

Sharpening Your Trading Skills:

Tools The Winners Use

By Jim Wyckoff

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The Top 10 Mistakes Traders Make and How To Avoid Them

By Jim Wyckoff

Achieving success in futures trading requires avoiding numerous pitfalls as much, or more, than it does seeking out and executing winning trades. In fact, most professional traders will tell you that it's not any specific trading methodologies that make traders successful, but instead it's the overall rules to which those traders strictly adhere that keep them "in the game" long enough to achieve success.

Following are 10 of the more prevalent mistakes I believe traders make in futures trading .

This list is in no particular order of importance.

1. Failure to have a trading plan in place before a trade is executed. A trader with no specific plan of action in place upon entry into a futures trade does not know, among other things, when or where he or she will exit the trade, or about how much money may be made or lost. Traders with no pre-determined trading plan are flying by the seat of their pants, and that's usually a recipe for a "crash and burn."

2. Inadequate trading assets or improper money management. It does not take a fortune to trade futures markets with success. Traders with less than \$5,000 in their trading accounts can and do trade futures successfully. And, traders with \$50,000 or more in their trading accounts can and do lose it all in a heartbeat. Part of trading success boils down to proper money management and not gunning for those highly risky "home-run" type trades that involve too much trading capital at one time.

3. Expectations that are too high, too soon. Beginning futures traders that expect to quit their "day job" and make a good living trading futures in their first few years of trading are usually disappointed. You don't become a successful doctor or lawyer or business owner in the first couple years of the practice. It takes hard work and perseverance to achieve success in any field of endeavor -- and trading futures is no different. Futures trading is not the easy, "get-rich-quick" scheme that a few unsavory characters make it out to be.

4. Failure to use protective stops. Using protective buy stops or sell stops upon entering a trade provide a trader with a good idea of about how much money he or she is risking on that particular trade, should it turn out to be a loser. Protective stops are a good money-management tool, but are not perfect. There are no perfect money-management tools in futures trading.

5. Lack of "patience" and "discipline." While these two virtues are over-worked and very often mentioned when determining what unsuccessful traders lack, not many will argue with their merits. Indeed. Don't trade just for the sake of trading or just because you haven't traded for a while. Let those very good trading "set-ups" come to you, and then act upon them in a prudent way. The market will do what the market wants to do -- and nobody can force the market's hand.

6. Trading against the trend--or trying to pick tops and bottoms in markets. It's human nature to want to buy low and sell high (or sell high and buy low for short-side traders). Unfortunately, that's not at all a proven means of making profits in futures trading. Top pickers and bottom-pickers usually are trading against the trend, which is a major mistake.

7. Letting losing positions ride too long. Most successful traders will not sit on a losing position very long at all. They'll set a tight protective stop, and if it's hit they'll take their losses (usually minimal) and then move on to the next potential trading set up. Traders who sit on a losing trade, "hoping" that the market will soon turn around in their favor, are usually doomed.

8. "Over-trading." Trading too many markets at one time is a mistake -- especially if you are racking up losses. If trading losses are piling up, it's time to cut back on trading, even though there is the temptation to make more trades to recover the recently lost trading assets. It takes keen focus and concentration to be a successful futures trader. Having "too many irons in the fire" at one time is a mistake.

9. Failure to accept complete responsibility for your own actions. When you have a losing trade or are in a losing streak, don't blame your broker or someone else. You are the one who is responsible for your own success or failure in trading. You make the trading decisions. If you feel you are not in firm control of your own trading, then why do you feel that way? You should make immediate changes that put you in firm control of your own trading destiny.

10. Not getting a bigger-picture perspective on a market. One can look at a daily bar chart and get a shorter-term perspective on a market trend. But a look at the longer-term weekly or monthly chart for that same market can reveal a completely different perspective. It is prudent to examine longer-term charts, for that bigger-picture perspective, when contemplating a trade.

Seasonality in Markets: One More Tool for your Toolbox

By Jim Wyckoff

Two of my favorite trading subjects are cycles and seasonality. In this feature, I'll discuss seasonality in agricultural markets. I want to start out by emphasizing that seasonality or cycles, by themselves, do not make good trading systems. However, they are great "tools" to add to your "Trading Toolbox."

