

The Ice Tray[der] Story

Learning to trade successfully comes ONLY after an amalgamation of knowledge: not unlike filling an old-fashioned ice cube tray with water. Watch much of the water flow and splatter over into the sink. Much of the information you collect about trading will go down the drain before it is captured as knowledge, which may be later, converted to wisdom. You must learn it all! Knowing just some of the vital information -- or even most of it -- will just mess you up!

Even when you practice good risk control and money management, until you LEARN it all, your wealth will just gradually disappear down the broker's plumbing. Attempting to trade without full knowledge, understanding and appreciation of intraday market dynamics is perilous to your wealth.

Now antique ice trays were the same: optimal only if all compartments were filled to the top, thus running over the dividers to fill adjacent compartments. The trays made 16 cubes of ice... about as many compartments as I've divided the sections of trading knowledge. A full understanding and appreciation of this total knowledge is demanded to effectively trade the financial markets. As a simple test, put an ice tray under a faucet of fast pouring water and notice as you point the spigot into a compartment, that it fills too fast and fluid (information) splatters over into adjacent compartments or, if you are not in complete control, out into the countertop and onto your pants and then the floor. As one compartment fills rapidly, adjacent compartments on either side begin to fill from the overflow. The theory behind why you need it all is the manner in which information is absorbed by your conscious and subconscious.

What is paramount is that point in time when all of the compartments are filled completely. Because it is then, and only then, when knowledge begins to flow across the compartment divider channels in the center and outer edges of the tray (brain) that absorbed knowledge starts to be converted to wisdom of all required and associated resources. You need wisdom immediately converted to instinct to effectively trade. This flow of information across compartments is what begins to produce essential wisdom, which morph instinctively into second nature.

The conduit connecting one compartment to another with excess information – something you learned in one segment and then learn again and reinforce in another segment -- is the conductivity of power that blends the various components, becoming usable skill allowing you to trade with your *sixth sense*. At the time you achieve this lofty goal, other traders will begin to call you, ***The Ice Trader!***

Trading is a complex endeavor! No matter how masterful or successful you are at your present career/profession, trading is a whole new world for you and you should **not** expect that just because you may be excelling within the top ten percent of your profession, that you can immediately (or even gradually) become a trader. Master traders are generally modest about their achievement. Aspiring traders do best when master traders mentor them and they model their education, training and experience to those traits of the masters.

Achieving master trader status has been elusive for many... far greater than 95% of those attempting the profession fail... or simply quit after suffering losses far greater than they could ever have imagined, regardless of initiating their quest with great enthusiasm. The material that follows is designed for only those traders still in the game, who have not yet reached the status of master trader, but aspire to greatness and will pay attention to the sights and sounds of perfecting their trade.

There are many facets of trading the financial markets successfully... too many to discuss in this writing. However, I have attempted to dissect the essential elements into the 16 general compartments represented by the simple ice tray.

When I look back at the 22 want-to-be traders in my 1998 initial trading class and the 10 in my second class a year later and the other 70 in classes I personally sponsored or have taught since, I note that most of those aspiring students (including myself) began trading with large sums of

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money far and away in advance of the flow of information and formation of wisdom needed for success. We all jumped into trading before we had perfected skill and knowledge. Of these hundred plus people I remember, I can identify ten good friends I met along the way but only half of those still trade.

Why?

Traders no longer in the game lacked patience, discipline and perseverance. Those of us still in the game are pleased to note the constant flow of new traders coming into the game, but we envision *sheep* awaiting sheering. This is unfortunate, but remember, sheep survive multiple shearings. Take it from me: learn all you need to know before you put one dollar of risk capital to work in the market.

By the way, professional traders survive regardless of the trends of the markets: up in 1998 and 1999 or down in 2000 and 2001. Traders don't care which way the market trends! Traders just identify which way the market is trending, which is only possible about half the time. Typically, successful traders trade a couple hours a day about 2^{1/2} days out of five. What does that say? Savvy traders, although watching the market most of day, trade far less than half the time.



