits!

I am a nervous trader which gives me the fast sell trait. I have found it generally true that many times there are more profits to be made if you ride out the selling on a stock that is going up, and you are into profits. But the stocks that reverse and continue down, do so at such a rapid pace that the losses can be excessive. One of the biggest faults traders continually have is the second guess. They continually second guess their trades by allowing 20/20 hindsight to dictate their trading. the second after a stock moves in a certain direction a trader will say to himself, "I should have known it would do that!"

Remember you can only go with the flow at the moment. If a stock is selling at $10 per share, you cannot know if the next low is 3 or the next high is 20. Day traders live in the moment. I take my small profits and wave good bye no matter what the next direction is. I have never been sorry.



FORE is such an example. I had a student who shorted FORE on 8/12 at the open. He exited the trade when the selling stopped and made 1/16 of a point. Not much of a profit, but he stuck to the rules and avoided staying with the trade and avoided a 1 ½ point rise, and saved himself from making a 1500 dollar mistake.

I make my profits in the same manner as a taxi driver makes his, one trade at a time and in small percentages. I am happy with ¼ point gains, as they add up quickly.

Golden Rule #8. Write Down The Time To The Nearest Minute You Placed Your Trade.

Brokers are human and they make mistakes. I have had trades executed 10 minutes after I placed a market sell! I called my Broker and complained giving him the time I place it. I have always gotten the price quoted within seconds of placing my market sell. If the stock is going down rapidly you can lose a lot with slow executions. You should have a reasonable idea of how long a market sell generally takes with each stock exchange.

Chapter Four

Momentum playing is like a pony express rider jumping on one horse to another. He gets to his destination faster by using fresh horses and riding them until they get tired. It is true with investing also. You will reach your goal of higher profits by riding the freshest momentum stock possible. Every day I see traders asking about last weeks momentum stock. "What do you think it will do today?" Usually it is a done deal and a fresh one needs to be saddled. The only exceptions are the ones that continue readable and wide oscillations (daily price swings).

Momentum causes a stock to start readable patterns of oscillations. The price variance of the highs and lows are determined by the reason (the story) for the momentum. There are stocks that oscillate because of news, investors interest in their sector, rumors and inside information. The dynamics of the market will determine the nuances of each oscillating stock. These nuances must be tracked and percentages of repeating patterns calculated. Once you identify a pattern it is wise to always keep track even when market patterns change. Cycles always repeat.

It is the purpose of this manual to aid in plotting a clear course of investment methods. A springboard to clear thinking about why an investment is made and what is the percentage of success. Every trader MUST assess their reason for buying and check to see if the reason proves valid. The dynamic nature of the market will always require a tweaking of techniques to extract the highest profits.

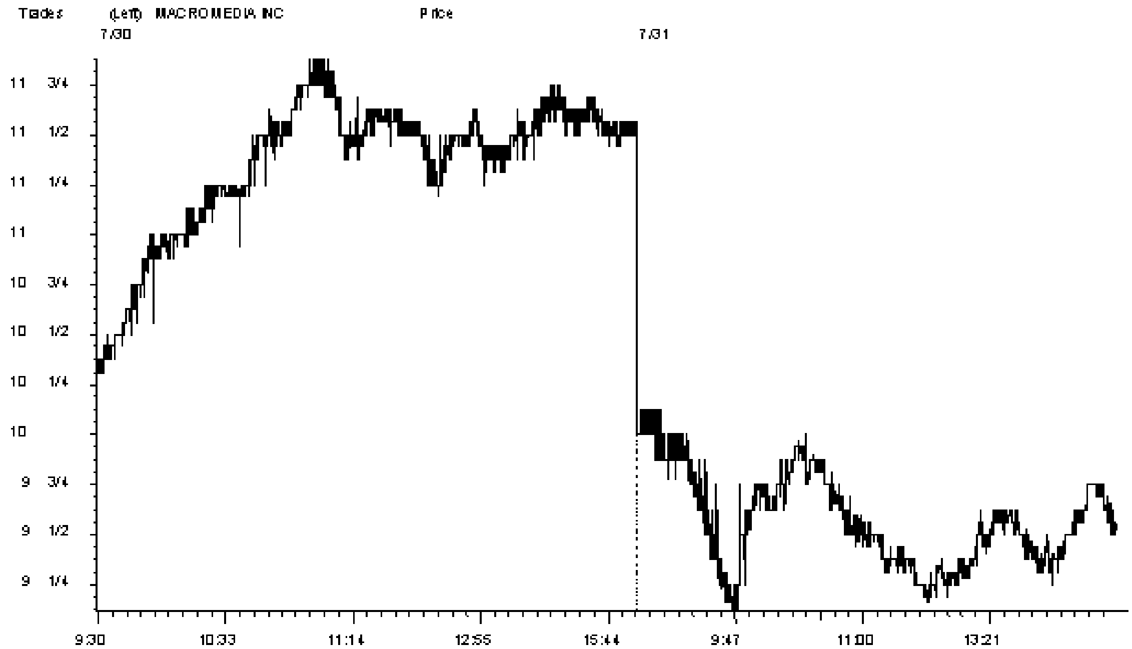
FOUR GENERAL TRADING PATTERNS

I generally use four different springboards to pattern my trading.

- **Dumpers**
- **Gainers**
- **News**
- **Publication Stocks**

DUMPERS

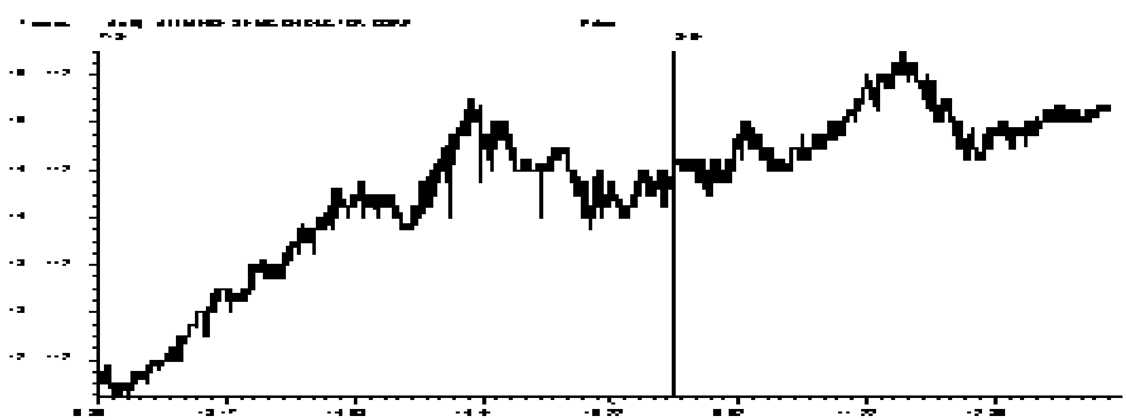
Dumpers are stocks that dump 20% or more on mediocre bad news, such as missed earnings by 1 cent. The market ALWAYS over reacts to this bad news, and we play the bounce or correction at the bottom. We only play mediocre bad news and not real bad news dumpers such as missed earnings by 30% or SEC investigation news.



MACR was a stock that dumped over a point overnight after reporting earnings and was followed the next day with an announcement of that they were repurchasing shares of their own stock. This stock behaved like a "perfect" dumper stock and will be examined in detail later on.

GAINERS

Gainers are stocks that are up on good news. Remember, Wall Street always overreacts to both bad and good news. In the case of good news, everyone wants onboard, and we take advantage of this overreaction and ride the wave!



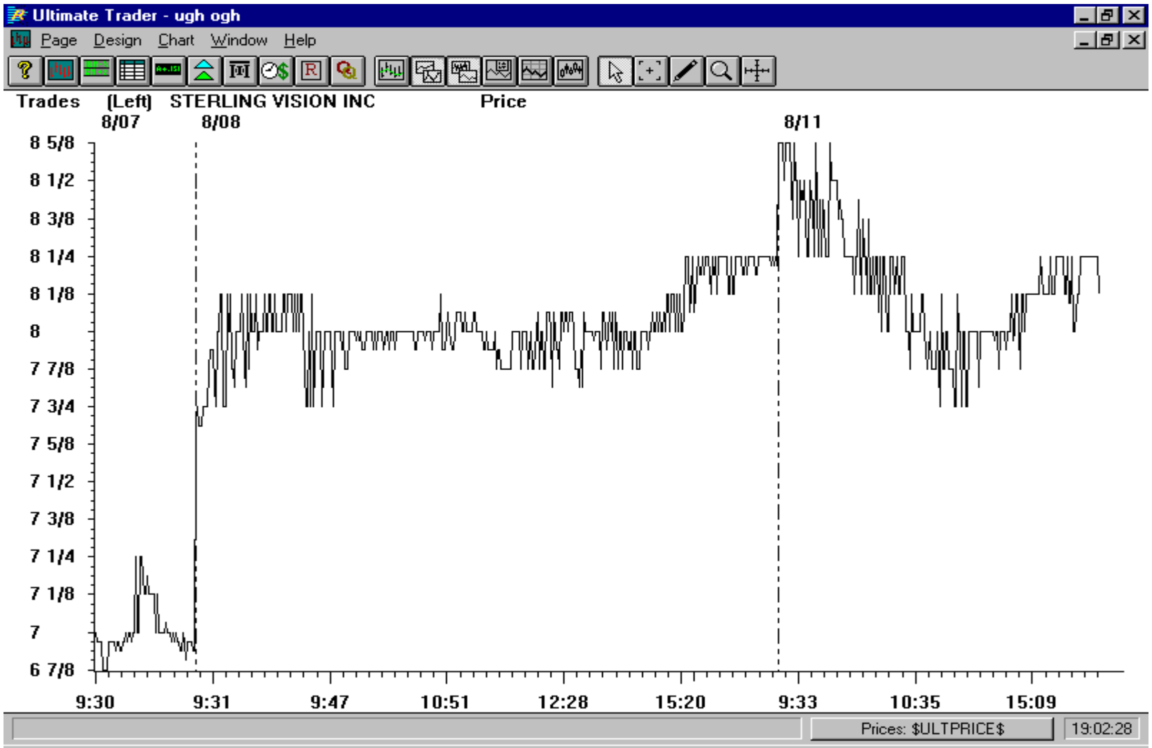
An example would be a company who releases favorable earnings report, or is upgraded by an analyst. If reported after the bell, the stock normally will gap up the next day. If the story is very strong, the stock normally opens up with a gap up, sells off then takes off upward. We buy at the first dip or sell off and ride the momentum up. If the story is weak, we short at the first high and wait for the street to digest and understand the news. Once they do, the stock normally drops a fair amount. Again, we take advantage of the streets overreaction to the weak good news.

