

# THE STOCK TRADER

TONY OZ



HOW I MAKE A LIVING  
TRADING STOCKS

*PDF made by Tarderman*

(Happy reading)

Notes: There are some pages missing (Page 1, 84, 85, 120, 121). I will try to fix it, and reupload again, in meantime you could start reading

# The Stock Trader

How I Make a Living  
Trading Stocks

Tony Oz

**GOLDMAN BROWN**  
BUSINESS MEDIA INC.

To My Wife Jodi, and My Son Jordan,

You have made my life complete.

I love you both.

Copyright © 2000 by Tony Oz. All rights reserved. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a data base or retrieval system, without the prior written permission of the publisher.

Published by Goldman Brown Business Media Inc.  
638 Lindero Cyn Rd. #145 Oak Park, CA 91377.

ISBN 0-9679435-0-7

Printed in the United States of America.

Realtick™ is a trademark of Townsend Analytics, Ltd. © 1986-1999 Townsend Analytics, LLC. Used with permission. Any unauthorized reproduction, alteration or use of Realtick™ is strictly prohibited. Authorized use of Realtick™ by Tony Oz, and Goldman Brown Business Media Inc., does not constitute an endorsement by Townsend Analytics of "The Stock Trader: How I make a Living Trading Stocks" or any of Goldman Brown Business Media Inc. products or services. Townsend Analytics does not guarantee the accuracy of or warrant any representations made in "The Stock Trader: How I make a Living Trading Stocks" or the truth or accuracy of any information written, produced, or distributed by Goldman Brown Business Media Inc.

### Disclaimer

This book is to be used for informational purposes only and without warranty of any kind. The materials and information in this book are not, and should not be construed as an offer to buy or sell any of the securities named in these materials. Trading of securities may not be suitable for all users of this information. Both day trading stocks and investing in (he stock market in general have large potential rewards. However, they both have large potential risks involved in which you can lose all your money. You, the reader, and not Tony Oz, or Goldman Brown Business Media Inc., are solely responsible for any losses, financial or otherwise, as a result of trading stocks. Under all circumstances, you the reader, and not Tony Oz, or Goldman Brown Business Media Inc., assume the entire cost and all risks involved with trading any stock based on strategies illustrated in this book.

Past performance is not indicative of future results.

## TABLE OF CONTENTS

Foreword	ii
Introduction	iii
<b>Chapter 1</b>	
The Challenge	1
Trading Station Setup	3
Choosing a Broker	4
<b>Chapter?</b>	
Setting the Rules	7
Preparing for Day One	8
Bar Charts	8
Candlestick Charts	9
Support and Resistance	10
Changes in Supply and Demand	II
Searching for Potential Trades	II
Running Overnight Scans	12
Tips and Guidelines	12
<b>Chapter 3</b>	
Evaluation Risk/Reward Ratio	17
The Final Candidates	18
<b>Chapter 4</b>	
Day One - The Early Warning	23
<b>Chapter 5</b>	
Day Two - FOMC Meeting	27
<b>Chapter6</b>	
Day Three - Working on My Golf Swing	41
<b>Chapter/</b>	
Day Four - The Running of the Bulls	51
<b>Chapters</b>	
Day Five - Oakland Here I Come	63
<b>ChapterQ</b>	
Day Six - Learning from Beginner Traders	71
<b>Chapter 10</b>	
Day Seven - When the Guru Speaks, We Should All Listen	79

<b>Chapter 11</b>	
Day Eight - The Market is Always Right	85
<b>Chapter 12</b>	
Day Nine - Awakening the Bears	99
<b>Chapter 13</b>	
Day Ten - Silting on My Hands	109
<b>Chapter 14</b>	
Day Eleven- Free Willy	113
<b>Chapter 15</b>	
Day Twelve - Record Volatility	127
<b>Chapter 16</b>	
Day Thirteen - Technical Problems	141
<b>Chapter 17</b>	
Day Fourteen - Sitting Tight	165
<b>Chapter 18</b>	
Day Fifteen - Thank God It's Friday	175
<b>Chapter 19</b>	
Day Sixteen - After-Hours Trading	177
<b>Chapter 20</b>	
Day Seventeen - Nasdaq Looking for Support	187
<b>Chapter 21</b>	
Day Eighteen - Sweet Dream or a Nightmare	199
<b>Chapter 22</b>	
Day Nineteen - Traffic Jam	217
<b>Chapter 23</b>	
Day Twenty - Cash is a Position	221
<b>Chapter 24</b>	
Thank You, But No Champagne for me	225

<b>Chapter 25</b>	
The Secret to Success	227
<b>Chapter 26</b>	
Challenge Summary	229
<b>Epilogue</b>	
What Happened Next	233
<b>Bonus Pack</b>	
Tips, Guidelines, Rules and Case Studies	235
<b>Appendix A</b>	
Plans, Records, Stats and More	243
<b>Appendix B</b>	
Creating a Constant Watch List	247
<b>Appendix C</b>	
Creating Baskets	249
<b>Appendix D</b>	
Real-Time and Overnight Scans	251
<b>Appendix E</b>	
Basics of Level II Quotes	253
<b>Appendix F</b>	
Direct Access Order Routing and My Setup	255
<b>Appendix G</b>	
Advanced Features of MBTrader™	259
<b>Appendix H</b>	
Resources for the Active Trader	265
<b>Glossary</b>	
Recommended Reading	277
Seminars and Workshops	279

## Acknowledgements

Many thanks to my wife Jodi and my son Jordan for making me smile everyday. I want to thank my dear friend Rick LaPoint who worked with me every day from the initial setup for the challenge through writing the last page of this book. I couldn't have done it without you. Special thanks to my graphic designers, jrp-graphics.com, Russell Paris, Julie Paris, and Bruce Carries. Photo on back cover taken by Annat Fink.

I want to thank Rachel, Betty, Orry, Abraham, Carissa, Daliah, and the rest of the staff at Goldman Brown Business Media Inc. for your patience and great work ethics. I couldn't have chosen a better publisher.

Thanks to Tim Bourquin and Jim Sugarman for your friendship and support. This book would have never happened if it wasn't for your challenge.

Many thanks to my dear friends Steve Mocbius, Kevin Britko, Alex and Andrea Maimon, Lcn Cohen, Scott Webster, Jerry Rabenberg, Garbis, William Zhu, Richard V. Rueb, Chris Wheeler, Michael Turner, and Noriko Carries, you have all contributed to my success.

Thanks to Townsend Analytics, Janice Kaylor, Danilo Torres, Mary Heim, Margaret Hafner, The BBC, and the crew at CNBC for all your help.

Special thanks to Steve, Ross, Keith, Mark, Brian, Beth, Meg, Gail, Henry, Courtney, David, Phil, Jeramie, Shawn, John W, John G, Mat, Brenton, Kenny, Forest, and the rest of the crew at MB Trading. You have provided me with state-of-the-art customer support throughout the challenge.

I feel that I owe so many professionals in the industry a debt of gratitude. I want to thank my colleagues and friends for their outstanding work in providing education for traders: Robert Dccl, Ken Calhoun, Oliver Velez, John Bollinger, John Murphy, Stan Kim, Dan Gibby, Gary Anderson, Mark Cook, Alan Farley, Rogan LaBier, Brandon Fredrickson, Toni Hansen, Michael Williams, Eric Patterson, Ray Grant, David Nassar, Ted Tesser, the crew at tradingmarkets.com, and to all the ones I forgot, please forgive me.

I want to thank two special ladies, Linda Raschke and Sunny Harris, who have greatly contributed to my personal success and to the success of numerous traders across the globe. You are an asset to the industry.

Thanks to all the members of the Market Technicians Association. Thanks to all the members of Daytraders USA, and special thanks to all my students. You have inspired me to write this book for you.

## Foreword

I sat down at one of four monitors, still only half-awake while sipping my third cup of coffee since 3:30 am. The trading day starts early in California, and it took almost an hour to get here. But whenever a great trader invites me to watch them trade, I feel compelled to take full advantage of such a golden opportunity. Little did I know how extraordinary this experience would turn out to be.

For his second Book, a follow-up to his instant classic, *Stock Trading Wizard*, Tony Oz wanted to show the world how he trades stocks for a living. And as I watched for the next four weeks, all of his trading activities were documented in a detailed trading diary. The idea was simple, and the formula classic. He would invite everyone to take an intimate look into his activities as he explains the strategies and processes behind his actions. It's a recipe that has worked for centuries, as Master entrusts to Apprentice a lifetime of knowledge and experience.

After having received an exciting challenge from the founders of the International Online Trading Expo, Tim Bourquin and Jim Sugarman, Tony planned to hold nothing back, providing all the decisive details of each trade, including the thoughts, strategies, surprises, and problems, and how he dealt with the moment-by-moment challenges the Market presented him.

Such a book had never been attempted before. No trader has ever put their reputation on the line with this kind of honesty. It's easy to search through past trades and present the best ones. But no trader has come forth in advance with the candor to say, "For the next four weeks, I will reveal my every move, for better or worse, entries and exits, winners and losers, with all my profits and losses."

Presented in these pages, 116 Round Trips are documented, including the charts, illustrations, and formulas. Tony explains the research and preparation; the joys and frustrations; the exhilarating victories and disappointing defeats. And of course, the blow-by-blow descriptions of each battle between Emotions, Decisions, Market Makers, and Technology.

In this fascinating account, readers will quickly find themselves immersed in the action as Tony weaves his narrative. The chess game never lets up, as The Stock Trader matches his wits with the best the Market can throw at him.

And by an astonishing coincidence of timing, trading for this book was in full swing during the Great Crash of April, 2000. When the devastation was complete

and the carnage had exhausted itself, The Stock Trader rose from beneath the rubble triumphantly wielding his profits, unbowed and unscathed, from a Market where over Two Trillion dollars had been obliterated within a mere fourteen days.

Most traders would agree that studying the actions, strategies, and emotions of a great trader is an opportunity anyone, regardless of experience or viewpoint, can benefit from. This book is a treasure in that regard, and is sure to become a classic, as Tony demonstrates with his simple methods, that you too, can make a living trading stocks.

Rick LaPoint

## Introduction

Online trading is taking on the world with lightning speed. It is one of the hottest, fastest growing businesses on the planet, and it has almost everyone wondering if they "have what it takes" to become a successful trader. Stock trading is even becoming a common topic of conversation in places where you would least expect it to be brought up, such as hair salons, delis, and even grocery stores.

With the explosive growth of the Internet and the major changes occurring in the financial markets, this industry is not just today's "hot thing," but also an industry that is here to stay. Indeed, I truly believe (that online trading in all its forms is only in its infancy. This industry will continue to grow and change to the point that what we know and practice today in the industry may seem like ancient history in as little as five years. How about one global exchange in which traders across multiple continents will trade stocks, options and futures for foreign and domestic companies? While this may sound like a far-fetched dream to some, and one that I'm sure floor traders in New York City with a vested interest in preserving the status quo will do everything in their power to prevent, it could soon become a reality. You just can't stop or fight the technological revolution that's occurring, at least not for long.

This revolution has opened the doors to Wall Street and is granting anyone who wishes to participate in this business, a pass. This pass is, by no means, a *free pass*, as most speculators will soon learn; however, if you wish to take on the challenge and manage to survive the never-ending learning curve, you, too, can enjoy one of the most exciting jobs ever. And if you truly enjoy your new "job," you can make it your business and have the time of your life doing so. You may have noticed that I used the *word job*. I did so to make sure that you understand that trading stocks is work! In fact, this job is more time demanding than most people and the media can comprehend, or stock traders are willing to admit.

Before I go on further, I feel that I should give you some background about myself. I will do so for the simple reason that it's important to know and trust where this information is coming from. No one will use and benefit from ideas and experience they don't have confidence in.

Two centuries ago (at least it seems that long), I was a young kid who watched his uncles play the stock market. I had a great passion for what they were doing and wanted to learn all I could about the market. When I was asked what I wanted to do when I grew up, I would answer, "I want to be a



stockbroker." This brings a big smile to my face today, knowing now that I would *never* want to be a stockbroker. But at the time, I thought it was the most prestigious job in the world. Why? Because I thought that a stockbroker was the closest person to the stock market. I had no idea back then that a stockbroker was really a salesman - or that technology would afford me the opportunity to bypass brokers and trade on my own.

Fast-forward now to my freshman year in high school. I had a passion for two things: sports and stocks. Everyday, on my way to school, I would stop at the grocery store and pick up a newspaper. If you asked my classmates what I was doing on my breaks, they would have told you that I was either playing soccer or reading the financial section of the newspaper. I couldn't get enough of what was going on in the business world, and I was paper trading, or better said, paper investing in certain companies based on fundamental research.

The next year, when I was a sophomore, I woke up one morning not feeling so well, and decided that skipping school was a good idea. But I had already exceeded the number of allowable sick days, and a note from my parents was not sufficient anymore. I needed a doctor's note. So, I made my way to the clinic and got the doctor's note I needed. On my way back home, I passed by a lottery stand. There was a big prize for the next drawing, so the large sign drew my attention. I walked towards the stand, and saw a soldier in uniform buying a lotto ticket. It was a scratch-off ticket, where you find out instantly if you win or lose. I watched the soldier scratch the ticket and win \$3.00. The vendor asked the soldier if he wanted the \$3.00 or if he wanted three more tickets. The soldier turned to me and asked, "What do you think I should do?" Without hesitation, I replied, "Take the money." The soldier took my advice, collected his money and left. There was an old man standing by the booth where this incident took place. He looked at me and said, "Young man, why don't you take his luck?" I replied, "I don't think so. These type of lottery tickets are the biggest sucker game, and besides, I only have enough to buy the other lottery ticket." The old man looked into my eyes and said, "Why don't you take his luck?" I can't exactly explain why I did it, but before I knew it, I reached in my pocket and bought the lottery ticket the old man suggested. I started scratching the ticket, and I won! I won the jackpot! \$15,000 to be exact.

I was so excited that I practically broke the world record for the 400-meter sprint. I ran home so fast I even lost the doctor's note in the process! I called my parents immediately, and they did not believe me. However, they quickly became believers when I surprised them with a \$7,000 gift. The wonderful thing about winning this money was that I now had money to speculate with.

I wish I could say that I had it easy from that point on, but I didn't. I did manage to survive, and more importantly, I was learning valuable lessons. I was not an active stock trader. I was an investor and did well, but I desperately wanted to trade stocks for a living. The five years following the incident at the lotto stand were the typical years a teenager goes through, with my priorities changing everyday. Yet throughout this time, I continued investing. The only time I took out any money from my account was to buy my first car, and I actually missed the crash of 1987 as a result.

Another fortuitous thing that happened on my road to becoming a career stock trader was that I met my future wife and moved in with her. She lived just five minutes away from where the *Investor's Business Daily*, *The Daily Graphs* and other William O'Neil publications were printed. I started going there on a daily basis and learned technical analysis from the pros. Living close was also a big advantage, because I would receive tomorrow's paper by 7:00 PM today, giving me all night to study it!

From that point on, I have been committed to learning all there is to learn about stock trading. More importantly, I truly *believed* that I would be successful at it. I can't tell you how many new lessons I learned, each and every day. I had the basic knowledge needed to trade, but little actual trading experience. I could read the tape and find the plays, but when my money was on the line, I was a weak hand, and I would "give" my position away to the smart trader, without me capitalizing on the big opportunities presented to me.

Despite this, I kept good records of my trades, which allowed me to analyze them, so I could discover why I wasn't doing better. Analysis of my records showed me a pattern of mistakes I had been making over and over again. I knew that if I didn't correct these mistakes and learn from them, my future as a stock trader would not be very promising. I see now that keeping detailed trading records was the single greatest educational tool at my disposal, and I spent considerable time pouring over them, learning new lessons each time.

My goal in this book is to let you "sit beside" me and watch trade after trade. Some are "textbook" in how well they come together, while others are very messy, and it seems everything goes wrong. But that is real life trading, and hopefully you will gain new insight from my experiences. This is my trading diary, and it is my hope that from this intimate look into my everyday activities, you too can learn as much from these records as I have.

You didn't need to look at her twice before you realized that Linda loves what she does for a living, and (hat she is very proud of it. It was the pride and love for what she does that made her presentation so dynamic and inspiring. It was high powered, like a drink from a fire hose.

When (he fire department finally put (he fire out and all the lights were turned off, I anxiously drove back home. I couldn't wait to get online and sludy charts. Something very interesting happened when I got home and did my research for the next morning. I started writing an outline'for a "how do you do it?" book. I wanted to answer the question I was asked in person every other weekend by members of Daytraders of Orange County, once and for all. The title of the book was *StockJimkic: Advanced Short Term Trading Strategies*. Once the writing was completed, we printed 98 unedited spiral-bound books. The reviews the book received were very positive, and the book was edited and published in hard cover under the title, *Stock Trading Wizard*, by my partners in August 1999.

While my book was being printed, my dear friend, Tim Bourquin, took his original traders network idea to the next level as he extended his work effort, and together with Jim Sugannan, they co-founded the first ever International Online Trading Expo, which took place in Ontario California, September 1999. The theme of the Expo was education, and it turned out to be a great success. What I enjoyed the most from speaking (he Expo was the opportunity to sec, talk too, and teach traders who flew in from all over the world. It gave me (he feeling that day trading is here to stay, and I was proud to be one of many who shared a passion for the market.

Following the success of the Expo, Tim and Jim scheduled another show to take place in New York, Fcb 18-20, 2000. I was invited to be a guest speaker and (each a tutorial about high probability trading. To make this tutorial special, I would walk the attendees through case studies of actual executed trades, from concept to completion.

Two weeks before the Expo in New York, I met with Tim and Jim for lunch at a local Sushi bar. We were talking about the success of my book, *Stock Trading [Vizard*, and about my upcoming presentation. Tim and Jim also informed me that my tutorial was number one in pre-registration. We figured out that there was a lot of interest from traders to sec a recap of actual placed and executed trades, studied in detail. As I was stuffing my face with a spicy tuna roll, I noticed that Tim was cooking something up in his head. He had that serious look on his face. Then came a smile as he presented his idea.

"I have a challenge for you," Tim said. "I want you to take your book,

*Stock Trading Wizard*, and show the world how you actually implement the strategies you featured in the book, in real life.

This idea started an entire conversation where the three of us were brain storming. The result was that I was going to do something that had never been done before and would hopefully benefit many traders for years to cotne.

Here is what I would have to do:

I would start from scratch as if I was a beginner. I would research and select the right broker. I would open an account with \$50,000 and follow all the money management and risk management rules outlined in the book. I would trade for a period of four weeks, starting on a date selected in advance. I would feature all trades — winners and losers — from concept to completion. The goal was for a reader to spend four weeks with me and learn how I trade stocks for a living.

I really liked the idea and challenge Tim and Jim had for me. I felt it would be beneficial for anyone who considers trading stocks for a living to see how I do it. I accepted the challenge, and we decided that I would have the account ready and start the trading no later than the end of March.

## Trading Station Setup

Before I could get started, I needed another PC. I wanted to have a backup unit ready to ensure there would be no interruptions in case I ran into problems. I bought a new custom Pentium III with dual, 8 Megabyte graphic cards powering dual, 21" monitors; 256 megabytes of RAM; and miming Windows 98. My other computer was already running NT 4, with a DSL Internet connection, and my new PC was connected to the Internet via cable modem. I had to swap various graphic cards, cables, hubs and settings to get everything just right, because I naturally wanted my new PC to be my primary workstation.

Beyond giving me an added degree of psychological comfort, all these backup precautions turned out to be very prudent, because at one time or another, the DSL went down, the cable feed went down, and a PC froze up. Not everyone may need such an elaborate setup for their own trading, but I cannot stress enough the importance of having backup systems in place for those occasions when disaster strikes. In a world so heavily dependent on technology, the unexpected seems to happen routinely. As it was, I ended up losing money or leaving some on the table due to technical problems. But I could

., ,B|  
j; i j j  
;; ;!  
'\*\*> W

have gotten into bigger trouble had I not been able to quickly switch to a different computer or data feed.

By the time everything was ready, I had two computers, four monitors, a printer, and a TV. Besides having CNBC running in the background, the television would indicate if the cable company was having problems, rather than the data feed or my PC. All in all, the furniture, lighting, deliveries, and various installations and setups set me a week behind schedule, which just shows how the best planning can still run into unanticipated" problems and setbacks.

## Choosing a Broker

This is probably the most important element of the setup procedure. I knew from past experience how important it is (o have my account with someone I can trust. Before I discuss the guidelines I followed to select the right broker, I feel I should explain how some online brokers make money. Have you ever seen the phrase "free commissions" or "\$0.00 commission on market orders" used in promotional advertising? You probably have. In fact there are companies out there that offer "Free Trading." How is that possible? How can they afford to pay for advertisement on TV if they work for free? The answer can be found if you read in between the lines.

The first thing you will notice is that free commissions are offered for accounts with limited customer service activities. For example, all communications with the customer are via the Internet, exclusively (E-mail). They do not offer a telephone number or a physical location for customer service. All trades and customer service are only handled through the Internet. Do you know what happens if you bought a stock at \$45.00 and it is falling down hard and you lose connection to the Internet? You are toast my friend!

There is no one to call to get you out of the trade! You can lose thousands, in this case.

Here is the next catch. You will often read that the Market Makers and Specialists who execute trades may pay the brokerage firm for order flow. What is order flow? Simply put, the brokerage firm SELLS your order. These payments used to average as much as \$9.00 per order. Why would a Market Maker or a Specialist pay \$9.00 on average for your order? I am sure you guessed it by now; he would do so, because he plans to make a profit from it at your expense. How do you like your free commission now? I think it is important to understand that nothing is FREE. We always pay for it one way or another.

So, how can one go about selecting a broker to open an account with? I will use the process of elimination, just as if I was taking a multiple-choice test.

First, I will eliminate all browser-based brokers, because there is no way I should wait more than six seconds, at the most, for confirmations on executions and cancellations on NASDAQ stocks. There is also no way I should click the refresh button again and again to get confirmations of pending trades and cancellations. That will cost me a lot of money in the long run. I want to see my orders and cancellations live, in real-time. Consequently, I require a stand-alone program.

Next, I will eliminate all online brokers who do not offer direct access to all ECNs and Market Makers. Day traders who trade with brokers who do not offer direct access are at an obvious disadvantage because their orders are rerouted, rather than placed directly with the buyer or seller. This means that they do not have direct access to the *best* possible prices to buy or sell a stock. I am amazed by how many day traders are trading with inferior platforms, robbing themselves of the best possible fills. I have narrowed down my selection to a few brokers who offer a stand-alone program and direct access to the market.

Finally, I will take into consideration the brokerage firm's customer service and commission rates. I had a handful of final candidates whom I was going to interview at the upcoming Online Trading Expo in New York. I wanted to see the trading software they offered and get my in-person impression of the way they conduct business.

After doing my homework and interviewing the different brokerage firms, I selected MB Trading to be my broker for the following reasons:

1. I found the software MB Trading uses, RealTick<sup>1M</sup> III, to be very powerful and user-friendly. I must disclose that I have been using this software in the past, so I felt very comfortable with it. This is, of course, a personal preference, but as you will see throughout this book, I am a technical trader who uses charts to help identify entry and exit points. Charts are visual, and the charts provided by RealTick<sup>TM</sup> III software were of high quality, and were brighter, clearer, and sharper than charts provided by other trading software.
2. MB Trading offered direct access to the market from 8:00 AM through 8:00 PM. An hour and a half before the official open, and four hours after the official close, via both the trading software and their trading desk. I can call and place a trade with a live person at

their trading desk anytime between 8:00-8:00 at no additional cost.

3. Slate of the art customer service, I couldn't say enough about the importance of reliable customer service. MB Trading has always prided itself on providing such service, and I was very impressed to find out that my calls were consistently picked up by the second or third ring.
4. Reduced commission: "We at MB Trading understand that many clients are new to the RealTick™ III software and need some time to adjust to the different order routing system and wish to do so with fewer shares, MB Trading has created a special 60-day program available to all clients in which you may trade in lots of 300 shares or less for a reduced commission rate of five dollars - \$5.00 per trade." I felt that MB Trading was giving new traders a better opportunity as they cut down the slippage cost on smaller lot trades.
5. The most impressive thing about MB Trading was the testimonials. When I asked traders who use direct access software the question, "Whom do you trade with?" MB Trading was one of the most common answers, and when these traders were praising MB Trading's customer service, it made my decision a lot easier.

Once I chose MB Trading to be my broker, I filled out a new account application and sent it in with a check for \$300.00 for the data feed. My account was issued within a couple of days, and I wired \$50,000 into the account on 3/17/00. I was ready to make the first trade on Monday 3/20/00. The time frame for the challenge would be for the four weeks starting on Monday, 3/20/00 and ending on Friday, 4/14/00. I feel it is extremely important that I disclose that I have never had an account with MB Trading prior to the above date. Consequently, it made the challenge very real. I was going to trade a new account with a new broker just as a beginner trader would.

## CHAPTER 2

### Setting the Rules

The first rule has to do with risk management. When you manage risk, you always have to think of what would happen should something go wrong. Although this may seem like a pessimistic point of view, it is an essential element of proper risk management. We have set the following guidelines for money management and risk exposure for all trades that will take place in the following four weeks,

Risk capital is set at \$50,000. Margin may be used for a total buying power of \$100,000. Maximum amount of money to be allocated to one stock position may not exceed \$30,000 on the most aggressive position and should be around \$25,000 for most stocks. This will ensure I will not put all the eggs in one basket. The exception to the rule will be index-tracking stocks such as SPY, QQQ and DIA. Since these stocks track a basket of 30 to 500 stocks, a single position in one of these stocks is already diversified. Consequently, the entire buying power of \$100,000 may be allocated to such a position.

I must take into account the volatility of certain stocks, and manage risk properly. I may use the entire buying power to hold positions overnight and be fully extended if I so choose, but I must have a very good reason for doing so.

At the end of each week, all realized profits will be swept out of the account. If I have \$800 in profits for the week, I will order a check for that amount and start the next week fresh with \$50,000 in risk capital. If I have a losing week, I do not add money back into the account. I will work with the remaining capital until I get back over \$50,000, in which case I will draw checks again. This will prevent me from losing a lot if I hit a slump.

To keep things more challenging, I may not short sell stocks. This seemed a little odd to me at first, but the argument made was that many traders don't have access to an extensive short list or are trading accounts that are restricted from short selling. In order to not distort any of the performance, I will have to trade only one side of the market - the long side. I had no idea how much more challenging this rule was going to make things during the next four weeks.

## Preparing for Day One

Sunday, March 19, 2000.

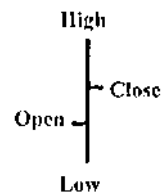
My day begins when the market is closed. At some point between the close of the market and the open on the following day, I will do my research. I normally like to do it at night. When I am finished with my research, I should have an idea as to what positions I want to be in during the next trading day. I will take notes, write out trading plans, and go to sleep.

I use technical analysis to help me find potential stock trades for the next day. Technical analysis is used to determine supply and demand for a stock based on price behavior over a certain period of time. There are many patterns in which a stock has traded in the past that will help me forecast the potential future price movement for that stock. I try to keep things very simple and I only trade patterns that I understand.

I will use two types of charts to illustrate the setups that I will be trading over the next four weeks, bar charts and candlestick charts.

### Bar Charts

Each bar shows four different price fields for any given day. These price fields include the opening price of the day, the high price of the day, the low price of the day, and the closing price of the day.



Opening Price - This is the execution price of the first trade of the day.

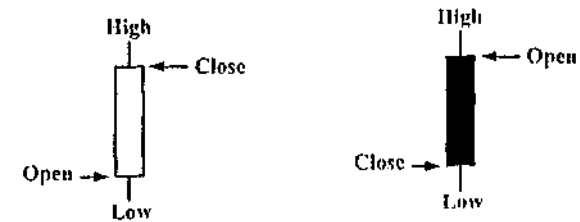
High - This is the highest price point that the stock traded at that day.

Low - This is the lowest price the stock traded at that day.

Closing Price - This is the price of the last trade of the day.

## Candlestick Charts

Candlestick charts record the same data; however, it is somewhat easier to see the range between the opening price and the closing price for the time period the candle stick covers. Here are the differences between a white candle and a black candle.

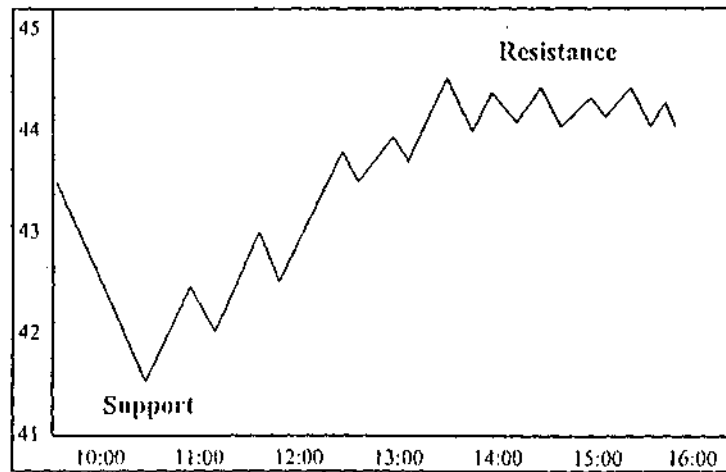


A white candle means that the closing price was higher than the opening price. A black candle means that closing price was lower than the opening price.

There are a few patterns that I base most of my trading decisions on, which I found easy to understand and implement. Those patterns consist of the trend or overall price direction a stock is trading in, and support and resistance. I strongly believe that most complex patterns and indicators which will derive from certain mathematical calculations of price behaviors will try to confirm the obvious pattern. I learned that focusing on the simple pattern has been very profitable for me over the years.

## Support and Resistance

I will try and use a very simple example of how I look at support and resistance levels or how I implement (the laws of supply and demand in my trading). I will use a hypothetical example to illustrate the idea of support and resistance. Let's say that at 9:30 AM, XYZ stock opened for trading at  $43 \frac{1}{2}$ . The stock started trading down, and at 10:30 AM the stock was at  $41 \frac{1}{2}$ . The stock then started to trade higher and at 1:30 PM it was trading at  $44 \frac{1}{2}$ . The stock then traded in a tight trading range between  $44$  to  $44 \frac{1}{2}$ , and the last trade at 4:00 PM was at  $44 \frac{1}{8}$ . Let's chart the data of the trading day for XYZ Stock.



As you can see, XYZ traded down from  $43 \frac{1}{2}$  to  $41 \frac{1}{2}$  where it found a bottom (support), then traded back up to  $44 \frac{1}{2}$  where it topped out (resistance). The question is, why? Why didn't XYZ go lower than  $41 \frac{1}{2}$ ? Why didn't it go higher than  $44 \frac{1}{2}$ ? The answer, of course, is found in the laws of supply and demand.

The laws of supply and demand for any product or service are very simple.

1. If quantity demanded is greater than quantity in supply, prices will go up.
2. If quantity in supply is greater than quantity in demand, prices will go down.

The reason XYZ share price did not go any lower than  $41 \frac{1}{2}$  is simply because the quantity in demand was greater than the quantity in supply. The

reason XYZ share price did not go higher than  $44 \frac{1}{2}$  is simply because the quantity in supply was greater than the quantity in demand.

The next question is, why was the quantity demanded higher than the quantity supplied at  $41 \frac{1}{2}$ , and why was the quantity in supply greater than the quantity in demand at  $44 \frac{1}{2}$ ? In other words, what determines supply and demand in the stock market?

The reason (here was more quantity in demand at  $41 \frac{1}{2}$  is simply because investors' expectations were for the stock to go up in price. The reason there was more quantity in supply at  $44 \frac{1}{2}$  was because investors' expectations were for the stock to go down in price. In other words, supply and demand in the stock market is determined by investors' expectations.

If we study the price behavior for XYZ stock in more depth, I can expect a few things to happen in the future based on what took place in the past. The first thing will be that if XYZ traded back down to  $41 \frac{1}{2}$ , buyers should step in and buy the stock. Next, if XYZ trades back up to  $44 \frac{1}{2}$ , it will face some selling pressure. This easy to understand concept is the foundation of my trading system, and almost every setup I trade is based on this simple idea, that is to say, on changes in supply and demand.

## Changes in Supply and Demand

If XYZ would be able to trade at a higher price than  $44 \frac{1}{2}$ , then it would suggest that investors' expectations have changed. If XYZ is able to trade at a lower price than  $41 \frac{1}{2}$ , then it would suggest that investors' expectations have changed, as well. These changes in investors' expectations, or changes in supply and demand, for a stock are very common, and I would try to capitalize and profit from these changes over the next four weeks.

## Searching for Potential Trades

I have three main sources for potential trades. The first one is a watch list of 35 stocks that I follow on a daily basis. This list is my Constant watch list (although I do make changes to it once in a while). The second source is a scan I run after the market closes. This scan looks for different criteria and presents me with stocks that require further analysis. The third source is a scan I run during the trading day, which also looks for specific criteria to be met. Over the next four weeks, I will disclose how I found each and every trade prior to executing it. I will be covering methods of producing a Constant watch list in Appendix B. I will also be covering different scanning criteria, which you may use in your own trading, in Appendix D.

## Running the Overnight Scan

The first scan I ran was for stocks that have pulled back in price over the last three days. I am looking for stocks that are pulling back in price from their 52-wk high and are at or near support levels. The formula for the scan is:

### Oz Fullback Swing Trade

$\text{VolAvg20} > 350,000$   
 $\text{Last} > \text{P Low}$   
 $\text{PI Close} < \text{P2Close}$   
 $\text{P2Close} < \text{P3Close}$   
 $\text{P3Close} < \text{P4Close}$

#### Explanation:

VolAvg20: Average volume the stock has traded over the last 20 days.

1' Low: Previous Day's low.

PI Close: Previous day's close

P2Close: The close the day before

P3Close: The close the day before P2

P4Close: The close the day before P3

#### Tips and Guidelines

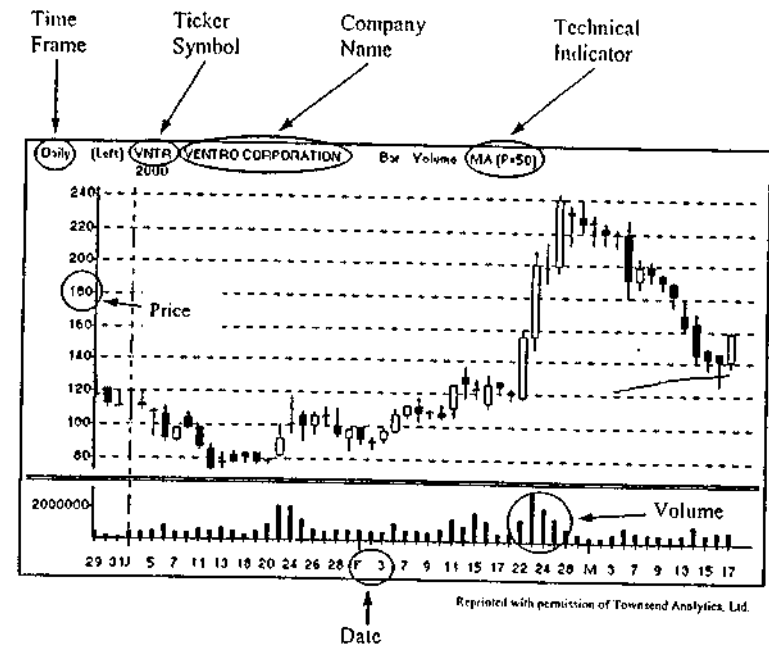
What you are about to read in (his book is very educational. Therefore, there will be many illustrations that will require both time and a high concentration level on your part. This book was not intended to be a novel, but a text book of many lessons of how I trade stocks for a living. In order for you to get the most out of this book, I am including the following tips and guidelines, which I suggest you follow.

Every case study which features an executed trade will include a chart that shows the pattern I was trading. It is extremely important that you take (the time to analyze each and every chart and understand exactly what took place. I understand that there is a lot of technical information that slows down the flow of the action; however, it is that technical information that is so important to learn.

Every stock I will be trading over the next four weeks will be referred to by its ticker symbol. I will say I bought 200 shares of INTC at 33 5/16. INTC is the ticker symbol for Intel. Since I am including charts for every executed trade, you will be able to know the company name, if you simply read it off the chart.

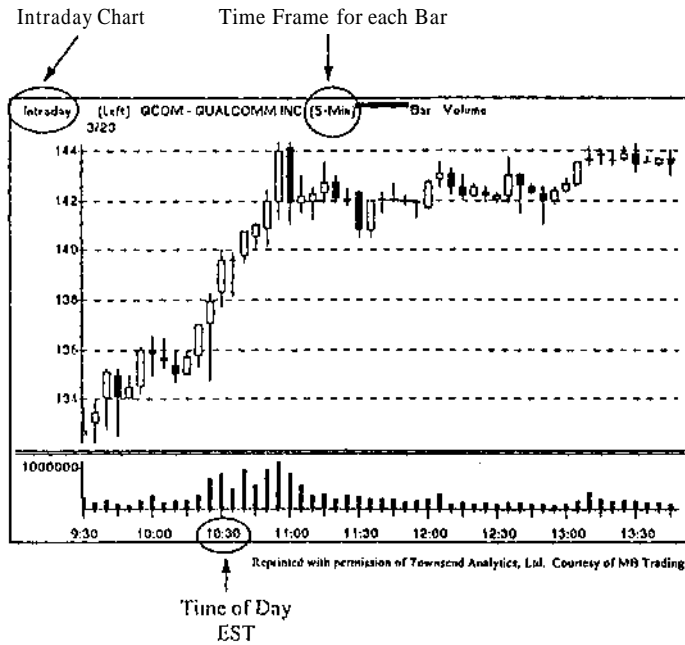
I will also be referring to Market Makers by their four letter code. To avoid confusion, I will put this code in italics to differentiate it from the ticker symbol. I will say something like *SBSH* was a serious seller. If you want to know who the Market Maker is, you can go to [www.na.sdaqtrader.com](http://www.na.sdaqtrader.com). Click on the symbol directory link. In the search box, check the following fields: *Symbol*, *Start With*, and *Market Participant*. Enter the four letter code into the *Search For* window and click *Execute Search*.

Here are some tips on how to get the information out of the charts that I will feature in the book.

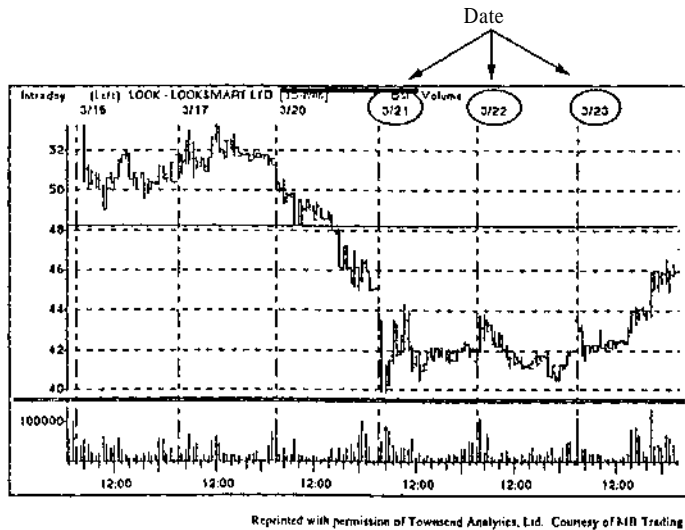


The technical indicator shown in this chart is MA, which stands for Moving Average. (P=50) means that the average covers 50 Period = 50 Bars. In this case it is a 50-Day Moving Average.

### Intraday Chart (Single Day)



### Multi-Day Intraday Chart



One of my goals in writing this book was to give the readers the sense that they are sitting right next to me while I execute the trades, I wanted readers to know the battles that take place inside my head, In my attempt to do so, I have included some of the extra important things that takes place while I trade. I wanted the reader to be a fly-on-the-wall observing all the action.

I think it is also important that you understand that I use MB Trading's order execution software in my trading. This software is not the traditional order routing software which you might be used to. This software allows me to control the routing of my trades by cutting the middle man out. Consequently, I have more order routing options to choose from, which may at times make things a little complicated to understand. The five order routing options I will be using in my trading over the next four weeks will be SOCS, SelectNet, ARCA, ISLAND and ISI. All listed stocks are automatically routed to ISI. As to Nasdaq stocks, I will be using one of the other four order execution routes listed above depending on the situation I am presented with. Appendix E covers a detailed explanation of the currently available execution routes,

Over the next four weeks, there will be trades that I will enter one day and exit sometime in the future. In order to keep some mystery as to what takes place next, I won't tell you where or when I exit the trade until it actually takes place; consequently, I will go on to feature the next trade I get into. This might be somewhat confusing to you. In an attempt to keep things organized, at the end of each trading day, I will list my open positions that I am holding overnight, along with a daily profit and loss statement.

Every trade that I execute will include a trade record in a table format. This table will show the capital allocated to the trade and the profit or loss realized on that trade.

With these tips and guidelines in mind, fasten your scat-belt and enjoy the ride.



# CHAPTER 3

## Evaluating Risk/Reward Ratio

A trader should never risk more than he can make on a trade. I try not to risk more than 1/3 of what I am looking to make on a trade. In other words, my reward is normally three times greater than the risk I will take. If I am looking to make three points on a trade, I can only risk one point, so if I enter a stock at 50, and my price target is 53, I will have to cut the trade if the stock falls below 49. If the setup I look at does not present me with this ratio or better, I will not enter it. This will be one of the rules I will try to follow religiously over the next four weeks.

### Stop Loss

One of the keys to successful trading is an effective stop loss system. Over the next four weeks, I will utilize the following strategies to limit my downside risk. I will first take into account the risk/reward ratio presented by the setup I am going to trade. Next, I will take into account the maximum allowable drawdown on my position. Then, I will define where technical support is found.

I will use one of the following strategies for the placement of a stop loss;

**Below today's low**

**Below yesterday's low**

**Below secondary intraday support levels**

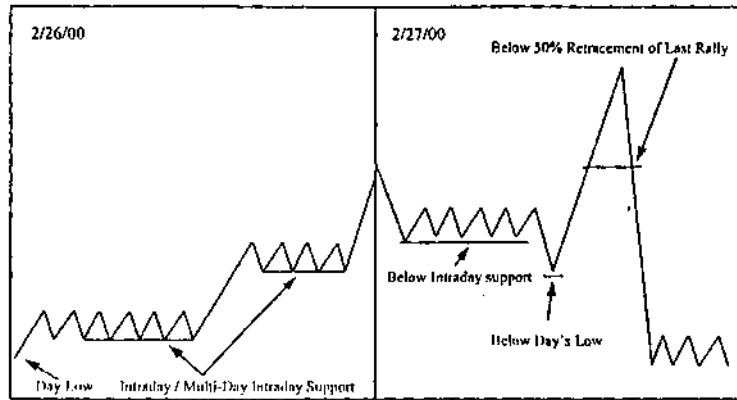
**Below multi-day intraday support levels**

**Below 50% retracement of last rally**

**Below an index day's low or intraday support levels**

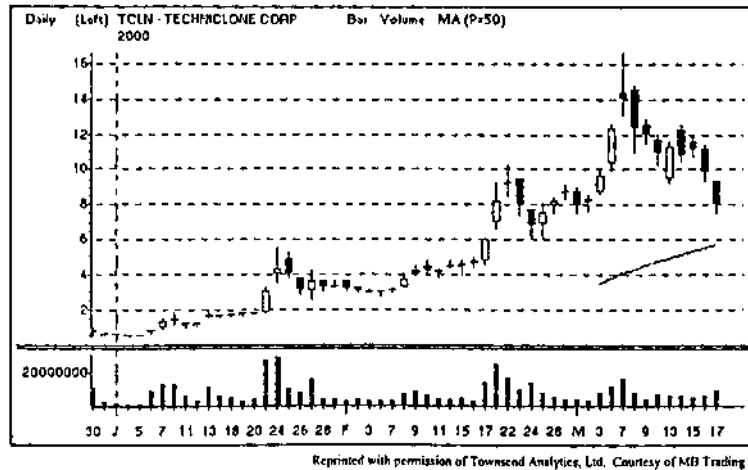
Once I am in a trade in which the initial stop loss was never activated, I will use trailing stops to protect profit. I will be monitoring the overall market, the individual stock, and the Market Makers to determine such exit points.

### Stop Loss Strategies



The above 2-day intraday chart shows the different strategies for the placements of stop loss and trailing stop orders that I will be using over the next four weeks.

The final candidates for potential trades on Monday, March 20, 2000



TCLN has conic down in price from 16 5/8 to 7 1/2. I was going to watch the stock to see if it could bounce back up in price if it reached the following support levels:

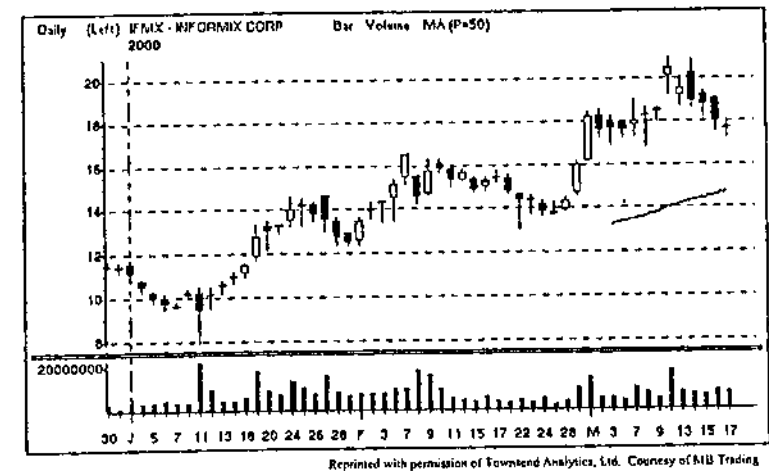
\$6.00 - This was the low the stock hit on 2/24/00, and was able to trade up from there.

\$5.72 - This is the price level where the 50-day closing price moving average lies.

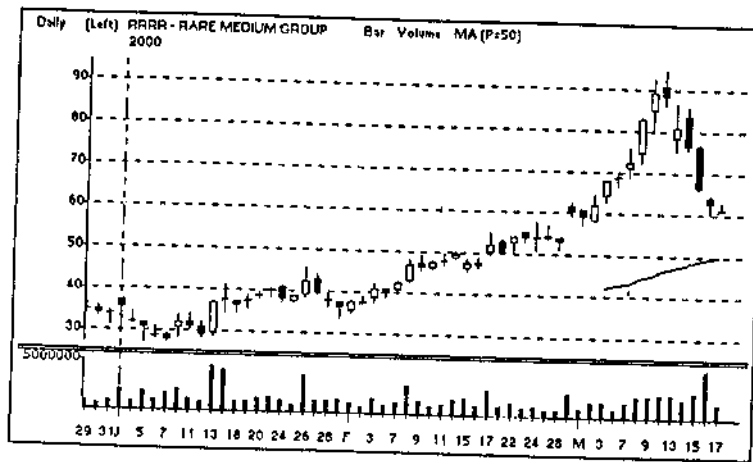
\$5.50 - This is the price level set by the stock on 1/24/00 on the high of the day. This is the same high that was taken out on the breakout on 2/17/00.

If TCLN goes down to these price levels and is able to trade back up, my price targets will be between 10 - 12 a share. The 10 level was the high set on 2/22/00, and the 12 level was the high set on 3/14/00.

The next thing was to determine the stop loss. I left that field open, and I made a little note to myself saying that depending on where I enter the stock set a stop loss at 3/16 below the low of that trading day.

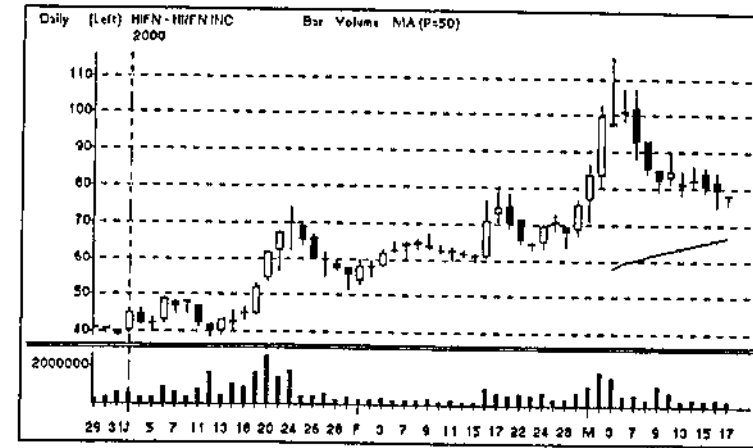


IFMX has made a 52-week high at 21 and pulled back to 17 1/4. My trading plan for this stock is to buy it at 16 1/2, which was the high the stock made on 2/7/00. My stop loss is at 15 7/8, and my price target is 19 - 23. My plan is to buy 300 shares at 16 1/2. I will add 300 shares at 16 7/8 should the stock show strength. I will sell 300 shares at 18 7/8, and trail a stop behind the remaining 300 shares. I will give it a chance to move to new high ground.



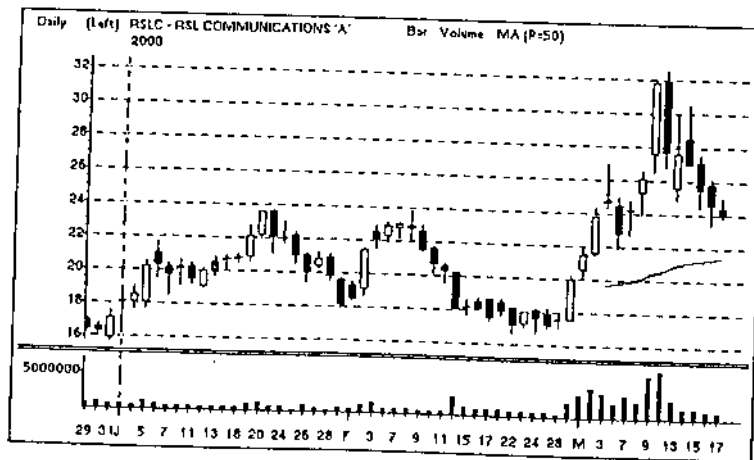
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

RRRR has pulled back from 94 3/4 to 60 1/2. The last trading day, the stock closed below the previous day's close, but it did not trade at a lower price than the previous day's low. My plan is to buy the stock if it trades higher than 63. My stop loss is to be placed at 60 3/8. My price target is 75 which was the low the stock made on 3/13/00.



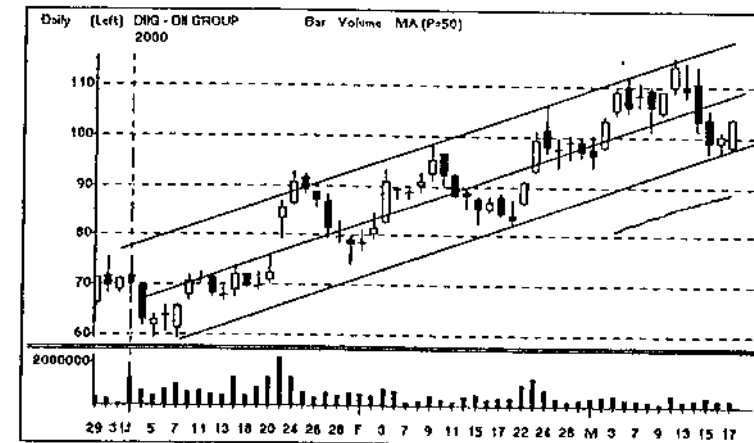
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

HIFN pulled back from a high of 116 to 76. It closed near the high of the day at 78 1/16. My plan is to buy HIFN if it trades higher than 78 3/8. My stop loss is at 75 7/8, which is 1/8 below the low of the day. My target is 89 which was the high on 3/10/00.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

RSLC has pulled back from a 52-week high at 32 1/2 and was at support levels around 24. The stock did trade lower the previous day and hit 23 3/8. The close yesterday was the lowest closing price in nine trading days. The 50-day moving average is at 21 1/2 and I will be looking for a possible bounce at that price level. My price target will be 24, and my stop loss will be placed 1/8 of a point below the low of the day.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

DUG is trading in a rising channel. It held the trendline and is now looking to turn up. My plan is to buy the stock should it trade higher than 103 3/4, my stop loss will be at 99 3/4. My price target is 115 - 125. I found this potential trade on my Constant watch list, which I analyze everyday.

## DAY ONE

Monday, March 20, 2000.

The time has come, and I was now to capture all my trades, executed over the next four weeks, for all the world to see. I have to admit I was extremely nervous, yet anxious to get the show on the road. I had my potential trades in my market-minder window ready to be followed. The trading plans were well outlined, and now it was a matter of simply executing the trading plan.

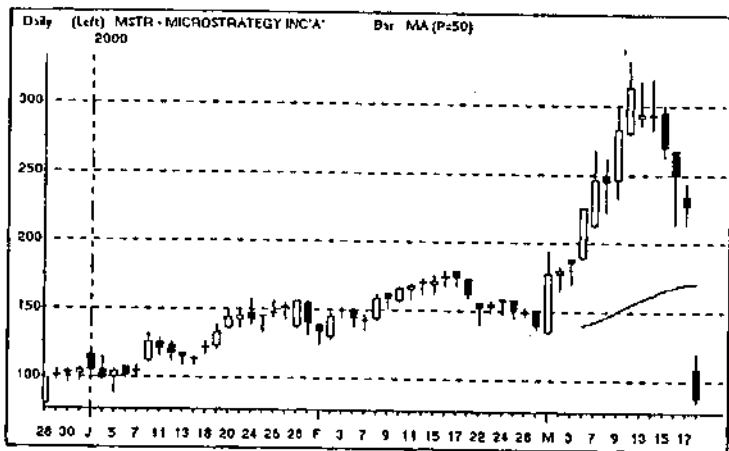
The trading day starts very early in Southern California. I like to get up at least 90 minutes before the open to check on market conditions and be alert early in the trading day. More often than not, there is a big news story, which sets the tone for the trading day. Today was no different, and the story of the day had to do with a company that might have been cooking the books (the company said it was revising its 1999 and 1998 revenue and operating results, "due to its evolving business model" and were later hit with a lawsuit by angry shareholders as a result). I was very familiar with this company and knew of individuals who were long the stock.

**Gap Open**

In case you didn't know, stocks which trade today at a certain price and close at a certain price can open the next morning at *any* price. In other words, if a stock closed its trading today at 100, there is no saying where it will open for trading tomorrow. In fact, it can open for trading at 697, or it can open for trading at 20. It might not even open for trading at all the next day. This is some of the risk that is taken when you hold a position overnight. Here are some examples: On Friday, May 1, 1998, ENMD traded last at 11 3/4. There was a very positive story about the company in one of the major news publications over the weekend. The first trade on Monday morning, May 4, 1998 took place at 82. This is not a mistake! The stock gapped up at the open almost 600%. In March of 1995, IDC was halted intraday. They lost a lawsuit in which they were trying to get compensation from MOT for patent infringement. The stock did not trade the following day at all! It never opened for trading. The last trade before the halt was at 12 7/8. When the

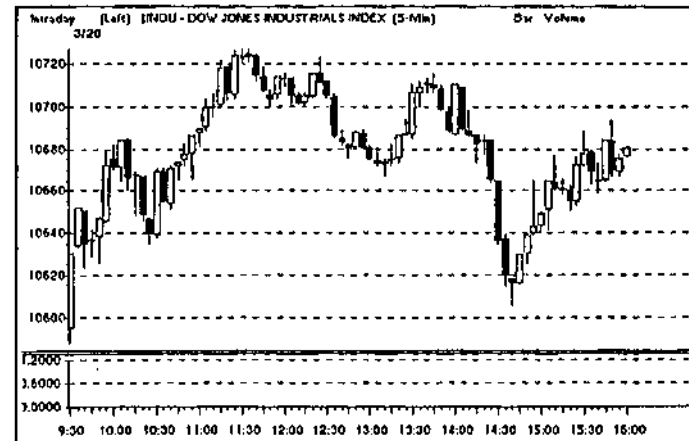
stock finally opened for trading, it was at 5 dollars a share. This was a 61% haircut for the stock.

Today was one of those days and the unlucky ones were the share holders of MSTR.



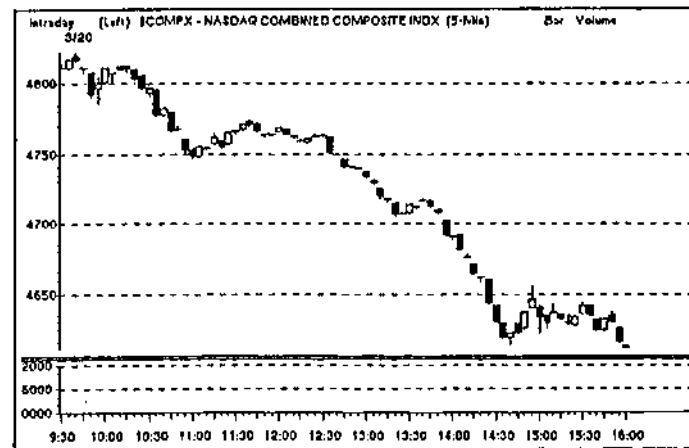
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

MSTR made an all time high at 333 and pulled back to 226 3/4 where it closed on Friday. Following the bad news, the stock gapped down to 109 1/4 and closed at 86 3/4. It lost 140 points over the weekend from its close on Friday. This was a warning sign for me, a reminder that a big part of risk management is to plan for the worst. I have traded MSTR in the past, so I was familiar with the stock. In fact, I remembered at least one incident when I held the stock overnight in the past, and when something like this happens to a stock you carried in the past, you realize the danger you were in and the risk you were taking. I took this incident as a warning sign as I was looking to make my first trade.



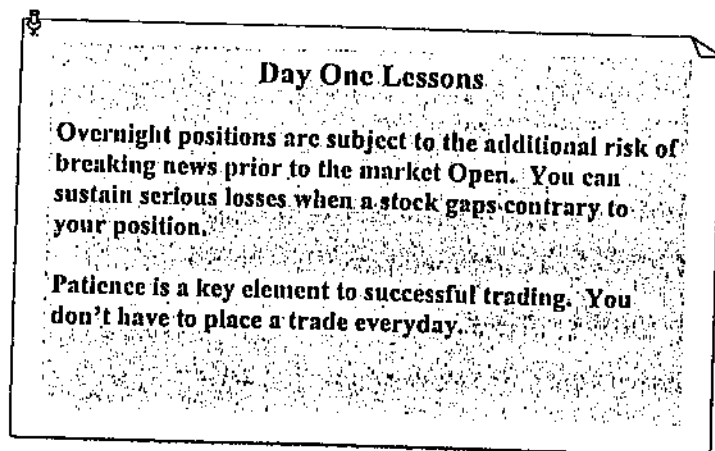
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I was monitoring my six candidates and none of them triggered the setup I was looking for. Some gapped up and traded down, while some gapped down below the support levels which I wanted to buy them at. It was becoming a very frustrating day. The indexes were trading in opposite directions. While the Dow was up 85 points, the NASDAQ was down 179 points.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I was very disappointed that I **didn't** pull the trigger on any of the trades I had planned for today, I felt as if I was a bride who spent the **last** twelve months planning a wedding, but then didn't have the nerve to show up. And you, my friends, are the guests who have been **invited** to the wedding only to find out that there will be no ceremony. I am sure you are just as disappointed as I am; however, disappointments are delivered by Wall Street on a daily basis. It is a part of the job. Although I did not execute any trades today, I realized, how important were the lessons learned on the first day of the challenge.



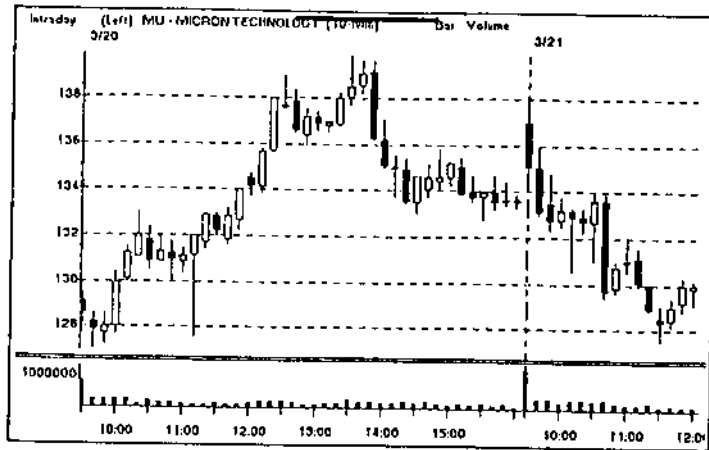
DAY TWO

Tuesday, March 21, 2000

The story of the day is the FOMC meeting in which a possible change in monetary policy might take place. Recent economic numbers suggested that the Fed might raise **interest rates** at this **meeting** in an attempt to **battle** the inflationary threat. While the market **often** seems to disregard **these** threats, Alan Greenspan has made ominous warnings about the current economic situation. Most of us are expecting **the** Fed to raise interest rates today, and the only question is, by how much? Since there was added risk to trading today, I didn't make any trading **plans** for stocks I studied overnight. My strategy today is to sit tight and watch. I call it the *sniper* strategy, where I sit patiently, observing the movement of the market and specific stocks, and then when I have a clear shot, I will take it.

I got up at 4:45 AM Pacific Standard Time, and I **rebooted** my machine. I try to reboot my machine every morning before the market opens in order to "**clean** it out." Since I didn't have any trading plans from my overnight research, I was going to use my intraday scanning software and my Constant watch list to generate potential trades. The news from the Fed that we are all waiting for will not be released until **2:15 PM EST**, so there is plenty of time to trade until then.

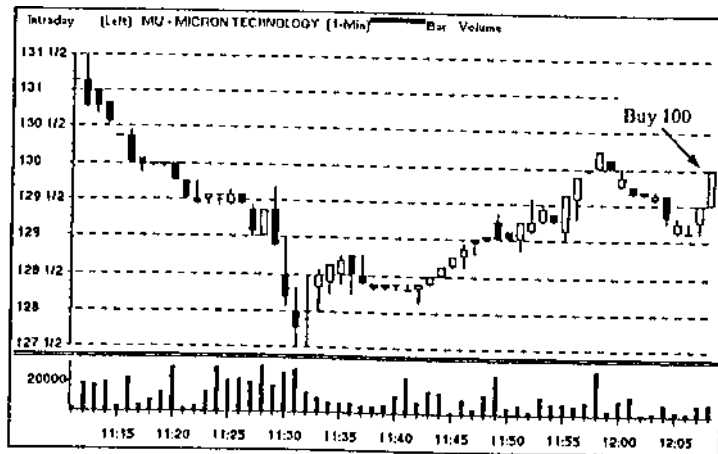
I was waiting for a high percentage setup. I wanted the first trade to be a winner in order to build some confidence and set a positive tone for the weeks ahead. I was up for four hours already, and I finally saw a setup that I liked.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

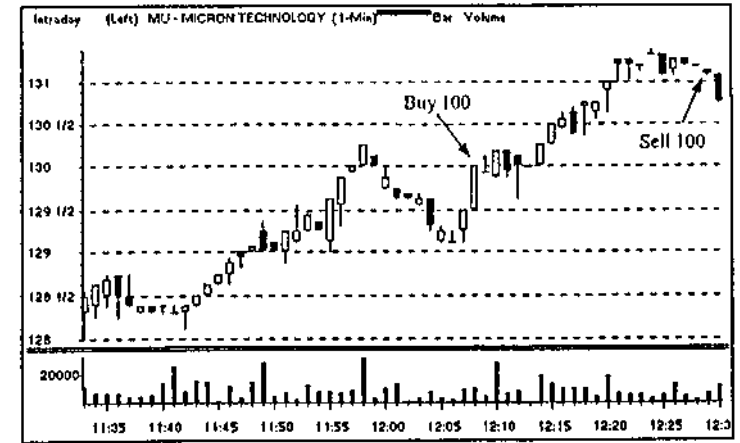
I had MU on my watch list because it made a 52-week high around 1:30 the previous day. I was watching the action on the stock very carefully. Yesterday, 3/20/00, MU traded in a range between 139 3/4 and 127 1/2. The stock opened for trading at 129 1/8 and traded down to 127 1/2. At this price level, the stock found support, and it turned back up and traded all the way to 139 3/4, which was the all time high for the stock. MU then traded down and closed at 133 1/2.

Today, it gapped up and opened at 137. It traded as high as 138 before selling off. The stock traded down and hit 127 1/2 at 1:30. The same price level that held the previous day, held again today and the stock started moving up in price. I followed it up very closely and was ready to enter an order.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

As you can see in the chart, MU ran up from 127 1/2 back up to 130 1/4, then pulled back to 129 1/8 around 12:05. The stock was gaining momentum and volume increased. I bought 100 shares at 130. My price target was 133 1/2 - 135. I placed my stop loss at 128 7/8, which is the price level below the 129 1/8 lows set at 12:05 PM,



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

MU traded up to 131 1/2. I was very nervous the entire time I was in the trade because the Dow broke through the low of the day around 12:18, and it lost 68 points from that point on. The Dow then rallied 68 points, but MU was flat. The Dow turned back down again, and MU looked weak. I sold 100 shares at 131 1/8 and locked in my profit.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The chart, on the previous page, shows the overlay of the Dow vs. MU. Notice the divergence from 12:13 to 12:22. MU was going up while the Dow was going down. Notice the rally on the Dow from 12:22 to 12:25 while MU was flat. Then the Dow broke down again at 12:27 which is just about the time I pulled the trigger on the sell order. MU followed the Dow this time. It is important to follow the indexes when sitting in a trade.

I will use the following trade record table throughout the book, so we can keep track of the performance. The six fields in the table are:

Source - How did I find (he trade).

Investment - The total dollar amount I put into the trade.

Proceeds - The total dollar amount received when I closed the position,

MIJT - The total commission cost charged by MB Trading for the trade.

P&L - The net dollar amount I made or lost on the trade after commissions and fees.

