1-2-3 Introduction:

By: Mark Crisp©
http://www.stressfreetrading.com

Thank you for purchasing the 1-2-3 Trading Signal. This is, without doubt, one of the very best chart set up patterns you will ever see. Once you train your eyes you will see them all over the place. At the beginning of a new trend. At the end of a retracement. Within a trading range. Within rising or falling trend.

Like any other pattern they are NOT 100% successful. But out of every other pattern I have ever come across in my trading career this is by far the most accurate and most profitable. If you want to become an expert in one chart pattern set up, this is it!

Whilst these patterns are 95% object ional when you become an expert in spotting them you may start to introduce a slight subjective analysis into this pattern. But for the sake of this introduction report I am only going to discuss a perfect, 100% objective 1-2-3 patterns.

On with the report. This is what I am going to explain to you:

1) What exactly is a 1-2-3 pattern?
2) Which charts and time frames do they exist?
3) The entry "trick"
4) The exit
5) Conclusion
6) Products

You will find this report quite small, compared to my other writings. My goal here is to define the 1-2-3 patterns and how to trade from it. It is not my intention to pad the report out and charge double the price.

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How does it fit in with my other works? I really like to keep my eyes on the 1-2-3 patterns in very oversold/overbought markets. Especially on the stock indices and the futures markets. AND whilst this method IS VERY profitable trading the liquid, big cap stocks, my stock trading approach is much more suited to the methods described in my Momentum Stock Trading Manual.(http://www.stressfreetrading.com). If you are a pure stock trader, then use the 1-2-3 to determine trend changes on the major indices and keep your eye open to spot them on the stocks you are following (and buy M.S.T.S ☺) If you are a futures trader as well then I would seriously consider not only looking for 1-2-3 patterns as to major moves but adopting this into a complete trading system. Also, for a slightly different approach take a look at my commodity web site: http://www.profitsincommodities.com

On with the 1-2-3 pattern and how to profit from them.

DISCLAIMER:

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Mark Crisp and stressfreetrading.com accepts no liabililty for any losses incurred whilst trading my ideas. The risk of loss exists and you must accept total responsibility for them.

Trading stocks and futures carries with it a high degree of risk and only those who have risk capital to trade should be traidng in these markets.

No part of this book, or any information given out, displayed on any of my web sites, is specific trading advice.

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Chapter 1:

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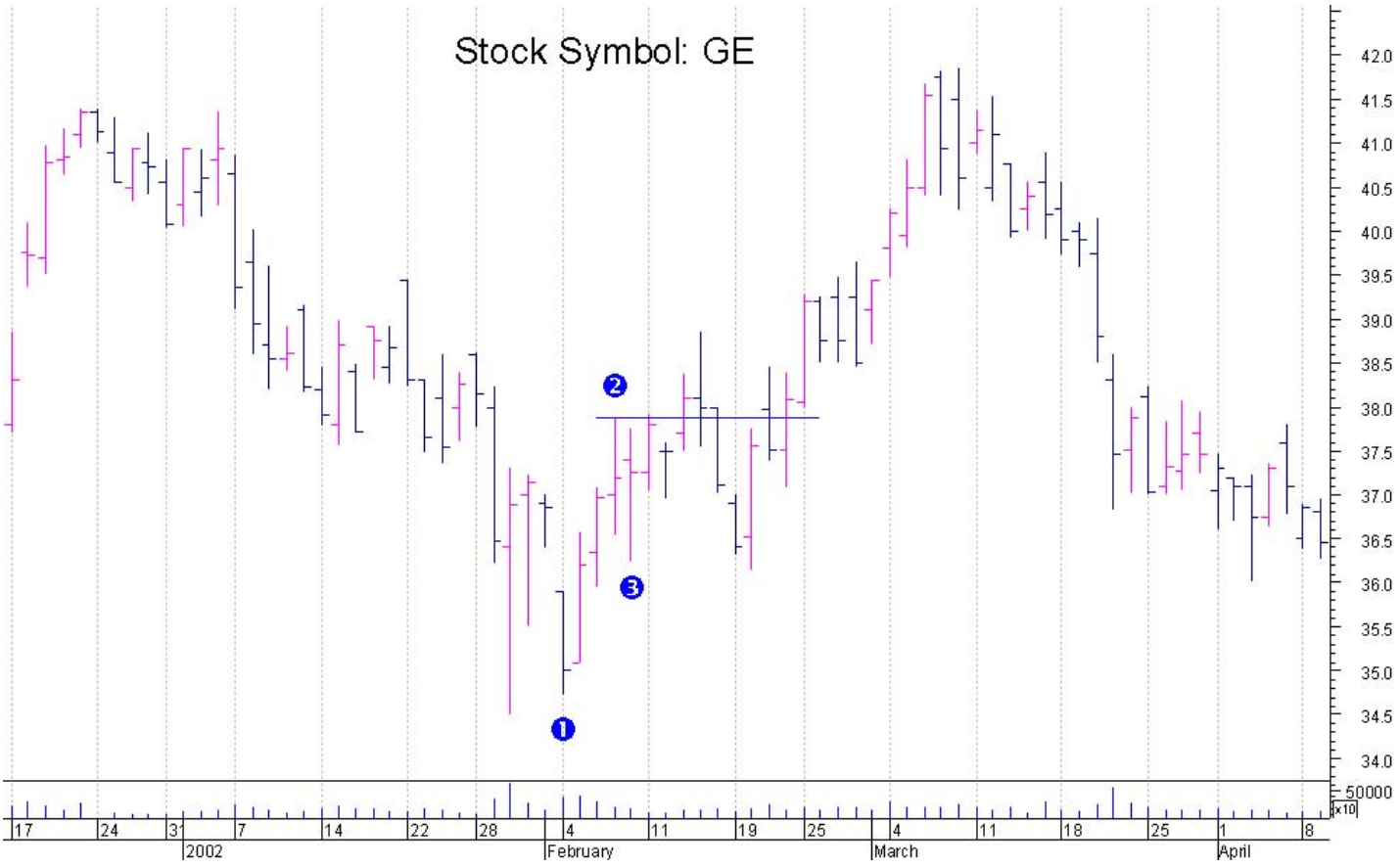
What is a 1-2-3 Pattern?

Good question. A 1-2-3 is simply best explained by looking at some charts. It's really simple when I throw up a few charts and take it from there. Here are some recent stock charts.



Above is simply a daily bar chart of the stock of the big blue chip US stock General Electric. Stock symbol GE.

Clearly marked is the 1-2-3 pattern that evolved in February. Simply put it is a 1-2-3 buy pattern.

It's a bottom, a correction, a retest that does not go beyond the original bottom, and then a rebound beyond the correction. Phew…. That was a mouthful. But it is VERY simple when you look at the chart.