Seasonality in agricultural markets is a function of supply and demand factors that occur at about the same time every year. For agricultural markets, supply stimuli can be caused by harvest, planting, weather patterns and transportation logistics.

Demand stimuli can result from feed demand, seasonal consumption and export patterns. Livestock futures, too, have seasonal tendencies. Hog and cattle seasonals tend to be caused by production, marketing, and in the case of hogs, farrowing. Grains tend to follow the general rule of lower nearby futures prices at harvest more than other agricultural commodities.

Here is a quick summary of seasonals in several markets. (If you are interested in a more complete study of seasonality, there are entire books written on the subject).

Corn:

This market's seasonality can be divided into three time periods: late spring to mid-summer; mid-summer to harvest; and post-harvest. The most pronounced seasonal trend in corn is the decline of prices from mid-summer into the harvest period. Prices are often near their highest level in July because of factors associated with the old crop and uncertainty over new crop production. Even in years when a price decline begins before mid-July, it can continue after mid-July if the crop outlook is favorable. Harvest adds large supplies to the marketing system, which normally pressures prices to their lowest levels of the crop year. Prices usually rise following harvest. However, the "February Break" is a well-known phenomenon whereby corn prices usually show some degree of decline during the month of February.

Soybeans:

The July-August period is usually a bearish time for soybeans. Closing prices during the last week in July are usually lower than those of the previous week in July. Closing prices at the end of August are also usually lower than those at the end of July. Also, soybean prices in late January are usually higher than those in late December. Soybeans many times also succumb to the "February Break" seasonality phenomenon. Soybean meal and oil have the same seasonal tendencies as soybeans.

Wheat:

The seasonality of wheat prices works best when a trader is on the long side from the period of harvest lows to October/November. On the short side, from winter into summer harvest tends to work well. Wheat has two prominent seasonals: One is a strong tendency to decline during late winter and spring as the harvest approaches. The other is to rise from harvest lows into the fall or early winter. Wheat prices begin a seasonally

weak period by January or February, in most years.

Live Cattle and Feeder Cattle:

Seasonality in feeder cattle prices depends on the seasonality in live cattle prices, along with annual fluctuations in feeder cattle supplies. In general, feeder cattle prices are strong from late winter through spring, drop during the summer, and stabilize at lower levels in the fall, before turning up in December. Live cattle prices normally trend higher from January through May. Prices for live cattle reach their seasonal peak in May and then usually begin a downtrend that extends through the end of the year. Demand for feeder cattle also begins to peak in May, and prices fall into July.

Live Hogs:

Seasonal marketing pressure increases during March and persists at increased levels during all or part of April. The reason for this is that August and September farrowings are usually larger relative to other farrowing months. Slaughter levels decline seasonally from March-April into July or August. Thus, prices could generally be expected to rise from March to May and decline from May into August.

Cocoa:

The yearly seasonal low tends to occur in January with the Bahia (Brazil) main crop, rather than in May or June with the Temporao (Brazil) crop, because of consumer demand. Consumer demand tends to rise into late fall and early winter, which boosts prices during that timeframe. As demand peaks and then begins to decline, cocoa prices fall into January. It's important to note that seasonal tendencies in cocoa are not very strong.

Coffee:

The frost season in Brazil occurs during the May through early-August period. In anticipation of this frost, prices tend to rise from January into June. This seasonal tendency is not very strong, however, because coffee can come from other producing countries, such as Mexico. Still, the potential for a Brazilian frost should be monitored. The other seasonal influence is during the winter, when U.S. coffee consumption tends to rise .

Cotton:

Cotton is a market where the "trade" has very heavy participation and seasonals tend to be a function of heavy deliveries issued against the expiring futures contracts -- December, March, May, July, and to a lesser degree, October. In November, the market tends to recover from harvest lows, and then in January the market tends to back off to lower levels.

Orange Juice:

Seasonal price movement of FCOJ (Frozen Concentrated Orange Juice) does not usually reflect the December-February freeze period in the southern U.S. Seasonal tendencies are caused by harvest, production (also called "pack") and demand ("movement"). The most significant seasonal move in O.J. is that prices generally fall from November to January. Freezes cannot be completely ignored, however.