NEWS STORY

We scan the news all day long & wait for a news story to hit. An example of a good news story was when ValueJet was cleared to fly again, or when Ion Laser Tech received FDA clearance for their painless dental laser. I am forever looking for that company who reports they found the cure for cancer. We evaluate news stories all day long and immediately buy if the news is good and the stock is being bought.

PUBLICATION STOCKS

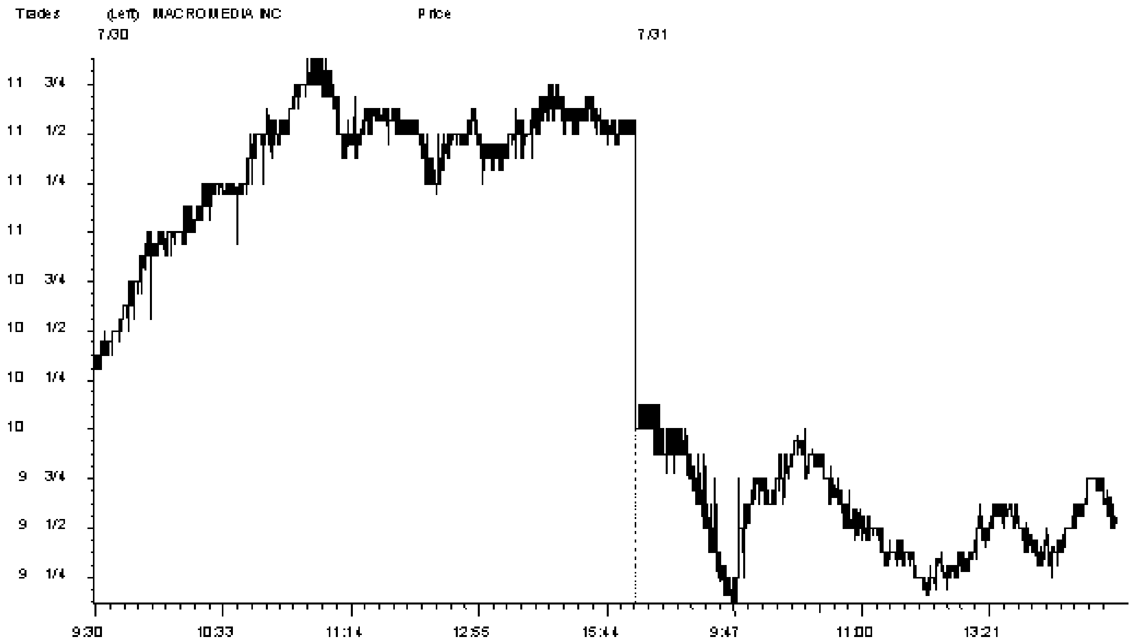
Publication stocks are stories in magazines like BusinessWeek or NewsWeek. We play the oscillations as the story is read over and over again during the course of the week. We also get the jump on the majority of investors by reading the stories online before the paper copy hits the streets! One could simply play one BW stock a week and outperform the majority of mutual funds.



There are nuances in trading each particular momentum stock. This course will put you on the springboard for discovering those nuances. Remember the Stock Market is dynamic and always changing but I have seen the cycles repeat themselves over and over again.

Chapter Five

Dumpers are stocks that dump greater than 20% on mediocre bad news such as missing earnings by 1 cent or so. Remember the market ALWAYS overreacts to this bad news and we play the bounce once the street digests the news and determines that the news is not that bad. We find the turning point and jump in just as the momentum is starting at the first bottom.



This is a classic example of a textbook dumper stock. MACR reported poor earnings after the bell and the stock dumped overnight. It gapped down, and then sold off immediately the next day. We watched this stock hit one clearly definable bottom at the first low where we purchased the stock. At the second peak, buying slowed and selling came in where we sold for a ½ point profit. With 3000 shares, that would be a quick 1,500 dollar profit. I will come back to this example time and time again, as it is a textbook trade.

MAKING MONEY ON A BAD STORY

I returned from So. Calif. recently where I taught my trading method on trading bad story stocks (Dumpers) to a relative. I provided a $20,000 trading account and admonished them to stick to the rules religiously. In less than two weeks they have already made nearly $5,000. the Dumpers have been one of the most consistent ways of making money I have seen in my years of investing.

I know of one daytrader who specializes in dumper stocks, and that's all he plays. He reads bad news all day long and evaluates it. The trick is to find the Dumper early when it hits its low.

They almost always recover from the low and some will go up over 4 dollars. They MUST dump over 20% of their previous days trading price and the best ones have dumped 50%. There are three ways most often used by me to find a Dumper:

1. Watch CNBC prior to the Market open to identify the problem stocks. They usually have reports on the big stories of the day prior to the open. Put the stocks on your quote screen and if it is a NASDAQ stock you will see the price drop prior to the open so the stock with the greatest percentage drop can be identified. Identifying the low will be discussed later.

2. Scan the headlines prior to the Market open using keyword scan in your headlines window. Place in the keyword scan dumper indicator words such as "Below", "down", "cuts", etc. I recently caught a story (11-07-96) on Advanced Tissue (ATIS) fifteen minutes before the market open. The stock had been cut by Morgan Stanley. The previous days price was $14 5/8 . It opened at 9 3/8 and sold down to 8 1/16 where it bottomed out and promptly went to $11. Nearly a three dollar gain, and 2000 shares would have brought you a 6000 dollar profit!

3. Using scanning software that shows the NASDAQ top ten decliners . I currently use AB Watley and their "scammer" software to find these decliners. Many other companies offer this service such as E-Trade, or it can be found on the internet. See Appendix B for a list of informative Web sites.

NEVER buy a stock that is being investigated by any regulatory agency or is suspect of criminal activity or Bankruptcy. The stock could halt trading and leave you hanging for a month or more.

The best dumpers are ones that experience a price drop of 30-50% or more due to missed expected earnings by a few pennies. Remember the Market always over-reacts. Again, watch how the stories effect the stock! I constantly scan stocks that may be coming out of Bankruptcy. They can go on nice rally’s if their future looks brighter. I remember more than doubling my capital overnight on a story on Bradlees (BLE) at the end of the trading day. They had received 100M in credit and also got a good story on CNBC. I bought the stock at $1 per share and sold it the next day at $2 1/8.

HOW TO DETERMINE SHORT TERM BOTTOMS AND TOPS OF MOMENTUM STOCKS

Before we learn how to find, recognize and play dumper stocks we need to learn how to determine our entry points. The bedrock of my investment success has been my unique ability to call the short term bottoms and tops of stocks. This is a learned talent and with some practice you can also learn how to do this with increasing accuracy.

The normal action I would expect from a dumper at the open is a sell down from the open price. I watch the rhythm of the Bid and Ask change and ignore the trades at first.

1. The first indicator of the first bottom on my trade is a PAUSE in the rhythm of the downticking bid and ask.

2. I now focus on the trades as much as possible ignoring any out of bounds trades (trades that occur at a price below or above the bid and ask).

3. After I have noticed a PAUSE I look for an in-between the bid and ask trade. If a dumper has sold down to 9 1/8 bid by 9 1/4 ask, I will look for a trade at 9 3/16. The in-betweener (trades between the bid and ask) is the second indicator to the bottom.

PUMA Time Sales Chart

Time	Price	Volume
10:12	4 1/2	200
10:12	4 1/2	300
10:12	4 1/2	2000
10:12	4 1/2	500
10:12	4 7/16	1000
10:12	4 7/16	500

10:12	41/2	500
10:12	43/8	15000
10:12	41/2	1000
10:12	41/2	5000
10:12	41/2	1000
10:13	45/8	5000

Notice on PUMA’s time sales chart the two 4 7/16 trades. The current bid and ask were 4 3/8 bid and 4 ½ ask. The inbetweeners were the two 4 7/16 trades. Buying then picks up and at 10:13 the ask upticks to 4 5/8.

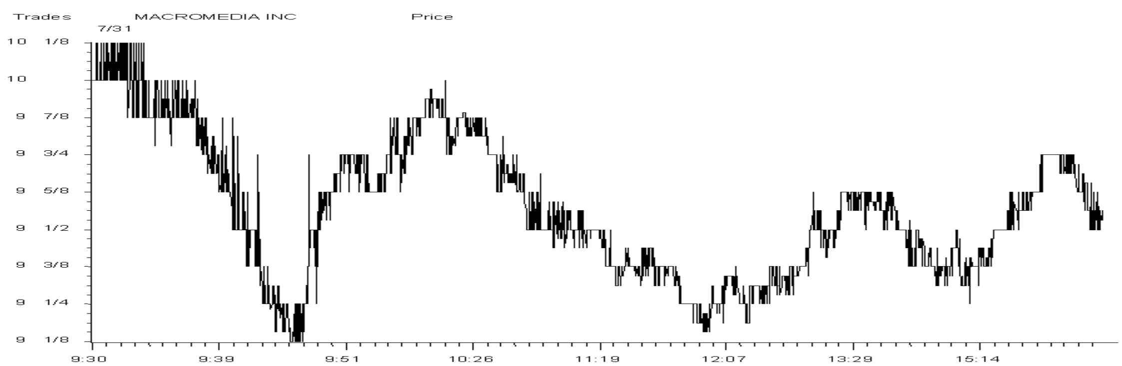
4. Now I will look for buying to pick up in momentum and when it does signals my bottom call. The timing of bottoms and tops will depend on the particular trade and how they normally move. Dumpers have been making only one bottom recently and going up to not return until later in the day. So I have been buying consistently on the first bottom.

You can only know how a particular trade will behave by keeping accurate records or intra-day charts. I have always done my charting by hand and now I can do it in my head. See appendix C for practice tracking sheets for tops and bottoms.

Calling the top is much the same as the bottom except everything is reversed. Again, it depends on the trade. I have been staying in dumpers recently because most of the time they will oscillate to new highs for a few hours after the open. You MUST keep your diary’s up to know what percentage of dumpers make one or more bottoms and how often they make new highs in any given Market.

Determining the Upside Potential

This is a key point. If you do not figure out your upside then you have no valid reason in being in any trade. You must determine "upside potential." You have no reason to believe another new high will occur. So your upside potential on the first oscillation down is the previous high before the sell off. The low hit on the first sell off becomes your current "downside potential" because you have no reason to believe an oscillating stock will make a new low. Dumpers will often make two lows early on. So if I have a stock that has come off the high by enough percentage where I think the upside potential will support 3/8 profit easily I will buy.