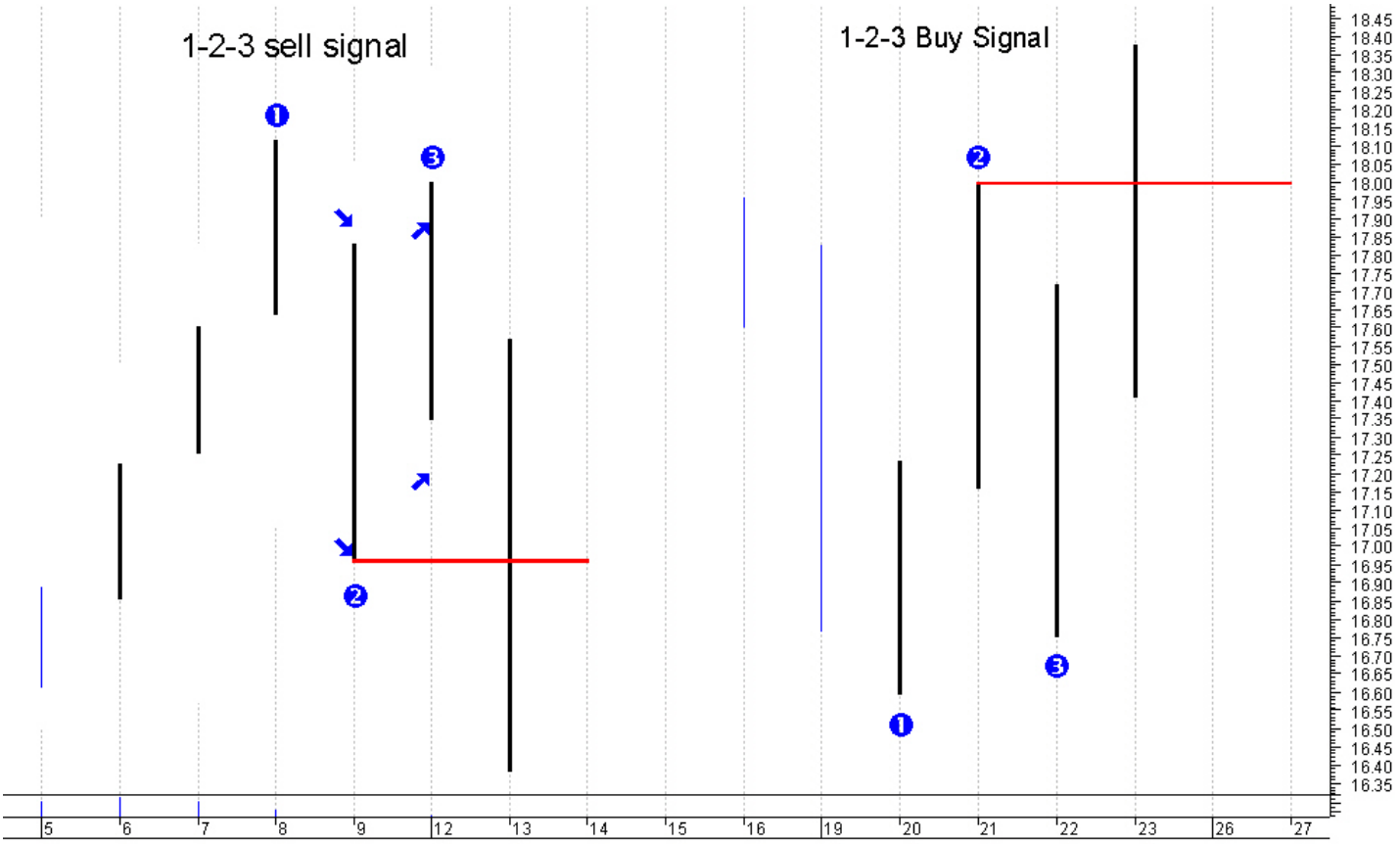
Point 1: This is the bottom.

Point 2: This is the correction

Point 3: This is the retest the DOES NOT GO BEYOND point 1. If it does then all bets are off. The pattern does not exist. Scratch it off and move on.

Once you have a valid 1-2-3 pattern then place your buy order in at the ***breakout** of the number two point on the pattern.

Honestly, it is a VERY SIMPLE pattern that always give lots of opportunity and a great risk/reward ratio. Once you grasp the fundamental basics and practice you will see them all over the place.



Here is an exercise to perform now.

- Get a blank piece of paper and a pen/pencil.
- Starting at the top left hand corner draw a diagonal line to the center of the page.
- Where you stop mark this with a BIG NUMBER 1.
- Now from this point draw another diagonal line towards the top right hand corner but only go about half way up.
- Mark this point with a BIG NUMBER 2.
- Draw a diagonal line from the number 2 point, parallel to the first line, down towards the bottom right hand corner. BUT DO NOT GO ANYWHERE NEAR AS FAR DOWN AS YOUR NUMBER ONE POINT. This line should be your shortest one. Make it about half the length of your number 2 line.
- Mark this point with a BIG NUMBER 3.
- Now you have a zig-zag pattern, marked clearly as a 1-2-3. Now draw a flat, horizontal line right on top of the number two point. On top of this line write: BUY HERE!
- Now imagine this is a stock you have been observing and it has formed a 1-2-3 bottom. IF THAT HORIZONTAL LINE across the number two is taken out then you have a valid buy.
- For a 1-2-3 topping formation that gives a valid sell signal simply reverse the whole procedure.
- Practice, practice and practice some more until the pattern is firmly fixed in your mind. It takes a little time and effort to grasp the pattern but it is like riding a bike, when you get it right, you will never have to learn it again.