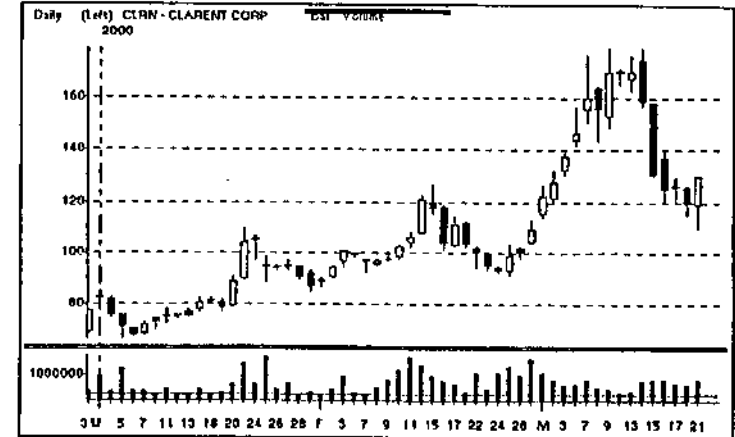
Return - The percentage return on the money I had at risk.

### Trade Record

Source	Investment	Proceeds	MBT	P&L	Return
Watch List 1	13,000.00	13J 12.50	10.42	102.06	0.78%

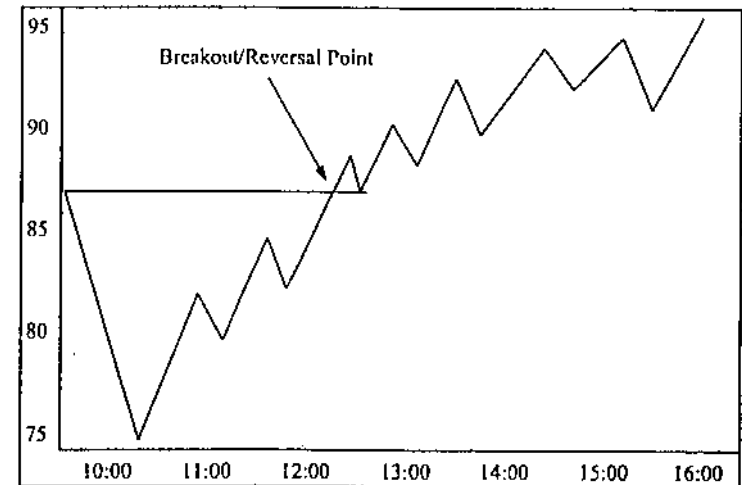
I was happy to get the first trade out of the way. It was no home run, but the 100 bucks or so I made on this trade helped rny confidence. I truly felt as if I had *never* traded before this MU trade look place, and I was so excited as if these were the first profits I ever took out of the market.

I was watching my intraday scan, looking for an opportunity. This is when I found CLRN. The stock showed up on my Power Scan. I have included a description of how each one of my real-time scans is used in Appendix D.

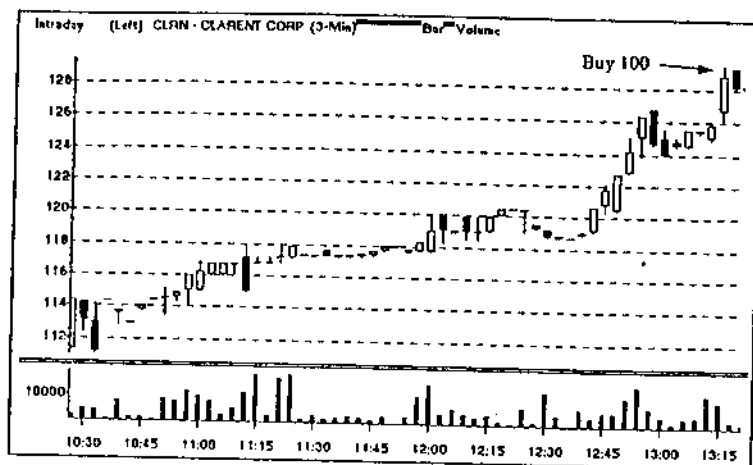


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

CLRN pulled back from 178 3/4 to 111, It was in the process of a Reversal Day, and it was taking out the previous day's high. A Reversal Day takes place when a stock opens for trading at a certain price, then trades significantly lower. Buyers step in to buy the stock, and the stock trades up to its opening price and starts breaking out to new intraday highs. The following chart illustrates a Reversal Day. You would normally see higher than average volume on Reversal Days as traders like the strength the stock is showing.





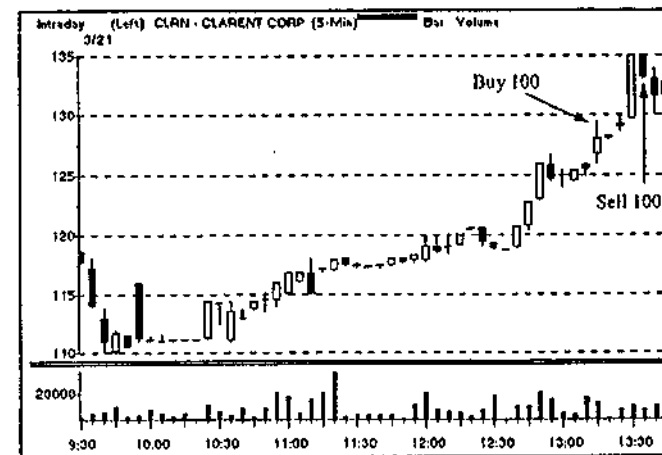


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

CLRN was showing strength. It took out the high of the previous day and broke out to an intraday high. I bought 100 shares at 129 at 1:15 or so. The price target I had in mind was 140, which was the top three days ago. I placed a stop loss at 126 3/8, which was just below the tops made at 126 3/4 around 12:55.

CLRN was very strong, and it took the 130 level out. It was now trading at 135. I moved my stop loss up to 133. I was looking for five more points on the upside, but I wasn't willing to risk more than two points. I was also worried about a couple of things:

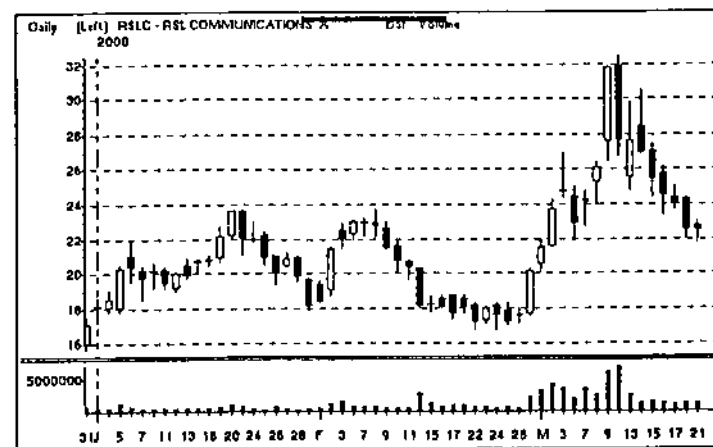
1. The stock has run up from 111 to 135. There is always a possibility of a sharp pullback after a move like that.
2. The Fed will announce their decision within the next 45 minutes.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

CLRN pulled back from 135 and was now trading at 133. I executed my trailing stop and sold 100 shares at 133. The stock would go as low as 130 and then run back up to 140, after the Fed made the announcement; however, I followed my strategy and sold once the stock hit 133. These are the rules of discipline.

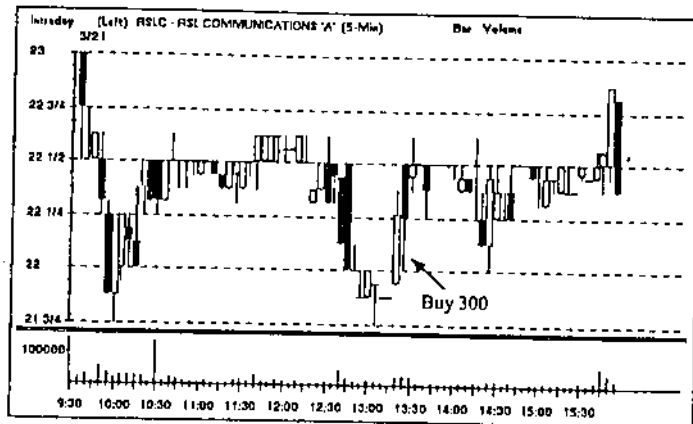
Source	Investment	Proceeds	MBT	P&L	Return
Power Scan	12,900	13,300	10.45	389.55	3.02%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

As I closed my position in CLRN, I noticed that RSLC might have found

some support. If you remember, RSLC was on my watch list for a potential trade yesterday.

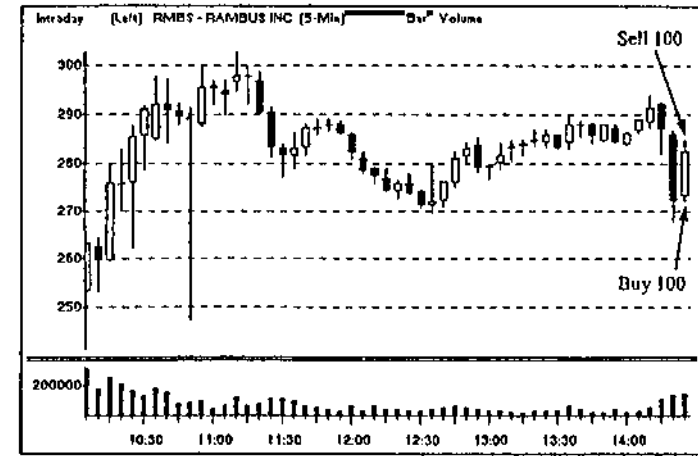


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

What I liked about this setup was that the stock made two bottoms at 21 3/4. The stock was trading at 22 and if a bounce was to take place, RSLC could go up to 23 3/4 - 26 3/4. I thought this setup presented me with a great risk/reward trade. My plan was to buy 300 shares at 22 1/16. I would place a stop loss at 21 5/8, which is 1/8 below the low of the day. I will be risking 7/16 of a point trying to capture 13/4-4 3/4 in reward. The fact that the 21 3/4 price level held twice was very encouraging, so I bought 300 RSLC at 22 1/6. I placed my stop loss at 21 5/8, and I held it into the announcement of the Fed.

The moment we have been waiting for all day was near. Finally, the Fed announced 0.25% rate hike in both the federal funds and discount rate. This is exactly what everyone expected, so there were no adverse surprises. Party time!

The initial reaction to the announcement was the predictable panic selling. I was watching RMBS free falling. The stock was trading at 293 prior to the announcement, and now it was down to 275. The stock dropped as low as 269 before bouncing back in a violent way.



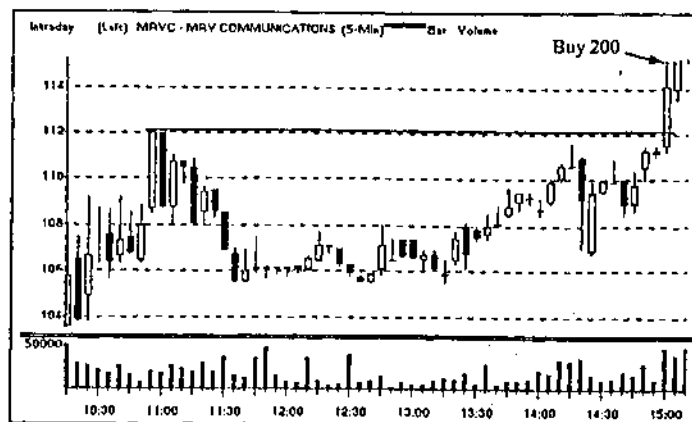
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I expected the stock to bounce at 270, which was the previous low set at 12:30 PM, but there was no way I was going to try and catch a falling knife. I wanted to see it bouncing first. The problem is that when almost any volatile momentum stock, like RMBS, trades, supply and demand are pretty much one sided. There are either a lot of sellers or a lot of buyers. When the shift from panic selling to buying frenzy takes place, the price swing is very violent. When RMBS started bouncing at 269, the offer instantly jumped directly to 271 1/4. I then entered my buy order; however, there was no way I was going to get a fill at that price, because the stock was already printing 274 on the ticker. Momentum traders were sending SelectNet Preference orders to Market Makers and ECNs at higher prices out-of-market to guarantee themselves a fill. I was forced to do the same thing. I entered a buy order for 100 shares of RMBS at 275 on the Island ECN. There was a seller on Island at 275 and our orders were crossed and executed immediately. My price target was 285 - 288. I was in the trade for four minutes as RMBS hit the price target of 285. It started to show some weakness, so I entered a sell order. I was out at 283 1/4.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	27,500	28,325	10.95	814.05	2.96%

Once the initial reaction to the Fed's announcement was over and buyers stepped in, the market gained momentum and traded higher. At this point, I was monitoring my Constant watch list for buying opportunities. I was also watching the candidates which my scanning software was generating.

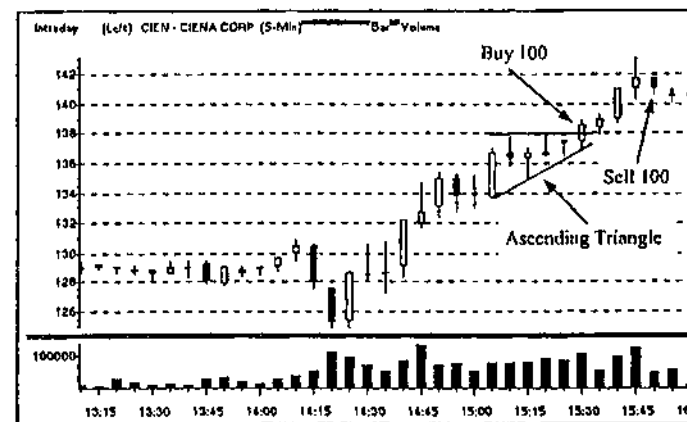
MRVC came up on my Pullback Swing Trade Scan, and it was just about to make an attempt at breaking out through resistance at 112 to make a new intraday high. At the same time, I was following CIEN, which resides on my Constant watch list. It was forming an ascending triangle and was also just about to possibly penetrate through resistance and move higher.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

MRVC broke out over the 112 resistance level. I entered a buy order on ARCA for 200 shares at 113 1/2. I didn't get a fill because the stock was running up fast. It was printing 114 3/4. I cancelled my order and sent another order to buy 200 shares at 115 on Island. I got a fill for 100 shares and the rest of my order was cancelled for the reason that it would have locked or crossed the market. If there is no one selling at the price that you enter a buy order on an ECN, and the price is higher than the inside offer, the order gets cancelled, because you cannot bid for a stock at a higher price than the best offer. This is a NASDAQ rule, so the order will be kicked back in these scenarios. Since I wanted another 100 shares, I sent another order to buy 100 shares on Island at 115. My order was cancelled again. I sent the same order a few times more and finally there was a seller at 114 15/16, and I got a fill. My price target was somewhere between 122 - 126, which were resistance levels from the previous two trading days. I placed my stop loss at 111 3/4, which was below the 112 level. Unfortunately, I didn't have the best entry on the trade. I tried to buy it at 113 1/2 and missed it; however, I had to manage my position as if I did buy it at 113 1/2, because the logical stop loss would be at 111 3/4. This, of course, is a lot easier said than done.

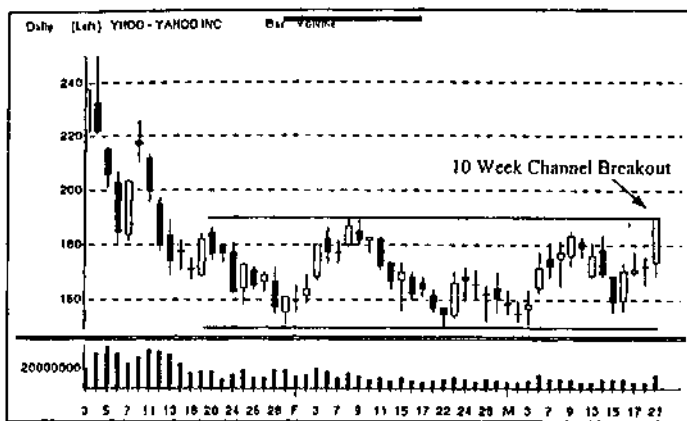
CIEN also broke out to a new daily high over 138. I had better success entering this trade at a price close enough to the breakout. I bought 100 shares at 138 1/2. My price target was 144 3/4 - 149, which was resistance for the stock a few days back. My stop loss was placed at 136 3/4, which was 1/2 a point below the lower Ircndline of the ascending triangle.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

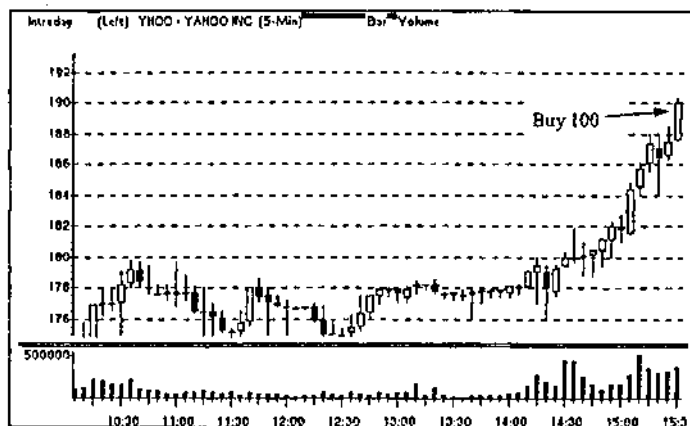
CIEN traded as high as 143 3/16 before pulling back. I had a mental trailing a stop behind the stock. When it hit 143, it was 1 3/4 away from my price target. At this point I raised my stop loss to 141 3/4. CIEN turned around and traded at 141 3/4, activating my stop loss, but I didn't get executed until 140 1/2, as the stock fell down fast. This is a good reminder that you can always lose more than you anticipate even if you have a stop loss in place. No one knows where their order will finally get executed. In fact, I have heard of, and seen, horrifying incidents in which stocks were in a total free fall. There was this one stock, ONSL, that was trading at 104. Many of the traders in the stock had their stop loss at 99 7/8, 99 3/4, 99 1/8 etc., which was just under 100. The stock broke through 100 and fell sharply. It dropped all the way down to 44 in a matter of 14 minutes. Traders who had stop losses at 99 and above were executed at 50! Another incident was with QCOM late in 1999. The stock opened for trading at 740 and went down to 639 within 24 minutes. That was more than a 100 point move in 24 minutes. Trades were executing at 30 points below best bid. I had to go out of market almost 20 points myself to get out of QCOM at 720 15/16, right at the open. It is extremely important to understand that a stop loss order doesn't necessarily mean that you will get out of your position once the stock triggers the stop price.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	13,850	14,050	11.97	188.03	1.36%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

While I was in both MRVC and CIEN, YHOO showed up on my Power Scan. The stock was racing up as it just broke out over 188.

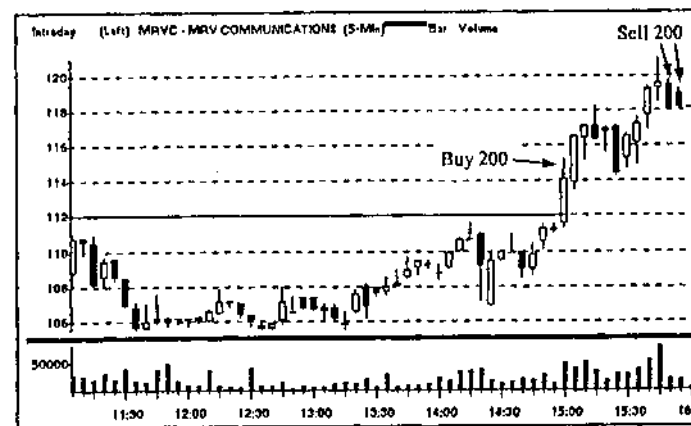


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I bought 100 shares at 189 31/32. My price target was 195. I placed a stop loss at 187 3/4. The stock went up as high as 193 1/4. I noticed that the stock could fall hard if things were to turn around, so I sold on the first sign of weakness. I sold 100 shares at 192 1/2.

Source	Investment	Proceeds	MBT	P&L	Return
Power Scan	18,996.87	19,250	10.65	242.47	1.28%

I had two open positions left which I liked for a possible overnight hold: RSLC and MRVC. RSLC was not doing much. On the other hand, MRVC was approaching the price target of 122.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The stock hit 121 and pulled back, I really thought that MRVC could go much higher the next day, so I was trying to give it some wiggle room. The stock went down to 119 1/2, so I sold 100 shares. I wanted to lock in some profit and give the rest of my position a chance; however, the stock went down to 118, which was the trigger of the stop loss on the remainder of the position, so I sold the last 100 shares at 118.

Source	Investment	Proceeds	MBT	P&L	Return
Oz Pullback	22,993.75	23,750	22.30	733.95	3.19%

The final bell rang and the second day of the challenge was now officially over. The Nasdaq was up 101 points from yesterday's close. It was a great day for the bulls. The driving force behind the rise in stock prices was the completion of the FOMC meeting, and the announcement that followed shortly after. I felt very good about my trading, and a potential upward bias for the next few days. However, I did not want to take a big overnight risk.

Open positions: 300 Shares of RSLC  
Total profit for 3/21/00: \$2,470.11

**Day Two Lessons**

The market tends to overreact to news.

Look to buy intraday breakouts on reversal days.

A stop loss order does not guarantee an exit at the trigger price.

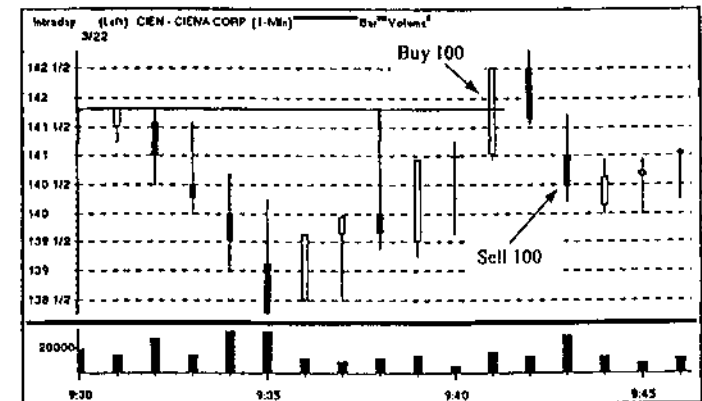
## CHAPTER 6

### Working on My Golf Swing

#### DAY THREE

Wednesday, March 22, 2000

The market gapped up at the open and pulled back. I was watching both MRVC, which opened at 125 (I knew I should have given it a chance), and CIEN, which opened at 141. I had both these stocks on my watch list, because I traded them yesterday.

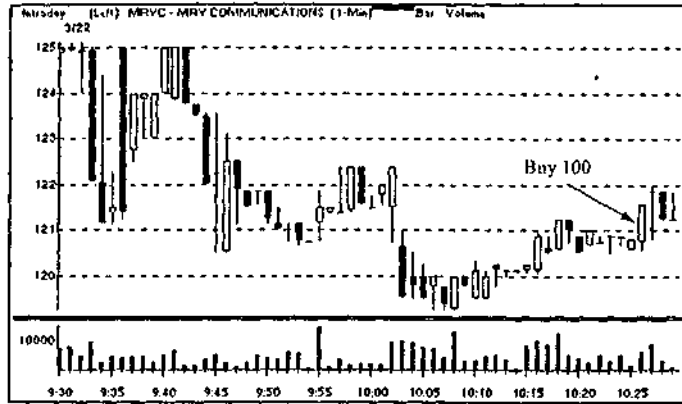


Reprinted with permission of Towasend Analytics, Ltd. Courtesy of MB Trading

CIEN took out its morning high, after a very early bounce, and I bought 100 shares at 142. What happened next was a classic breakout play. The stock pulled back, and I dumped it at 140 1/2 for a loss. This is one of the problems of trading a breakout. More often than not, the stock will pull back and stop you out. The solution is to try and buy the pullback or give the stock more wiggle. In hindsight, if I placed my stop loss at 138 1/8, which was just below today's low, I would have been very fortunate, since it ended the day much higher. Nevertheless, a point and a half was all I was willing to lose on this trade.

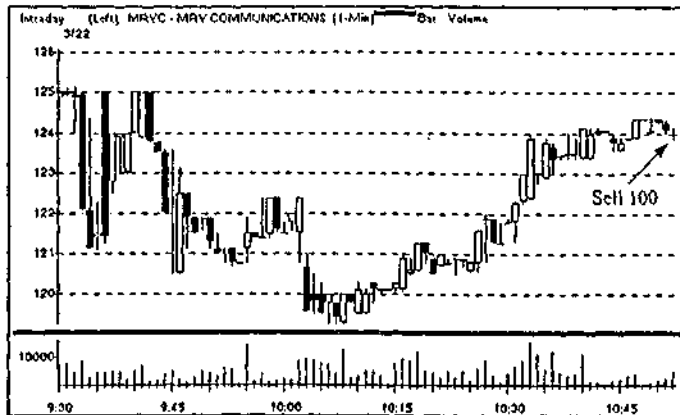
Source	Investment	Proceeds	MBT	P&L	Return
Watch List 1	14,200	14,050	10.47	-160.47	-1.13%

I just took my first loss in this challenge. It is important to put losses behind you quickly and to be ready for the next opportunity. I was now in my sniper position and my target was MRVC. I was waiting for the right time to take my shot.



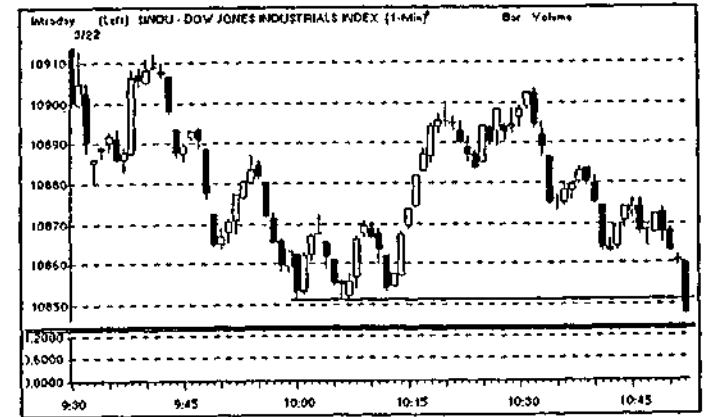
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

MRVC held 119 1/4 and turned back up. I was carefully studying the ticker tape once the stock hit 121 3/16 around 10:17 AM EST. The stock pulled back a little and was able to hold 120 1/2. What I am looking for at this point is for the stock to trade higher than 121 3/16. This will confirm a new uptrend with rising bottoms and rising tops. The stock traded higher than 121 3/16, and I bought 100 shares at 121 1/4. My price target was 128 - 135 if it could break out over 125 (morning high). I placed my stop loss at 119 7/8.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

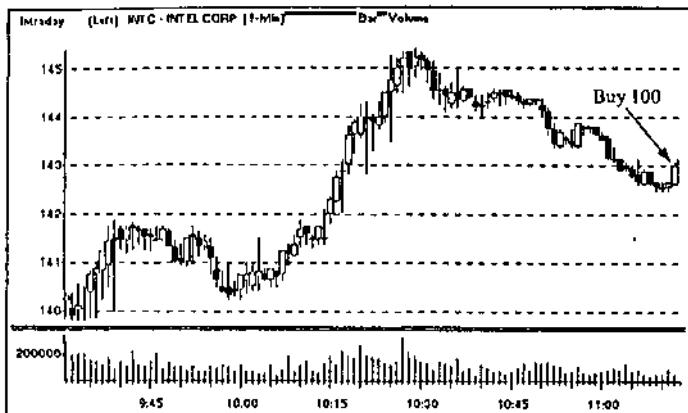
The stock went up to 124 3/8 and pulled back a little. There were a lot of buyers at 124 - 124 5/16. All of a sudden, the Dow broke through the low of the day and sellers showed up on MRVC. I sold 100 shares at 123 7/8 with the intent to buy it back if it breaks over 125. I was very quick on the trigger, after beginning my day with a losing trade on CIEN.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

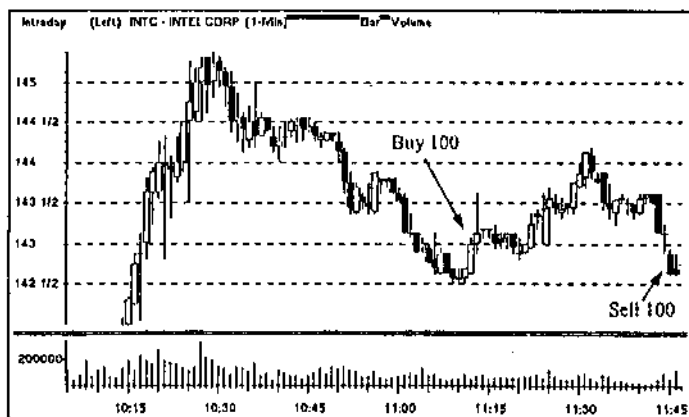
I always watch the indexes very carefully when I am in a trade. Although stocks can trade against the indexes, and the indexes themselves can trade inversely to each other, I like to exit positions if one of the indexes breaks down through support to make an intraday low. It is a part of my risk management philosophy. In this case, it was the Dow that crumbled, so I cashed in my chips and took my profits of the table.

Source	Investment	Proceeds	MBT	P&L	Return
Watch List 1	12,125	12387.50	10.42	252.08	2.08%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I was watching INTC, which just made a 52-week high at 145 3/8, this morning. It ran very strong from the opening price of 140 3/8 and I was looking to buy a pullback. INTC hit 142 1/2 on its pullback and started bouncing up. I bought 100 shares at 143.



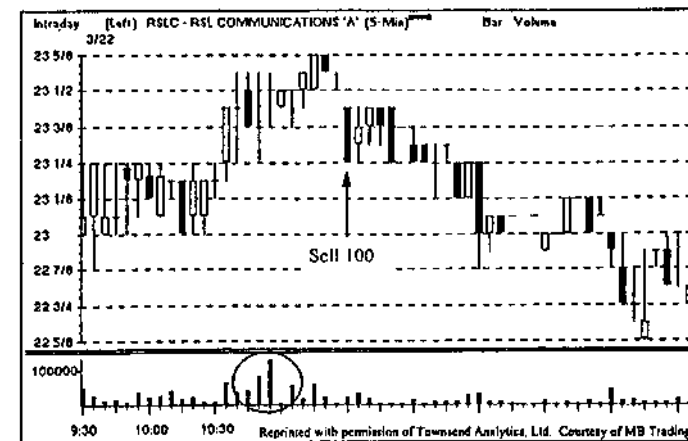
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The stock went up as high as 144 3/16. Since it was trading in all time high territory, I wanted to give the stock a chance to move higher, or at least a retest. My stop loss was initially set at 142 3/8, which was below the 142 1/2 level the stock hit at 11:10 AM EST. Once I was in the money, I moved my stop loss up to 143 1/4. The stock dropped to 143 1/4 and activated my stop loss order, before trading down some more, and I got my fill at 142 5/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	14,300	14,262.50	10.48	-47.98	-0.34%

## The All Mighty Ax

The Ax is the leading Market Maker. Market Makers make their money from trading profits. This causes competition, which is good for the general investor. This competition also brings in another element that is important to understand. They all want to be on the right side of the market. In many cases, a stock can be controlled by a leading Market Maker, who is well capitalized. He can sell or buy a very large number of shares. He can stand in the face of a rally or support a stock during panic selling situations. The important thing is to learn how to locate the leading Market Maker, the Ax, and avoid getting caught on the wrong side of the fence. The Ax will normally spend more time on one side of the inside market (best bid or best ask), than on the other side of the inside market. They will *appear* to do both selling and buying, but the key thing is to pay attention to how much they are buying versus selling. When you look at a Level II montage for a while, you will be able to see and follow the movement of Market Makers. Pay attention to which side each Market Maker is spending most of his time. Using the Time & Sales Print Report will help in pointing out the Ax. The easiest way to spot an Ax is when he is present on the best offer or best bid with a size of 1000 shares, yet the print report shows several 1000 shares trading at his price, as he is continually refreshing his quote, and he does not leave his position at the inside bid or offer. I have seen situations where 100,000 shares or more traded at that price, yet the Market Maker never left the inside bid or offer.



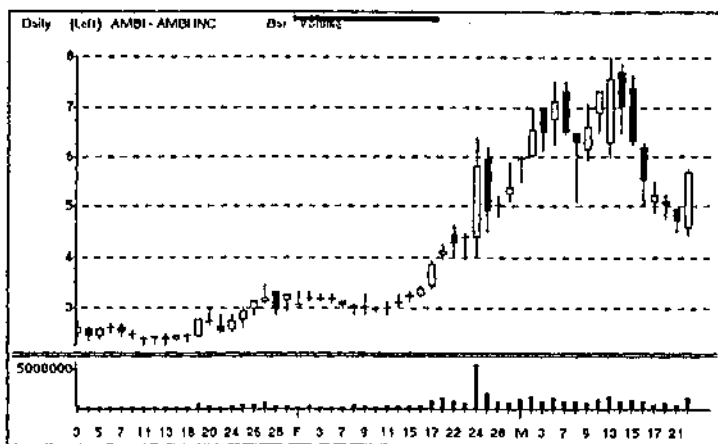
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

RSLC broke out over 23 1/4 at 10:30 AM. Volume increased and the stock hit a ceiling at 23 5/8. DLJP was the only visible seller on the Level II montage. He was the Ax. I didn't like the fact that the stock was not progressing

in price on the big spurt in volume. That is what I would call a *waste of effort*. The bid strength started to deteriorate and sellers came in on the offer using the ECNs at 23 1/2. DLJP was not going to be denied from being at the inside market and he down-ticked his offer to 23 7/16. The bid was 23 1/4 at the time. I decided to enter a sell order immediately. I sold 300 RSLC at 23 1/4. I was not going to stand in the way of the Ax.

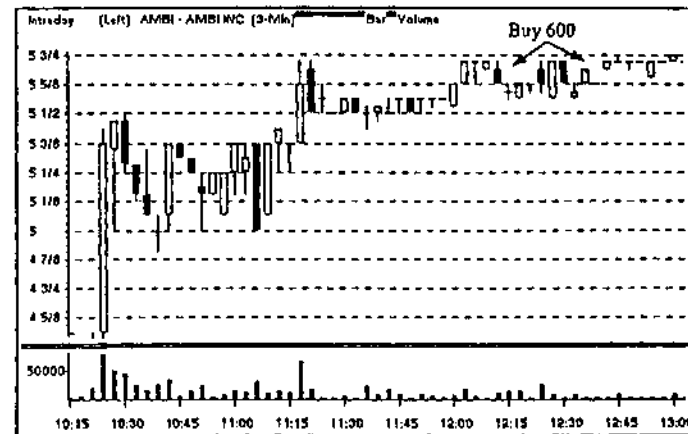
Source	Investment	Proceeds	MBT	P&L	Return
Watch List 1	6,618.75	6,975	10.24	346.01	5.23%

It was lunchtime in New York, and I was playing around with a my Power Scan. I was changing the price criteria to see if I could find a low-priced stock that had an attractive setup. I don't normally trade low-priced stocks, but I wanted to see if there is a "new kid on the block" that was making a move. This is how I spotted AMBI.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

AMBI had a nice run from 2 1/2 to 8, where it topped on 3/13/00. The stock pulled back to 4 7/16, which was the low today, and then reversed on strong volume.

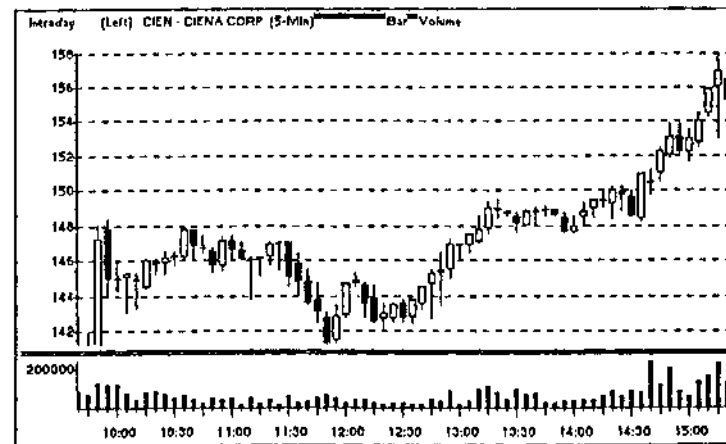


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The stock was consolidating and looked ready to breakout, I bought 300 shares at 5 19/32. The stock looked good, and I bought another 300 shares at 5 23/32. I placed a stop loss at 5 5/16. My price target was 7-8.

#### What to do When Frustration Strikes?

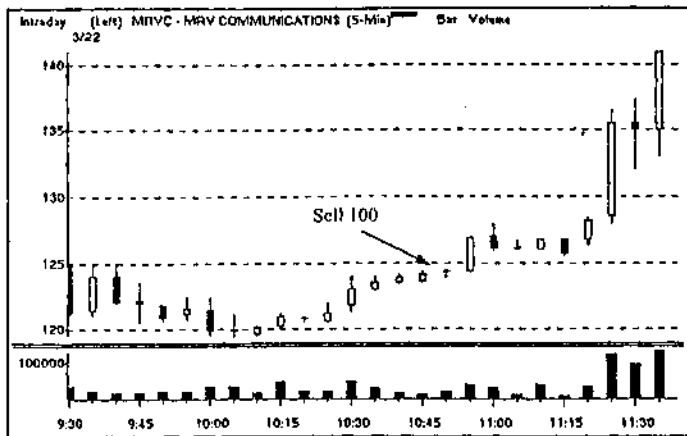
You will hear many traders tell you stories of how they bought a stock at 20, sold it at 25, and watched the stock go up to 300. This is the devil of Wall Street - looking back. How do I know when to sell a stock? The truth is that I don't know. I don't think anyone does. I do know one thing, though. I must manage all risks in accordance with my trading system. This means that if a stock triggers a sell price, I have to execute it.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading



Today was a very frustrating day for me. As you recall, I sold CIEN earlier for a loss at 140 1/2. The stock was at 148 1/2 now, and it would go all the way up to 158 before day's end, as seen on the chart on the previous page.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MII Trading

I sold MRVC at 123 7/8, at resistance. Shortly thereafter, the stock went up to 141. I tried to buy it when it broke over 125, but I didn't want to pay more than 125 1/2 for it, so I missed it. I waited for it at 125 1/2 when it started pulling back around 11:20. I missed the entry there as well. It wasn't the end of the world, just frustration, so I decided to do what I always do in this case - call it a day. I have found that it's best to walk away from situations like this, so that I may recharge my emotional energies and be in a positive frame of mind for the next battle.

I called (he local golfcourse and got a tec time. I had a stop loss in place for my open position on AMDI, so my risk was being managed. It was off to the golfcourse to work on my swing.

I didn't hear the final bell ring today, but when it was all done and finished, it was another strong day for the bulls. The Nasdaq closed the day up 153 points from yesterday's close. My stop loss on AMBI was never activated.

Open positions: 600 Shares of AMBI  
Total profit for 3/21/00: \$389.64

**Day Three Lessons**

Try to wait for a pullback when buying a breakout, or you must be willing to let it wiggle.

Stocks may trade against the indices.

Stay out of the Ax's way.

Step away when frustration reaches extreme levels.

Tony needs to take golfing lessons before he embarrasses himself on the golf course again. 😊

## CHAPTER

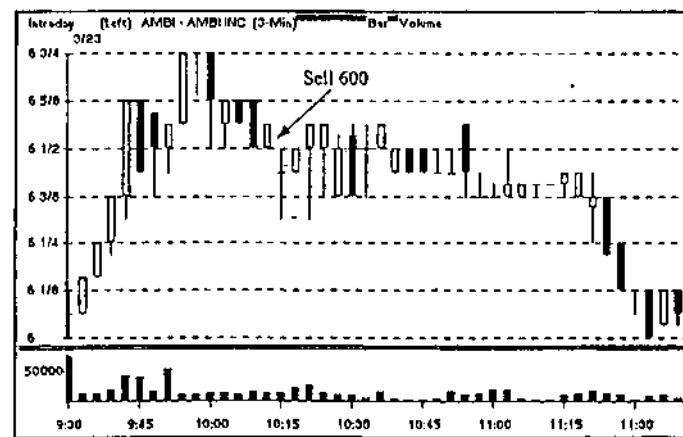
(

## The Running of the Bulls

### DAY FOUR

Thursday, March 23, 2000

Following a frustrating day in the market, and an even more frustrating day at the golf course yesterday, I was looking forward to the market open today. I really liked the strong showing the Nasdaq had yesterday. My strategy for today is to manage my open position in AMDI effectively. I also wrote some intraday support and resistance levels for the stocks in my Constant watch list, I am looking to enter long positions in some of these stocks should they show continued strength. Sipping my cup of coffee, I was making my way upstairs to my trading desk preparing myself for today's battle.

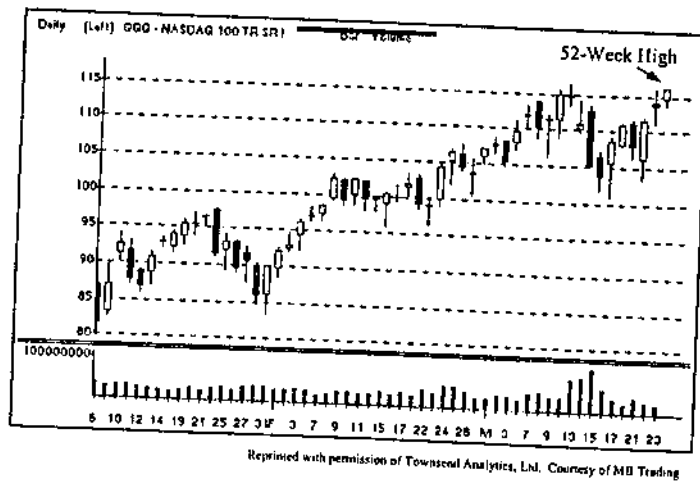


AMBI had a nice run from the open and it hit 6 3/4. *HRZG* was the Ax. I sold 300 AMBI at 6 1/2 when the stock pulled back from 6 3/4. I was going to give the other 300 shares some wiggle room. However, *HRZG* would not let AMBI go up higher. I decided to sell the remaining 300 shares at 6 1/2.

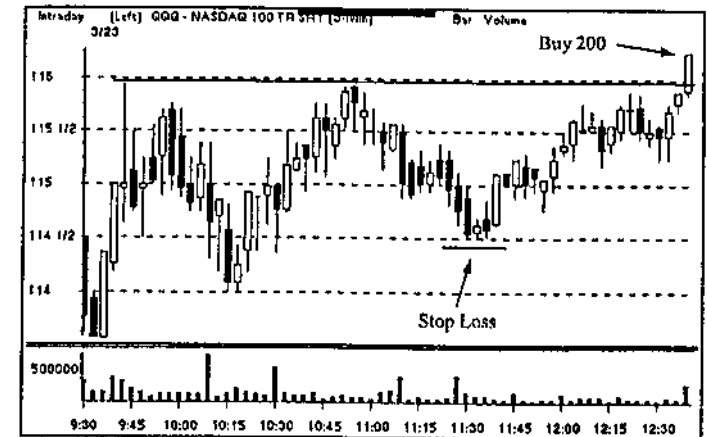
Source	Investment	Proceeds	MBT	P&L	Return
Power Scan	3,393.75	3,900	20.15	486.10	14.32%

Although this trade does not look like a major home run when you look at the dollars and cents, it was actually a very profitable trade on a percentage basis. The reason J only allocated about \$3,400 to this trade was because AM13I is a low price stock. I feel that there is an added risk to trading low price stocks, so I chose to be very defensive in this trade, I was very happy with the rewards; however, the stock could have just as easily gone down in price one point or more from where I entered it, and caused me a big loss. Keep that in mind!

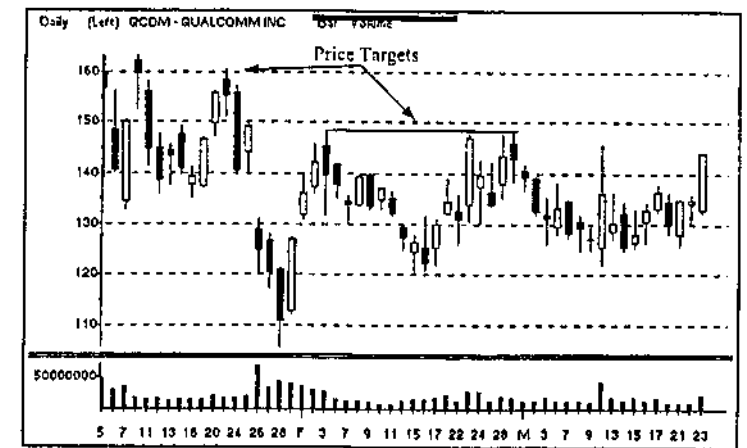
The market is very strong today. In fact, the Nasdaq-100 Index is making new all time highs. I was looking to buy the tracking stock for the Nasdaq-100 Index (QQQ). The Nasdaq-100 Trust Series 1 is a pooled investment designed to closely track the price and yield performance of the Nasdaq-100 Index. It allows you to buy the entire index (actually pooled investment in the stocks which make the index) in one single security. The way it is calculated, more or less, every 40 points on the index are about one point on the tracking stock. QQQ is traded on the American Stock Exchange.



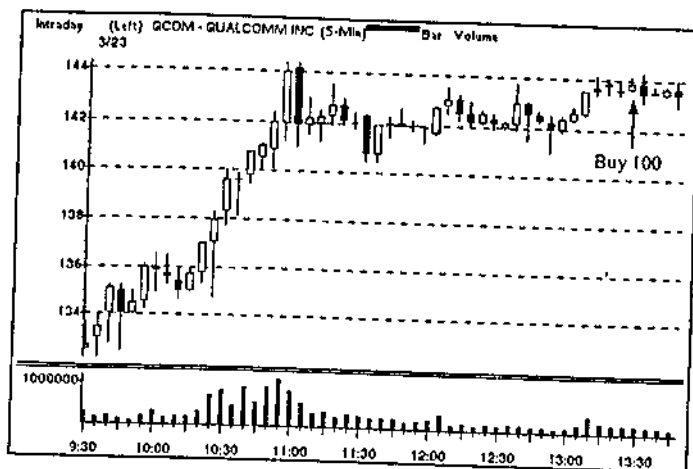
QQQ broke out to an intraday high (all time high), and I bought 200 shares at 116 1/4. I placed a stop loss at 114 3/8. Since we just broke out to an all time high, my price target was at 122. I was looking for about 5% return on the index.



Since the index of the biggest 100 non-financial stocks on the Nasdaq was at an all time high, I was monitoring the big blue chip companies which make the index. These blue chip companies are on my Constant watch list on a daily basis.

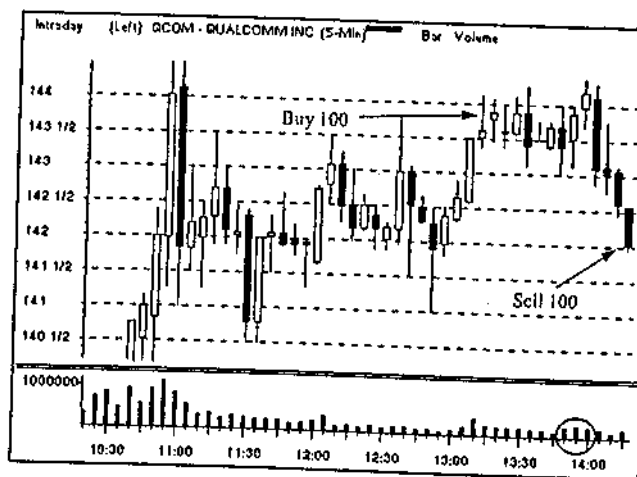


QCOM was moving up with the market on higher than average volume. I thought the stock could possibly go to 148 which is the next resistance level and possibly 160 if it broke out, as seen in the chart above.



Reprinted with permission of Townsend Analytics, Ltd.

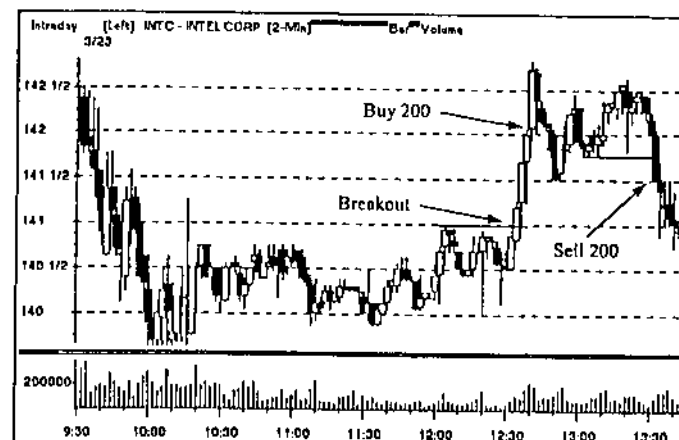
The stock was consolidating after the big run it had earlier in the day. I felt that a powerful breakout might take place, and I entered a buy order for 100 shares on ISLD ECN at 143 13/16. I got a partial fill of 50 shares, and my order was cancelled for the reason it would lock or cross a market. I wanted 100 shares, so I entered another order for 50 shares and got a fill at 144 1/16. I placed a stop loss at 142 1/2. My price target was 148 -160.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

QCOM tried to breakout again as volume came in just before 2:00 EST. However, *SBSH* was axing the stock and the stock lost momentum and started falling down. It hit 142 1/2 and triggered my stop loss. I sold 100 shares at 142 1/16.

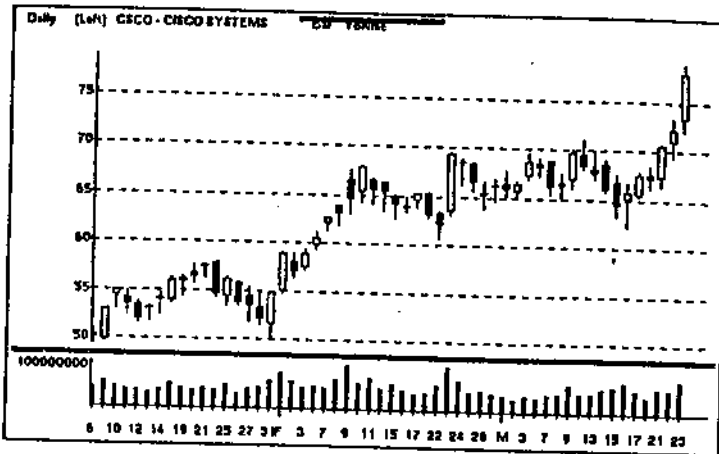
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	14,393.75	14,206.25	15.48	-202.98	-1.41%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

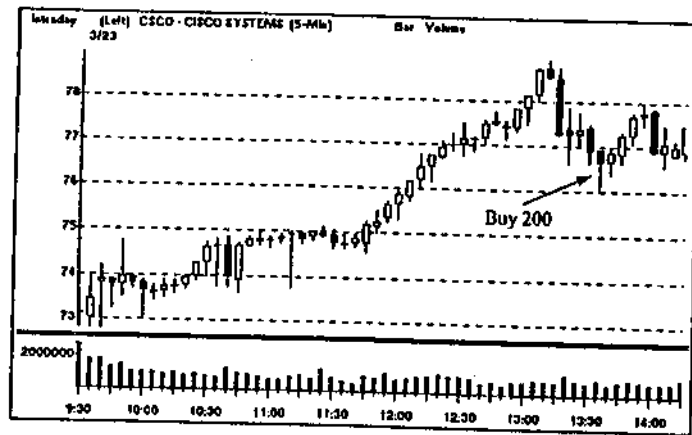
INTC was lagging the index most of the day; however, as soon as the index broke out, INTC started to move as well. It broke out over resistance at 141 and went vertical. I tried to buy the breakout, but I couldn't get a fill. I started chasing it, and I finally got a fill. I bought 200 shares at 142 1/8. The stock broke out to an intraday high and went up to 142 15/16. It then pulled back to 141 1/2. The next rally attempt was very weak, and the stock peaked at 142 7/16. It then traded down to 141 3/4 where it found support (shown by horizontal line on chart). The next rally attempt took out the top at 142 7/16, and the stock traded as high as 142 9/16. INTC was starting an up-trend. I moved my stop loss up to 141 5/8 from 141 3/8. I felt that if INTC were to drop below the 141 3/4 level, it would be reversing its trend. INTC started selling off and it took the 141 3/4 support level out. My stop loss was triggered, and I sold 200 shares at 141 1/2.

Source	Investment	Proceeds	MBT	P&L	Return
Watch List 1	28,425	28,300	10.95	-135.95	-0.48%



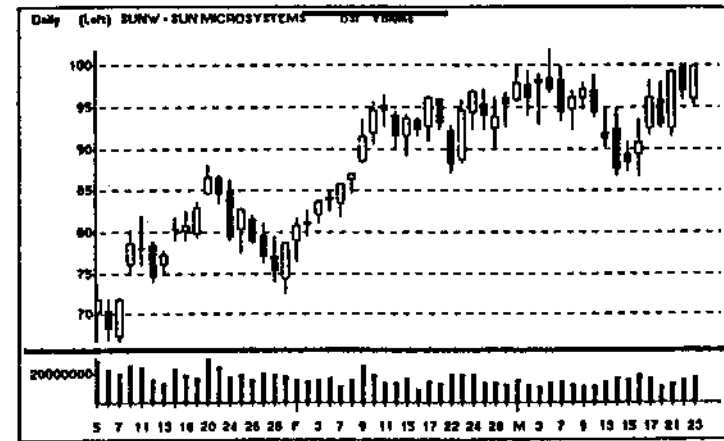
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

CSCO broke out to a 52-week high as well. I had learned my lesson and decided to wait for a pullback this time.



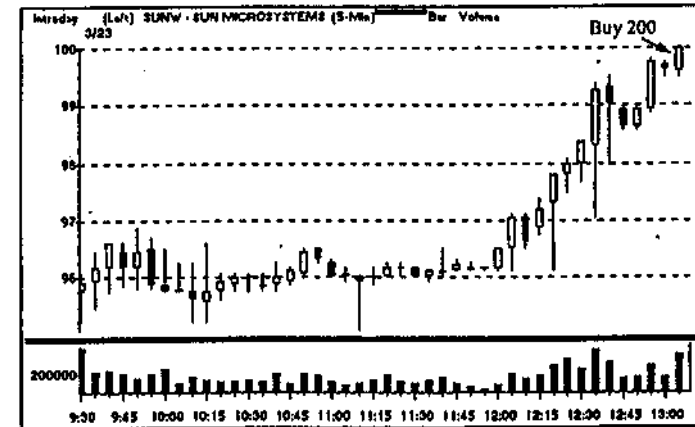
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

CSCO ran from a breakout at 75 at 11:30 to 78 7/8. It then pulled back to 76 1/8 and started moving back up. I entered an order to buy 200 shares at 76 7/16, and I got a fill of only 10 shares! This was very frustrating. I entered another order to buy 190 shares and I got a fill of only 80 shares at 76 5/8. I couldn't believe it. I entered another order to buy 110 shares, and this time, I was able to complete my position. I got 110 shares at 76 3/4. I placed a stop loss at 75 7/8. My price target was 80.



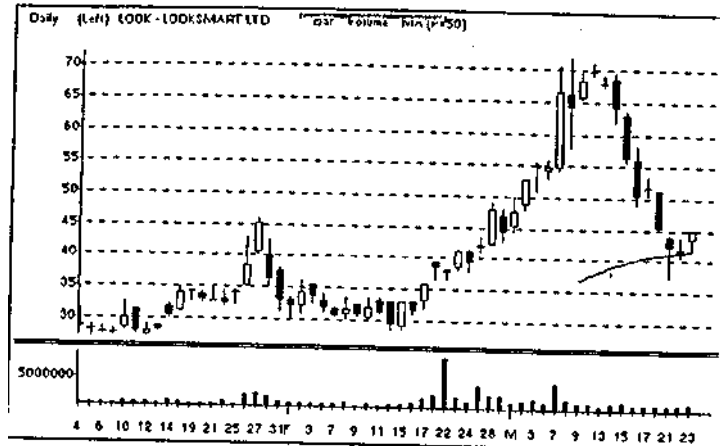
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

SUNW was close to breaking out to an all time high as well. I had prepared notes to keep a close eye on it today when I studied the stocks on my Constant watch list last night. I was looking for a potential swing trade.



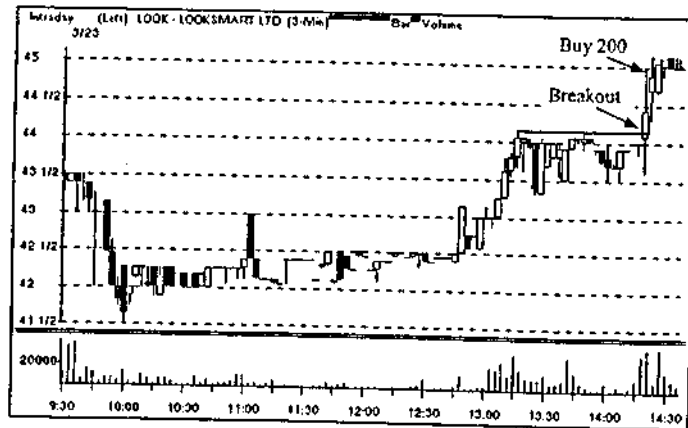
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

SUNW took out the high of the day and was now flirting with 100. I bought 200 shares at 99 7/8.



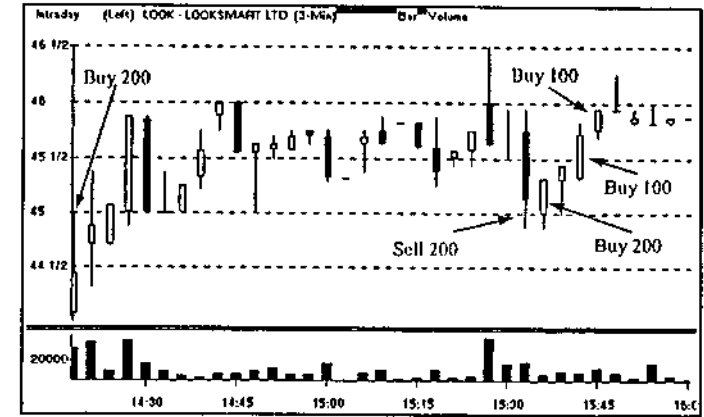
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I found LOOK on my Pullback Swing Trade Scan. The stock peaked at 72 on 3/8/00. Then, it had traded down to 37 1/4 three days ago and was bouncing back up. It was trading near the high of the day (44) when I first saw it.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

Around 2:18 PM, LOOK broke out of the consolidation pattern it was in, with increasing volume. I bought 200 shares at 44 7/8. I placed a stop loss at 43 7/8, and my price target was 48 1/4, which was the support level that was penetrated successfully four days ago.

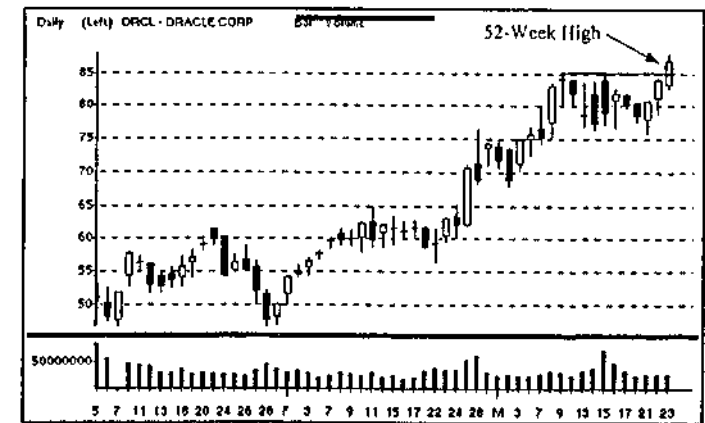


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The stock traded up to 46 1/2. Then it quickly pulled back and I got scared and sold 200 shares at 45.

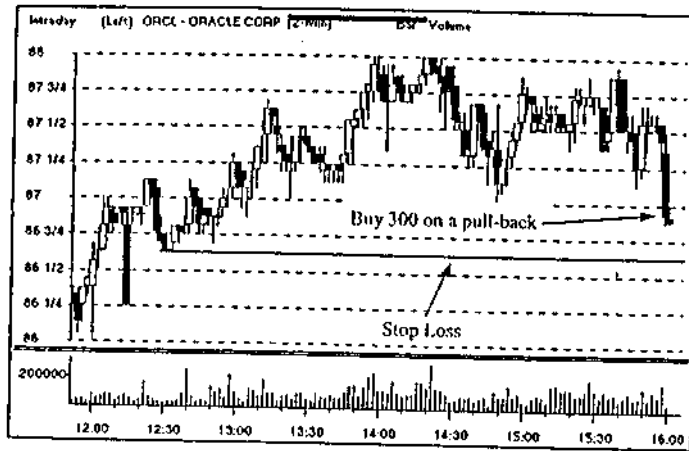
Source	Investment	Proceeds	MBT	P&L	Return
Pullback Scan	8,975	9,000	10.30	14.70	0.16%

The stock stabilized and started trading up again. I bought-200 shares again at 45 1/4. I added another 100 shares at 45 1/2 and 100 shares at 45 7/8.



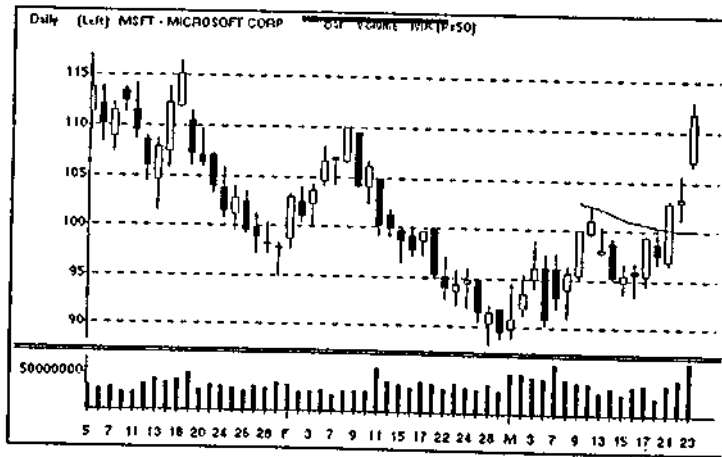
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

ORCL broke out to an all time high. Again, remembering my lesson about jumping in too soon, I waited for a pullback.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

ORCL did pull back, and I bought 300 shares at 87.146. If there was more time in the day, I would have placed a stop loss below support, illustrated by the horizontal line on the chart; however, there was only one minute left to the closing bell. I was buying ORCL for a swing trade.

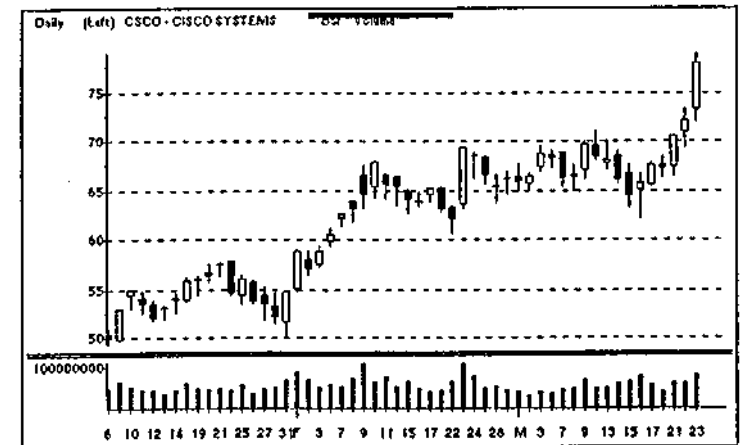


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

MSFT closed very strong and I bought 100 shares at 112 1/16 for an overnight hold. I felt that the stock would attempt to make it to 115 tomorrow.

The trading day was over. I had six open positions, and I felt somewhat over extended, but the stocks I was in were trading higher in after-hours trading. I was assessing my overnight risk and decided to sell CSCO. The stock closed at 77 13/16, and there was a bid on Island at 78 1/4. I took another look at the CSCO daily chart, and I decided to sell it.

MSFT looked really strong. I was watching it most of the day. I was going to buy it for an overnight hold if the stock closed strong.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

As you can see in the chart above, CSCO ran up from 62 3/16 to 79 in the last five days. This is not a normal price appreciation for a stock like CSCO, so I felt the risk/reward in holding the stock overnight was not worth it.

I sold 200 shares at 78 1/4.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	15,336.87	15,650	20.54	292.59	1.91%

Once the final bell rang and the final sell ticket was stamped, the bulls were celebrating again. The Nasdaq closed up 75 points from yesterday's close, I felt that I traded well, and I felt comfortable holding five positions overnight.

Open positions: 200 QQQ, 300 ORCL, 200 SUNW, 400 LOOK, 100 MSFT.  
Total profit for 3/23/00: \$454.46

### Day Four Lessons

Wait for a Breakout to pullback before buying.

You can trade an index tracking stock such as QQQ.

Never be afraid to buy back a stock which you have sold earlier at a lower price.

Do not chase stocks!