Sugar:

Prices tend to peak in November because of a combination of supply and demand. Production at this time is not complete, as the European crop is not yet on the market. Demand in the Northern Hemisphere, however, is usually at its peak in the fall.

In conclusion: I would classify seasonal tendencies as "secondary" technical indicators in my "Trading Toolbox." I do follow seasonals, but they are not my "primary" trading tools. I have seen much hype in the marketplace regarding seasonals. I remember one summer hearing a radio advertisement from a futures brokerage that went something like this: "Colder weather is just around the corner and heating oil demand will increase. Thus, you should buy heating oil futures now, and profit from the increase in demand." If only futures trading were that easy! Every professional trader and commercial firm knows that heating oil demand rises in the winter -- and even in the summer months they have already factored that rise in demand into the prices of the farther-out (deferred) futures contracts. The same is true for other markets' seasonal price patterns. The professional traders and commercials all know about seasonals in the markets, and position themselves accordingly. It is always good that we speculators have as much information on markets as possible. Seasonal price patterns are just one more bit of information to factor into our trading decisions.

Why Successful Traders Use Fibonacci and the Golden Ratio

By Jim Wyckoff

Support and resistance levels on bar charts are a major component in the study of technical analysis. Many traders, including myself, use support and resistance levels to identify entry and exit points when trading markets. When determining support and resistance levels on charts, one should not overlook the key Fibonacci percentage "retracement" levels. I will detail specific Fibonacci percentages in this feature, but first I think it's important to examine how those numbers were derived, and by whom.

Leonardo Fibonacci da Pisa was a famous 13th century mathematician. He helped introduce European countries to the decimal system, including the positioning of zero as the first digit in the number scale. Fibonacci also discovered a number sequence called "the Fibonacci sequence." That sequence is as follows: 1, 1, 2, 3, 5, 8, 13, 21, 34 and so on to infinity. Adding the two previous numbers in the sequence comes up with the next number.

Importantly, after the first several numbers in the Fibonacci sequence, the ratio of any number to the next higher number is approximately .618, and the next lower number is 1.618. These two figures (.618 and 1.618) are known as the Golden Ratio or Golden Mean. Its proportions are pleasing to the human eyes and ears. It appears throughout biology, art, music and architecture. Here are just a few examples of shapes that are based on the Golden Ratio: playing cards, sunflowers, snail shells, the galaxies of outer space, hurricanes and even DNA molecules.

William Hoffer, in the Smithsonian Magazine, wrote in 1975: "The continual occurrence of Fibonacci numbers and the Golden Spiral in nature explain precisely why the proportion of .618034 to 1 is so pleasing in art. Man can see the image of life in art that is based on the Golden Mean." I could provide more details about the Fibonacci sequence and the Golden Ratio and Golden Spiral, but space and time here will not permit. However, I do suggest you read the book "Elliott Wave Principle" by Frost and Prechter, published by John Wiley & Sons. Indeed, much of the basis of the Elliott Wave Principle is based upon Fibonacci numbers and the Golden Ratio.

Two Fibonacci technical percentage retracement levels that are most important in market analysis are 38.2% and 62.8%. Most market technicians will track a "retracement" of a price uptrend from its beginning to its most recent peak. Other important retracement percentages include 75%, 50% and 33%. For example, if a price trend starts at zero, peaks at 100, and then declines to 50, it would be a 50% retracement. The same levels can be applied to a market that is in a downtrend and then experiences an upside "correction."

The element I find most fascinating about Fibonacci numbers, the Golden Ratio and the Elliott Wave principle, as they are applied to technical analysis of markets- and the reason I am sharing this information with you--is that these principles are a reflection of human nature and human behavior. The longer I am in this business and the more I study the behavior of markets, the more I realize human behavior patterns and market price movement patterns are deeply intertwined.

Market 'Noise': How Seasoned Traders Learn to Ignore It

By Jim Wyckoff

For many years I was a futures market reporter with the FWN wire service (now called OsterDowJones). I spent time working right on the futures trading floors in Chicago and New York. Most of the time my daily reporting "beat" involved interviewing traders and analysts and then writing three daily market reports. For months at a time I would cover the same markets, day in and day out. It was a fantastic learning experience and an opportunity that very few get.