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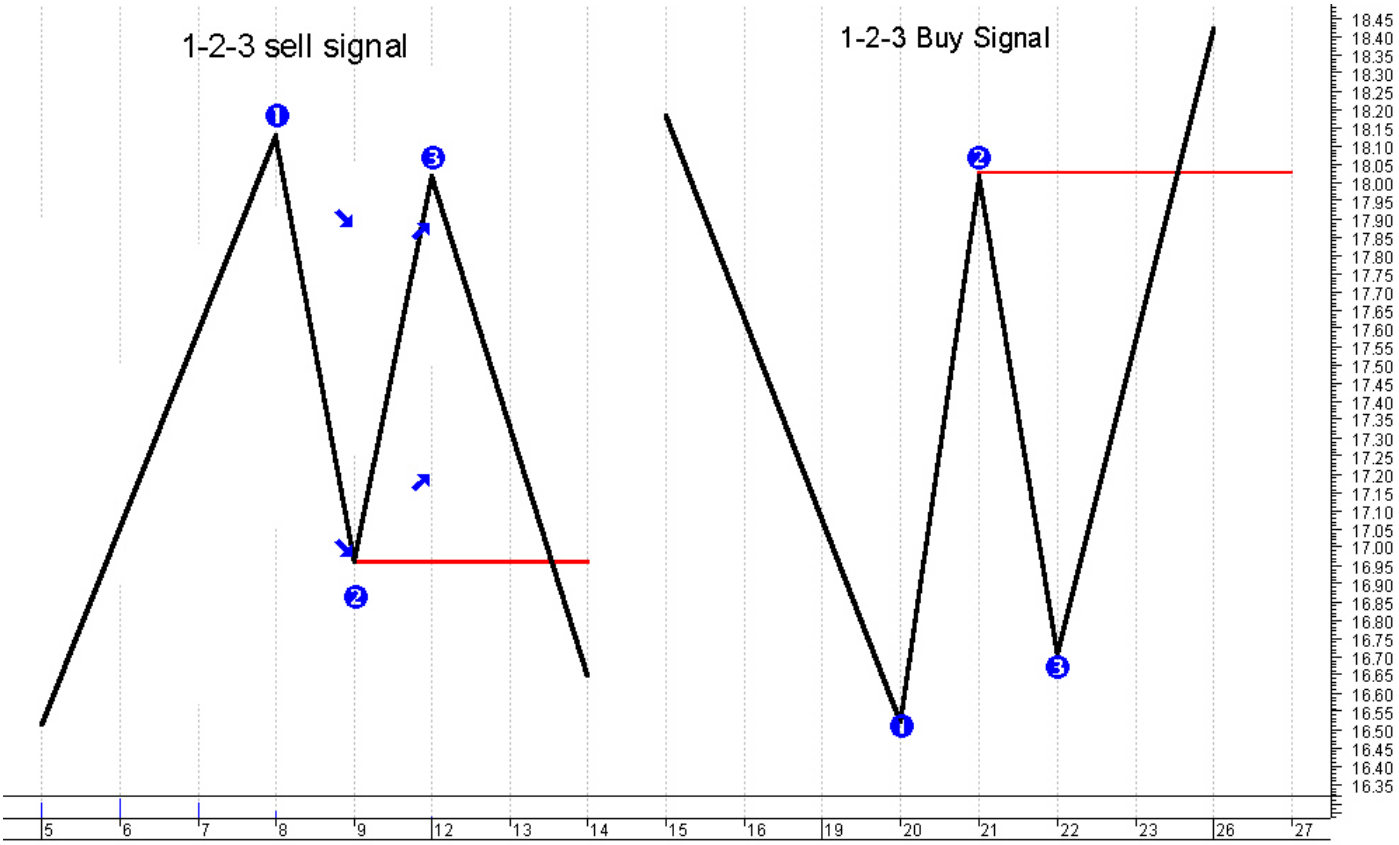
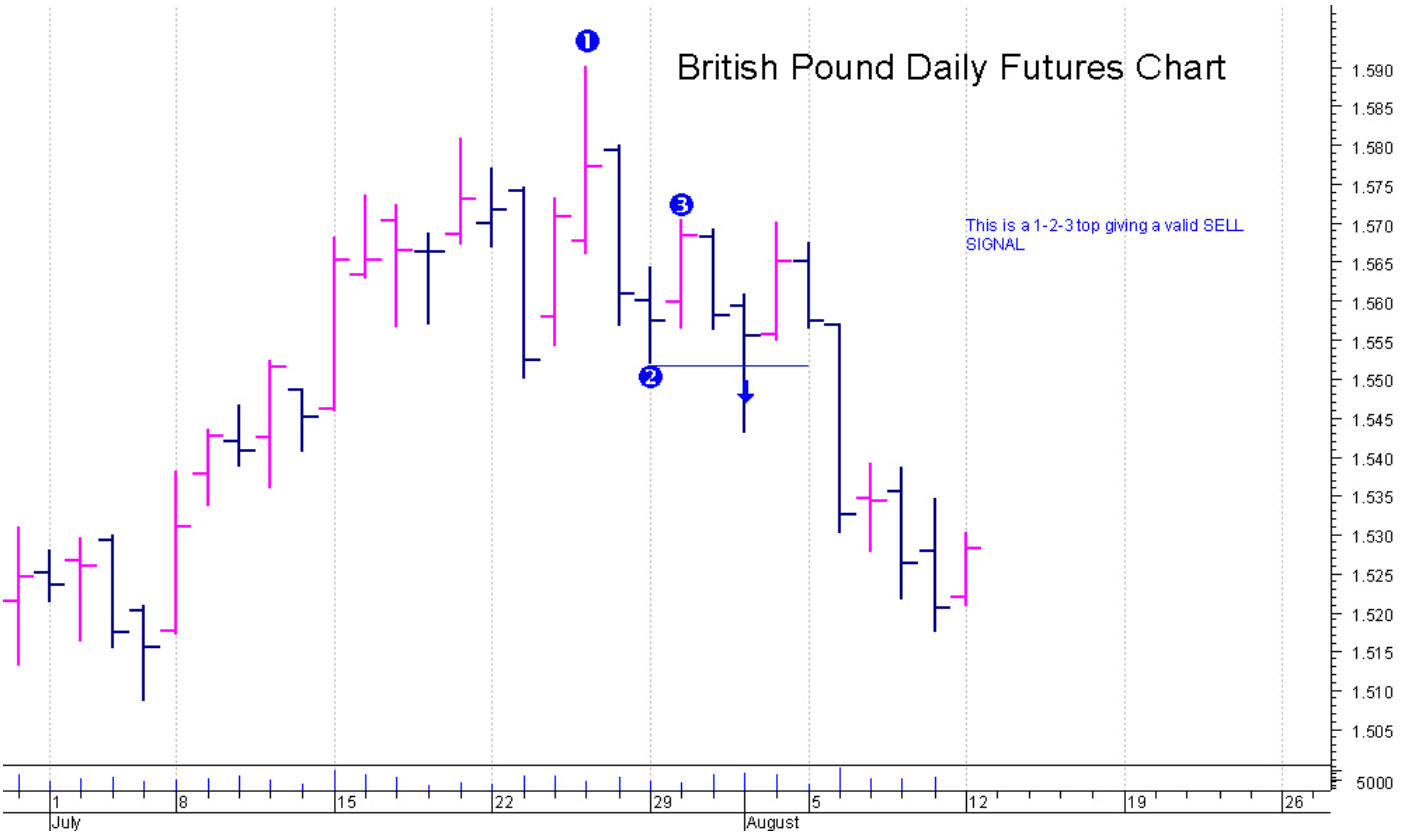
(This is how your drawing should have looked)



Let us have a look at a few more examples.



Now knowing what you do about the 1-2-3 signal can you spot how many valid 1-2-3 buy and sell signals are present on this daily bar chart of General Electric? (there are twelve) It may be difficult for you to spot them on this shrunken down version… that is not the most important point. The point is I wanted to show you how amazingly consistent this pattern is.

Have a look.

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OK. That's chapter one completed. Practice drawing 1-2-3's and looking for them on your favourite stocks and futures markets. They happen all the time and are about 70% accurate in the price prediction. Let's look at different charts and time frames with 1-2-3 signals.

