

## Ten Tips for Talented Traders

*I'm going to share with you my Ten Tips for Talented Traders. You may not use all ten every day. Each trading situation isn't the same and doesn't present itself every day. However, talented traders have strategies that they use to hone their skills as traders, and I want to help you to be successful as you venture into Option Trading.*

**Tip #1: Have a Written Plan.** Each of the strategies that you will be learning will have entry and exit rules. I strongly suggest that you take a sheet of paper or note card and write down the requirements for each strategy. Strategies that are similar, but are used on different time frames, will have a unique set of trade rules.

A written plan will provide guidance during the trading day. It minimizes stress because you have a plan, you'll follow it, and this cuts out the guess work, wondering what you will do next if this happens or that happens. You know what you will do before you ever enter the trade.

Having a written plan also prevents emotional reactions. Emotions are not part of the plan. You will have tried and true rules to follow and implementing these restricts the ego reaction of wanting to be right.

The most severe losses happen when a trader refuses to cut a loss short because he or she wants to be right. He will hold through a small loss - sometimes it is not even a loss but a reduced profit - sure the price will go back up again. The profit decreases more, and still he clings to the trade until, not only is the profit gone, but he does have a loss. Sometimes, he even continues to hold on to the trade until the option's value is zero. You may think this is an exaggeration, but I can't tell you how many times I have heard traders recount this experience.

You have to realize, the market will never let you be 100% right, no matter what. In every trade, you could have entered sooner and gained more of the move, or entered later and missed a drop, or exited sooner and earned more profit, or exited too soon and left money on the table. The key here is to quit trying to trade perfectly. Trade well by following your plan.

A written plan is a trade roadmap. It keeps you on track and away from the wrong turn where you can get confused, lose track of your goal, become lost and discouraged. The time to have a road map is before you start the journey, not after you find that you are lost.

**Tip #2: Define the Process.** Through the course of your trading experience, each trading strategy you learn will establish general trading principles. They may be when to and when not to place a trade. It may define which options to buy and the necessary details that are required before entering a position.

You'll want to become familiar with these requirements and hold to them. Diverting away from the basics adds an unnecessary element of risk and sets up a trade for possible bad outcome right from the get-go.

The requirements have been established as safe guards. If you do refine the set of general trading principles, do so for sound reasons and then adhere to your new set of guidelines.

**Tip #3: Track Your Results.** I have found the easiest way to keep track of my trades is to print out a copy of the chart I am using to enter a trade and make relevant notes, and then print a second copy of the chart when I exit the trade, again noting many details.

Insert these printed pages in a notebook, and number the pages in the bottom with the date, the trade number for the day, and the accumulated total number of trades for the month.

In addition to the date and trade numbers, make notes on the chart pages. Mark patterns on the chart itself, identifying specific candle or indicator patterns and document the reasons for entering the trade. Along the bottom, write down the trade details: time of day, bid/ask premiums, delta, label the specific strategy, actual entry premium where the order was filled, number of contracts, total investment.

Upon exiting a trade, print a copy of the chart and mark the area on the candlesticks where the trade was exited and note the reason for the exits on the indicators. On this same chart page, make notes about the overall trading conditions that have been taking place in the market, including important news events or earnings reports that may have had an impact. On the exit chart, note the bid premium received upon exiting the trade and the percentage of gain.

**Tip #4: Conduct a Monthly Analysis.** Each month, take one morning to analyze the trades from the previous month. Look at the charts and results, evaluating each trade on its own merit.

As you review and study the patterns, indicators, and results of the trades for the month, you may be surprised by what jumps out at you. Maybe one particular strategy worked well each time you used it, where another strategy seems to work best for you only when it was used on a specific time frame chart. You might recognize the role the mood of the market itself played in your trades.

Look closely at trades that did not perform as expected. Be objective. See if you can determine why they did not do well. Did the market change directions? Did you miss an indicator that might have forewarned a change? Was it the pattern or strategy that did not work well? Was there a news event that shook up the trade's direction? Was it general market news or something relating to the company itself?

On this side of the analysis process, you may begin to see patterns as well. There are stages and cycles within the year where certain stocks trade differently. Summer is usually a lower volume time period when traders, including the big institutional traders, are on vacation. September is notoriously poor, except perhaps during election years. November to May is usually a busier trade period. Earnings season as it rolls in each quarter can have a major effect on the certain stocks.

You may be able to devise a recap sheet. How many of your trades were profitable? Were they Put or Call trades? What were the percentage gains? Percentage losses? How many were longer term trades that lasted two weeks or more? How many lasted only a couple of days, and how many were round trips where you were in and out in the same day? What was the net profit for the month? How many trades were based on a particular pattern?

Based on your goals and objectives, you decide what information is important to you. If you like, you could place the information you collect each month on an annual summary sheet, so you have a yearly recap. This could help you see in future years which months you were most busy trading and which periods reaped the greatest results. Please realize that successful traders evaluate every difficult experience and learn from it; unsuccessful traders leave the difficult experiences behind without ever taking stock. Traders who cannot learn from their mistakes are doomed to repeat them.