One thing I eventually discovered from covering the same markets day after day, month after month, was that the vast majority of the time the vast majority of the markets' overall fundamental and technical situations did not change on a day-to-day basis. Yet, as a market reporter I was conditioned to write about why the market went up one day and why the market went down the next day, and so on.

Even though a market may have been in a very narrow trading range for days or weeks, I had to ask the traders and analysts every day to come up with some fresh fundamental and/or technical reasons why that market moved only a fraction. Reporting on the New York "soft" futures markets (coffee, cocoa, sugar, cotton and orange juice) is especially difficult for a reporter. He or she needs to dig up and write about some fresh-sounding news every day. The soft markets many times just do not have much fresh fundamental news on a daily basis -- or sometimes even on a weekly basis, for that matter. Conversely, it was easier covering the financial and currency markets because there was usually at least one government economic report that came out every day that would make those markets wiggle a bit. Or, some government official (like Greenspan) would make comments to which those markets took notice.

As time went on and I came to better understand markets and market behavior, and as I studied specific trading strategies, I realized that the day-to-day market "noise" is not of much use to most traders. Here's a specific example of market noise: Recently the live cattle futures market was up a bit on a Monday due to talk that the cash cattle trade later in the week would be at higher money. On Tuesday the futures market dropped a bit because of ideas the cash cattle market trade later in the week may not be at firmer money, but steady at best. Nobody was trying to manipulate the live cattle market that week. It was just a case of differing opinions getting center stage when the market closed on different sides of unchanged.

For a trader who tries to follow the near-term fundamentals in a market too closely, hearing that kind of conflicting news can be a nuisance at least, or a factor that prevents successful trading results at most. It's not easy for less-experienced traders to ignore the differing daily drumbeat of fundamental news that is reportedly impacting a market. The lesson here is that prudent traders should not become overly sensitive or reactive to most of the day-to-day fundamental news events that are reported to be moving the market on any given day. What is important for the trader is that he or she recognizes and understands the overall trend of the market, and that daily market "noise" is usually an insignificant part of the overall process of trading and of market behavior, itself.

Different Types of Market Orders: Using Each for the Best Fills

By Jim Wyckoff

A customer signed up for my service the other day and was asking me about stops and different types of market orders. They were good questions and they reiterated to me the fact that I have subscribers that range from seasoned trading professionals to those testing the futures trading waters for the first time.

One thing I always like to point out to the less-experienced traders: There are no "dumb" questions and there is no shame in being inexperienced. Every single futures trader that ever walked the face of the earth has been inexperienced at one point.

This section on types of market orders, including stops, may be a "refresher" feature for the more experienced traders, and will likely be a more valuable feature for the traders newer to this fascinating field.

Market Order

The market order is the most frequently used futures trading order. It usually assures you of getting a position (a fill). The market order is executed at the best possible price obtainable at the time the order reaches the futures trading pit.

Limit Order

The limit order is an order to buy or sell at a designated price. Limit orders to buy are placed below the market; limit orders to sell are placed above the market.

Since the market may never get high enough or low enough to trigger a limit order, a trader may miss getting filled if he or she uses a limit order. Even though you may see the market touch your limit price several times, this does not guarantee a fill at that price.

"Or Better" Orders

"Or better" is a commonly misunderstood order type. You should only use "or better" if the market is "or better" at the time of entry to distinguish the order from a stop. "Or better" on an order does not make the pit broker work harder to get a better fill. It is always the broker's job to provide you with the best possible fill. If an order is

truly "or better," then this designation assures the broker that you have not left "stop" off the order. In many instances, unmarked "or better" orders are returned for clarification, potentially costing the trader valuable time and possibly a fill. Orders that are not "or better" when entered only serve to better use the pit broker's time upon receipt as he checks to see whether or not the order deserves a fill. Sometimes, using the "or better" designation before the opening is helpful in assuring the broker that your order is meant to be filled.

Market if Touched (MIT) Orders

MIT's are the opposite of stop orders. Buy MIT's are placed below the market and Sell MITs are placed above the market. An MIT order is usually used to enter the market or initiate a trade. An MIT order is similar to a limit order in that a specific price is placed on the order. However, an MIT order becomes a market order once the limit price is touched. A fill may be at, above, or below the originally specified MIT price. An MIT order will not be executed if the market fails to touch the MIT specified price .

