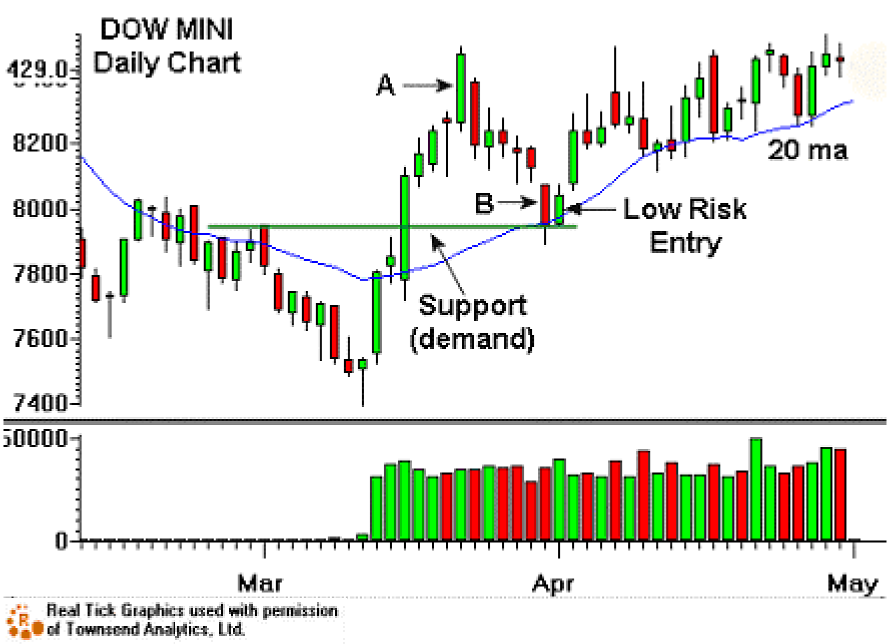
Chicago Board of Trade

## Keep It Simple

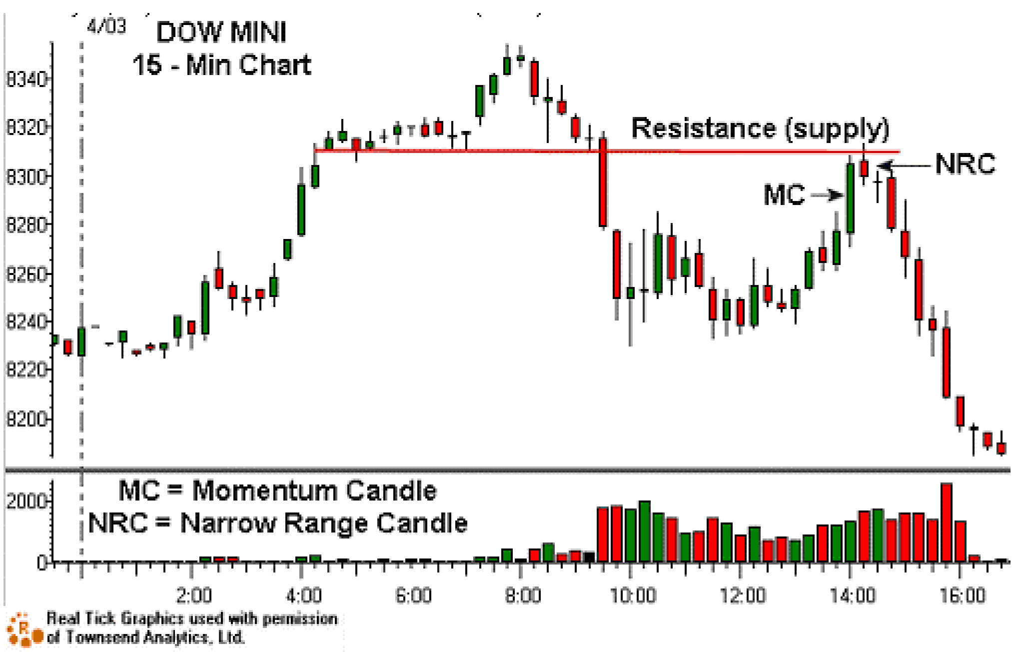
**By Sam Seiden, MarketWise Trading School**

My first experience with the CBOT mini-sized Dow futures contract was such a positive one due to its size and the nature in which it trades, that I decided to include it in my daily advisory letter, The Simple Swing Trader, which I distribute daily through MarketWise Trading School. Having instructed thousands of traders over the past few years, it truly is what today's futures trader is looking for with its attractive intra-day movements, the size, leverage it provides, and its solid liquidity. How we produce consistent returns in trading the mini-sized Dow is always the same and is the focus of this piece.

