

The Futures Ice *Tra{y}der*

Learning to trade successfully comes after an amalgamation of knowledge: not unlike the filling of an old-fashioned ice cube tray with water as you watch it over flow spilling over into the sink. You must know it all! Knowing just some of it -- *or even most of it* -- will just mess you up!

Even when you practice precise risk control and sound money management, until you know 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.

Old ice trays exemplify our message: Ice Trays worked optimally only if all compartments were evenly filled to within a hair of the top edge of the dividers. The trays made 16 cubes of ice... about as many compartments as the sections of trading knowledge demanded to effectively trade the financial markets including Index Futures. Using this metaphor for the trader takes on a slightly different image. As a mental exercise, imagine holding an ice tray under the faucet of a fast stream of water. Notice as you point the spigot into a compartment that some individual compartments fill way too fast while fluid (information) splatters over into adjacent compartments or, if one is not in complete control, out into the countertop and onto the floor... even getting some on the front of your clothes. As one or two compartment fill rapidly, compartments on either side begin to fill from overflow. Information coming too fast gets lost missing the target. The theory behind why you need it all is the manner in which information is absorbed by the mind.

What is paramount is that point in time at which compartments are evenly filled.... And running over the internal dividers. Because it is at this point, and only this point, when knowledge begins to flow across the compartment divider channels in the center and outer edges of the tray (brain) absorbed knowledge as it is converted to wisdom. Essential to trading is keen wisdom and instinct. This flow of information across compartments is what begins to generate essential wisdom producing clearly instinctive, reactionary second nature.

The conduit (spillage over the divider tops) connecting compartments to one 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 one to trade with a *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 excel within the top five percent of your present profession, that you can immediately (or even gradually) become a star trader. Master traders are generally modest about their achievement. Novice Traders do best when mentored by master traders. One should 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 could ever have been imagined at the start. This is true regardless of initiating one's quest with great enthusiasm and drive. 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 the trade.

There are many facets of trading the financial markets successfully... too many to discuss in this writing. However, an attempt is made to dissect the essential elements into the 16 general compartments represented by the simple ice tray. Use this guide as you're your learning agenda.

When I look back at the 22 want-to-be traders in my 1998 initial trading class and the 10 in a follow-up class one year later and the other 70 want-to-be traders in classes I sponsored or have taught since, I note with sadness that most of those aspiring students (including myself) began trading with large sums of money far and away in advance of the flow of information and

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conversion of knowledge gained to wisdom needed for successful trading. We all gleefully jumped into trading before we had perfected the necessary knowledge, skill and wisdom. Of these hundred plus people I *generally* recall, only about five good friends I met along the way are still around and less than half of those five trade still today.

