Trading Thoughts and Ideas

By; Kenneth Lee

Disclaimer

As always very few of any of this is a novel idea of my making, just my interpretation of ideas and facts I have learned over the years and staring at charts until I was blind.

If anyone feels I have encroached on any of their proprietary information please let me know and I will edit or remove. This is being made for sharing on public forums not as a money making endeavor.

Plus also remember trading is a lonely profession and each person is responsible for their own trading decisions. Everyone has their own ideas of what is a good or bad trading idea use this information to build your own Ideas.

Thanks Ken Lee

FOREWARD

In my time trading I have seen many people with issues similar to these that they have found hard to overcome and most never get past and finally decide to give up trading.

I have decided to try and put some of my own trading thoughts down on paper . One to remind myself on a daily bases of what are in my opinion the most cost effective aspects of trading. Or the things that can allow a person to move forward in the trading game.

The title Romancing The Stop , Is probably based on the most important of any one single trading issue that is abused to the detriment by more traders than anything else. The Stop position.

Moving a stop, adding to a loser to move a entry. Those things will keep a person from becoming a real trader every time.

I will also put some of my personal thoughts down of what I look for as to direction and my personal entry ideas. Again this is just my own thoughts based on information gathered over a decent amount of time from various sources.

Romancing The Stop

The one single aspect of trading that will make you or break you is using stops correctly. They will preserve your trading account equity as well as build your confidence in your own trade plans.

The first and foremost thing a stop does is provide control for rule number;

1. **Always have enough equity to take the next trade.**

If you can't take the next trade you are dead in the water and will have to wait to save more funds to try again. Plus it is a devastating blow to the ego to have that feeling of a total loss . Most people can't take to many hits on their personalities before they decide that this isn't for them .

Those that keep fighting the good fight can also build a wall of indifference between themselves and their trading . Making it sorta alright to continually fail, but neither idea is acceptable. We are all in this to at the very least add to our financial situations and better our life's . Plus your personality will start to suffer and then you can start to blame out side things on your trading. Blaming your family and friends or your other job. Which can lead to self destruction.

So we must learn to love where we place our stops and realize they are our guardian angels, That we control to protect us from us. I hear so many people blaming the market or the charts on why a trade goes bad , but in

reality we have no one to blame but ourselves.

The choice of entry style has less to do with being a successful trader than does knowing where to place a realistic stop. I watch a few newbies trade and analysis their charts and at times one of the most basic faults is the use of a preset stop loss. This is the stop you set on your platform to automatically be placed with your entry.