Many traders look at a chart and try to figure out how to trade properly. Some seek education, which also attempts to teach people the proper techniques of trading.  All this and still, the percentage of traders that fail is huge, some have estimates at over 85% (failure rate).  Perhaps people are looking in the wrong place for the answers to successful trading.  Trading is like anything else, its professionals taking money from novices. In other words, a professional trader derives his or her income from a novice trader or novice trading. Instead of taking the approach everyone else does which is trying to trade like a pro, lets take the easy route and focus on how a novice trades as their actions are very easy to recognize and profit from.  If we can consistently recognize specific events that suggest novice trading in the markets and have the precise tools required to take action, haven't we then figured out the proper way to trade?  For definitions sake, a professional trader is one who is consistently profitable, whoever that person may be.



Before we look at the mini-sized Dow Daily chart above, lets take how we make money trading to a deeper level of simplicity. When we buy (go long), we can only make money if other traders buy after us. When we sell (go short), we can only make money if more traders sell after us. On the chart above, candles "A" and "B" represent a group of traders you had better get to know real well if you want to succeed in trading. These are novice traders making the same two mistakes they consistently make. Candle "A" is a momentum day to the up side after a multi-day advance and into resistance (supply, not seen on chart). I ask you, are those that bought on that day smart buyers or professional traders? No, they are novice buyers or traders. Think about it. What are the chances that those buyers are going to make money entering long on that day? They are making the same two mistakes novice traders consistently make, which is buying after a multi-day advance (low odds) and into weekly resistance (not seen on chart, high risk). Candle "B" represents the same group of traders as they sold after a multi-day decline (notice the novice gap) and into support (demand). Again, all we have to do as astute traders is ask the question, "Would a smart trader be selling here"? No, the odds of those sellers (shorts) making money is very low and is a clear sign of a novice trader. A pro (someone who is consistently profitable) does not sell after a period of selling nor do they buy after a period of buying. Also, they most certainly don't buy into resistance (supply) or sell into support (demand). If they did, they would not be consistently profitable. Professional traders are trained to spot novice trading or traders as that is how they reap their profits in the market. Novice traders more often than not fall victim to their own emotions that cause them to jump on the bandwagon right before the wheels are about to fall off. This is how psychology moves the markets and causes prices to turn; today we are learning how to see that on the charts.




For intraday traders or swing traders looking to obtain very low risk / high odds entries, the same picture of novice trading can be found on the smaller time frames such as this 15-minute chart, all day long. Notice the momentum candle (MC) that forms after the multi-bar advance and into price resistance (area of willing sellers, supply). As soon as that candle closes, we must objectively ask ourselves if those buyers were professionals or novices. Another way to do it is to assess the odds of that group making money on the long side. The odds of this group reaping profits from a long entry on the momentum candle are very low. When the large crowd comes in this late, jumping on the bandwagon when it is in full view, the odds are good that a pullback or reversal is near. Confirmation for us (for a short entry) comes on the close of the narrow range candle (NRC), which suggests a slowing of momentum. A short entry can be taken on the very next candle with a very tight stop above the high of the NRC and a target of at least 8240. This is high odds trading. We teach the mechanics of these trades in our classes at MarketWise trading school.

We realized long ago that the markets are designed to force the crowd to come in and leave at the wrong time. We dissected this observable fact and figured out how to play it right, which is a full section in the Candlestick section of our 2-day advanced technical analysis course. The window of getting the best price is very small. Our studies showed us that the key to proper technical analysis is simplicity. You can only win at this game when you can properly assess the odds of the game, which allows you to only play when those odds are stacked in your favor. At every significant turn in price, there is a specific event that causes prices to turn. That event almost always looks the same on the charts.

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