# Nine Ways To Improve Your Trading Results

## 1. Kevin Haggerty: First, Recognize The Intraday Trend, Then Find The Right Stock

**S&P futures traders will tell you** that you generally get only two or three good trading opportunities per day. Typically, these occur in the first hour of the day, as well as after the bond futures close in the last hour. Also, there is often a trade opportunity after the midday, lunch-hour countertrade. The afternoon trend is usually the most defined unless it is the strongest of trend days, and you don't get many of those. Most of the stop-running by the futures traders takes place in the morning.

As an equity trader, you must be aware of these daily intraday trends and incorporate them in your trade selection. If you also trade the Spiders, QQQs, and Diamonds, you are, in essence, a futures trader if you select them as a trade.

There is nothing more frustrating than having a good pattern set up and getting good trade-through entry, only to see your stock move sideways and eventually drift down below your stop price, leaving you on the sidelines.

What you want to do is look for stocks that are moving in line with the intraday trend or are exhibiting much better relative strength than the S&P 500. If the S&P 500 is trending down and your stock is going sideways to slightly down, it is a great candidate for a trade if the afternoon trend turns back up.

## 2. Tony Saliba: Trading Options? Staying Spread Is Staying Alive

**A good motto, or battle cry,** for my style of trading might be: “Staying Spread is Staying Alive." In order to become an adept spreader, you will need to begin to systematically build a solid foundation for your knowledge base.

Let’s step back for a minute. There is no question that an options trader can get the most bang for his buck by being long or short the right put or call, at the right time. For example, if you are long an in-the-money call and the stock takes off, your potential profit is theoretically unlimited! Now this approach is fine under certain conditions: if you have sufficient information about market activity and volatility, time enough to follow the markets closely all day long, and lots of money to risk if you're wrong! However, I strongly contend that with a multi-leg position, a bright strategist will do better in more markets over the long haul. Trading in the options markets can be fast and furious, and when the smoke clears, it is always the disciplined, methodical trader who will end up profitable, in more cases than not.

What is a spread and why should the competent options trader use them? A spread is merely a position consisting of two components transacted simultaneously or in close succession, where each position would profit from *opposite* directional price moves in the market. Each part, or “leg,” is entered into simultaneously, in the hopes of either *limiting risk* or obtaining benefit from the change in price relationship between them.

## 3. Dave Landry: Trade Both Sides Of The Market

**To the public, selling stocks** short can be an intimidating and confusing undertaking. Unfortunately, by sticking exclusively to the long side of the market, average traders deny themselves the possibility of improving their returns.

Professional traders, by contrast, know that playing both sides of the market is a crucial element of long-term stock trading success. We will try to demystify the process by explaining what short selling is and how you can benefit from incorporating it into your trading plan. We'll also show you the rules that regulate short selling, how to know which stocks to avoid and some ideas about what strategies to use when shorting.

The advantage to selling stocks short is simple: Bull markets do not last forever, and even in the longest bull market, there are corrections that last from as little as several minutes to as long as several months. Those who continued to focus exclusively on the long side from late March 2000 through March 2001 -- one of the worst bears market in history -- know this all too well. Professional traders seize these downside opportunities and profit by shorting stocks. Therefore, if you want to make a long-term living trading the stock market, it is to your advantage to add short selling to your toolbox.

## 4. Lewis Borsellino: Apply The Gas Tank Rule

**How large you can trade depends** upon many factors, including your experience level and, of course, your overall capitalization. Even if you have a large amount of capital at your disposal, you can't just start throwing around five or 10 S&P major contracts (at $250, times the value of the index, or roughly $375,000 each) as if they were just "paper."

As a rule-of-thumb, I'd suggest the "gas tank" rule. When you trade, you shouldn't think about the money on the line, any more than you'd consider how much money you just spent to fill up your gas tank. After all, when you pull up to the pump and fill up the gas tank, you'll spend $20 or $30. You might feel that pinch when you pay, but after you drive away, you don't think about that money any longer. It's simply a necessary cost to drive your car.

When you place a trade, you should not worry about the money on the line. If you're thinking about that $500 or $5,000 or $50,000 that you've risked, **you're trading too large** for your risk tolerance and your capitalization. It takes money to trade. When you trade, you're putting money on the line, and sometimes the trades you make will be losers. If the risk-per-trade that you're taking affects you more than filling your gas tank, then you should re-evaluate your trade size, in light of your capitalization and risk tolerance.

The concept is to find a risk level for yourself that does not evoke emotions and, therefore, allows you to stay as objective as possible, so you can follow your game plan. Of course, there are others who believe you need a higher sense of risk and aggressiveness to be alert and achieve higher returns. While that may work for some, the most important thing is to find the ideal level of risk that will allow you to perform at your best potential, while keeping your emotions out of it. This balance, I believe, will help you become a better trader faster -- without the wear-and-tear on your stomach and personality.