* This is not 100% true. I'll explain why in chapter four

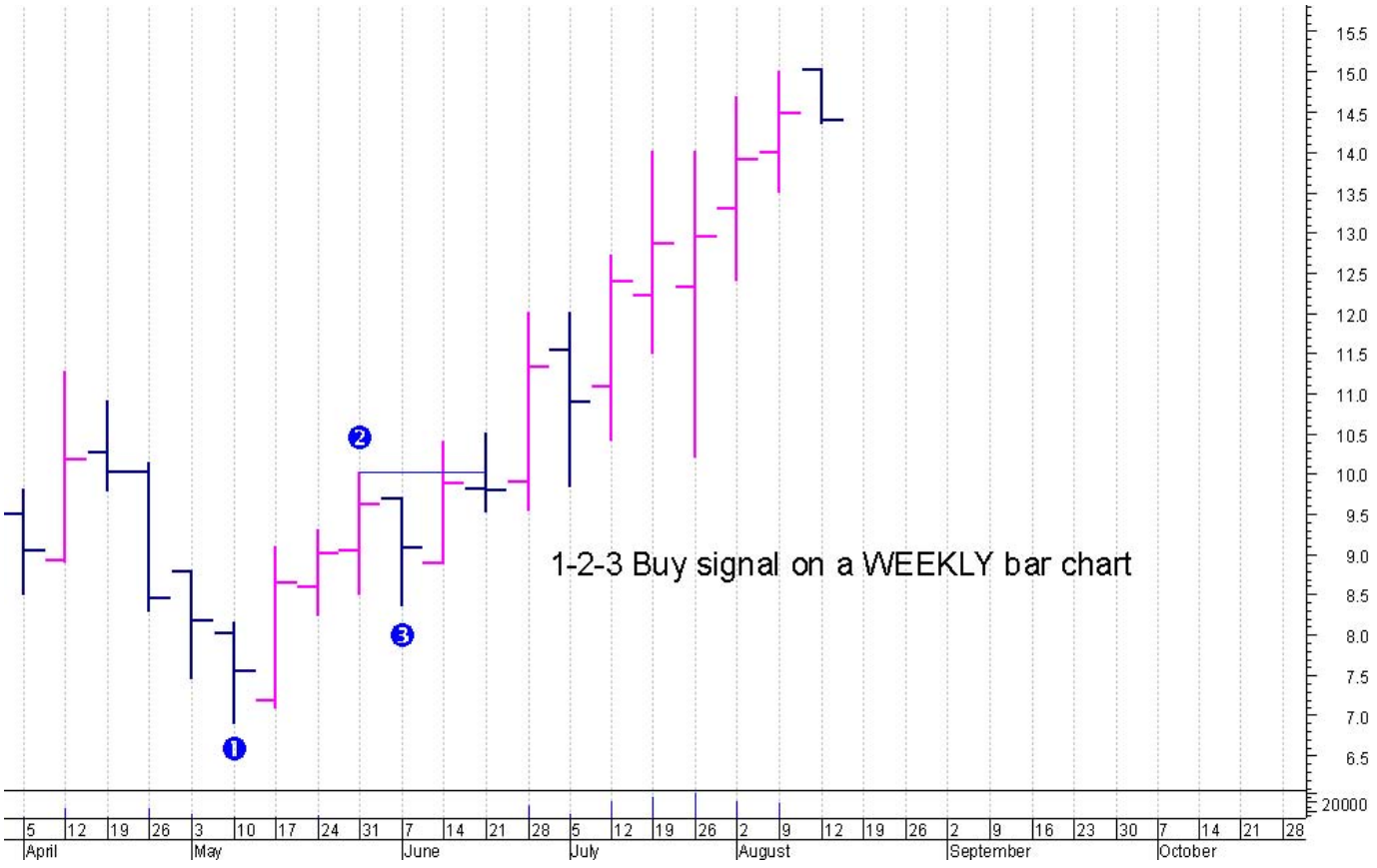
As you can see sometimes the 1-2-3 pattern happens very quickly or it can take time to develop.

Here is an important point for you to remember:

Generally, the more bars that are involved in the 1-2-3 buy or sell pattern THE BIGGER the move. In the above three examples I would expect bigger moves form the last two examples as opposed to the first one. Simply because there are more bars involved in the 1-2-3 patterns. Like I say, it is a general rule. Not hard and fast. Something for you to chew over.

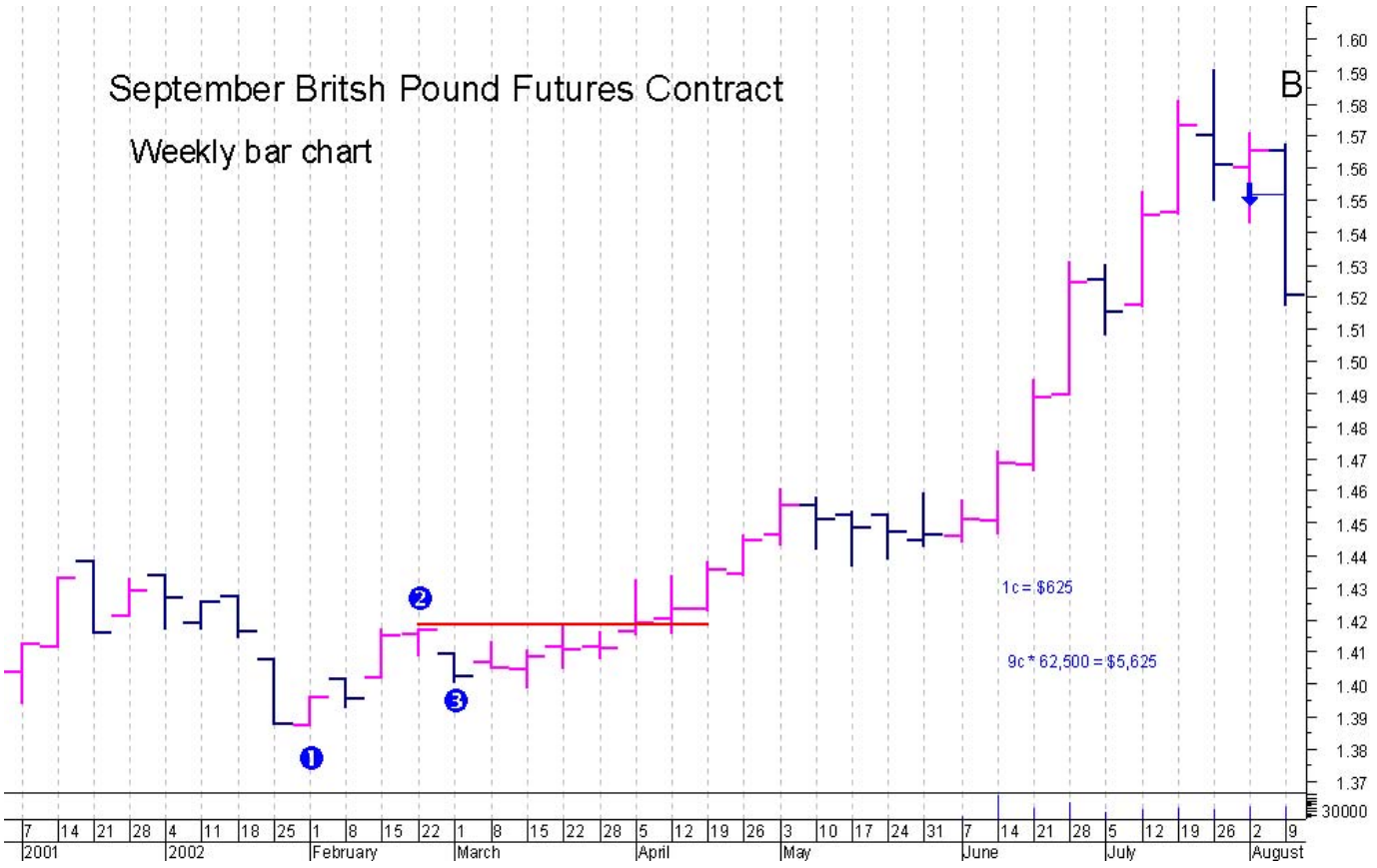
Now, 1-2-3 patterns happen in ALL time frames. I mean from 5 minute tick charts right the way through to yearly charts. As I have never and never will day trade I am not going to show any examples of this. But let's look at weekly and monthly charts, just to prove to you that the 1-2-3 pattern is valid in these time frames.

Weekly Patterns:



Fantastic! Look at the powerful 1-2-3 bottoming pattern that gave a valid buy signal at $9.80. This share was at $14.50 at the time of writing. A whopping 48% gain 10 weeks. Who knows where it will end up. Consider this. How long did it take me to spot, manage and profit from this trade? Considering this is a WEEKLY bar chart. A few minutes on a weekend. If this doesn't prove what a fantastic signal the 1-2-3 is…… you are a tough one to please.

OK let's look at one more



British Pound futures contract, viewed on a weekly bar chart. Again, a very powerful up trend after the valid 1-2-3 buy pattern.