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Essentials of trading are a combination you can't play well without a full deck... your comprehensive appreciation for **all** the elements described below will empower you in the game. Think of the ice cube dividers as **The 16 the Compartments of Knowledge**:

1. Trading Software (master direct access tools)
2. Execution (rapid order routing via mouse / smart keys)
3. Japanese Candlesticks (life blood of technical chart analysis)
4. Multiple time frames (Monthly, Weekly, Daily, 60, 20 and, 5 minute)
5. Moving Average Interpretation (15, 20, 40, 50, 100, 200 period)
6. Oscillators (CCI MACD, RSI) Indicators (TRIN, TICK)
7. Setup – Audible Alerts (life blood of intraday trading entry & exit)
8. Support & Resistance - Volume Behavior and Interpretation
9. Value of Tick charts [1 tick = 1 trade]; Watching Momentum and Size
10. Information Resource Identification and Assimilation
11. Shorting (understanding, appreciation and execution methods)
12. Futures: eMini Russell & Euro Trading
13. Monitor Screen Layout (4-8 monitors optimum)
14. Sector Identification, Rotation Understanding & Appreciation
15. Risk Management (calculation and regular daily application)
16. Money Management (how much, when, where, why, and how)

The “one word” definitions:

1. Software
2. Execution
3. Candles
4. Time
5. Moving Averages
6. Indicators & Oscillators
7. Alerts
8. Volume
9. Setups
10. Resources
11. Shorting
12. Futures
13. Charts
14. Sectors
15. Risk
16. Money

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Definitions of The 16 Compartments of Knowledge

Trading Software (mastery of direct access tools)

There is so much of it available, even I have difficulty choosing between competing alternatives. It was so difficult for me to choose between the best I only chose last year. I still use my initial CyberTrader, since 1998. When I started trading, direct access trading software was very new to 99% of investors. Now it's popular and accepted as essential for active traders. At first, it was the Level II; many thought they needed it to trade. Hundreds of schools popped up to teach Level II, but what you need to know, and know well, is that, Level II is not the first thing you need to learn about trading. Although it is essential to enter and exit at precisely the correct moment, and Level II is one means of knowing, reading Level II can await your mastery of technical analysis. It is the last element you need to learn. I find now that Tradestation has all the trading power available in the market place, except for a simulator. There is so much more... so... read on!

Execution (rapid order routing via mouse or smart keys)

The only way to trade professionally is by using direct access execution. For some, smart keys are faster than using the mouse; however, the mouse may be easier to learn. RealTick is mouse driven although you may program smart keys. Cyber is smart button driven to the point the vendor provides you colored stickies for placement on top of the featured keys on your keyboard. There are a considerable number of features to learn about execution... usually two chapters in most trading books. Until you've mastered execution skills, you will not be an effective trader. Smart keys are programmed directly to the Electronic Communication Networks used to enter and exit stock positions.

Japanese Candlesticks (life blood of technical chart analysis)

The art of interpreting candlestick charts is probably the first and most important trading feature you must grasp. This is equivalent to learning a new language... not quite as difficult as learning Japanese. However, every bit as difficult as learning French or Spanish... assuming English is native. You must learn to visualize patterns within the candlestick formations. Triangles, wedges, pennants and flags are the imagery of candle patterns.

Multiple time frames (Monthly, Weekly, Daily, 60, 20 and 5 min)

Measurement of cycles found in candlestick patterns is part and parcel of interpreting the message the candles are indicating what may happen next... next day, next minute, etc. Master traders put the various studies available on trading software on various chart time frames. For example, one trader might put the MACD on the 60-minute and use Bollinger Bands only on the daily. Using these studies, approximately 100 studies altogether, may help you interpret the story told within the candles. But... learning a hundred studies is not practical. Information overload is not a good thing. So, I have reduced the indicators I live by to "**The Family**." The Family consists of Mom, Dad, Oscar ad Ceci. I use other tools to augment The Family, however, each family member better be doing exactly what is expected of them BEFORE, I put money down.

Moving Average Interpretation ([15] 20, [40], 50, 100 and 200 periods)

Moving averages (MA) are probably the most basic of the studies available to help interpret price movement and oscillation behavior in chart patterns. Traders use different MA periods on different chart durations.

Oscillators (MACD, RSI) and Indicators (TRIN, TICK, PCRATIO, VIX)

Oscillators and other indicators are like altimeter and attitude to an aviator. The sooner you learn their use and apply their message to your trading, the quicker you will become effective.

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Audible Alert Setup (life blood of intraday trading entry & exit)

Stock traders invest tremendous sums of time post market identifying trade setups. Futures traders need only examine the various time periods of the 2 to 5 futures markets they trade. Normally, a trade setup is determined by finding stocks that meet predetermined criteria for long or short. It is good to have ample supply of both long stock plays as well as short plays in one's daily watch. You need a supply of shorts and a pile of longs because, prior to the open, you will not generally know for certain whether the market will be weak or strong. We watch the trading results in Asia and Europe to try to better forecast the New York open, however, what Asia and Europe did does not always follow in U.S. The key is to go long the strong stocks in up trending markets trading above their 50 MA and short the weak stocks in declining markets trading below their 50 MA.