Upside Potential

As the day progresses the oscillations become narrower and narrower determining new upside and downside potentials. You must keep adjusting the potential based on the most recent low and high if you intend to make money in the middle of the trading day. See chapter nine for more on daily oscillations.

Suppose stock XYZ opens up one dollar from the previous days ending price. Yesterday it closed at a price of $7.00. It opens at $8 and trades up to $8 1/2. Now I would expect 8 1/2 to be the high of the day and the current "upside potential" is 8 1/2. I would not invest unless it came back to about 7 5/8. The reason I need a good pull back is because it will not usually make the high again but I would expect it to go a little above 8 1/8 because of narrowing oscillations being the rule.

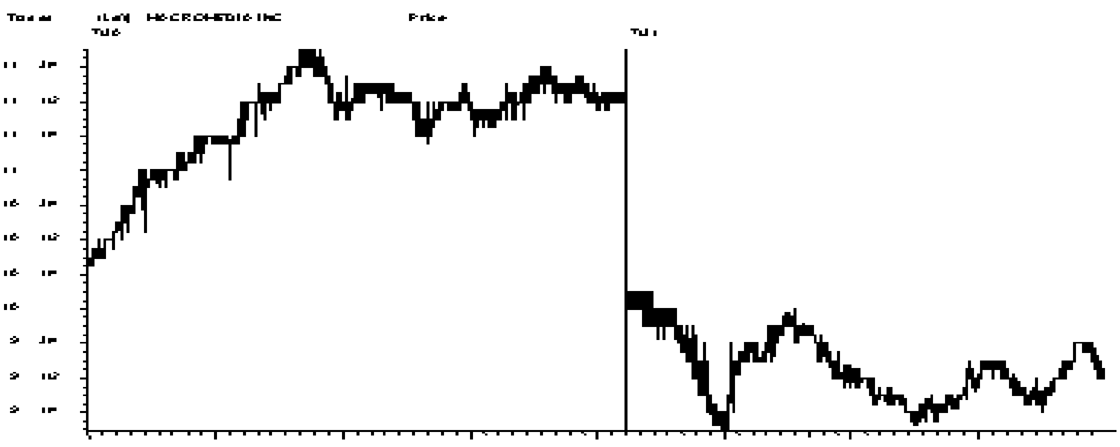
So when you consider having to clear your spread there is not a lot of potential profit left in this stock. Remember Risk and Reward. Do not risk your money for a very small potential. The opposite is true if you intend to "short sell" a stock. The downside potential is calculated by knowing the previous low. If XYZ traded down to $7 1/2 and then rose to $9 my downside potential would be 1 1/2. Calculate the downside potential and if it is worth the risk, short it at the top.

Many times you will find stocks that oscillate every day enough for you to make profits. I know traders who follow such stocks and only trade them knowing their intraday patterns like the back of their hands. An example of this type of stock is IOMEGA (IOMG), now (IOM). I began watching this stock every day in mid-September of 96. I noticed it had been sold along with the other technology stocks but there was still strong interest in this stock everyday. I noticed that it would open up, sell off and then go up to its high and above almost every day. It could have been bought at the end of each day and almost always open up the next. Then the intraday trading pattern would repeat itself. What a great consistent money maker for the wily investor.

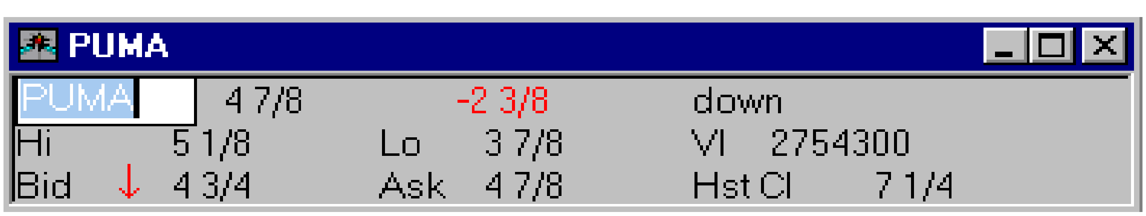
Dumpers (First Day)

Again I generally find dumpers by listening to CNBC for the stories before the open or I look on my trading software that scans for gaps from the previous days close. AB Watley provides the scan with a program that is called a Scammer, any screening software will do. I also look for news stories using a "keyword" scan that will alert me with any stories that are negative such as, below earnings, missed, downgrade, lawsuit, etc.

- Dumpers should have at least a 20% decrease from the previous days price. The decrease in price can only be seen prior to the open on NASDAQ traded stocks. You will see the bid or ask much lower that the closing previous days price prior to the open. This is my red flag that causes me to focus on the trade. This is a general springboard for looking at repeating patterns.



- You should attempt to eliminate riskier trades by noticing how the spread behaves. If a spread changes on you with no reason such as a decrease in price with no apparent selling you should note the increase in risk if you trade such a stock. Some stocks will widen the spread excessively leaving you uncertain as to the direction at any given time. Those types of stocks should be ignored.



Notice the spread on PUMA is only 1/8 a point, with good volume and down 2 3/8. This is a classic dumper stock. Good volume, good spread and down over 20%.

- You should know the story and the trade should have good volume. The best trades have always been stories that are not very bad but an unusual amount of panic selling has occurred. Stay out of any threatening stories such as investigations or fraud as these stocks can halt with a subsequent open at a "much" lower price. "Know the Story" is wise advice to the prudent trader who wishes to eliminate as much risk as possible. I have seen stocks decrease in value due to a few pennies below earnings expectations. The market always overreacts to good or bad news and that is your meal ticket. You should always evaluate the story and ask yourself if the sell off seems reasonable in light of the story. Heavy volume always indicates a good level of interest by other traders and tends to lead to larger swings in price offering you a larger profit potential.

- Dumpers will sometimes make several lows very early in the trading day (Usually before 8:30 PST). It is necessary to count the lows the stock will make from the Market open. You will get a feeling for the percentage of dumpers that make one, two, three or more bottoms. Recently most of the dumpers have been making only one bottom and I have been buying accordingly. The percentage of dumpers making only one bottom was 50%. I consider a second bottom a much higher percentage trade, approximately 90% of the stocks that make a second bottom will bounce up providing nice profits and a third bottom to be about 95%.

- I consider bottoms to be a NEW low price and not to be confused with stocks that hit the first bottom a few times before a climb up. If I purchase a dumper that has sold down to 9 dollars and has 1/8 spread, I will not sell until I see selling at 8 7/8. That is usually a tip off that a new low will be made. If I see excessive selling at 8 7/8 I will sell my trade and lose 1/8 of a pt. I will then will time the next bottom and re-buy. Many of my students over the years have been so discouraged at losing the 1/8 that they failed to buy at the next bottom missing profits that more than make up for the original 1/8 loss.

End Of Day Dumpers

- A dumper should be watched at the end of the day for buying action the last 5 minutes of the Market. I always take notes on how many dumpers will open on the second day to establish a pattern that tells me the percentage of success I will have if I purchase a dumper at the end of the first day. I will hold the trade overnight and sell at the open on the second day if percentages warrant the risk. The difference in price between the close and the next days open is called a gap. If a stock closes on Monday at 9 1/8 on the ask and opens at 9 5/8 the next day on the ask then it would be gapping up by 1/2.

Dumpers (2nd day)

- An end of day purchase should be sold at the open to insure against another heavy run to the downside which sometimes happens. Place a market order to sell your stock 5 minutes before the open. I will consider shorting at the open also according to the percentage of dumpers that go down from the open on the second day. I will try to buy after the first sell off if I feel the potential for recovery is sufficient enough to provide nice profits.

- The dumpers are currently (01-20-97) hitting their first bottom and going up to not come back about 50% of the time. I have been buying 1/2 shares to accommodate increased risk. If I purchase a dumper at 9 I will exit the trade at selling at 8 7/8 providing the spread is 1/8. I will always attempt to re-enter the trade at the second bottom as it is now a 90% trade and I am comfortable with the fact I usually make up for the first small loss. This second bottom places me in a much higher percentage trade as they seldom are making three bottoms. I will place my exit price at the "bid" when I first buy. This placing of an exit criteria is essential in loss control. When you place it do not waver or you will ruin good trading habits.

- Do not make the mistakes many of my students have made in buying off the bottom (chasing). When a stock starts up it seems to most traders that the buying is going to propel the stock several points. Most of the time you will be surprised how fast the buying can stop and start back to the low. I try not to lose more than a spread which has worked for me, but each investor must set his own loss limits that he or she is comfortable with. If you find that you are getting shaken out of many good trades early on by your loss criteria being to stiff you may wish to accept a 1/4 pt. Loss, but I never have and I have been sorry only on a few occasions.

- If I purchase a stock at 10 per share and the bid is 9 7/8 my sell criteria will be, "excessive selling" at 9 7/8. Remember I purchased the stock because it was being bought heavily at 10 and about to go up in price. The stock can go up to 10 1/8 and then fall back to 10, (I call this teetering) but I will not exit unless I see the definite selling at 9 7/8. The "teetering" of a stock is the most anxious time when I first enter a trade. If I see excessive selling at 9 7/8 it usually indicates that there will be a new bottom. I will exit my trade and buy again at the next bottom. I give up my spread but I know the next bottom will be a bigger correction to the upside and I will more than make up the small initial loss. The worst case scenario for me is that the next bottom is unreadable because it moves off too fast. I refuse to force trades and I will not guess. If I cannot identify buying outnumbering selling I will let the trade go.

- Take note of the time these oscillations occur at. Currently the dumpers can be weak until about 8:30 PST, (I often buy at the low at that time) and is strongest before about 10:30 PST. Each trader must decide for themselves at what point to take or risk profits. You cannot go wrong selling at the first hint of weakness after you have money in the pocket, but you will notice there are some dramatic corrections with some dumpers that will certainly tempt you to stay in.

I recently helped a trader identify a low at which point he bought the stock. I watched as the stock went up over two dollars and he never sold. As the stock climbed in price he said to me, "this stock is going to the moon." It paused after going up two dollars and then started down. I asked him if he was going to sell and he was silent as if in a trance. The stock went all the way down 1/8 below his entry point! All day long he kept saying, "Why didn't I sell?"

The moral of the story is "take your profits." Do not allow a few stocks that weaken then continue up to spoil good trading habits. Do not be greedy. If your stock is weakening and you have profits, sell. Usually I can identify my stock weakening when I see a pause after a steady climb, in-between the bid and ask trades and then selling. When I have profits I will get ready to sell at the Pause and not wait for selling. This technique works 80% of the time. Many times I have taken 3/8 of a point profit on the first weakening only to have the stock proceed up another dollar. Yes, I feel very disappointed, but I play the rule not the exception. I refuse to jeopardize 6 trades where I make 1/4 of a point just to catch the one that goes another 1/2!