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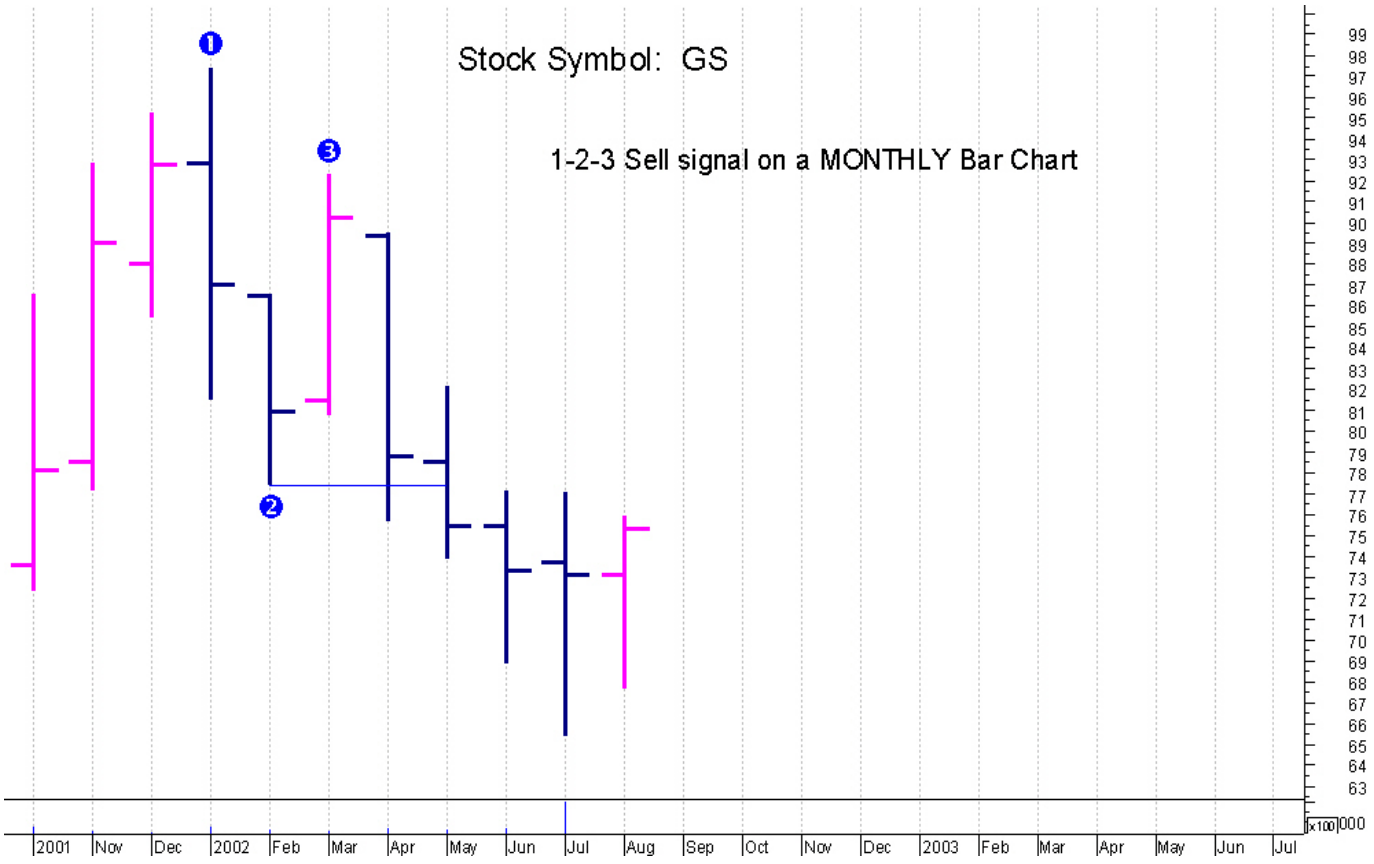
Lastly, let me prove that this 1-2-3 pattern is just as valid on a monthly chart as it is on any other time frame.



So, you remember what I said above? About how generally the more bars that are involved in the 1-2-3 pattern the more powerful and long lasting the move is. Where do you now think the biggest move is:

A daily chart where the 1-2-3 develops over five bars? Or
A monthly chart where the 1-2-3 pattern develops over ten bars?

Of course you said b. Bear this in mind. Generally 1-2-3 patterns on monthly charts indicate a much bigger trend development than a 1-2-3 on a weekly chart. A 1-2-3 on a weekly chart indicates bigger trend than one developed on a daily chart and so on…

Here is a very general rule of thumb table for you to consider. Consider that if you spot a 1-2-3 bottom on the NASDAQ monthly it could signal a new bull market that could last 6 months to two years plus.

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1-2-3 Length of chart	Generally the move could last
daily chart	2 – 8 weeks
weekly chart	4- 16 weeks
monthly chart	2 to 12 months

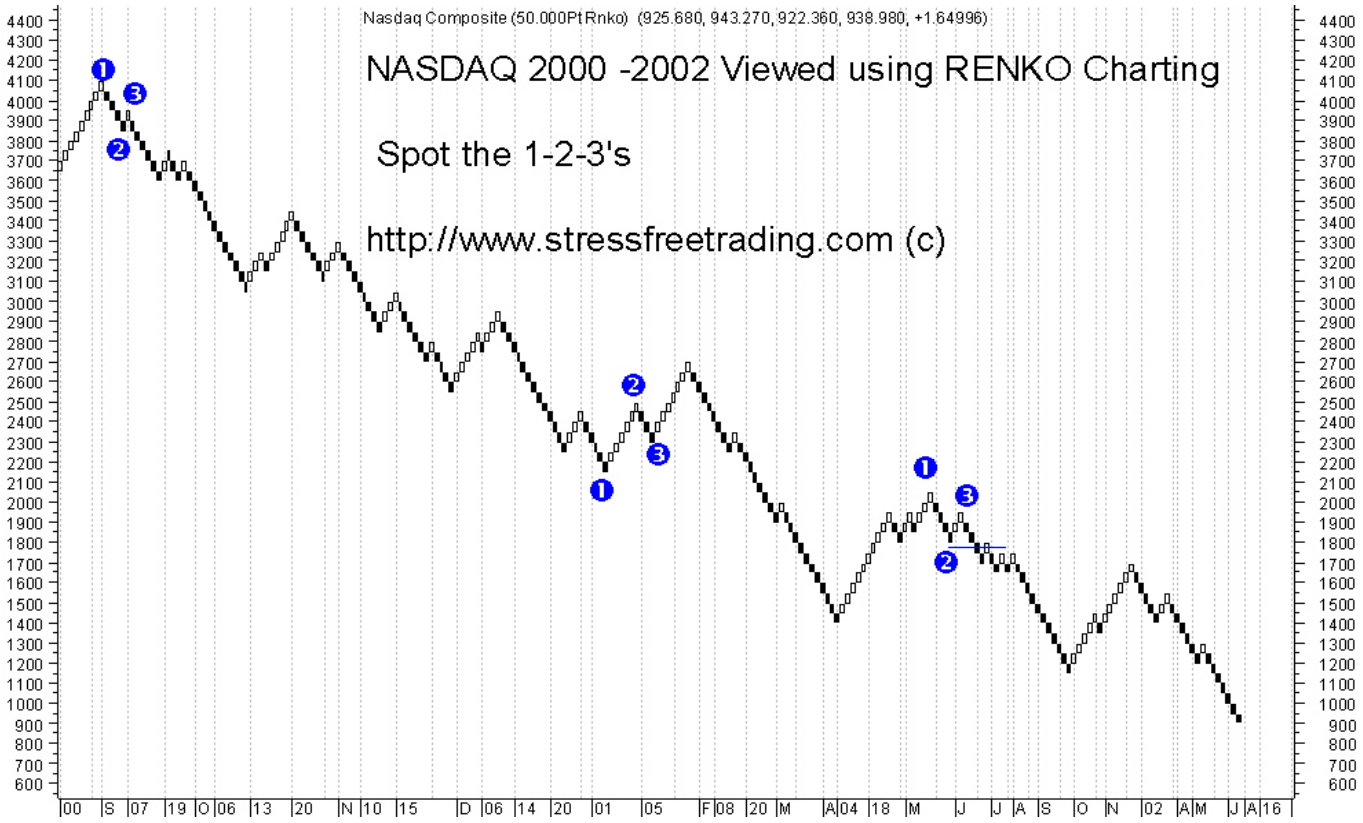
Types of Charts 1-2-3 Patterns Develop On?