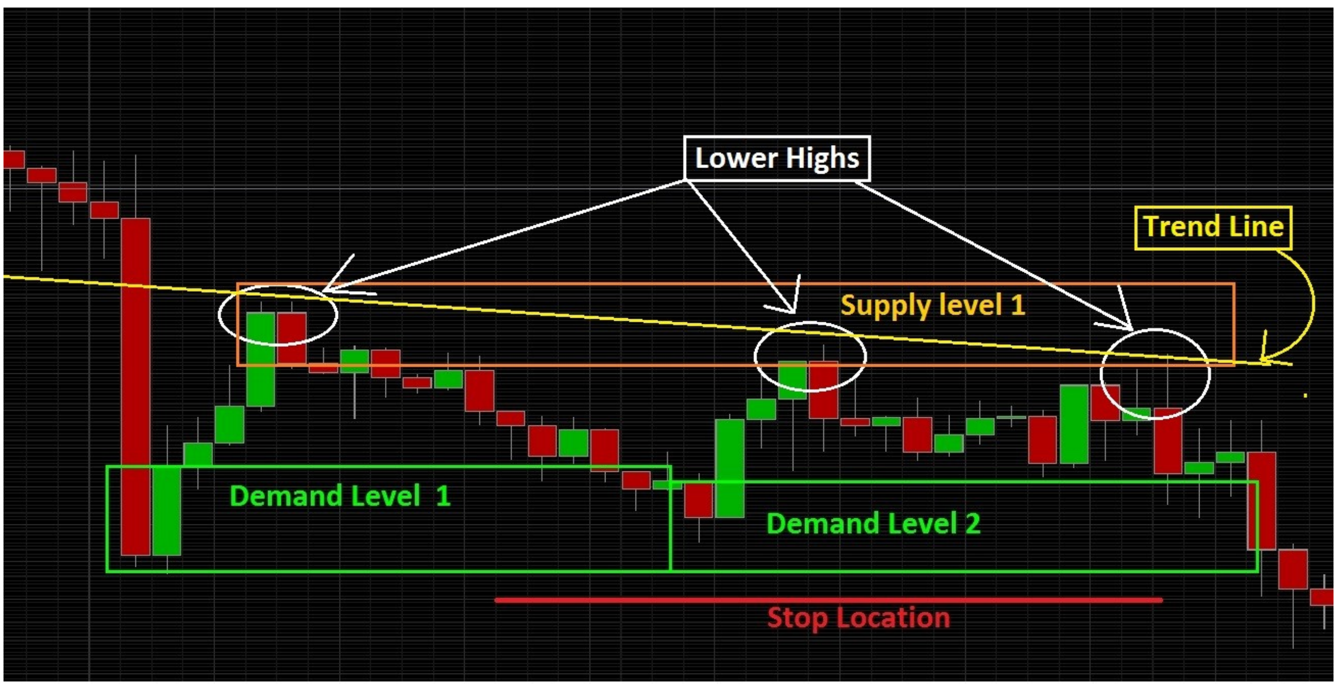
The use of that should be nothing more than to get your stop on your chart so you can then adjust it to the correct location. To correct that issue change it from say 15 or 20 pips to 150. Then it is so far out of position you have no choice but to adjust it. Plus within your trading plan you should have a price number already picked to where it should go.

Here in the title Picture we have two demand levels or one that is now being tested for the second time. But we can clearly see where our stop should be placed .

The only thought we have in our minds when we take a trade is the fact we are only taking it because we think with the given information we have used to plan our trade that the price is now going to go back up. Our choice of stop location should support that choice.

We can see that the stop is below both levels giving us the best chance for a move back up. But it wasn't meant to be and we got stopped out. But that is good as we WANT to be stopped out if we are wrong because that is why we put it there.

There is a lot on that chart above that was saying that short was the direction that price was going , But another one of the major failings in trading is trying to turn price when everything is saying otherwise. It doesn't matter what you use to enter , A set of lower swing highs , a supply level that is holding and been hit lower and lower just the opposite of one that is going to break. Or even nothing more than a trend line. They all show the same thing, Price is going to drop lower.



But in the overall idea of trading it was more important that we placed a stop in the correct place than that we be right in picking the right direction. Because even if we don't have the best record of picking good entries we will be able to pick some more since we preserved our equity.

So we now know it doesn't matter as much as our entry style. The true key is to know where we should place our stop and then try and get the best entry possible which would be the one closes to that stop. That limits our risk because then price has to move against us less to hit our stop that preserves more of our equity to trade another day.

On the below chart which is a 4 hr we can clearly see where we want to place our stops the top or bottom of each swing high or low. So once we have these stop locations picked it is then on us to find the best entry as close to them as we can to limit our risk.

I have said this a million times your choice of entry style should be what you can SEE. In the beginning none of us knew which way price was going when we looked at a chart. I have always tried to compare learning to see entries to driving a car . You can put it all down on paper but it is nothing compared to being out there on the road doing 75 mph trying to remember it all at the same time.

Plus just because we now know where stops should go we can even eliminate those which we see as being irrelevant or against our trading plan direction.

I personally love the swing highs and lows to pick direction then add Supply and Demand levels into the equation and it serves me well as my primary way to plan a trade. I don't forsake other basic trading ideas either such as retraces (Fib) long wicks (Pins) or patterns (descending or ascending triangles , flags). But with time you start to come to the realization that most of those are nothing but Supply and Demand levels in a picture form after the fact. Other s may call them support and resistance, or where buyers or sellers are entering the market , but the main key is what you can use to get your entry as close to your stop as possible.