I have been making money with the dumpers on overnight recovery. Recently I bought a stock at the end of the day and made 1 1/8 when I sold at the open. All trades that gap up I sell at the open and buy after the first sell off. I have been buying the dumpers back the second day after the first sell off as they have been recovering sufficiently to make nice profits. It is best to pattern the momentum stocks for two days minimum.

Following are some questions I ask myself and keep in my trading diary to facilitate spotting patterns. It is most important to keep a consistent springboard to invest by. If I have no history governing a particular trade I will start a diary and track it until I get an idea of the percentages with which to invest by.

What do they do on the day of the dump? How many bottoms do they make on the day of the dump? What do they do at the end of the day they dump? On the open after the day of the dump? After the first sell off on the second day after the dump? Answering these type of questions is how you pattern momentum stocks.

It is important to note spread behavior. At times spreads will be consistent and small. Other times they will seem excessive and unpredictable. If I choose to trade a stock with a 1/4 spread I will always try to attempt a limit buy 1/8 off the Bid, which would be in-between the bid and ask. I do not care if I miss the trade as there is always another trade around the corner. The only exception I might make is a Huge story on a stock that I know will make it run very well.

11-11-96 TRADE

Today I caught IVX going down over 20%, dumping from a price of 15 7/8 to a low of 12 1/2 Bid. A student called me and we watched it go down to 12 1/2 bid and 12 5/8 ask. The stock bounced off of the low went up and then came back to the low for the second time. I told the student to buy at 12 5/8 as I recognized buying outnumbering selling. We placed a limit buy at 12 5/8 but we were too late for the buy to be executed. Missed opportunity for sure but I always err on the conservative side of trading. We watched the stock go up to 13 1/8 bid and 13 1/4 ask and sell back down to 12 3/4. Student asked if he should buy as we could see buying outnumbering selling dramatically. I said no because the upside potential was only the last high (13 1/4 ask).

I will not jeopardize my money for a small gain. Many traders are tempted to jump in because the quick heavy buying makes the stock look like it is going through the roof. We stayed out and indeed the high was only 13 which would have barely cleared our spread had we timed it perfectly. The stock never went higher all day.

Worksheet For Trading a Dumper

1. Watch the bid and ask and notice the rhythm of the changing as it falls.
2. Write down the price at the first "Pause" (the price where the bid and ask has stopped falling).
3. Watch for an in-between the bid and ask trade.
4. Count the seconds until the stock upticks in price. Usually you will need 20 seconds to get into the trade.
5. Now watch as the bid and ask starts a rhythm in the climb up from the first bottom.
6. If you get a small uptick and then the dumper comes back to your buy price do not sell until you see selling at the bid. This up and down activity at the bottom I call "teetering."
7. As you watch the definite climb up from off the bottom notice the rhythm of the bid and ask as it goes up and then the "Pause."
8. Now, write down the price (bid) you would sell at when you see one or two trades occurring at the bid price.
9. Count the seconds until the price changes down. Usually you will need 20 seconds to execute a Market sell. Write down the price you see at the end of 20 seconds.

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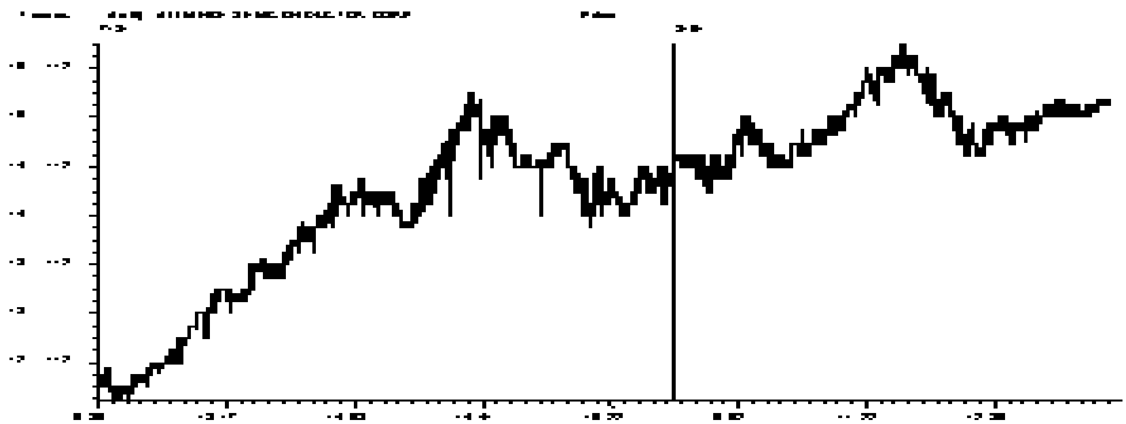
Chapter Six



AS discussed earlier, gainer stocks are those that react positively to good news. An example is a company that reports positive earnings after the bell. Usually the stock rises on anticipation of earnings then gaps up the next day. In the example above, notice the gap up the next day, the quick sell off due to profit taking and then it took off again. Weaker stories sell off more on the first dip than stronger stories then bounce as traders and late comers react to the good news and buy.

Gainers (First Day)

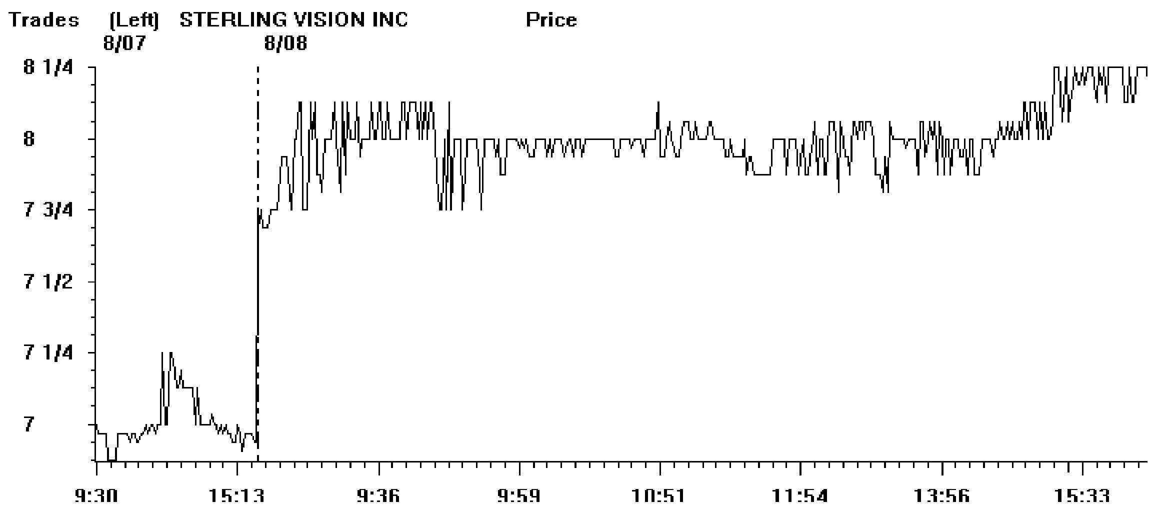
- The gainer that opens up can be purchased normally at the first sell off with reasonable upside potential. Many times a very strong stock will only go down 1/4 of a pt. so you must be ready to buy very fast after the open. Take note of the pause and be ready to trade. Some gainers will go up from the open and I usually let them go as I can never be sure of the top. You will note after keeping your diary that most gainers will sell off right at the open and that is the highest percentage expectation.

- The gainer that gaps up 10% or more with a weak story or one that does not effect its earnings in the near future should be considered for an open short. Most of the time they will fall right at the open but sometimes they make a small run to the upside. I watch for trades occurring at the bid price which is your tip off as to the strength or weakness. Open shorts must be played fast or you will miss them. Keep your diary and work out the percentages. I will normally cover after the first run down at the pause because in a strong market many traders will be buying on the pullbacks. A VERY GOOD story gainer should be shorted at the high on the second day which again will be at the open usually.

- News story gainers should be purchased at the initial rally price or after the first sell off with good upside potential.

- Any gainer can be considered an end of day buy with heavy buying the last five minutes the market is open. I generally do not like any selling to be able to spot the high percentage gapper up. I also keep a diary on how often the gainers are opening up from the preceding closing price.

Gainers (Second Day)



Example of second day gainer gap up

- Gainers can be shorted at the first high which is usually the open price unless the story is exceptionally strong. I would not short strong stories in strong bull Markets. I would be looking for the pullback and the opportunity to ride the bull. The example above was an exceptionally strong story and did not dip at the open.
- Second day gainers can be purchased after the first sell off considering the upside potential and the optimism of a continuing rally. Market mood is also a consideration for any continuing rallies. The market can change very fast due to economic reports or any off handed remarks by Fed chiefs such as "Irrational exuberance." The market mood will determine if there are Buyers or Sellers of the momentum stocks. If I see a 100 pt. pullback in the Dow I will go shopping for any recent gainer on a pullback during a Bull Market as I know many traders are watching for opportunity to BUY.

TRADING GAINERS

I consider any gainer that has gapped up (opening price being higher than the previous days close) by 10% or more a candidate for a short. I will try to assess the longer term implications of any News on the stock I am considering to short. I like to short stocks that will not see immediate or near future earnings increase. I have found that traders have short memories and even the best stories will eventually sell off after an initial run up. A very strong bull Market will produce quick sell offs at the open and a climb past the open price and caution is advised. Keep your diary’s on how the gainers behave at the open to calculate percentages (How often the gainer behaves as expected).

1. I will watch my short candidate open and look for trades at the bid price. I consider the percentages on how often a gainer will run up from the open and make my trade accordingly.

2. If I see trades occurring at the bid price over the ask price I will do an open short and wait for downticking. I usually set a higher loss criteria because the fall from the open is a very high percentage probability. If I am in a short from the open I will allow my trade to go up a bit before I cover. Keep your loss criteria and always watch for an exception(a stock that does not behave according to pattern).

3. I will cover my short on the first oscillation down depending on how the market is behaving. In a strong market a quick cover is advisable. I will look for the rhythm of the bid and ask as it downticks(bid and ask going lower). I will cover at the Pause and not wait for buying. Keeping track of gainers at the open will clue you in to the usual action that will dictate your trade. At times I have held my short until 11:00 am PST which was the weakest part of the day especially if I suspect the stock has been overbought on a weak story.

BUYING AT THE BOTTOM

Any gainer that has gapped up overnight is a good candidate to buy at the first low. The best ones are those that have really good stories pushing them to new highs. I normally focus on at least 5 and commit to a bottom buy on at least 1 every trading day.