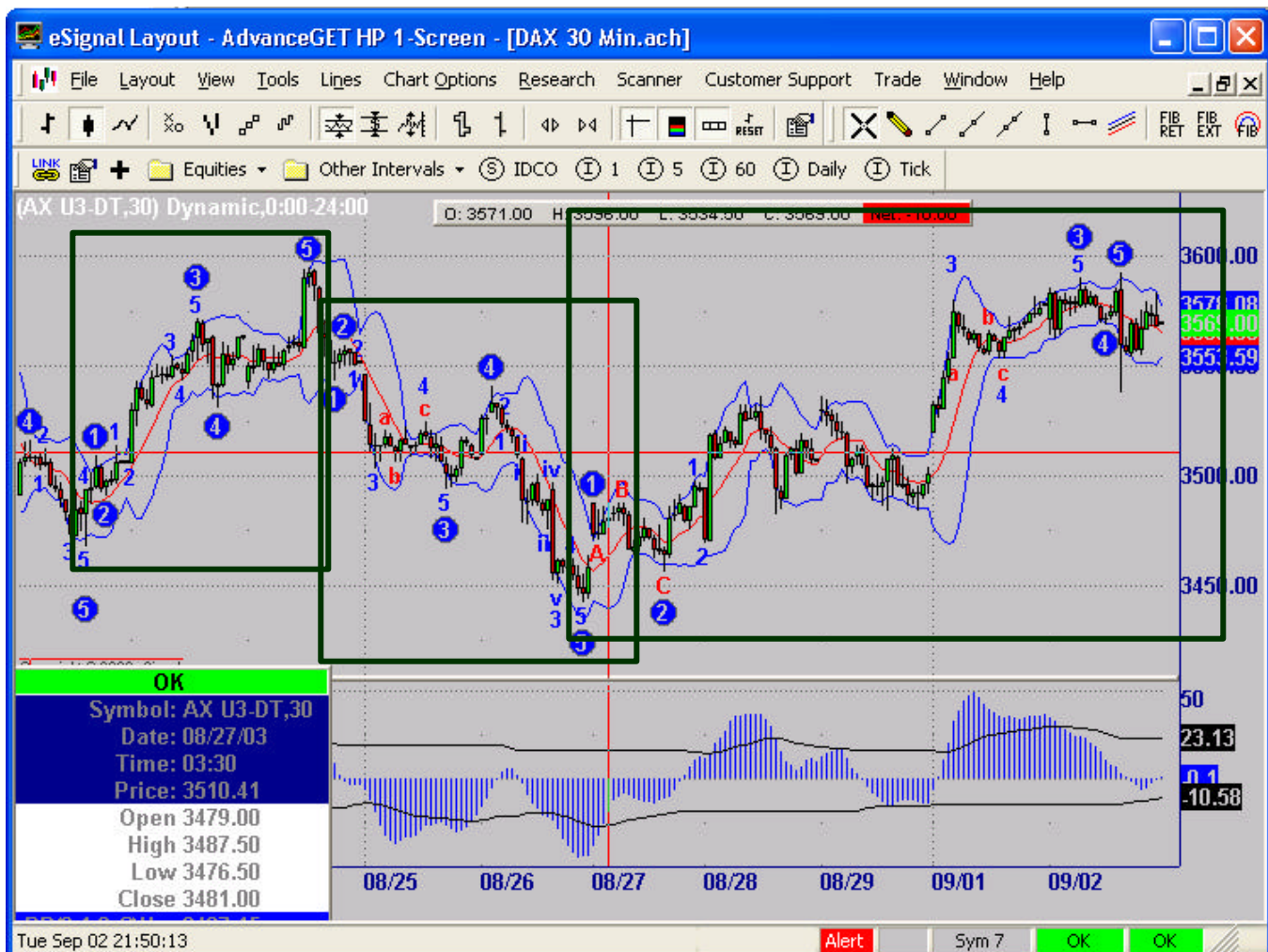
Why?

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 the sheering clippers. This is unfortunate, but just remember, sheep survive through multiple shearings. Take this to heart: learn all you need to know before you put one dollar of risk capital to work in the market. Use simulators to learn the business. Keep your money carefully protected in the bank.

By the way, professional traders survive regardless of the trends of the markets: up in 1998 and 1999 or down in 2000 - 2002, leveling in 2003. Traders don't care which way the market trends! Traders must just identify the trend DAILY, HOURLY and INTRA HOURLY, which is only possible about half the time. Typically, successful traders trade the same *special times each day*... about 2 to 3 days out of five. What does that say? Savvy traders, although watching the market much of every trading day, trade only about half the time.

30 Minute Period Chart Sample showing 3 distinct trends over ten days...

Covering a 160-point range on the German DAX Futures Index... not uncommon for a week!



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Essentials of trading are a combination you can't play without a full deck... your comprehensive appreciation for **all** the elements described herein will empower your game.

Think of the ice cube dividers as **These 16 the Compartments of Knowledge**:

1. Your Computer and Trading Software (chart observation... what to see)
2. Execution (mastery of instantaneous direct execution)
3. Japanese Candlesticks (life blood of technical chart analysis)
4. Multiple time frames (Daily, 30 min, 233 Tick and 610 Tick)
5. Moving Average Interpretation (20, 50, 89 and 178 periods)
6. Oscillators (CCI, Double Stocastics) Indicators (TRIN, TICK, VOLD, VIX)
7. Audio / Popup Alerts (life blood of intraday trading entry & exit)
8. Support & Resistance – Impulse Waves -- Volume
9. Timing, Momentum, Size, Pattern, and Pace (Screening)
10. Daily Pre-Market Preparation and Information Resource Assimilation
11. Shorting (understanding, appreciating and executing methodology)
12. Observing the World's Markets (eMini, Nas DAX, FTSE, NIKKEI) Watch
13. Monitor Screen Layout (4-6 monitors – content and organization)
14. Sector Identification, Rotation Understanding & Appreciation
15. Business Plan & Risk Control -- Calculation vs. Daily Application
16. Money Management (how, when, where, why, and how much)