## CHAPTER

# 8

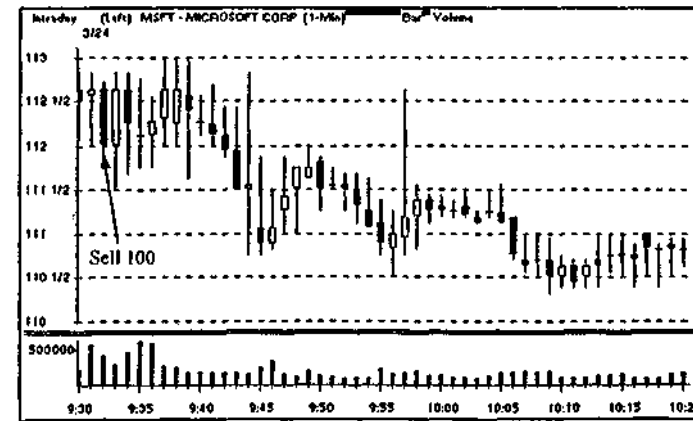
## Oakland Here I Come

### DAY FIVE

Friday, March 24, 2000

I slept real well last night even though I was holding five open positions. When I did my research last night, I was trying to determine how greedy I was going to be today. In my notes, I wrote down strategies for both a gap-up open and a gap-down open on any of my positions. If my positions are to enjoy the same momentum today that they did yesterday, I will simply place trailing stops. I did not study any new setups for potential entry this morning, because my basket was full. Instead, I evaluated each stock I owned in order to make things easy at the open. It is very challenging to manage five positions simultaneously, so I must follow the guidelines I have outlined in my plans for today.

I woke up extra early this morning, and I was pumped up for today's action. The Nasdaq looked strong early in the morning, as most of the stocks I held overnight were trading higher pre-market. MSFT was trading at 114 1/2. I placed a stop loss order on MSFT at 111 15/16.

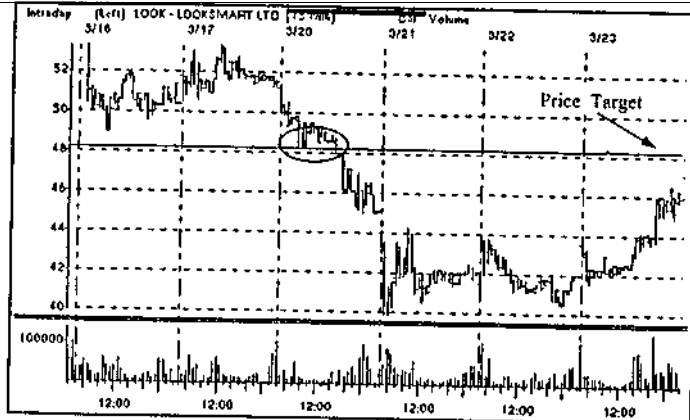


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of M&B Trading

MSFT opened for trading at 112 1/2, after it traded as high as 115 pre-market, and then tanked from there. My stop loss was triggered and I sold 100 shares at 111 15/16.

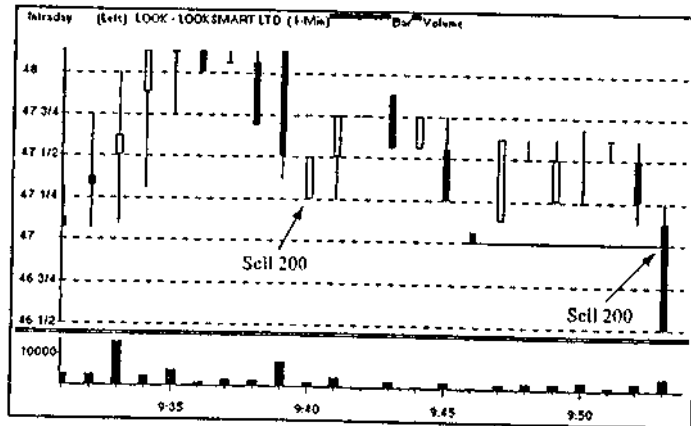


Source	Investment	Proceeds	MBT	P&L	Return
Constant List	11,206.25	11,187.50	10.38	-29.13	-0.26%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MI Trading

LOOK gapped up to 47 1/8. I placed a stop loss for 200 shares at 46 7/8 and I also placed a sell limit order for 200 shares at 48 1/4, which was my price target, as seen in the chart above.

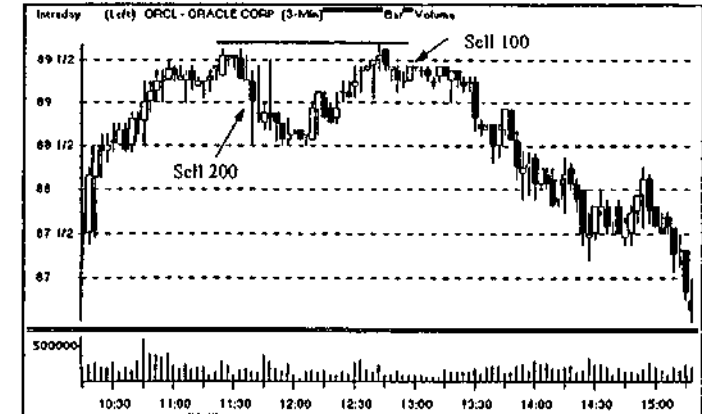


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MI Trading

The stock ran up and hit 48 1/8. It was trading there for about 3 minutes. I thought that my sell order at 48 1/4 was going to get executed for sure, but it didn't. The stock was being axed by an anonymous party using Instinct. The size on INCA (Instinct) kept refreshing. I cancelled my sell limit order at 48 1/4, and I sold 200 shares at 47 1/4. At 9:53, the stock broke down through 47, and my stop loss triggered. I sold the remaining 200 shares at 46 7/8.

Source	Investment	Proceeds	MBT	P&L	Return	
Pullback	Scan	18,187.50	18,825	27.14	610.36	3.36%

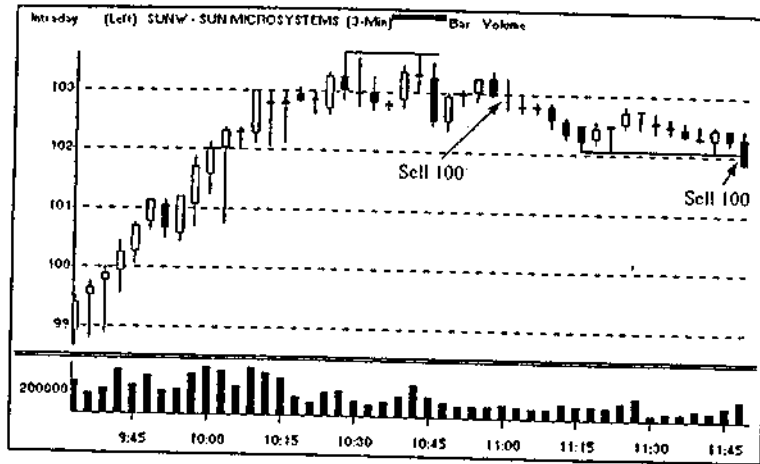
ORCL went up from 87 3/8 to 89 5/8. It was in all time high territory. I was trailing a stop on 200 shares, and as ORCL hit 89 1/2, I placed my stop at 88 15/16. The stock turned around and traded lower than 89. My stop was triggered, and I sold 200 shares at 88 15/16.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MI Trading

ORCL hit 88 1/2 and started to make another attempt to go higher. It traded as high as 89 11/16 before turning back down. SBSH was the Ax. He was selling it all the way to the top, and he down-ticked his offering price on the way down. I decided to sell. I sold my remaining 100 shares at 89 3/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	26,147	26,725	20.65	557.35	2.13%

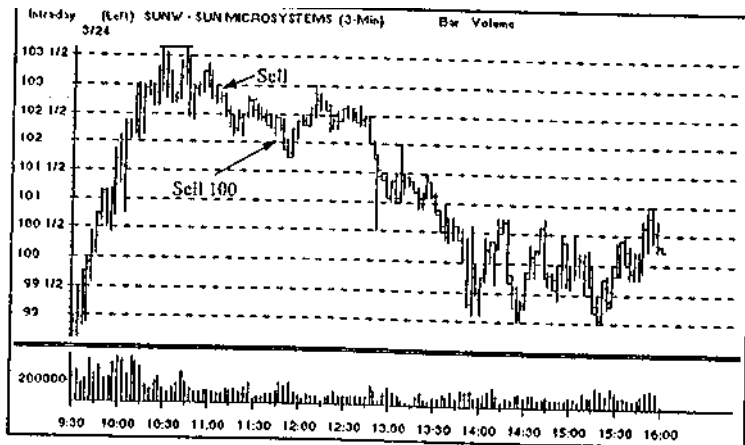


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

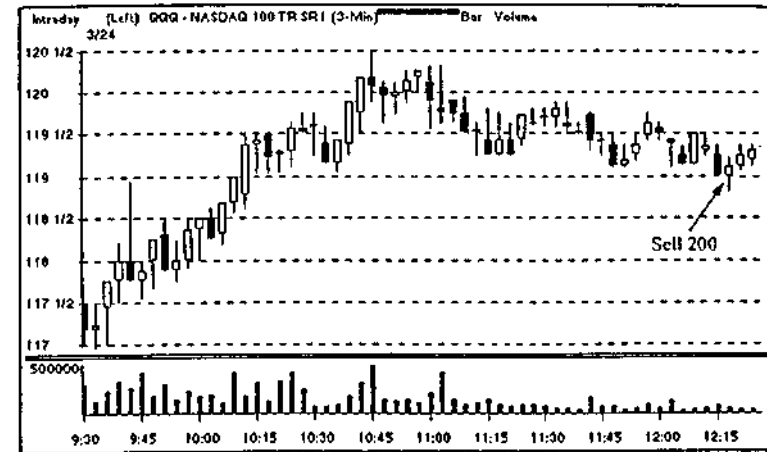
SUNW ran from 99 to 103 5/8 where it lopped. It came down a little and then rose to attempt a breakout above that price level, but failed to do so. It looked like a double (op had formed, so I sold 100 shares at 102 7/8. SUNW traded down to 102 1/8 and bounced back up to 102 3/4. I placed a stop loss for the remaining 100 shares at 102. The reason I placed it at that mild support level was that if SUNW was to break down, it would suggest a trend reversal confirmed by lower highs and lower lows. The stock penetrated through 102 1/8 and my stop was triggered. I sold 100 shares at 102.

Source	Investment	Proceeds	MBT	P&L	Return
Conslml List	19,975	20,487.50	15.69	496.81	2.49%

SUNW sold off and went as low as 99 as seen in the chart below.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

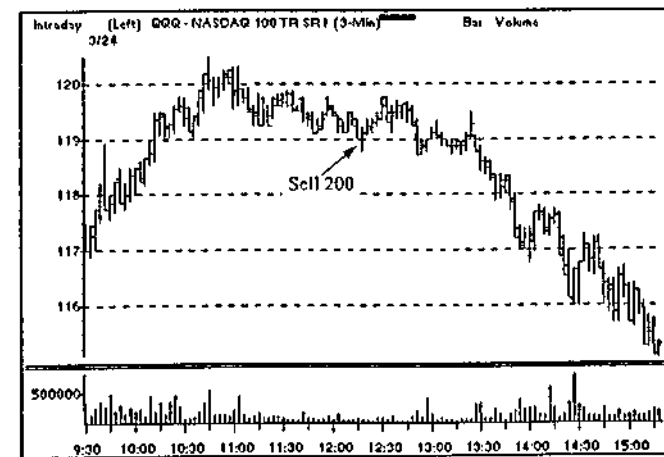


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

QQQ topped at 120 1/2 and started trending down at a slow, sadistic pace. I placed a stop loss at 118 15/16. The stock went lower than 119 and triggered my stop loss. I sold 200 shares at 118 15/16.

Source	Investment	Proceeds	MBT	P&L	Return
Market Play	23,250	23,787.50	10.80	526.70	2.26%

The Market sold off hard as seen in the QQQ chart below.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The final bell rang, and the bulls managed a small victory. The Nasdaq closed up 22 points from yesterday's close. However, the Nasdaq seemed to have topped out as it closed 115 points off the day's high and 23 points below the open. It had a reversal day, which was a sign of weakness. I didn't like this weakness, so J did not enter any new long positions.

Open positions: None  
Total profit for 3/24/00: \$2,162.09

The first week of the challenge was over. It was a great week in which I was able to capitalize on many of the opportunities presented to me. I started the week sitting tight on the sidelines without executing one trade for the entire day. I think this was the key point for the success I have had this week. My total profits for week one were \$5,476.19. I faxed MB Trading a request for a check in the amount of \$5,000.00. After all, Friday is payday!

Southwest Securities 1101 Elm St. Suite 3510 Dallas, TX 75270		SIPC	""	209490
		DATE:		AMOUNT
Pay To				.....
TONY OZ				_____
LACUNA HILLS, CA 92654				

The reason I like to order checks rather than electronic transfers of any kind is because I get to see something that represents a reward for my hard work. It also makes my "better half" very happy when she opens the mail. I have also found it to be very encouraging on those days when I am struggling. Let's say I had a very bad day, and I lost a few thousand in the market. When I check my mail that evening, I find a check for a few thousand that I ordered last week. This puts a smile on my face and helps me get ready for the next trading day.

After I ordered my paycheck from MB Trading, I made my way to John Wayne Airport to catch a plane. I was going to attend the Online Trading Expo, which was taking place in Oakland this weekend.

## DayEightLessons

Hold only as many positions as you can manage effectively

Manage multiple positions with trailing stops.

Do not look to enter new positions when your basket is

Sell when things don't look right;

Friday is a payday, don't you forget that!

# CHAPTER 9

## Learning from Beginner Traders

### DAY SIX

Monday, March 27, 2000

I returned from Oakland late on Sunday night, and I was very tired; however, I wanted to write a summary of the most valuable things I have learned at the conference. On Friday night, I attended the reception party given by the host of the event. I sat at a table with six other individuals, who were discussing trading methodologies. I soon found myself participating in a round table conversation, or should I say debate. The beauty of the debate was that there were green traders at the table, professional traders, and trader wannabes.

One of the traders was telling us how he has been writing naked put options, successfully. This got my attention very quickly. Anytime I hear this strategy, I quiver. I remember stories of those who lost all they had, and then some, using this technique. When someone writes (sells) a naked put option, he commits to buy the stock at a certain price, over a certain period of time, from the person who buys this option. He receives a premium payment upfront for entering this contract. Let's try to simplify it.

XYZ is trading at \$150. Using the above strategy, I can give someone the option to sell me 1000 shares of XYZ anytime over the next two months at 150. For this right, the purchaser of this contract will pay me \$6.00 today. This will be my profit (maximum reward). This strategy is very bullish and extremely risky. My trading philosophy is to always manage risk properly. The first thing I take into consideration is what happens if things go wrong. The following table will illustrate the risk and reward for this trade.

How much money will I make or lose if XYZ traded at the following prices two months from now.

50	70	90	110	130	150	170	190	210	230	250
-95K	-75K	-55K	-35K	-15K	+6K	+6K	+6K	+6K	+6K	+6K

As you can see, my reward is limited to \$6,000. My risk is not limited, and I can lose a lot of money if something went wrong. This is not what I look for in a trade. I'd like to capture a great reward when I am right, and I'd like to

lose the minimal amount when I am wrong. There isn't one right way to trade, and I don't discourage anyone from trading the way they like to; however, what made this debate so unique was the fact that I felt the trader who was using this strategy did not really understand the risk he was taking. And I wasn't alone on this one.

The argument about selling naked options started a discussion about risk management, which I felt was very valuable, especially, because we were discussing risks that are sometime out of our control. How can we be prepared for power outages, network downtime, slow Internet connection, etc., were the questions we were trying to answer. These are the behind-the-scenes risks of doing business on the net that everyone should be aware of. You could write more than a handful of books on the various subjects that were discussed at the conference.

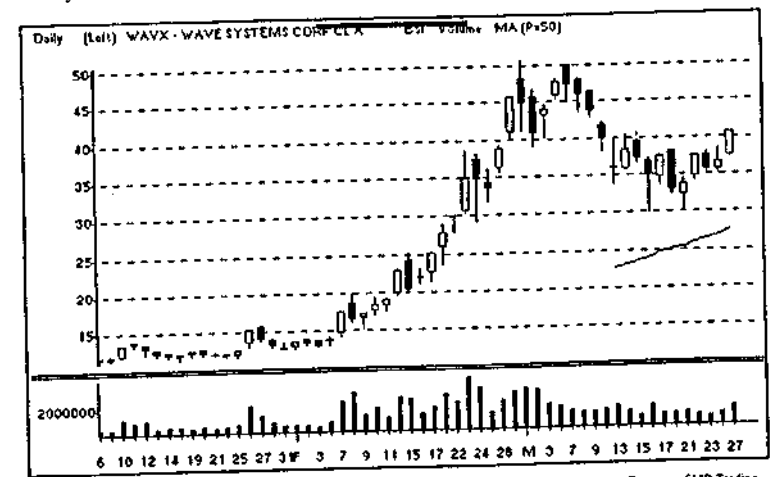
Now, that I was home, much of the information I gathered in Oakland started to sink in. I was very concerned with much of what I saw at the show. There were many traders who were going to take on Wall Street with inferior tools, little knowledge, and a lot of money to lose, and no one was going to stop them from doing so. I don't know if it is a special quality or simple human nature, but these soon-to-be traders believe they know better than everyone else, and they are going to prove to the world they have what it takes to break the code to the Wall Street vault.

The reason I am bringing this up is because, what I am presenting in this book in an easy-to-understand way, is much more complex in real life, especially, if you have not experienced any of the pain that stock trading via the Internet inflicts. I don't want to deceive you and make you believe that it is easy. It is not. It is, however, doable! That is what I hope to be able to show in this book. I need to be able to trade as well as I did last week over the next three weeks in order to do so.

Beep! Beep! Beep! My alarm clock goes off. It is 4:45 AM and time to get up. I was so tired that I couldn't open my eyes. I hit the snooze button, trying to steal another six minutes of sleep. Beep! Beep! Beep! I hit the snooze button again. Another six minutes go by, and the alarm clock goes off again. It was one of those mornings where I had a million-mile-an-hour argument in my head, where I would list all the pros and cons to determine if I should get out of bed or sleep in. This, of course, happens almost every morning that I am not holding positions overnight. When I don't hold any positions overnight, turning on the TV in the bedroom will be the first step in getting up. I turn the TV on, and I jump back into bed. I raise the pillows somewhat and put on my glasses. My eyes are still shut. The alarm clock is still in

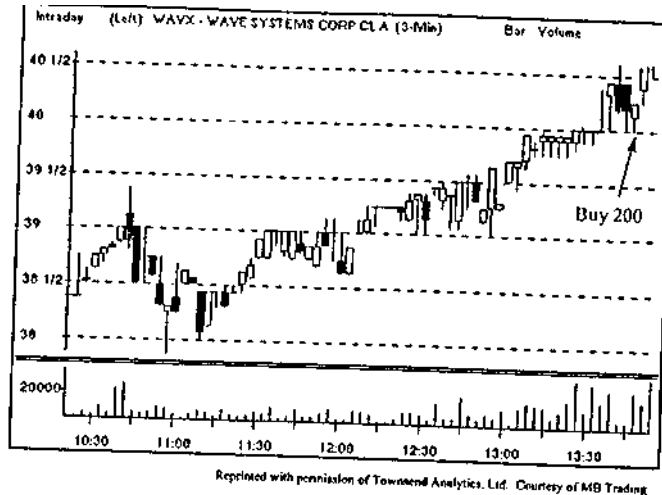
snooze mode in case I fall into deep sleep again. I hold the alarm clock in the palm of my hand with my thumb on the snooze button. It takes me a fraction of a second to press the button should the alarm go off again. Every once in a while, I will open one eye and take a quick peek at Mark Haincs, Joe Kernan, David Faber, and the ticker that runs at the bottom of the screen on CNBC. This process repeats itself for the next 20-30 minutes until I finally get out of bed; however, there are days, like today, in which I will stay in my cozy warm bed for a longer (much longer) period of time. The cons win the argument today, and I am sleeping in. I turned the alarm off.

It was 8:30 AM PST, when I finally woke up. The market had been open for two hours already, and I didn't care. I made my way to the bathroom and took an extra long shower. What a luxury. Another hour went by, and I finally made it upstairs to my trading desk. I started Real Tick III and my scanning program. I was catching up to what I have missed over the last three hours. I was very relaxed, and I was waiting for a good setup to show up on my scan.



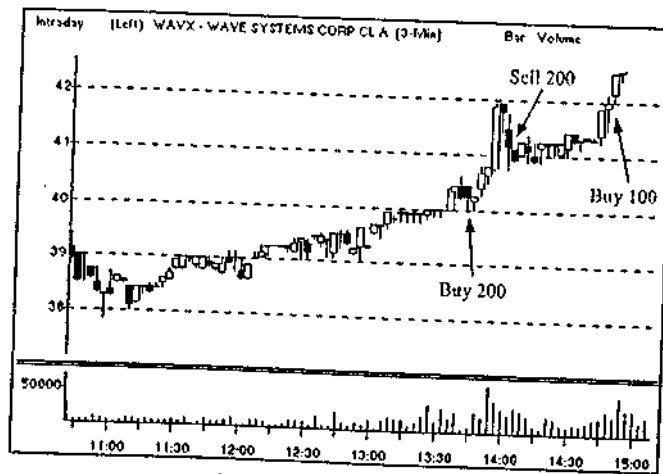
WAVX was the sniper's first target of the day. It showed up on my Power Scan. The stock had a nice run from 12 in February, and it topped at 50 3/4 on 3/1/00. It then traded down to 39, where it bounced. It made another run at the high and topped at 50, testing the top again on 3/7/00. Once it failed to make a new high, the stock sold off and went down to 30 on 3/16/00, where it found support. The stock traded back up to 38 3/16 on 3/18/00. The following day, it traded back down to 30, which was the price level that held on the 16th. The stock held that price level again and traded back up. The two tops at 50 suggested a double top pattern, which was confirmed. The two

bottoms set at 30 were a positive sign of good support. The resistance level is at 38 1/4. If the stock is able to trade higher than that level, it should test 40, where resistance should be stronger. If the stock can penetrate that level, then it should try and test the highs at 50.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

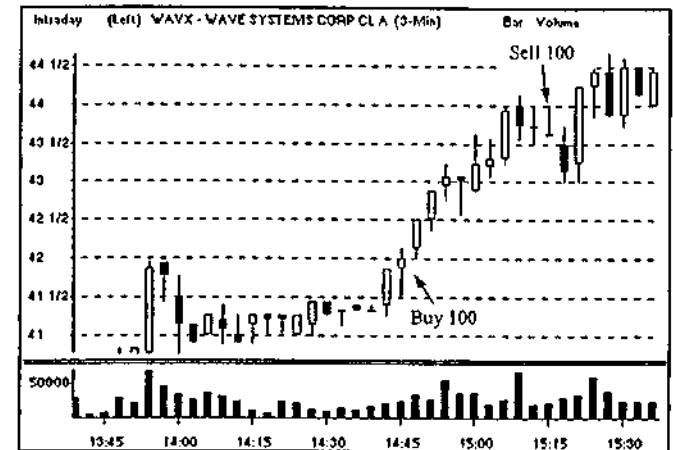
WAVX traded over the 40 level as it broke out from an ascending triangle. It traded as high as 40 5/8 and pulled back on relatively low volume. I bought 200 shares at 40 1/8. I placed a stop loss at 39 5/8. My price target was 42 -45.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

WAVX went as high as 42 then sold off quickly. I sold 200 shares at 41 3/16. The stock found good support at the 41 level, consolidated and started to move back up. I tried to buy 200 shares again, but only got 100 shares filled at 41 7/8.

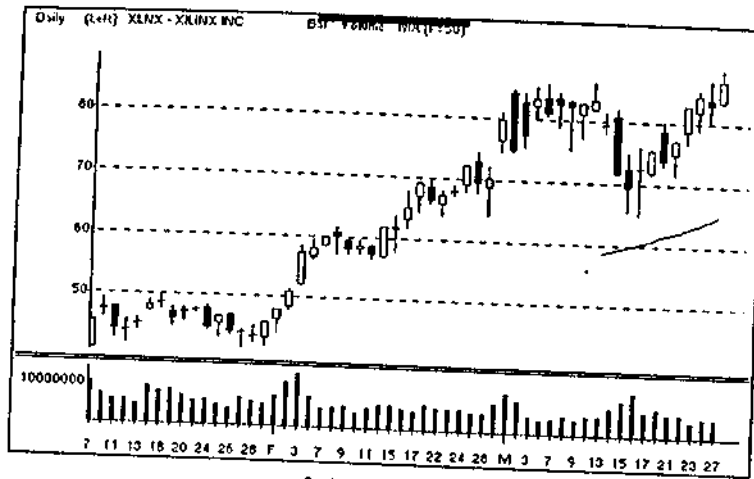
Source	Investment	Proceeds	MBT	P&L	Return
Power Scan	8,025	8,237.50	10.28	202.22	2.52%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

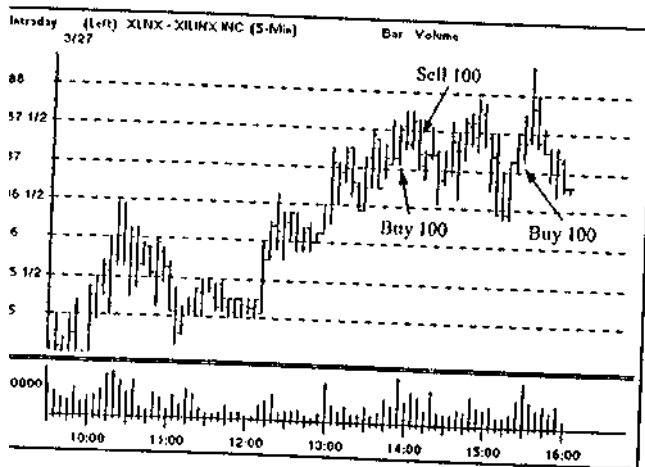
WAVX broke out over 42. I tried to add to my position, but the stock was very strong, and I couldn't get a fill. The stock hit 44 3/16 and was having problems there. It kept banging its head against 44 for the next 11 minutes, so I decided to sell. I sold 100 shares at 43 15/16, and I entered a buy order for 200 shares at 42 3/16, where it would sit on the ISLD ECN, waiting for a pullback to occur down to the point of the original breakout.

Source	Investment	Proceeds	MIJI	P&L	Return
Power Scan	4,187.5	4393.75	10.15	196.10	4.68%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

XLNX showed up on my 52-Week High Scan. It had been moving up nicely over (the last eight days). I was looking to capitalize on continued strength in the stock.

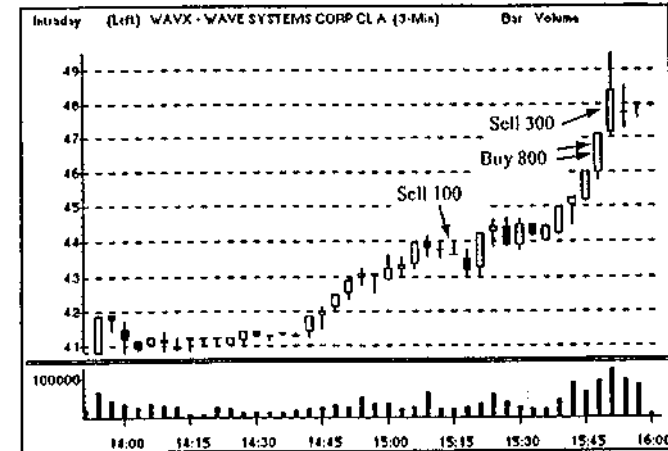


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I bought 100 shares of XLNX at 87 1/4. The stock went as high as 87 11/16. *BEST* was the Ax, and he was not letting it go any higher. I sold 100 shares at 87 7/16. The stock went down to 86 7/16 and traded backup. I bought 100 shares at 87 1/16 and decided to hold it overnight.

Source	Investment	Proceeds	MBT	P&L	Return
52-week High	8,225	8,243.75	10.30	8.45	0.1%

My love affair with WAVX was not over. The stock wouldn't trade back down to 42 3/16, and was actually very strong. I entered a stop buy order for 200 shares at 45 1/4.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

WAVX broke out over 45 1/4, and my stop buy was activated. The volume increased drastically, and I was having problems getting a fill. The stock was flying! I wanted to get into the stock badly enough that I decided to cancel my buy stop order. Then, I sent out a SelectNet Preference order, out-of-market. I sent out three orders in rapid succession for 200 shares each at 46 13/16. I got 200 shares at 46 13/16 from one Market Maker, another 200 shares at 46 13/16 from a second Market Maker, and yet another 200 shares from ISLD at 46.86. Now I had 600 shares. About 30 seconds went by, and the stock was trading at 48. It was a wild ride, and in the midst of all the frenzy, I didn't realize that my stop-buy order, which I tried to cancel, was still open. Before I could sneeze, I got a confirmation that my order for 200 shares was filled at 46 5/8. This is not very common, but in fast moving markets, it's very possible to get delayed confirmations. Since my stop buy order was on ARCA, cancellations can take a while, because ARCA breaks down the order and preferences Market Makers, who hang on to the order for 30 seconds and sometimes longer. Since I only wanted 600 shares, and the stock was at 48, as soon as I realized I had more shares than I wanted, I entered a sell order for 300 shares. I got a fill at 47 3/4.

Source	Investment	Proceeds	MBT	P&L	Return
Power Scan	14,006.25	14,325	10.30	308.45	2.20%

The market closed, and WAVX was moving higher in after-hours trading. I decided to sell another 100 shares to manage risk more effectively. I expected WAVX to take the 50 3/4 top out tomorrow, based on the strong momentum it had today. However, I wanted to lock in more profits, so I sold 100 shares at 49 11/16.

Source	Investment	Proceeds	MBT	P&L	Return
Power Scan	4,681.25	4,968.75	10.75	276.75	5.91%

The market was mixed today, but the bears were showing more teeth. The Nasdaq lost four points since Friday's close. I wasn't so crazy about the market overall, but I did like the two stocks I was in.

Open positions: 100 XLNX, 400 WAVX.  
Total profit for 3/27/2000: \$991.97

### Day Six Lessons

Learn all the behind-the-scenes risks.

Interaction with other traders can be very beneficial.

Selling naked options is very risky.

There is nothing wrong with sleeping in if you have no open positions.

# CHAPTER **to**

## When the Guru Speaks, We Should All Listen

### DAY SEVEN

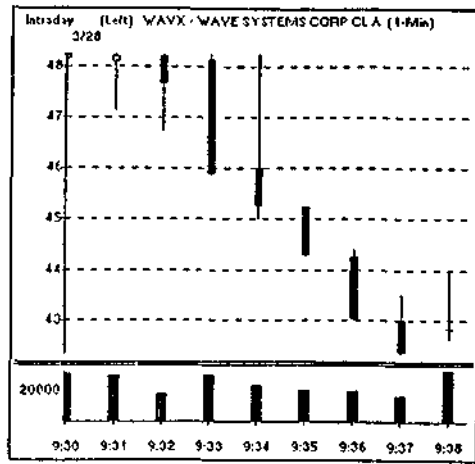
Tuesday, March 28, 2000

I had no problem getting out of bed this morning. In fact, I was looking forward to the opening of the stock market. I turned off my alarm as soon as it went off, and jumped into the shower. I took a quick shower this morning as I was anxious to get to my trading desk, and watch the pre-market action on my overnight positions, WAVX and XLNX. I turned on the computer and saw that trades on WAVX were taking place north of 50. It is going to be a great day, I thought to myself. I then turned on the TV and noticed that the futures were trading down sharply. This was a warning sign. The reason they were trading down was because Abbey Joseph Cohen from Goldman Sachs recommended that investors reduce their asset allocation to stocks from 70% down to 65%. The Guru who has been famously bullish on the market is recommending a reduction of exposure to stocks. This was not a good sign at all.

WAVX started to trade down, and I sold 400 shares pre-market at 49 1/8. My reasoning was that the market will be weak at the open, because those who cannot sell pre-market will have their market sell order go live at the opening bell. This will create selling pressure, which will also trigger many stop loss orders. I call it the domino effect. I was not going to take that risk. I had profit in the trade, and I took it.

As you can see on the chart on the next page, when WAVX finally opened for trading, the first trade took place at 48 1/8. The stock then tanked really hard, and it went all the way down to 42 in seven minutes. It would have been impossible to get out at a decent price had I waited for the open. My analysis was right on the money. It was nothing more than common sense.

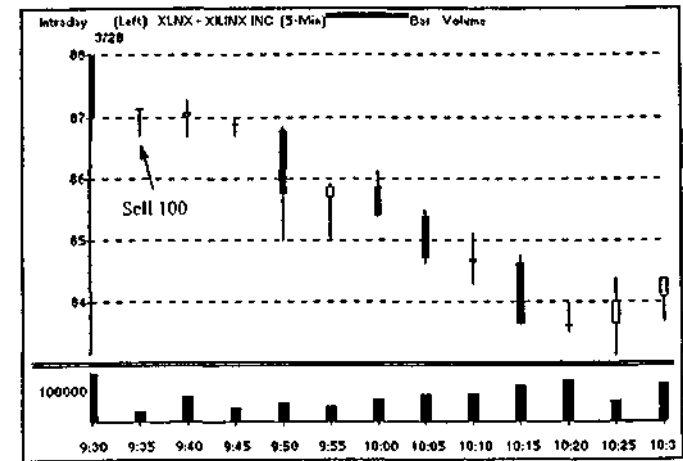




Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

Although it sounds like common sense to me today, I didn't understand this concept in the past. The reason was that I was often in love with a stock or with the setup I was trading. I just "knew" the stock was going to make a big move, and that I was going to make a killing on it. I would be counting the money and spending it before the market would even open. This was my subjective point of view, where the obvious is disregarded. However, after I paid my tuition, I learned a few valuable lessons, and one of them was to always analyze my positions and the market in an objective way. I would let the market guide me regarding what it wants to do, rather than me trying to dictate to the market what to do.

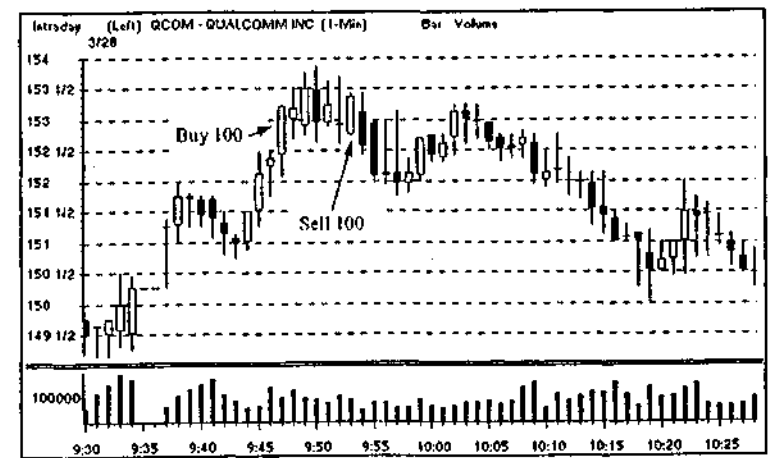
Source	Investment	Proceeds	MUT	P&L	Return
Power Scan	18,738	19,650	31.54	880.46	4.70%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I was so preoccupied with managing the risk on my 400 share position of WAVX that I was not paying too much attention to XLNX. As soon as it opened, however, I entered a sell order, and was able to get out of my 100 shares at 86 3/4.

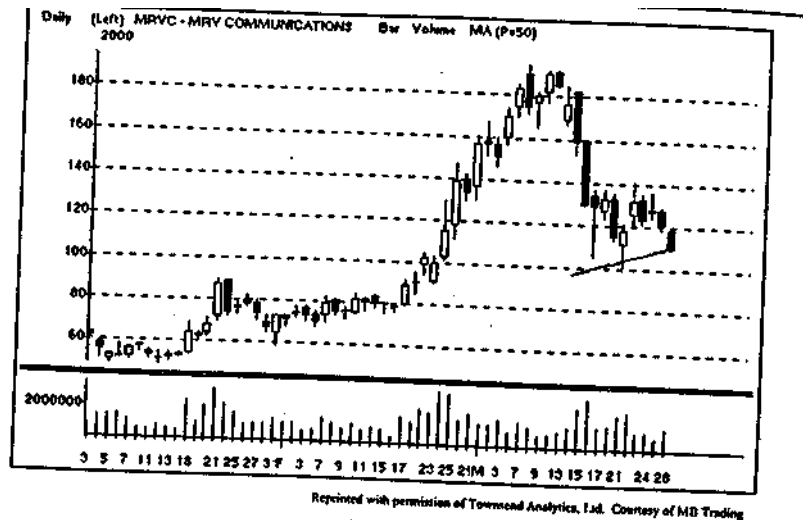
Source	Investment	Proceeds	MBT	P&L	Return
52-Week High	8,706.25	8675	10.29	-41.54	-0.48%



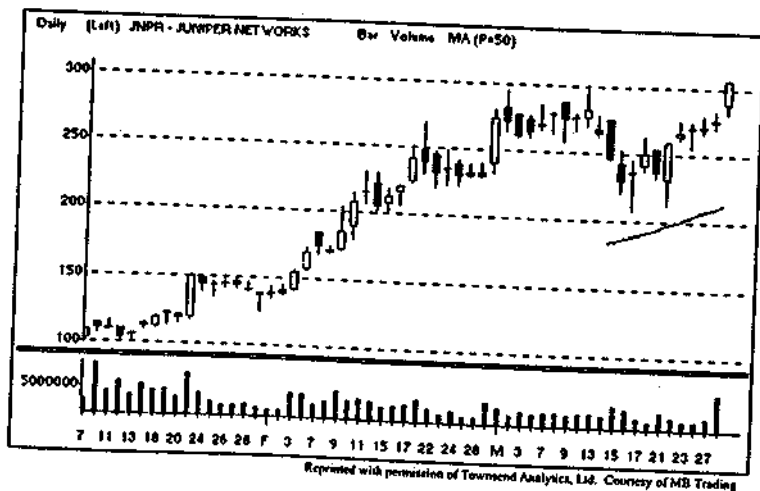
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I was watching my Constant watch list and noticed that QCOM had a strong showing this morning. I bought 100 shares at 152 15/16. The stock went as high as 153 7/8 and pulled back. My price target was 160; however, the market was weak, so as QCOM traded down, I sold it at 152 11/16.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	15,293.75	15,268.75	10.51	-35.51	-0.23%



I couldn't resist a great setup when I noticed MRVC sitting at its 50-day moving average. I tried to buy 100 shares but got a partial fill of 50 shares at 110 1/2. I bought an additional 100 shares at 110 7/8. My price target was 118 - 140, and my stop loss was placed at 108 7/8, 1/4 below today's low.



JNPR had a strong day. It broke out to a 52-week high on this day.

times during the day at intraday support levels; however, I was never successful in getting a fill. JNPR was closing the day on a strong note, and I bought 100 shares at 307 23/32. The stock closed at 307.

JNPR now trading higher after-hours. Trades were going by at 312. I entered a sell order at 314 15/16 on the Island ECN and went to the dentist. My logic was that if I was going to be able to sell the stock almost eight points higher than its closing price, it wasn't worth taking the overnight risk. I can always buy it back the next morning if I still like it. While I was getting my teeth cleaned, someone bought my 100 shares, so I sold 100 shares at 314 15/16.

Source	Investment	Proceeds	MBT	P&L	Return
Power Scan	30,771.88	31,493.75	11.05	710.82	2.31%

The bears won the battle today. The Nasdaq lost 124 points from yesterday's close. I had a great day, because I got out of my WA-VX pre-market. I felt that my MRVC open position was very risky; however, I felt that my small relative position should not get me into a deep hole. But you never know what can happen the next morning ...

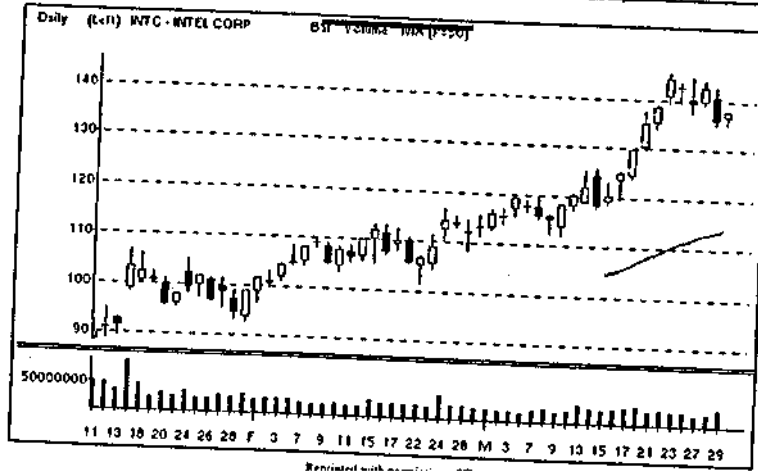
Open positions: 150 MRVC  
Total profit for 3/28/00: \$1,514.23

### Day Seven Lessons

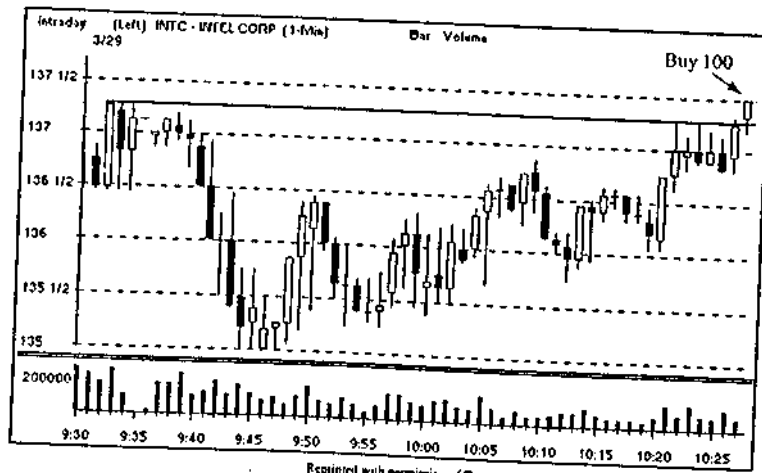
- Learn how to manage risk pre-market and after-hours.
- Let the market tell you what it wants to do.
- Be objective when you manage your positions.

can be time consuming, and very dangerous. Also, I can only enter a stop loss order in round lots on ARCA. I sold 50 Shares at 113 15/16. The stock traded as high as 115 3/4. I placed my stop loss at 113 1/2. The stock traded down through 113 1/2, and my stop was triggered. I wasn't able to get out of 100 shares until the price fell to 112 7/16.

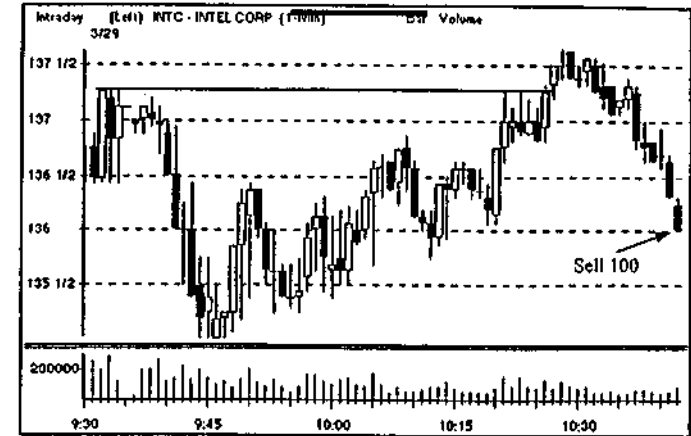
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	16,612.48	16,940.62	20.57	307.57	1.85%



INTC pulled back from its 52-wck high and found support around 135. It then traded higher, and was just about to breakout to a new intraday high.



The stock did break out successfully, so I bought 100 shares at 137 9/16.

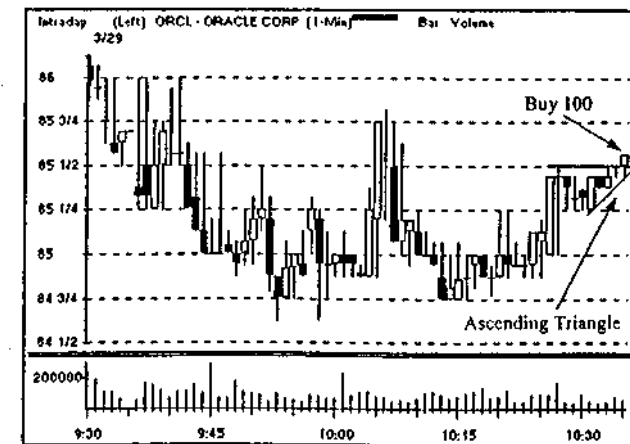


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

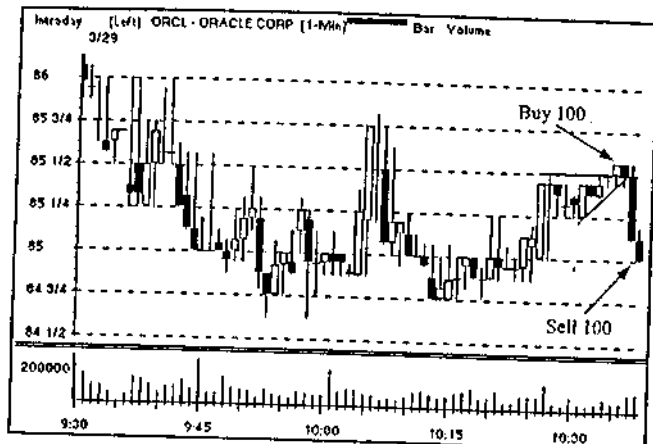
Yikes! How classic is this? I buy the high of a breakout and the stock tanks. My price target for INTC was 140, and my stop loss was placed at 136 1/2. The stock traded down to 136 1/2, and my stop loss was triggered. I sold 100 shares at 136.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	17,756.25	17,600	10.46	-166.71	-0.94%

While I was in INTC, ORCL was breaking out of an ascending triangle. The pattern earlier looked like a double bottom around 84 3/4, and a trend reversal with a possible test of 86, and maybe even a breakout passing 86 1/8 to an intraday high. I bought ORCL at 85 1/2, placing a stop loss at 85 1/8.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading



It looks like it is going to be a very long day. ORCL pulled back and my stop loss triggered. I sold 100 shares at 85.

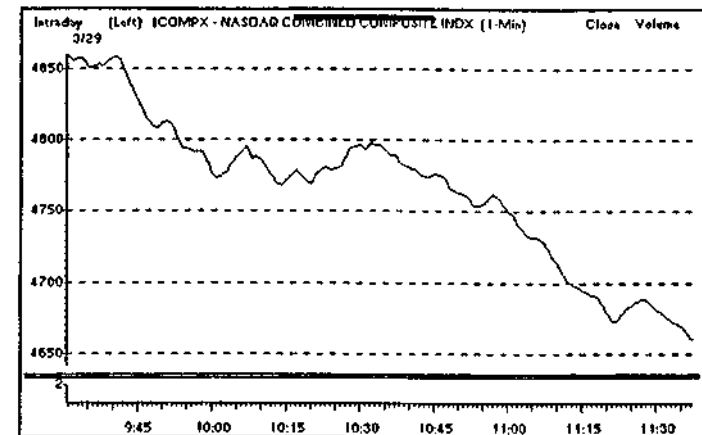
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	8,550	8,500	10.29	-60.29	-0.70%

It wasn't like I was losing a lot of money, but it certainly felt that way. I was making all these breakout plays, and I was getting slapped. I was very upset, and the market was starting to look very ugly, so I took a little break.

I wanted a breath of fresh air, so I went out on the balcony. We live on top of the mountain overlooking the saddleback valley. Things are so peaceful when you are up high enough. I can see all the cars on the main streets, yet I can't really hear them. Once in a while, I will hear the kids playing at the school down the mountain. On a clear winter day, I can see snow on top of the San Bernardino mountains, which are more than sixty miles away, and on the 4th of July, I can see fireworks go off in as many as 11 different places. I have spent many crucial moments in my trading career right here on this balcony.

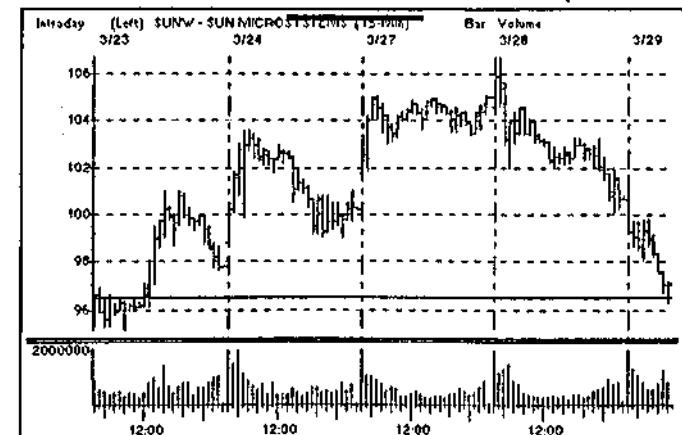
When I feel like I am struggling, yet, I feel there is a good opportunity to make money in the market, I take a break. I go downstairs to our balcony and try to regroup. While standing on my balcony, I close my eyes and listen to the sounds coming across from various places. Sometimes I hear the kids playing, sometimes I hear a big truck, sometime the wind blowing through the pine trees, and sometimes, I hear the birds singing. I try to relax. I take a big deep breath, and I blow the air out slowly. I then tell myself,

"Tony! It is a great day. Put everything behind you. Go up there and take money out of the market!" I have found this method to be very powerful. It has worked really well for me on days when I held large positions overnight and something went wrong the next morning.



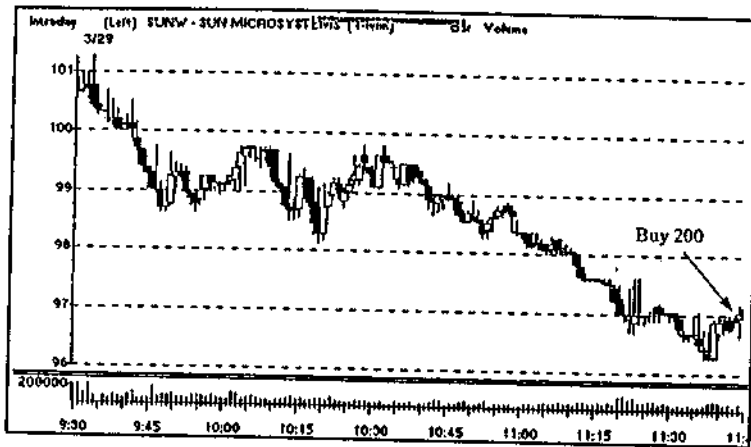
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I went back upstairs and went into shock, seeing what the Nasdaq was doing. It was down almost 200 points from the morning highs.



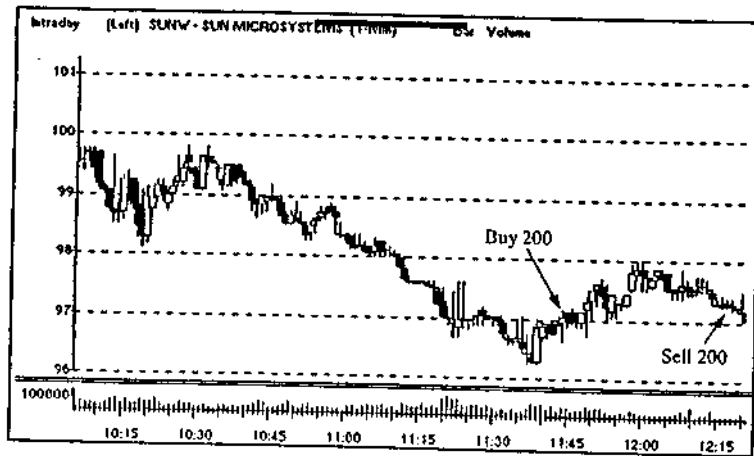
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I needed a low risk trade to get back on track, so I was looking for a possible trade at support levels. SLTNW was trading at support levels around 96 1/2, which was the top of the early morning trading range on 3/23/00.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

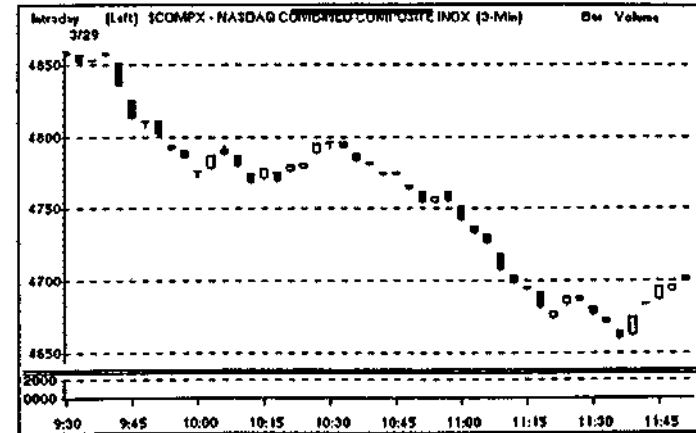
SUNW bottomed at 96 3/8 and started trading higher. I bought 100 shares at 96 15/16, and 100 shares at 96.93. I placed a stop loss at 96 1/4, which was just below today's low. My price target was 98 3/4 - 99 1/2.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

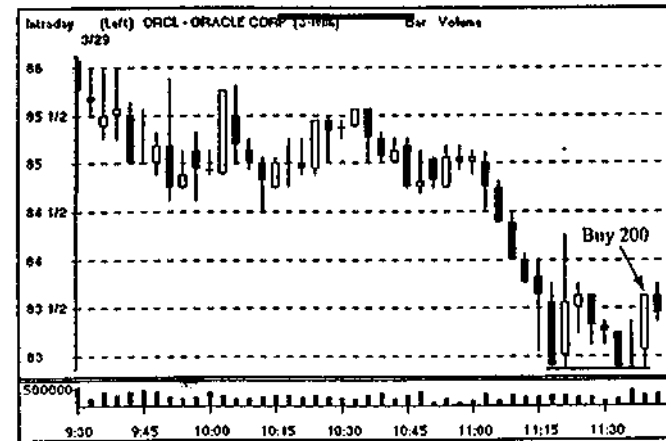
SUNW soon traded as high as 98. I raised my stop loss to 97 1/4. The stock turned back down and my stop was triggered. I sold 200 shares at 97 1/4.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	19,387.05	19,450	18.70	44.25	0.23%



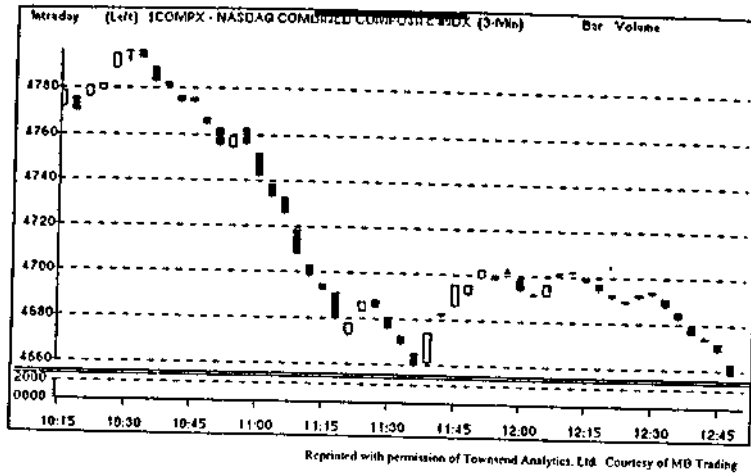
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The Nasdaq was trying to bounce and move over 4700, at which point I was looking at ORCL.

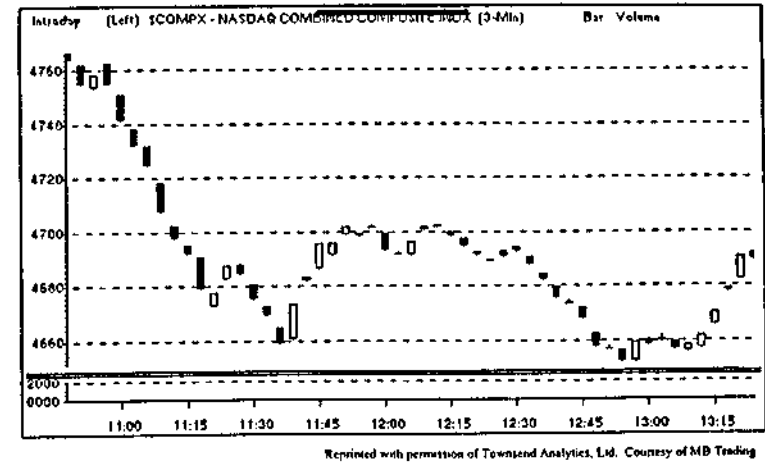


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

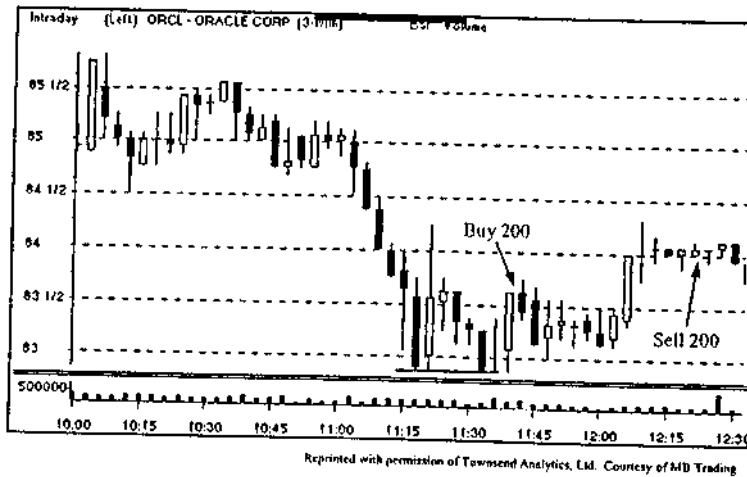
ORCL seemed to have found support at 82 3/4. It was in the process of confirming a double bottom pattern. I bought 200 shares at 83 21/32. I placed a stop loss at 82 11/16, which was just below the double bottom lows. My price target was 85 1/2.



After a feeble attempt at a rally, the Nasdaq turned down again and was on the way to test the previous lows at 4660.

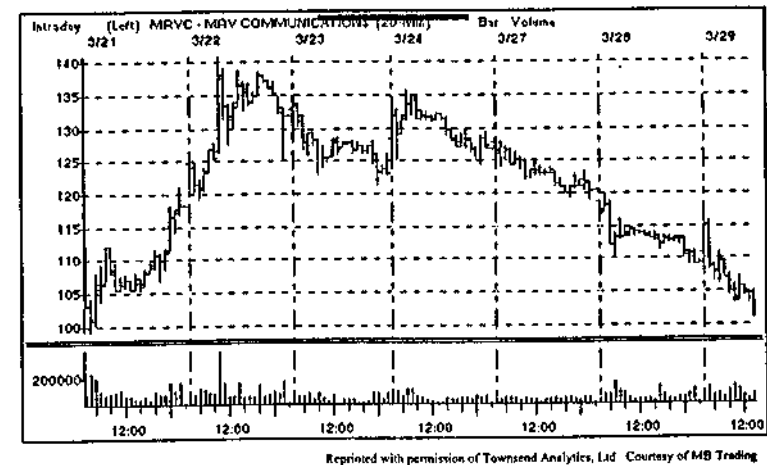


The Nasdaq made a slightly lower low at 12:50, and started moving back up. I was looking at MRVC for a possible bounce play.

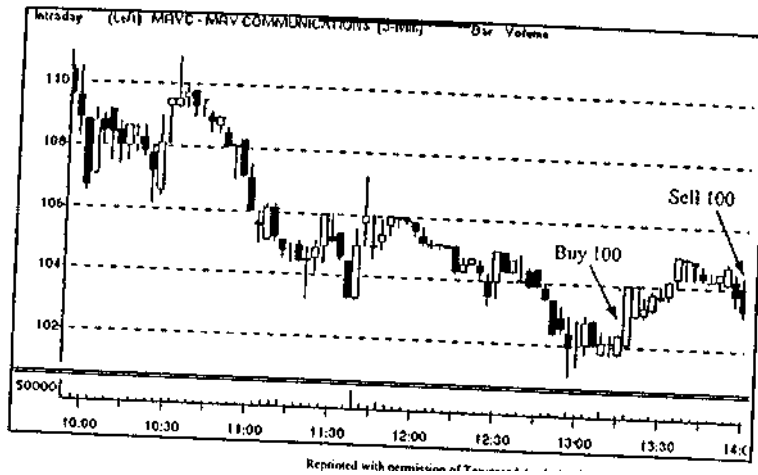


I was nervous about the weakness in the Nasdaq, so I sold 200 shares of ORCL at 84.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	16,731.25	16,800	10.56	58.19	0.35%

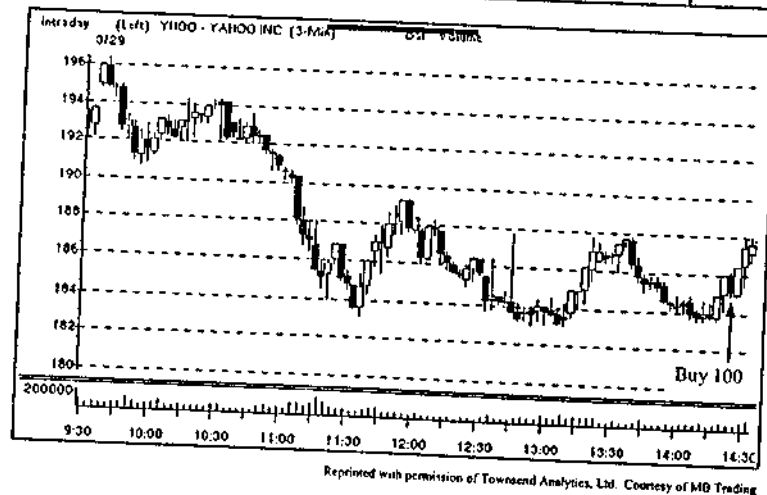


MRVC was trading around the lows made back on 3/21/00. It looked like it had good support at 100 or so.



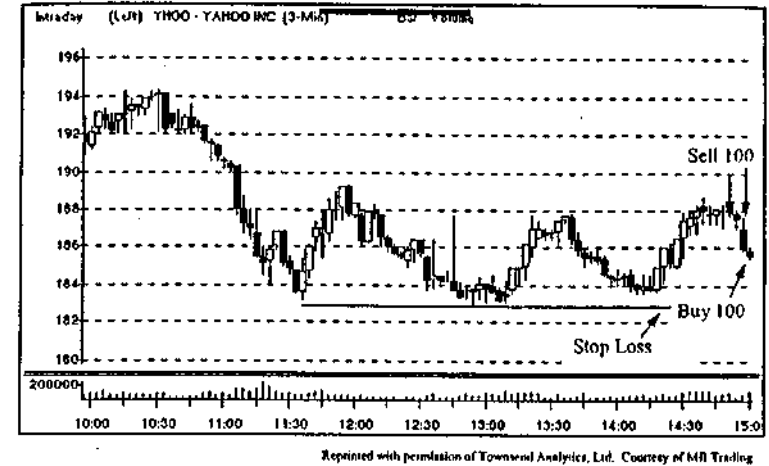
The stock had traded as low as 101, and after bouncing to around 102, was trading in a tight range for 15 minutes or so. The volume started to rise and the stock moved up a bit, so I bought 100 shares at 103. My price target was 106-108. I placed a stop loss at 101 7/8. The stock traded up to 105, but just couldn't make it any higher. It looked weak, so I sold 100 shares at 104 3/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	10,300	10,437.5	10.35	127.15	1.24%



YHOO held the 184 level and was trading in a tight trading range. I bought 100 shares at 185 1/2. My price target was 194-191 (the top at 10:30 and

the bottom at 10:00). I placed a stop loss at 183, just below today's low.



YHOO hit resistance at 188 3/4 and turned back down. I sold 100 shares at 187.67. I was looking to buy YHOO again if it pulled back. YHOO pulled back to 185 1/2, and I bought 100 shares again at 185 1/2.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	18,550	18,767	11.94	205.06	1.1%

While I was in the YHOO trade, I bought 100 SUNW at 97 1/2 and sold it at 993/16\*.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	9,750	9,918.75	10.34	158.41	1.62%

Although I had five winners in a row following my balcony-break, I wasn't making much money, and I still felt there was a struggle going on. I wanted to give my YHOO trade a chance. I saw that it was getting weak, and I was in the money, but I didn't move my stop loss up.

\*In the flurry of all the activity, the charts for this trade did not get captured, sorry.

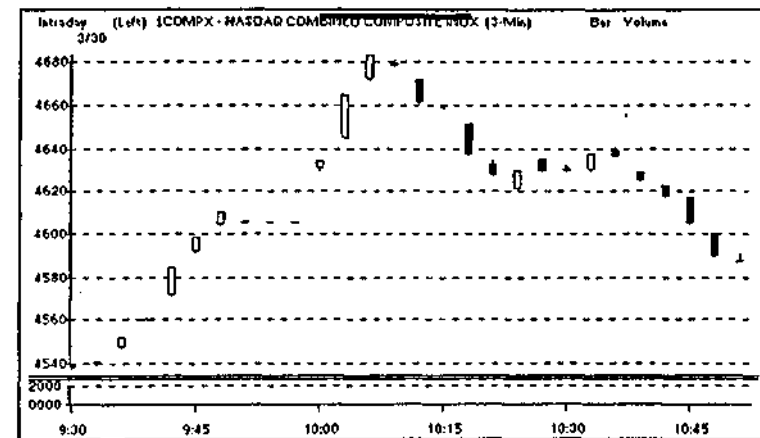




## DAY NINE

Thursday, March 30, 2000

Following the 189-point decline the Nasdaq had yesterday, the futures were indicating a very weak opening for the market. I wanted to take the day off, but I was thinking that I might find some bargains if I traded today. At the opening bell, the Nasdaq gapped down 109 points and opened at 4540, which was right at the 50-day moving average. It was down 10.6% from the intraday high it set on Day Five of this challenge. The Nasdaq is officially in correction territory, the fourth time this year.

