

INTERVIEW

What Indicators Should You Use?

Gail Mercer Of TradersHelpDesk.com

Gail Mercer, a 15-year veteran of the trading industry who is the founder and CEO of TradersHelpDesk, has dedicated her career to helping traders achieve success. Committed to helping traders grow from amateur analysts to master traders, her unique methodology is rooted in her philosophy that success depends not on a trader's indicators but the ability to remain focused and responsive to price. Self-responsibility, another cornerstone of her work, provides the mirror for what a trader needs to learn about him- or herself in relationship to the markets. Working with both the inner and outer aspects of trading, Mercer provides an integrated and holistic blueprint for prospering in the markets.

Mercer has recently partnered with Christopher Koozekanani of FulcrumTrader to bring the concepts of Cumulative Delta to a broader audience. The new website will launch in early July 2011.

She is a frequent contributor to STOCKS & COMMODITIES, Traders World, and Financial Sense, as well as a presenter at the International Traders Expo. She offers a free trading room where she trades on the live edge of the market. To join, go to www.tradershelpdesk.com.

S&C Editor Jayanthi Gopalakrishnan and Staff Writer Bruce R. Faber spoke with Mercer on May 4, 2011, via telephone.



New traders don't plan. They don't ask, "What weaknesses am I going to bring into my trading?"

Gail, how did you get interested in trading?

The funny thing is I never thought I would ever be a trader. I actually started out as a paralegal. When computers came out, I was so amazed at how something that would take me hours to do could be done by a computer in such a short time. After that, I studied *everything* about computers I could get my hands on. I was offered a job as an indicator specialist at a company in Greensboro, NC, which I accepted. At the time I had never heard about anything like TradeStation and when I saw those little price bars ticking away during the day, I was in love. That was it. I was never, ever going to do anything else again in my life. I just thought that was the most amazing thing I had ever seen in my life — and I still do.

You said your job was as an indicator specialist?

Yes, at a company that designed more than 500 indicators. They do a lot of custom programming. We programmed

some really complex stuff. There was nothing I did not have access to. We did it for companies like TradeStation and eSignal.

What was it about those tick bars that fascinated you?

It was seeing the price movement of a company's stock intraday. I had always been told that you look in your refrigerator, see what labels were in there, then you just buy the stocks of the companies behind those labels and hold them forever — and eventually your kids would get your money. So being able to see a price bar and actually *see* the price of a company increasing or decreasing had me think, "Oh man, what have I been missing?" It was absolutely astonishing. And I had always loved currencies, so the currencies attracted me like crazy. I was like, "Oh man! I could be sitting here trading the dollar and the euro when I am at work." It just blew my mind.

As you have developed so many indicators, are there any that you specifically

like or found useful?

At that time, I did not have a favorite indicator because all I did was jump from indicator to indicator to indicator. I went through everything. I don't think there was an indicator I did not try.

Do you use that many indicators now?

No, I don't. I made that change when I decided to become a trader instead of an indicator specialist. Things changed for me when I asked myself, "Am I doing this as a hobby? Am I doing it just for the fun of doing it, or do I really want to make money at it? If I want to make money, I have to get serious, and it has got to become a business." I have always been good at running a business and applying business principles.

The one issue I had in my trading was applying a business model to trading. Everybody has a different opinion on

what you need to do in order to succeed as a trader. So I told myself that if this was going to be a business, I had to go back to square one. What did I have to do to be a trader?

The one thing that came to mind was consistency. I wasn't doing anything consistently, except changing things. Because I was constantly changing things I had no idea what would work. I never devoted myself to any particular methodology. I never sat down and wrote out a trading plan. If I had a week of losers, that was it for that method. Those indicators went straight out the door and I took on a new set. If a particular time frame did not work for me, I changed the time frame. I changed the market. I was in a constant state of change. Once I said, "No! This is going to be a business. What would a business owner do?" — it all became about consistency.

Why consistency?

We go to McDonald's because we

can get a hamburger. It is not going to be a great hamburger, but it is going to be something very quick we can depend on. It was consistent, and I had to put that concept into my trading.