I'll be very abrupt with this. 1-2-3 patterns appear on all of the charts. Bars,lines, Renko, P+F, candlestick. It makes absolutely no difference. The exact same pattern plays out the same.

Here is an example of a line chart showing a 1-2-3 pattern:

My only tip when using the 1-2-3 pattern with a line chart is to use weekly/monthly only. Daily gives too many false signals.

Here is anew one for you. The NASDAQ market viewed on a Renko chart. Spot the successful 1-2-3's.



Using the 1-2-3 pattern on the indices on a weekly/monthly basis is one of my favorite techniques as to spotting overall market trend changes. When I see a 1-2-3 bottom on a weekly/monthly chart I get very excited. If you spot one I urge you to make the VERY best investment you are likely to make and buy my M.S.T.S (Momentum Stock Trading System) http://www.stressfreetrading.com this is the way to make BIG money in these market conditions.

Long Short Stocks and Futures.

There is no point in me displaying more charted examples. I have shown you how the 1-2-3 works on:

- ALL time frames
- Both buying and selling
- Stocks
- Futures
- Line/bar/Renko charts

Believe me, if you can chart it, the 1-2-3 pattern will appear.
Now, lets' look at a slight trick for entry once you have your 1-2-3 pattern.

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Chapter 3

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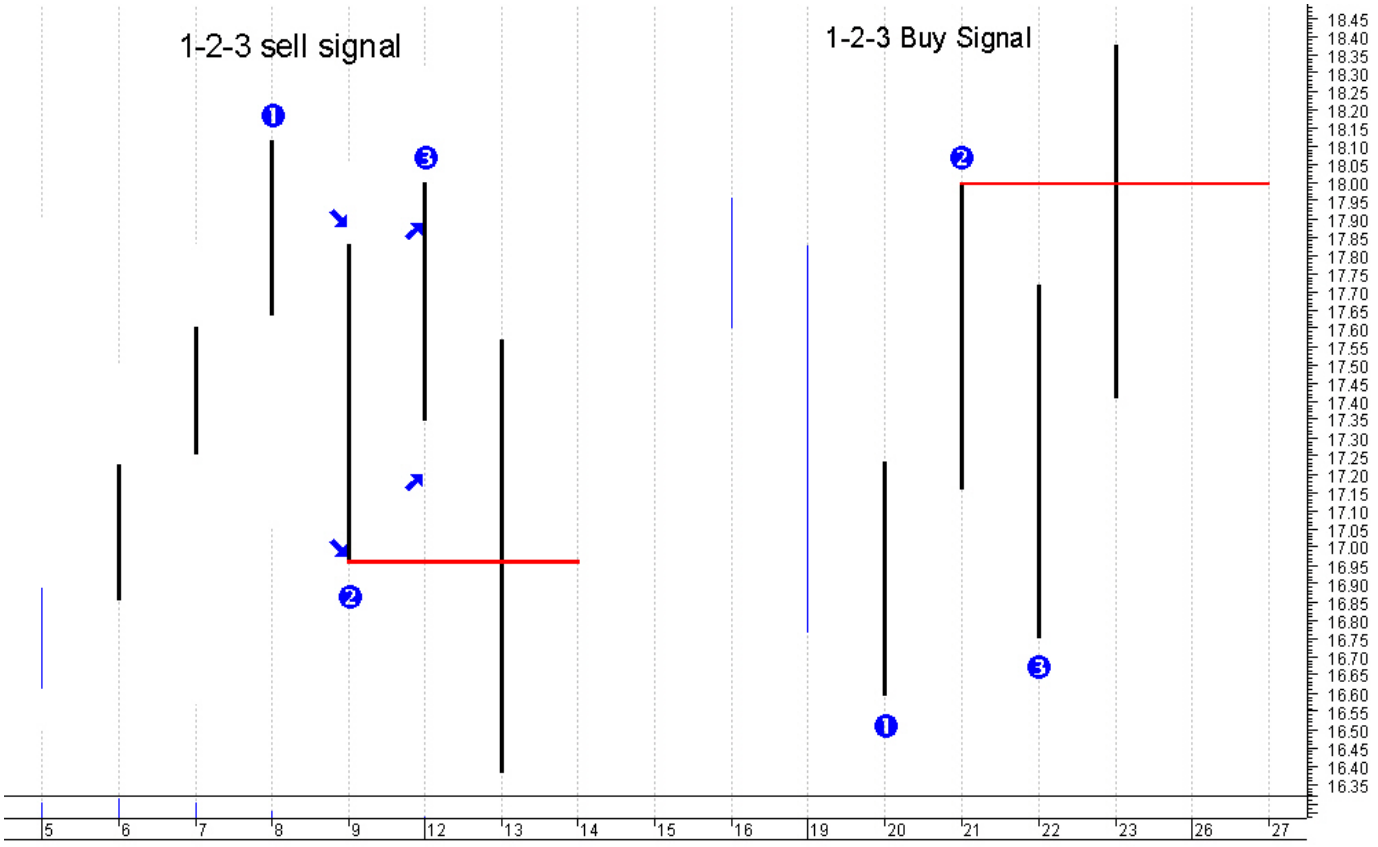
The Entry "Trick"

In chapter one I told you to either buy or sell the breakout of the number two point.



Above I simply show the valid 1-2-3 top an bottom patterns and where to place your buy/sell points. At the break out of the number two point.

But, you see there are many traders, systems, etc.. which blindly sell and buy at the breakout of every pivot point on a chart. What we do know is there are usually many orders placed at the breakouts of these points.

Now, whilst this is good you really need to beat the crowd. You want to be in the market just before the masses. How do you think you can achieve this?