Stop Orders

Stop orders can be used for three purposes: One, to minimize a loss on a long or short position. Two, to protect a profit on an existing long or short position. Three, to initiate a new long or short position. A buy stop order is placed above the market and a sell stop order is placed below the market. Once the stop price is touched, the order is treated like a market order and will be filled at the best possible price.

Importantly, while stops and MIT's are usually elected only when the specific price is touched, they can be elected when the opening of a market is such that the price is through the stop or MIT limit. In this case, you can routinely expect the fill to be much worse than the original stop or better on the MIT. This applies to stop orders and MIT orders placed before the opening of pit trading.

Stop-Limit Orders

A stop-limit order lists two prices and is an attempt to gain more control over the price at which your stop is filled. The first part of the order is written like the stop order. The second part of the order specifies a limit price. This indicates that once your stop is triggered, you do not wish to be filled beyond the limit price. Care should be taken when considering stop-limit orders--especially when trying to exit a position, because of the possibility of not being filled even though the stop portion of the order is elected. There is no stop-limit order without a second price.

If your order cannot be filled by the floor broker immediately at the stop price, it becomes a straight limit order at the stop price.

Stop-Close Only Orders

The stop price on a stop-close only will only be triggered if the market touches or exceeds the stop during the period of time the exchange has designated as the close of trading (usually the last few seconds or minutes).

Market on Opening Order

This is an order that you wish to be executed during the opening range of trading at the best possible price

obtainable within the opening range. Not all exchanges recognize this type of order. One exchange that does is the Chicago Board of Trade.

Market on Close (MOC) Order

This is an order that will be filled during the period designated by the exchange as the close at whatever price is available. A floor broker may reserve the right to refuse an MOC order up to 15 minutes before the close, depending upon market conditions.

Fill or Kill Order

The fill or kill order is used by customers wishing an immediate fill, but at a specified price. The floor broker will bid or offer the order three times and return to you with either a fill or an unable, but it will not continue to work throughout the trading session.

One Cancels the Other (OCO) Order

This is a combination of two orders written on one order ticket. This instructs the floor brokers that once one side of the order is filled, the remaining side of the order should be cancelled. By placing both instructions on one order, rather than two separate tickets, you eliminate the possibility of a double fill. This order is not acceptable on all exchanges.

Spread Orders

The customer wishes to take a simultaneous long and short position in an attempt to profit via the price differential or "spread" between two prices. A spread can be established between different months of the same commodity, between related commodities, or between the same or related commodities traded on two different exchanges. A spread order can be entered at the market or you can designate that you wish to be filled when the price difference between the commodities reaches a certain point (or premium).

Good Till Cancelled Orders

These orders are also known as open orders and will remain valid until cancelled.

Swing Trading: Making \$\$\$ in a Sideways Market

By Jim Wyckoff

"The Trend is Your Friend" is a tried and true market adage that is indeed one of the most valuable futures trading tenets. However, history shows that most markets tend to move in a non-trending, or "sideways" fashion more of the time than they are in a trending mode. There are several methods by which to trade non-trending markets. One popular method is called "swing trading."

The basic principle for swing trading is finding a market that is trapped in a sideways trading range (also called a congestion area), or in an up-trending or down-trending channel on the chart. On the chart, the trader must be able to distinguish some clear support and resistance levels that are boundaries of the congestion area or channel. When a market price approaches the support or resistance area boundary, the trader will establish a position: long if prices are moving lower and close to the support boundary, and short if prices are moving higher and toward the resistance boundary.

Swing trading techniques can be used in any chart time frame -- daily, weekly, monthly and intra-day charts. However, the most popular timeframe for swing trading is the daily bar chart.

It's important to note that the strength of the support and resistance at the boundaries is usually determined by the number of times the market has pivoted at the boundaries. The more times a market has reached a support or resistance boundary, and then reversed course, the more powerful is that boundary. Thus, a trader wants to find a well-established channel or trading range for which to attempt to swing trade. An exception to this is a market that has been in a trading range, but is bound by one or two powerful spike moves, which also indicate a strong support or resistance boundary. In other words, some congestion areas that may offer a good swing-trade opportunity do not require several pivot points.