## 5. Mark Boucher: Combine Short-term Charts With Long-Term Charts

**Many short-term and position traders** ignore some of the most valuable uses of longer-term charts. I hear many short-term traders saying things like, "What do I need to look at monthly and weekly charts for when I'm trading for just a few days?" What's interesting is that many of the very best short-term traders hold just the opposite opinion. In my own trading, most of the very best short-term trades I've ever made, those ten-baggers and higher, have come from interweaving long-term charts with very short-term opportunities.

A trend-channel (which is most commonly a base on a weekly chart, but sometimes on a daily, intraday or monthly chart) is an extremely valuable tool that is extremely simple to use, and often hugely profitable. I remember vividly sticking my neck out and risking 50 points in a sell signal off of a weekly trend-channel resistance level in the Swiss Franc in the 1980s, and being able to pay for the next year of college off of a one-contract 1300-point profit. I've been using trend-channels to enhance my trading ever since.

## 6. Kevin Marder: Manage Your Risk In Order To Maintain Your Performance, Year After Year

**Without a doubt,** the aspect of trading given the shortest shrift by traders is money management. The reason is simple: Money management is anything but glamorous. Most traders would prefer to educate themselves on something more exciting like entry techniques, believing that a good offense is most of the game. Either that or they spend copious amounts of time searching for the elusive "Holy Grail," that magical indicator or system that pledges to automatically deliver fat profits to their doorstep.

The way I see it, money management can be broken down into four types of decisions: how much money you allocate to a position, how much you allow a position to go against you before you cut a loss, how much you allow a position to rise before you add to it (if at all), and how much of your position is borrowed through the use of margin.

The most important words related to money management that I have ever come across are from top-ranked hedge fund manager Mark Boucher: "I would rather have a mediocre trading strategy and a good money management plan than a good trading strategy and a mediocre money management plan."

Plenty of traders have underestimated the importance of money management – that is, until their accounts blew up. Think about this for a moment. Have you given money management short shrift?

## 7. Larry Connors: Use The VIX To Time The Market

**In my opinion,** the VIX is the single most powerful market-timing indicator available to traders. When correctly applied, it has no equal.

**The VIX is very much a measurement of human sentiment.** As you know, greed and fear play enormous roles in driving prices. This is especially true at market extremes. If you look at the times the VIX hit extreme high levels and read the press those days, you will hear nothing but gloom. The opposite is true for the extreme low levels. Everyone thinks at those times that markets can only go higher. When markets have large selloffs, pessimism is rampant, fear is high, the declines are sharp and markets have extreme volatility, hence, high VIX levels.

As the markets begin to reverse, so does the mood of Wall Street. As these moves reverse, so do market prices. The VIX is your very best tool to identify these shifts in emotional extremes and eventually a change in market direction.

High VIX readings alone do not and will not predict that markets are oversold and will likely reverse. The key thing to remember is when the VIX is high and begins to move back to its mean, the market is oversold and beginning to rally, sometimes in a very big way. **When the VIX is low and begins to move back to its mean, the market is overbought and a selloff (sometimes a sharp selloff) is occurring, or is about to occur.**

## 8. David Floyd: Stay Open Minded

**We are traders, and for the most part,** traders don't get paid to ponder, be logical or get overly opinionated. Most successful traders I know do one thing and do it very well…read charts. Period. In fact, as of two years ago, the TV was officially muted during trading hours in my office, because they don't talk about charts. They talk about stuff that rarely assists us in making money as traders. Your opinion on news and how you act on it in the market may or may not pan out. A 50/50 bet is not what I look for when I am trading. As Mark Douglas states perfectly in his book *Trading In The Zone*, "you cannot impose your will on the market." This is why analysts fail so dismally. Unless the rest of the market participants share that analyst's view of what price a stock should trade at, the information is meaningless.

## 9. Don Miller: Know When Not To Trade

**Some days, we intraday traders must simply** step aside and tip our hat to the investors and swing traders.
Yet, while one of the challenges daytraders have is not being able to take advantage of nice pre- or post-market moves, I'll never hold a trading position on which I can't keep a tight stop (which is impossible with overnights), and I sleep very well every night, knowing my trading account is safely in cash and that the store will simply reopen in the morning.

Which brings us to a common nemesis for many traders: the nagging feeling of perceived opportunity loss which, for some, can be more painful than real financial loss. I've already had numerous discussions last night and this morning with traders kicking themselves for missing last night's move. Missed a big move? At the risk of bringing out the old soapbox which I've been known to do from time to time…forget about it, gang.

The market will always be moving and the larger the move missed, the greater the opportunity to align oneself with a new trend on higher-probability pullbacks or position for a reversal or oscillation. If you're beating yourself up over would'ves and could'ves, it's a complete waste of energy. Focus on the future because that's the only time frame where profit opportunity lies.
*(Strange that I never get calls on missing those massive overnight gaps down.)*