The “*one word*” definitions:

1. Software
2. Execution
3. Candles
4. Time Frame
5. Moving Averages
6. Indicators & Oscillators
7. Alerts
8. Support & Resistance and Volume
9. Setups
10. Resources
11. Shorting
12. The World's Markets
13. Screens
14. Sectors
15. Plan & Risk
16. Money

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Definitions of The 16 Compartments of Knowledge

Trading Software (mastery of direct access observation)

There is so much of software available to choose from. Even, I have difficulty choosing between competing alternatives. It has been very difficult for me to choose between the best so I haven't. I still use CyberTrader and ProTrader for stocks... finding TradeStation and eSignal better for The World's Index futures. ProTrader is superior for the stock day trader. When I started trading, direct access trading software was so new to 99% of the investors looking at trading were simply impressed by the "WOW" factor. The Internet had been around for decades. The Internet was given a boost by The World Wide Web in the 1990s. This event helped direct access trading really take off. Now, direct access is much more popular but not totally accepted as essential. I believe it is essential for active traders. At first, it was the **Level II** every one thought they needed 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. Level II the last ingredient you use to enter and exit. Although it is essential to enter and exit at precisely the correct moment, and Level II is the means of knowing, reading Level II can await your mastery of technical analysis... chart interpretation. Chart reading is much more important to master than Level II for the beginner. There is so much more you need... so... read on!

The Execution Platform (mastery of direct access instantaneous execution)

The only way to trade professionally is by using direct access for execution. Smart keys are faster than executing with the mouse; however, the mouse may be easier to learn and neither require much typing. The futures trader types much less because there are no stock symbols to be constantly entering. Trade Execution Software for the futures has proliferated over the two years following the new \$25,000 minimum balance margin requirement rulings. 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 featured keys of the keyboard. There are a considerable number of features to learn about execution... usually at least two chapters in 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 positions. Trading futures using direct access execution platforms is tremendously less difficult than trading stocks.

Japanese Candlesticks (life blood of technical chart analysis)

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

Multiple time frames (Weekly, Daily, 30 minute, 5 minute and tick charts)

Measurement of waves found in the candlestick patterns is part and parcel of interpreting the message the candles tell you about what *may* happen next... next day, next minute, etc. You will need to learn about Impulse Wave Patterns. Master traders put the various studies available on trading software on various chart time frames. For example, one trader might put the Commodity Channel Index on the 5-minute and use Bollinger Bands only on an hourly. Using just a few of these studies, 20+ studies altogether, will help you interpret the story told by the candles.

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Moving Average Interpretation (20, 50, 89, and 200 period)

The moving average is probably the most basic of studies available to help interpret the chart story. Different traders use various period moving averages on distinct chart durations.

Indicators (TICK, TRIN VOLD) and Oscillators (CCI)

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

Setup Alerts (life blood of intraday trading entry & exit)

A. Stock Trading:

Stock traders invest great sums of post market time identifying trade setups in screening what to trade tomorrow. 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 plays and short setups in your daily watch. You need a supply of shorts and a pile of longs because, prior to a few minutes after the open, you will not be able to predict for certain whether the market will be weak or strong. The key is to long the strong stocks in up trending markets and short the weak stocks in declining markets.

B. Futures Trading:

Ah... but index futures traders has a distinctive edge over Stock Traders. The Futures Trader digests the overnight world news together with the day's scheduled economic news releases and then starts to trade any time of day he/she wants.

The key to good watch practice is **audible notification** at price points in time potential trades setup. Setups are based on the price passing a certain predetermined point. Audible sound and/or popup messages will notify you when immediate action needs to be taken. These help you watch a bunch of numbers simultaneously. Your charting data feed software should empower you to import a watch list directly into its alert system and then assign unique sounds to setup types. For example, 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 the right direction -- is to set two **new audible** alerts; one for profit target and one for stop notification. The sound of screeching tires on hot asphalt will serve this need well.