What steps did you take to do that?

I started out with some of the original J. Welles Wilder concepts on the relative strength index (RSI) and average directional movement index (ADX). I said, "Okay, there is something there, but I can't pinpoint it." So I decided I was going to change it so I could see the patterns.

What did you do?

I color-coordinated everything on my charts. That is one of my downfalls, I need to be able to see it. I said to myself, "I am going to make it into a histogram. I am going to put divergence on there. And I am going to make it so I can identify when the market is overbought or oversold." The purpose of Wilder's original ADX was to let you know when the trend

was getting stronger. That was a great concept, but I could not recognize it using his original indicator. So I modified his concept so I could see the trend's strength and if the directional movement index (DMI) negative was dominant or if DMI positive was dominant.

And I studied a lot about volume. The problem was, every time the volume bars started changing colors on me, I started analyzing. I went back into indicator specialist mode, and I didn't trade. So I decided I wanted to make a volume indicator that only changed if I needed to think about the volume. I came out with our own Traders' Help Desk (THD) volume indicator. This indicator will stay blue unless I need to look at a faster time frame. If the volume bar color changes, it is because sellers come into the market. So it is not a constant state of change on volume. It is very consistent up until the point that I need to know that information.

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So if the volume bar changes color, what kind of trading decisions do you make?

It is more like a negotiation process. A lot of people call it accumulation and distribution, or the buyers and the sellers are in a fight over who is controlling price. I call it “negotiation” because it keeps me in my business perspective mode. What happens is, if I am in an uptrend, the only time I want to see a red volume bar is if price has moved significantly enough that I can say that sellers have entered this market. That tells me the negotiation has started. I don’t need to trade until there is a winner at the negotiation table.

So you observe the market, determine what is going on with the participants, and based on that you make your decisions.

Yes. That is correct.

From what I’ve seen, you have an interesting set of trading principles. The first one is that traders must take responsibility for their own business actions. Why is that first?

If a trader is blaming the indicators, or the software, or the market, or charts, they are at a disadvantage, because they are perceiving themselves to be victims of the market. When we are victims we don’t take responsibility, and we don’t change. But if we take responsibility, regardless of the outcome, it doesn’t matter whether you win or lose. You can then take action to see what you need to do to improve. *You are accountable.* It doesn’t matter what happens in the market. You control yourself. You take responsibility.

Most of the traders we have right now who are just starting to trade are extremely high achievers. If they can come out of victim mode and get into the business mode where they are taking control, *then* they can succeed. We must be held accountable for what we are doing. To me, that makes a huge difference to your trading.

Since you work with a lot of traders, what are some common mistakes you see them make?

The biggest one, more than anything, is

that they don’t plan for trading. When we go into other fields, we educate ourselves. Typically, we will do an internship, and then we begin, but not with expectations of being the greatest. We may have the expectation that we will improve. We may *become* the greatest, or an expert, but we don’t start out that way. In trading, although we have highly intelligent people coming into this field, they don’t plan that way. They do the exact same thing I did.

Which is?

They are so overwhelmed with all the education out there that they read everything they can, but they don’t know how to implement what they learn. They don’t know how to plan. That’s one of the biggest problems with new traders. They believe that if they just follow someone else’s plan, that will become their own business. That’s what I call a franchise owner. You are just blindly following someone.

Trading is more about knowing who you are, what your strengths are, and where do you need to improve. A big issue for me is that I have attention deficit disorder (ADD). I have an attention span of about a three-minute chart. Now I can trade a three-minute and have no problems. But put me on a 15-minute, I’ll lose money because I cannot stay focused on a 15-minute bar.

New traders don’t plan. They don’t look at themselves. They don’t ask, “What strengths and weaknesses am I going to bring into my trading?” You can’t overcome a weakness unless you identify it. That’s one of the biggest things I have noticed with my students.

What else?

Probably support for new traders. A lot of companies do not offer a lot of support for their new traders. A lot of people will do a seminar for one or two days and that’s it. There is little or no support mechanism after that. Trading is very isolated. New traders *need* support. I designed Traders’ Help Desk to provide those support mechanisms. We have forums for all of our clients and special sessions every week for seminar attendees. We have a chat room specifi-

cally for seminar attendees where they can go in and ask questions.