1. I expect a gainer to fall from the open or after a small run up. I do as I did with the dumpers in that I watch for the rhythm of the bid and ask as the stock downticks.

2. I now watch for the Pause in that rhythm where I figure the upside potential (the difference between the pause price and the last high which is usually the open price).

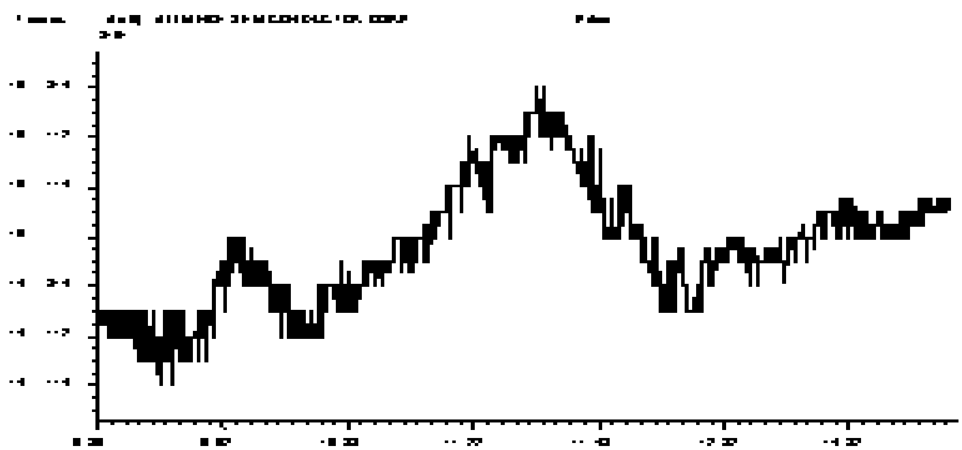
3. If the upside potential is about 3/4 of a pt. I will watch for my in-betweener indicator and Buy when I see buying. Sometimes a stock will jump up with little notice of buying and you will need to adjust your buying criteria based on the normal behavior of gainers within a given market. During very strong markets I will chase a trade up 1/8 from the bottom but the percentages must be on my side.

4. Selling the gainer will depend on the Market you are experiencing and the story behind your trade. I am prone to taking profits unless the oscillations of gainers are such that staying in the trade longer is a high percentage bet.

5. I usually allow the trade to go up noting the rhythm and sell at the pause when the bid and ask is no longer going up and I am still seeing buying. You will note that many times a stock will go up one tick then come right back down to your entry point. I call this Teetering and you should hold your trade until you see definite selling at your exit criteria.

END OF DAY GAINER

I usually watch the gainers trade the last 5 minutes of the market to get an idea which one is likely to gap up the next morning.



1. Watch for HEAVY buying on your gainer. I like very, very little selling.
2. I like the gainers that are near the high of the day showing continued support by traders.
3. I take into consideration the general market mood and if there are any Gov't numbers due out in the morning possibly shaking the market into a sell off.
4. Consider any News as I feel many investors come home from work and read the stories on stocks and place overnight orders. The best ones usually will be reported on CNBC and gives added buying overnight.
5. I usually sell at the bell or right before with any gappers. I have held overnight taking my profits and insuring against a big sell off.

TRADING THE SECOND DAY GAINER

1. Should be sold at the bell. This is your insurance policy against a sell off leaving you with a loss.
2. Should be considered for a short at the open per our short discussion

3. Watch your gainer for a sell off rhythm.
4. Note the pause and the inbetweener.
5. Buy as you see buying with what you feel is good upside potential.

SELLING SHORT

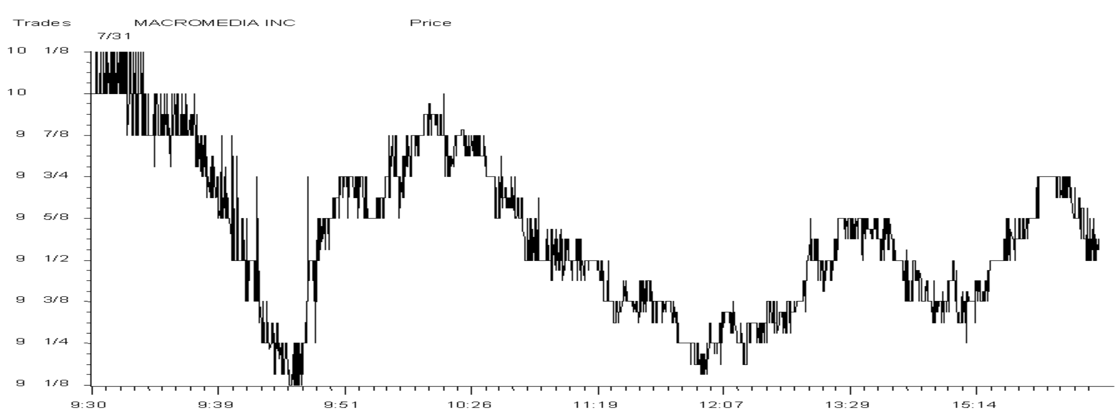
Selling short is a way to make money in the stock market by borrowing rather than buying stocks. Your broker must have them on hand in order for you to borrow. You can usually call your broker to see if they are available to short. Usually there is a minimum price per share that must be met by your broker.

My broker will not allow me to short any stock under five dollars. Call your broker for the specific rules for shorting. On the NASDAQ exchange you cannot short a stock if the BID price has gone down. You will only be able to execute a short on an up-tick (the BID price being up from the previous BID price). When you sell short the broker sells the borrowed shares and you get the money.

Then you wait, expecting the price of the stock to drop. If it does, you buy the shares at the lower price and repay your broker to settle the loan (Plus some interest and commission). For example, you sell short 1000 shares of ABC at $10 a share. When the price drops to $8 a share you buy 1000 shares (called covering your short) and give them back to your broker. The profit ($2000) is kept in your account minus the commission.

SHORTING BIG GAINERS

If a stock price has gained approx. 20% or more in one day it is a candidate for a short sell the following day. The trading scenario I expect is for the big gainer to open up and trade up to the first high (normally the high of the day). I must see the typical climb, pause and the sells to outnumber the buys with a couple in betweeners. I do a limit short sell and again I stay on-line with a buy to cover order which I exercise at the first hint of buying at 1/8 above my entry price.



Example of short at open of 2nd day gainer

Hopefully the stock has oscillated down a good percentage and profits are made. If the stock has oscillated down enough where I feel profits can be made I will buy at the low of the first oscillation down and hope the rally continues but again I sell at the first hint of selling. Remember the chances are the previous high will not be made again unless the story is great and in a good sector.

Worksheet For Trading a Gainer

1. Watch the bid and ask and notice the rhythm of the changing as it falls from the open.

2. Write down the price at the first "Pause" (the price where the bid and ask has stopped falling).

3. Watch for an in-between the bid and ask trade.

4. Now pretend you buy with the first few buys (there will still be some selling but notice when the buying picks up).

5. Count the seconds until the stock upticks in price. Usually you will need 20 seconds to get into the trade.

6. Now watch as the bid and ask starts a rhythm in the climb up from the first bottom.

7. If you get a small uptick and then the gainer comes back to your buy price do not sell until you see selling at the bid. This up and down activity at the bottom I call "teetering."

8. As you watch the definite climb up from off the bottom notice the rhythm of the bid and ask as it goes up and then the "Pause."

9. Now write down the price (bid) you would sell at when you see one or two trades occurring at the bid price.

10. Count the seconds until the price changes down. Usually you will need 20 seconds to execute a Market sell. Write down the price you see at the end of 20 seconds.

Depending on the Market you may wish to hold through the early oscillations in the hopes of more profits. Take into account the market mood and keep your diary updated as to the normal activity of your trades. Never allow your trade to go below your exit price(the bid when you first bought).

Chapter Seven

News story stocks are those stocks that react favorably or unfavorably to breaking news throughout the day. First and foremost you need to ensure that this news is not old or repeat stories. You must be able to determine if the story is a good one and react quickly by placing your buy order in.

FINDING THE MOMENTUM STOCKS

The best way to find a big mover is to scan your Dow Jones Headlines constantly and wait for a big story. I work towards being there when the big stories break with my capital in hand. I look towards investing in the SURE THING. I am waiting for that small bio-tech stock to find the cure to cancer!

Geron is one of the best examples of a GREAT news story I have seen in years. It is in-fact, a possible cure for cancer. Geron Corp announced that they had successfully cloned a gene that could potentially aide the fight against cancer and old age. If you ever see one of these come across your screen, put in a market buy and ride the wave. Using my methods the proper buy was when the news broke at 9 and the sell point was 12 where the selling came in. After that point,

The Cure for Cancer!

we do not touch it unless the upside was 1 point. At 13:30 there was such an opportunity to play it again on a dip. Stories don’t get much better than this!

I do not invest in any stock until I am sure of the direction of the price. The story moves the stock. The best time to receive stock moving stories is a few minutes before the Stock Market opens and a few minutes before the close. You can then react before the Market can fully understand the impact the news will have on the stock. Investors come home from work, find the story and buy the stock overnight.

Recently I was ready when the news came across my ticker five minutes before the Market close declaring that Valujet had been cleared to fly again! I made a no brainer 1 3/8 when I sold the next morning. It doesn't take many of those type of trades to rack up incredible profits. I have many times DOUBLED my investment overnight by recognizing and being ready for a great news story. Needless to say PATIENCE is definitely a virtue in trading.

I believe a person can make incredible gains by just scanning the news and being ready to trade 10 minutes before the Market open and 10 minutes before the close. Imagine working 20 minutes a day and increasing your portfolio incredibly better than any high growth mutual fund. If you catch a Hot story on a stock in a Hot sector you can make a quick bundle! This was recently most certainly true during the gangbuster days of the technology stocks.

A few months back I received a story on CA wireless about ten minutes before the Market close.

They had just released information about a new product whereby you could access the internet using wireless technology. At the time I knew that anything regarding the internet was a hot topic. I immediately bought shares at $8 per share. I of course saw the immediate fast buying that accompanies a hot story. I sold the next morning at $12 3/8. That type of trading takes all the fun out of a trip to Reno.

Another way of finding the big moving stocks is to look on the leaders board. These are the stocks that have the largest volume and the highest percentage gains or losses. There are programs available that will screen all the stocks on the stock market, such as Powertrader, and give you the big movers. If you do not have the software that will screen the stocks it will be printed for you on the leaders board by Data Broadcasting at about 7:05 a.m. pacific standard time every morning or there are various other sources to find them such as www.abwatley.com (movers and shakers).