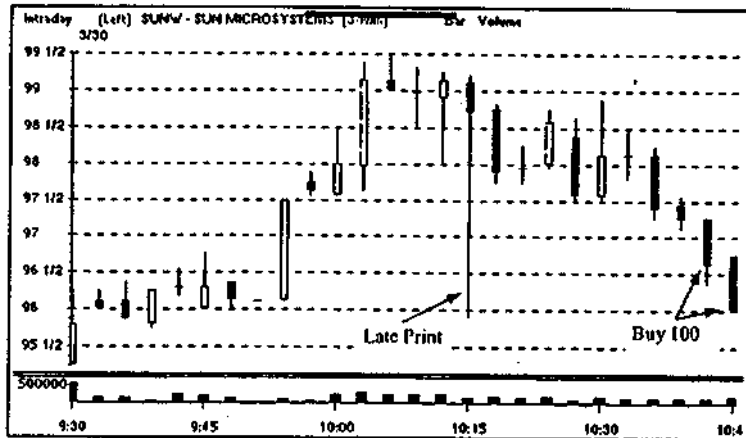


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

Bargain hunters were all over the place and the Nasdaq shot up more than 140 points in the first 35 minutes of trading on big volume. I tried to buy SUNW, ORCL, and CSCO, but they were flying, and I missed all entries. I decided not to chase any of the stocks. I was going to wait for a pullback.

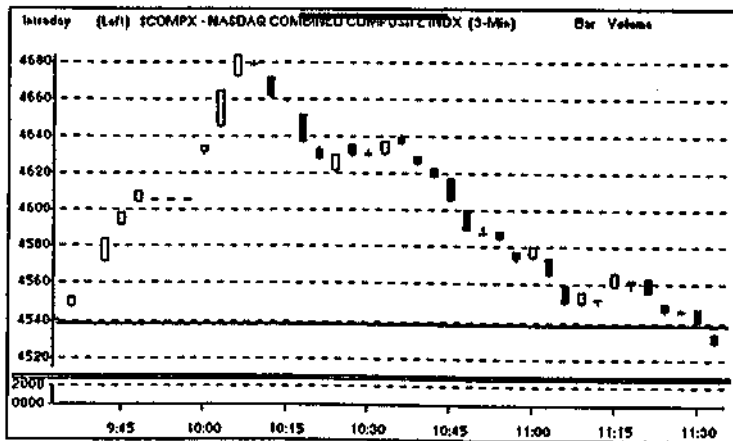
What took place next was very painful to watch. I saw a small fortune that could have been made, had I gotten those fills earlier, grow bigger and larger with every tick. I knew that the top was near, and I took my sniper position, waiting for the pullback. I had not yet gotten over my frustration, so I wasn't

as focused as I should have been. In hindsight, it would have been a perfect time to go out to my balcony and regroup. But, how could I? I was a ravenous animal smelling blood. I couldn't afford to miss my meal. I already did that once today.



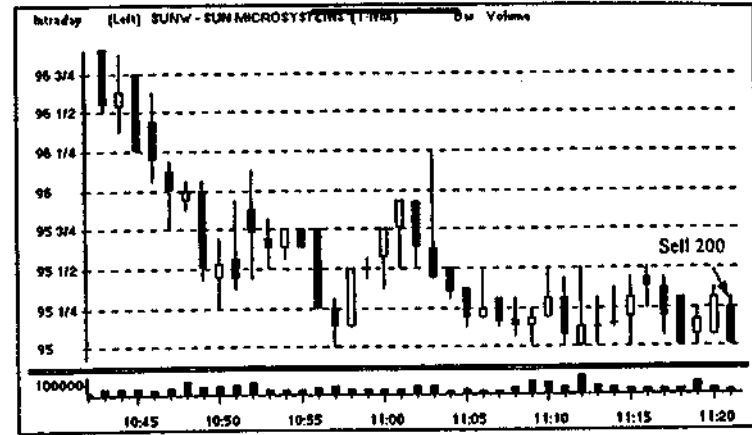
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I got the pullback I was looking for, and I bought 100 shares of SUNW at 96 11/16 and another 100 shares when it dropped lower to 96. I placed a stop loss at 94 15/16, which was below the 95 support level for the stock. My price target was the high of the day, 99 1/2.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

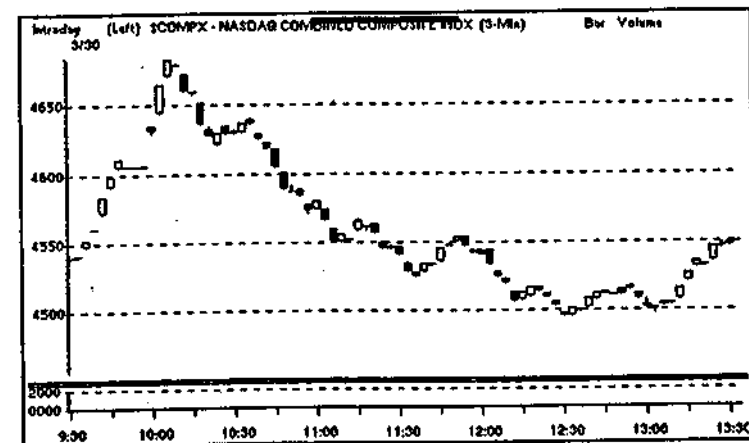
Oh, oh. The Nasdaq took out the low of the day, which indicated a reversal pattern. The street was once again flooded with sellers.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

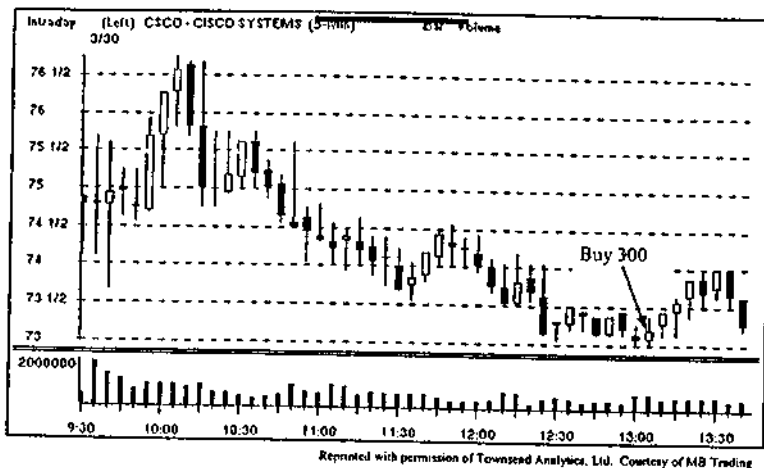
SUNW bounced at 95 numerous times. The support level was holding; however, with the Nasdaq breaking down, I was afraid SUNW was going to tank hard and that my stop at 94 15/16 could possibly not get executed until dropping to 94. I decided not to ignore the tape, and I sold 200 shares at 95 1/16.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	19268.75	19,012.50	15.64	-271.89	-1.41%

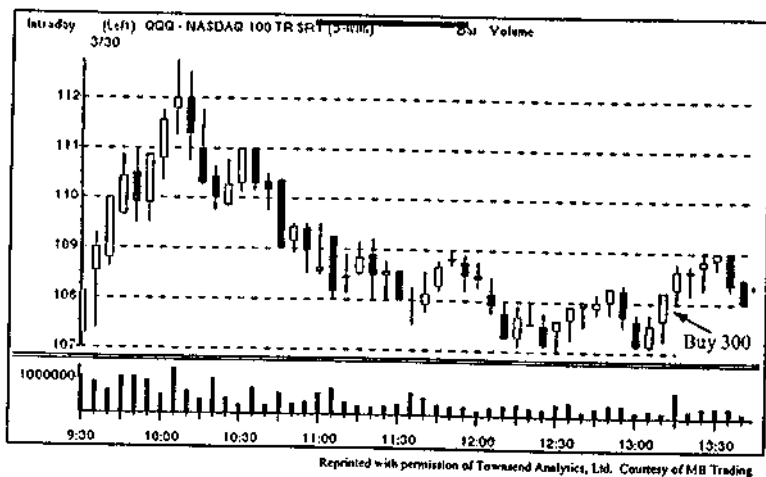


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

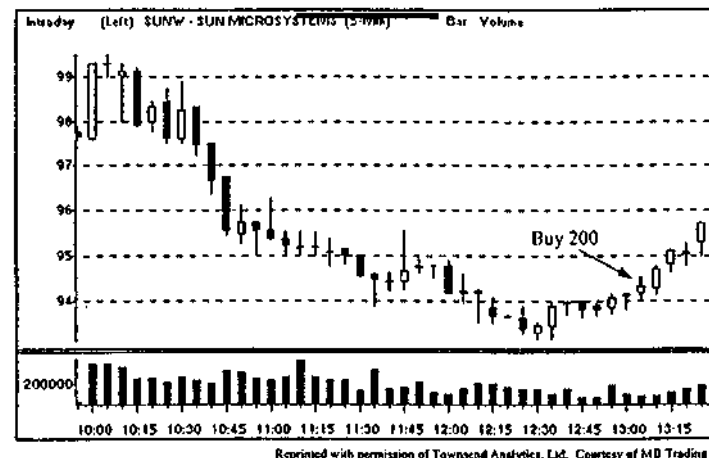
The Nasdaq kept declining and it found some support at 4500, where it formed a double bottom pattern. At about 1:15, it started to trade back up and was again at 4550.



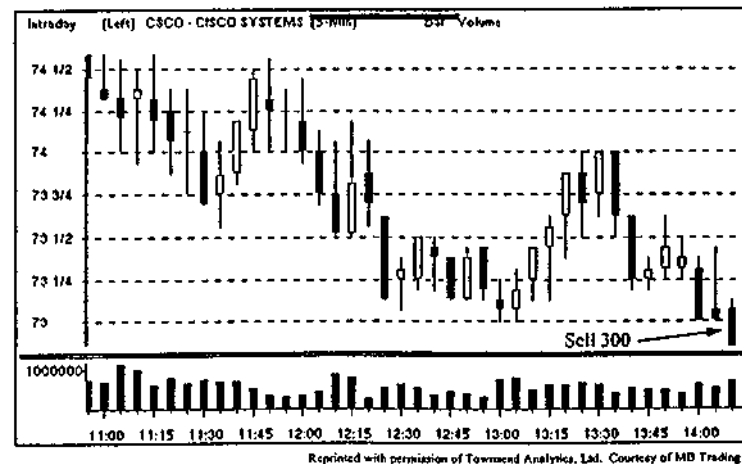
CSCO followed the same pattern and it bounced at 73. I bought 300 CSCO at 73 1/4. My price target was 75. I placed a stop loss at 72 15/16, which was just below the 73 support.



QQQ also had a double bottom pattern at 107. I entered a market order to buy 300 shares, and I got taken advantage of by the Specialist. I bought 300 shares at 107 7/8. If you have never traded QQQ before, you probably don't know how the Specialist will open the spread on the stock. And, it is almost impossible to try and split the spread, so a market order is almost the only way to get in. It is very common to see the spread at a point or more on the ASE specialist quote. I placed a stop loss at 116 7/8, which was below the 107 support level. My price target was 111.

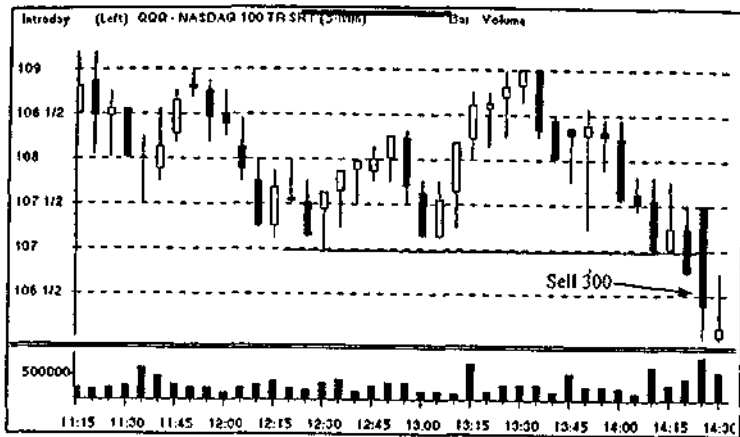


Whew! SUNW went as low as 93 after I sold it at 95 1/16. I was following it closely for a possible reentry. The stock started trading higher and I bought 200 shares at 94 1/2. I now had three open positions. I felt good being in my positions as they were all showing me some profit. My P&L was over \$800. I decided to let my positions wiggle. I had Jesse Livermore words in my head, "Men who can both be right and sit tight are uncommon." I felt that the market was oversold, and that I might have just bought the bottom. I was willing to bet my profits on that.



CSCO broke down and triggered my stop loss. I sold 300 shares at 72.94.

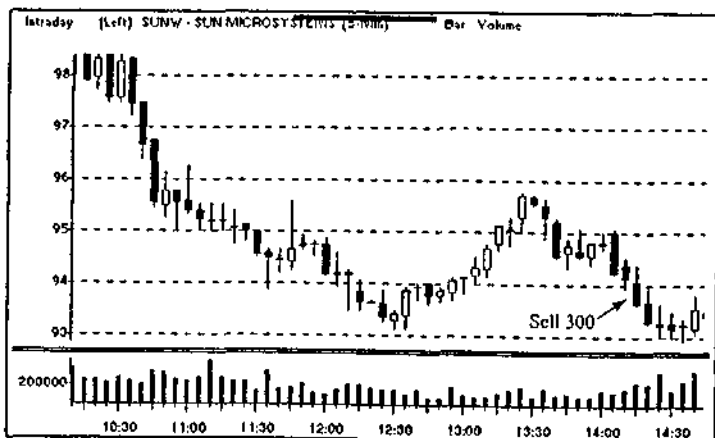
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	21,975	21,882	10.31	-103.31	-0.47%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

QQQ broke down as well, and I got taken advantage of again by the specialist on the execution of my stop loss. I sold 300 QQQ at 106 33/64.

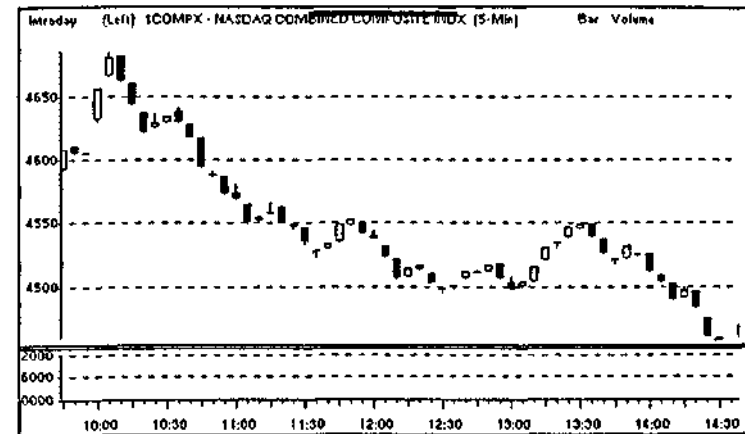
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	32,362.50	31,954.67	11.07	-418.88	-1.29%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

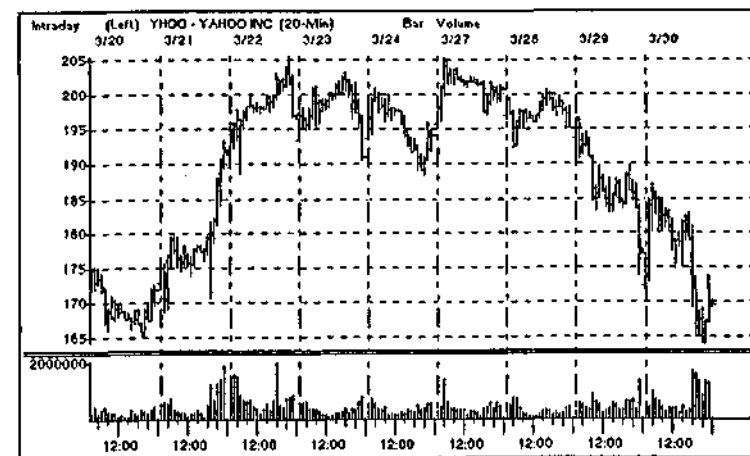
As the market disintegrated, my stop loss on SUNW was triggered as well. I sold 200 shares at 93 5/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	18,900	18,725	10.63	-185.63	-0.98%



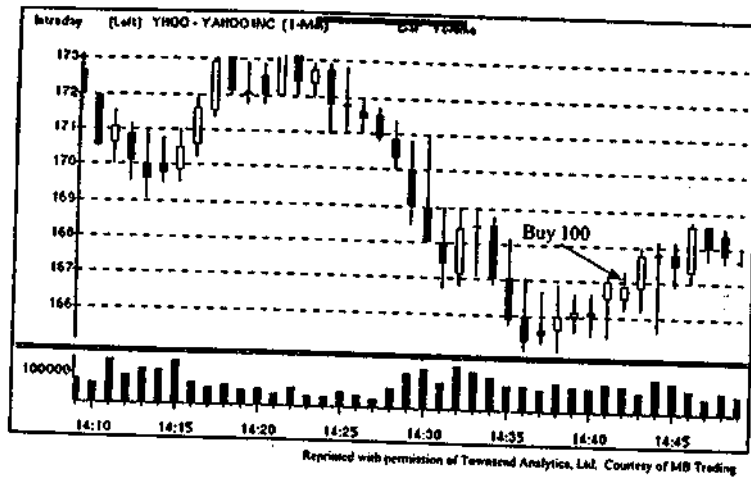
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The Nasdaq took out the low of the day, and I sold my positions for a total loss of \$708. I was thinking about Livermore's famous words again, "Men who can both be right and sit tight are uncommon." I was sitting tight, but I wasn't right. I was WRONG! I let an open profit of \$812 turn into \$708 loss. I went from having a profitable day to having a losing day. I wasn't very happy about that. I lost on each of the four trades I made today, so I needed a good trade to make a little bit of money to build my confidence back up.

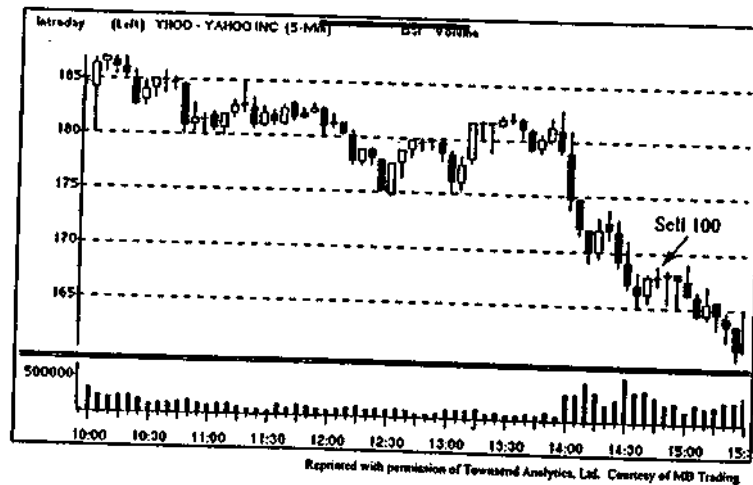


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

YHOO had an interesting setup where the stock was trading around 165, which was the support level on 3/20/00.

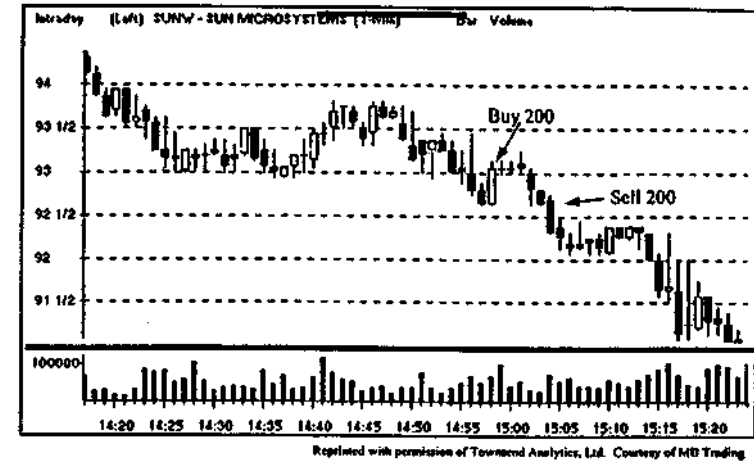


YHOO bounced at 165 and looked strong. I bought 100 shares at 167 3/32. I thought the stock could go to 169 1/2. I was trading strictly off the Level II activity, and I was ready to sell at the first sign of weakness.



YHOO went up as high as 168 1/2, but was getting weak, so I sold 100 shares at 168 3/16. This was no home run, but it made me feel good. It was the first trade of the day in which I actually cashed in profits.

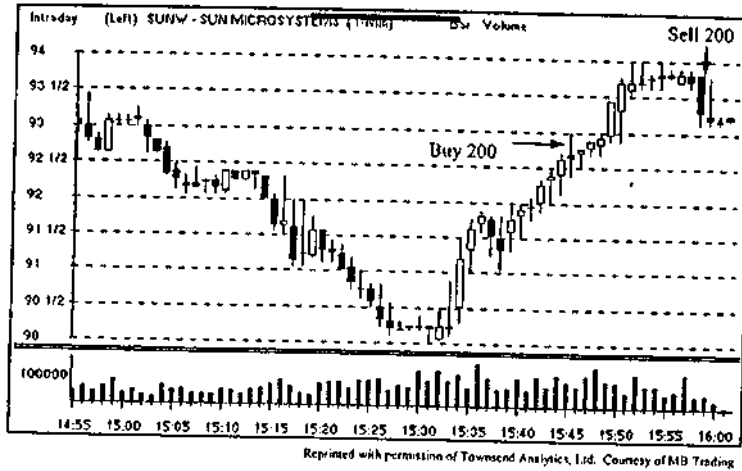
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	16,721.87	16,818.75	10.58	86.30	0.52%



My love affair with SUNW was not over. After penetrating through support at 93. The stock traded as low as 92 5/8. It then snapped back up and took out the 93 level. Little did I know it would be a perfect fake-out, merely there to mock me. I bought 200 SUNW at 93 1/16. The stock lost steam and went below 92 5/8. It triggered my stop loss, and I sold 200 SUNW at 92 3/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	18,612.50	18,475	10.62	-148.12	-0.79%

SUNW traded all the way down to 90. I really wanted to buy it there, but I was having a bad day and was getting gun-shy.

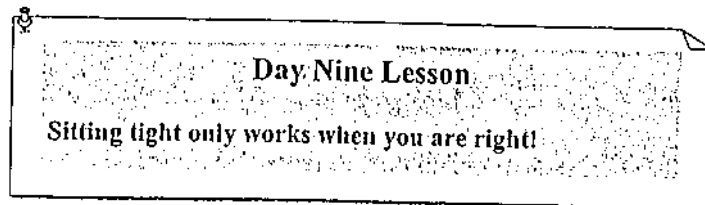


I watched SUNW go up 2 1/2 points from the low. It was running. The momentum players were jumping on board, and the shorts were getting squeezed. I liked what I saw, and I wanted to finish the day on a positive note, so I threw my hat in the ring and bought 200 shares at 92 59/64. My plan was to sell the stock near the close. SUNW hit 94 with only eight minutes left in the trading day. The bears were growling and the stock could not go any higher. I sold 100 shares at 93 3/4. Another two minutes went by without any price progress, so I sold the remaining 100 shares at 93 11/16.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	18584.37	18743.75	15.65	143.73	0.77%

Ding! Ding! The final bell rang as the bears were now completely awake. It was another brutal day for the bulls as the Nasdaq dropped 186 points from yesterday's close. It has been very difficult to call things in this sharp decline. I will need to evaluate things in more depth tonight.

Open positions: None  
Total profit for 3/30/00: -\$897.00



# CHAPTER 13

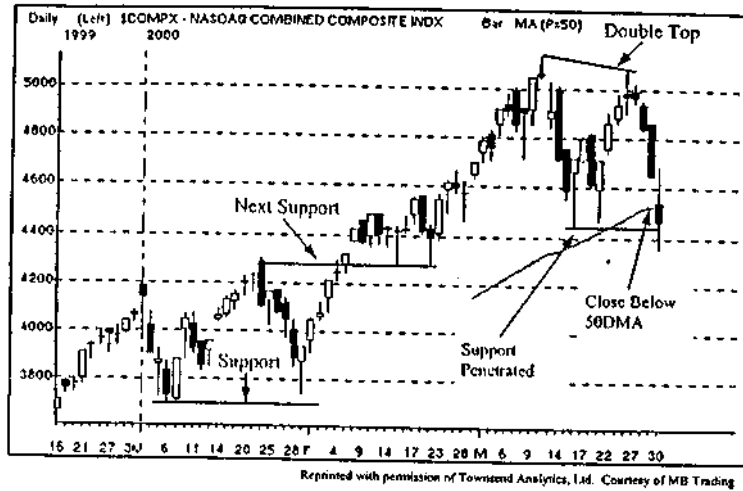
## Sitting on My Hands

### DAY TEN

Friday, March 31, 2000

Yesterday was my first losing day of the challenge, and I wanted to look back and examine what I did wrong. It wasn't that I expected to make money everyday when I accepted the challenge, but I believe it is always a good idea to take a step back and study your trading, especially on losing days, and I was looking for something I may have been missing. I wanted an answer for what happened yesterday, so I spent a lot of time going over my trades. I finally reached the conclusion that I had managed risk properly, even on the three positions that were in-the-money and were given a wide wiggle room. Those positions did become losers and were the difference between having a winning day to having a losing day; however, the \$1,500 turnaround was only 2% draw down on the entire position. If I had been correct in my assessment at the time, my entry would have been the bottom, and the rewards could have been as much as seven times the money I lost. If I had to do it all over again, I probably would play it the exact same way.

I have spent most of last night studying charts. I was looking at each and every stock that is in my Constant watch list, and I wrote down support and resistance levels for each one of these stocks. Then, I studied the Nasdaq chart in greater depth.



The Nasdaq chart was telling me that the market may have topped. We closed below the 50-day moving average for the first time since October 19, 1999. We possibly formed a double top pattern, which was confirmed yesterday once we traded lower than the low price made on 3/16 and 3/21. The next support level I see on the chart is at 4290, and the next support after that is at 3715. If we have in fact topped and the double top pattern is confirmed, we could go as low as 3700. This chart was a legitimate reason to be apprehensive.

Following the 186-point decline in the Nasdaq yesterday, I expected the futures to be down big this morning. I thought that we were going to open low, sell even harder at the open, then bounce somewhere around 4290 and completely reverse. I felt there was going to be some serious panic selling in the morning. I was ready to pick up all the bargains! I brought out my wish list from last Christmas, and I had my shopping bag ready to be filled with goodies.

Then, once my bag is filled up to the top with the best stocks in North America, I would sit tight and let the institutions push the market back up. Today is the end of the quarter, and I expect fund managers to support the big name stocks, so their portfolios look somewhat better.

But it wasn't so. The gap down open I anticipated didn't happen at all. Instead the market gapped up! The Nasdaq was up 93 points at the open! Only then, did it start trading down. And down. And then, down some more. By lunch time, the Index was down more than 100 points from the open.

There were no high percentage trades that I could see unless I wanted to play with fire, so I sat on my hands the entire day. When the Nasdaq made a new intraday low at 12:00 PM, I closed everything up, and I got a head start on the weekend. I felt very fortunate to be all in cash. I thought that the market looked very ugly.

When the final bell rang, I was at the park flying a kite with my son. While my son, Jordan, was singing the tunes "Let's go fly a kite" from the classic movie, *Mary Poppins*, and I was trying to figure out how you get the kite in the air when there is no wind, the Nasdaq managed to rally and close the day up 114 points from yesterday's close (21 points from the open).

Open positions: None  
Total profit for 3/31/00: \$0.00

The second week of the challenge was over. It was a decent week in which I had mixed results. I started the week with four winners on Monday. I had two decent winners in JNPR and WAVX on Tuesday giving me a comfort cushion for the remainder of the week. I executed a lot of trades on Wednesday making a little profit at the end. Thursday was my first losing day, in which I was trying to catch the market bottom and sit tight. I was proven to be wrong time and time again, but I didn't lose too much, even though I gave back all my gains. On Friday, I did not execute even one trade. I was way off in my expectations for the day, so I sat on the sidelines and observed the action from the passenger's seat.

My total profits for week one were \$ 1,928.47. I faxed MB Trading a request for a check in the amount of \$2,000.00. After all, Friday is payday!

<b>Southwest Securities</b> 1201 Elm St. Suite 3500, Dallas, TX 75270		<b>SIPC</b> S.E.C. REG. (11)	<b>AMOUNT</b>
PAY *****2,000DOLLARS 00CENTS		DATE 3/31/00	\$*****2,000.00
Pay To			
TONY OZ LAGUNA HILLS, CA 92654			

**Day Ten Lessons**

If what you planned is not there the next day, don't force any trades.

In depth analysis the night before can save you a small fortune.

Wind must be present when you go fly a kite. ☺

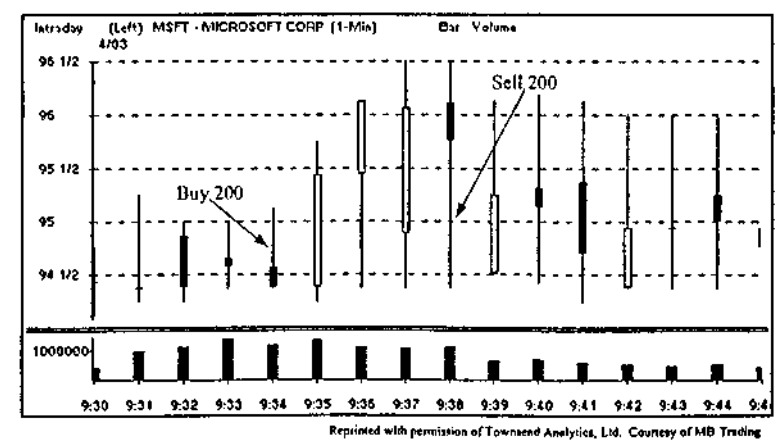
# CHAPTER 14

Free Willy

## DAYELEVEN

Monday, April 3, 2000

I did a lot of research over the weekend, and I had a handful of candidates for potential long positions. I was very excited, because I thought I had some high percentage setups and trading plans. I had my alarm set to 5:30 AM, and I got up without hitting the snooze button. I took a quick shower and went upstairs to my trading desk. It was 30 minutes to the market open. I turned on my computer, and saw that the futures were down sharply. Stocks were trading much lower pre-market and my candidates were no different. They were all trading lower than where I was planning to enter them. I turned on the TV and found out that Microsoft failed to settle their case with the justice department over the weekend. This was very bad news. Suddenly, all my trading plans were tossed out of the *Windows*, or should I say out through the *Gates*. I was now expecting a major sell off. This has changed my current strategy for the day. My new strategy will be to find high percentage bounce plays. The Nasdaq gapped down 78 points, and Microsoft gapped down 12 11/16.



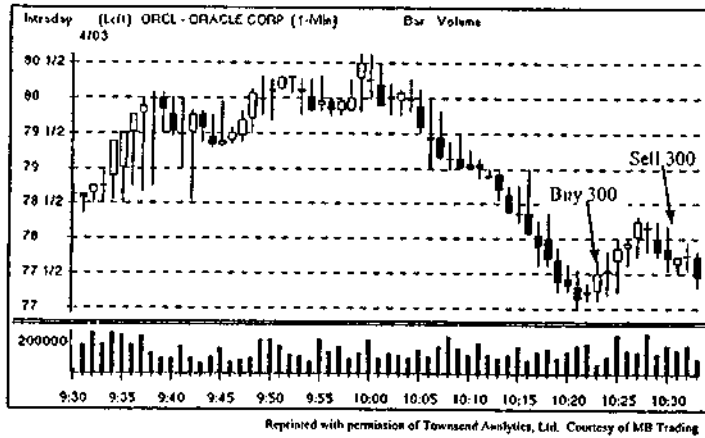
I was trying to play the opening bounce on MSFT. The market tends to overreact to bad news, so I expected a nice little bounce. I bought 200 shares



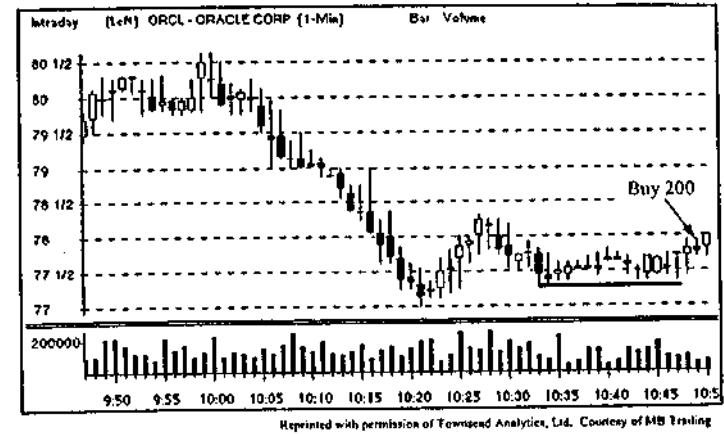
of MSFT at 94 3/4. The stock went up as high as 96 1/2, but then turned and tanked very fast. I sold 200 MSFT and barely got out at 95.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	18,950	19,000	10.94	39.06	0.21%

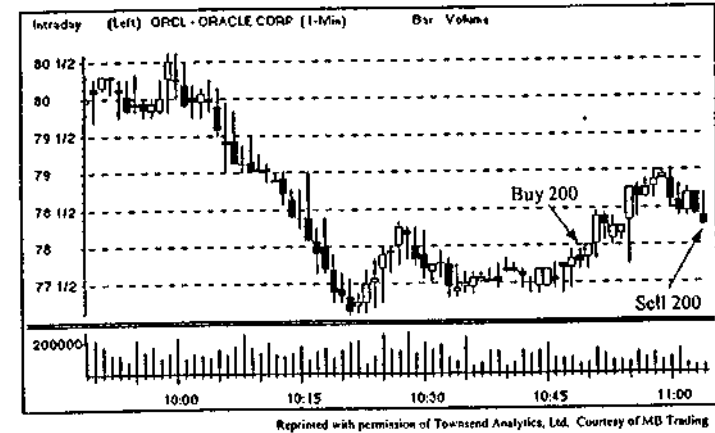
ORCL bounced at 77. I bought 300 ORCL at 77 5/8. My price target was 80. My stop loss was at 76 15/16, just below today's low. ORCL never made it to 80, but topped at 78 1/4. I entered a sell order and got a partial fill. I sold 100 shares at 78 1/8. The stock went lower and I sold 200 shares at 77 7/16.



Source	Investment	Proceeds	MBT	P&L	Return
Constant List	23,287.50	23,300	15.79	-3.29	-0.01%

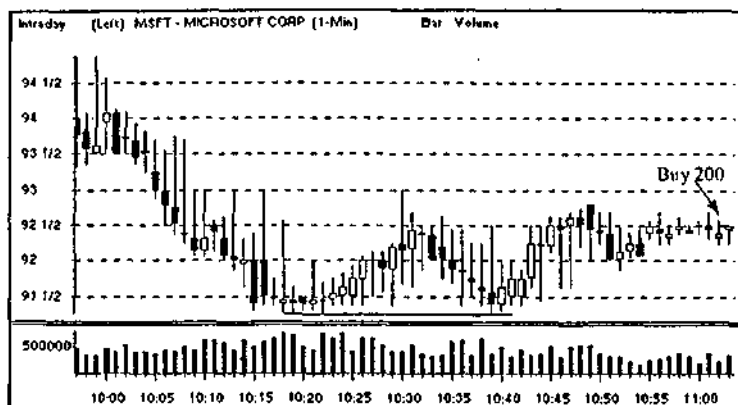


ORCL held 77 3/8 and started to move higher again, so I bought 200 shares at 77 7/8. I was still looking for 80. I placed a stop loss at 77 1/4.



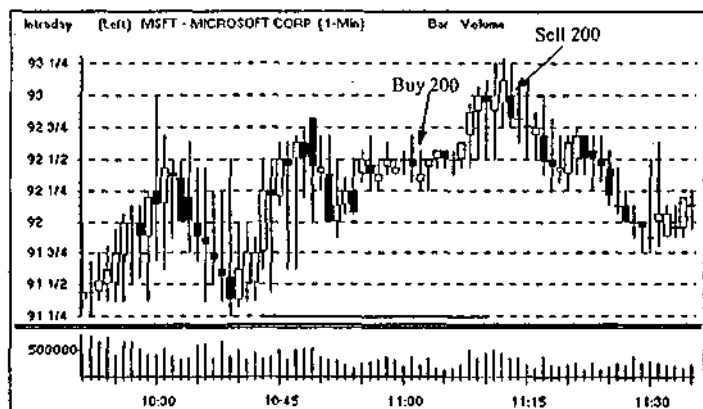
This time ORCL traded as high as 79, before turning back down. I sold 200 shares at 78 1/4.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	15,575	15,650	10.53	64.47	0.41%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

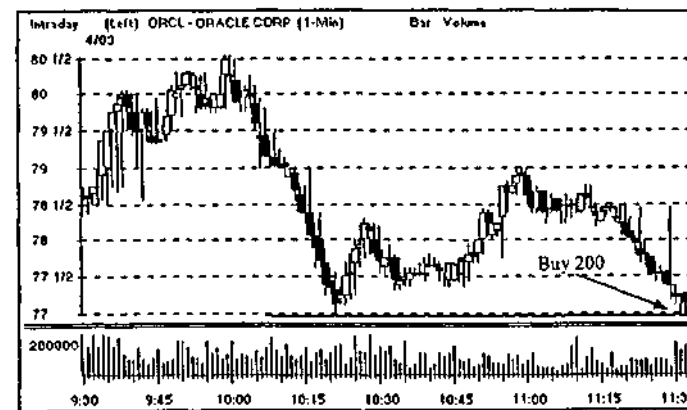
MSFT setup a double bottom and was now trading higher. I thought it had a chance to pop 93 and run, so I bought 200 shares at 92 7/16.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

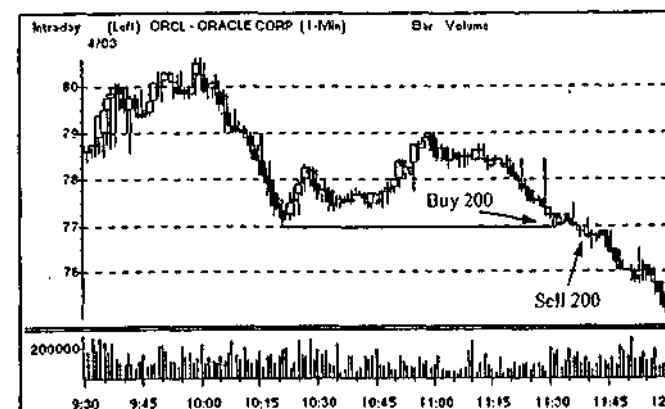
MSFT went as high as 93 5/16, then lost steam. I sold 200 shares at 92 15/16.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	18,487.50	18,587.50	10.62	89.38	0.48%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

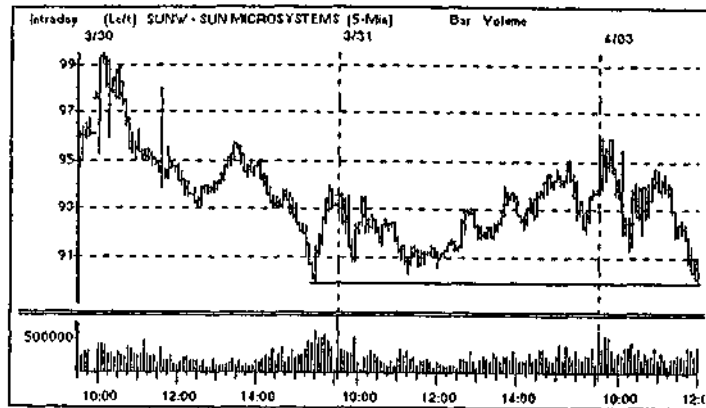
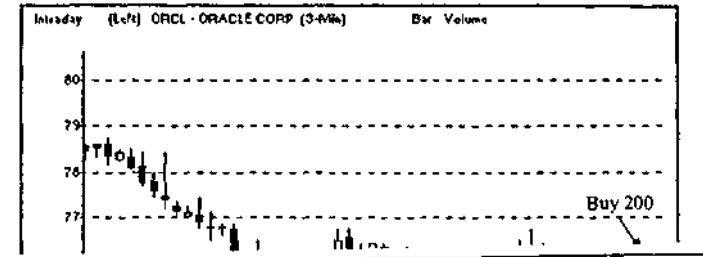
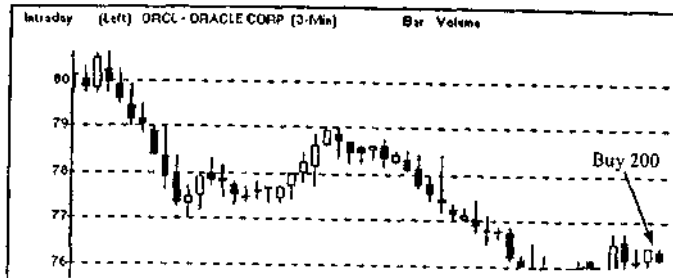
ORCL was back to the 77 level, and I thought it might be forming a double bottom. I bought 200 shares at 77.07. My price target was 79 - 80. My stop loss was at 76 3/4, which was 1/4 below the lows of the day.



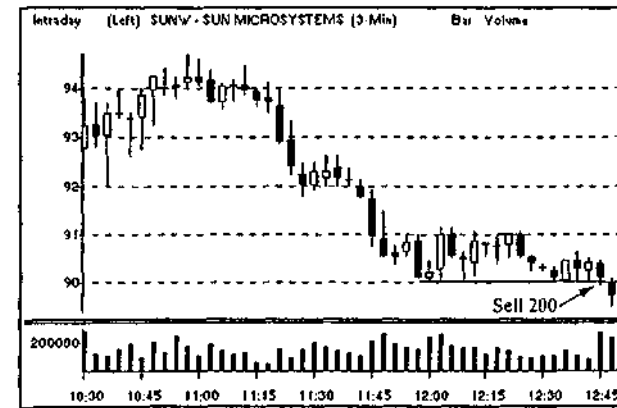
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

Ouch. ORCL breaks down through support, and my stop loss is activated. I sold 200 ORCL at 76 3/4. Again, the chart shows the importance of being disciplined about keeping a stop.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	15,414	15,350	15.15	-79.15	-0.51%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

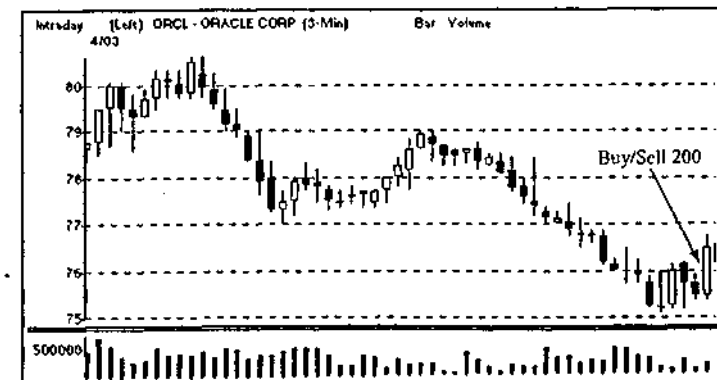
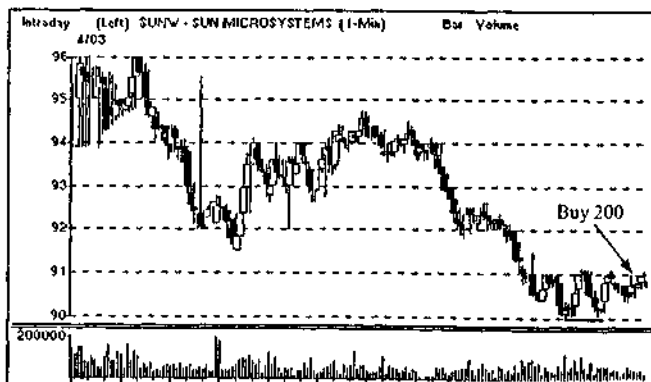


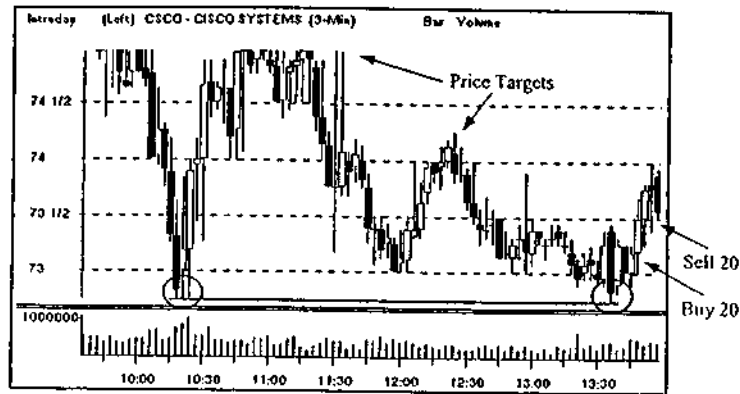
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

SUNWV has support at 90, which were the lows several days back on 3/30/00. I traded it numerous times that day, and I remembered how the 90 level held, and the stock ran up to 94 from there.

Then the "unthinkable" happened and SUNW actually broke down through 90. My stop loss was activated, and I sold 200 shares at 90. I got a price improvement on my stop loss order, which is not very common.

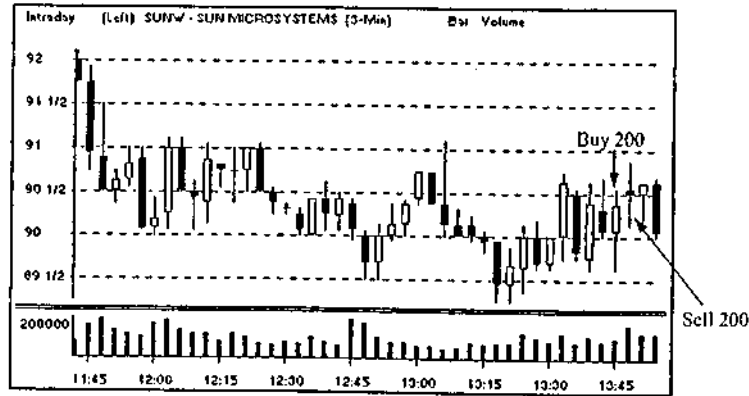
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	18,187.50	18,000	10.6	-198.10	-1.09%





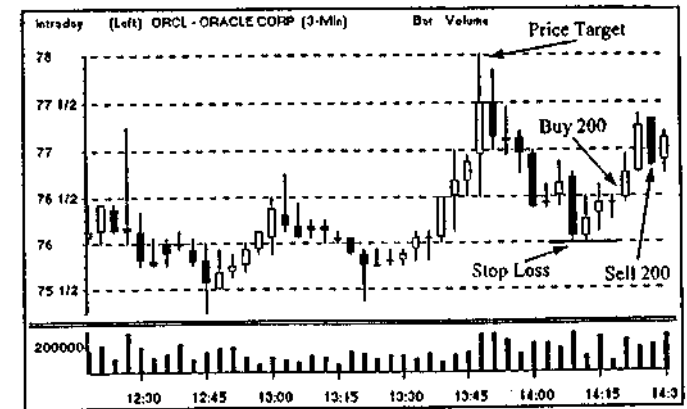
CSCO formed a double bottom as seen in (lie chart above. I bought 200 shares at 73 3/16 as CSCO bounced at the second bottom. I placed a stop loss at 72 15/16 (I felt that 73 should hold). My price target was 74 1/4 - 74 1/2 (previous tops). The stock hit 74 and turned around. I sold 200 shares at 73 9/16.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	14,637.50	14,712.50	10.50	64.50	0.44%



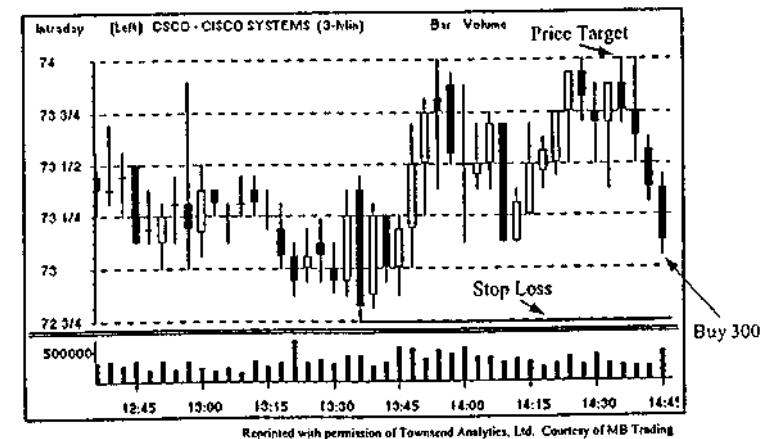
SUNW was trying to bounce. It moved back over 90. I bought 200 shares at 90 1/2. *MLCO* was axing the stock, lots of green prints and no price progress. The bid side had a lot of depth. Once everyone saw how serious *MLCO* was about selling SUNW, the weight shifted over and sellers came in. Having no choice, I sold 200 shares at 90 1/4.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	18,100	18,050	10.62	-60.62	-0.33%

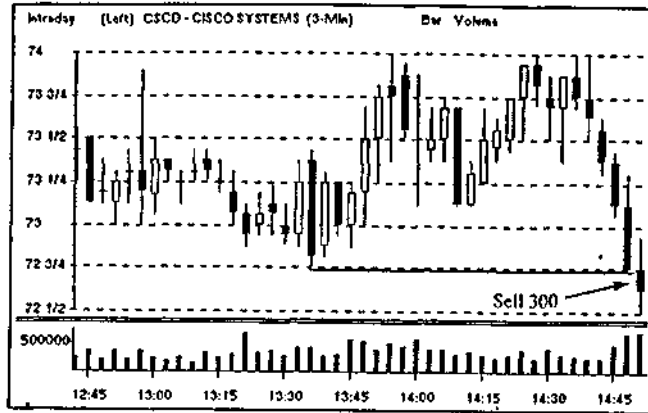


ORCL pulled back from 78 to 76. *MSCO* held it there again, and the stock was moving up. I bought 200 shares at 76 9/16. The stock went to 77 3/8, and *SBSH* showed some muscle and axed it again. I sold 200 shares at 76 7/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	15,312.50	15,375	16.52	45.98	0.30%

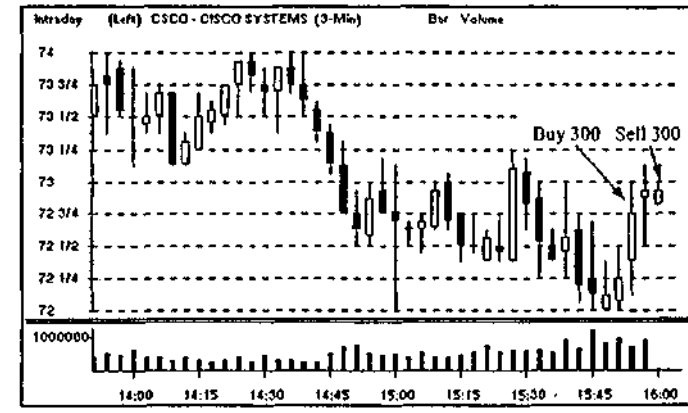


CSCO was approaching 73 again. I decided to step in front of the selling pressure and buy 300 shares at 73 1/8. I thought that I had two support levels in place, one at 73, and one at 72 3/4. I placed a stop loss at 72 11/16.



CSCO does not hold the support level this time. It takes out the 73 level and the 72 3/4 level. My stop loss is triggered. I sold 300 shares at 72 45/64. Notice the volume spikes when CSCO took out 73 and 72 3/4. There were many buyers there, but they still could not rebuff the selling pressure that came in.

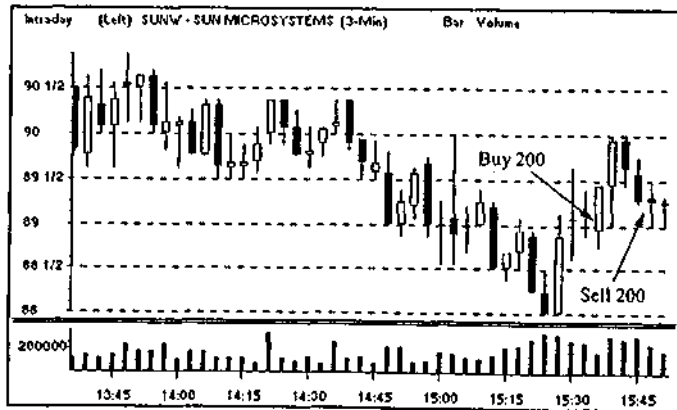
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	21,937.50	21,810.93	10.72	-137.29	-0.62%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

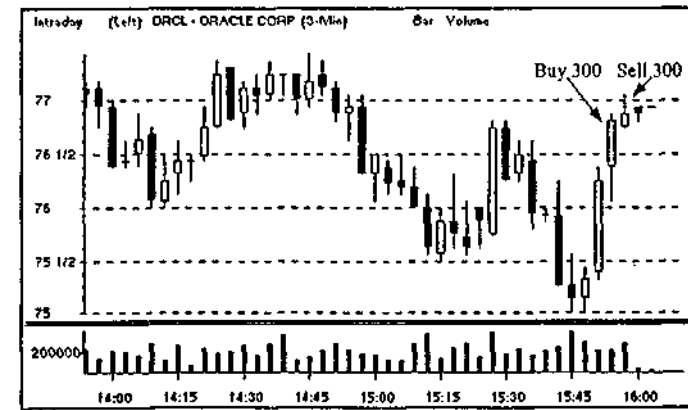
I bought CSCO for the same reason I bought SUNW. I was looking for a rally into the close. I bought 300 shares at 72 7/8, and I sold them just before the close at 73. I was not going to hold any positions overnight.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	21,862.5	21,900	10.73	26.77	0.12%



SUNW bounced at 88. I was expecting an end-of-the-day rally, and/or a short squeeze, so I bought 200 shares at 89.12. The stock only went as high as 90 before falling back down and I sold 200 shares at 89.19.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	17,824	17,838	11.32	2.68	0.01%

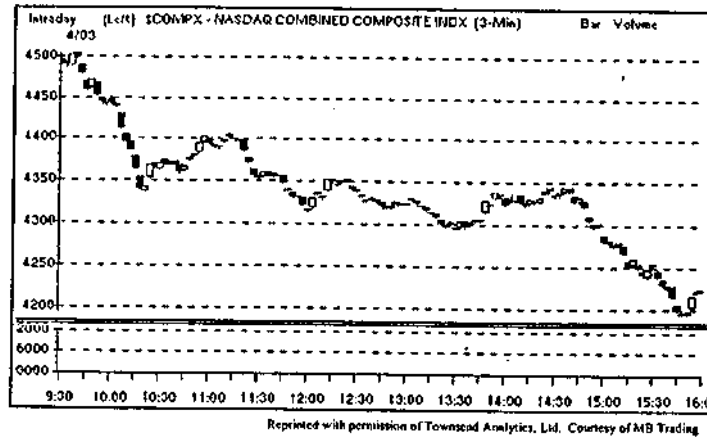


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I also made the exact same play on ORCL. I bought 300 shares at 76 11/16, and I sold 300 shares at 77, just before the close.

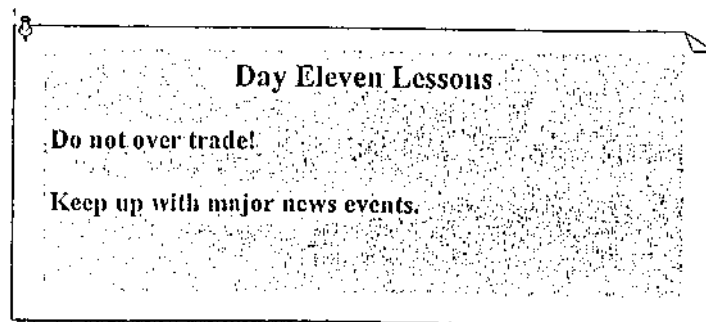
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	23,006.25	23,100	10.78	82.97	0.36%

Wow! It was a record day. The final bell just rang, and the Nasdaq had just suffered its worst ever point decline. It was down 349 points for the day. The bears were waking up from their winter hibernation. The chart below shows the trading day on the Nasdaq index.



It was also a record day for the number of trades I have executed today. I kept all stop losses and trailing stops very tight. I was not letting my trades have wiggle freedom, because the consequences could have been brutal. In hindsight, today's meager profits could be considered huge, because I was able to avoid losing big money trading on the long side through the worst ever, down day. It does not look good for the bulls, not unless Reno decides to free Willy.

Open positions: None  
Total profit for 4/3/00: \$47.51



DAY TWELVE

Tuesday, April 4, 2000

The Nasdaq broke down through the support levels at 4290 yesterday, and closed at 4223, which was a very bearish sign. I didn't know what to expect today, so I had no trades planned in advance; however, I was going to be ready to buy stocks should the Nasdaq sell off hard. We have come down 16.8% over the last six trading days, so we are getting somewhat oversold.

The Nasdaq gapped up 60 points this morning. I was going to sit tight on the sidelines and not get sucked into trades the first 30 minutes of the day. I didn't want to relive yesterday all over again.

I took my sniper position, and I was waiting to take my shot. The Nasdaq, which opened up 60 points, was now in negative territory. It was selling off hard. The market had only been open 15 minutes, and the Nasdaq had already lost 121 points. It was down 61 points from yesterday's close. Suddenly, the index started to bounce and shot up almost 100 points over the next 21 minutes. It was now about 20 points off the morning high.

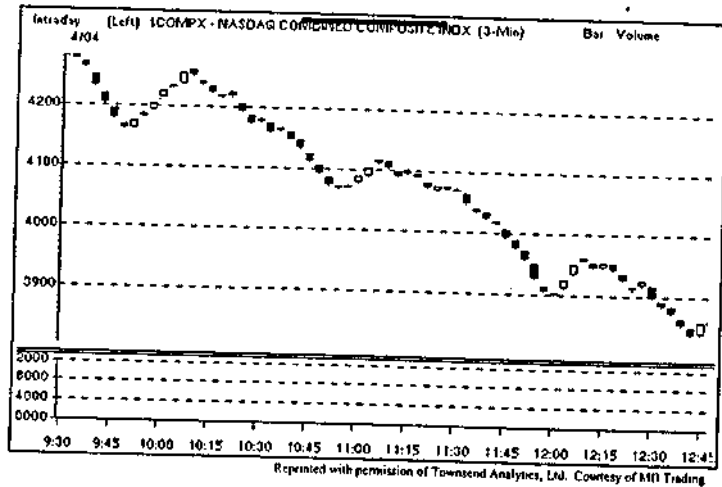
I wanted to jump on this rally, and buy all my favorite Nasdaq stocks; however, I was not going to do so unless I saw a clear confirmation of a reversal day. What I was looking for was for the index to take the previous top out. If it did, I would buy the pullback. I was not going to chase it early in the day.

It turned out to be a classic head fake, and within the next 27 minutes, the index took out the low of the day, and it was now free falling. It took out the 4100 level and was now trading at 4070. It was down 213 points from the open. At 10:55 AM, the Nasdaq tried to bounce, but there were just too many sellers in the street. All potential buyers were sitting on their hands, and I was doing exactly the same.

The sell off started to accelerate and panic selling was hitting the street. The Nasdaq just broke through a key psychological number, 4000. I remember when the Nasdaq finally broke up through 4000 with much fanfare, but now the breakdown came without even a pause. Within the next 15 minutes, the

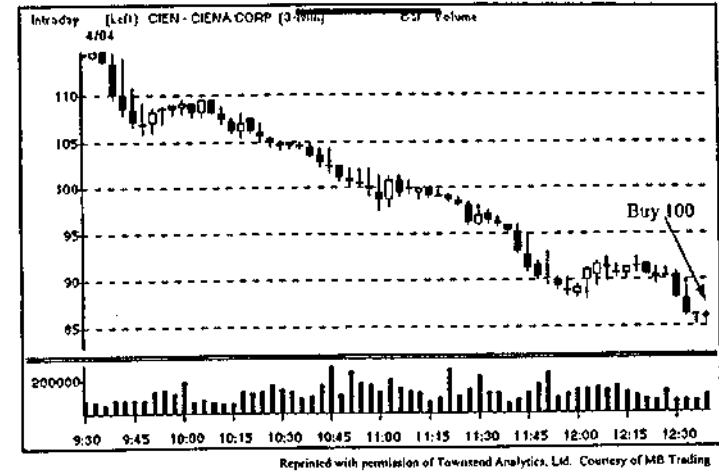
Nasdaq hit 3900. At 12:00 PM, the Nasdaq was down 383 points from the open. The Nasdaq bounced over the next 15 minutes, but the short-term rally only took it up to 3950 and presented an opportunity for sellers to get out.

The Nasdaq penetrated through 3900 at 12:30 PM, and traded down to 3840. It was down 443 points from the open!

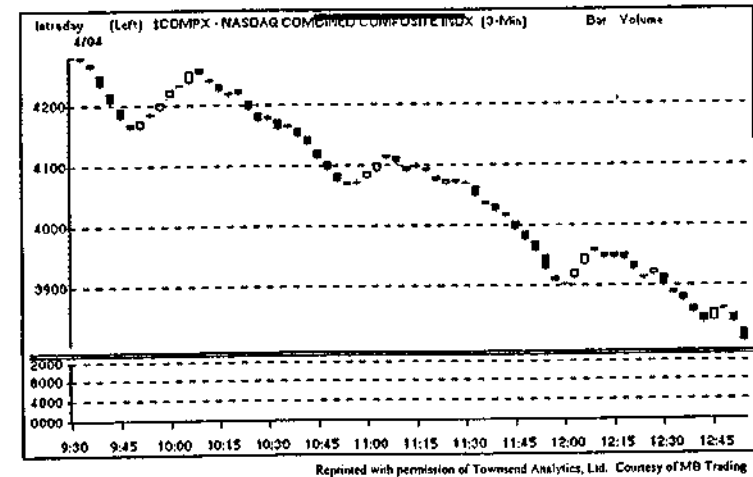


This was the biggest blood bath I have ever seen. It was very depressing to watch as billions of dollars were being evaporated. I tried to keep my focus at my post. I knew that if the bounce I was waiting for was going to take place, I would have to be very quick, or I would never get a fill on my order.

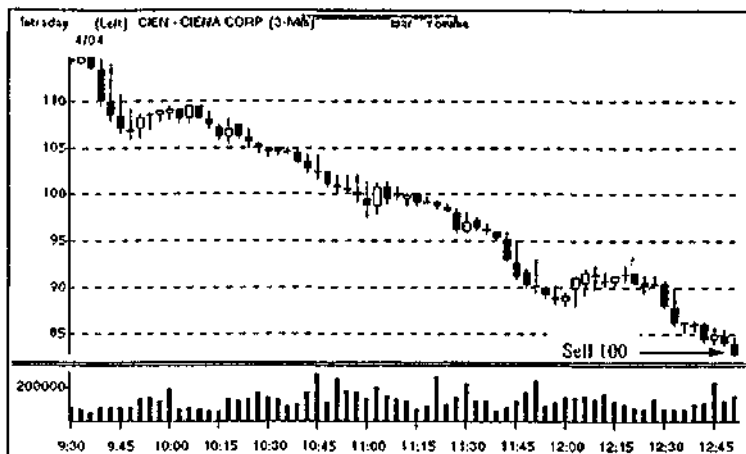
At 12:45, the index had its uptick. I had four stocks from my constant watch list in Level II montage windows. I was ready to execute an order on each one of them at a heartbeat, if I sensed a bottom. These stocks were SUNW, ORCL, CSCO and CIEN.



As soon as I saw the uptick in the index, I bought 100 shares of CIEN at 855/16.



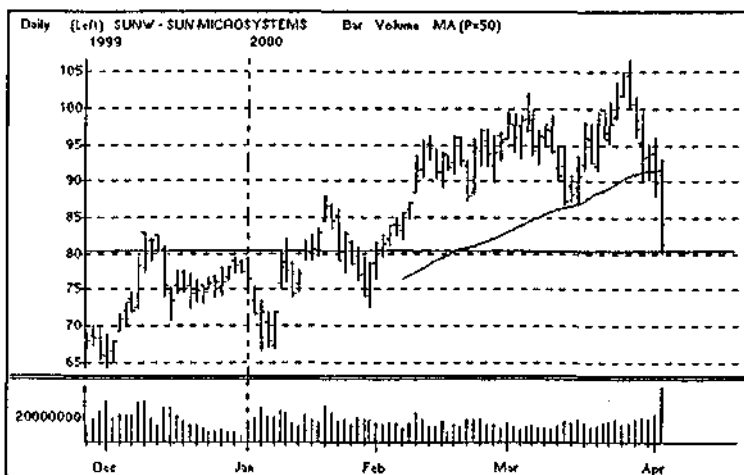
This rally did not last long at all, and the Nasdaq broke through the lows again. We were now at 3800.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

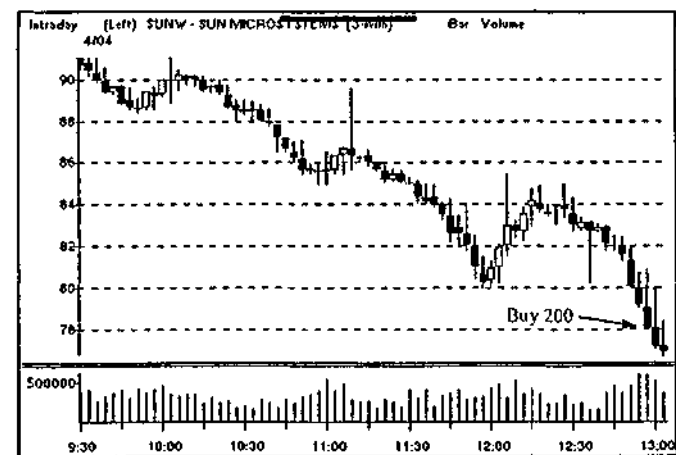
As soon as the Nasdaq broke down, I sold 100 CIEN at 83 1/2.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	8,531.25	8,350	10.28	-191.53	-2.24%



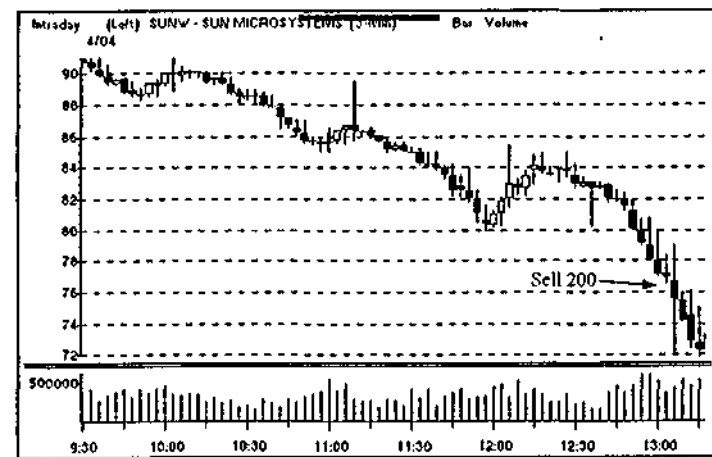
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I was following SUNW very closely. It was trading around the \$80 level. As you can see on the above chart, SUNW penetrated through many support levels. The bottoms it had back in the middle of March, the tops it had back in January, and the tops it had back in December of 1999. I thought it was getting to be very "cheap" at current price levels.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

SUNW broke down through 80. It was 1:00 I'M, mid I decided to step in front of the crowd and catch the falling knife. I bought 100 shares at 78 3/8, and another 100 shares at 78 5/16. My strategy was to sit tight, if I caught the knife just right. Or let the knife slip through my hands with a minor cut, if SUNW was to keep falling.