Instead, those one or two spike levels would be determined to be a potentially good pivot area for a market. The swing trader should still use tight protective stops. A good area to place a protective stop is just outside of a support or resistance boundary that makes up the trading channel or congestion area. For example, if a market in a trading channel is nearing the upper boundary of that channel, the swing trader would establish a short position and would want to place his protective buy stop just above the resistance level that serves as the upper boundary of the trading channel.

Interestingly, if the market keeps moving higher and breaks out above the channel, or congestion area, (stopping the swing trader out of the market) then that would likely be considered an upside "breakout," which is a favorite trading set-up among many veteran position traders. This set-up would suggest establishing a long position if there was good follow-through buying strength the following session after the upside breakout from the congestion area or channel. The trader establishing the long position would place his protective sell stop just below the former upper boundary of the trading channel or congestion area that was just penetrated on the upside.

The Percent "R" Indicator : How to Make it Work for You

By Jim Wyckoff

The Percent Range (%R) technical indicator was developed by renowned futures author and trader Larry Williams. This system attempts to measure overbought and oversold market conditions. The %R always falls between a value of 100 and 0. There are two horizontal lines in the study that represent the 20% and 80% overbought and oversold levels.

In his original work, Williams' method focused on 10 trading days to determine a market's trading range. Once the 10-day trading range was determined, he calculated where the current day's closing price fell within that range.

The %R study is similar to the Stochastic indicator, except that the Stochastic has internal smoothing and that the %R is plotted on an upside-down scale, with 0 at the top and 100 at the bottom. The %R oscillates between 0 and 100%. A value of 0% shows that the closing price is the same as the period high. Conversely, a value of 100% shows that the closing price is identical to the period low.

The Williams %R indicator is designed to show the difference between the period high and today's closing price with the trading range of the specified period. The indicator therefore shows the relative situation of the closing price within the observation period.

Williams %R values are reversed from other studies, especially if you use the Relative Strength Index (RSI) as a trading tool. The %R works best in trending markets. Likewise, it is not uncommon for divergence to occur between the %R and the market. It is just another hint of the market's condition.

On specifying the length of the interval for the Williams %R study, some technicians prefer to use a value that corresponds to one-half of the normal cycle length. If you specify a small value for the length of the trading range, the study is quite volatile. Conversely, a large value smoothes the %R, and it generates fewer trading signals. Some computer trading programs use a default period of 14 bars.

Importantly, if an overbought/oversold indicator, such as Stochastics or Williams %R, shows an overbought level, the best action is to wait for the futures contract's price to turn down before selling.

Selling just because the contract seems to be overbought (or buying just because it is oversold) may take a trader out of the particular market long before the price falls (or rises), because overbought/oversold indicators can remain in an overbought/oversold condition for a long time--even though the contract's prices continue to rise or fall. Therefore, one may want to use another technical indicator in conjunction with the %R, such as the Moving Average Convergence Divergence (MACD).

The trading rules are simple. You sell when %R reaches 20% or lower (the market is overbought) and buy when it reaches 80% or higher (the market is oversold).

However, as with all overbought/oversold indicators, it is wise to wait for the indicator price to change direction before initiating any trade.

Larry Williams defines the following trading rules for his %R: Buy when %R reaches 100%, and five trading days have passed since 100% was last reached, and after which the %R again falls below 85/95%. Sell when %R reaches 0%, and five trading days have passed since 0% was last reached, and after which the Williams %R again rises to about 15/5%.

Like most other "secondary" tools in my Trading Toolbox, I use the Williams %R indicator in conjunction with other technical indicators -- and not as a "primary" trading tool or as a stand-alone trading system.

More information on the Williams %R indicator can be obtained from Williams' book: "How I Made \$1,000,000 Last Year by Trading Commodities." It's published by Windsor Books, New York.

Nuggets of Wisdom from Jesse Livermore, Greatest Trader Ever

By Jim Wyckoff

In the early part of the 20th century, Jesse Livermore was the most successful (and most feared) stock trader on Wall Street. He called the stock market crash of 1907 and once made \$3 million in a single day. In 1929, Livermore went short several stocks and made \$100 million. He was blamed for the stock market crash that year, and solidified his nickname, "The Boy Plunger." Livermore was also a successful commodities trader.

