



Disciplined Trading Strategies

By Paul Lange

Introduction

For these next four mornings (this is now morning three) I am going to give you a series of exact steps that will help you tremendously if you have the technical knowledge, but cannot seem to turn the corner on making good profits. There are going to be four things that you can do that I feel will ‘dramatically change your trading/investing career’. The results will be immediate, every week.

It should be stated again, that if you do not have the technical expertise, you are not at the level that these comments will help. If you don’t know how to look at a chart, no amount of refining will help you.

After a long time of working with many traders, one discovers that there are certain truths that cannot be denied. There are four things that are done so consistently wrong by new, and even fairly experienced traders, that each of these mistakes results in bad trades 90% of the time for most traders. If traders would simply follow these four rules, they would eliminate most of their losing trades. The fourth rule does not really fall into this “90%” category, but is perhaps the most important.

Four Secrets to Trading/Investing – Part Three

Here is the third rule, and the subject of this lesson. Traders should always follow the power of the market (or an individual stock). When the market or stock is having a bullish day, the daily bar is green, and the intraday trends are up, buy pullbacks; do not play short. When the market or stock is having a bearish day, the daily bar is red, and the intraday trends are down, short the rallies; do not buy the pullbacks.



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This sounds simple, yet this rule actually addresses the number one mistake traders make in selecting plays. Most traders, especially newer traders, try to short strong stocks, or buy weak stocks. They try to 'short the top', or 'buy the bottom'. They may not even realize they have the problem. Most issues like this are not discovered unless the trader takes overt action to find the problem.

Why would so many traders pick up such a bad habit? The answer is simple; it is the same problem that causes so many traders to not trade the way they want to trade. Psychological issues step in and cause the trader to trade improperly. Catching a bottom or a top in a stock makes a trader feel like a 'hero' when right. And, if they do get an occasional trade correct, that is all they remember. They forget the dozens of losses it took to get the one winner, and remember only the glory of 'shorting that one at its high'.

There is a strategy for shorting a strong stock, or buying a weak stock, but it is only used when the stock goes 'climactic'. Unfortunately, this play seems to be difficult for most traders to recognize, and requires patience, something most new traders do not have. Below is an example. Would you short this pattern as a climactic sell setup?





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Since you are reading this article, you are prepared to answer 'no', but during the real trading day? Many traders look to things like the number of bars up, and the distance from moving averages. Looking at the daily and intraday pattern, you may have seen this and thought it was ready to drop. But it was not, as you can see.



Short that red bar and you have your head handed to you. But now, THIS time it is really ready. This is a no brainer.





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Well, maybe not. The stock did not drop at all, and after a little rest, it is back off to the races.

As a matter of fact, it turns out that shortly after every 'short' attempt, the truly great play was to go long, even though it looked 'extended'. Bottom line, stay with the easy play. Look at all the money that could be made on the LONG side of this trade, yet so many traders are drawn to finding the top. It is often never found. This is not an unusual chart, I am sure you encounter this every day.

By the way, do you realize that even if you had the power to see the future and had this chart in front of you before the trading day, it was still not easy to make money!

The concept illustrated above refers to avoiding playing a stock against the power of a strong trend. It is also applicable to avoid shorting stocks in general, if the market is in a powerful trend (and the same for not going long on a 'red bar' day). While there are certain stocks that will drop on bullish days, they are much harder to find, and as a rule, drop much less.

Next time we will look at the fourth 'secret' that will change your trading.

-Paul