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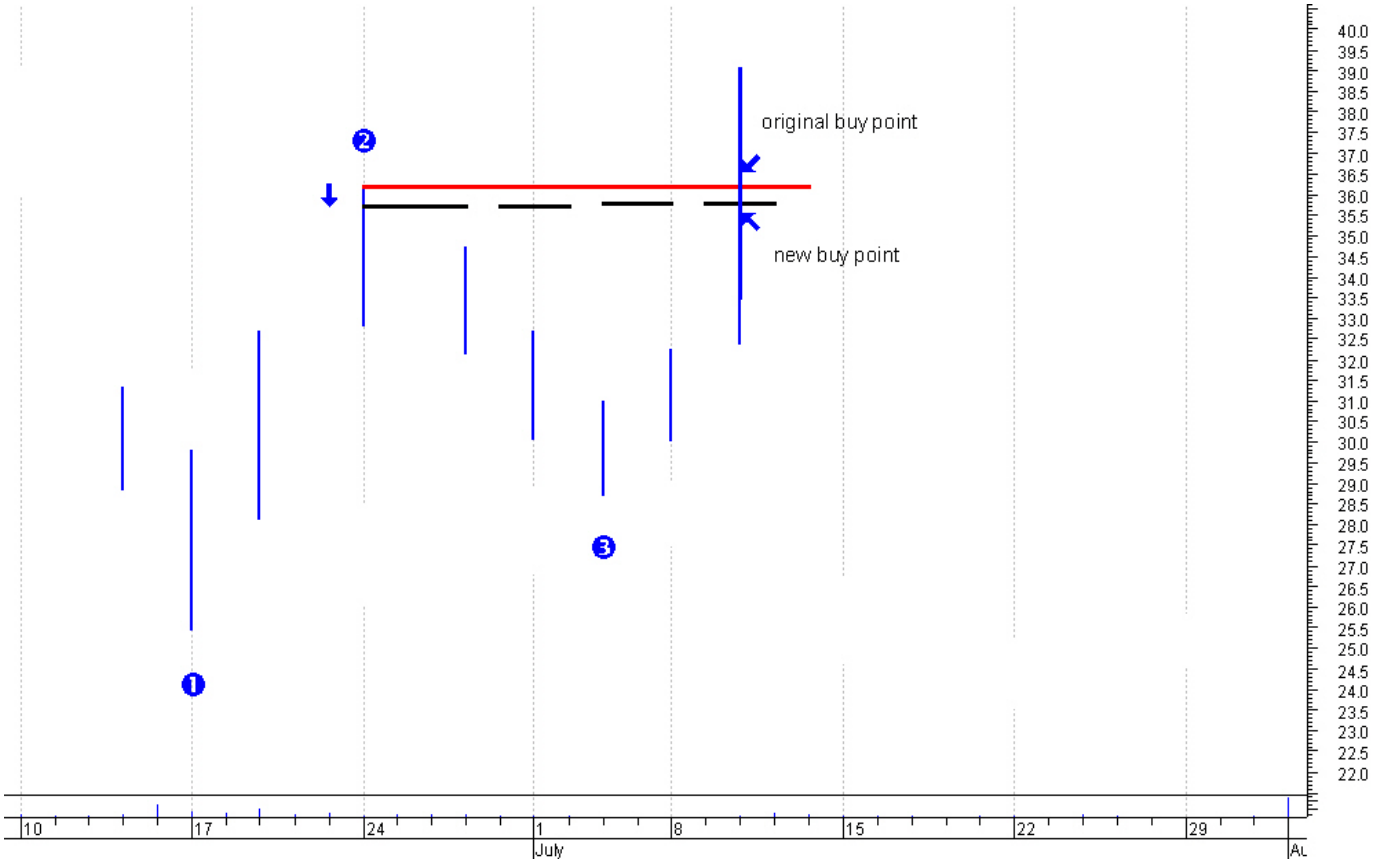
Easily. Simply bring your order slightly in. In a buy point buy at a slightly lower price than the breakout of the number two point.



So no big secrets here. Instead of simply buying at the breakout and joining the mass of other buy orders as they scramble to get onboard the break out just move your buy order in so to enter the market before most others. This will cut down on your slippage and ensures you will get a big initial move on your order.

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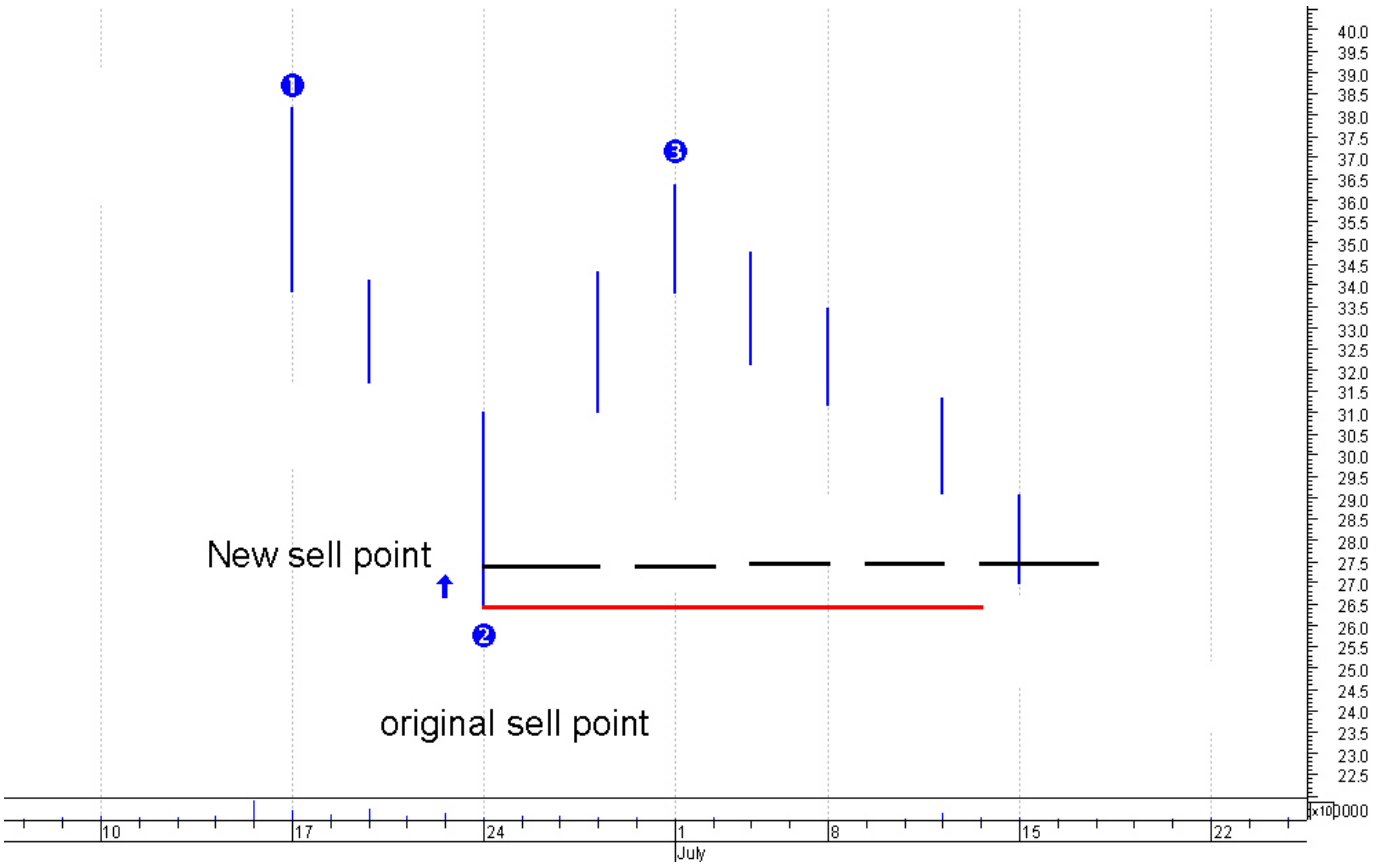
Let's take a look at a sell order:



Now by how far you move this buy/sell "in" is your choice. There is no exact scientific amount. Bear in mind you are simply trying to enter the market before the masses. So you do not want to get in too early where the stock/future never breaks out beyond the number two point.