When I find a big mover with good volume I put it on my quote screen and watch it trade. If there is a large price swing from the high on a big gainer (a stock that rises over 20% in one day) and I feel potential profits are there I will buy when I can identify the low with buying increasing over selling. There will be the temptation to guess but do not buy unless you can, without a doubt, identify the bottom.

HOW TO RECOGNIZE A GOOD STORY BY THE HEADLINE

Recognizing a good story by the headline requires patiently educating yourself by keeping a constant companion called a DIARY. While scanning your news headlines write down the stories you feel will move a stock while placing the symbol of the stock on your quote screen.

Generally speaking a story should have an impact on the future earnings of the company. For example a 50 million dollar order will have little impact on a stock trading at $90 per share but it would be a significant order for a stock trading at $.50 per share. Write the symbol in your diary and then rate the story using a 1-10 numbering system. 1 being the least impact you feel the story will have on the stock and 10 being the greatest. Watch the stock trade and note how much the stock price rises before the sell off, this I call the first oscillation.

A good story should propel the price at a quick pace over 10% depending on the price. Many "good" stories will only move the stock 1/4 of a point before it starts to sell off. That does not leave much room for you to enter and exit but if you have entered your limit buy at the initial rally price you should be able to get out of the trade without a loss. Note the time involved that it would take to place a trade before the price goes up. Generally you will need 30 seconds after placing your trade for your Broker to execute. Note to see the if the spread remains relatively constant.

Keeping an accurate diary of specific stock movements will soon make you an expert at rating the momentum strength a story will have on a stock. I look for GREAT stories that propel a stock at percentages over 20%, but knowing the impact good stories has on a stock will prepare you for the great ones that always come along sooner or later. Many times the impact is also dependent on the sector the stock is in. If it is a hot sector the impact will be much greater than a sector that is on the outs with the street.

I use a news scanner provided by A B Watley where I can put in keywords to give me a news ALERT by their news reader. It is extremely helpful to flag potential news stories that might move a stock. The keywords are taken from the following story headlines I constantly look for.

- Unexpected Record Earnings
- FDA Approval
- Patent Approval
- New Product Revealed
- Earnings Expectations
- Multi-Million Dollar Pact
- A Large Co. Agreeing To Use Or Sell A Smaller Companies Product
- An Agreement Of A Large Co. To Pay Royalties To
- Use A Smaller Company's Patent
- Patent Suits Such As Alpine Lace Receiving A Patent On Their Fat Free Cheese Process And Suing All Other Processors Of Fat Free Cheese
- Large Notable Investors, Such As George Soros, Buying A Stock
- Pacts Between Companies

There are different news sources such as PR newswire, BusinessWire, Reuters, and Dow Jones News service. Be sure you get "Real Time News" and not a cheaper delayed source. I have found that the best mover of stocks is the Dow Jones Real Time News. Data Broadcasting provides a Dow Jones Real Time Headlines service for a reasonable monthly fee.

I have noticed that other News sources does not move a stock like Dow Jones will but if I get a big story on PR Newswire before Dow Jones picks it up I can often make more money. The buying on a PR Newswire story will likely move slower but should be bought reasonably well.

WATCH CNBC

I have made it a practice to watch CNBC all day long as a tremendous source of gathering information. I get a feel as to what the hot sectors are and where money managers are putting their money. Anytime I hear a story on a particular stock I immediately get on-line and prepare to place a trade while I put the stock on my quote screen. A good story will cause the stock price to go up and it can be traded like any Good Story Stock.

Many times the story will be repeated after the Market closes which will cause an overnight run up. I have made thousands of dollars by getting a good story on CNBC a few minutes prior to the Market close. Again watch and see how various stories and interviews effect the stocks discussed.

It is a good idea to have a list of companies with their symbols to take advantage of the times when CNBC will only mention the company and not the symbol. Sometimes they will even report the wrong symbol. If you see no action on a stock when you post the symbol on your quote screen, look up the company and check for the correct symbol. I have a Ticker Symbol Guide within reach at all times.

TRADING A GOOD NEWS STORY

1. When a good or great story hits the newswire it should be placed immediately on the quote screen.

2. Log on to the Brokers PC line or call your Broker. If you get the Broker before you are ready to place a trade delay him by asking quotes on a couple of stocks slowly.

3. Note the spread and volume. The spread must be 1/8 or less. Watch the market maker and do not consider stocks that have a wide changing spread. These are stocks that start at a 1/8 spread and quickly change to 3/8 spread or more. Note the Volume. Low volume stocks should be avoided unless the story is at least a 10 rating.

4. If you break the rules, risk is increased. Be careful if you see the stock price has already gone up previously, note the high of the day. Stay out if it looks to have already gone on a rally. If traders have already bought the stock prior to the news the stock will sell off very fast and may not go up very much.

5. You should see a few buys at a fairly rapid pace (a buy is recognized by a trade occurring at the ASK price and a sell would be a trade occurring at the BID price). Caution, stocks that move at a very fast pace should be avoided. If you do not have the time to place a trade at the initial rally price you should let the trade go until it settles down to a trackable level. Note the buying price at the start of the rally and place a "limit buy" order unless the story rates a 10 then you may want to buy at one trading range above the initial rally price but do not go any more.

6. Write down the time you placed your order. DO NOT CHASE. If a stock moves up too fast and you place a Market buy order at the initial rally you may be delayed (funnel effect) because of other buy orders being placed at the same time as yours. The delay may cause your order to be exercised at the high of the rally when it starts being sold. It takes time to get a confirmation from your Broker that you are indeed in the trade and you need time to sell.

7. I stay away from extremely fast moving stocks initially (DEPENDING ON THE TIME OF DAY, a few minutes before the close is a great time to get in on any rally) because the fast movement up is always followed by a fast movement down. "YOU CAN LIVE

WITH MISSED OPPORTUNITY, BUT YOU CAN'T WITH MISSED CAPITAL". If your order is not filled be sure to cancel your order! You can always buy the stock after the first sell off because they will usually go right back up near the high if the story is good.

8. Check on the PC line and also call your Broker to see if your buy order was executed. Generally if you see a stock trading at your price for at least 20 seconds you can assume the buy was executed but it has to be confirmed by the Broker. Do Not Buy unless you are sure you will at least clear your spread. If there is any selling at the initial rally price do not buy, something is wrong. You should see the stock price rise at a nice easy pace.

9. Enter a Market sell order on your PC line as soon as your Broker confirms you are in the trade and be ready to execute it. If you execute orders by phone keep calling your Broker and asking him for quotes slowly to have him on the line should you wish to sell your trade. As soon as you see a pause in the upward movement of the stock accompanied with an increase in selling along with trades that occur between the Bid and Ask, sell. Unless you wish to jeopardize your profits if the type of trade warrants the risk, this is the top of the first oscillation. If the stock price has increased over 30% you could short the stock. Place the short sell at the Limit Bid price. Now wait for the sell off. The stock should have risen at least 10% to 20% in price depending on how strong the story is.

10. Watch the sell off because the initial high will usually be the high of the day unless the story is a 10 in a Hot Sector. The stock could go higher but we trade the rule not the exception. The sell off should be enough to assure another good profit or it will not be worth the risk. If the first oscillation down, on the sell off, is a good percentage note the timing of the downward move and place a buy order after the pause and a couple of in-between trades occur. If you can clear your spread because of recognizing the buying outnumbering the selling do a Limit Buy and repeat the initial sell methodology.

A stock will rarely go above 20% on one rally before the sell-off. You can be SURE it will eventually sell off. There is a saying on Wall Street, "Buy the rumor and sell the story". Again beware of a stock that gets a story and when you place it on your quote screen it is already up considerably with high volume. Chances are the story has already been released by another news source or you are just getting a repeat of old news. If you understand stock oscillations you can always buy after the first sell off.

Many times I make just as much money purchasing after the first sell off on a high momentum stock. If you missed the days story do not worry there is still money to be made. I buy any high momentum stock the day after the story hit on the first low of the day, which usually occurs early. This practice is a consistent money maker as they usually continue with good strength off the low. Anytime you purchase a stock your target should be at the low of the day. This is the safest way to invest as most stocks will bounce off their lows. I see on a daily basis investors buying at or near the high. They think that new highs are a dime a dozen and continually invest by hope and not reason.

11-12-96 TRADE

I caught a story on my Dow Jones Headlines five minutes before the Market close. Informix, symbol IFMX, unveiled a new product to access the Web. I placed the symbol on my quote screen and saw immediate buying. I placed a buy order with my Broker and got it executed at 17 3/4. I sold the next morning at the open when I saw it gapping up to 18 3/4. My sell was executed at 18 3/4. A very nice quick profit of one dollar per share. I attempted another limit buy after the sell off but I was late in my timing and missed making another dollar on the oscillation up.

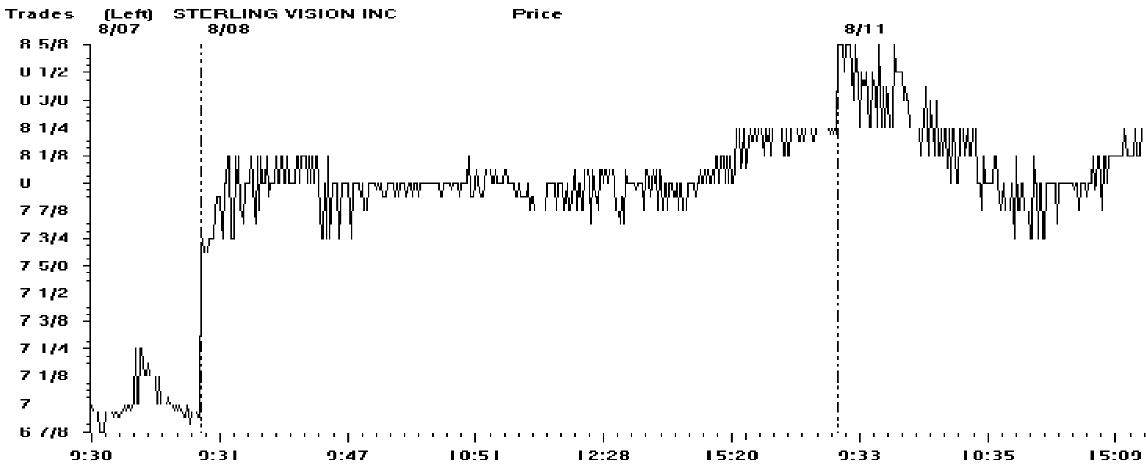
5-24-96 TRADE

I caught a story on the Dow Jones Headlines five minutes before the Market close. CA Wireless, symbol CAWS, unveiled a new product that would allow wireless connection to the internet. I placed the symbol on my quote screen and saw heavy buying with no selling. I placed a buy order and got executed at 8 7/8. I sold at the open the next morning at 10 7/8. I repurchased after the sell off at 10 1/2 and promptly watched the stock go up to 12 1/8 where I sold.