I think the most valuable knowledge one can gain regarding trading and markets comes from studying market history, and studying the methods of successful traders of the past. Jesse Livermore and Richard Wyckoff are two of the most famous and successful traders of the first half of the 20th century. Many of the most successful traders of today have patterned their trading styles after those of the great traders of the past.

Here are some valuable nuggets I have gleaned from the book, "How to Trade Stocks," by Jesse Livermore, with added material from Richard Smitten. It's published by Traders Press and is available at Amazon.com. Most of the nuggets below are direct quotes from Livermore, himself.

- "All through time, people have basically acted and reacted the same way in the market as a result of: greed, fear, ignorance, and hope. That is why the numerical (technical) formations and patterns recur on a constant basis."
- "The game of speculation is the most uniformly fascinating game in the world. But it is not a game for the stupid, the mentally lazy, the person of inferior emotional balance, or the get-rich-quick adventurer. They will die poor."
- "Don't take action with a trade until the market, itself, confirms your opinion. Being a little late in a trade is insurance that your opinion is correct. In other words, don't be an impatient trader."
- "Livermore's money made in speculation came from "commitments in a stock or commodity showing a profit right from the start." Don't hang on to a losing position for very long."
- "It is foolhardy to make a second trade, if your first trade shows you a loss. Never average losses. Let this thought be written indelibly upon your mind."
- "Remember this: When you are doing nothing, those speculators who feel they must trade day in and day out, are laying the foundation for your next venture. You will reap benefits from their mistakes."
- "When a margin call reaches you, close your account. Never meet a margin call. You are on the wrong side of a market. Why send good money after bad? Keep that good money for another day."
- "Livermore coined what he called "Pivotal Points" in a market or a stock. Basically, they were: (1) Price levels at which the stock or market reversed course previously--in other words, previous major tops or bottoms; and (2)

psychological price levels such as 50 or 100, 200, etc. He would buy a stock or commodity that saw a price breakout above the Pivotal Point, and sell a stock or commodity that saw a price breakout below a Pivotal Point.

- "Successful traders always follow the line of least resistance. Follow the trend. The trend is your friend."
- A prudent speculator never argues with the tape. Markets are never wrong--opinions often are.
- Few people succeed in the market because they have no patience. They have a strong desire to get rich quickly.
- "I absolutely believe that price movement patterns are being repeated. They are recurring patterns that appear over and over, with slight variations. This is because markets are driven by humans -- and human nature never changes."
- When you make a trade, "you should have a clear target where to sell if the market moves against you. And you must obey your rules! Never sustain a loss of more than 10% of your capital. Losses are twice as expensive to make up. I always established a stop before making a trade."
- "I am fully aware that of the millions of people who speculate in the markets, few people spend full time involved in the art of speculation. Yet, as far as I'm concerned it is a full-time job -- perhaps even more than a job.

Perhaps it is a vocation, where many are called but few are singled out for success."

- "The big money is made by the sittin' and the waitin' -- not the thinking. Wait until all the factors are in your favor before making the trade." An important point I want to make is that Jesse Livermore's trading success came not because of any "inside" information or some huge store of knowledge he had about each and every stock or commodities market he traded. Livermore's trading success was derived from his understanding of human behavior. He realized early on that markets and stocks can and do change -- but people and their behaviors do not. Therein lay his formula for trading success. That formula for trading success has not changed since Livermore's hey day in the stock and commodities markets almost a century ago.

A final note: Jesse Livermore may have been called the greatest stock market trader of the 20th century, but I question that notion. Certainly, no one can disagree that his profits were immense and his trading prowess was unmatched.

But his life was not in balance. He was a "workaholic" who paid too little attention to his family. Livermore put a gun to his head and pulled the trigger in 1940. He "crashed and burned." You must have balance in your life to achieve *lasting success* at any endeavor. Trading markets is no exception.

If you like Jim's e-booket, you will also enjoy and benefit from Jim's comprehensive e-book, "Trading Smart." See more details on his website at www.jimwyckoff.com