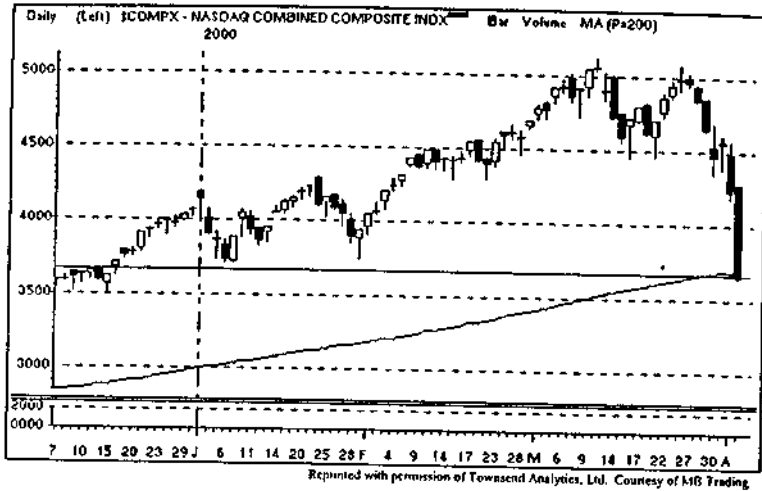


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

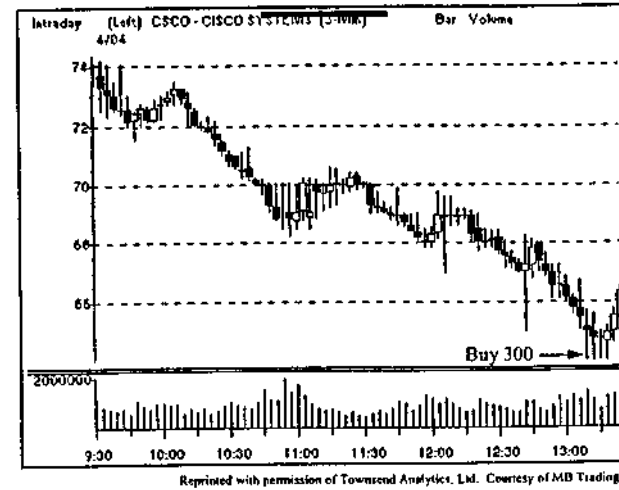
SUNW kept falling down, and I sold 200 shares at 76 43/64. I got away with a minor cut from the falling knife, but I didn't get killed. Now, my blood was in the street as well. It made me feel all better - Not!

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	15,668.75	15,334.37	18.51	-352.89	-2.25%

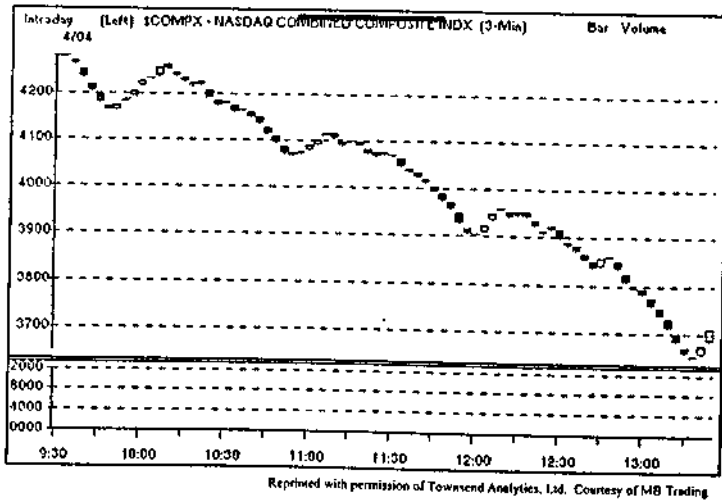




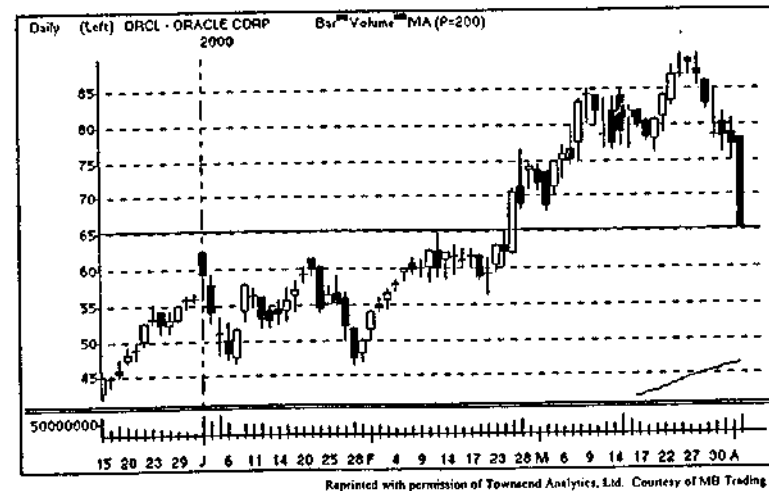
The Nasdaq kept falling down, and it was trading at 3650, well below its 200-day moving average. It broke through all support levels, and it was down a record 584 points (13.83%) from yesterday's close, and 644 points from the open! This was a crash, if I ever saw one. The New York Stock Exchange will halt trading if the Dow is down over 10% in one day. There is no such rule in effect in the Nasdaq stock market. Things were getting very scary.



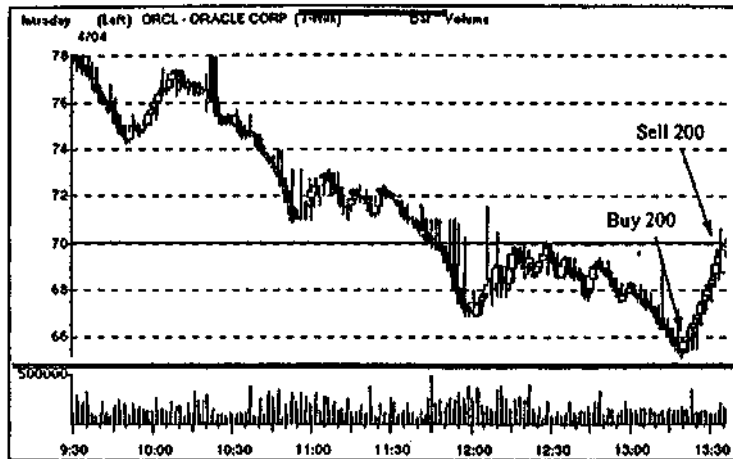
As the Nasdaq ticks up, I bought 300 CSCO at 65.24 and placed a conditional stop loss if the Nasdaq trades below 3640. My price target was 68 - 70.



The Nasdaq hits 3649 and starts to rally. I was ready to take another shot.



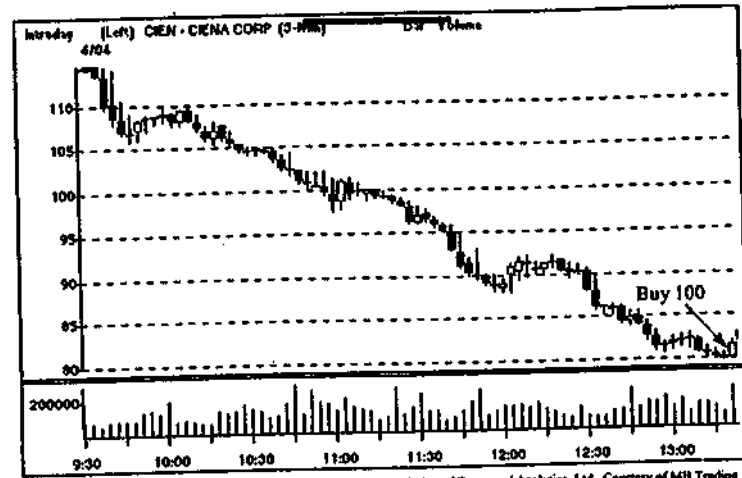
ORCL hits 65, which was the top on 2/11/00. It looked like good support, so I was looking for it to bounce at that level.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

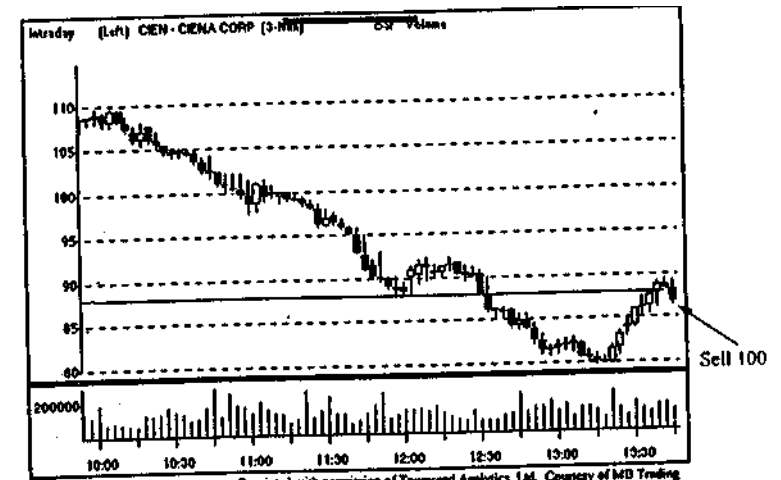
ORCL does bounce at 65. I bought 200 shares at 66 1/4. My price target was 70, which was resistance several times today. I placed a stop loss at 64 7/8 just below the low of the day. ORCL hits my price target, and I sold 200 shares at 69 7/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	13,250	13,975	18.51	714.53	5.39%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

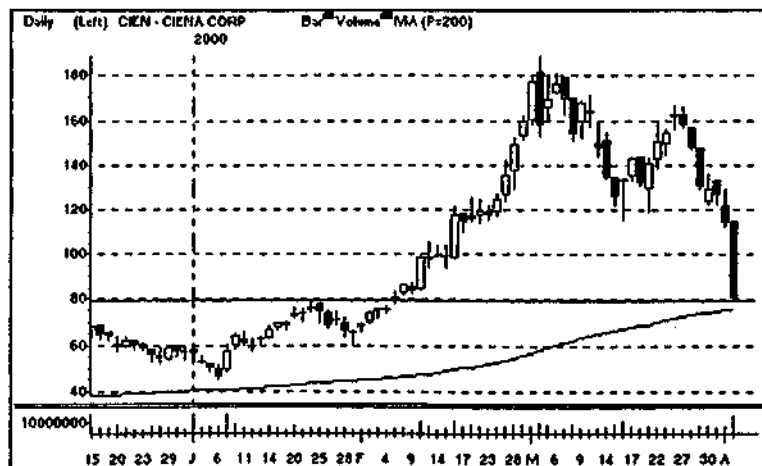
I bought 100 shares of CIEN at 81 3/4. My price target was 92, which was the tops at 12:15. My stop loss was at 79 3/4, just below today's low.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

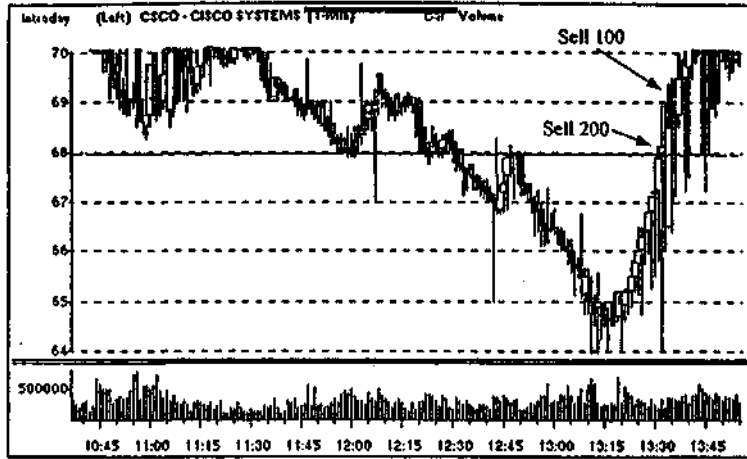
CIEN hits the bottoms it made at 12:00 around 88 1/2. It was showing some weakness, so I sold 100 shares at 86 7/16.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	8,175	8,643.75	10.29	458.46	5.61%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

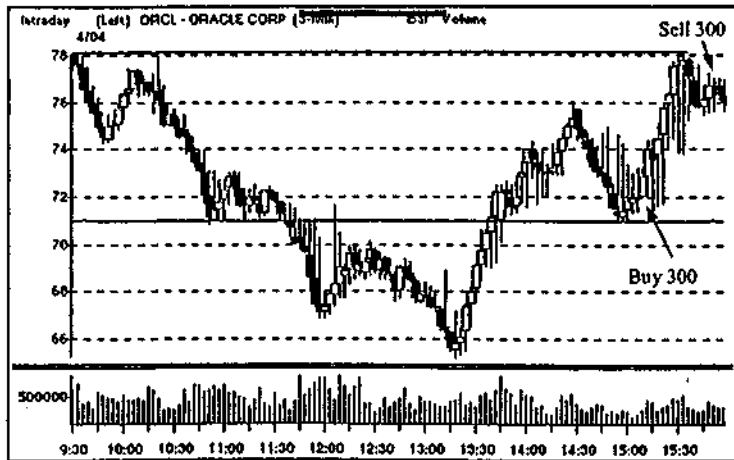
CIEN was trading at 80, which was support from the tops set on 2/25/00, as shown by the horizontal line in the above chart.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

CSCO hits my price target. I sold 200 shares at 68. I sold the remaining 100 shares at 69 1/4 into buying strength.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	19,573.83	20,525	15.70	935.47	4.78%

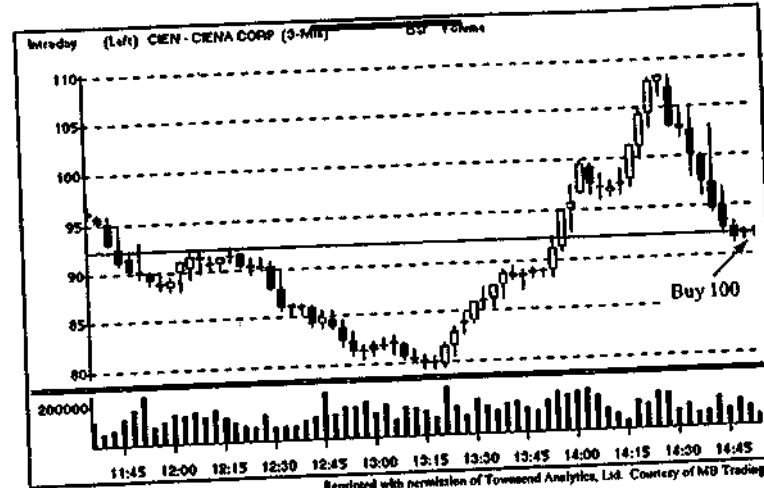


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

ORCL kept running up and finally pulled back. I was in my sniper position waiting to buy it again. It found support at 71 1/4. I bought 300 shares at 72. My price target was 78, which was the morning high. My stop loss was at 71, which was just below the last bottom made at 3:00 PM. ORCL hits

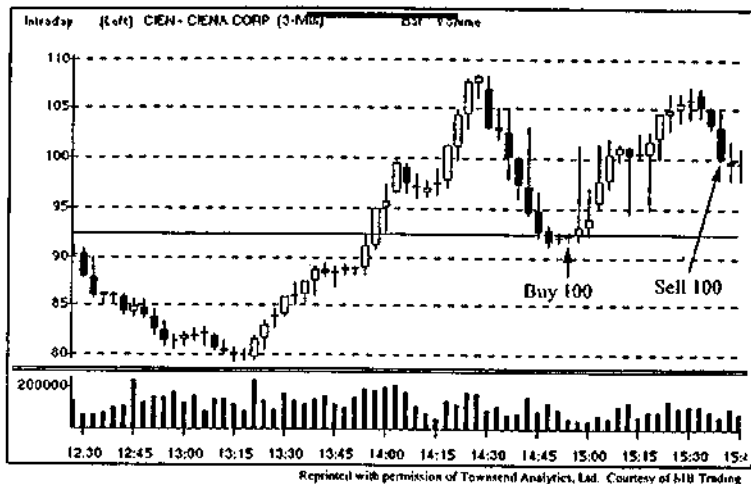
my price target at 78. My sell order was not executed, and I was forced to chase the stock down before finally selling 300 shares at 76.40.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	21,600	22,892.19	17.27	1,274.92	5.90%



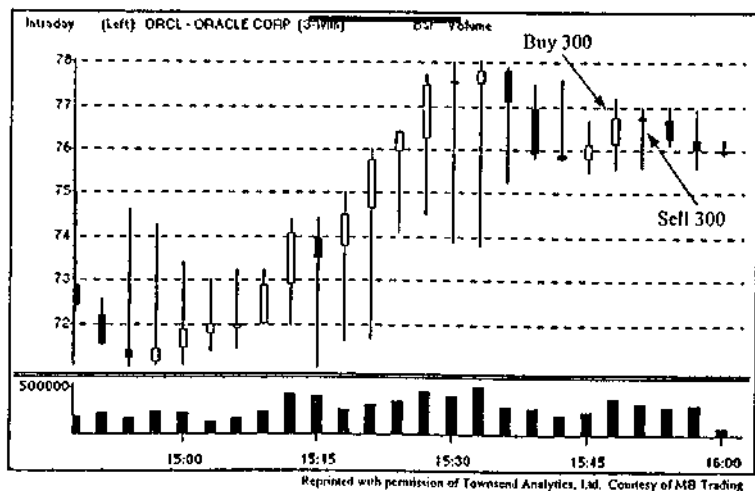
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

CIEN ran up to 108, then pulled back to support levels at 92 (this was my original price target on the last trade). I bought 100 shares at 92 1/16. I placed a stop loss at 89 7/8. My price target was 105 - 115.



CIEN went as high as 106 1/2. I tried to give it a chance to move higher. I had my trailing stop placed at 103 3/4. The stock came back down, and my stop loss was triggered. I sold 100 shares at 100 15/16.

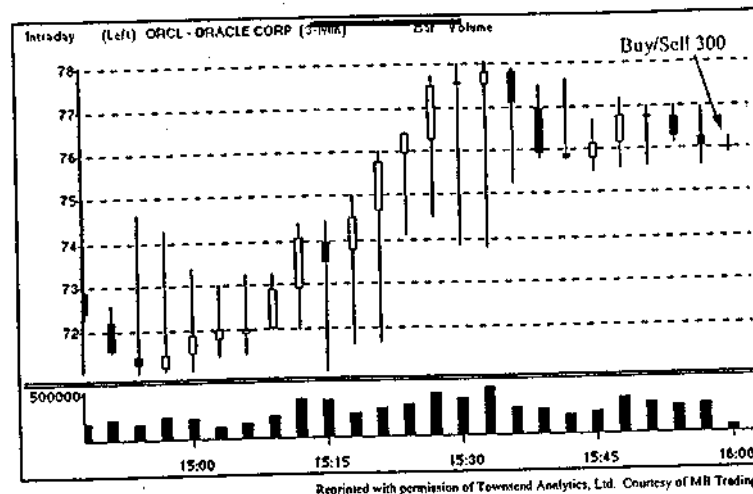
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	9,206.25	10,093.75	10.34	877.16	9.53%



After I sold ORCL at 76.40 (once it pulled back from 78), ORCL started to move up again. I bought 300 shares at 76 15/16. The stock then turned back

down, so I sold 300 shares at 76 1/2.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	23,081.25	22,950	10.77	-142.02	-0.61%



I liked the fact that the market has reversed its direction and recovered most of its loss, so I bought 300 ORCL at 76 with the intention of holding it overnight. It didn't take very long before I realized that I better turn around and sell my position and go to bed all in cash, so I sold 300 ORCL at 76 1/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	22,800	22,837.50	15.27	22.23	0.10%

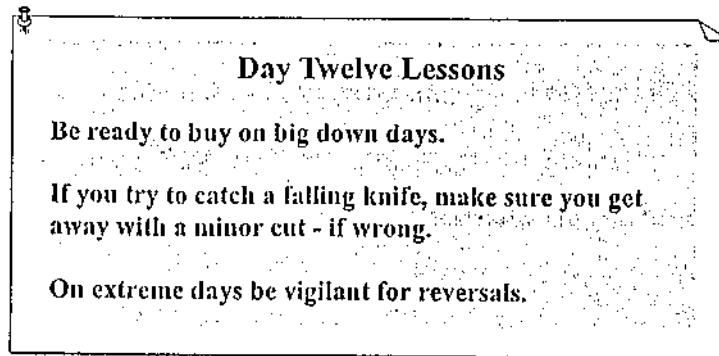
The reason I did not hold ORCL overnight was that I realized that most likely we will have a gap down market the next morning. Psychology moves the stock market. As it was, the Nasdaq closed the day down 75 points, and the Dow closed the day down 56 points. That was no big deal; however, what happened earlier in the day was a very big deal. We had a record volatility day, and the headlines would be telling that story. Newscasters are not going to focus on the closing numbers. They are going to focus on the fact that the Dow was down 504 points, and that the Nasdaq was down 584 points.

I felt that news of this kind would probably scare the public. I could see the

average investor reading the headlines or watching the news and making a very simple decision. Get out of the market now, or you will never get a second chance. This will create a flood of sell orders prior to the open. The Market Makers will drop the market as low as possible prior to the open, then they will buy all the stock that the public is selling, and then bring the prices back up, so they can sell the stock back to the public at a profit. It happens all the time.

This was a scary crash. The key to my success today was to wait patiently for a high percentage bounce play. I sat on the sidelines for the majority of the day. I was fooled twice! I bought CIEN and lost \$191.53. I then bought SUNW and lost \$352.59. I was down over \$500.00, but I didn't give up. I waited for my chance. Good things happen to those who wait, according to the old saying. I was fortunate to recognize the absolute bottom, and I entered three long positions. I was able to turn the day around and finish with respectable profits.

Open positions: None  
 Total profit for 4/4/00: \$3,596.33



# CHAPTER 16

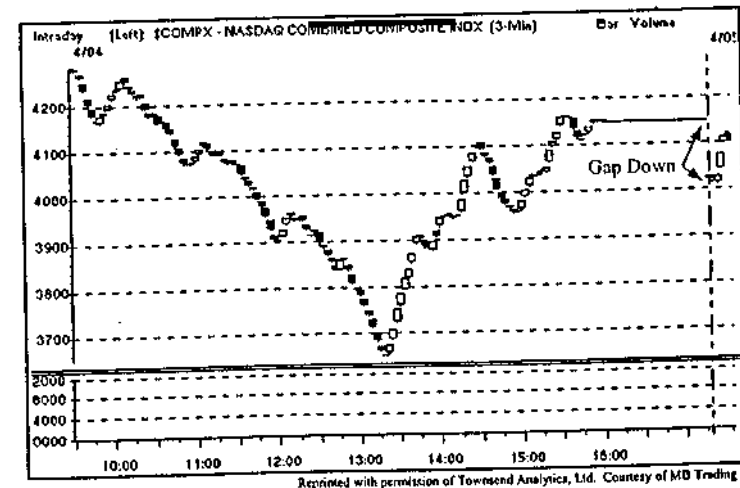
## Technical Problems

### DAY THIRTEEN

Wednesday, April 5, 2000

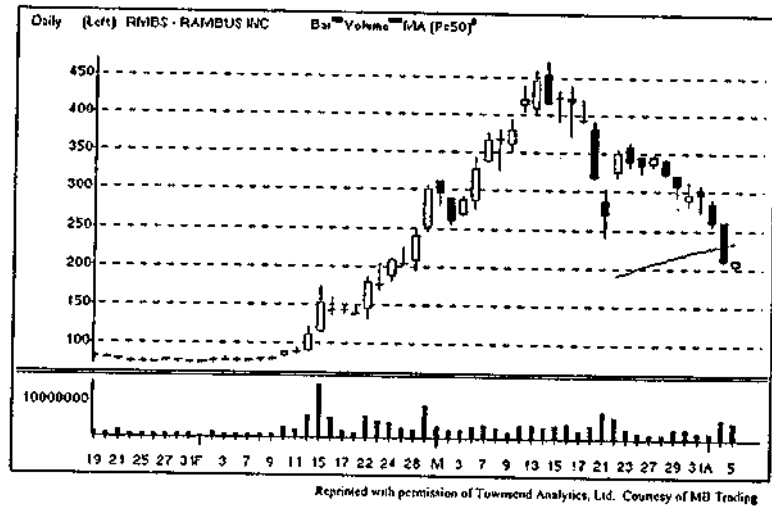
As I expected, the action in the market yesterday received major coverage from all the major networks. Newscasters were interviewing financial advisors, asking them if the worst is over. They were very careful not to use the word *crash* in any of the broadcasts; however, you could sense that nervousness was definitely present.

The futures are down sharply this morning, just as I expected. Brokerage firms were flooded with sell orders from the concerned retail investors. I didn't want to buy anything pre-market, although I expected a run-up in stock prices as soon as the opening bell rang. I was looking to buy ORCL, CSCO and RMBS.

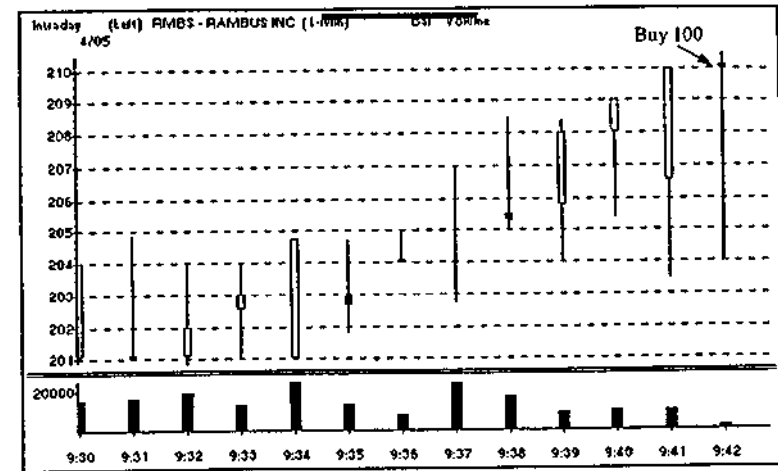


Ding! Ding! The opening bell rang and the market started trading. The Nasdaq gapped down 123 points. ORCL was trading at 73, CSCO was trading at 70 1/4, and RMBS was trading at 201. I sent orders out to buy 300 shares of CSCO, and 300 shares of ORCL.

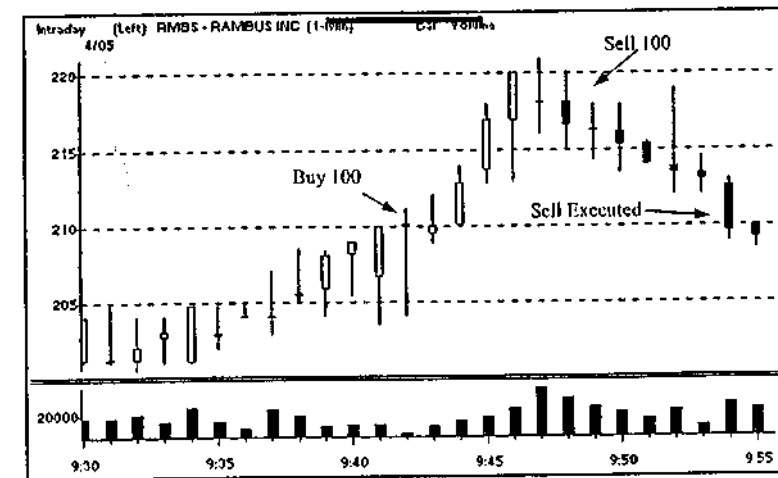
The volume was very heavy this morning and SelectNet was completely down; consequently, AR.CA wasn't working either. It was a buying frenzy! Stocks were running, and I could not get a fill on anything. The only way I could roulc an order was via ISLD or SOES. Since there was a glut of buyers, there were no offers on ISLD that I could take out in my attempt to buy CSCO or ORCL. The best ISLD offer was three points out of market. SOES was completely useless, and I got no fills using that route either. It was a frustrating morning. At first, I looked like a genius for not carrying positions overnight and selling ORCL at 76 yesterday. It was trading at 73 this morning; but now, I was not able to buy my position back, and the stock was trading at 78.



I studied the ilMBS daily chart last night, and I was looking to buy it. I felt it had significantly come down in price from its high of \$471 a share. I felt that a strong bounce could take it back to 270 - 300.



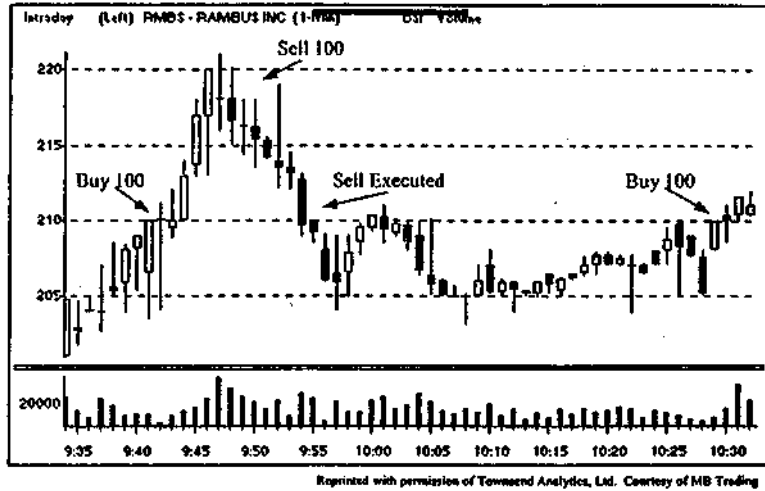
I tried to buy RMBS at the open, but SelectNet was down. I finally bought 100 shares at 210 taking an ISLD offer 5 1/2 points out of market!



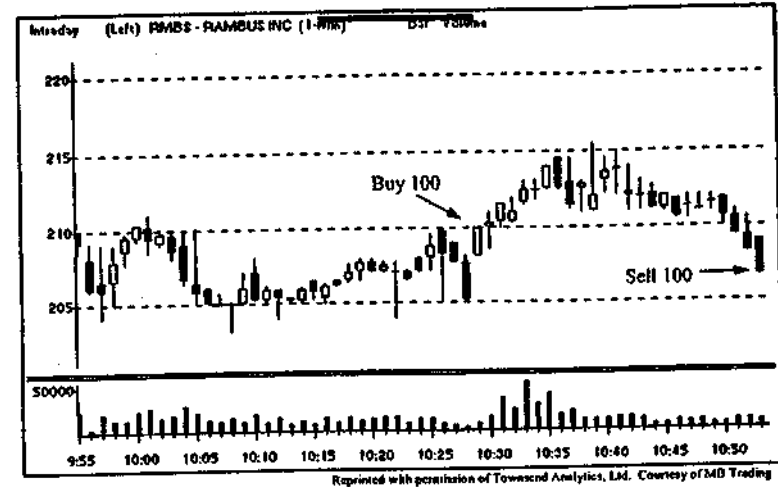
RMBS ran up to 221. It then turned around, and started to decline. I had a stop loss on ARCA at 217 1/2. RMBS traded lower and my stop loss was triggered; however, SelectNet was slow (or non existent), and I was not getting a fill on my sell order. I tried to cancel the order, and it was taking a while for that as well. I was about to lose it. I finally got my order cancelled, and I entered a sell order on ISLD out of market. I sold 100 RMBS at 110 1/8.

Source	Investment	Proceeds	MBT	P&L	Return
Watch List 1	21,000	21,012.50	10.70	1.80	0.01%

This was a sure sign I should have shut things down and gone to the beach. I watched an \$1,100 profit turn to dust due to a Nasdaq malfunction. On pivotal days like today, the entire trading infrastructure was straining. The volume was so heavy, and the trading so furious, that even with direct access and DSL speed, home-based traders were at a significant disadvantage. I went downstairs and tried to regroup. I knew that it should be a great day for the bulls today. The Nasdaq has come down too much, too fast. It is due for a rally. "It was time to make money!" I told myself. I went back upstairs and waited for another opportunity.

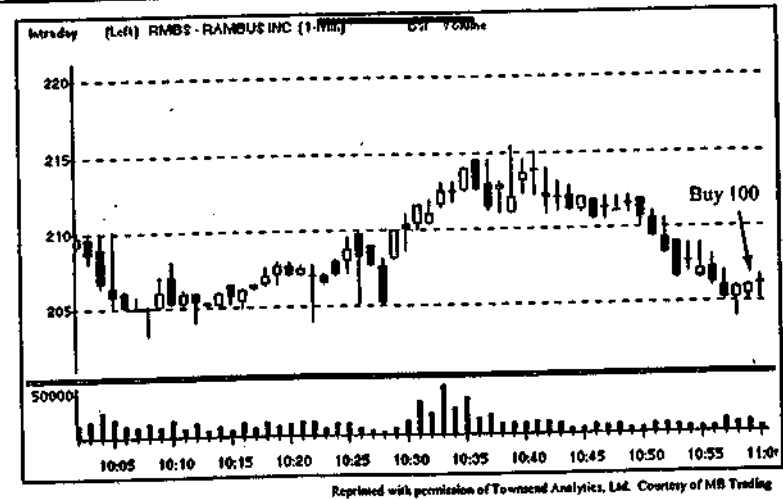


RMBS started to move up again. The volume increased and I bought 100 shares at 210 1/8. My price target was 220 - 240. I placed a stop loss at 208.

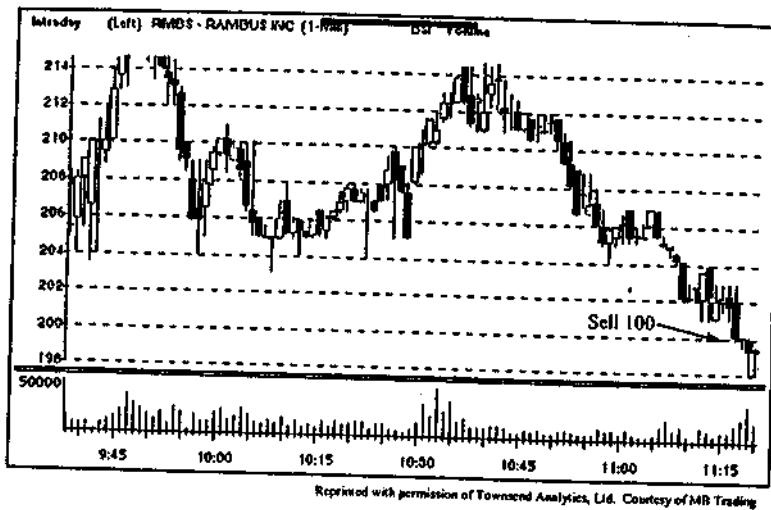


I tried to give RMBS a chance. The stock went up to 215 1/2, and traded down. 210 looked like good support; therefore, I have not moved my stop loss up. BIG MISTAKE! The stock dropped through 208 and triggers my stop loss. I sold 100 RMBS at 206 7/8.

Source	Investment	Proceeds	MBT	P&L	Return
Watch List 1	21,012.50	20,687.50	10.69	-314.31	-1.49%



RMBS held 203 1/2 again and started trading higher. I bought 100 shares at 205 9/16. I decided to give it some wiggle room this time, because I felt that it could go as high as 250. I placed my stop loss below the low of the day. Actually, I placed it below 200.

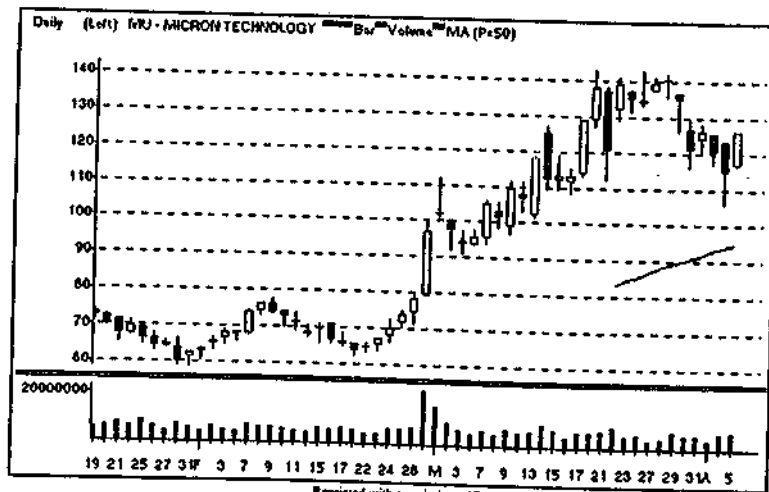


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

But instead, RMBS broke down through 200. I sold 100 shares at 199 15/16, losing a finger or two in the process.

Source	Investment	Proceeds	MBT	P&L	Return
Watch List I	20,556.25	19,993.75	10.67	-573.17	-2.79%

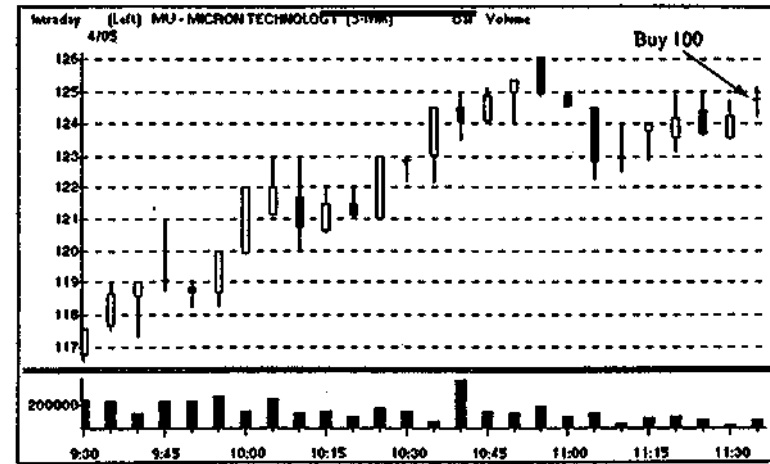
Back to the balcony I go. How can this be? It is a great day, and I am down almost \$900.00. I felt like I should have been up \$5,000.00 for the day as ORCL, CSCO, SUNW and the like were up significantly from their opening prices, and here I was, losing money. I needed to make a good trade.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

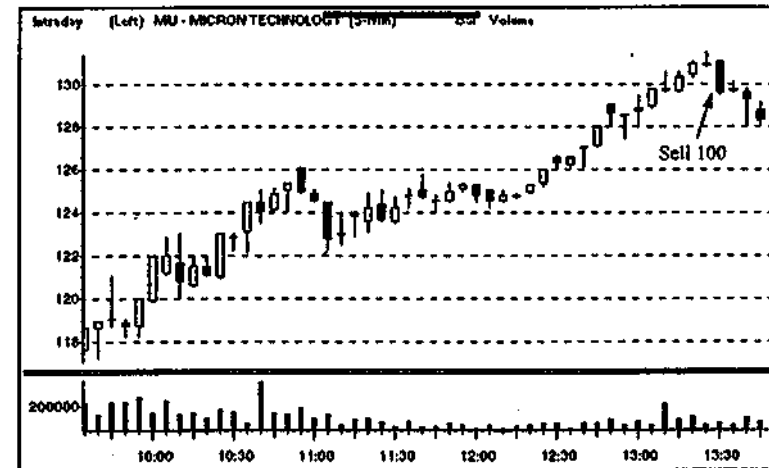
MU had a very attractive pattern on the daily chart. It was up on big volume,

and it just took out the highs it set two days ago.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

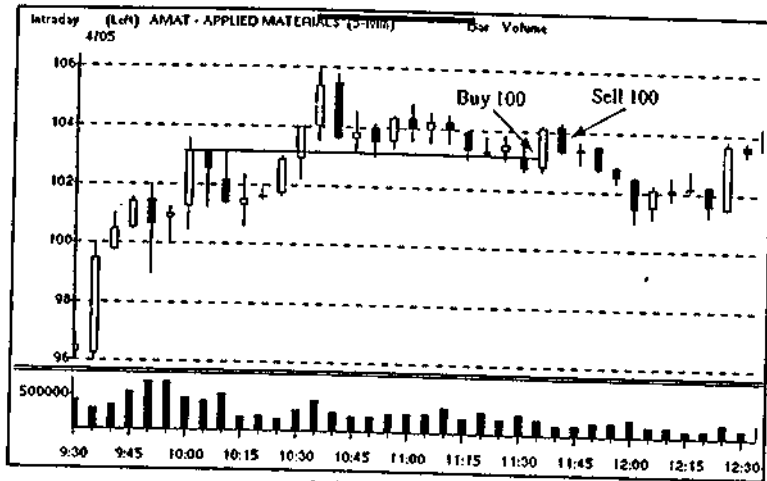
MU topped at 126, pulled back to 122 3/8, and was moving back up. I bought 100 shares at 124 11/16. I placed a stop loss at 122 1/8, just below the 122 3/8 lows.



MU trades as high as 131 7/16. My trailing stop was placed at 129 3/4. The stock reversed back down through 130 and activated my stop. I sold 100 shares at 129 3/4. A little smile crossed my face. I needed that one.

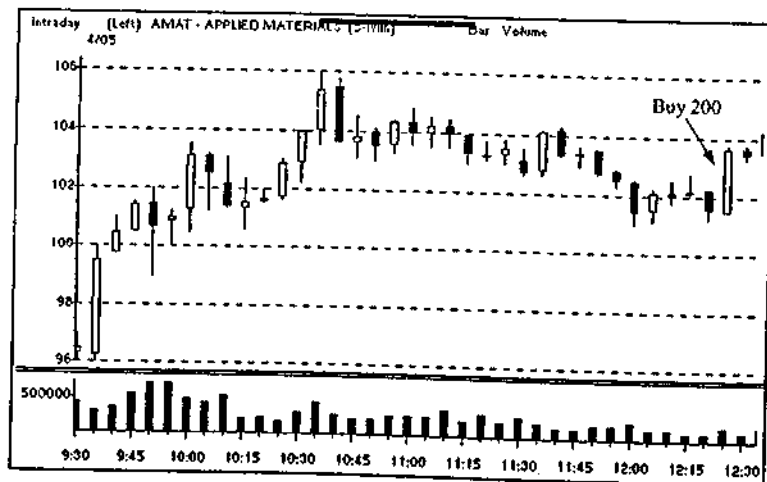
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	12468.75	12,975	10.44	495.81	3.98%



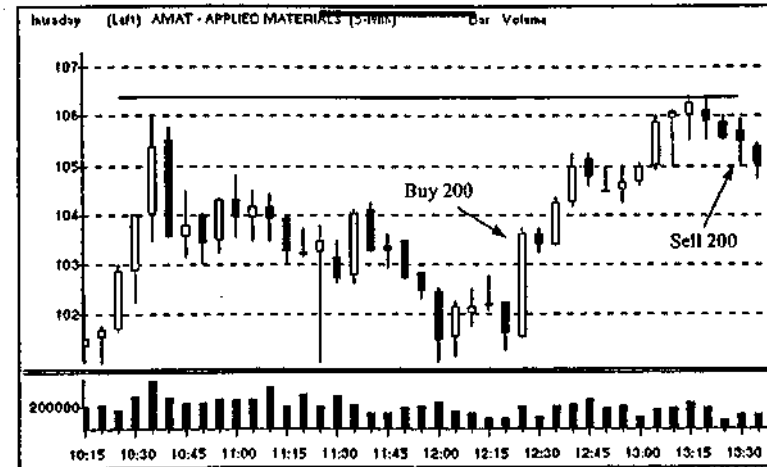


While I was in MU, I bought AMAT when it pulled back from the high at 106. I bought 100 shares at 103 3/8, and I sold 100 shares at 103 3/4. I couldn't let this one turn into a loser.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	10,337.50	10,375	10.35	27.15	0.26%

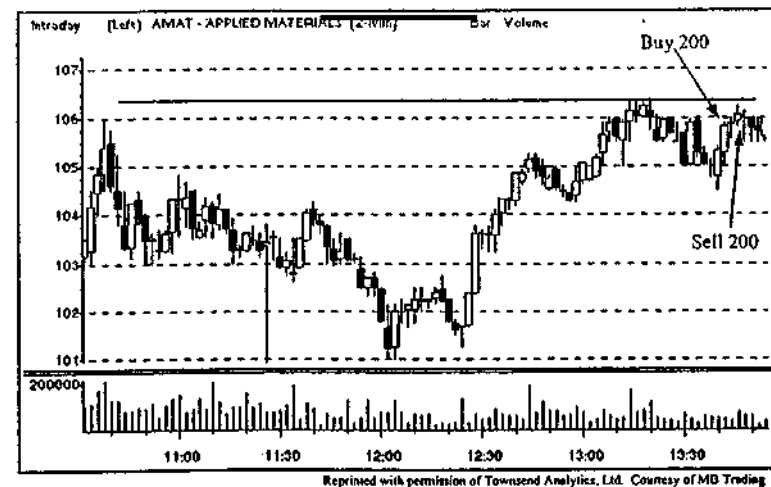


AMAT started to move back up, and I thought it could challenge the day's high at 106 and possibly the 52<sup>^</sup>week high at 110. I bought 200 shares at 103 5/8. My price target was 106 - 110, and I placed a stop loss a 102 5/8.



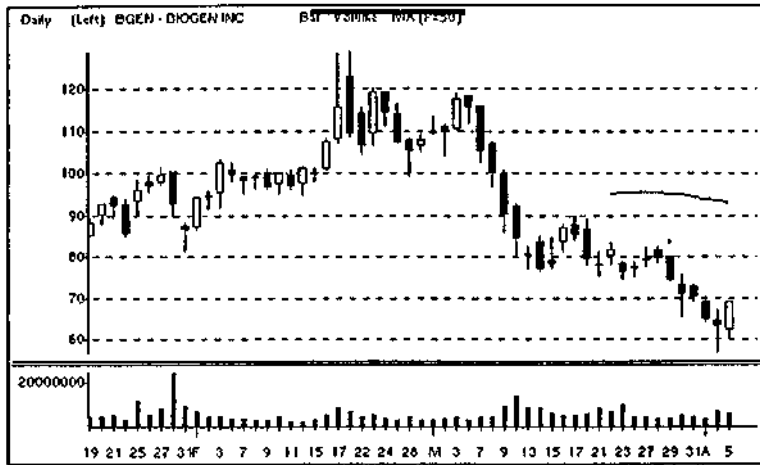
AMAT took out the top at 106, but couldn't muster a real run. It traded back down, and I sold 200 shares at 105 1/16.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	20,725	21,012.50	10.70	276.80	1.33%

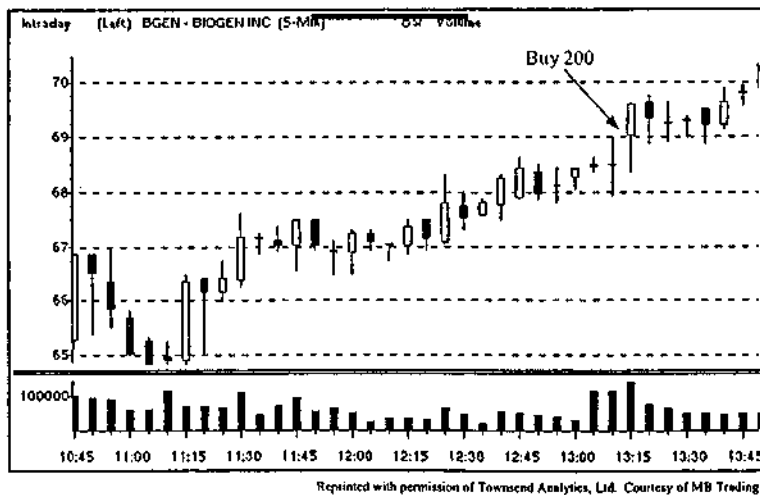


AMAT was challenging the top again. I bought 200 shares at 105 15/16. The stock failed to take out the top at 106 3/8 and started trading lower. I sold 200 shares at 105 3/4.

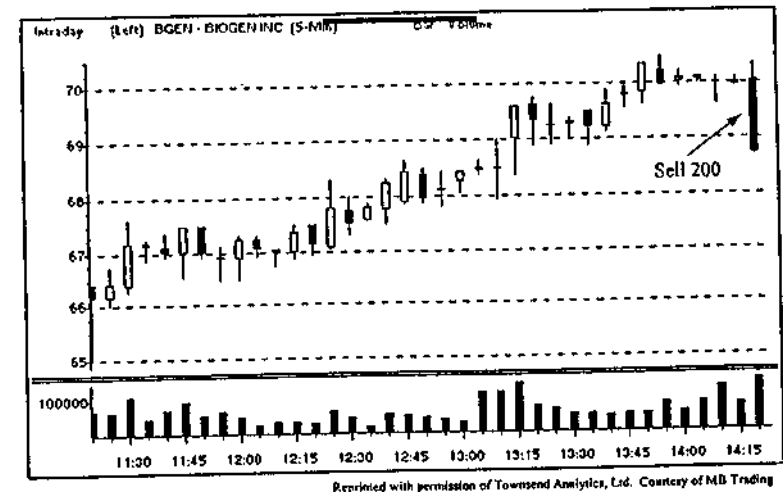
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	21,187.5	21,150	10.71	-48.21	-0.23%



BGEN showed up in my Pullback Scan. It has pulled back more than 50% from its 52-week high and was moving higher, on higher than average volume.

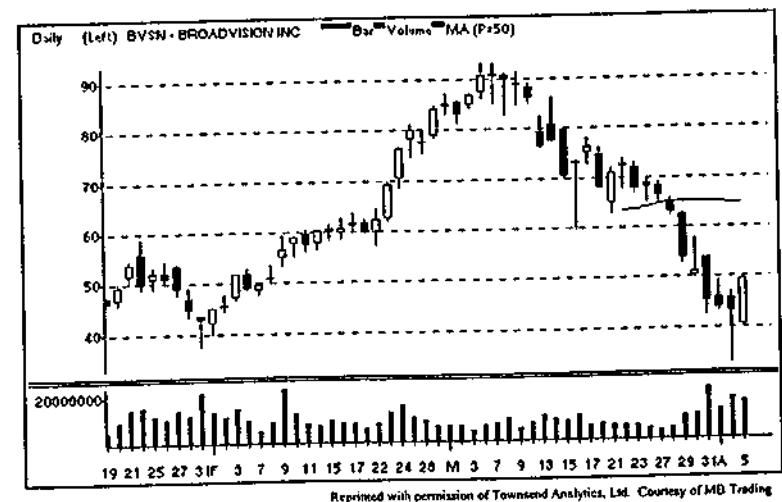


I bought 200 BGFIN at 69 1/8 as it broke out to a new intraday high. I placed a stop loss at 68 1/2.



The stock went as high as 70 1/2. I moved my stop loss to 69 1/2. The stock sold off and my stop was triggered. I sold 200 shares at 69 3/8.

Source	Investment	Proceeds	MBT	P&L	Return
Pullback Scan	13,825	13,875	10.47	39.53	0.29%

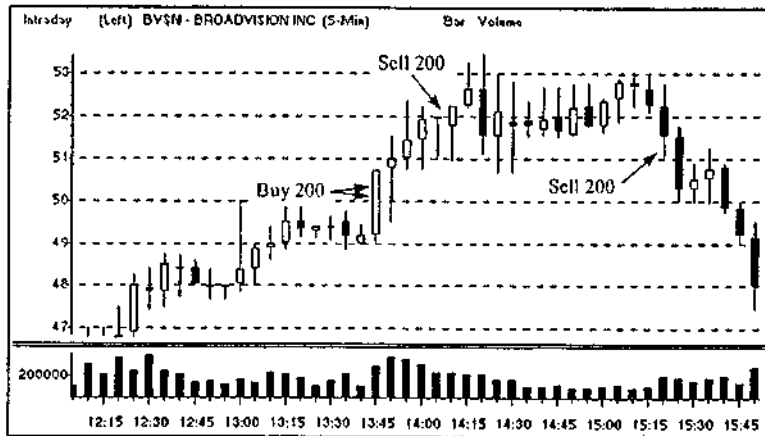


BVSN also showed up in my pullback scan. The stock has pulled back 60% from its 52-week high and was rebounding on higher than average volume.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

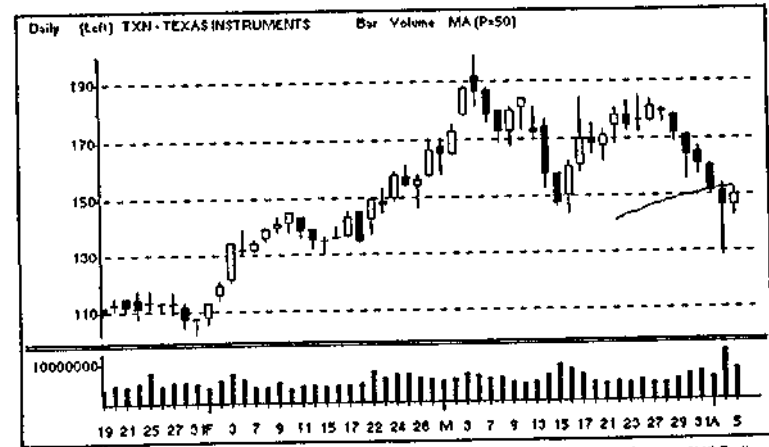
I bought 200 shares at 50.14, and I added 200 more shares at 50 7/16 as the stock broke out to a new intraday high.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

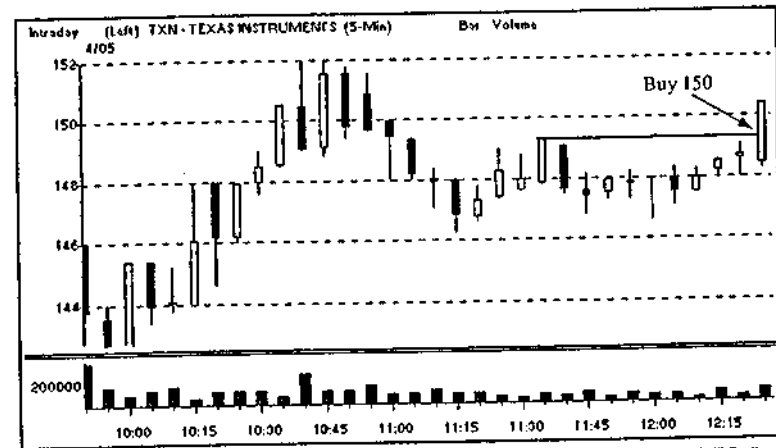
BVSXN had momentum behind it. It reached 52 and hesitated for a second. I sold 200 shares at 52. The stock then went up to 53 1/2 and pulled back. I was giving it some wiggle room. The stock attempted to take out the 53 level again at 3:10, but failed to do so. It started to sell off. I sold the remaining 200 shares at 51 1/8.

Source	Investment	Proceeds	MBT	P&L	Return
Pullback Scan	20,115.62	20,625	23.70	485.68	0.29%



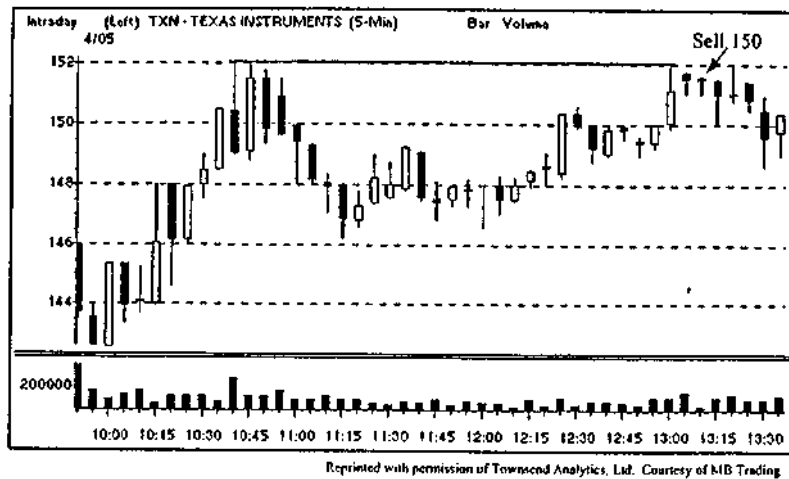
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I was bringing up semiconductor stocks on my watch list. TXN was trying to move over its 50-day moving average.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I bought 150 shares of TXN at 149 1/2 as the stock penetrated through the previous top at 149. I was expecting TXN to challenge the top price of 152 and possibly break out.



TXN went as high as 152. It was having problems at that level, and it may have formed a double top. I sold my 150 shares at 151 11/16.

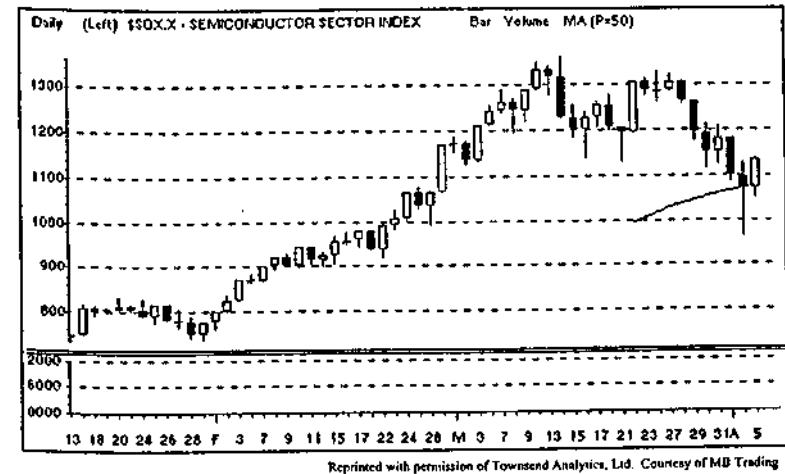
Source	Investment	Proceeds	MBT	P&L	Return
Sector Scan	22,425	22,753.12	10.75	317.37	1.41%

### Basket Trading

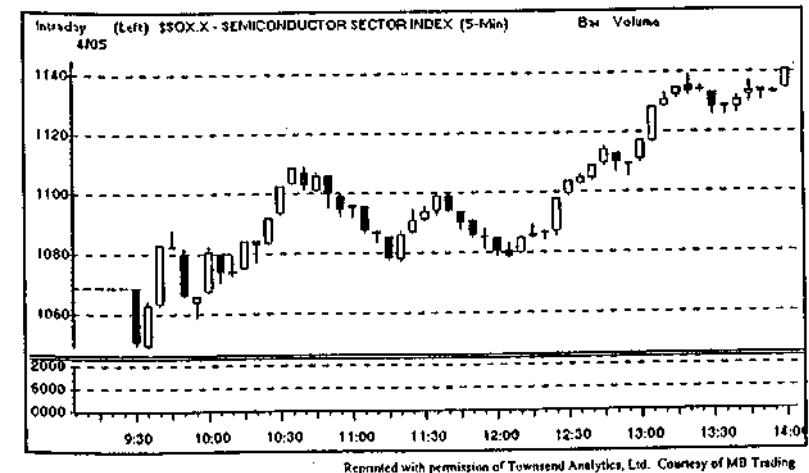
One of the strategies I use in my trading is to find the strongest sector and buy the strongest stocks in that sector. I try to create a "basket" of stocks that will both outperform the market and the sector they belong to. For my stock selection criteria, I simply look for the most known liquid names. Here is how I manage a basket position. As the index goes up, I sell the stocks in the basket that are going down or are flat. This permits me to stay in only the stocks that are going up. When the index turns down and violates support levels, I will liquidate the entire basket. Since I hold a group of stocks in the same sector, my position window, which updates dynamically with every tick, gives me a "real-time" view of what is taking place. My open P&L tracks the changes in bid prices for the entire basket. In many cases, the trade management of a basket would also be dependent on both the number of the stocks in the basket, which can be as high as 20, and the time frame for the trade.

By this point in the day, I had turned the day around, and I was up about \$700.00. That second break on the balcony really helped, and I felt as if I had the market in the palm of my hand. I was extremely bullish at this point, because the Nasdaq has come down 28% from the high on 3/24/00 to yester-

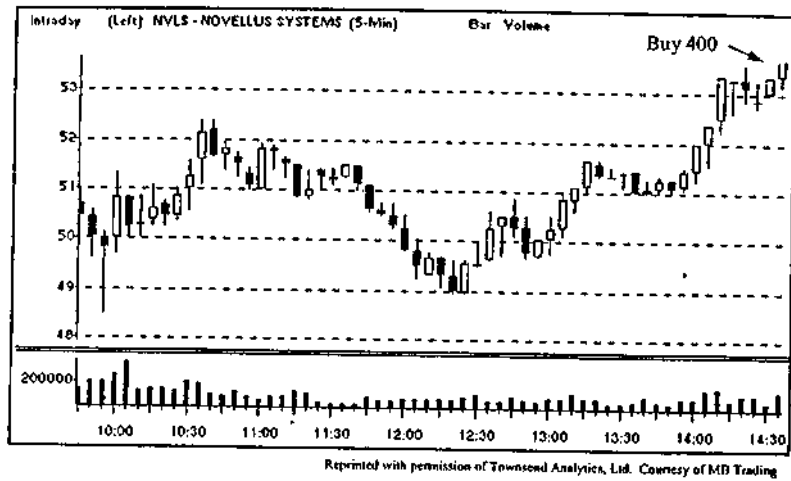
day's low, then after that extreme bounce, we are continuing to trade higher.



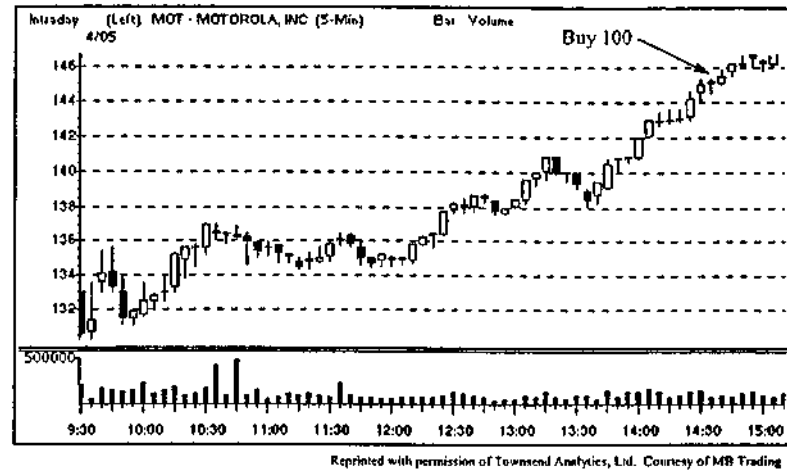
The SOX (Semiconductor Sector Index) has been outperforming the market for a while. I felt that more money was going to go into this sector as it is seen as a safe haven for many investors. The index was at 1140, and I expected it to go to 1200 - 1250 over the next few days. This would be a 5% - 8% move.



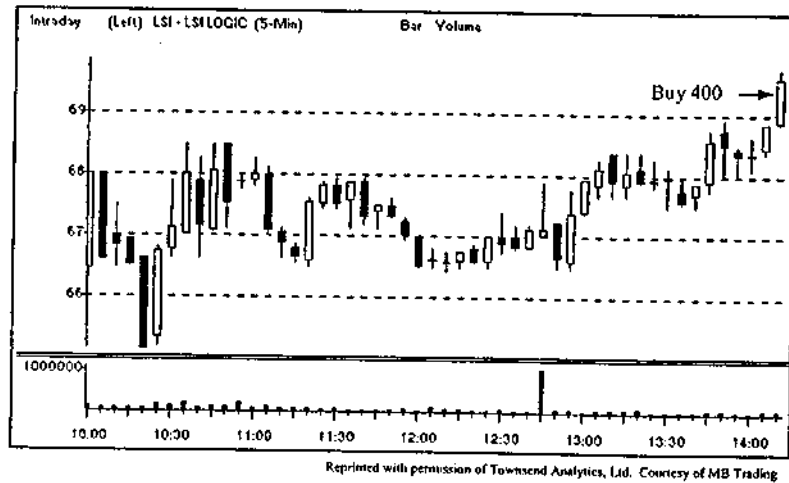
The SOX broke out to a new intraday high. At this point I was entering the following five stocks to create my basket: NVLS, LSI, MOT, PMCS, and VTSS. Keep in mind, that I will be trading these five stocks in direct relationship to the SOX.