The key to a good watch list is **audible notification** at that point potential trades setup. Sound alerts notify you just in case you're potentially distracted or not mentally equipped to watch 20 to 40 stocks simultaneously. Sound empowers me act quickly. For example, you can use a roaring jet engine take off sound for long entry notification. Once trades are entered, the first thing to do - after observing the trade is moving in the right direction -- is to set a **new audible** alert. My stop notification uses a sound of screeching tires on hot asphalt.

Volume Behavior and Interpretation of Support & Resistance

Until you learn how to identify volume behavior, you will be trading blind. Remember this, the typical new trader usually stops out right at the bottom... support. Don't do that! If you are at support, and know it, chances are the stock will reverse and go your way. But to realize this, you must know how to identify support. Where is it? Find it! Support might be visible on a 60-minute chart; however, you might need to look at the weekly chart to envision range of support. Remember, support is where a whole bunch of investors positioned themselves in the entity long or short... perhaps years ago... or maybe just days or minutes ago.

Futures: eMini Russell & Euro; Setup, Watching Momentum and Size

This is what you use to find trade setups. Find a scanning software system that enables you to program your personal criteria for trading. Good scanning software will enable you to keep track of all your research as far back as your trading experience goes. It allows you to take personal notes which, when visited months later, will trigger memories which will help you assess future direction.

Information Resource Identification and Assimilation

There are so many websites and daily eMail sources containing information to entice the trader into their fold, the information overload will boggles the mind. Choose ten or less websites from a couple of weekends of research for your main information reservoir. Add these sites as favorites to identify as valuable resources. Thin them out as time goes on.

Shorting (understanding, appreciation and execution methods)

Shorting is the other half of trading. Nearly 100% of new traders have never shorted a stock in their life. Over 90% have never heard of the concept of shorting. Well, take it from me: shorting may actually be even more than 60% of trading. It certainly is over 60% in bear markets when the trend is down. Learn to short. Learn not to fear shorting. Forget that shorting may be an un-American practice! After all, Americans are capitalists! You must short to profit in the financial markets. Joe Kennedy and JP Morgan made millions doing it in the thirties. It is illegal to short in some countries. ***Just be grateful it is legal to short sell in America!***

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Futures Watch & eMini Trading (and understanding options)

We all watch numbers. Learn what numbers to watch. Throughout the market day, CNBC posts the Dow, NASDAQ and S&P index numbers at the top of their screen. These index numbers are referred to as The *CASH* index. There is another set of numbers distinctively different but so similar that new traders get them confused. These are Futures numbers, which are leading indicators for stock traders. The CASH numbers you see on CNBC are lagging the market, meaning that once you see them, it is probably too late to react. Each of the aforementioned CASH indexes has a corresponding *tradable* futures contract. Stock traders watch the S&P and the NASDAQ Futures. The most popular financial instrument to trade is the eMini S&P 500 Futures. Even though the eMini is the most popular, I believe the Russell 2000 is the best index future to trade. While you're learning how to interpret the Futures, be sure to pick up on the all-important **Pivot** numbers... because when the Futures are trading above the daily Pivot longs are preferred. When the Futures trade down and cross below the *Pivot*, it may be time to close longs and start preparing to short. The Pivot numbers are valuable and have been used by floor traders for years to maintain bearings of market. Visit www.cme.com to learn as much as you can about index futures.

Computer Monitor Screen Layout (4-6 monitors optimum)

Many professional traders effectively trade with only two large screen monitors; however, some prefer 4 or 8 monitors depending on one's respective style. Many traders provide screen shots on their trading layout on their website. Go to <http://www.tonyoz.com/download.htm> to analyze what Tony Oz watches. Until you have analyzed other trader's screen layouts and ascertained why they use what they use and then have built your own personal layout *from learning how to trade your own style*, you will be forever searching. Your goal is in time to create your own screen layout that you can show others why and how you use what you view.

Sector Identification, Rotation; Understanding & Appreciation

Money moves from technology to biotech to automotive to airlines just to name a few of the 20 something sectors traders watch every day to find where the best volatility is and the daily trading range of certain stocks they watch. Learn the sectors and follow the money. The two most volatile sectors are still the semis and the bios. Traders search for volatility and daily range. Knowing the range enables traders to take money out of the market any day they trade. Traders avoid sectors where stocks do not move. Futures traders need not be concerned with this element.

Risk Management (calculation and regular daily application)

Master traders calculate the risk reward ratio before entering every trade. To do this you must know how to identify the target and the stop. Learn how to do it.

Money Management (how much, when, where, why, and how)

Today's pattern day trader margin requirements require accounts of at least \$25,000. You can open Futures trading accounts for less. Because there are severe penalties for trading your account below \$25,000, you should open your stock trading account with \$30,000 and have at least \$20,000 in reserve.