Do you help traders set up a trading plan?

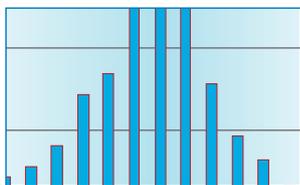
Yep. That is part of the seminar, actually. I have a three-day live seminar. We have a software program called Top Scalper. It is the coolest piece of software I have ever seen for traders. It is like a video game for traders where you build your skill level. We build all of our trade setups into Top Scalper. They have two days in which they can either trade the live edge of the market or play Top Scalper. During this two-day process, they sit down one-on-one with me and we design the beginnings of a trading plan. It takes more than a day to do a trading plan. We start the process. Then they send me their revisions and we continue to work on their trading plans, because it is so critical to trading.

What are some components of a good trading plan?

I like to call it their policies and procedures, which any business should have. First, I want them to outline exactly what it is they hope to accomplish with trading, and what their winning percentage would be. You recently published an article in STOCKS & COMMODITIES about mathematical expectations. Well, I make them calculate that out. It is funny because most of them come back on the second day with their trading plan all laid out with their mathematical expectation included in there. Just about every seminar participant will put down that they want 70% as winners. And that is just starting out.

That's pretty optimistic!

I suggest they start with 50%. If you can get to 50%, then you can bump it up to 60%, and then bump it up to 70%, but you cannot have an expectation of making 70% winners on day 1. This, in



a way, holds them accountable for what they are doing in their business.

Then they have an outline of what time frame they will trade and their entry criteria, and they have to include snapshots of their perfect trade setup. I want to see it on a chart. I want to see their exit strategy, at what point they will say the trade is not going their way and they will have to exit. I also want to know at what point they say they are at breakeven and have to exit their trade. It's very common to hear traders say, "Once you go green don't let it go red again." Well, one tick can make a green and that is not giving it enough room. I want those traders to put a definitive number there that does not let them wiggle at all. Typically, we use eight ticks.

From your website home page it looks like there is a webinar almost every day. Is that for members, or is that for anyone?

That is for anyone. We run a free live trading room that anyone can come into. We use one time frame. We have a very specific entry mechanism. It is listed on our website. It tells you exactly when we will go in the market. It tells you exactly where our stops are. It gives us caution signs. It also tells us where the exits are.

Is your Traders' Help Desk strictly for daytraders, or can it be applied to longer-term trading as well?

It works on longer-term trading as well. Silver has been beautiful. We were talking about it recently because THD's RSI and ADX were hitting the extremes. This is pulling back to between 35 and 40, and actually today, so far, it has been at 38.94.

Going back to your mathematical expectation comment, I remember reading an article you wrote about mathematics for scalpers that discussed risk to reward.

The reason I wrote that article, and this goes back to expectations when we come into trading, is that 50% is nonachievable. You have to go back to basics and say, "Okay, I am not going to be the world's greatest trader when I first start out, so how can I make the numbers work for me

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so I can still make money and not blow out my account?" So I created an Excel spreadsheet and calculated my risk, the money management, which was 2% of my account, and figured out how many negative trades I would have to have in a row to blow my account. Well, it was 170 trades.

That would be a lot!

Even at the worst point in my career I couldn't do that. So it had potential. Then I asked myself, "What is my winning percentage to at least make a profit, using a 1:2 risk/reward ratio?" It was actually 40%. That put it in perspective for me, because 40% is achievable. To me that was very important because it gave me hope. It gave me an outline to work with. I could determine what my winning percentage would be at the end of the week or at the end of the month. Then what I did was — and you have published a lot of the articles on this — take the daily ranges of all of the top futures symbols for the past year. That included the ES, the Dow Jones Industrial Average (DJIA), the Russell index, all the currency futures, silver, gold, and crude.

Why did you do that?