On the other hand, you want to get in with plenty to spare before the masses enter on the breakout.

Experiment. Remember to keep a tight (no more than 10%) initial stop loss once you have entered your trade.

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When To Exit

Exiting a trade. Surprisingly, this is more important than entry. This is where the money is made. Yet not one in a hundred traders actually spends any time considering exiting from a trade once they have entered. I my opinion, this is why most traders fail in the markets.

Let's recite some of the trading principles I live by and then see how they fit into my exit rules.

The big money is in the big moves. So when you are in a trade and it gives you some early profits, DO NOT look to bail out as soon as starts to correct. You want to hang in there for as long as possible and HOPE your small profits turn into large ones.

Cut losses short. I am absolutely gob smacked when I hear of traders/investors not cutting their losses short. They say to me things like: "it's not at a loss until I sell it". "But it's a good company, why should I sell it". "if it drops any more then I will sell". The only way we can survive in the markets is to cut your losers as soon as it reached a predefined % stop loss. Do not second guess. If your initial stop is hit get out and move on. What's the big deal. Think about it this way, if the loser you are holding onto is stopping you from entering a fantastic winning trade isn't it sensible to drop the loser and go looking for that winner?

Less is best. Most people want to actually make more trades. They like to cut off their winning stocks/futures in the search of the next one. BUT the key to making money in the markets is to actually trade less often. This means both to be very patient before entering a trade and then when you are in it is actually much better to hold onto your winning stocks than to cut them off and initiate a new trade. The most dangerous part of any trade is when you enter. So if this is the case why would you keep wanting to place your-self in danger?

Once you have entered on a valid 1-2-3 pattern do this:

Set your initial stop loss relatively tight. For stocks I do not like to lose more than 10% on futures this will have to be a predetermined $$ amount. Bear in mind, you really should not be risking more than 3% of your total equity on any one trade. So if your account is $20,000 on each trade your maximum risk is no more than: (3% of $20,000) $600.

Once you have a 25% gain then move your stop to break even. If the stock doubles back from here and takes your stop out you have lost only your brokers transaction. Sure you left 20% profits on the table. So what. That's the "chance" we took in the HOPE of making a much bigger profit.

Once you have a gain of over 25% simply protect half of those profits until you are stopped out.

Once you have a 100% gain then protect 75% of those profits until you have been stopped out.

As you can see I like to keep my exits very simple and straightforward. I do not rely on oscillators to tell me a market is overbought/oversold. They simply do not work. Once you have a profit it is all about hoping those profits turn into very big profits. You have to be prepared to give back a % of your gains in the hope of doing this.

Taking a profit too early is just as dangerous as not cutting your losses!

Hope and Fear. Remember this statement:

FEAR your losses will get much bigger (so cut them off)

HOPE your profits will become much bigger (so give them plenty of slack)

Sadly, most do it completely the other way around. They fear their profits will disappear so cut them off too quickly. They hope their losses will turn into profits so hang onto them far too long. Is it any wonder they lose in the markets?

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Chapter 5

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Conclusion:

"I have seen the enemy and it is me"

I've been around and around in my trading career. I started off simply following trends in stocks with sound money management rules. Guess what? I made money.

Then I embarked on a quest to find the Holy Grail of trading. I attended literally dozens of seminars. Sadly I have bought many $3,000+ black boxes trading systems. Purchased hundreds of trading books, reports, files, tapes, CD's. You name it I probably have it.

JUNK! 99.5% of what I have read, seen, heard or tried simply does not make money in the stock/futures market. It's all smoke and mirrors to simply disguise the fact you have been ripped off.

What I have learned:

* No MAN ALIVE, or system on earth can ever, or will ever be able to predict the future market behavior. If someone tells you they can RUN AWAY!

* Simplicity is the key. Complicated technical systems are trying to baffle you into parting with your $$$'s. B*S baffles brains.

* Systems have three main components: 1) trade entry/exit rules. 2) Money management 3) Trader psychology

95% of traders will put them in the order I wrote above (i.e. in order of importance.)

I realize now the order of importance is:

1) **Trader psychology**. If you do not have the correct mindset you are doomed to failure. Most traders I come across are seeking a get rich quick scheme. Or wish to make money in the markets with no effort. Then they wonder why their account is sinking faster than the Titanic. They jump into the markets with little or no stock market/trading education but expect to compete with the big boys. Get this. If you enter the stock market with no education then you are treating it as a gamble. If you gain an education, test, and adopt a more professional stance, then you are treating it as a business. Who makes money? Gamblers or business people? It is no different in the stock market.
2) **Money management rules**. I could trade solely on money management rules and come out ahead. I spend most of my time in this area now. It's that important. I have adopted a much more business like approach to my trading. The results and MY LIFE have improved dramatically.

3) **Trade system**: I have my simple systems now. They may need a little tweaking from time to time but I will not spend any more time seeking out the Holy Grail trading system. (if you find it... don't tell me about it)

*** Trading Really Is a Great Business**:

But only when you remove the stress. I've been there when I was hanging onto every twist and turn of the market. Trading from emotion. Getting excited about winners and down about losses. Looking back it was not a good phase of my life. The stress levels were far too high. I gave up hobbies, friends, social life. I was forever anxious about what might happen to my positions. Had I have carried on this way I would have been dead or on the trading scrap heap.

But adopting a more business like approach to trading. Taking time to relax and plan my trades. Developing the correct mental posture in order to win. Using sound money management techniques then it actually does become enjoyable.

You can make your trading career as big as or as small as you wish. Want to simply manage your own retirement capital? Then trade in the evenings. Or trade weekly charts and manage your trading account on a Sunday evening.

Want to trade full time? Great. Make sure you have sufficient knowledge, capital and experience to do this. Why not?

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Want to create a trading empire? It can be done. Get a solid track record, get some business plans drawn up then go for it.

It can be as big or as small a venture as you are willing to take it.

Good luck and keep learning the stock market business.

Sincerely

Mark Crisp

Momentum Stock Trader
http://www.stressfreetrading.com

Contact: trader@stressfreetrading.com

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Other products I have developed in my many years.

Momentum Stock Trading System:

- **Momentum Manual and members' area**: 143 A4, back to back pages jam packed with momentum trading strategies. Learn all about the system Nicolas Darvas used to turn a $25,000 account into over $2,25 MILLION. I have been using this system for years and it still works. You can use it on penny stocks (although I advise against this), low priced stocks, right the way up to high priced growth stocks.

  Many bonuses, books, reports, indicators and soon to be exclusive stock screening tools to find momentum stocks. Believe me… this is the way to make a FORTUNE in the right market conditions. It's not all about trade entry, I have chapters on the correct trading psychology, money management and much more.

  Considering many black boxes go for in excess of $1,500 paying just $130 for all this has to be a great bargain and… you will not find a more profitable system.. PERIOD!

  Please do check it out and at least sign in for the free e-mail newsletter.
  http://www.stressfreetrading.com

Commodities Trading

- **Commodity Trading**: Volatility Trading System. A simple system to catch trends in the commodity markets. Either buy the e-book and/or buy the Trade Station coded version. Very reasonably priced.

  http://www.profitsincommodities.com

- **Options selling**: Whilst I have not set up an advisory for my stock options selling methods… I may do so in the future. Or, I may open up a small "hedge type fund" in order to manage a small fund exclusively selling stock options.

  If you are interested in this then drop me an e-mail and I can keep you on my list:

  mailto:trader@stressfreetrading.com?subject=stockoptionslist

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