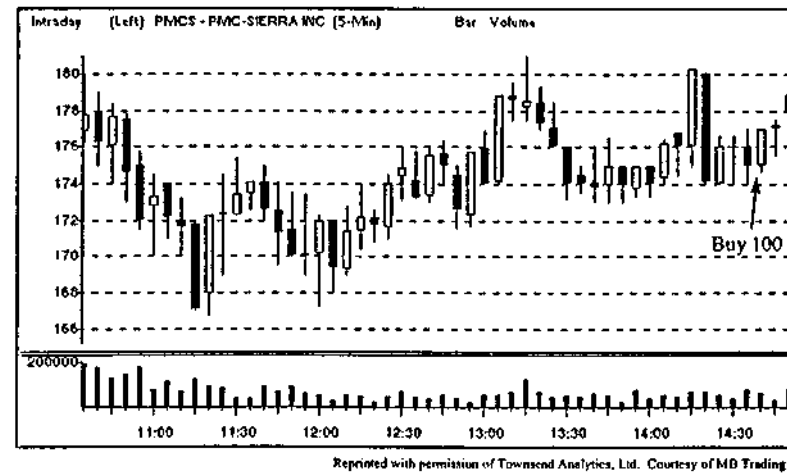
I bought 200 shares of NVLS at  $53 \frac{3}{8}$ , and another 200 shares at  $53 \frac{17}{32}$ .



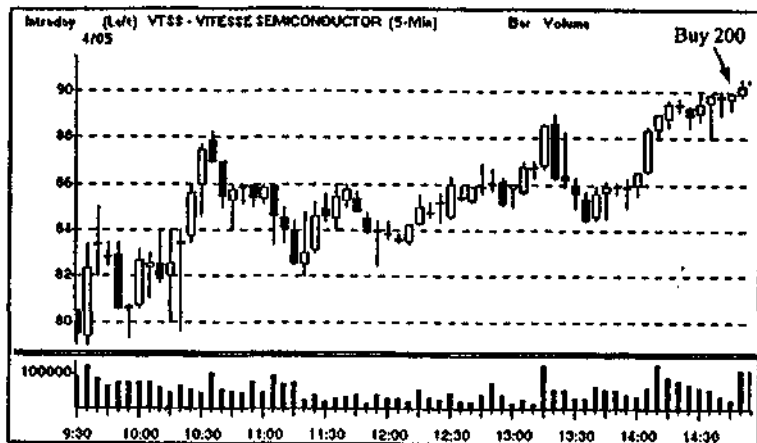
I bought 100 shares of MOT at  $145 \frac{7}{8}$ .



I bought 200 shares of LSI at  $69 \frac{1}{2}$  and another 200 shares at  $69 \frac{9}{16}$ .



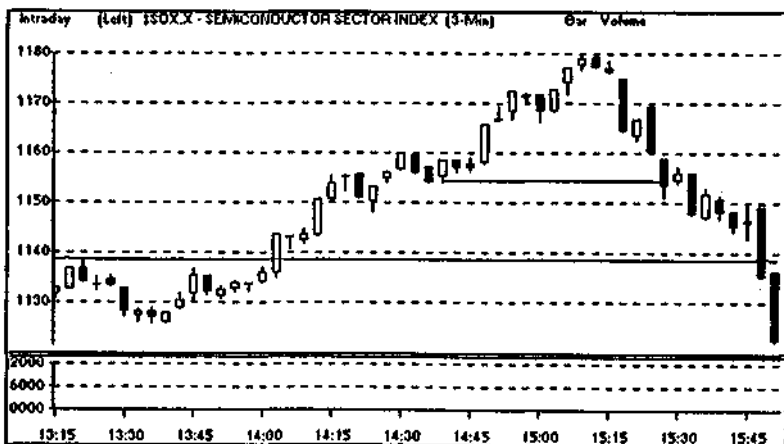
I bought 100 shares of PMCS at 174.39.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

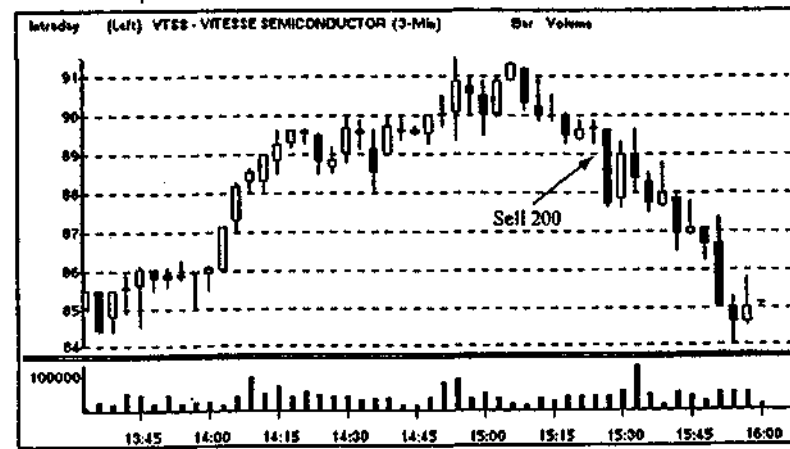
I bought 200 shares of VTSS at 90 9/16.

I was watching the SOX very carefully. My basket was doing well, and I was up over \$ 1,400.00 on my various positions. My plan at this point was to sell half of my basket if the SOX hits 1215, and let the rest ride. My stop loss on the position was if the SOX broke below 1140.



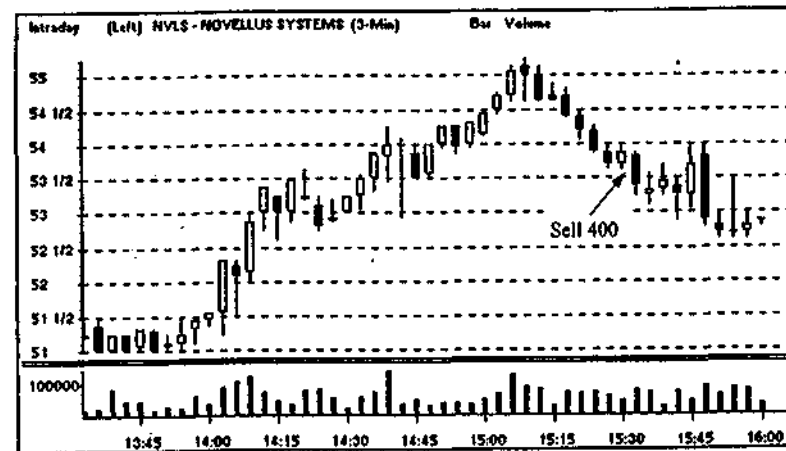
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

A trading system is made of rules and guidelines which you must follow religiously. There are no exceptions! The SOX peaked at 1180, and started to trade down. I have raised my stop loss to 1155 and as it broke through the support at 1155, I started to sell my positions.



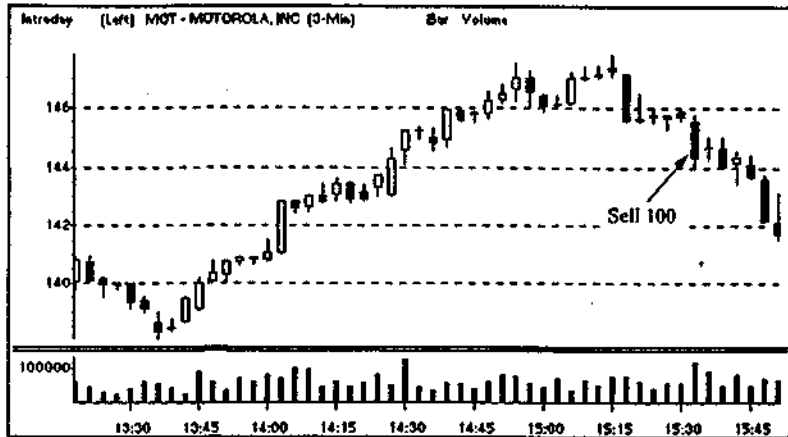
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The first stock I sold was VTSS. I actually sold it before the SOX broke down, because it was under performing the basket. I sold 200 shares at 89.



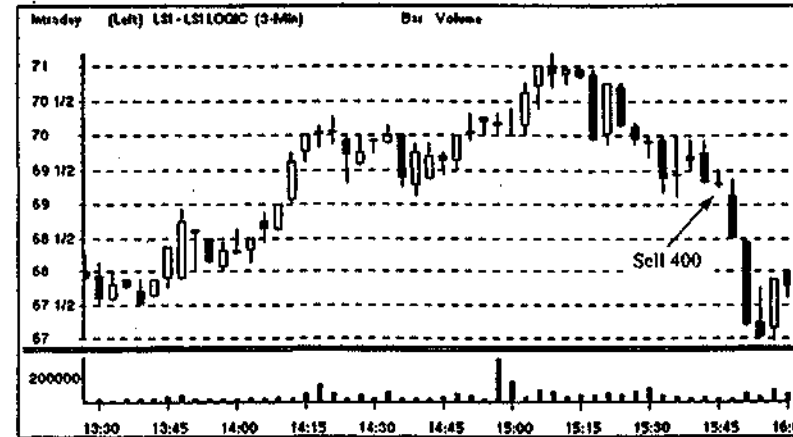
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The second stock I sold was NVLS. I sold 200 shares at 53 5/8 and 200 shares at 53 3/8.



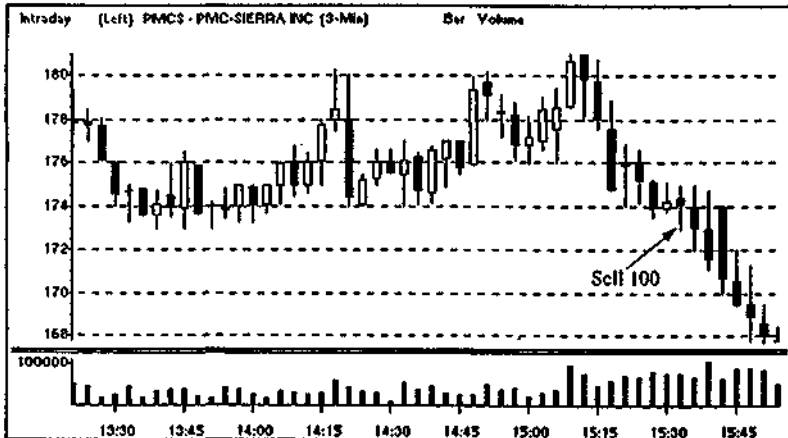
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I entered a market order to sell 100 MOT. The bid was 145 1/4 at the time. However, the specialist saw the selling pressure coming, so he opened up the spread. I sold 100 shares at 144 1/4. I wasn't very happy about this one.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I entered two orders to sell 200 shares of LSI at the market. I sold 200 shares at 69 1/8, and 200 shares at 69 3/16.

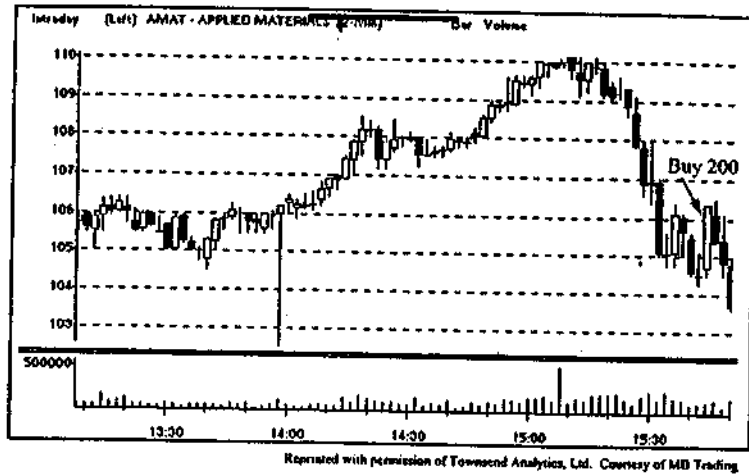


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

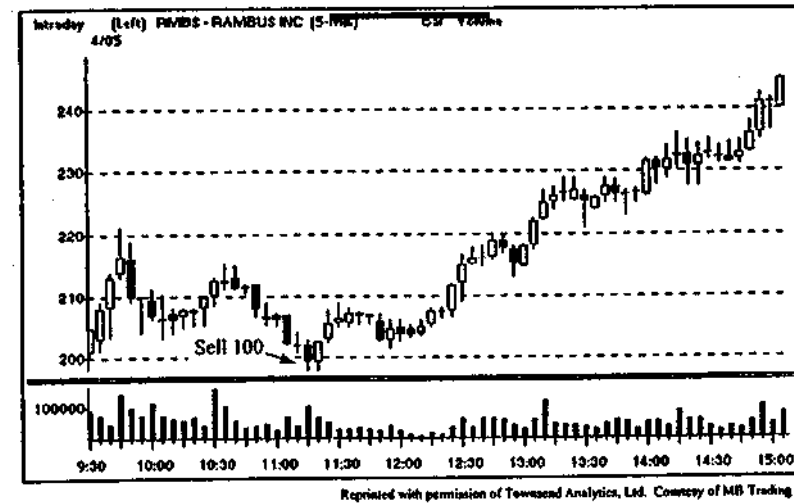
I sold 100 PMCS at 173.

Source	Investment	Proceeds	MBT	P&L	Return
Basket Trade	99,332.81	98,637.50	74.83	-770.14	-0.78%

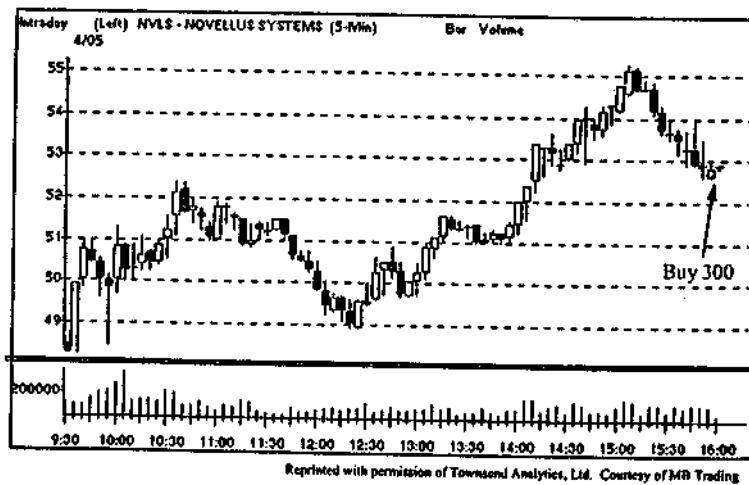
The basket trade did not work out in this case. I was not upset that I was up \$1,400 and ended up with a loss. On a percentage basis, the total wiggle of \$2,100, from the high value of the basket to the sale price of the basket is completely normal. In the past, basket trades like this have yielded me great returns. The secret is that you have to be right and sit tight. The only thing that bothered me was that I still felt we were going higher over the next few days, and I just lost my position. However, risk management and money management rules must be followed, no matter what my gut feeling tells me. This is the difference between a gambler and a professional trader.



AMAT is also in the semiconductor sector. It sold off really hard from 110 to 104 1/2. It then bounced, and I bought 200 shares at 105.98. I placed a stop loss at 103 1/2. My price target was another run to the top tomorrow.



Great traders never look back at what happened to a losing trade after they exit it. RMBS was my pick of the day. I traded it three times in the morning without any success. In fact my last exit was practically the low of the day. After the third trade on RMBS was completed, I simply took it off my trading screen, so I didn't see what took place later in the trading day.



NVLS did not sell off as hard as the rest of the market. It was a sign of strength, so I bought 300 shares at 52 13/16.

RMBS went as high as 248 1/2 after I sold it at 199 15/16. Things like that happen all the time, and it doesn't really matter where a stock goes after I sold it, because I have to execute my trades at my exit prices regardless if I am right or wrong in my analysis. If I don't have exit prices planned in advance, including stop loss and price targets, then I am not a professional trader. If things like this drive you crazy, go back to Day Five and look at all the positions I sold that day. If I was still holding these positions right now, I would be down \$17,575 from the price I sold them to the closing prices of today. I hope you are getting my point. The reason I have included a chart of RMBS in this section is not to say, "I was right in my initial analysis and here is the proof. See, RMBS went up to 248 1/2," but to bring up the importance of adhering to your trading system and risk management rules. The thing that drives me crazy about traders is that they always tell you about a great pick they had, and how they have left so much money behind. It is always about how much money they leave behind. I used to participate in these conversations myself, and I would share my grief about the trades that got away from me. In fact, I would even do so unintentionally while teaching a seminar. Now, every time I am about to tell a story about a trade that got away from me, I take a deep breath, and I tell myself, "No one really cares!" As they say, "Misery loves company." You might be in pain for letting a big winner go early, and you feel you have to tell the world about it. It



is not going to get you anywhere. Stop feeling sorry for yourself. It is impossible to be right all the time. When you are right and you have not capitalized on being right, you are simply wrong.

One of my dear friends bought XYZ stock at 70. The stock went up to 85, and he sold it. He never told me he was in the stock prior to him selling it, and after the stock has already declined back to 75. He was so proud of himself, because he bought it at 70 and sold it at 85, especially after the stock dropped back to 75; consequently, he did everything right. Me then said to me, "keep an eye on it and buy it if it trades higher than 85. I have a stop buy order on it at 85 1/2 myself." I never really followed XYZ stock; however, every time I spoke with my friend he would say, "did you see XYZ stock today? It went up a couple of bucks. It is my pick of the year!" A few months go by, and XYZ stock took out the 85 level. It was now at 180. My buddy is glowing. "I told you, it is my pick of the year," he says. XYZ goes up to 240 and announces a 3 for 1 stock split. "It is my pick of the year," my buddy says. The stock ten folds, it was a great pick. My buddy was right.

No! He was wrong! Although he made a great call, he never bought XYZ back once it hit his buy target! It was his pick of the year, and he has zero dollars to show for it. Moral of the story, put your money where your mouth is. Do not use the "I should have done ..." phrase. Only speak about your actions, learn from your profits and losses.

The final bell rang and the Nasdaq closed up 20 points for the day. The index gave back most of today's gains, but still managed to close up 143 points from the open. It was a very busy trading day for me. The technical problems this morning set the tone for the day. It was a roller coaster ride in which I finished the day pretty much even. I was very optimistic, trying to let profits ride; however, it proved to be very costly. I still managed all open positions according to all my risk management rules. Unfortunately, it did not yield big dividends today. I felt comfortable to hold NVLS and AMAT overnight.

Open positions: 300 NVLS, 200 AMAT.  
Total profit for 4/5/00: -\$83.08

**Day Thirteen Lessons**

**Technical problems are a big part of this business.**

**Learn how to create and trade a basket of stocks.**

# CHAPTER 17

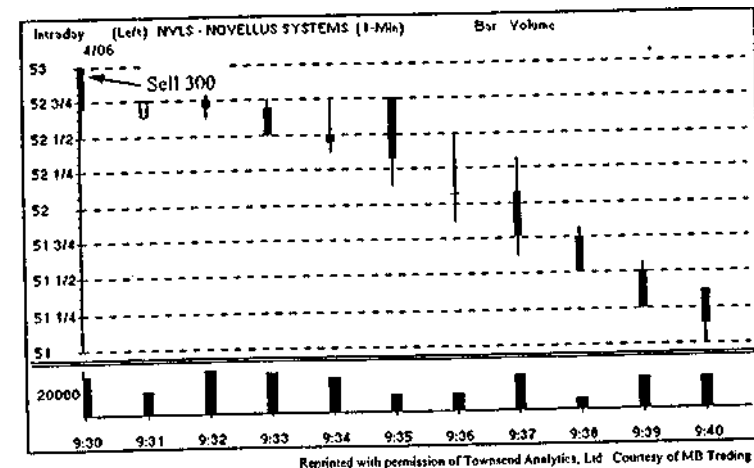
## Sitting Tight

### DAY FOURTEEN

Thursday, April 6, 2000

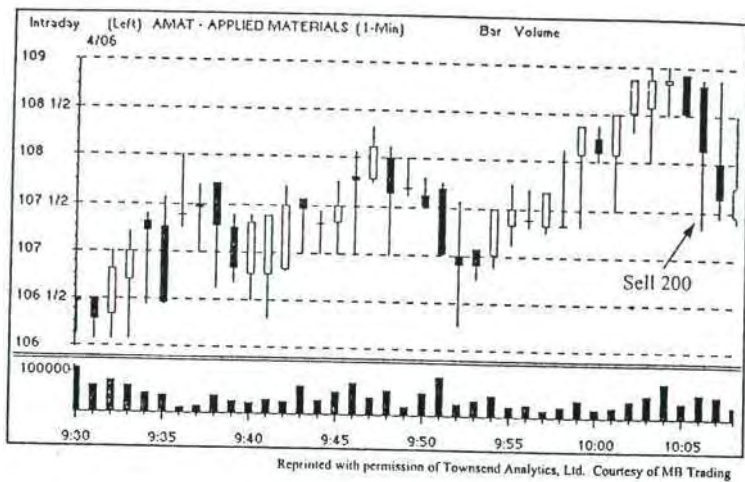
The futures were up sharply this morning, and I watched in envy the pre-market trading of my "basket," as it was trading sharply higher. I was holding two semiconductor stocks overnight, NVLS and AMAT. Unfortunately, NVLS announced that they would offer stock for sale to raise 500 Million dollars. Consequently, it was practically flat in pre-market trading, which showed weakness, because most semiconductor stocks were trading up sharply.

I decided to sell my position in NVLS before the opening bell. I sold 300 shares at 52 15/16.



NVLS opened at 53 and fell down hard. The street was not treating NVLS the same way other stocks in the same sector were being treated today. The lack of strength pre-market was a clear signal to get out.

Source	Investment	Proceeds	MBT	P&L	Return
Overnight	15,843.75	15,881.25	11.03	26.97	0.17%

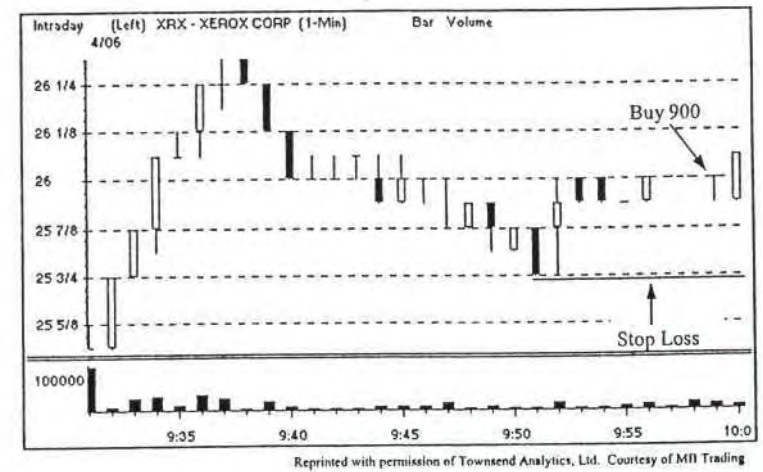


Unlike NVLS, AMAT gapped up and ran from the open. I was sitting tight in this trade. I wanted to give AMAT a chance to breakout to a 52-week high. Once AMAT hit 109, I moved my stop loss to 107 3/4. I felt that the 108 level should hold, but it didn't. AMAT traded down and triggered my stop loss. I sold 200 shares at 107 1/2.

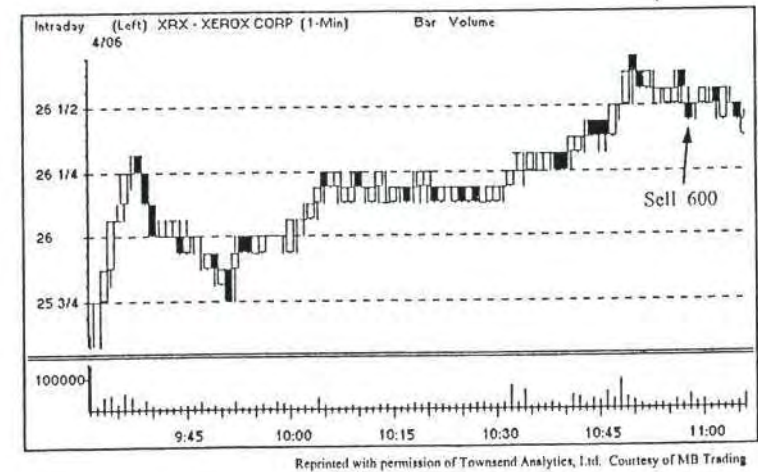
Source	Investment	Proceeds	MBT	P&L	Return
Overnight	21,191.81	21,500	10.72	297.47	1.40%



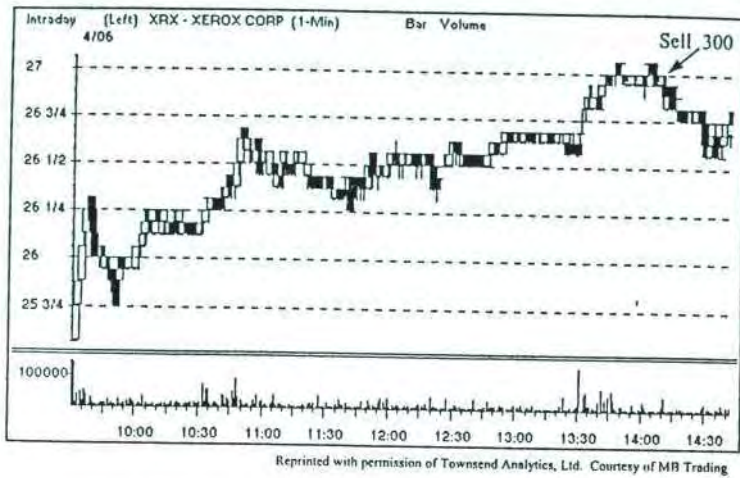
I have had XRX on my Constant watch list for a while. Today, I noticed that XRX seem to have bottomed two days ago and is now trading up.



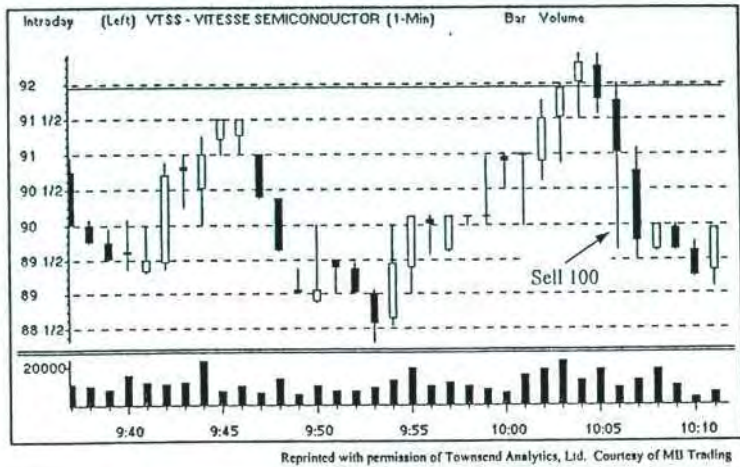
XRX ran from the open. It topped at 26 5/16, then it went down to 25 3/4 where it found support. It bounced back up to 26, which presented some resistance for the stock. As soon as the offer on the stock went up to 26 1/16, I entered three limit orders to buy 300 shares. One was priced at 26 1/16, one was priced at 26 1/8, and one was priced at 26 3/16. To my great surprise, I had all three orders filled at 26, so I bought 900 shares of XRX at 26.00. My price target was 28 - 29, and I placed a stop loss at 25 11/16.



XRX topped at 26 3/4. I remembered how fast things turned around yesterday, so I moved my stop loss for 600 shares to 26 7/16. XRX traded lower and activated my stop. I sold 600 shares at 26 7/16.

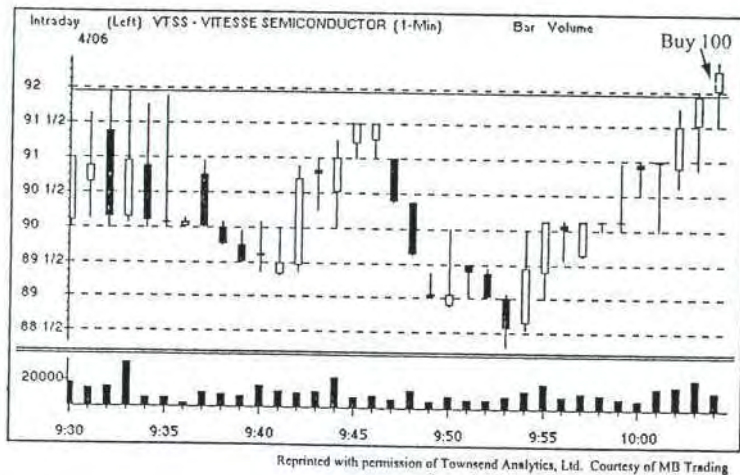


After I sold 2/3 of my XRX position, it traded as low as 26 1/4. It then moved back up and went as high 27 1/16. There was a lot of resistance there. The stock tried to take that price level out again, but was failing to do so. I didn't like the signs of weakness, so I sold my last 300 shares at 27.

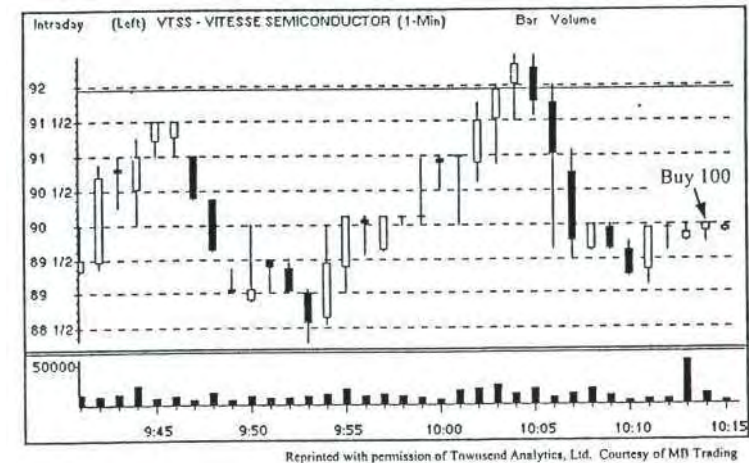


Indeed, it was a mistake. I had to give the trade a lot more wiggle room, than I would give a trade that was entered on a pullback. As VTSS pulled back and traded under 90, I sold 100 shares at 89 15/16.

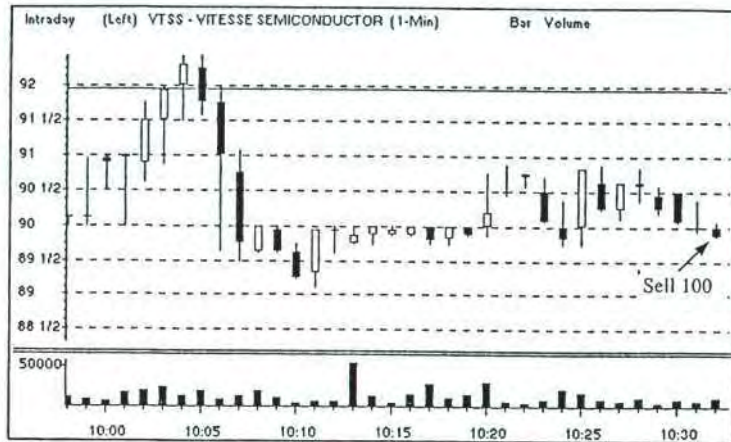
Source	Investment	Proceeds	MBT	P&L	Return
Watch List I	23,400	23,987.50	25.81	561.69	2.40%



VTSS broke out to a new intraday high. I bought 100 shares at 92 5/16. This was a pure reaction trade on my part, to a stock that was running. Normally this is a BIG mistake. But the excitement of getting in on a nice run got the best of me and I jumped in without thinking.



Once VTSS bounced back up from 89 3/8, I bought 100 shares at 90. My price target was 92 - 95, and I placed my stop loss at 89 1/4.



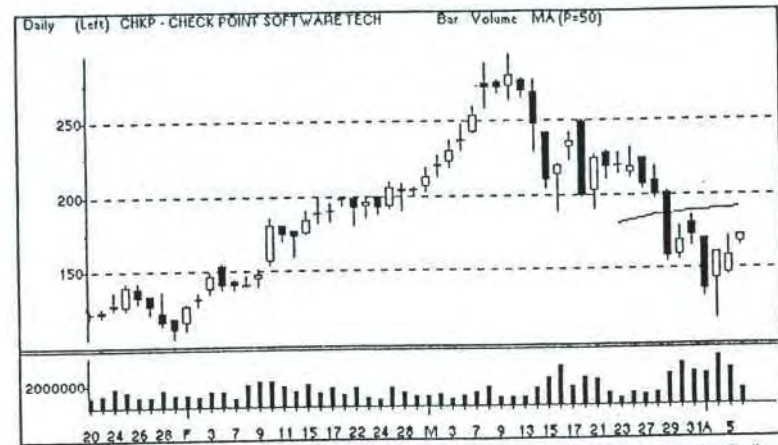
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

VTSS traded up to 90 3/4. It was in a trading channel between 89 3/4 to 90 3/4. *RSSF* was the Ax on (he stock. He was at the inside offer the entire time. Another interesting thing was that *BTRD*, which is an ECN, was constantly at the inside offer as well. It is normal to have an ECN at the inside market; however, *BTRD* would be the only one at the inside showing 100 shares for sale. What caught my attention was that thousands of shares would trade at that price, and *BTRD* was still showing 100 shares. How can it be?

Actually, it happens all the time. There is a fascinating way to deceive traders who use Level II quotes. Let's say I wanted to sell 10,000 shares of XYZ stock. I can place a *RESERVE* order on ARCA to sell 10,000 XYZ stock at 33, showing only 100 shares at a time. My order is hidden. If anyone looked at the Level II montage, they will see 100 shares are available on the offer at 33 on the ARCA ECN. These 100 shares, can trade over 100 times.  $100 \times 100 = 10,000$ .

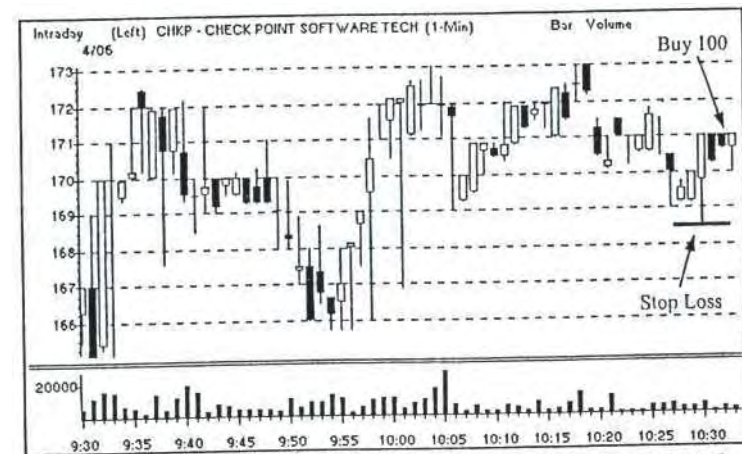
Since I noticed that there was an obvious seller on *BTRD* using reserve orders to hide his hand, I decided to get out of the trade. I sold 100 shares at 89 13/16.

Source	Investment	Proceeds	MBT	P&L	Return
Watch List 1	18,233.35	17,975	22.10	-258.35	-1.42%



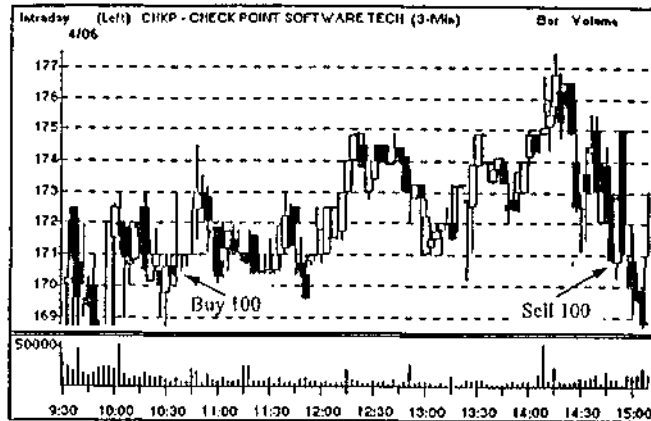
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

CHKP is on my Constant watch list. It has been moving back up after a 55% pull back in price. It was trading at the high of the day, and I felt that the stock could go back up to the high 190's.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

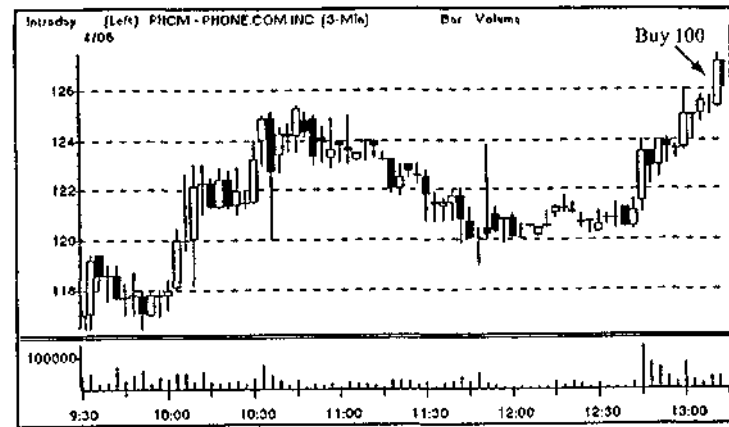
CHKP bounced at the 169 level, which looked to be a decent support level for the stock. I bought 100 shares at 170 7/8. My price target was 180 - 195. I placed a stop loss at 168 1/2.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

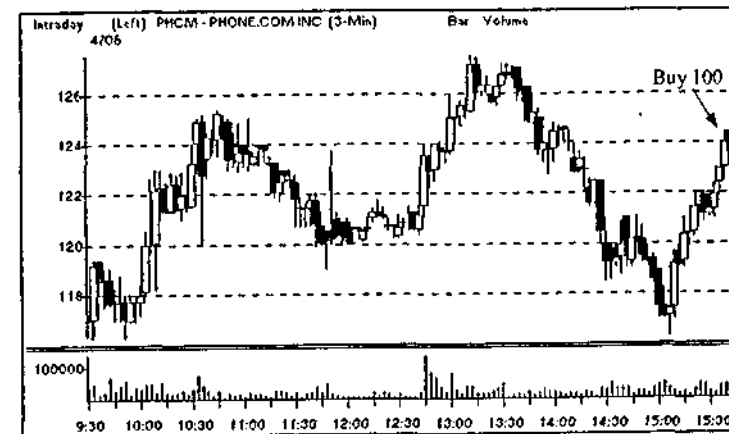
The stock traded up all the way to 177 1/2. I raised my stop loss to 171. I was going to give this trade the wiggle room it needed as I was a believer that CHKP could easily reach 200 and possibly 220. Was greed clouding my better judgment? Yes! CHKP pulled back down and activated my stop loss. I sold 100 shares at 170.47 I wasn't upset at all. I wanted to give a volatile stock a chance to make me big money, and I ended up sacrificing a few hundred dollars of paper profit for that potential reward.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	17,087.5	17,047.5	10.57	-50.57	-0.30%



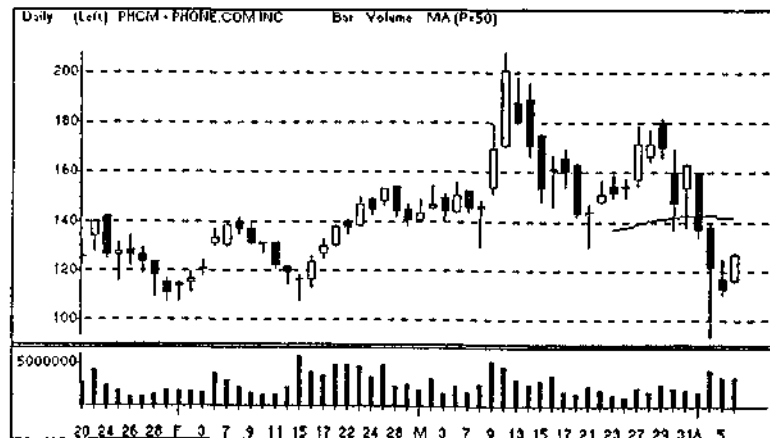
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

PHCM broke out to a new intraday high. I bought 100 shares at 127 1/4. My price target was 160. I placed a stop loss below today's low at 116 1/2. I was going to give PHCM some real wiggle room. I felt I was right and I should sit tight.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

There were a lot of buyers in the stock and one very serious seller. *HMQT* was a very active Ax. He sold the stock so hard that it almost took the low of the day out. Lucky for me, it didn't. The stock bounced up, and I bought another 100 shares at 124 1/8. The market was in strong rally mode into the close. However, *HMQT* was selling PHCM hard. He did not let the stock run with the market. He had to sell today. I have seen many of these incidents happen, but I was not going to let *HMQT* shake me out of my position, no way! PHCM closed at 118 and was trading at 122 - 125 in after-hours action, I wasn't worried. I had my money where my mouth was.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

PHCM showed up on my Fullback Scan. It has pulled back over 55% from the highs set 3/10/00. I thought the stock could bounce back up to 140- 160.

The bulls won the battle today as the Nasdaq closed in the green two days in a row. When the final bell rang, the index was up 98 points from yesterday's close. Let's see if we can make it three days in a row, bouncing off the extreme intraday low we hit on Tuesday. I am sitting tight in my PHCM position.

Total profit for 4/6/00: \$577.00  
Open positions: 200 PHCM

**Day Fourteen Lessons**

**Sitting tight on conviction has its rewards, but only if you keep your stops.**

**If a stock shows weakness in pre-market trading relative to its sector, consider exiting the trade.**

**It is important to identify the Ax and to stay out of his way when you day trade; however, if you are entering a longer term swing trade, don't let the Ax shake you out of your position.**

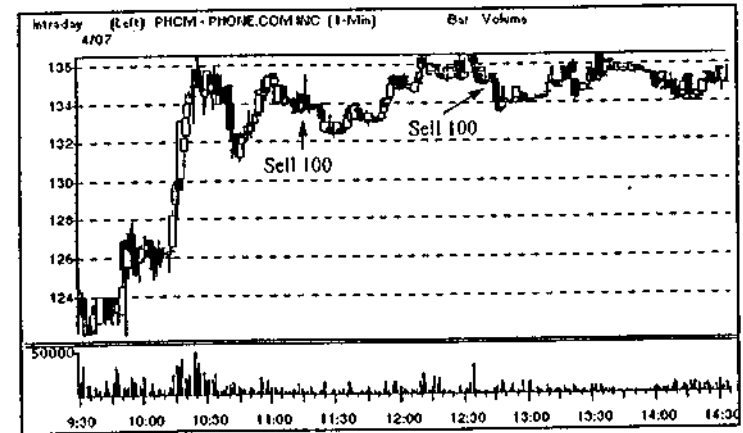
# CHAPTER 18

## Thank God It's Friday

### DAY FIFTEEN

Friday, April 7, 2000

I felt very tired this morning. It has been a long week, and I was looking forward to the weekend. The sentiment in the street was very bullish. The market gapped up open and my overnight position looked promising. I was somewhat concerned about next week, which will be the official kickoff of the earnings season. I wrote in my notes for today not to carry any positions over the weekend.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

PHCM had a nice run from 122 to 136 1/2. It pulled back to 131. I was sitting tight. The stock made another run from 131 to 135. I didn't like the fact that the stock could not reach the top, so as it pulled back from 135, I sold 1/2 of my position, 100 shares at 133 5/8. At 12:15 PM, PHCM went up to 136 1/2 again and couldn't make a higher high. At 12:35 PM, it hit 136 1/2 for the third time today and couldn't penetrate through. *HMQ* was back at the inside offer. Since 136 1/2 was a major resistance level for the stock, I sold 100 shares at 134 3/4. I didn't like the downside risk at this point.

Source	Investment	Proceeds	MBT	P&L	Return
Pullback Scan	25,127.50	26,837.50	20.90	1,689.10	6.72%

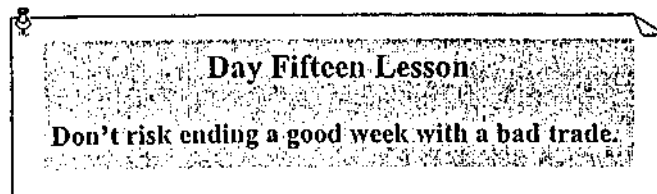
Once I closed my PHCM position, I decided to call it a day and end the week. I was very happy with my results for the week. I did not see any setup that I wanted to trade, and I wasn't going to risk having a bad trade ruin my weekend. I wanted to start next week on a strong note, taking off the profits made on my last trade and the entire week.

Open positions: None  
Total profit for 4/7/00: \$1,689.10

Ding! Ding! The weekend is here signaled the closing bell. The bulls won again, and the Nasdaq was up 178 points from yesterday's close. The Third week of the challenge was over. It was a great week in which I was able to capitalize on some great opportunities. On Monday, I started the week trigger happy, and I ended up basically flat. The Nasdaq was down 349 points that day, so I was very happy that I didn't lose a lot of money. Tuesday was a record volatility day. After I had two losers in SUNW and CIEN, I was finally able to have a good entry on ORCL, CIEN and CSCO. I ended the day with big profits. On Wednesday, I had technical difficulties and frustrations, which were costly. I was able to turn the day around, but I gave it all back on my basket trade. Thursday was an average day with the regular winners and losers. On Friday, I closed my overnight PHCM position and closed the week with a big winner.

My total profits for week three were \$5,826.86. I faxed MB Trading a request for a check in the amount of \$6,000.00. After all, Friday is payday!

<b>Southwest Securities</b> 1201 Elm St. Suite 3500, Dallas, TX 75270	<b>SIPC</b>	<b>REG-5B</b> 1113	<b>214354</b>
<b>PAY *****6,000DOLLARS 00CENTS</b>	<b>DATE</b> 4/ 7/00	<b>AMOUNT</b> \$*****6,000.00	
<b>Pay To</b>  <b>TONY OZ</b> <b>LAGUNA HILLS, CA 92654</b>			



# CHAPTER 19

## After-Hours Trading

### DAY SIXTEEN

Monday, April 10, 2000

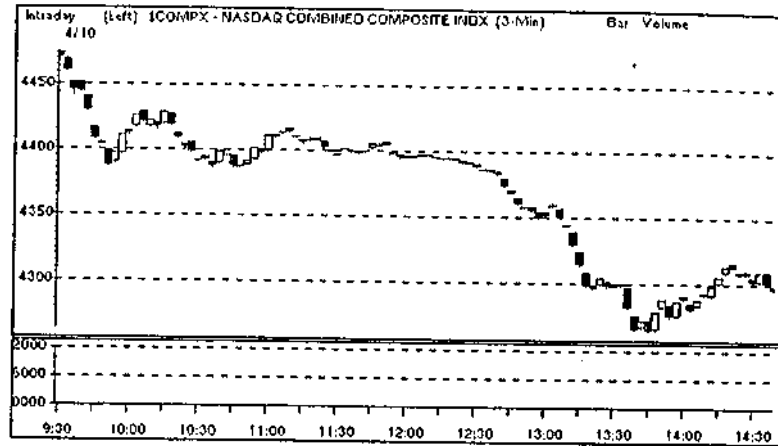
I had a very interesting weekend with my family. My sixteen-year-old brother came to visit me. He is a junior in high school, and he is trying to make the football team for his senior year. The T-shirt he was wearing caught my eye. It said, "Play to win or get off the field."

We were talking about his experiences in training camp, and I was admiring the will power and discipline my brother has been demonstrating. He is determined to make the team this year, but above all, he has faith that he will. I was amazed to hear about the physical and emotional pain his peers have to go through as they are trying to fulfill their dream of dressing up on Friday night and having their number called to get on the field for the next play.

I felt it was pure. There was no money on the line to motivate these young souls; however, there is nothing they want more than to be on the team and play to win. They will give their heart and soul in their effort to be the best they can be. I learned a great lesson this weekend watching the evident pain on my brother's face. What was amazing though, he didn't complain about it even once. On the contrary, I saw pride in his eyes. He is proud of his accomplishments, and above all, he is doing something he truly loves and enjoys.

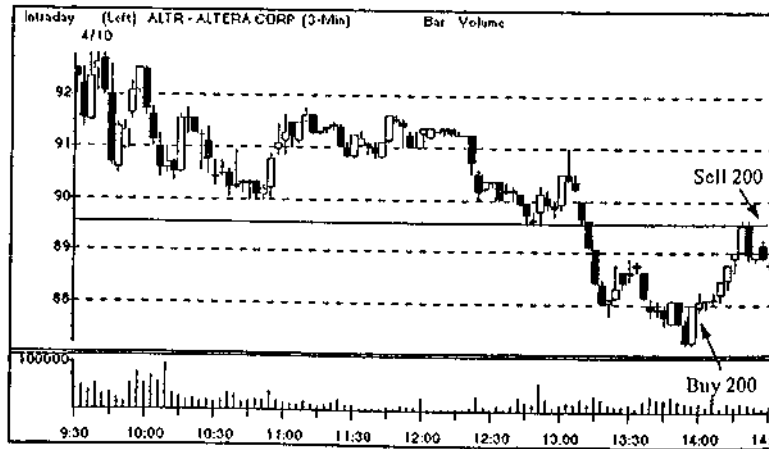
Although my motivation is not as pure as my brother's, since there is a lot of money on the line in my profession, I still felt that I had something in common with him. We both love, and are proud of, what we do. I truly love trading stocks, and I consider myself very fortunate to be able to do it full-time. If you ever wanted to take on this profession, I think it is very important that you understand that the most important aspect of trading stocks for a living is having fun with it. Do you look forward to the open of the market everyday? Does the market still interest you? You must have a passion for the market and truly enjoy what you are doing. It is no secret that most people can only excel at something they truly enjoy doing.

I did an extensive research this weekend, and I came to the conclusion that the market might be weak over the next few days. The reason I came to this conclusion was simply because the Nasdaq has bounced 800 points from the low it set on Tuesday to the closing number on Friday. This was quite a run, and it may be time for a rest.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The Nasdaq gapped up and sold off sharply. The classic morning bounce, which took place at 9:50, was weak. The index then flat-lined and traded in a tight channel for two hours. At 12:45, it started to sell off sharply. It found some support around 4270 and started bouncing back up around 1:45.

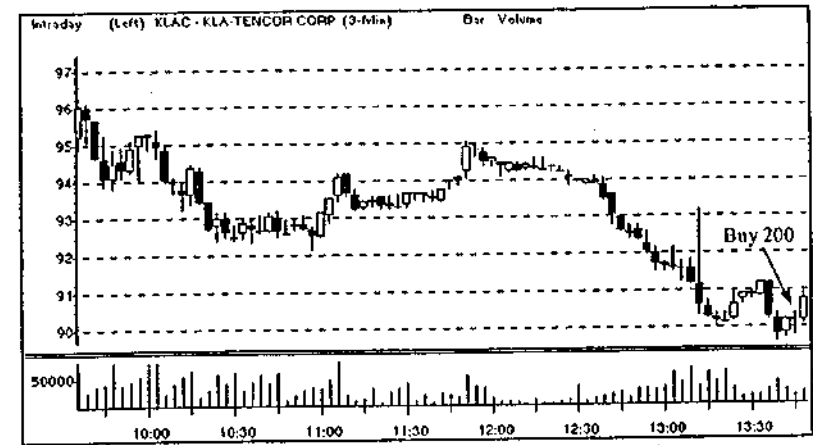


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

As the index bounced, I bought 200 shares of ALTR at 87 7/8. I placed my stop loss at 87 1/8, which was below today's low. My price target was

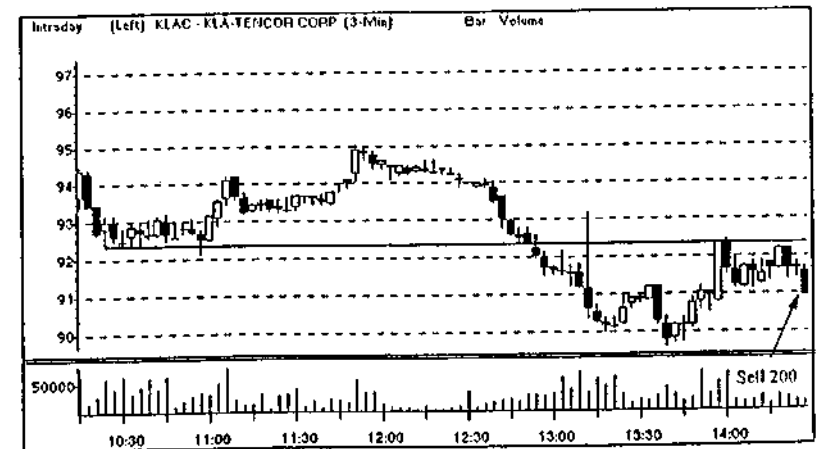
90 - 92. ALTR traded up to 89 1/2, which was the previous support level at 12:45 PM. This support level was penetrated and now was acting as resistance. Once I saw ALTR could not break through the resistance level, I sold 200 shares at 89 1/16.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	17,575	17,812.50	12.10	225.40	1.29%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

At the same time I was in ALTR, I also bought 200 KLAC at 90 1/4. My price target was 94. I placed a stop loss at 89 11/16, which was below today's low.



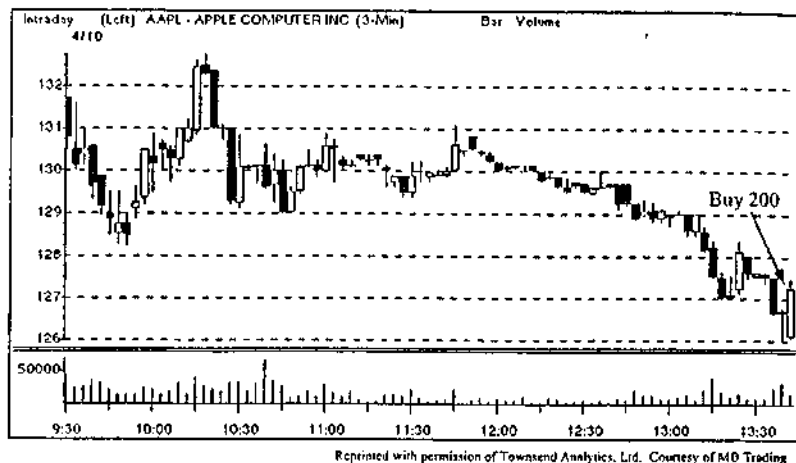
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

KLAC had a very quick bounce. It went as high as 92 1/2, which was the



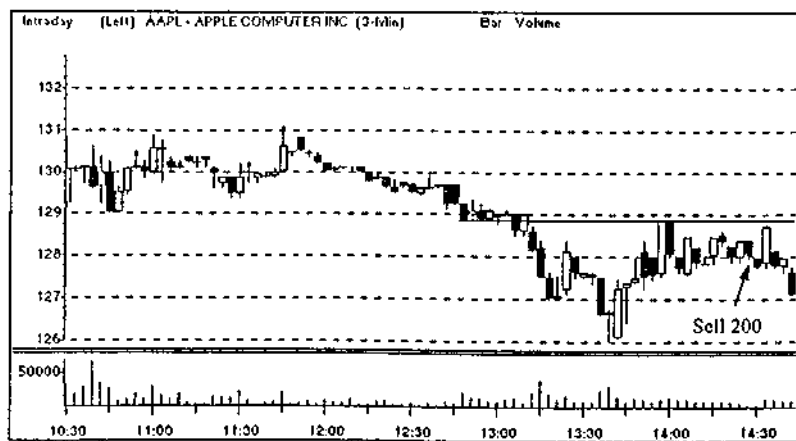
price level of the morning lows. It pulled back a little, then tried to make it to that price level again at 2:18, but failed to do so. It turned back down, so I sold 200 shares at 91 1/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	18,050	18,225	10.62	164.38	0.91%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

While I was in both ALTR and KLAC, I also bought 200 shares of AAPL at 127 1/16. My price target was 130-131. I placed a stop loss at 125 15/16, just below today's low.

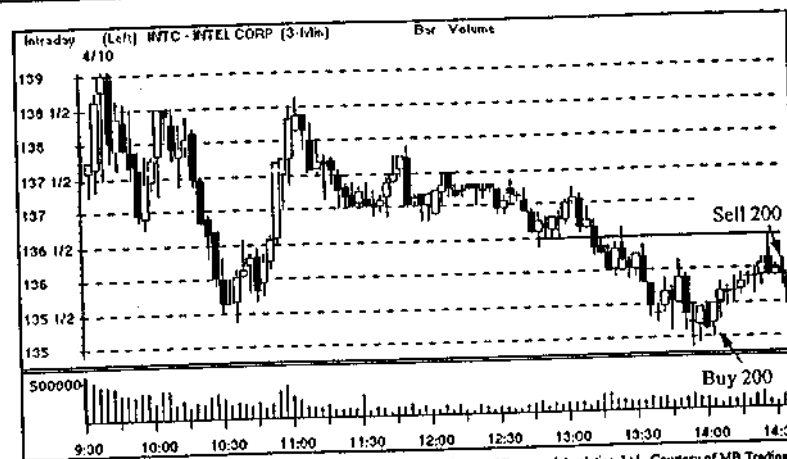


Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

If you watched any of these three examples carefully, support and resistance were classic. AAPL topped at 128 7/8, which was the bottom of the bear

flae it set from 12:45 -1:10 prior to breaking down. I was hoping to get a little bit more out of each one of these positions than the very next resistance level so I did not have sell orders ready at those levels. I wanted to give each one of my trades a chance, therefore, I didn't capture the maximum hindsight profits. Once I saw AAPL was struggling, I sold 200 shares at 128.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	25,412.50	25,600	10.86	176.64	0.69%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

While I was in KLAC, ALTR and AAPL, I also bought 200 shares of INTC at 135 1/8, also playing a bounce off the bottom. My price target was 136 1/2, and I had a stop loss placed at 134 3/4, which was just below today's low. I had been managing four open positions at the same time. INTC ran up to 136 1/2. I did have a sell order for 200 shares at that price, but, I didn't get picked up. The stock then reversed and traded lower. I cancelled my limit order to sell for 136 1/2 and sold 200 shares at 135 15/16.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	27,025	27,187.50	13.92	148.58	0.55%

I closed all four positions, and I made a total profit of \$715.00. It was no home run, but it felt good to start the final week of the challenge with four winners. As the challenge was entering its last week, I was feeling more and more relaxed. I would be lying to you if I said there was no added pressure to perform well during these four weeks; however, I felt that I was just doing my usual thing - trying to take money out of the market.

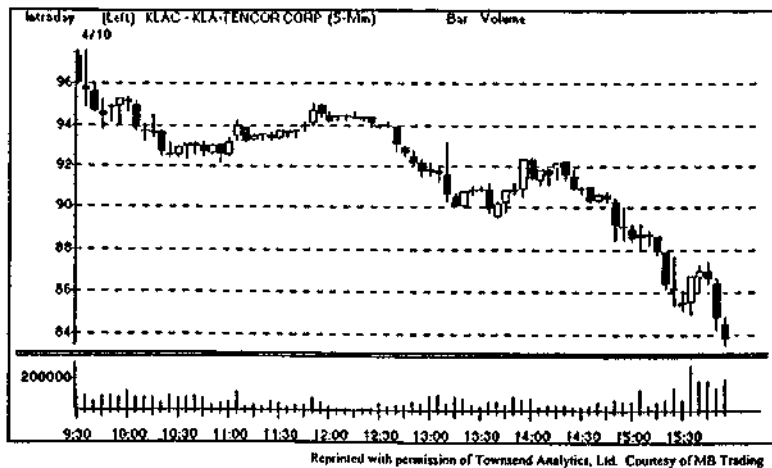
When I was planning for this last week of trading, one of my goals was to trade smarter than I did in the previous three weeks. When I log into my trading software every morning, I have to enter my password. I feel that I should tell you what my password is (which means I will have to change it once this book is published). My password is "Trade Smart." This has been a good reminder every morning before I execute my first trade that my first goal in trading is to trade smart.

From the time in which I closed my positions to the closing bell, the market went straight down and closed at the low of the day. The Nasdaq was down 287 points from the open and closed down 258 points from Friday's close. The bears were once more in the driving seat. For obvious reasons, I did not carry any long positions overnight. I managed to have a positive day in a big down market and that was a great feeling. I felt that I traded smart today.

### Do You Believe in Free Money?

This is going to make a very interesting lesson; however, I must disclose that I might never again be able to do what I am about to tell you right now, anytime in the future, nor that I was able to do it in the past.

The following is a chart of KLAC. It was the second stock I traded today, and it is a stock I watch on a daily basis. It is on my Constant watch list. I bought KLAC earlier today at 90 1/4, and I sold it at 91 1/8 around 2:20. As you can see the stock sold off hard and closed the day at 83 13/16.



After the bell, I was entering my executed trades into my journal. I was watching the after-hours action on the four stocks I traded earlier. KLAC Level II montage looked like this:

<b>KLAC</b>	t	v 5,159,300	H 97 5/8		
POS		83 13/16	L 83 1/2		
NEWS 4/10/00		-13 5/8	O -13 1/2		
Name	Bid	Size	Name	Ask	Size
REDI	81	100	ISLD	84 7/8	100
ISLD	80	200	REDI	85	600
INCA	80	300	INCA	85	700

The spread opens up after-hours, because the market is not very liquid. The best bid for KLAC as shown on the Level II montage is at 81 for 100 shares on the REDI ECN. The second best bid is for 200 shares on ISLD ECN at 80, and for 300 shares on INCA ECN. The best offer is 84 7/8 for 100

shares on ISLD ECN. The second best offer is at 85. There are 600 shares offered at that Price on REDI ECN, and 700 shares offered at that price on INCA ECN.

Something very interesting happened next. There was someone who really wanted to buy KLAC, and there was someone who really wanted to sell KLAC. They both entered orders almost simultaneously. This is what the Level II montage looked like.

<b>KLAC</b>	t	v 5,159,300	H 97 5/8		
POS		83 13/16	L 83 1/2		
NEWS 4/10/00		-13 5/8	O -13 1/2		
Name	Bid	Size	Name	Ask	Size
INCA	84	2000	ISLD	81 1/8	800
REDI	81	100	REDI	85	600
ISLD	80	200	INCA	85	700

I couldn't believe my eyes. Before you could say "click," I already clicked

on the offer and bought 300 shares at 81 1/8 on ISLD. I immediately clicked on the bid and sold 300 shares at 84 using ARCA.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	24,337.50	25,200	15.34	847.16	3.48%

The Level II montage looked like this for another fraction of a second or so:

KLAC	t	v	5,159,300	H	97 5/8
POS			83 13/16	L	83 1/2
NEWS 4/10/00			-13 5/8	O	-13 1/2
Name	Bid	Size	Name	Ask	Size
INCA	84	1700	ISLD	81 1/8	500
REDI	81	100	REDI	85	600
ISLD	80	200	INCA	85	700

I did it again, buy 300 at 81 1/8 on ISLD, sell 300 at 84 on ARCA.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	24,335.50	25,200	15.34	847.16	3.48%

After these orders were executed, the Level II montage looked like this:

KLAC	t	v	5,159,300	H	97 5/8
POS			83 13/16	L	83 1/2
NEWS 4/10/00			-13 5/8	O	-13 1/2
Name	Bid	Size	Name	Ask	Size
INCA	84	1400	ISLD	81 1/8	200
REDI	81	100	REDI	85	600
ISLD	80	200	INCA	85	700

Three time is a charm. Buy 300 at 81 1/8, I only got 200 shares filled because that was all that was left on ISLD. Sell 200 shares at 84 on ARCA

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	16,225	16,800	13.56	561.44	3.46%

After the last order was executed, the Level II montage looked like this:

KLAC	t	v	5,159,300	H	97 5/8
POS			83 13/16	L	83 1/2
NEWS 4/10/00			-13 5/8	O	-13 1/2
Name	Bid	Size	Name	Ask	Size
INCA	84	1200	ISLD	84 7/8	100
ISLD	81 1/8	100	REDI	85	600
REDI	81	100	INCA	85	700

The 100 shares circled on the Bid on ISLD were the left over of my last order to buy 300 shares on ISLD. I cancelled the order for the remaining shares.

That was a lot of fun wasn't it? I realize that many of you are confused and don't understand exactly what took place. To simplify things, think of it as two different exchanges. I bought KLAC from one exchange, and I sold it on another exchange for a higher price, because the buyers there were willing to pay more. You may also be confused by the fact that I entered my sell orders on ARCA when the best bid at 84 was on INCA. The reason I did that is simply because ARCA has a direct link to INCA, so it was a quicker way for me to enter the order before someone else would have seen what I saw and would have nabbed the shares before I got to them. It would have taken a while for me to check the SelectNet Preference box etc. If you notice, my orders were entered in multiple of 300 shares. The reason is that my default was set that way. I was not going to try and change the number of shares in my default, that would have taken a few precious seconds and would have possibly taken the opportunity away. I had to be fast.

I agree this is not exactly free money, but it wasn't my birthday, so it felt like it was. I now felt that this is going to be a great week. I have a feeling I would be talking about this last trade for a long time. It would be very challenging to try and explain it to my wife tonight.