8-30-96 TRADE

I caught a story on the Dow Jones Headlines 10 minutes before the Market close. Valujet, symbol VJET, was cleared by the FAA to fly again after the big crash and investigation. I placed the symbol on my quote screen and saw the heavy buying that usually accompanies a very good story. I placed a buy order and got it executed at 10 7/8. I sold the next morning at the open for 12 3/8.

Chapter Eight



A few years ago I caught a story on a stock that came from BusinessWeek magazine. The story appeared on Friday over the Dow Jones News Service and moved the stock fairly well. It occurred to me that I had seen BusinessWeek on my PC using America Online. As it turned out I was able to read the stories that effect the stocks on Thursday night and develop a trading system for those stories. An interesting thing about BusinessWeek is that it did not hit the news stand on the West Coast until Monday. In essence what you have is a provider of momentum that can last for a week. I have continued to make a lot of money based on my knowledge of how BusinessWeek stocks trade. The stories are found in the "Inside Wall Street" column.

BUSINESSWEEK

Here is how to play a BusinessWeek stock. Other publication stocks can be played in a similar manner depending on the time of week it hits the stand and the online medium.

1. Log onto America Online Thursday evening and type in the keyword BusinessWeek. Click on the table of contents icon. Click the Finance section. Now click the "Inside Wall Street" to open the column. Read the stories and rate them so as to find the best story. I usually do not invest in stories I rate a six or less. Put the symbols on your quote screen and wait until Fridays open.

2. I like to see the volume open with at least 75 thousand shares or more and the price should be up at least 1/2. Normally the stock will sell off to about a quarter of a point below the open where it should be bought. My exit criteria in case of an exception is any excessive selling at 1/8 below my purchase price in which case I might lose my spread.

3. I will hold the stock through the week-end and allow the story to effect the stock on Monday.

4. The stock will usually open up and sell off fairly soon after the open. I am on-line and sell at the first indication of selling, if I see it gapping up I often sell before the open.

5. The stock should be repurchased after the first sell off. I will sometimes hold my trade for

a few days as they can continue to rally all week.

This is one cycle every investor should watch and take advantage of. I have seen stocks such as Cabletell (TTV) go on week long rally's where several dollars per share can be made. What a way to make a living. Try to ride the profits as long as possible. Remember the story is being digested on every desk where BusinessWeek may sit and can continue to rally. Also remember to take into consideration the sector the stock is in.

BusinessWeek goes in cycles like any trading method and again patience will be beneficial to recognize high percentage trades. I have not found a good BusinessWeek story in many weeks but I keep looking and waiting for the cycle to repeat. It usually does.

There are other publication driven stocks that can be noted and tracked by the smart trader. I have noticed that Peter Lynch will cause recommendations in his column with Worth magazine to rally nicely. They all must be patterned and tracked but only invest when the pattern offers a high percentage trade.

Chapter Nine

For the most part, stocks react not only to news and momentum, but to the time of day also. It is important to understand how the time of day can effect the way your stock trades. Knowing these cycles can keep you out of a "sucker" rally that can turn on you quick.

TIME OF DAY

It is important to note the general trading cycles that occur intraday. The largest movements a stock will make usually occurs in the first 2 hours. Of these two hours, the first 1/2 hour will usually see the most action unless a story breaks which can move a stock at any time.

Generally the oscillations will form a small trading range after 8:30 am Pacific standard time. I have noted a general weakness between 11:00 am and Noon PST. I see many false rallies occur at about 11:00am PST. These rallies will look like the stock is going through the roof. They usually go up one or maybe two trading ranges and then fall just as fast to the bottom.

I have saved many traders a lot of money by advising to skip any rally’s at around 11:00 am PST. The exception of course is any news story. Action usually picks up between Noon and 1:00 PM PST. I usually watch 8 stocks very intensely the last 10 minutes before the market close. I try to identify any stock on a heavy rally at the end. I will try to buy the last minute to prevent my getting in before any heavy selling.

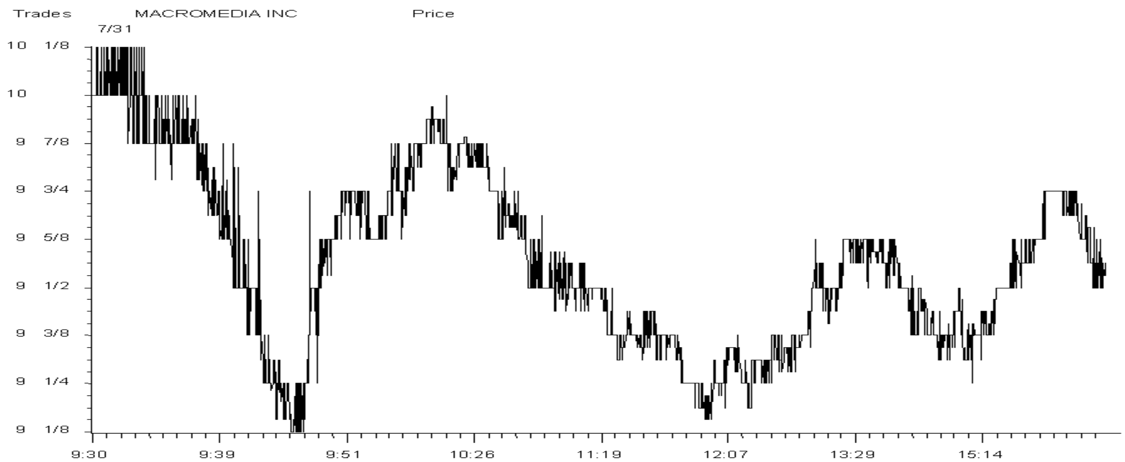
I will usually clear my spread and end up even on the day. This has generally been a good indicator of a stock that will open up the next day especially during a bull run. When most stocks are opening even or down I do not risk overnight exposure. I play percentages. These general intraday cycles can have an effect on your trade and is worth noting.

TRADING CYCLES

1. First few minutes of the market is when I usually look for a short on a gainer.
2. Next I focus on catching the bottom of a dumper.
3. If I have no dumpers to trade I will scan the gainers that either gapped up or had a price swing of $2 or more the preceding day. I scan the last price and compare it to the high on my quote screen to notice any nice pullbacks of about 3/4 or more. If I find one that is pulling back nicely from the high I will focus on the rhythm of the bid and ask change and be ready to buy at the Pause using the bottom methods I have indicated earlier.
4. Usually I will be done with my trading by 9:00 am PST and then I look for News the rest of the day. I have not done very well trying to play later day rallies as they tend to weaken very fast. I generally find that stocks find narrow trading ranges later in the day offering little opportunity for nice gains.
5. I will then conclude my day by watching the movements of the gainers and dumpers at the end for the last 5 minutes. I try to recognize a HEAVILY bought stock to give me an indication of overnight strength.

INTRADAY OSCILLATIONS

Normally all stocks will oscillate (Go up and down in price) all day long. It is much like throwing a pebble in a pond where the waves become smaller and smaller as time erodes the energy of the waves. Some stocks will continue to have large oscillations every day with high volume for a long period of time.



Generally speaking all stocks start off swinging early in the day to gradually go into narrowing oscillations just as the waves caused by the pebble decreased. You can make money watching and patterning their intraday moves. Normally highs are hit early so a sell off must be sufficient enough for you to have room for profits.

RISK - REWARD

Every time you make a trade there is always risk involved. I always ask myself, "Is it worth it?" I only invest in a trade when I feel the potential is high enough to reward me substantially. I feel that if my potential for making profit is not that great, 1/4 of a point or less at best, then the risk is not worth the reward. Do not get me wrong, I will accept any gain I get based on my methods of trading, but expectations should be high when you first enter into the trade.

I feel overnight investments or over the week-end investments increase risk, as a story going against your trade is always possible, although in my case very rare. I cannot stress strongly enough the need for patience. In the long run this philosophy has served me very well.

I know of traders who are addicted to the rush of the trade and feel the need to trade every day. They place pressure to force something out of the Market and usually take more risk and losses than is necessary. Those commissions add up and I feel your percentages for success are depleted, unless you happen to be in a strong trading cycle that presents opportunities every day. You can make a bundle very fast if you happen to catch a cycle early. I do not speculate with my money! I speculate on paper. I only trade the proven methods that are successful 90 to 100 percent of the time.

Chapter Ten

I have likened trading to going to the dentist. You must accept the pain (nerves and adrenaline) to be able to Buy the stock. Many traders will look for any excuse to NOT trade to avoid the nerves. I have said to my students that you must have a balance between "Not giving a damn" and "Scared as Hell." Not giving a damn facilitates the easy buying and the scared as hell facilitates the sell. I have encouraged scared traders to only trade 500 shares until they could control the nerves and get into the rhythm of trading.

The most crucial time for the day-trader is when he/she is first into the trade. We hope that our loss criteria is not triggered, shaking us out of the trade early on. I purchase a stock when I am sure to clear my spread. Usually there is heavy buying and very little selling.

As soon as I place my buy I will phone the Broker to confirm my trade. If after I receive confirmation of my trade being executed I will exit the trade when I see a pause in the upward rhythm and a couple of sells. Many times you will have to go with the flow of the market and sell fast as some markets will give you little time to buy or sell. I try to limit my losses to 1/8 of a point and that is why I only deal with spreads no more than 1/8. You could always place a limit buy between the bid and ask on stocks with 1/4 spread but I have always found ample opportunity with stocks that meet my 1/8 criteria.

I place my limit buys on the PC and immediately place a market sell to be ready to exit. If you contact your Broker by phone, keep calling him to get quotes or ask him any other questions slowly so you can be ready to sell. Do not sell until a confirmation has been received. I recently had a student sell before he confirmed his buy resulting in a "short sell" because his buy was not executed. Sometimes impatience gets the best of us when the adrenaline is rushing through our brains.

I have never been sorry for quick selling even though some stocks will weaken momentarily and then continue up. I have in essence purchased an insurance policy against another run on the downside. The few stocks that make that unexpected run to the downside can eliminate a month of profits. Remember the reason I purchased the stock is because "it was being accumulated!" When that is no longer valid I must exit or I risk forming bad trading habits.