**Tip #5: Realize that trading is a process of Continuous Improvement.** You will initially gravitate to one or two trading strategies. Everyone does. As you begin to apply the techniques, you will fine tune them through your analysis process, but improvement consists of more than that. Having only one or two strategies can be limiting.

Improvement can come in the form of virtually trading a strategy where you feel less comfortable with the details. This will allow you to stretch and expand your comfort zone. Don't risk real money until you have tried a strategy on paper or a virtual platform and achieved success. Talented traders know that the key to success is flexibility, and that often comes in the form of multiple trading strategies.

In addition to expanding your trading strategies, take the time to consider your personal growth as well. If not daily, then once a week, check in with yourself. Set aside a personal time to consider how things are going. What I have discovered is, if I take the time to take care of the "inner me", the pieces tend to fall into place for things that happen "outside" of me.

Trading can be a challenging experience at times. Take charge of your emotions. When negative self-talk slips in, catch and replace it with positive thoughts. Be intentional. Set goals for yourself and believe in your power to achieve them. Motivation for change will get you started; self-discipline (catching the self-talk and changing it) will keep you growing.

Ask. Believe. Receive.

Enjoy the process. I suggest switching your thinking from goal-consciousness to growth-consciousness. You must know yourself to grow yourself. Declare your intentions. Continually improve. You must see value in yourself to add value to yourself.

**Tip #6: Define Yourself as a Trader.** This is important, especially as you begin to have contact with other traders. You need to know and be comfortable with your trading style. Be confident and believe in your own success. It is quite easy as a new trader to be swayed and sucked in to another's trading style. You start mentally comparing your gains to that of others.

You start putting undue pressure on yourself to live up to another trader's expectations, not yours. You begin to stress. Suddenly the trading environment that you were comfortable and happy trading in feels awkward and second-rate by comparison. Or perhaps you become focused on the size of another trader's trading account. They spend \$2,500 on average per trade and have 10 trades going at one time. You, on the other hand, are working with a \$5,000 account and invest \$300-500 per trade. This pressure might make you consider taking half your account and placing it in a stock that was mentioned. You begin to wonder if your account could grow quickly with just a few trades. Maybe it would be worth the risk?

Tip #5 was focused on Continuous Improvement, and I suggested that you consider trying and practicing new strategies. Doing this is a positive means to stretch your trading skills and expand in a controlled, virtual/practice environment, it is not comparing and taking on someone else's trading style that may not fit your definition of yourself as a trader.

Know the risk level you are comfortable with. Know your trading time frame. Know the time that you have to devote to trading. Know what strategies you are comfortable with and that work for you. Stay within the confines of your portfolio type and size. Remember Tips #1 and #2 – you have a plan. Follow it. You know your trading process. Don't make changes based on anything other than your own analysis of your strategies.

**Tip #7: Understand Market Timing.** Timing has a broad meaning. In trading, this can refer to specific times of the trading day, specific days of the week, certain times of the year, and the cyclical nature of some sectors of the market.

The first hour or so of the trading day is the initial trading period where trade orders that were placed overnight are filled, and the knee-jerk reactions to whatever is happening in the news become built into the market. Often this first hour is called rookie hour or amateur hour because this is the time when new traders, who are excited about a trade, jump in quickly, have their order filled, and then, as the market fills these orders and settles down, premiums drop. This doesn't mean that the market might not climb back beyond the order fill amount, but it does mean that the new trader might have been able to buy at a lesser premium, and, as the stock moves past that fill amount, the trade would already have gained a profit.

The last hour or so of the trading day is called professional hour. This is where professional traders and money managers often take profit or make purchases for the next day.

The time period from about 11:45 am to 2:15 pm ET can be considered an extended lunch hour. Often during this time period, the price of stocks will slip as traders take a break to eat and then return for the afternoon trading session.

Therefore, the morning session can be anywhere from 10:00-10:15 am ET to noon ET, and the afternoon session from 1:30 – 1:45 to 4:00 pm ET. The time frames are not fixed, but once you start paying attention, you will be able to bring up an intraday chart for a stock and see the reversals that take place, and whether it is a morning reversal, lunch-period, or end of day.

The hourly market-timing has nothing to do with whether stocks are likely to be up or down during any particular trading time. It is more likely that there will be transition during these periods. That may be going from up to down, down to up, or from either up or down to flat, and, then, there are days that defy all the aspects that traders might call "usual".

Market-timing can also relate to the days of the week. It used to be that Mondays were usually positive days, days of gains, and Fridays were often down days as traders sold their positions before the weekend. The reality is that there are not any fixed rules, but you can easily look at a 3-month daily chart of a stock and determine if there is a pattern to the trading week.

Trading seasonality is another form of market-timing. It can relate to holidays, special events, and months of the year.

In late December, there's hype about a "Santa Claus Rally" and when exactly it happens. In fact, the rally itself corresponds to two seasonal patterns that have been well-documented in other contexts - the "turn of the month" and "turn of the year" effects. The Santa Claus Rally does not really arrive until Christmas is well upon us. Just like the man himself.