Open positions: None  
Total profit for 4/10/00: \$2,970.76

**Day Sixteen Lessons**

**Your number one goal is to trade smart.**

**The after-hours market is inefficient, so be careful when you place trades after-hours.**

# CHAPTER 20

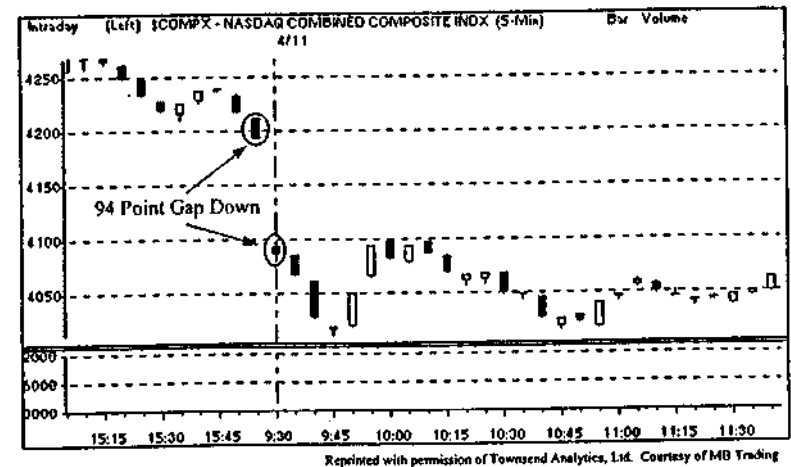
## Nasdaq Looking for Support

### DAY SEVENTEEN

Tuesday, April 11, 2000

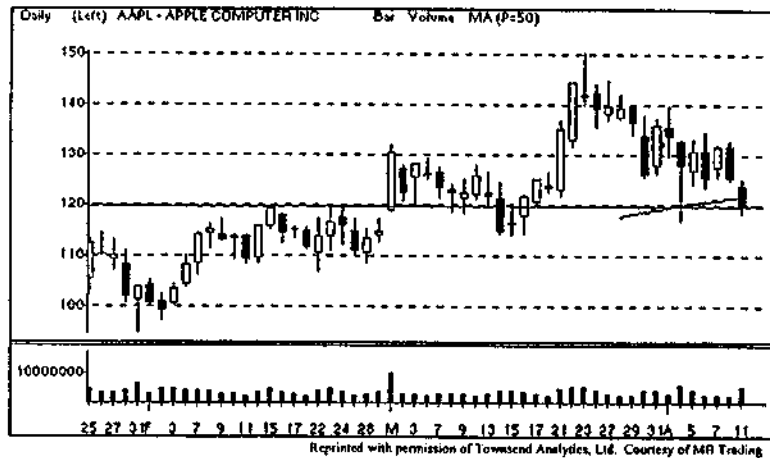
The sell off yesterday indicated that caution must be taken today. The Nasdaq closed at the low of the day, which indicated that there was an 80% chance of making a lower low today. Anytime an index closes at the bottom 10% of its day's trading range, there is an 80% chance of making a lower low the following day. If an index closes at the top 10% of its day's trading range, there is an 80% chance it will make a higher high the following day. The higher high or the lower low can take place anytime during the day, so these stats do not necessarily imply that the index will actually gap open to that higher high or a lower low.

The futures were down sharply this morning and tech stocks were trading lower in pre-market trading. When the opening bell rang, the Nasdaq opened down 94 points. I was in my sniper position watching my Constant list of stocks for a buy-the-dip opportunity.

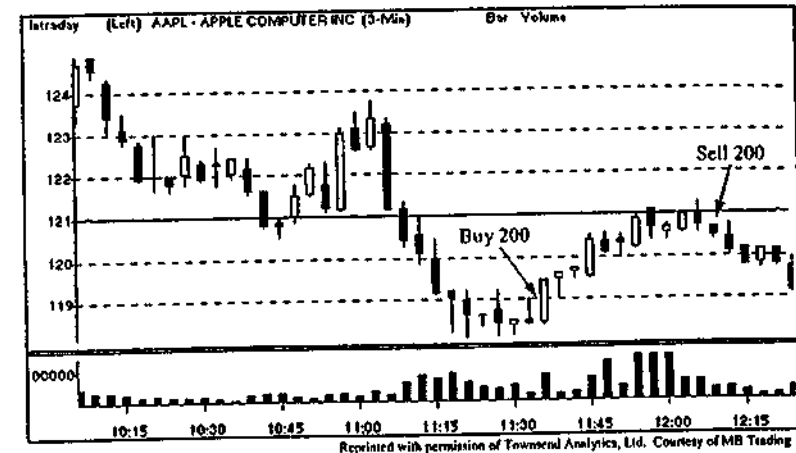


Following its 94 point gap down, the Nasdaq sold off another 85 points within the first 15 minutes, and was down 179 points from yesterday's close. The Index found support at 4015, and turned back up. 4100 was about

where it opened, and served as resistance around 10:00. The index turned back down, again, to the 4020 level. We were now in a defined channel between 4015 which is the support level and 4100 which is the resistance level.

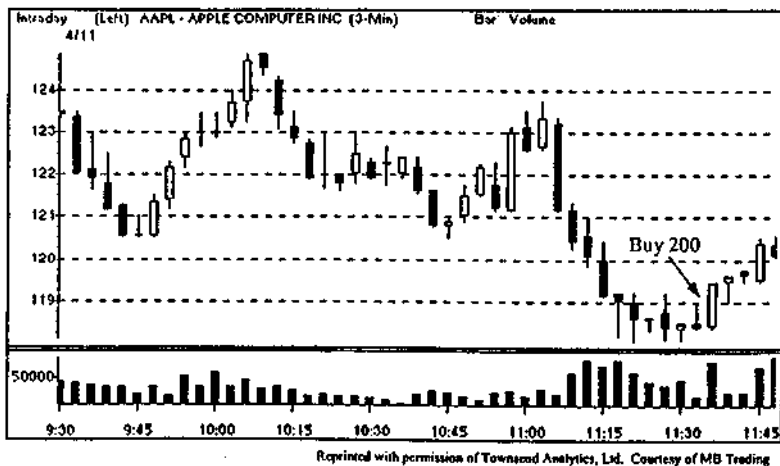


AAPL was trading around 120. It just broke under its 50-day moving average, and I felt that the 120 level should be good support for the stock. If that level is to hold, I felt that AAPL should go back to the 132 level, which was the top area during the previous four days and in the beginning of March.

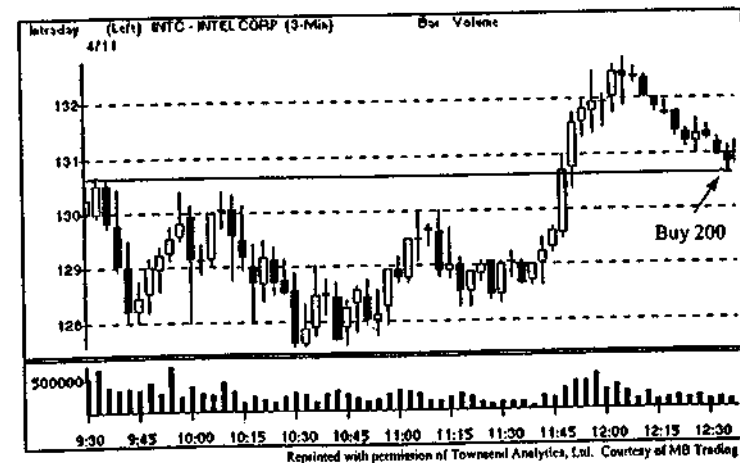


AAPL hits the first level of resistance at 121 1/8 at 11:57 and turns back down slightly. I am giving it a little bit of wiggle room at this point. The stock makes another attempt to take out the resistance level at 12:06 but is only able to trade 1/16 of a point higher than the high at 11:57. This was a sign of weakness, so I sold 200 shares at 120 9/16.

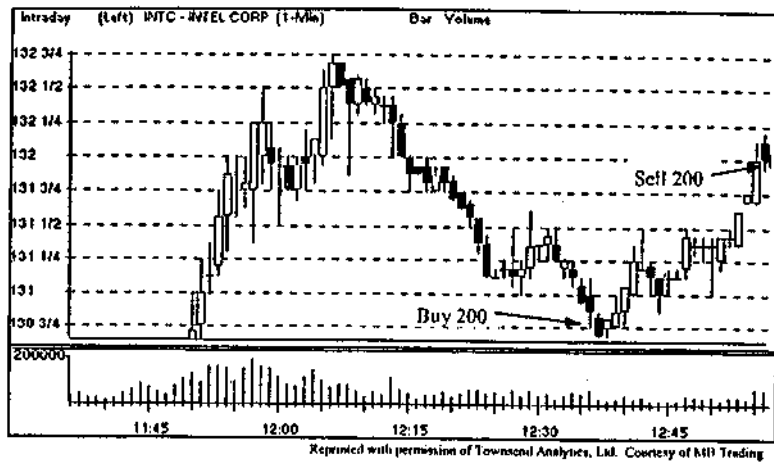
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	23,812.50	24,112.50	10.81	289.20	1.21%



The Nasdaq held the 4020 level and started to move back up. AAPL seemed to have found a bottom as well. Note how the volume was drying up from 11:15- 11:35. The volume increased and AAPL penetrated through 119. I bought 200 shares at 119 1/16. My price target was 122 - 130. I placed a stop loss at 118 1/8, which was below today's low.

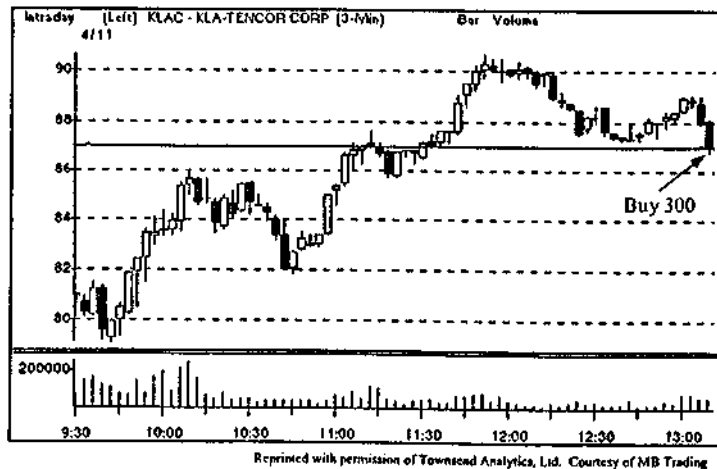


INTC had a strong showing. Once the Nasdaq bounced, INTC outperformed it and broke out to a new intraday high at 11:55. I was waiting for INTC to pull back. I had a buy limit order in at 130 13/16, which was 1/8 of a point higher than the morning top (9:30). INTC pulled back and I got a fill. I bought 200 shares at 130 13/16. I placed a stop loss at 129 15/16.

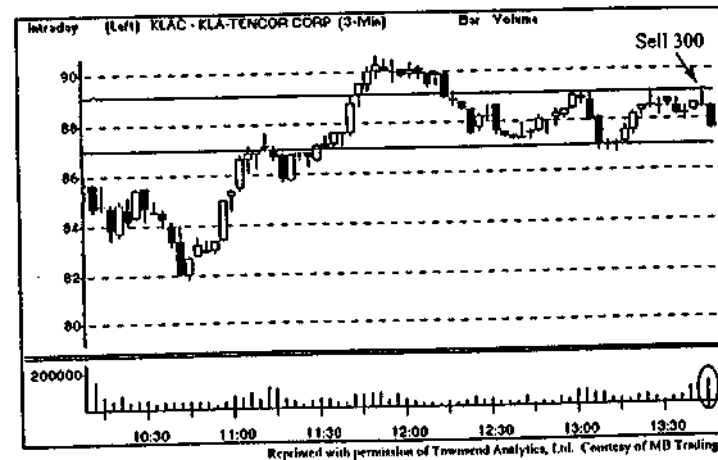


INTC bounced at (he support level of 130 3/4. It was gaining momentum, and it penetrated through 132. The action on the Level II screen suggested that INTC had lost momentum. I moved my trailing stop up to 131 15/16. INTC went under 132, and I sold 200 shares at 131 15/16.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	26,162.50	26,387.50	10.88	214.12	0.82%



KLAC pulled back from the day high of 90, and was trying to bounce at the support level created by the tops it had between 11:00 - 11:45. I bought 300 shares at 87 5/8. I placed a stop loss at 85 15/16, which was just below the high the stock made at 10:06. My price target was 92 1/2, which was resistance when I traded it the previous day.



KLAC bounced at support, but it hit resistance at 88 7/8 around 1:30. Fifteen minutes later, the stock traded through 88 7/8, but could not go through 89. *MSCO* was axing the stock at 89. He was the only one at the inside offer. Note the volume spike when KLAC was trying to take out the resistance. Once I saw that *MSCO* was not likely to leave his inside offer position, the stock started to tick down, and I sold 300 shares at 88 5/8.

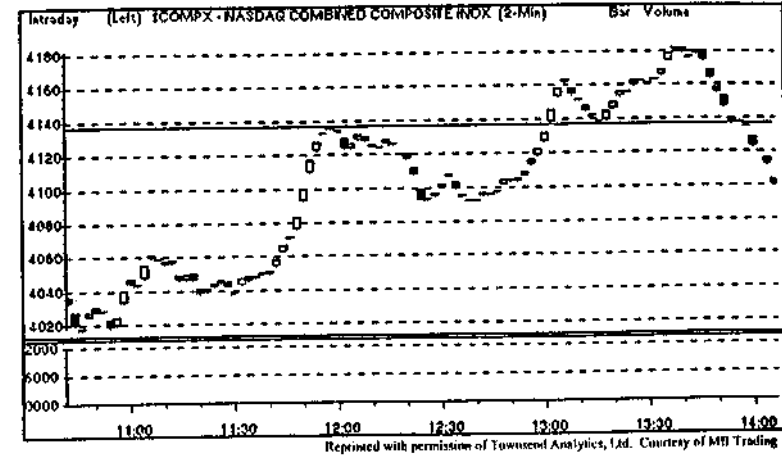
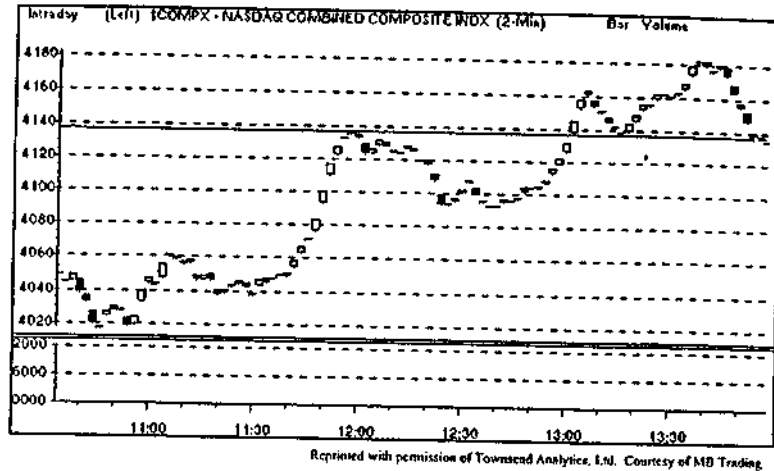
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	26,287.50	26,587.50	10.90	289.10	1.10%

I have just completed my third trade of the day, and I was up almost \$800.00. It was a great feeling. My confidence level was very high as I have completed ten trades this week without a loser. I wanted to enjoy the moment, so I went down to my balcony for some fresh air. Prior to me leaving the trading desk, the market started to sell off.

As I was watching the kids playing in the school yard down the mountain, I was recapping everything that has been taking place during this challenge. I was trying to analyze my performance so far and compare it to my expectation levels prior to entering this challenge. Although the dollars and cents do make all the difference in the world, the two most important things I wanted to accomplish were not to break any rules, and to trade smart. I really believed the rest would take care of itself.

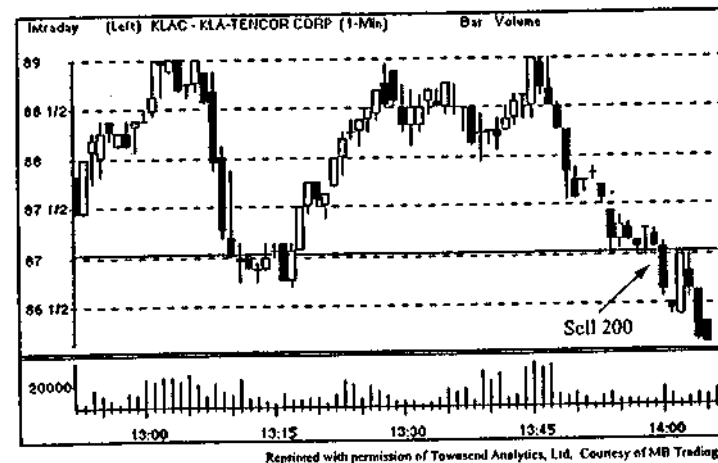
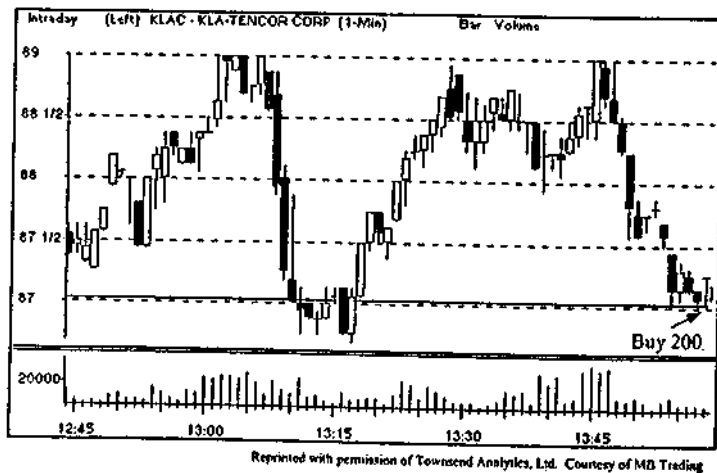
At the end of every trading day, I asked myself if I had broken any of the rules and if I was trading smart. And, with three and a half days left in the challenge, I was asking myself whether the rest actually did take care of itself. I then remembered that it is not over until the fat lady sings, and I had

better walk upstairs and see if I can find high probability setups. I felt really good as I was making my way to my trading desk.



The Nasdaq broke down through the support level.

While I was downstairs for the last 10 minutes, the Nasdaq pulled back from its high. It was hitting intraday support levels, which I felt should hold.

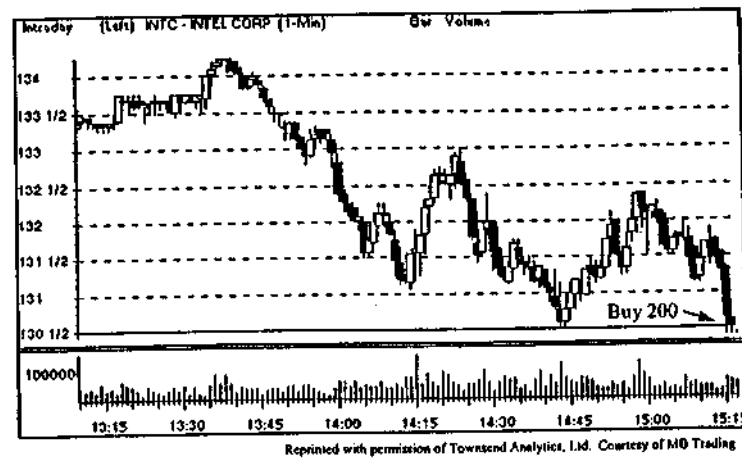
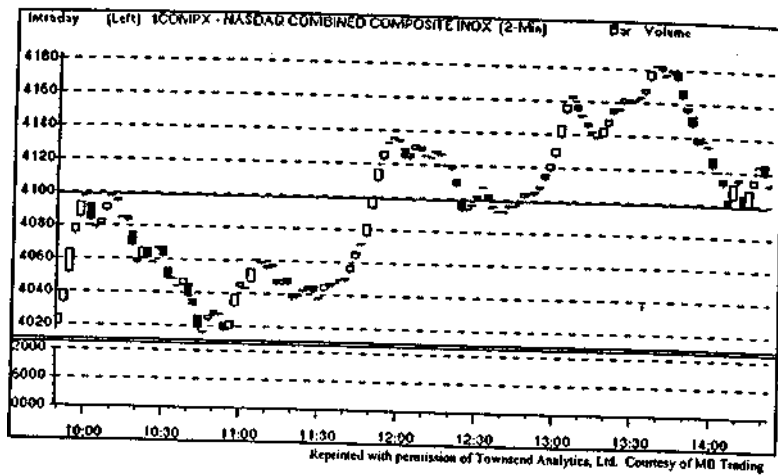


I still had KLAC on my primary order entry Level II screen, and as the Nasdaq was hitting the support level at 4138, KLAC was trying to bounce at 87 or so. I bought 200 shares of KLAC at 87 1/16. Note that KLAC was also trading in a channel between 87 to 89. If KLAC bounces with the Nasdaq, I can expect it to go to 89 again. My conditional stop loss was placed at Nasdaq 4132.

As the index took out the 4132 level, my stop loss was activated. I sold 200 shares at 86 25/32.

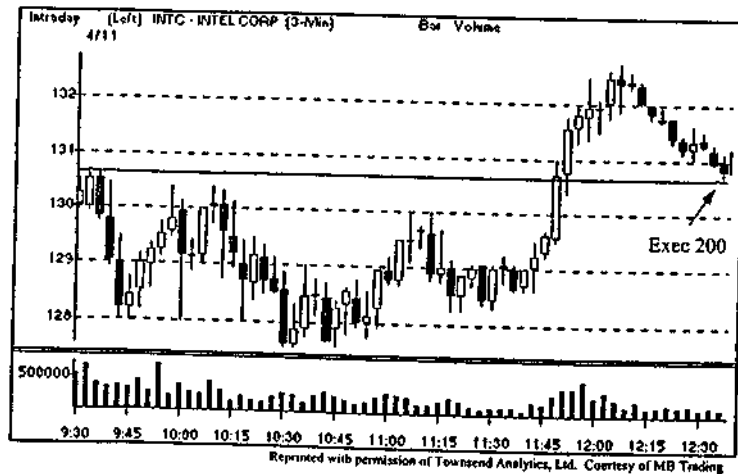
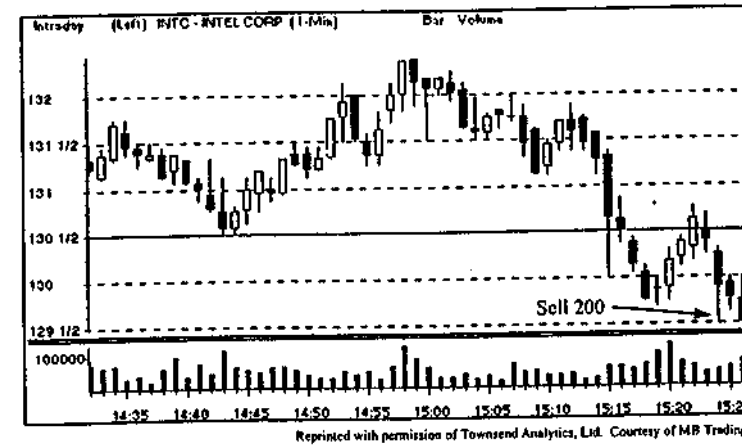
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	17,412.50	17,356.25	10.29	-66.83	-0.38%

My perfect week was now over. I have taken my first loss of the week. But I did not feel bad about it at all, because I executed according to the rules and guidelines of my trading plan. The trade answered the criteria prior to entering it, so it wasn't a loss caused by breaking the rules.



The Nasdaq found support at the morning highs - 4100. I bought 200 shares of INTC at 132 1/4 when I saw that the 4100 level was holding. INTC went as high as 133, then started to pull back. I sold 200 shares at 132 9/16. Unfortunately, we only captured the Nasdaq chart at the time. However, it was the Nasdaq chart that prompted both the entry and exit of this trade as shown above.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	26,450	26,512.50	10.89	51.61	0.19%

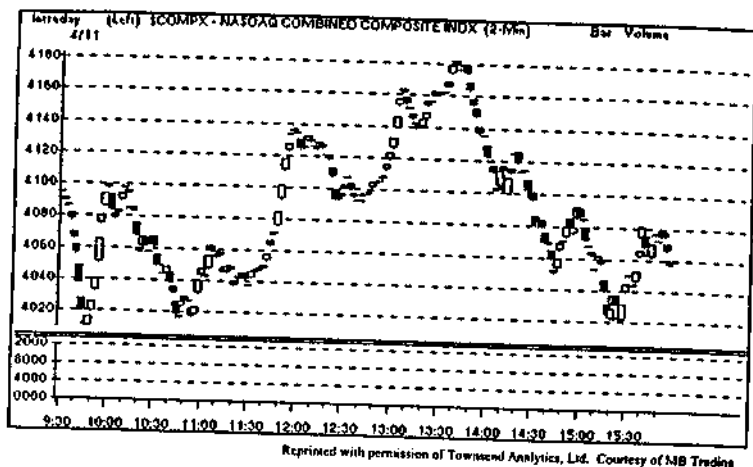


The trading Gods were not answering my prayers this time. INTC bid hits 129 1/2, and I was stopped out of my position. There was so much size at 129 1/2, that it was painful to see my stop loss order go live and sell me out of the trade. In fact, all the ECNs were lined up to buy INTC at 129 1/2, and I got a price improvement of 1/32 on my order. I sold 200 INTC at 129 17/32, only to watch it begin racing back up to 133 1/2 over the next 25 minutes. My stop loss got me out at the absolute low! Can you feel my pain?

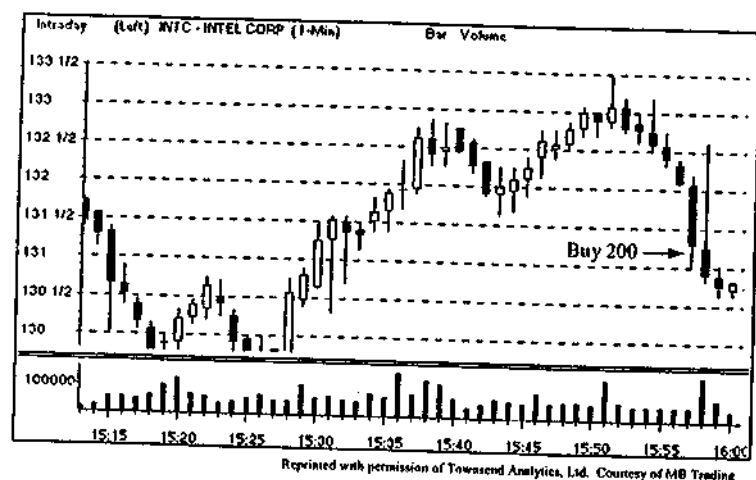
Do you remember my second trade of the day, in which I bought INTC at 130 13/16, which was just above support? I will be trying to make the exact trade again. Note the 130 1/2 morning high is the support level I was playing off earlier.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	26,125	25,906.25	13.87	-232.62	-0.89%





I really liked the fact that the Nasdaq held the 4015 - 4020 level. I felt that it might have found support, and I was willing to put my money where my mouth was. I was going to carry a long position overnight. My stop loss on the position will be if the Nasdaq breaks below 4000.

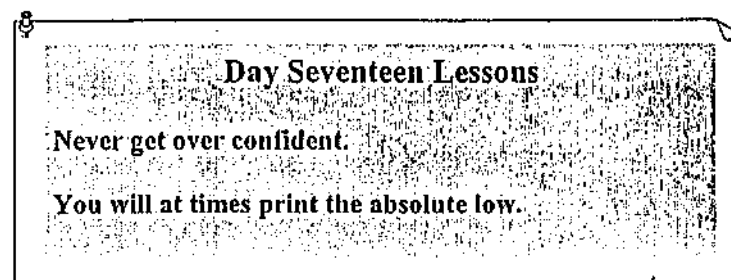


I chose to buy INTC, because it showed strength all day. In case you didn't feel my pain when I sold INTC at 129 1/2 at 3:25, please look at the above chart and see for yourself how every uptick was pulling another hair out of my balding head.

I bought 200 INTC at 131 13/64 and took it to bed. I felt really good about Nasdaq's ability to hold 4000. I am going to make a killing on this trade tomorrow, which will more than make up for the last loss I took on it.

The bears are still in the driver's seat as the Nasdaq lost 132 points from yesterday's close. In this down market, I felt that I was trading very well, yet I wasn't making oodles of money. I think I was still riding high from Monday's after-hours trading. In any case, I did have five winners and two losers today. The last trade I made was a close call as the stock bottomed exactly where my stop loss was placed. However, I managed risk according to my plan, so I couldn't be upset about it even though INTC hit my initial price target. It is very painful when it happens, but tomorrow is a new day.

Open positions: 200 INTC  
Total profit for 4/11/00: \$577.00



**DAY EIGHTEEN**

Wednesday, April 12, 2000

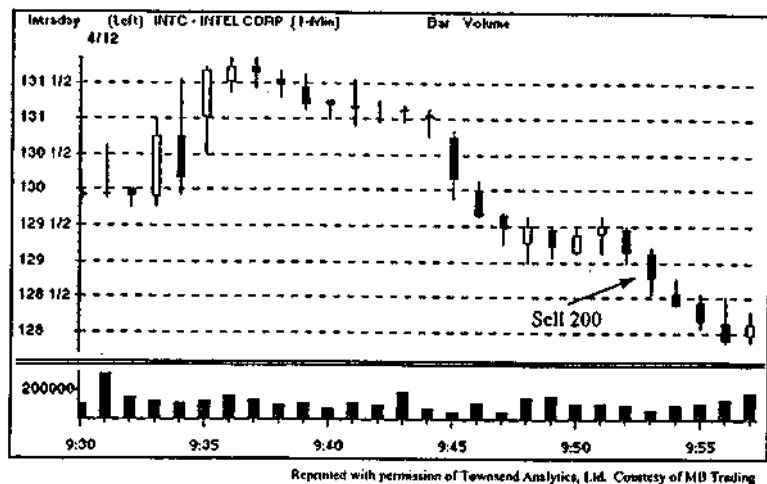
There were times in my career when I slept in and woke up ten minutes before or even after the opening bell. It is not a major problem if I am not holding a position overnight, but if I am, I am in big trouble. I will find myself running upstairs to my office, start my trading program, and react to the first tick I see. I will lose all the strategy I originally had for the trade for the simple reason that I was not AWAKE yet. These scenarios, although rare, are comparable to trading stocks in your sleep, and more often than not, it is a nightmare. To avoid this common mistake, give yourself enough time in the morning, so you are alert when the market opens.

I had a very interesting dream last night in which I was trading very actively. I was buying and selling stocks at lightning speed and my P&L was showing great profits. At some point, I noticed that XYZ stock, which I have sold earlier in the day, was up 60 points from the price I thought I sold it at; however, instead of actually selling the stock, I bought more, and I was now holding 2000 shares. My open P&L was reading +\$120,000.

As soon as I realized that I still owned the stock, I was trying to sell it. But the stock was falling down fast now, and I couldn't get out. It was down 80 points since I tried to sell it, and I am now down \$40,000 on my position. The stock now turns around and races up. I am trying frantically to cancel my order. I can't get it to cancel! The stock is up 100 points, it is flying. I finally got a confirmation that my order was cancelled. The stock is up 150 points, but I don't see it in my position window. I look at the confirmation screen, and it says that I sold it for \$150,000 loss. How can this be? There is something wrong. I saw a confirmation that my order was cancelled, what is going on? Can someone help me?! Please help me! I can't afford to lose this much.

Suddenly, I wake up. I am very nervous. It was just a dream, "Relax," I tell myself. I take a deep breath. But something looked very odd. The sun was up and it was very bright. I turned my head around and glanced at the alarm clock. "Oh my God!" I screamed. It is 6:48 AM. I slept in. The market is

open, and I held INTC overnight!!! I jumped out of bed as if I was bitten by a rattle snake. I raced up the stairs on my way to my trading desk. "How could I have done this?" I was thinking to myself. How am I going to explain to everyone that I slept in? I broke the rules. The challenge is over. All the hard work is flushed down the toilet. It took me about three and a half hours to start my trading software, at least it seemed that long. INTC was down to 129. I didn't even try to analyze what was going on. I entered an order to sell 200 shares at the market on ARCA.



I sold 200 shares at 128.34, and at first, I didn't know if I was awake or if I was sleeping, but I knew one thing for sure. It was a nightmare.

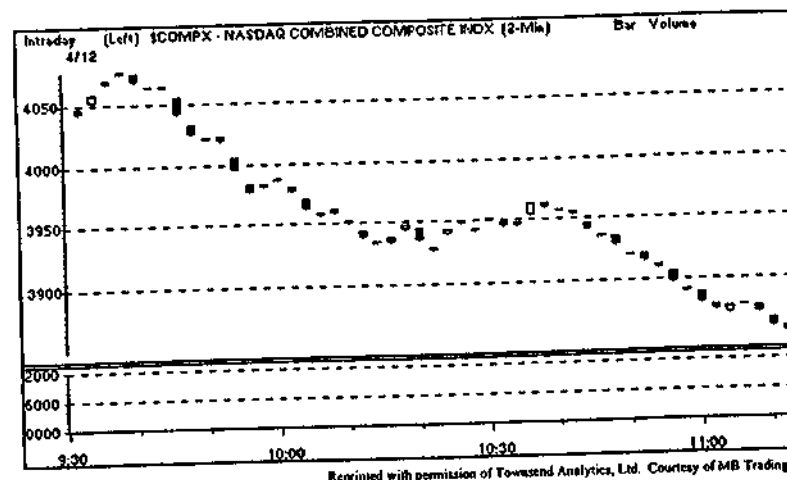
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	26,240.62	25,668.75	13.86	-585.62	-2.23%

I was certainly wide awake now! All I had to do was look at my P&L for the day then glance at the INTC chart and see that I would have been in-the-green on this trade had I not slept in. Staring at this harsh reality was like splashing ice-cold-water in my face.

I decided to quit for the day. I was not in the right mental state of mind to continue trading, so I went back downstairs and spent some time with my two-year-old son before he had to go to school. About 45 minutes went by, and my wife took my son and left the house.

I went back upstairs and sat at my computer. The Nasdaq was down 200 points from yesterday's close. It penetrated through support at 4000 and was trading at 3855. I felt that I should have an opportunity to make some of my

losses back. All I wanted was to wipe out the loss I suffered on INTC. I wanted to break even, so I could forgive myself for making a human error and sleeping in this morning. Obviously, I was very frustrated with myself, and I knew I just need one chance to turn the day around. "C'mon, give me a good setup," I yelled at my computer.



The above chart shows the activity on the Nasdaq from the open to the point when I went back upstairs. It is amazing how humans' defense mechanism works when they screw-up. And that was exactly what I did, and I was trying to make all the excuses, but deep inside I knew that I was at fault.

### Taking the Blame

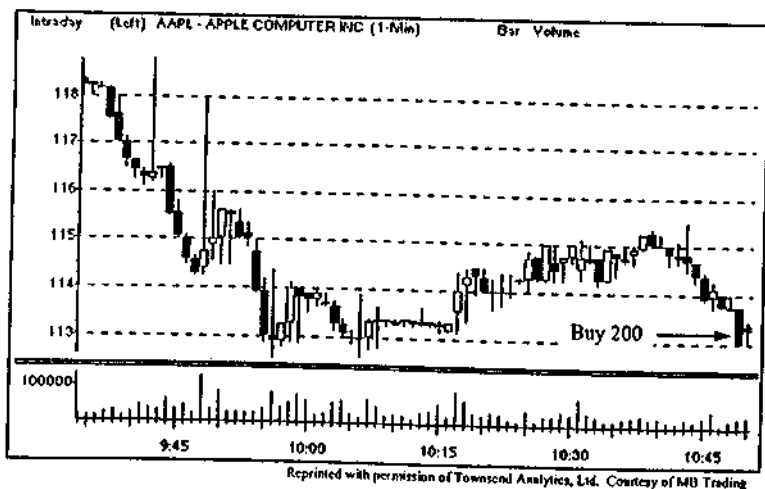
If you have been in the business long enough and have talked to day traders, you must have heard horror stories of big losses a day trader suffered because something that was outside of his control took place. I couldn't tell you how many times I have heard these type of stories told by numerous day traders over the years. At one of the Day traders of Orange County meetings, a day trader was telling one of these stories. He told us that he took a short position in EGRP, and the next day the stock went to the moon. He wanted to cover his position, but his browser-based brokerage firm was down all day, and he could not get them on the phone; consequently, he lost his entire account. I felt really bad for this day trader who caught a really bad break and lost all his money. However, a fellow trader who stood next to me, said, "I don't feel sorry for you, it is all your fault!" At first, I was surprised to hear what this guy said as it wasn't very compassionate at all, but then he said, "Tony, I am fed up with these idiots who come here and tell us how they lost all their money and it wasn't their fault." I was listening

really carefully as this guy turned to the day trader who told us the story and said, "You want to know why it was your fault? Well, first, you put twice the equity you had in your account into ONE stock - that is very stupid. Next, you chose to trade with a browser based broker, obviously you did not do enough research to see what happens if your broker goes down. Finally, judging from your personality, you wouldn't have taken the loss and cut your position, because you were already down so much money in the position. You had no plan that you were trading with, i.e. no price target or stop loss. Frankly, I think you were in denial the entire time and as a result, blew out your account."

The day trader who just got the "speech" from the guy who stood next to me, cursed at him and walked away. Then, this guy looked me in the eye and said, "I betcha I nailed it right on the head." I didn't say a word, but I knew that he did nail it right on the head.

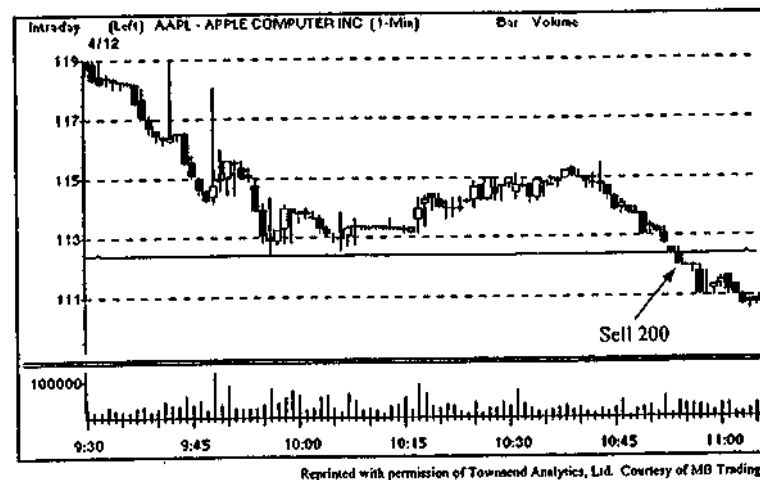
The moral of this story is very simple, you can't afford to make the mistake of going into denial and blaming your losses on something that was "out of your control." A professional day trader takes the blame for all consequences of his trading. By taking the blame, a day trader can recognize his mistakes and learn from them. If he doesn't take the blame and confess to being wrong, there is no way that he can learn the lesson.

In my case, the something that was "out of my control" was my alarm clock, which was not setup properly to go off at 4:45 AM. I later learned that my son played with the buttons and things were changed. However, it is my responsibility to check it before I go to sleep every night.



As I was screaming at my computer to give me a setup that I could trade,

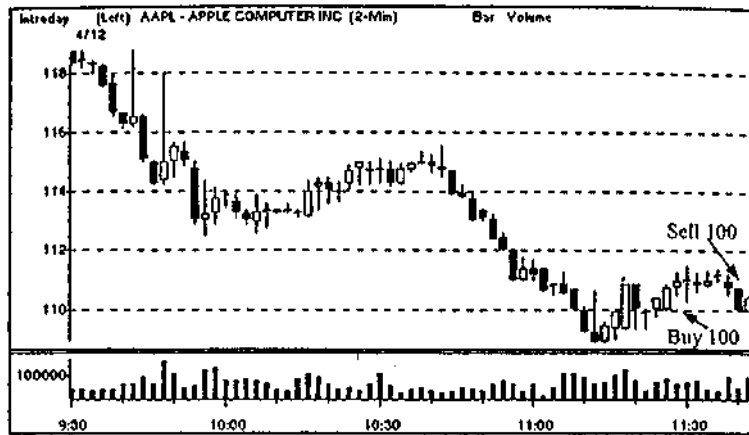
AAPL was reaching the support levels it set earlier in the day. I said "thank you," and I bought 200 shares at 113 5/16. I felt that the support at 112 3/4 should hold, so I placed a stop loss at 112 5/8, knowing that it would probably never trigger. My price target was the tops at 115 1/4. I would, however, give AAPL a chance to go higher, and if I am able to sell it at 116 1/2, I will be up for the day. "It shouldn't be a problem," I told myself.



I was wrong! 112 3/4 was not strong support and AAPL broke through it. My stop was activated and I sold 200 AAPL at 112 3/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	22,662.5	22,475	10.75	-198.25	-0.87%

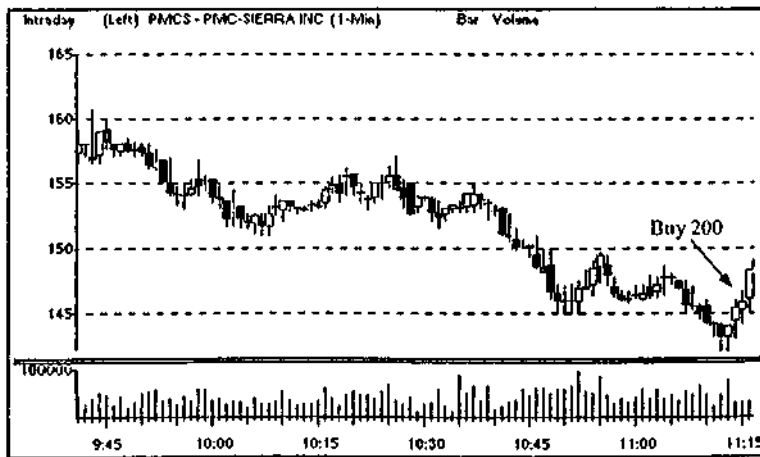
I actually had no problem with this trade. It was managed and executed properly. But I was now down almost \$800, so I still needed a winning trade; however, when you are running cold you should quit trading. Even though I knew this rule, I wasn't going to give in. And I was going to pay the price to learn this lesson all over again.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

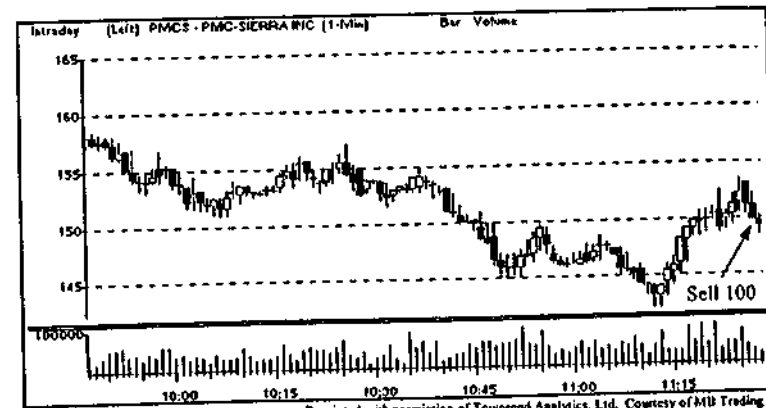
AAPL bounced at 109 1/4. I bought 100 shares at 110 1/8. My price target was 115. My stop loss was placed at 108 7/8, which was just below today's low. AAPL went up to 111 1/2. FBCO was axing the stock, and it pulled back. I sold 100 shares at 110 3/4.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	11,012.5	11,075	11.87	50.63	-0.46%



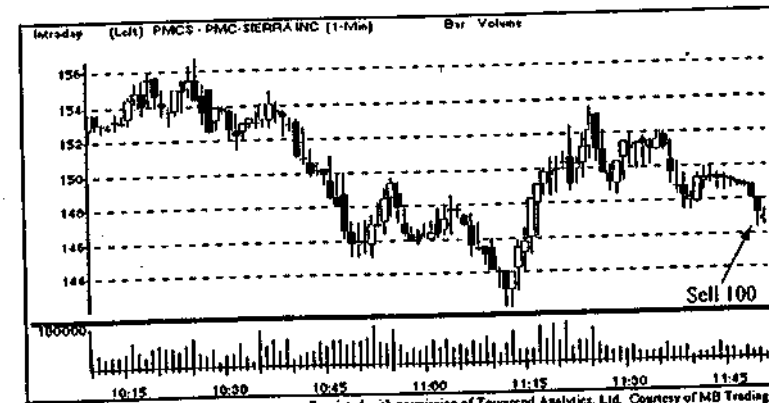
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

PMCS found support at 143 and bounced. It penetrated through resistance at 145. I bought 200 shares at 147.56. My price target was 155. I placed a stop loss at 144 3/4.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

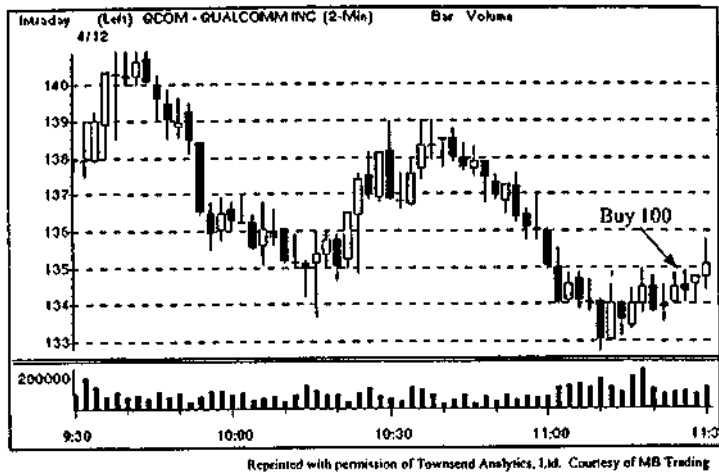
PMCS peaked at 153 1/2. I was silting tight in the trade. I was up \$1,163.00 when the bid hit 153 3/8. I could have sold my position right there and turned around my entire day. However, I thought that the market had bottomed, and that it would be going straight up from here, and I didn't want to lose my position. I placed a trailing stop for 100 shares at 149 15/16. I placed a stop for the remaining 100 shares at 147 1/2. I then raised my price target to 178 - 185. PMCS broke down through 150, and my first stop loss was activated. I sold 100 shares at 149 13/16.



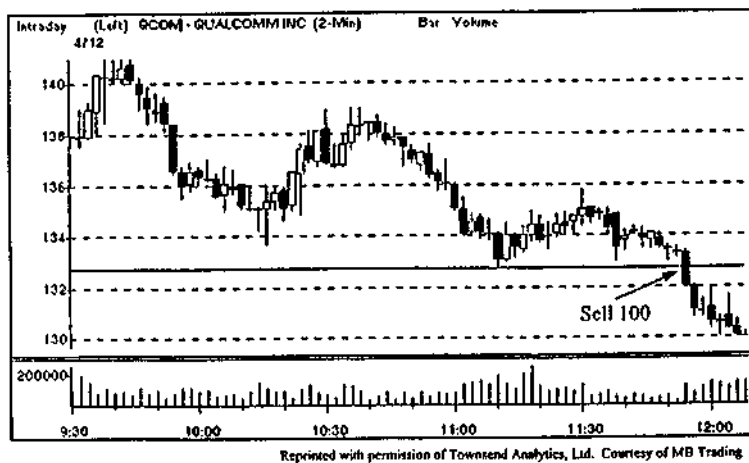
Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

PMCS broke down through 147 1/2. My stop loss was activated. I sold the remaining 100 shares at 146 1/2. It may seem to many of you that the trailing stop should have been at a much higher price; however, you must understand that PMCS is a very volatile stock. It can move 20 points faster than another stock will move 1/2. Last Tuesday, the trading range on PMCS was more than 62 points. Therefore, five points is not that much for this stock.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	29,512.50	29,631.25	20.99	97.96	0.33%



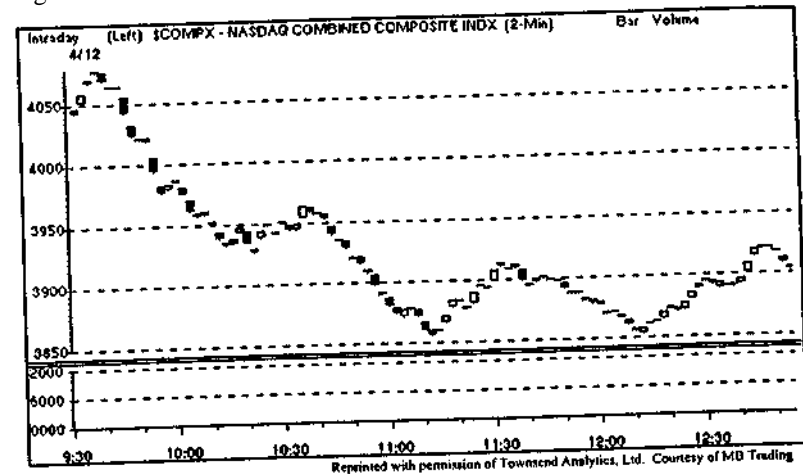
While I was in PMCS, I also bought 100 shares of QCOM at 134 5/8. I felt that the market had bottomed and QCOM should make it back to the previous highs at 139 and possibly go as high as 145. I placed a stop loss at 132 5/8, which was below today's low.



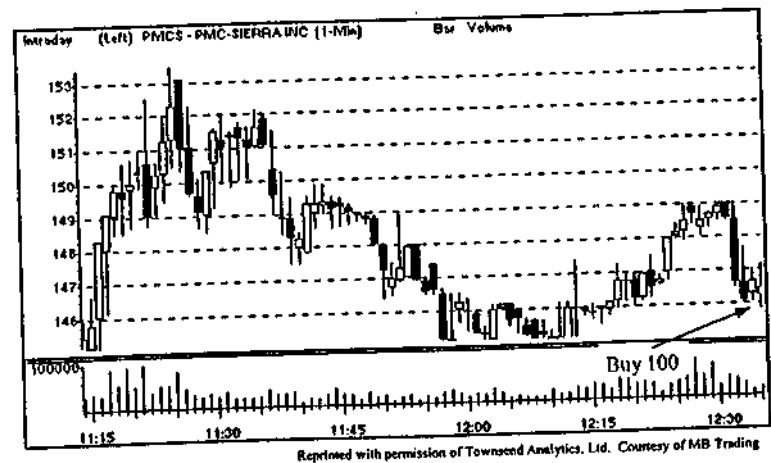
QCOM breaks through the low of the day. My stop is activated. I sold 100 shares at 130 7/8. It was a much bigger slippage than I anticipated. My order was activated once the bid hit 132 5/8 but it was 13/4 below that before it was executed.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	13,462.50	13087.5	10.44	-385.44	-2.86%

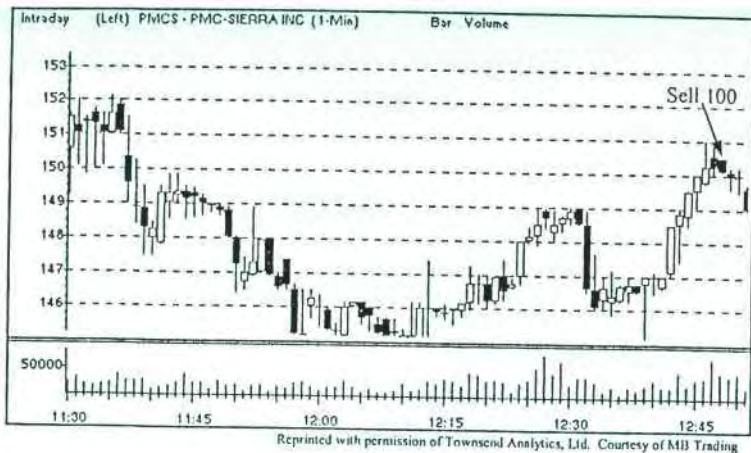
I was having a bad day. I couldn't believe the lousy fill I got on my stop loss order. My loss was almost double what I was willing to lose on the trade. However, that is a part of the business. In fast moving markets, a stock can fall down a lot further than where my stop loss is activated prior to my order getting executed.



Here is another look at the Nasdaq chart. As you can see, when QCOM broke down to a new intraday low at 11:50, the Nasdaq was well off its low of the day. QCOM under performed the market. The Nasdaq was approaching its 3850 support level at 12:15. It managed to hold that level and trade back up.



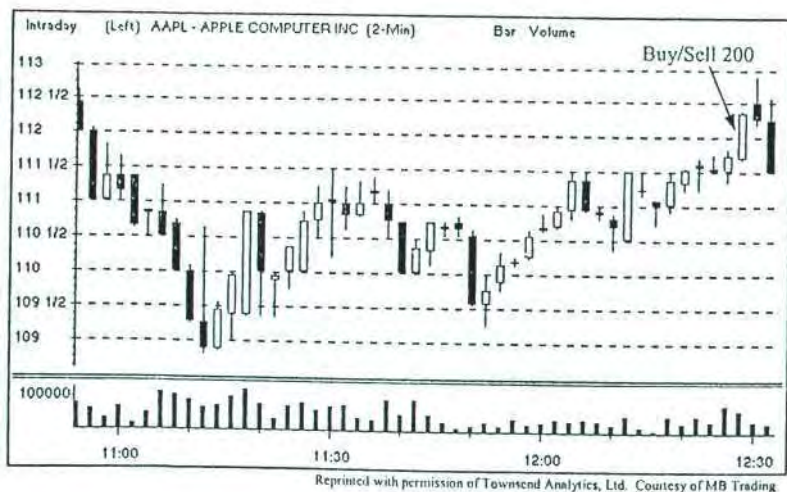
As the Nasdaq moved up, PMCS found support at 146. I bought 100 shares at 146. I placed a stop loss at 144 3/4. My price target was 153.



PMCS went up to 151. I wasn't going to let it fall through me this time. I sold 100 shares at 150 1/8 when I saw the first sign of weakness.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	14,600	15,012.5	10.5	402.00	2.75%

What a great feeling. I just made up for the QCOM loss. I was studying the market very closely. It was bleeding heavily. I was looking at stocks, which I had previously traded at prices three times this high, a mere six weeks ago, now falling down even further. I was feeling the pain of the bulls. My blood was in the streets right along with theirs.



AAPL was gaining some strength. I bought 200 shares at 112 1/16. I thought it could go as high as 115, but the stock did not look too strong as FBCO was axing it again, so I sold 200 shares at 112.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	22,212.5	22,200	15.75	-28.24	-0.12%

One of my rules is: When things don't look right, get out quickly. This is exactly what I did on this last AAPL trade.



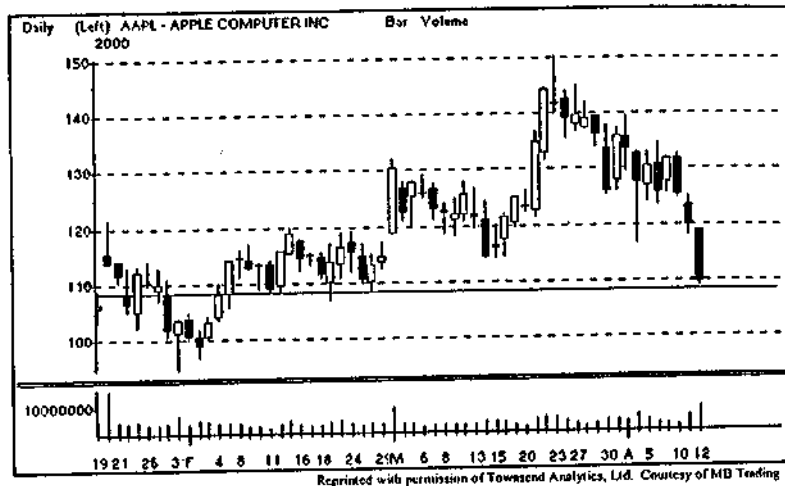
After I sold PMCS at 105 1/8 around 12:50, it traded back down to 146 and change. It then started to gain steam and was about to challenge the 151 high. I reacted to the quick run the stock had and I bought 100 shares at 150 7/16 and 100 shares at 150 3/4. I thought PMCS was going to breakout and go to 156. I placed a stop loss at 149 1/2. This is a very tight play for a volatile stock like PMCS.



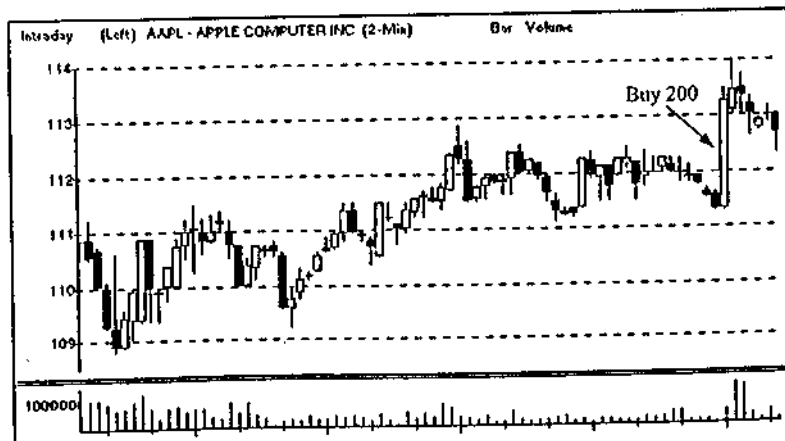
PMCS did not take out the highs at 151. It started to pull back, and it activated my stop loss. I sold 200 shares at 149 1/4.

I jumped the gun on this trade fearing that if PMCS was to breakout, I would not be able to get into the trade. I didn't have a great entry, so I had to cut the stock at the first sign of weakness. I was really struggling, because I was arguing with the tape. I felt that today should be the low, and that we would bounce strong from here. I was looking for a swing trade setup for with multi-point gain potential.

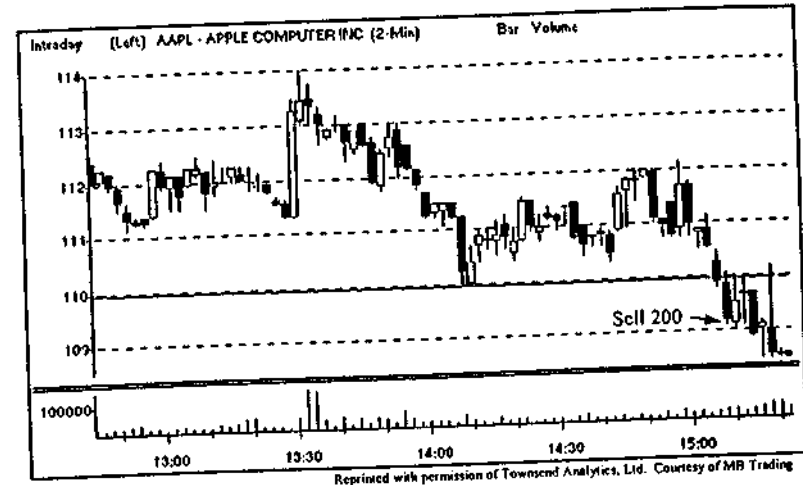
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	30,118.75	29,850	16.00	-284.75	-0.94%



AAPL was a perfect candidate. It has pulled back in price sharply. It was right at what I thought should be decent support levels, and I thought that with the slightest bounce in the market, AAPL should be back to 125 - 132. I felt this trade had a 75% chance to be a winner.



As the volume increased, I bought 200 shares of AAPL at 112 1/2. My price target was 125 - 132. I placed a stop loss at 109 7/8. I felt that I should give the trade some wiggle room, but if the stock goes under 110, I will have to cut it.



AAPL went as high as 114. It then sold off sharply with the market. It hit 110 right on the nose (around 2:05PM) and bounced. I survived the sell off and my stop loss was not activated. AAPL bounced back up to 112. The weight of the market finally broke it down, though. AAPL penetrated through 110 at 15:10 PM, and my stop loss was activated. I sold 200 shares at 109.

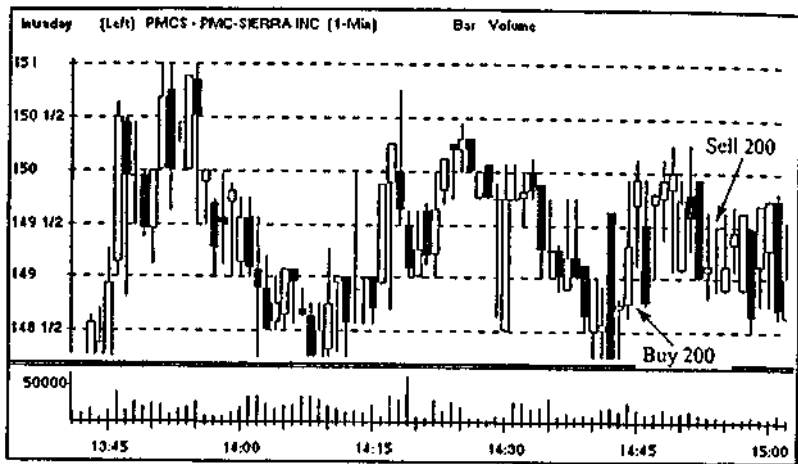
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	22,500	21,800	12.24	-712.24	-3.16%

If you haven't figured it out by now, I was having a "wonderful" day at the market. I had taken my biggest loss on a single stock in the challenge early this morning on INTC, and now, I have a new name which answers to the biggest loss taken on a single stock in the challenge. I want you to understand, though, that I was not trying too hard or was taking unnecessary risks. This is how I really trade, day in and day out. Losing is a part of the job, and I am glad you are getting to see all aspects of it.

After this last loss on AAPL, I realized that I had to keep things a little bit tighter. I was down \$1,587.45 for the day. That is \$1,000 more than I was down after the INTC disaster this morning. I knew I should have quit trading for the day, but, emotionally, I just couldn't. At this point, I wanted to



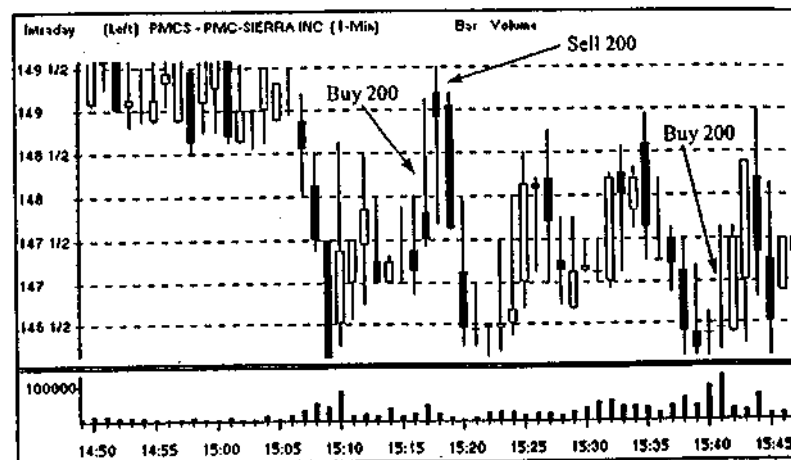
make small profitable trades to build momentum and confidence going into the last two days of the challenge.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I was playing the channel on PMCS. I bought 200 shares at 148 13/16. The stock peaked at 150 1/4, and pulled back. I sold 200 shares at 149 3/8.

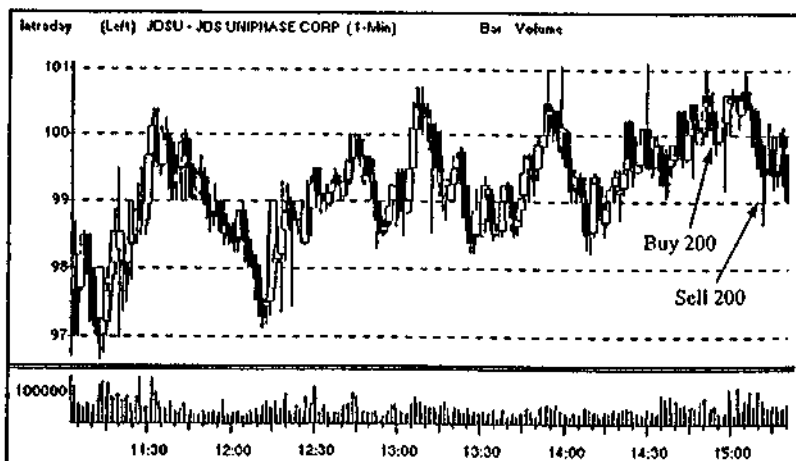
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	29,762.50	29,875	11	101.50	0.34%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I bought PMCS again at 148 3/16, as it bounced up from 145 1/2. I sold it into strength at 149.12. I bought 200 shares at 147 and held into the close. The stock closed at 147 13/16.

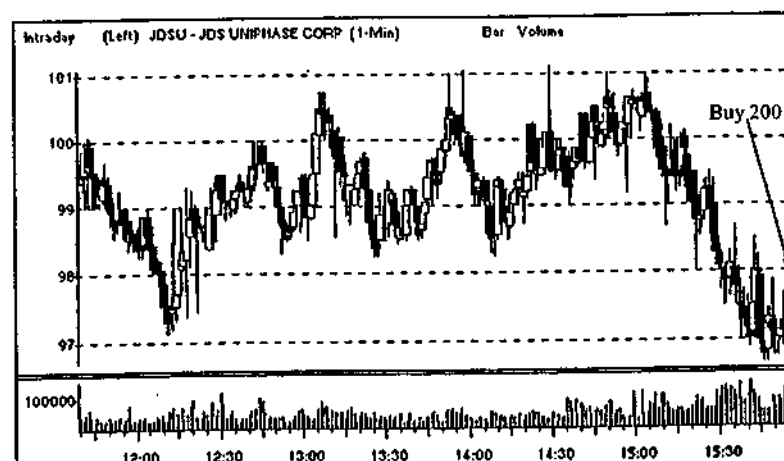
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	29,637.50	29,824.22	11	175.72	0.59%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

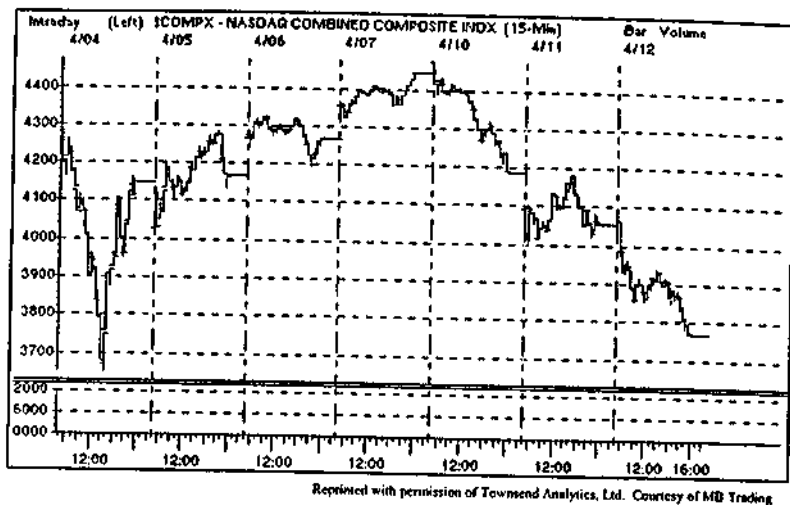
I bought 200 JDSU at 99 31/32. Stock peaked at 101. It then sold off sharply. I sold 200 shares at 99 1/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	19,993.75	19,825	10.66	-179.42	0.90%



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

I also bought 200 shares of JDSU at 98 1/16 just before the close.