In the beginning of a trade a stock will sometimes "teeter". It will go up and clear your spread and then fall back down to your entry price. This is a tough time but remember your exit criteria and be ready to act if selling begins to outnumber buying. Get ready to buy again at the next bottom. Do not be discouraged at being wrong. If you cleared your spread after the first buy it was a successful trade. Just keep your head about you and buy again at the next bottom. Remember you MUST be able to see buying outnumbering selling at the bottoms. If this is not clearly discernible stay out or you will lose two spreads by the time you receive confirmation of your buy. When a stock starts down they can fall very fast so be sure to exercise patience.

Do not drop into the pitfall of, "Trying to make it back" after a loss. This "Trying to make it back" is a strong seductress after an unsuccessful trade. I suggest that you take a breather and reflect on the trade. Allow the loss to be your teacher and gain from the experience. Any losses can be turned into a positive experience if you gain knowledge.

I have set next to students who watched a stock, after purchasing, go down several dollars and I am talking about an $8 per share stock! They kept repeating, "It has to go back up." These are the worst six words spoken by a day trader when a trade has gone against him. If the stock does start back up they always justify themselves by saying, "I knew it!" The fact is they did not know it, they guessed because there was no solid historical evidence giving them the odds necessary to make a valid high percentage trade. The losses incurred by such BAD trading habits can be tremendous.

When a guess turns in the favor of "The Guessor" it only ingrains a bad habit that will eventually lead to an empty portfolio. I can tell you story after story of traders losing most of their money because of taking guessors advice. Like me you probably hear, "I think the stock is going up" frequently. I want to hear a trader say, "based on how these stocks normally behave, it will go up." Solid trading theory and historical investigation should be behind every trade.

I have mentioned in the introductory material about the student who took $3K to $33K in one month. He became very arrogant after this extraordinary gain and started breaking the trading rules I taught him. He felt he possessed special talent and insight. He refused to believe he was wrong in his trades and began to ride out the oscillations until he had profits. I was with him when he was in a trade one day and I asked him, "Why did you purchase this stock?" He said, "Because it was being bought." I asked him, "What is it doing now?" He replied, "Going down." I said to him, "You invested in it because it was being bought and now it is being sold, what should you do?" He just set there in silence watching the stock go down, enduring a huge loss, hoping it would reverse.

The market was under a tremendous bull run and his trades did come back for him, for a while. I told him when the market became nervous he would lose a lot of money doing that. A few weeks later the market did begin to stall and he lost all he had, a very humbling experience.

I visited him and his wife for one week. He was totally despondent claiming that stock trading was just luck and he refused to ever do it again. I challenged his statement and began to teach his wife to trade using my methods. I wanted to make a lifelong point and at the same time prove again that anyone can make money if they adhere to high percentage rules.

I placed $19K in a trading account under my name and made her a designated trader. I did not intend to demean her husband but he had tried so many new methods of trading that his discipline was severely compromised and I did not trust him to stick to the rules. I made her promise to not break my rules, and I monitored every trade. I called her after each trade and discussed the reasons behind every rule to clarify my methods in her mind. She doubled the account in two months and was able to resurrect their trading account.

Visual adaptation to your quote screen is extremely important. It generally takes one week of watching stocks to get the feel of their movement. I recommend wearing protective eyeglasses prescribed by your optometrist. Tell him you are staring at a computer screen for as much as 8 hours a day. You should pay attention to the background colors and make the quotes and news jump out at you. I like a soft grey background with black numbers for quotes and a light grey background with black text for news.

The columns that make up the quotes should be placed in such a way that a trade is easily interpreted. I place the, "Tick size" and the, "Trade size" next to the, "Bid" and "Ask", along with the, "Percentage change", "Days Volume", "High of the day", "Low of the day", "Open price", and "Previous days closing price"

Do Not force trades. Allow stocks to force you into a trade. Watching stocks make tremendous rallies only leads to impatience to get on board. Do not be tempted to break rules, watch them go and wish those that are in the trade good luck. Remember 5 seconds after a stock move you will possess 20/20 hindsight. You will be tempted to say "I should have known!" The trade seems so obvious. Do not force a stock into your trading criteria.

Always error on the conservative. This practice has saved me from being in a lot of bad trades. Yes, you will miss some too, but you can live with missed opportunity but not with missed capital. Patience is the keyword. Take what the market offers and do not trade just because you need the money.

Chapter Eleven

When you are in a trade, emotions will run high. The following exercises are to help provide clear direction to guide you through the emotion of a trade. All young traders have difficulty executing the simplest of tasks, due to anxiety, during a trade. Keep Cool...

EXERCISES:

1. Focus on one stock, preferably a large percentage gainer the preceding day. Watch it open and sell off. Try to time the bottom using my method and write down the price you would purchase it at. If 30 seconds elapse before the price changes you are in the trade, (on paper). When it reaches the first high sell it, again using my method for determining the high. 30 Seconds after your sell is the price you get for your trade. If there is at least a 3/4 swing in price (oscillation) repeat the buy and sell exercise. Mark down the times these oscillations occur. (This exercise is to be done everyday)! This can be done using real time or delayed quotes.

2. Practice calling your Broker and asking him quotes on any stock. Ask him if there are shares available to short any company trading over five dollars, (example IOM). Call him at the open of the stock market and during the day and at the end. Note the time it takes to reach him and write it down. You will establish a time it normally takes to place a trade. If he has more than one number place it on your touch tone memory and try each number to establish the fastest pick up.

3. Practice number one exercise only reverse the strategy. Sell short at the highs and cover your short at the lows.

4. For those who trade using their PCs. Practice placing limit buy orders at several dollars below the price of any stock, I suggest purchasing IBM at 15, be sure to make it so low you will have no problem not getting this practice order executed. Now place a cancel order and keep the order up for over 5 minutes. After 5 minutes execute the cancel. Make sure no timeout errors occur. This will familiarize you with your Brokers trading software. Do these practice trades near the market open, mid day, and near the end. Take note of any problems. Be sure to know how much time you can stay on-line with your Broker before a timeout occurs. VERY important.

5. Call your Broker and get (preferably in writing) information from him on how long it will reasonably take to execute a "Market Sell" on a NASDAQ stock in the amount of 1000 shares. Ask him to define "A Timely Manner" in the execution of above trade. Ask him at what time does he require a "Market Sell" to be entered before the market open to guarantee the open price. Ask him what the exceptions might be? We will be fighting to get timely executions on all of our trades. This is not a problem that occurs very often, but it will happen. Be sure to tell the Broker you trade with a network of day traders on the Internet.

6. Scan the news after the market closes using any scan you can find. There is one located on America On Line. Scan for keywords located in the manual such as "FDA", etc.. Write down the days trading range, the high and the low and the closing price. Keep a log of what type of stories create the largest swing in price. Continue your log the next day. Note the open price, pretend you bought at the low of the day and sold 1/4 pt. below the high. You should soon discover the type of stories that will move a stock and how much potential is in each one.

7. Take a notation of the sector the stock is in and start a categorization of the sectors your news story stock appears in. A list can be retrieved by looking in Investors Business Daily. Which sectors have the largest price swings? You may be able to find out the hot

sectors and take advantage of money coming into such momentum stocks.

8. Every Thursday night be sure to read, "Inside Wall St." in BusinessWeek and pick the best stock story. Track the open on Friday and write down the time the oscillations occur. Follow on Monday. Note when the patterns start repeating on the best stories.

Appendix (a)

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Glossary of Terms

- (Bid)- The price at which you can sell your stock to a Market Maker.
- (Ask)- The price at which you can buy your stock from a Market Maker.
- (Spread)- The difference between the bid and ask.

- (Buying)- Trades that occur at the Ask.
- (Selling)- Trades that occur at the Bid.
- (Chasing)- Buying a stock that has climbed off of the bottom.
- (Uptick)- A price increase by one trading range.
- (Downtick)- A price decrease by one trading range.
- (Teetering)- The price going up momentarily then falling back to the low by one trading range.
- (Upside Potential)- The difference between the current price and the last high.
- (Downside Potential)- The difference between the current price and the last low.
- (In-betweener)- A trade occurring at a price between the current bid and ask.
- (Oscillations)- The fluctuations in price both up and down that a stock makes during a trading day.
- (Dumpers)- A stock that has fallen in price by approximately 20% or more from the previous days trading price.
- (Gainers)- A stock that has gained in price by approximately 20% or more from the previous days trading price.
- (Gapper)- A stock that opens up or down from the close of the previous days trading price.
- (Exception)- A stock that does not behave in the expected manner given the percentages for that type of trade.
- (Short Sell)- Borrowing shares from your Broker to sell in the expectation the stock will go lower where you can buy and replace at a cheaper price and make profits.

Appendix (b)

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Online Brokers& Quotes

http://www.abwatley.com

http://www.accutrade.com

http://www.etrade.com

http://www.salomon.com

http://www.jpmorgan.com

Realtime Quotes & Charts

http://www.interquote.com

http://www.quote.com

http://www.rtquotes.com

http://www.telescan.com

News and Research

http://www.bloomberg.com

http://www.aol.com

http://www.newspage.com

http://www.update.wsj.com

http://www.cnn.com

http://www.techstocks.com

http://www.stocks.com

http://www.investorweb.com

http://www.motleyfool.com

http://www.newsalert.com

Appendix (c)

Tops and Bottoms Tracking

Dumpers Stock Tracking

Gainer Stock Tracking

News Story Tracking

Publication Stock Tracking

Tops and Bottoms Tracking Sheet

Symb	**Type**	**Selling**	**Pause**	**InBetwnrs**	**Buying**	**Your Call**	**Actual**	**Comments**
MACR	Dumper	X	X	X	X	8 5/8	8 1/2	Called early

Dumper Stock Tracking Sheet

Symb	**Story**	**Close**	**Open**	**Gap Dwn**	**# Btms**	**Bottom**	**Bouunce**	**Comment**
DATM	Earnings	22 1/2	21 1/2	1 pt	2	19 1/8	1 1/4	2 bottoms

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Gainer Stock Tracking Sheet

Symb	**Story**	**Close**	**Open**	**Gap up**	**Sell-off**	**Bottom**	**Bounce**	**Comments**
MACR	Earnings	22 1/2	21 1/2	1 pt	2	19 1/8	1 1/4	2 bottoms

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<u>News Story Tracking Sheet</u>

Symb	**Story**	**Rating**	**Bid/Ask at time of story**	**Points up**	**Comments**
GERN	Cure for Cancer	10	6 3/8 6 1/2	8	Moved quickly to 13

Publication Stock Tracking Sheet

Symb	**Rating**	**Friday Gap**	**Open Vol**	**Sell Off Friday Open**	**Buy/sell Point**	**Open Monday**	**Buy/Sell point**	**Comments**
ISEEB	7	3/4	70K	1/16	7 3/4	8 5/8	8 3/4	Great Story