Typically, the greatest growth happens in the following months, listed in order of highest percentage: December, April, November, January, March. Conversely, the worst months for the greatest percentage drop is August and September. The 6-month period between November and April does far better than the 6-month period between May and October.

Some trading strategies discussed in various books are short-term strategies, where a trade may last a few hours. Certainly, the effects of seasonality are much less important on these trades than they will be

on trades that last several weeks or months. Therefore, the need to consider this element is relative to the strategy, and the time of day may be more important and influential to a short-term intraday strategy.

The cyclical pattern of different market sectors is another aspect of market-timing. During a bear market, when the indices are heading down for longer periods of time, quite often stocks that are considered to be defensive do better than stocks that are offensive. It is easy to see the logic in this. When times are hard and the market is selling off or pulling back, people still need to purchase groceries and household necessities. We will still be using utilities in homes and businesses. Whereas, during times when the market is rising and the public are feeling good, they are likely to spurge on consumer discretionary items... a Coach handbag, a ring from Tiffany's, or a new set of golf clubs.

**Tip #8: Master the Mechanics of Trading Options.** First and foremost, understand your trading platform set-up. It seems every week or so the online brokers add new tools to their websites. It might be a new analysis chart or a dashboard that combine chains, charts, and order forms all on one page.

You will want to explore your chosen online brokerage website to evaluate and learn to use all the bells and whistles they offer. Once you check out the site, there may be some innovations that you still don't care to use, but you will be aware of them.

Make sure that you master all elements of an option chain - the trade order form, the means to set a limit buy order, a limit order to take profit, or a stop or trailing stop. These are the details of your trading endeavor, and you will want to master them all so that placing a trade order is second nature.

You would never want to be in a position of not knowing how to place a sell order when you see your exit signal and the price of a stock is dropping. This is another reason to use a virtual trading application to start. By virtual trading, you will be placing trades in a practice setting that are identical to the trades you would be placing for real. This is an area where mastery is not optional.

**Tip #9: Check Your Orders Twice.** When you place a trade order, be sure to check it over a second time. I have heard horror stories and have done a couple dumb things myself by being in a hurry. Take the time to double-check the information.

Check your expiration dates. Be aware of the current day of the week. Confirm you have selected the correct stock. Some platforms have a default stock that populates when you start a trade. Confirm your number of contracts.

It doesn't matter how long you have been trading there is an element of excitement when you enter and exit a trade. Maybe you have timed the entry to the moment you think the price will go up, but if you don't take that extra second to double check, you may make a costly error.

Avoid the rookie mistakes by taking your time. Eventually you will be comfortable with all the steps needed to place an order on your platform, but still it is necessary to double check the information. We all make typing errors, especially when we are in a hurry.

**Tip #10: Maintain your Discipline and Focus.** This tip pertains to daily trade activity and incorporates the previous nine tips.

When you consider a trade, you want to focus on and stick to your specific strategy plan. You want to pay attention to the price movement details for the time period that your strategy covers.

Trading takes a measure of discipline. It is quite easy to get caught up in daily chores or unexpected activities. A neighbor comes over for a visit and two hours go by without looking at a chart to see how your trade is doing. Maybe you take a trip and then realize the place where you are staying doesn't have internet. You'll need to arrange the access you need to manage your trades.

When you open a trade, you have an obligation to focus the needed attention on that trade and whatever the parameters are for that specific trade. This takes discipline, a commitment to apply all the tools that you have, to bring about a successful trade.

It also takes discipline to apply the other nine Tips. Make sure you review your trades each month and track results. It is easy to come up with excuses, but those excuses are holding you back. Stick with your strategy plans. This takes discipline, rather than being swayed by hope. Know who you are as a trader and don't get caught up by trade-envy.

Review the 10 Tips regularly. It is easy, when you get into your comfortable trading chair, to forget the basics that help to ensure your success and keep you from trading out-of-the-lines. Discipline is the ability to give yourself a command and follow it. The required discipline in trading will help you to create the results that you have always wanted.

### **BONUS TIP: Trade Account Compounding**

Traders often assume that it will take a long time to build a small trading account into a larger size account that will actually generate enough money that can be withdrawn from the account as additional income.

This is not as difficult as you might assume. The trick is to begin trading with the idea that you will let the funds remain in the account until it reaches a sum that will consistently generate the needed income.

Let's look at a quick example. You could start with a \$5,000 trade account and invest only \$600 per trade for the first month. Then the second month start investing \$1,200 on each trade. On the third month start investing \$1,800 per trade, and \$2,400 per trade from there on out for month four through month twelve. Doing this you could earn a net profit, after paying commissions, of \$238,339 in the first year. After the sixth month or so, you could start withdrawing a portion of the generated revenue as additional income. This is a very general description of compounding, but it gives you the general idea.

## **Success**

Apply my Ten Tips for Talented Traders. Utilize the information you receive from the monthly analysis, and your feet will be firmly place on the path to option trading success. I wish you all the best!