I looked at the volume and daily range for the last 254 trading days and tried to figure out what a new trader could expect out of a daily range as a scalper. I decided I could take 10% of that range. That gave me my profit target. So any time I went into the market, on any symbol, I knew what my profit target was. I just

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divided that by two and that gave me my stop. Then, as a business owner, I had to decide what my time was valued at per hour. I decided on \$150 per hour. So within this indicator, I decided that every time I went into the market, per contract, I wanted to make \$150. With this knowledge I know exactly what I can trade on any given day.

Ironically, in the last three years, there has only been one change in that range, and that was the Swiss franc. It just popped up to the top.

Is this how you take the stress out of looking at all the markets that you trade, since you do trade quite a few?

That is exactly how I do it. If anybody comes in the trading room and asks me what they can scalp on a particular market, we can put it up right into the screen and tell them exactly what their stop and profit targets should be.

Though you follow so many different markets, is there any particular one that works best for you, like futures or forex, as opposed to stocks?

The euro tops every other market besides crude, and it has done so for the

last three years. Dollar for dollar, you get more on the euro than any other market out there, except crude. I think that is the only one ahead of it. And maybe silver at the moment.

What made you decide to teach people to trade?

Because I struggled so hard trying to make it. I told myself that if I ever conquered this, I wanted to have a website that was devoted to helping traders. I didn't want to just give them clichés, because we hear so many in this industry. Like "the trend is your friend." Define that for me. What does that mean to me as a new trader? How do you implement that? That is where Traders' Help Desk is different. We show you *why* the trend is your friend, and why using a higher time frame is to your advantage. We show traders how to use that knowledge.

If I walked into your classroom and said, "I have been trading, but I am not that good at it. I would like to have you set me on the right path," how long would it take to turn me into somebody who is making this 50% you have been talking about?

It depends on you as a trader. I have had traders who made money in 30 days. They will have a really, really rough 30 days, but when they come out of it they are much better traders. I have others who take from three to six months. A lot of it depends on the trader.

There was one guy who was trading the ES. All he needed was to change from trading the ES to trading the euro. After he changed to trading the euro, though, he had a really bad month, but the month

after that it clicked for him. His accuracy rate is a lot higher than 50% right now. He had the basics down. All he needed was a trading plan.

Another trader was actually on the verge of having to go back to work — his "day job" — and he came into the trading room, basically because it was free. He is making money in trading now. It took him about 90 days. He must have sent me 200 screen shots to review. I reviewed every one of them and walked him through every single trade. He is profitable today.

You said that when you did your original analysis, at 40% you were okay. I am assuming that you are a lot better than that now. What kind of percentage of winning trades can an above-average trader make when he/she gets rolling?

If they have control over the psychological aspect of their trading, they can actually achieve 70% to 80% accuracy. The accuracy rate of the guy I trained in September runs about 85% right now. A lot of it has to do with whether you have conquered the psychological component. Do you still get emotional in the market? Are you talking yourself out of trades? Are you moving your stop too soon? Are you following your rules? Those things have to be conquered. If you conquer them and learn to read your indicators, you will have extremely high accuracy rates.

Thank you for your time, Gail.

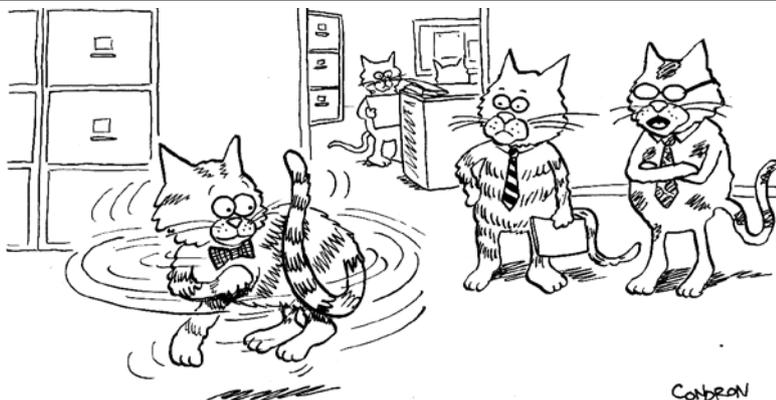
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