There is no better feeling than getting that spot on entry with little or no draw down . Plus those are the ones you should always try and hold for a home run as great rejection right off the entry is a good sign of the best choices.

I have looked at a few different trading strategies over the years but they all had the underlining idea of trading price action. They all had great merits, but some were to limited in their types of entries not enough. Others had to many with different rules for each. But overall they did work.

But I guess the one thing I took away from them all. Was the fact that the guys promoting them were making massive gains not off all the quick intra-day entries they were showing , but from longer term trading ideas that really required not much explanation but more commitment to believe in your choices.

Plus they tended to trade using a stop as not only a way to protect there initial risk but also as a profit taking tool as well. Say looking at that 4 hr chart we get a entry off one of those levels then each time it breaks another swing we move our stop up to below the new swing. We will continue to make gains until it reverses. If it should be a flier we could make a massive gain in just one trade.

Even those trying to follow trade levels given, found it hard in the holding part. This is something I have had to deal with myself and am now just starting to get a better handle on. But it still comes back to loving our stops and using them more as a overall trading tool than just a thing to despise. As that attitude will not get us far.

So let us look at using a stop as a over all trading tool. We can see in the below chart we have almost 20 hrs to find a entry within that level at the top. So as we believe that price is going down. Once price moves to our first counter demand level. These are the places if price was to turn around it would. As each level is broken we see a new supply level formed. When price moves away we can then move our stop down to where it would be if we were to short again at one of these new supply levels after a retrace.

This is one of the hardest parts of being a great trader holding a trade when you or sitting on a large gain. But as you can see if you held thru those 2 demand level breaks the trade was awesome.

So we can see how massive gains can be achieved by using a stop as a overall trading tool and in the process we will start to view our stops differently. Not as proof of our failure to pick a correct trade entry but as the true reason we are successful at trading.

This doesn't mean we can't take profits when we see a reason to. But I would suggest SUGGEST, that if we enter on a fast chart at least look at the next slower chart for a target, which would be the opposite level. Example you enter on a 30 min chart then look for a TP level on the 1hr or even better the 4hr. My trading has greatly improved by just moving from a 15 min chart to a 30 min as the levels I look for are further apart. So it goes to figure that a 1 hr or 4 hr will provide greater gains as well.

The best traders I know do one of two things . One they either enter using a fast chart such as a 15 min then hold for 4 hr or even daily level. Their risk is small using the fast chart as a entry and their gains are huge. Yes they don't hit a homer each time . But they also know when to take the gains in a ranging market.

I was in a skype room with a group of guys we didn't trade the same at all each using different ideas, it was just to keep company. But I did see something that gave me thought for pause. Some of these guys would take entries and move their stop to Break Even very quickly maybe after a 10 or 15 pip move.

I watched one day as a guy got stopped maybe 7 or 8 times but never lost a cent. Maybe even made a few pips. But then finally his entry was at the right spot and he just let it run and made about 250 pips. The key is that he wasn't looking for a small gain he was looking for the right entry to the right move a large one.

So in summary enter as a intraday trader or scalper but hold for the levels on the longer charts.

Then there is style two, Those that can scalp as well as trade longer term. It always amazes me one I see some that can enter a position based of daily or 4 hr charts with huge stops of even hundreds , then in the same day trade fast charts with tight stops of 15 or 20. but their key to success is that they adjust the trades accordingly. The $$ risked is the same based on the stop position distance. But it is a rare trader that can keep their mind straight to pull that off.

So where does that bring us. To the fact that to risk less we should look for the major levels to take trades but if we can look for entries on the faster charts . I personally like the 30 min chart for my entries . It is smooth enough without loads of noise. Noise is just the up and down movement of orders being filled . The longer term the chart is the more the chart smooths out not leaving confusing patterns to have to digest.

So we have two charts. The first is showing the 4 hr level and stop location. Yes it could go higher and test the top but the long red candles that dropped from it makes it very good to me.