Support & Resistance and Volume Behavior

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... at support. Don't do that! If you are at support on a long or at resistance on a short... and know it, chances are the trade will reverse and go your way. But to realize this, you must know how to identify support and resistance. Where is it? Find it! Intraday support and/or resistance should be clearly visible on a 30-minute chart; however, you need to also be generally familiar with the weekly chart AND know the daily chart to envision shorter-term support. Remember, support is where a whole bunch of investors positioned themselves in the stock long or short... perhaps years ago... or maybe just days, hours... or even minutes ago.

Scanning, Screening, Setup, Watching Momentum and Size

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Stock traders need to screen for new stocks to trade every day. **Futures traders do not!** 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. When trading stocks I use TC2000 to find trade setups.

Information Resource Identification and Assimilation

There are so many websites and daily eMail sources containing information to entice traders into their fold, the information overload will boggles the mind. Choose about five or possibly ten 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. I have identified the best ones for me.

Shorting (understanding, appreciating and executing)

Shorting is the other half of trading.... Nearly 100% of new traders have never shorted a stock. Over 90% have probably never considered 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 positive thinkers... But most Americans *better be* 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!

Futures Watch: eMini & DAX Trading

We all watch numbers. Learn what numbers to watch. Throughout the market day, CNBC posts the Dow, NASDAQ and S&P index numbers in the lower right corner of the screen. These index numbers are referred to as The CASH. There is another set of numbers distinctively different but so similar that new traders get them mixed up. These are the Index Futures (as opposed to CASH) numbers, which are leading indicators. Leading indicators guide the market and help stock traders get on the right side of the market intra day. 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 Futures contract. Stock traders watch the S&P and the NASDAQ Futures. Today in 2003 one of the best financial instruments to trade is the eMini S&P 500 Futures and eMini NASDAQ 100 Futures contracts. 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 number, longs *may be* safe. When the Futures trade down and cross the Pivot, it *may be* time to close longs and start looking for shorts. The Pivot numbers are valuable and have been used by floor traders for years to maintain their market bearings. For a great tutorial on trading Futures, visit www.cme.com. You may also obtain the official Pivot numbers there every day. But a better place to get the daily Pivot number is www.DayTradersUSA.com

Computer Monitor Screen Layout (4-6 monitors optimum)

Many professional traders effectively trade with two large screen monitors; however, some prefer 4 to 6 monitor screens depending on their respective style. Many traders provide screen shots on their trading layout on their website. Go to these sites in order to analyze what these traders watch. Here are four websites where you can start:

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[Dan @ Pristine](#)

[DTI Roadmap](#)

[FuturesTalk](#)

[Sammy](#)

[Tony](#)

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 ultimate goal in time is to have well designed screen layout that you can call your own and show others why you use what you use. There are many trader courses available on weekends... because many mentor traders prefer to trade during the week and teach / train novice traders on weekends. I believe trader training is better delivered during market hours so students may become conditioned to market dynamics during trading while they're with their mentor.

Sector Rotation Analysis Understanding & Appreciation

Stock traders need to screen for new stocks to trade every day. **Futures traders do not!** You might think the preceding is true; however, it's not true! Money moves from technology to biotech to automotive to airlines just to name a few of the 25+ sectors traders watch every day to locate where the best volatility resides at every half hour of the day's market. Learn these sectors and follow the money as it migrates from some sectors to others as each trading day wears on. The two most volatile sectors remain the semis and the bios. Traders search for volatility -- daily trading ranges -- that enable them to take money out of the market any day they trade. Traders avoid sectors where stocks don't breathe... oscillate.

Risk Management (calculation and regular daily application)

Master traders instantaneously calculate risk reward ratios 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)

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

Futures trading accounts may be opened with less... much less!

Summary

Over the course of my own 5-year trading history, experience, education and training opportunities, I've concluded these essential factors are important for learning the business:

1. One-on-one mentoring is better than group lecture.
2. New traders must become effective using precision execution before trading live.
3. Trader mentoring should be offered during market hours.
4. Students should maintain *'reasonable'* prepaid access to their mentor post training.
5. Any trading methodology must become *'personalized'* before becoming effective.
6. To become a master, one must become adept at interpreting the rhythm of the market.
7. Last but not least... one must be sure all 16 compartments of the ice tray runith over.
8. For more information and course syllabus, click [Richard](#) to contact.

Now: Get Started!