Then we have a 30 min chart looking for the best entry we can find as close to that 4 hr stop as possible. We can see 2 possible entries one Sunday night then the other Monday morning. I have marked the opening price on the chart I will use this as a trading level as we can see right below it how price dropped away. I don't hold a lot of power to Sunday night levels staying within their parameters as they are formed during low volume times and we can get a drift in or out of a level that will snap

back in when larger orders start to enter the market.

But of course the best entry was the highest , closest to the 4hr stop. Right after Sunday open for most 6 pm eastern U.S. , a test of the Friday high supply level, These, I call flips where price flips over from one direction to the other. Think of a swimmer approaching the wall he twist around getting in to position then he pushes off towards the finish line. The large move down is when he uses his legs to push off getting away from the wall.

So we can see how using the faster chart we have entered a trade risking less of our equity, but this doesn't mean we have to limit or perspective of our possible gains.

So let us look at how differently the take profits would look on the different charts. First we will look at the 4hr.

We can see the clear difference that removing some of the noise can provide. This the 30 min chart.

So what does this tell us. Number one is that we shouldn't get tunnel vision, Just because you may watch a faster chart for better entries or more entries. To not use all your charts as a complete guide is a bit fool hardy. We after all are in this to make money. And we can leave a lot on the table by not watching them all.

So in summary we can clearly see how using a stop limit as a different type of tool can change our perspective on it and make it more a friend than a foe. There is a so much psychology about why we have self destructive behavior but we all see it all the time personally . The girls that keep dating the mean men. Or the drug users. The people that can't control their anger or emotional wrecks. Over eaters the list is huge . But they are all based on the same ideas. We build electrical connections in our body that HAVE to be filled . So it is hard to change these bad habits, but the good news is they can be changed .

But the key is forcing ourselves do do things that are uncomfortable because they are going against the connections we have created. Just as when you quit smoking it gets easier and easier each day until finally you break that cycle. Sure you still may have a desire to smoke but now you can control it.

In most cases with our trading the difference between screwing up and doing well is a millisecond of time so all we need is a bit of control to think the right thought at the

right time. That is where a plan comes into it.

If you have thought out your trades ahead of time you have already planted the seed to do the right thing. Almost all my REALLY bad trades come from shooting from the hip not thinking things out and just jumping in. A lot of times I can find myself doing what I call trading against myself. This is where I took a trade against my own bias for a pair the being the alpha male I can't admit I am a moron and get out. There is no place in trading for ego when it comes between you and your trades. The computer or charts could care less about us and our ignorant behavior.

The sooner a person comes to grip with this fact the faster they will move into the realm of pro trader. The difference I see between professionals in any field and amateurs isn that ability to do the right thing at the right time. Even a great athlete knows when to take a loss for the team . Or a lawyer knows when to take a settlement or does he stick it out and loss more by fighting a losing battle, or a contractor in a upside down job, might be better to pay any penalties and bail out.

But what I am saying there isn't a profession I know of that doesn't benefit from accepting a loss from time to time and the professional is the people that can see an realize that.

In trading we have the best chance to become rich than any other type of endeavor because it is one of the few things that all our risk is upfront. But if we are just to hard headed to use the best tool we have we deserve to

just struggle and slowly drive ourselves insane. How many people in any business would love to have all their risk upfront and locked in knowing they would never lose more than they setup.

I don't remember who it is but someone has that attached to their avatar , " Insanity is doing the same thing expecting a different outcome"

So learn to embrace your stop and see it for what it is your guardian angel put there by you to protect yourself from yourself.

Then make the commitment to change your own bad habits and think your entries thru before you leap. But mainly think about your stop or your risk per trade. That is the only thing really important.

A profit target is a good thing but you can trade very successfully with out one , but not a stop. Some of my best trades happened because I had a computer or internet issue and I couldn't close a trade and when I got back up and running I had made more than if I had closed.

I am going to go ahead and convert this to a pdf and try to add to it later .

Cheers Ken Lee