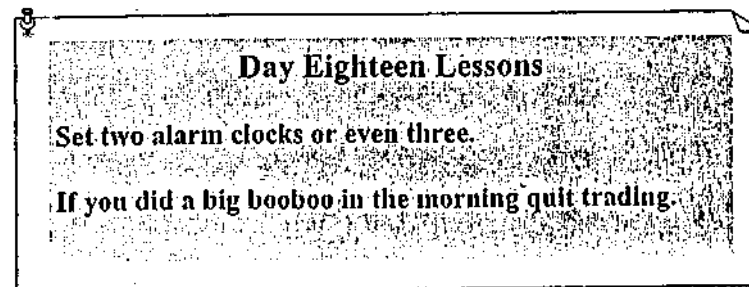
Here is another look at what the Nasdaq has done over the last seven trading days. We are about 100 points higher than the low we made last week. Volatility is the highest I have ever seen. I thought that the downside risk at this point was limited. I felt that 3650 would hold if it gets tested again, and the Nasdaq would go back to 4200 in a heart beat, so I was willing to carry my two positions in PMCS and JDSU overnight.

PMCS was trading higher after-hours. I offered out 100 shares at 152 on ISLD ECN. I got hit for 89 shares. I sold 89 shares at 152. I was following the activity on the ISLD book very closely because I had an open order to sell the remaining 11 shares at 152. It was almost 8:00 PM EST, and there were two traders who desperately wanted to sell their shares of PMCS. The best bid on ISLD was 148 1/4 for 300 shares. I joined the bid at 148 1/4 for 89 shares. I felt that the trader with the 1000 shares was going to sell at that price. Me was competing with another trader who wanted to sell 400 shares. As one will offer his shares on ISLD at a certain price, the other will jump in front offering his shares at a 1/16 lower. The best offer was at 149 1/2. With three minutes left, I finally got my fill. Someone sold me 89 shares at 148 1/4. My position was 200 shares again, so I cancelled my order to sell 11 shares at 152.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	13,083	13,528	8.03	436.97	3.33%

Today was an incredible busy day. I started the day on the wrong foot, and I was never able to recover. I felt that I was trading very poorly as I was trying to play catch-up. Only God knows how the day would have ended if I was to sell TNTC in the morning for profit, or sell PMCS when I was up well over \$1,000 on that position and green for the day, or sell AAPL for a minimal profit or loss. These were the pivot points of the day. I was trying to fight the tape on many occasions, yet I felt that the reward was worth the risk. The Nasdaq was down 285 points today, yet I only lost \$1,109.50 after starting the day down \$585 on INTC. The market is looking very ugly, yet I am holding long positions overnight. I guess we will find out tomorrow if I was right or wrong.

Open positions: 200 JDSU, 200 PMCS  
Total profit for 4/12/00: \$-1,109.50



## DAY NINETEEN

Thursday, April 13, 2000

I had two alarm clocks set to go off at 4:30 AM, and they didn't fail me. When the annoying beeping sound broke the silence, I quickly jumped out of bed. It was still dark out. Thank God I didn't sleep in.

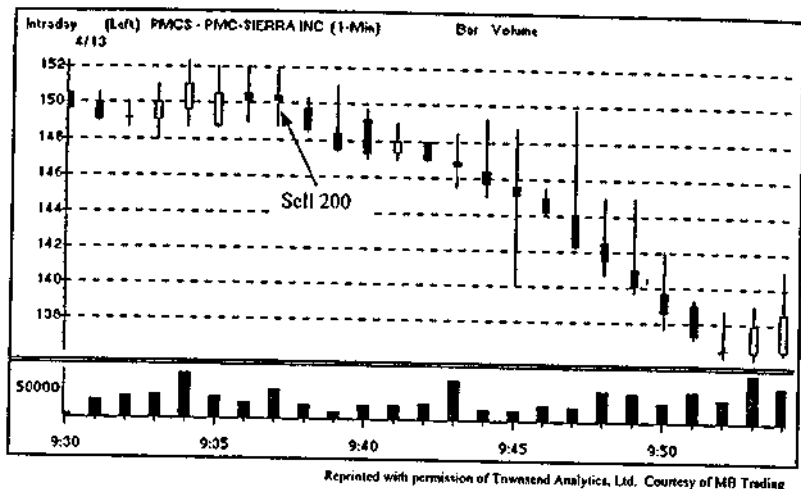
I didn't do any overnight analysis, and I had no trades planned out. My main concern was to manage my overnight positions properly. I went upstairs, turned on the computer and logged in to my MB Trading Account. My P&L total was showing +\$800. This means that my positions were trading higher in pre-market action. Since I felt the market was oversold, I was going to wait for the opening bell and see if my stocks could run higher. I was hoping for a short squeeze this morning.

Ding! Ding! The market was now open. Both PMCS and JDSU were holding their gains. It was 5 minutes into the action when my cable modem service came to a halt. I was now completely blind, I couldn't see where anything was. I immediately picked up the phone and called the MB Trading desk. My call was answered immediately. The broker on the other side asked me what I wished to do, and I told him to sell both PMCS and JDSU at the market. This was as painless as painless can be for this kind of experience. I was very impressed. The broker executed my orders very quickly.

Since I have been in these scenarios many times in the past with different brokers, I have a note posted to my monitor with directions of how to speed up the process of placing trades over the phone.

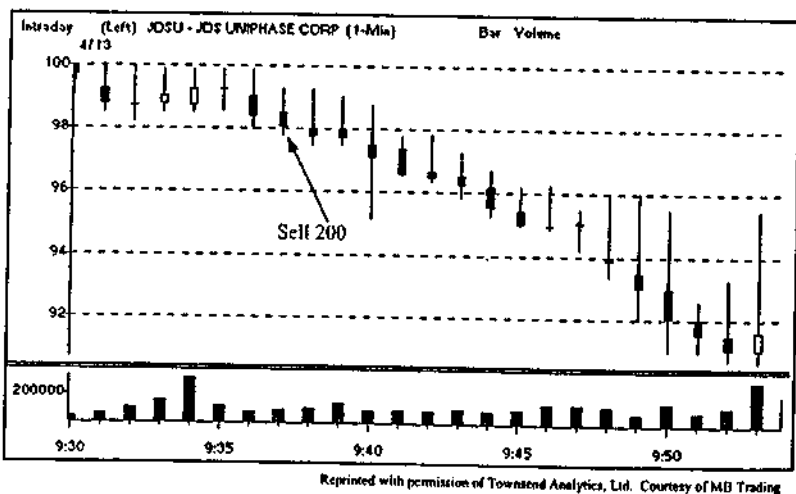
Hi, this is Tony Oz. I'd like to place a trade. My four letter ID is XXXX. Sell to close 200 shares of PMCS at the market. Sell to close 200 shares of JDSU at the market.

If you care about speed, always place market orders. Avoid small talk. Let the broker know you want to place a trade immediately. Have all your info ready. Make sure to use the words to open or to close. This will save the time of him asking you if you own the stock or not.



I sold 200 PMCS at 149 5/16.

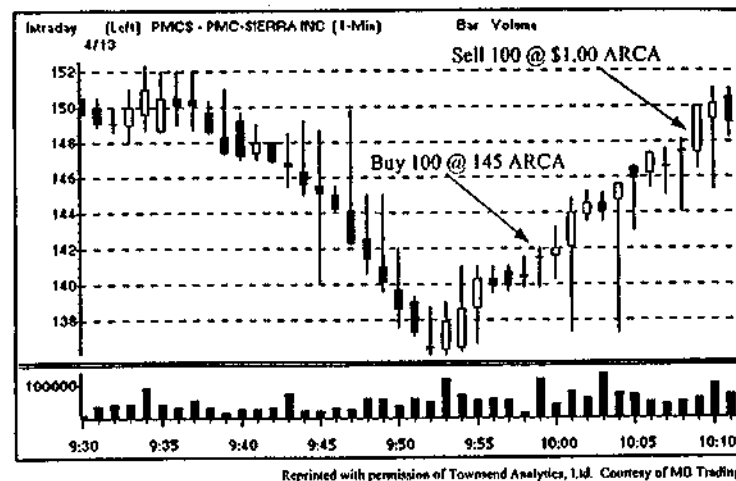
Source	Investment	Proceeds	MBT	P&L	Return
Constant List	29,503.89	29,862.5	21.57	337.04	1.14%



I sold 200 JDSU at 97 11/16.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	19,612.5	19,537.5	10.66	-85.66	-0.44%

It was about 9:50 AM, and it seemed that @home was back in business. My quotes seemed to be working now.



PMCS sold off hard but had bounced from a low of 138 1/4. It was racing up. I entered an order to buy 100 shares at 145 on ARCA. The best offer was at 142 at the time. It took a long minute, and I got a confirmation that I bought 100 shares at 144 1/2. PMCS was still running. I was getting spurts of data that were inconsistent. I entered a sell order on ARCA for 100 shares at \$1.00. I was basically telling ARCA to get me out at the best possible price. PMCS was at the high of the run at the time, trading at 148 1/2. I got my confirmation. I sold 100 shares at 148 3/8.

Source	Investment	Proceeds	MBT	P&L	Return
Constant List	14,450	14,837.5	10.50	377.00	2.61%

I felt very fortunate to get out of the trade without any harm as my cable connection was now completely lost. I didn't want to trade on my backup machine which is connected via DSL, because it seemed to be slow as well. I later found out that the problems I was having with my @home service was widely spread. In fact, users from California all the way to Florida had trouble connecting to the net.

I didn't make a lot of money, but I was very happy to have a profitable day. My cable connection came back on around 1:00 PM, and I watched the market carefully for a high percentage trade. The market was tanking hard again.

# CHAPTER 23

## Cash is a Position

### DAY TWENTY

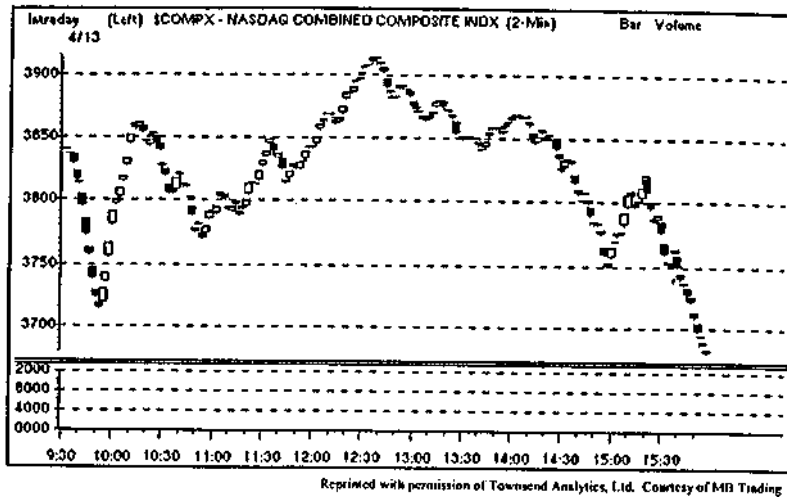
Friday, April 14, 2000

In preparation for the last day of the challenge, I spent a lot of time researching the highest probability long setups. I wrote down price levels of support and resistance for the indexes and all stocks on my Constant watch list. I then started a word processing program, I selected 72 point bold fonts, and I typed "TRADE SMART." Next, I printed out four copies. I stapled each one of the copies to the wall, so I could see it no matter what monitor I was sitting behind.

I had no problem getting out of bed this morning. I was ready for the last day of the challenge, and I wanted to make this one count. I felt that the Nasdaq was approaching support levels again, and I was looking to buy my favorite stocks at bargain prices. I went upstairs and sat at my computer. As I was logging into my MB Trading software, I glanced over the monitor and saw the mini-posters I made last night. I chuckled in amusement, and promised myself that I will obey the command. I was ready to trade.

The futures were down sharply, and pre-market trading showed great weakness. I was licking my chops. This is the day I have been waiting for.

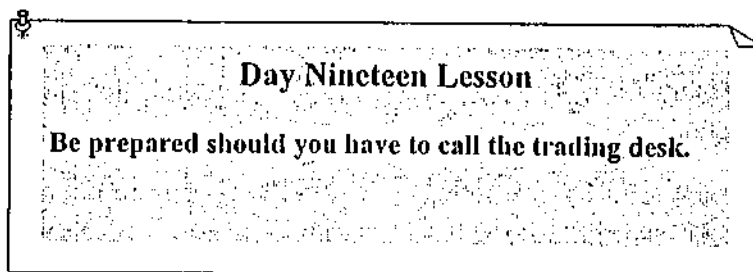
The Nasdaq gapped down big this morning, and it took out the previous low made last week, at the open.

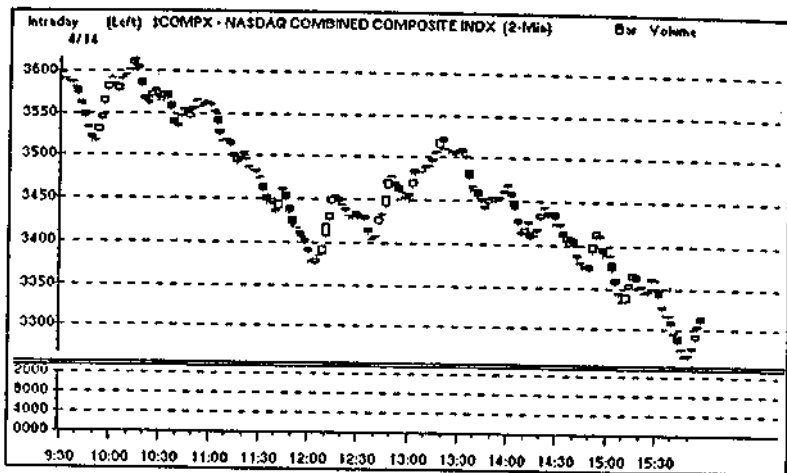


When the final bell rang, the bears won another battle. The Nasdaq, which was up as much as 145 points for the day, managed to reverse direction and close down 93 points. It wasn't looking good for the bulls.

Open positions: None

Total profit for 4/13/00: \$628.38





I almost got suckered into the first bounce, which took out the morning highs at 10:15. I decided that the smart thing to do will be to wait for a pullback, because the index raced about 100 points in 18 minutes. My strategy was to wait for a pullback, then look to see if the next rally can take out the intraday high. This will be the sign of a trend reversal.

The index failed to do so, and at 11:00, it broke down hard and took out the low of the day. The index broke through 3500. The lunchtime rally was not convincing for the simple reason that margin selling was not over yet. At 1:30, things turned around again. It was the worst blood bath I have ever seen, and there was no way I was going to contribute any of my own blood to the brutal bear assault.

It was the last day of the challenge, and I was going to play it as a golfer who has a 15 shot lead going into Sunday in Augusta. I just want to shoot par today. I was watching this painful display, and at 2:00 PM we blew the whistle. The challenge was now officially over, and I ordered a check.

However, once I saw all the blood in the street, I just could not hold myself back, and I bought \$100,000 worth of QQQ for a swing trade. I knew this trade would not count as a part of the statistics for the challenge, but I just *had* to make that trade. I felt that at 3300, my risk/reward ratio was high.

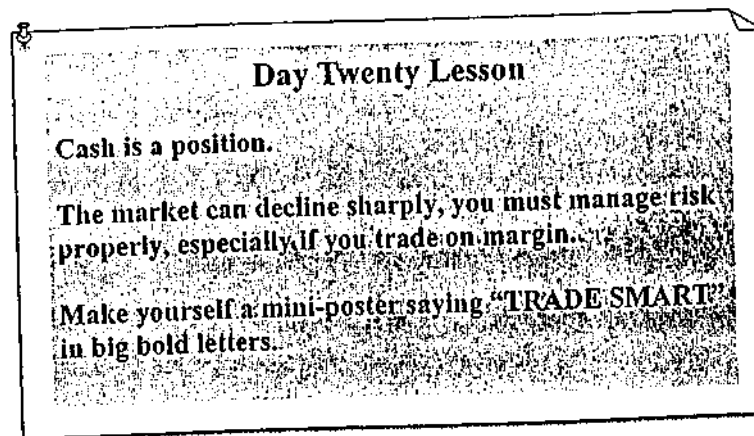
Total profit for 4/13/00: \$0.00

The forth and final week of the challenge was now over. It was a major down week for the market. The Nasdaq Composite lost 1125 points, a 25.3% decline in five days. The Dow Jones Industrial Average lost 7.9% for the week, and the S&P 500 Index lost 10.6%. It was a broad market sell off.

I started the week trading very well. I felt that my trading on Monday and Tuesday was in top form. I struggled on Wednesday from the minute I woke up. On Thursday, I had connectivity problems, but I still managed to have a profitable day. On Friday, I sat on the sidelines and watched the sharpest single-day point drop on the Nasdaq as it lost 355 points

I was amazed that I actually turned a profit this week. My total profits for week four were \$3,046.23. I faxed MB Trading a request for a check in the amount of \$3,000.00. After all, Friday is payday!

Southwest Securities 1201 Elm St. Suite 3500, Dallas, TX 75270		SIPC	88-88 1113 216507
PAY *****3,000DOLLARS 00CENTS		DATE	AMOUNT
Pay To		4/17/00	\$*****3,000.00
TONY OZ LAGUNA HILLS, CA 92654			



## CHAPTER 24

---

### Thank You, But No Champagne for Me

My wife and I had plans for a celebration dinner following the last trading day of the challenge. But I was very depressed. I had just witnessed a brutal bear market in which trillions of dollars were lost. You would think that I would be glowing with my success in making decent returns in such a down market, but the truth is that I have experienced the worst weekend of my life as a professional trader.

I am very close to the trading community and correspond with many day traders who vary in their level of expertise. Some are professionals, some are amateurs, and some are just starting out. The stories were very similar. Many traders lost a lot of money over the last few weeks. There were a few success stories as well, which were uplifting, but many of the stories were horrifying.

I had a very long talk with my dad on Friday night. He was very concerned that the crash of the market would reduce consumer spending and result in a recession. I didn't know what to tell him, but his concern was not very comforting.

My uncle, who lives across the Atlantic Ocean, called me early Saturday morning. He was concerned about my financial situation as he heard on the news that the stock market crashed. He was happy to hear that I survived. I later learned that he lost a big chunk of his own trading account. "The market gives it, and the market takes it away," said his wife.

These were the types of conversations I had with many individuals over the weekend. The devastation and turmoil so many of my friends and family were experiencing took all the air out of the satisfaction I would have otherwise been feeling about my own accomplishments. I was definitely in no mood to celebrate. "It will have to wait," I told my wife, who was very understanding.

I think I have learned many great things from this four-week challenge. For the first time in my life, I really understand the meaning of the phrase, "Bulls make money, bears make money, and pigs get slaughtered," I have proven to myself that my simple trading system can be traded successfully, on the long side, in a bear market. This was a question I was asked many times by my students, and at the time, I couldn't answer it, because I never traded in a bear market before. I think this diary answers that question very well.

The most important lesson, however, is found in each and every case study I have featured. It has to do with religiously adhering to the rules and guidelines of a trading system. I know for a fact that my discipline in executing each and every trade according to my trading system is the secret to my success. This is why I had the courage to accept this challenge.

When I started teaching seminars about high probability short-term trading, my performance chart was improving on a consistent basis. The reason was that every time I was tempted to break a rule, I would ask myself, "How are you going to explain this one to your students?" This question has taken my trading to the next level.

If you want to improve your trading, what you need to do is very simple. Before you enter any trade, think that you will have to explain this trade to the world in a case study format. You have to explain the reason for entry, your risk management guidelines, and why you exited the trade. If you can truly do this, I strongly believe that you can enjoy the same type of success I have enjoyed in this challenge. And that, my friend, is the greatest lesson of this book. Trade as if the world was standing behind your shoulders.

As you should all know by now, my trading system is very simple. It is made of two words: Support and Resistance. I don't use sophisticated technical indicators. I keep things very simple, and as far as I am concerned, simple strategies make an advanced trading system. I have featured all the technical setups and Level II order execution methods in my previous book, *Stock Trading Wizard*. I hope that you were able to follow, throughout this book, how I actually trade these setups in real life.



Day Trading has been greatly disparaged by the media, with reporters focusing on those who have lost all their money, while ignoring those who are successful. Many of the subjects of these reports were inexperienced and untrained, and hadn't yet learned the fundamentals of the business they had chosen. They risked all they had without a plan, without rules, and without any tested, systematic methodology whatsoever. No business can survive without a solid business plan rigorously followed, yet we see no sensationalized media stories about all the small businesses that fail each year in other industries as the result of the same lack of planning.

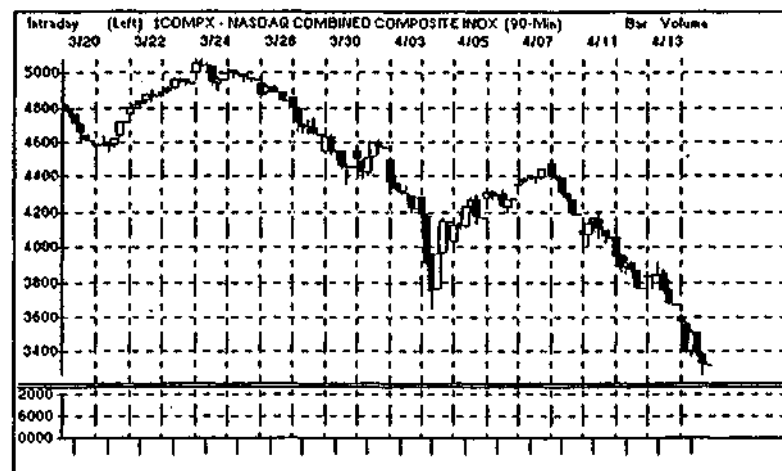
In this book, I have provided you with a simple system of trading that I believe most anyone can follow. I have proven my system in combat, in the midst of a 30% market crash, where I netted a 32.5% Return. I have given numerous examples and details regarding the various circumstances of each trade, allowing you to get the "feel" of trading my system, that goes beyond mere theory. I have been very honest in showing you the consequences I suffered as a result of not practicing my own rules, and I have shown you those times when I did everything right, yet I still lost money just the same. But, through it all, I made a comfortable living every week for the duration of the challenge, in the midst of some very rough times in the market. And the only reason is, because I stuck as closely as I could to the rules of my system. That is the secret to my success. And that is how I make a living trading stocks.

# CHAPTER 26

## Challenge Summary

For the four weeks of the challenge, I made a total profit of \$16,277.25. This was a 32.55% return on the \$50,000.00 I opened the account with. There was no compounding of profits, since I ordered a check at the end of each week. My overnight risk management kept me in small positions or no positions overnight due to bearish market conditions. The longest I held any open position was two days.

Since all the stocks I traded were in the tech sector, the performance of the Nasdaq stock market will be the realistic measure for any kind of performance comparison. The following chart covers the Nasdaq performance for the same period of time as the challenge.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The Nasdaq lost 1476 points, or 30.78% in the time frame of the challenge. A bear market by definition is a price retracement that is greater than 20% from the highs, so my trading took place in a bear market for technology stocks.

Only time will tell what these four weeks will be called by the experts, or if this was just the beginning of a much steeper decline. Was this the buying opportunity of the new millennium? The bulls and bears can argue about this one for as long as they wish. I will still trade the market the very same way I did in this book - Support and Resistance.

There are some very important numbers that you can study from your trading records that can help make you a better trader.

The first number is Win/Loss Ratio.

There are 116 trades illustrated in this challenge of which 75 are winners and 41 are losers. So I have executed a winning trade 64.6% of the time and I have executed a losing trade 35.4% of the time. This slat may seem impressive, but it doesn't mean much, because you can have this win to loss ratio every month and still lose money consistently. I have mentioned that my only goal is to trade well, so I study my numbers a little bit differently than you might expect. I have designed a performance chart to give me a clearer picture of my trading.

At the end of every month, I create a performance table which covers all my trades. This table tells me if I am trading well or not. In this table, I will include the dollar amount I have made or lost on each trade I executed over the last month. The table on the next page is broken into four weeks, and a range of dollar amount made or lost on each trade I have executed. Most of the battle takes place at the gray shaded area where I expect the number of winners and losers to be very close. As I move from the gray shaded area to the extremes on both the left and right side, it tells me how many BIG winners I have had versus how many BIG losers. This is where the difference between good trading and bad trading lies. I want the numbers on the extreme right to be bigger than the numbers on the extreme left. If there is one secret to being successful in this business, it is simply to have more trades executed on the extreme right than on the extreme left.

Using the *Areas* on the table and the *Total*, we can learn much more about our trading. First I want to answer the questions of which area is bigger:

- B1>B2-Yes.
- C1>C2-Yes.
- D1>D2-Yes.
- E1>E2-Yes.
- F1>F2-Yes.

Next, I can calculate the ratio of winners to losers within a certain area.

$B1/B2=2.11$   
 $C1/C2=7$   
 $D1/D2=2$

I'd like to see a number greater than 1.75 as a ratio of area 1 divided by area 2. (excluding area A where I expect the numbers to be closer)

Performance Table 3/20/2000 - 4/14/2000

		Winning Trades															
		Losing Trades															
Area	701-800	601-700	501-600	401-500	201-400	1-200	1-200	1-200	201-400	401-500	501-600	601-700	701-800	801-900	901-1000	1001-1500	1500+
	F2	E2	D2	C2	B2	A2	A1	B1	C1	D1	E1	F1	G1	H1	J1	K1	
Week 1					1	4	3	5	2	2	1	1	1				
Week 2				1	2	7	8	5				1	1				
Week 3	1*		1		3	11	14	3	3	1		1	1	1	1	1	1
Week 4	1		1		3	5	8	6	2	1			2				
<b>Total</b>	<b>2</b>		<b>2</b>	<b>1</b>	<b>9</b>	<b>27</b>	<b>33</b>	<b>19</b>	<b>7</b>	<b>4</b>	<b>1</b>	<b>3</b>	<b>5</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

I suggest that you use a similar table to tabulate your own performance based on the dollar range of your winners versus your losers. This table should answer the question, am I trading well?

\*A basket trade of five stocks

## EPILOGUE

---

I am sure many of you are wondering what happened after the last day of the challenge. On Friday, which was the last day of the challenge, I bought 1,200 shares of QQQ. I held this position for three days, and I sold it on Tuesday, April 18, 2000 for a profit of \$8,806.30. I also bought and sold 300 shares of KLAC, twice, for a total profit of \$1,970.93. Next, I bought and sold 300 shares of BVSN for a profit of \$280.43. Finally, I bought and sold 300 shares of INKT, twice, for a profit of \$798.78. My total profit for the two days following the challenge was \$11,856.50. I have not executed one trade in this account since then.

It is a shame that my best week of trading the account did not make it into the book, but the guidelines which I followed were to include only realized profits from the four-week period of time, so although I bought the 1,200 QQQ shares on the last day of the challenge, the profits were not realized until two days after.

For those of you who keep score, the total amount I have made in this account is \$28,133.75. That is a 56.26% return in one month. .

Once I closed my positions, I devoted all my time to the writing of this book. One of my goals in writing this book is to show everyone, and I mean everyone, that trading stocks for a living is a legitimate business, and I hope that the media will finally see it this way, as well.

Once this book is finished, I will be doing what you have just witnessed in this book, day in and day out - I will be taking money out of the market.

### *TRADE SMART!*

Just when you think you have finished reading this book, I will recommend that you read the bonus pack and appendixes. I have spent a lot of time writing them, and I think that there are numerous gems scattered in between the lines. All you have to do is pick them up.

## Bonus Pack

---

### Tips, Guidelines, Rules and Case Studies

In this chapter, I want to put all the pieces of the puzzle together for you. We have learned great lessons over the last four weeks, and I want to put it all in an easy to understand and follow format, so if you haven't gotten your money's worth yet, all you have to do is master this section.

Analyze the overall market first. You must know the direction the market is going in. It is good to take a look at the daily chart of both the Dow and the Nasdaq and see where short-term support and resistance levels lie. Write down these levels and monitor them throughout the trading day.

Analyze which sectors are strong and which are weak. You want to be in the strongest sector in a bull market and short the weakest sector in a bear market. Monitor the money flow from one sector to the other.

Once you have a CLEAR idea as to which direction the market is going and which industry is the one to be long or short, analyze individual stocks and write out a trading plan for each candidate you have. Follow the guidelines featured in this book.

Always trade in your comfort level, and do not put all the eggs in one basket.

Adhere to your trading plan's price target and stop loss. Sell at least a part of your position at your price target to put yourself in a win/win situation.

If a stock gaps up over your entry price, do not chase it. If you still like it try and buy a pullback.

**In choppy markets, take quick profits. In trending markets, squeeze your winners. Be diversified if you are taking overnight positions.**

While managing your trades, keep an eye on the major indexes, including the bond market.

When your position is in the money, move your stop to break-even, do not let a profit turn into a loss. "In the money" is different for each and every stock, depending on volatility. For instance, being up a point or two on JNPR is not really being in the money, because the stock can move 20 points

in 10 minutes, so a one to two point movement is a must wiggle. However, being up a point on a stock like CSCO or MSFT means that you are in the money, so do not let that position turn into a loss.

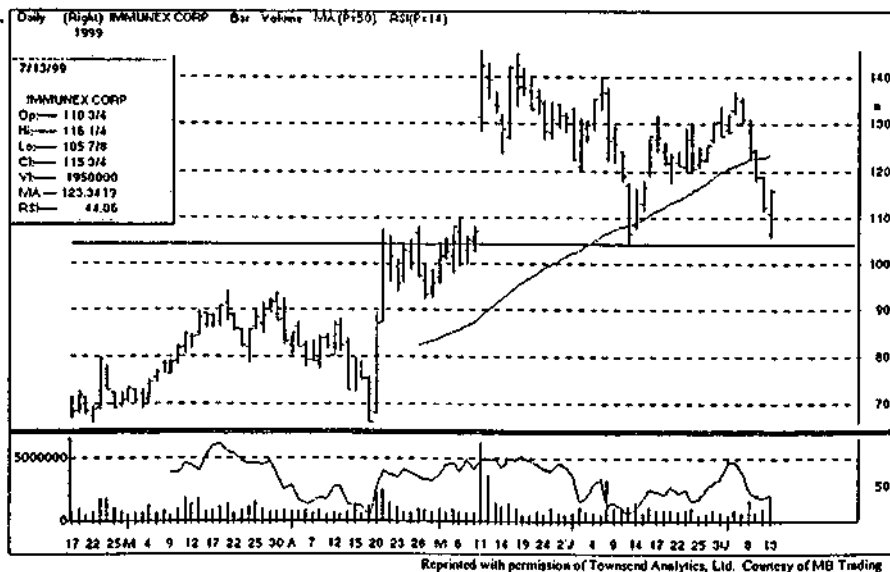
Trail your stop with a logical risk reward ratio. For instance, if you buy XYZ stock at 75 and your price target is 95, and the stock is trading at 90, you can't let the stock fall back to 80. You can't risk 10 points to try and capture 5 points. In this case, you should be stopped out at 87-88 1/2 depending on the volatility of the stock.

Time stops are to be placed as well. This has to do with the opportunity cost of sitting in a trade for a long period of time.

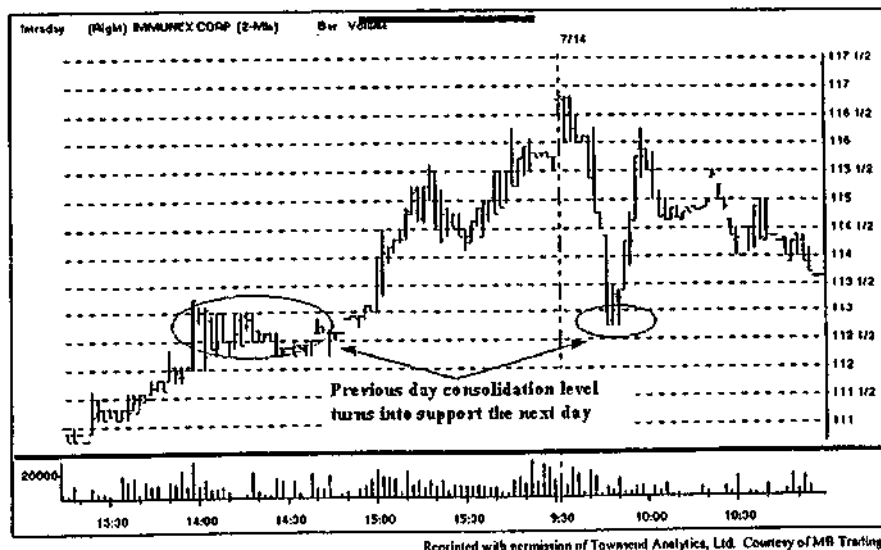
### Entry Points

A good entry point makes a trade much easier. There are two basic types of entries I look to make. Buying at intraday support levels, or once a stock traded at a higher price than the previous day's high.

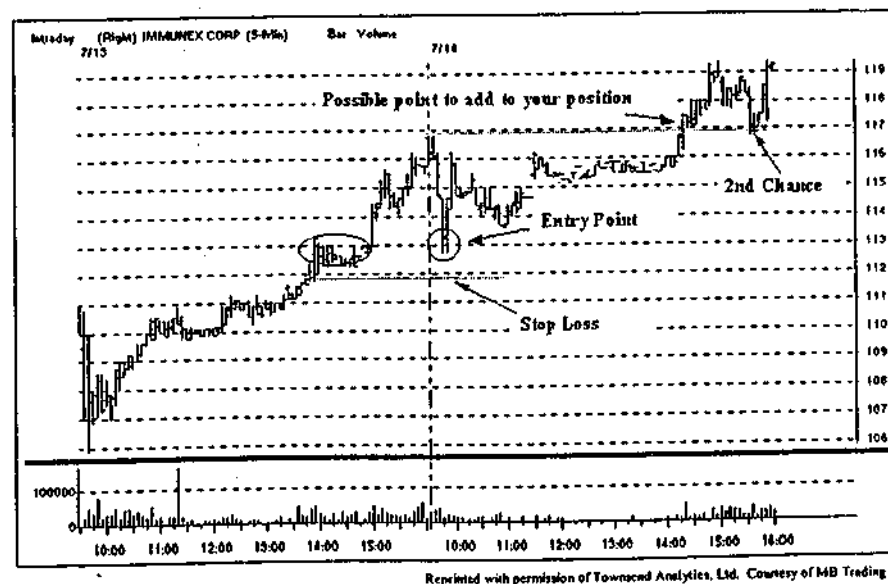
Let's look at IMNX. It had a reversal day on big volume, closed at the top of its trading range and looked good for a long position. The chart below is the exact same chart I saw while doing my research.



I will use a multi-day intraday chart to find support and resistance levels. The chart on the following page will show the entry points.

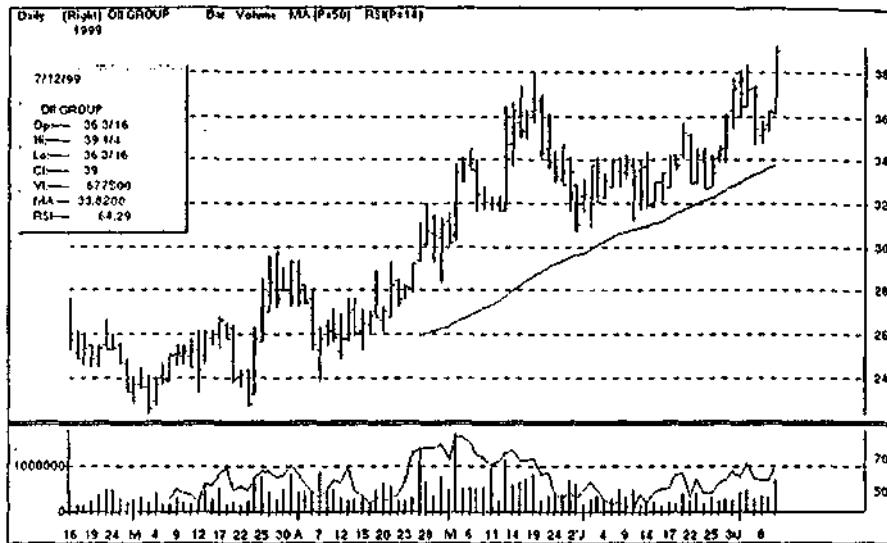


IMNX gaped up open the next day and sold off. In this case, we can identify a consolidation period between 112 1/2 to 113, the previous trading day. This consolidation period which was resistance for the stock, becomes support, once it is successfully penetrated and tested again. So if you find a stock you like, you should look at an intraday chart and identify where support and resistance levels are and plan your entry accordingly.



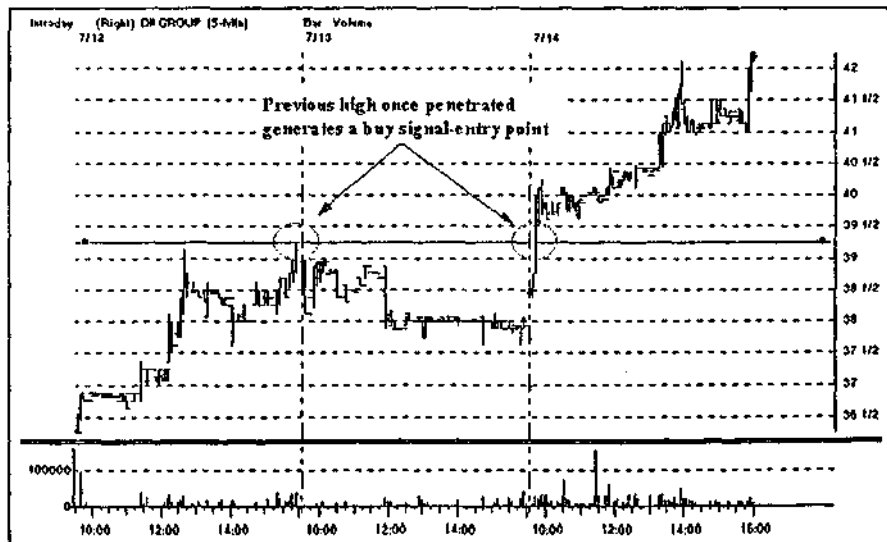
Place your stop loss just below the support level. Now, your reward to risk\*

ratio is favorable. The second entry point will normally be at the breakout point, or the pullback from the breakout, as shown in the chart on the previous page. The stock went up to 130 1/2 three days later.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

DUG broke out to a 52-week high. Here is what happened the next couple of days.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

The next day, the stock did not trade higher than 39 1/4 which was the

previous day's high and 52-week high. It was trading in a range between 37 3/4-39. The following day, the stock took off in the morning and traded higher than 39 1/4, and continued to 42 3/8. In this case, it was a great play to buy the breakout. The stock continued its move up and hit 45 the next day. These are the two strategies I normally use to enter positions, at support levels or over resistance levels. Many professional traders like to buy a stock once it trades higher than the previous day's high. I use both methods, but prefer to buy stocks at intraday support levels as you saw in the challenge.

### Classic Times

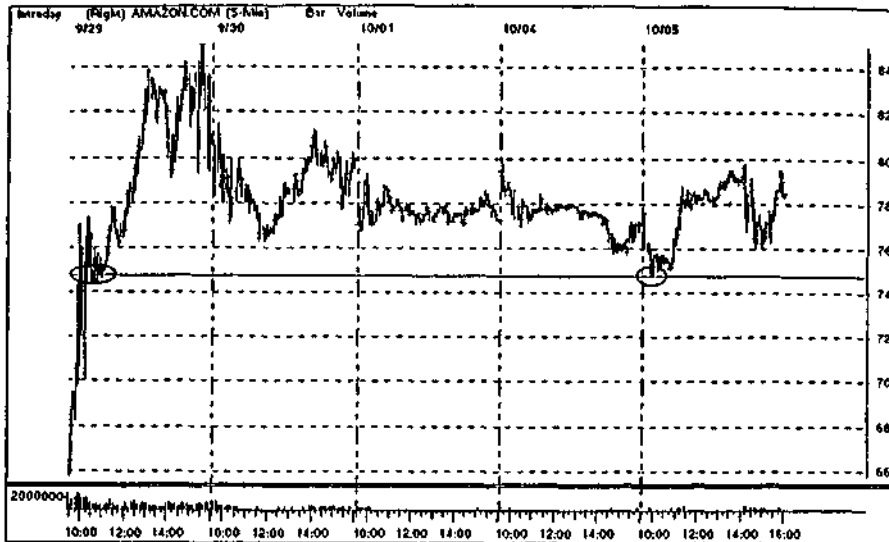
Trading the open is always dangerous. However, in today's market, most stocks run out of the gate, at the open, and make the biggest part of their move, early. The S&P futures play a major roll and determine the open of the market. The first half an hour is very volatile. The key time of the day is at 10-10:30 EST. This is the time that a reversal may occur. A pullback is likely, so if you missed your entry point, look to buy on this pullback.

If the market holds its initial direction, then the initial move from the open is real and the trend for the day might be strong. I like to enter my positions between 10-11:30. Then comes lunch time when things slow down, but I am still alert, looking for potential plays. This will be the time, where I will run my intraday scan and look for possible entry points for different candidates.

Following lunch time around 14:00-15:00 volume picks up and stocks are moving. The last hour is when program trading can kick in, volatility increases and the last 20 minutes will clue us in as to where traders are positioning themselves going into the next trading day.

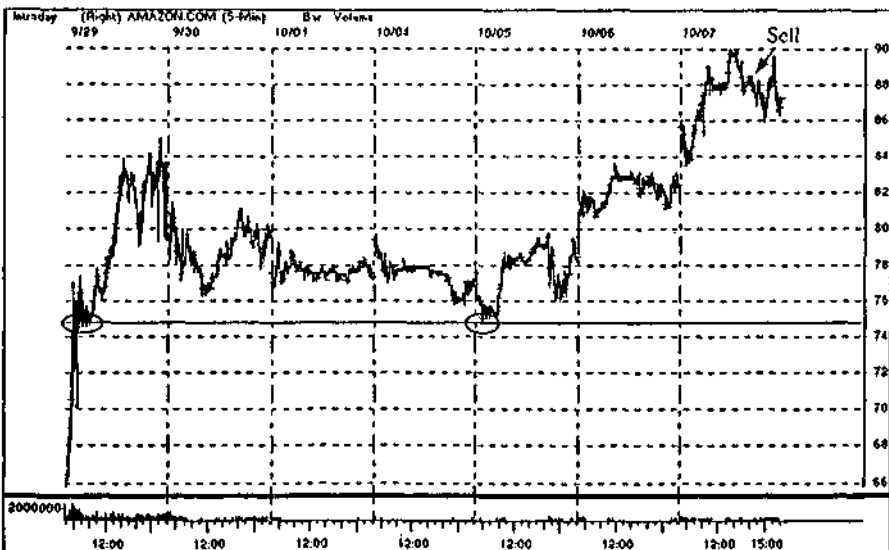
During all of these times, you should monitor the support and resistance levels for the major indexes and see if you can make a high percentage trade.

## In-Depth Classic Case Study



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

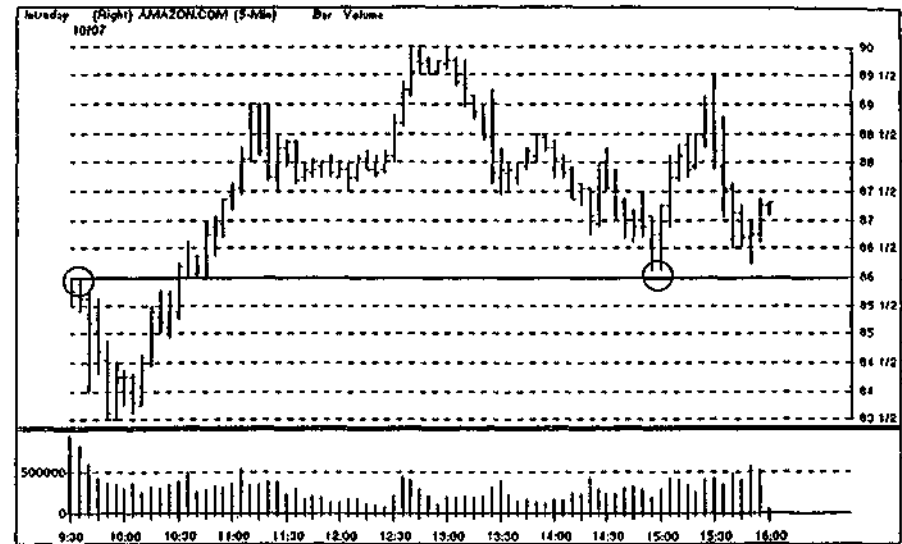
AMZN had a big day on 9/29/99 and sold off the next three days. On the fourth day, 10/5/99, AMZN hit 75, which was the price I was looking to enter a long position. I entered the stock at 75 1/4, my stop loss was at 74 1/4 and my price target was 90-95.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

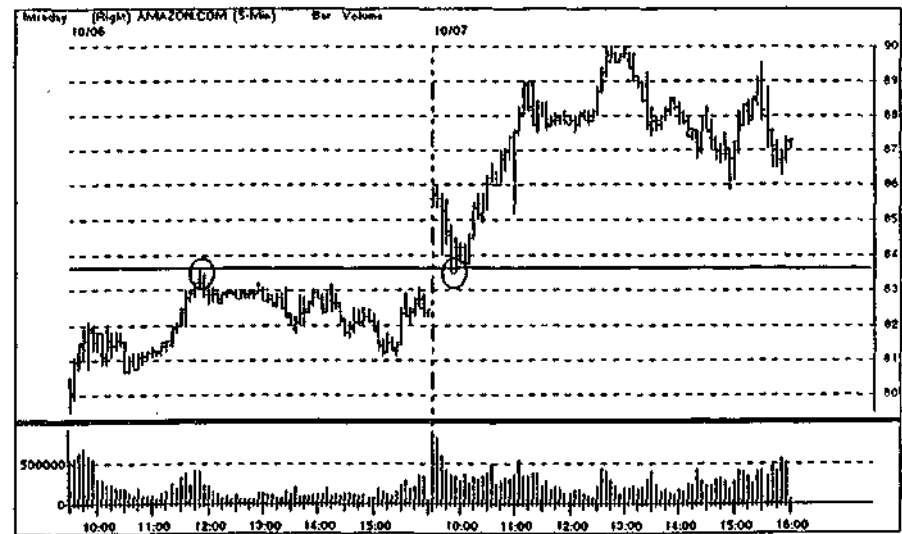
Over the next two days, AMZN went all the way up to 90, and sold off back to 86 1/8. I was trailing a stop and got out at 88 1/4.

Once I sold AMZN, I wanted to buy the stock again at support levels. I entered an order to buy AMZN on ISLD at 86 1/16.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

Note that support was at 86, but I was willing to pay a 1/16 more at 86 1/16, but the stock stopped at 86 1/8 and went up to 89 1/2. In hindsight, I should have had my order at 86 1/4.



Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

Here was another great entry. AMZN gapped up open and sold off. It hit 83 1/2, which was the previous day's high. Resistance became support in this case and AMZN bounced at that price and gained 5 1/2 points in 40 minutes.

This last case study of AMZN shows many classic setups that can be used effectively in a bull market.

First, AMZN was up 18 points on 9/29/99. When it pulled back from the highs it set on that monster day, it retraced about 50%. This is a classic level to enter a strong stock.

Next, the 74-75 price level is where AMZN consolidated on 9/29/99. It was the only area of support you could find on the chart, so once the stock pulled back to that price level, it was a bargain. These are the kind of setups I like in a bull market.

I had a good entry, which made sitting tight much easier. The math of day trading is very simple. GOOD ENTRY=EASIER TRADE. In a trending bull market, you have to be able to sit tight. Unfortunately, I wasn't able to use this strategy successfully during the time frame of the challenge for the obvious reason that the bears were controlling the Street.

Another classic setup in a bull market is when a stock gaps up open and starts falling down fast in the first fifteen minutes of the day, I will look to buy it somewhere around the previous day's high or closing price. These are normally high percentage trades with very favorable risk reward ratios.

Next, if the stock is able to trade back up and move to a higher level than the opening price, then it is showing strength. I would look to buy the pullback in this case.

It is very common for a stock which enjoyed a big run today, or over the last few days, to have a sharp decline between 11:00-13:00. I look to buy this decline at support levels. I prefer to buy the stock at the price level of the morning highs set between 9:45-10:15 (if the stock did trade significantly higher than the morning highs prior to this last decline).

Since markets move in cycles, it is extremely important to know which strategies work best at the current market you are in. I included this bonus pack and special case study, so you can see how my trading system works in a bull market. I still follow the basic laws of Supply and Demand, Support and Resistance, and Greed and Fear, no matter what market I am trading. Following the challenge period, I am convinced that bulls make money, bears make money, and pigs get slaughtered, because I truly believe that you can play both sides of the market even against the overall trend and still make money if you trade smart. However, he who wants to make a million today, will be hung tomorrow! Don't be greedy - Don't be a pig!

## **APPENDIX A**

---

### **Plans, Records, Stats, and More**

As I have illustrated in this book, it is important that you have a plan prior to entering a trade. Once you are in the trade, you must follow the rules and guidelines outlined by the plan. After you close the trade, it is extremely important that you keep good records. Next, you should study the stats that are generated from your trading records. Let's go over some of these elements step by step.

First, your plan must have the following rules and guidelines:

Entry price.

Target price.

The maximum amount you are willing to lose on this trade.

The time frame you are willing to spend in the trade.

The size of the position you want to take.

You should also know the date in which earnings will be reported by the company.

Next, you must be disciplined in following the plan of your trade religiously. Once you have closed your position, you should record everything about the trade. Write down where you wanted to enter the trade, what you expected out of the trade, and what you actually did get out of the trade. Make sure to include notes that will help you learn from the trade, reasoning what actually took place once you entered the trade. Explain why the trade was a winner or a loser. If you keep detailed trading records, you can learn from past trades and increase your chances of recognizing your strengths and weaknesses. Build on your strength and stay away from trades you have demonstrated weakness in.

Then, you should study your records in more depth. You should look at your win/loss ratio, and you should create a performance chart like the one I illustrated on page 229.

There is another type of study I conduct on all individual stocks I trade. For example, let's use the records of the challenge and create a table for all the different stocks I have traded in my MB Trading account.



## Trading Record by Security 3/20/00-4/19/00

TICKER	P&L	TICKER	P&L
AAPL	-422.28	MRVC	1,420.74
ALTR	225.40	MSFT	99.61
AMAT	553.21	MU	597.87
AMBI	486.10	NVLS	75.00
BGEN	39.53	ORCL	2,645.74
BVSN	766.10	PHCM	1,689.10
CHKP	-50.57	PMCS	1,492.10
CIEN	1,171.65	<del>QCOM</del>	-623.94
CLRN	389.55	QQQ	8,914.18
CSCO	1,078.73	RMBS	-93.01
INKT	798.78	RSLC	346.01
<del>INTC</del>	-754.69	SUNW	-371.38
JDSU	-265.08	TXN	317.37
JNPR	710.82	VTSS	-581.45
KLAC	4,625.34	WAVX	1,863.97
LOOK	625.06	XLNX	-33.09
LSI	-170.94	XRX	561.69
MOT	-172.99	YHOO	179.47

The above table totals all my profits and losses for each stock I have traded over the last month. First, you can see that I traded 38 different stocks. Next, you can see that I turned a profit on 27 out of the 38 stocks I traded. I lost money on 11 out of the 38 stocks in the above table.

What I am interested in the most while studying this table, is which individual stocks contributed to most of my gains and which ones contributed to most of my losses. This data will help me make adjustments to my Constant

watch list. There is no purpose for me to follow a stock on a daily basis if I cannot trade it well.

If you noticed, I have crossed out two stocks off the list. I use two cut-off filters to determine if I will drop a stock out of my Constant watch list. The first one is a total dollar amount which I have lost on the stock. Next, I want to see how many winners versus losers I executed for that stock.

The reason I crossed INTC out was because it represented my biggest losing stock for the month. The reason I crossed QCOM out is that I have executed three trades on the stock without a single winning trade. I lost on each and every trade I executed on QCOM. This will be the time I will say, "Good Bye."

It is really easy to keep good records if you enter all your trades into a program such as Quicken. MB Trading has made my life much easier, because they create a Quicken file for their customers, on a daily basis. I can download and import this file into my program at my convenience. Once I have all the data imported to Quicken, I can generate reports and graphs that give me a clear picture of my trading performance.

## APPENDIX

# B

### Creating a Constant Watch List

When you first start out, it is really hard to know which stocks to follow. In this section I will try and guide you how to make your own Constant watch list. First, you will need to determine the criteria a stock must have in order to make your watch list. The most important criteria is liquidity. I like stocks that trade at least 1.5 Million shares. Next, I will eliminate all stocks that pay dividends in excess of 1%. Then, I will look at the volatility, which I measure by monthly, weekly, and daily trading range in points. I like stocks with large point swings. I have no prejudice against high-price stocks. I do, however, like the stocks on my Constant watch list to be over \$50.00 a share. There are some exceptions though.

Once you have created a preliminary list, pick as many stocks as you feel comfortable following. You should have a minimum of five stocks and a maximum of forty on that list. When you start trading, you will make changes to the list when needed. My Constant list has generated the vast majority of my trades in the challenge, so it is an essential piece of my over-all trading system.

Here is my Constant watch list:

AAPL	ALTR	AMAT	BVSN	CHKP
CIEN	CSCO	INKT	JDSU	KLAC
LSI	MOT	MSFT	MU	NVLS
ORCL	PHCM	PMCS	RMBS	SUNW
TXN	XRX	YHOO	DUG	

Recent Additions:

VRSN	MRVC	NXTL	CREE	CNXT
RATL				

Recent Scratches:

QCOM	INTC	DCLK	NSOL	PCLN
EBAY	CMGI			

---

**Creating Baskets**

I have featured the advantages and disadvantages of trading baskets of stocks that track certain sectors. The following are baskets of stocks which I have created for the purpose of trading a hot sector.

**BIOTECH**

IMNX, AMGN, BGEN, MEDI, PDLI

**COMPUTER MAKERS**

DELL, CPQ, SUNW, IBM, HWP, AAPL, GTW, MU

**INTERNET**

AOL, YHOO, CMGI, DCLK, VRSN, AMZN, RNWK, EBAY, CHKP,  
1NKT, BVSN

**CYCLICAL STOCKS**

C, DE, F, IP, CHA, AA, UK, UTX, HON, CAT, GT, DOW

**TELECOM**

T, WCOM, NT, LU, BEL, NXTL, SBC, PCS, GTE, USW, FON

**NETWORK**

CSCO, NT, LU, COM3, TLAB, CIEN, ADCT, ADPT, CS, ALA, NN

**OIL SERVICES**

HAL, SLB, BHI, RIG, GLM, FLC, TDW, NE, MAVK, CHV, RD

**PHARMACUTICALS**

PFE, AMGN, SGP, LLY, MRK, BMY, ABT, WLA, AHP, JNJ

**BROKERS**

SCH, MER, LEH, GS, PWJ, MWD

**AIRLINES**

AMR, DAL, NWAC, ALK, UAL

**SEMICONDUCTORS**

INTC, AMAT, MOT, MU, KLAC, PMCS, LSI, TXN, ALTR, NVLS, AMD

---

**Real-Time and Overnight Scans**

Although most of the trades I have executed during the challenge time frame came from my Constant watch list, there are market conditions in which the results of real-time and overnight scans will generate most of my trades. This is very true in a trending bull market.

You may run a scan when the market is closed or open to find candidates for potential trades. The following scans can be used both when the market is closed or in real-time when the market is open. I look for the following criteria in stocks.

**Volume Spike Scan:**

Please find all stocks which trade more than 750,000 shares on average and have traded more than 1.5 times their average daily volume today. The stock must have a net change of 5/8 and be priced between 40 - 200.

**Breakout Scan:**

Please find all stocks which trade more than 400,000 shares on average and have traded more than 1.7 times their average daily volume today. The stock must have a net change of 5/8 and be priced between 40 - 200. The last trade must be a four-week high.

**Fullback Swing Trade:**

Please find all stocks which trade more than 750,000 shares on average and have traded down over the last three trading days. The stock must be priced between 40 - 200 and trading higher than yesterday's low.

**Power Scan:**

Please find all stocks which trade more than 350,000 shares on average and have traded more than 1.5 times their average daily volume today. The stock must have a net change of 5/8 and be priced between 40 - 200. The last trade must be in the top 13% of the day's trading range.

You will get numerous candidates using each one of these scans. You must

study the charts and see if a high probability trade can be made. In other words, not every result is a high probability candidate.

The formulas for the scans on the previous page were published in the book, *Stock Trading Wizard*. I have also published a companion to the book, *The Stock Trader*, on the Internet. You can visit us on the web at: [www.stockjunkie.com/companion.htm](http://www.stockjunkie.com/companion.htm) to learn more about effective scanning strategies and scanning software. The companion is free to everyone, and it will include updated formulas, which you can use with different third party scanning software.

## APPENDIX

# E

### Basics of Level II Quotes

Level II is a quotation system for Nasdaq stocks which displays bids and offers by Market Makers in a particular stock. You can see exactly which Market Maker is bidding for shares or offering shares for sale. You can see at which price he is interested in buying or selling, and how many shares he is interested in buying or selling at that price. The example below will show a Level II Quote screen.

Left Window = Buyers Demand			Right Window = Sellers Supply		
Name	Bid	Size	Name	Ask	Size
MASH	70 9/16	10	SBSH	71 1/8	2
PIPR	70 9/16	1	ISLD	71 1/4	1
FBCO	70 1/2	1	<b>MASH</b>	<b>71 3/8</b>	<b>4</b>
REDI	70 1/2	1	LEHM	71 7/8	1
<b>LEHM</b>	<b>70 3/8</b>	<b>1</b>	FBCO	72	1
RSSF	70 3/8	1	REDI	72	4
SHWD	70 3/8	1	RSSF	72 3/8	1
MONT	70 1/8	1	GSCO	72 5/8	2

Reprinted with permission of Townsend Analytica, Ltd.

The Level II montage is divided into two windows: a left window and a right window. Each window has three columns in it. The window on the left side is the Bid window. All Market Makers listed in that window are bidding for the stock. The window on the right is the Ask window. All the Market Makers in that window are offering the stock for sale.

**Name:** The name is a 4 letter code which represents a Market Maker in that security.

**Bid:** This is the price that the Market Maker is willing to buy the stock for.

**Size:** This number indicates how many shares the Market Maker is willing to buy at that price. The Size is quoted in 100 share lots. So a Size of 8 will be  $8 \times 100 = 800$ .

**Ask:** The right window works the same way, but instead of bidding, Market Makers are offering shares for sale at the price listed in the Ask column.

You might have noticed that there are different color ranges in both the Bid and Ask windows. These colors will vary depending on how the quotation software is set up. The use of colors in a Level II montage is nothing more than a visual aid. It helps you identify how many Market Makers and/or ECNs are at each price level.

## APPENDIX

# F

---

### Direct Access Order Routing and My Setup

**SUPER SOES:** An automated trading system that lets SOES participants enter and execute orders in active SUPER SOES-authorized NASDAQ securities. SOES participation is mandatory for Market Makers in the Nasdaq National Market. You may enter a SUPER SOES market order and/or marketable SUPER SOES limit order. SUPER SOES orders are executed against Market Makers at the inside quote in rotation. Once a SUPER SOES order has been entered, SUPER SOES follows these steps to execute the order:

1. Identifies the Market Maker quoting the best price and who is first in line for SUPER SOES executions.
2. Executes the order.
3. Delivers trade report to the order-entry firm and the executing Market Maker.

The Market Makers' displayed quote size reduces after each SUPER SOES execution. Market Makers can elect to update quotes automatically or manually after their displayed quote size is reduced to zero. They have .five\* seconds to update their quote or they will be eligible to get hit with another order. Market Makers accept SUPER SOES executions up to the size of their displayed quote.

**SelectNet:** When you enter a limit buy or sell order via SelectNet, you are broadcasting your order to all Market Makers.

**SelectNet Preference:** SelectNet allows order-entry firms and Market Makers to direct orders to specified Market Makers, including ECNs. If a SelectNet order is directed to a specific Market Maker, and is at the Market Maker's current bid or offer at the time the order was received, the Market Maker is subject to the Firm Quote Rule and has liability for his quoted price up to his displayed size. A Market Maker may respond to a preference order which is delivered to his trading terminal by:

1. Accepting the order.
2. Price improving the order.
3. Declining the order.
4. Countering or accepting a portion of the order.
5. Allowing the order to expire or time out.

You may use this type of order to go out-of-market.

ISLD (Island): This order routing matches orders from buyers and sellers together and executes them against each other. ISLD allows subscribing members to post bids and offers for a stock. Non subscribers may not post bids and offers on ISLD, but they may enter an order to buy or sell from an ISLD subscriber who is posting a bid or an offer for a stock via a SelectNet Preference order. Subscribers to ISLD are similar to Market Makers as they are able to post bids and offers. The best bid and best offer currently on 16LU are posted on a Level II montage.\*\*

ARCA: A unique order execution system made of a set of formulas which makes a decision in how to route an order. When an order is entered on ARCA the first thing ARCA will do is look for an ECN at your specified price. If it finds an ECN that meets your price it will execute your order against that ECN. If there is no ECN found at the specified price it will determine how and to who your order will be routed to. ARCA's first priority is to get you the best possible price.

ISI: A direct link to super-dot for listed stocks.

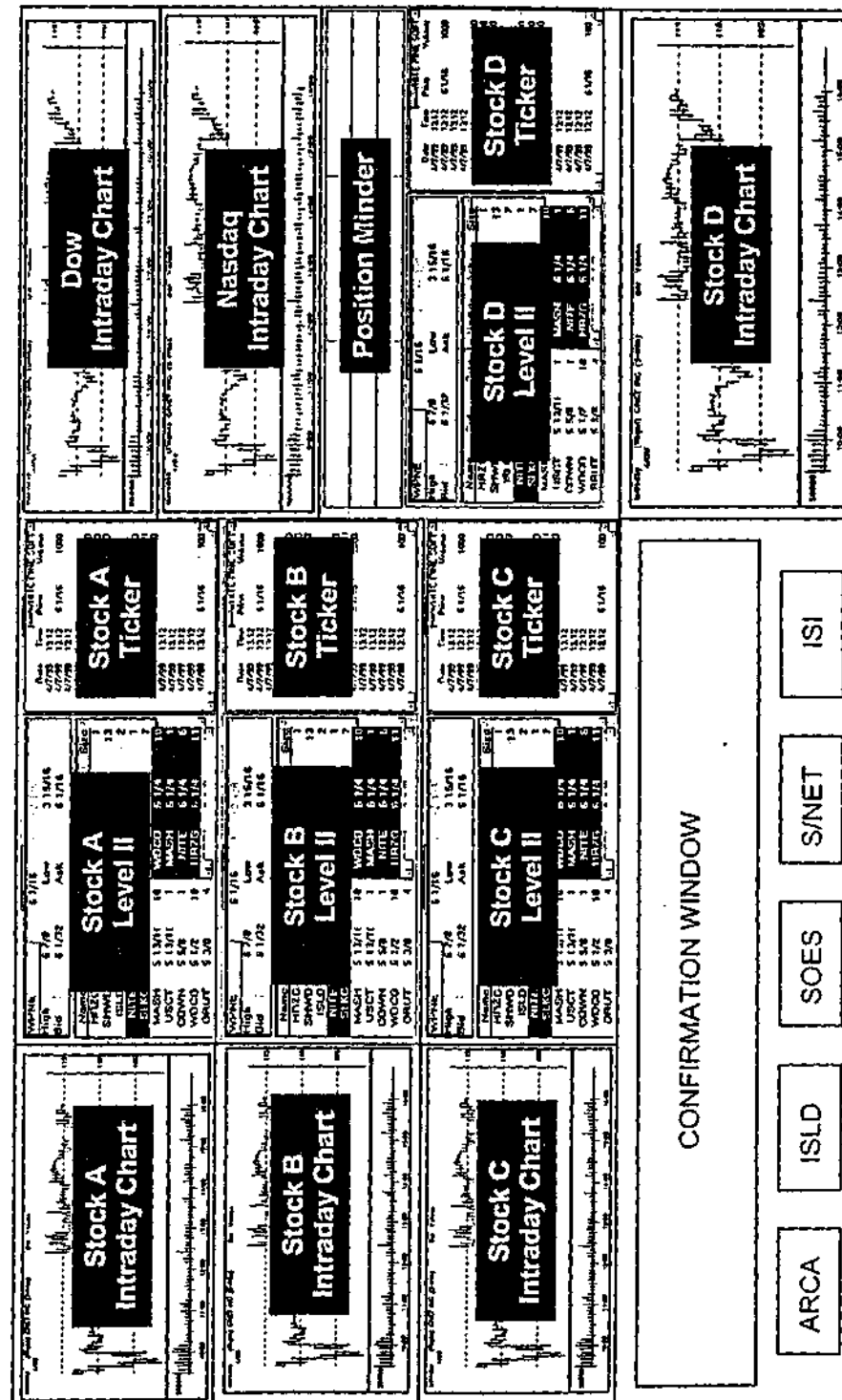
You can see my trading station setup on the following pages. I run a dual-monitor trading station. If you are interested in seeing these setups in color or obtaining them free of charge, you may visit [www.stockjunkie.com/Pages1.htm](http://www.stockjunkie.com/Pages1.htm).

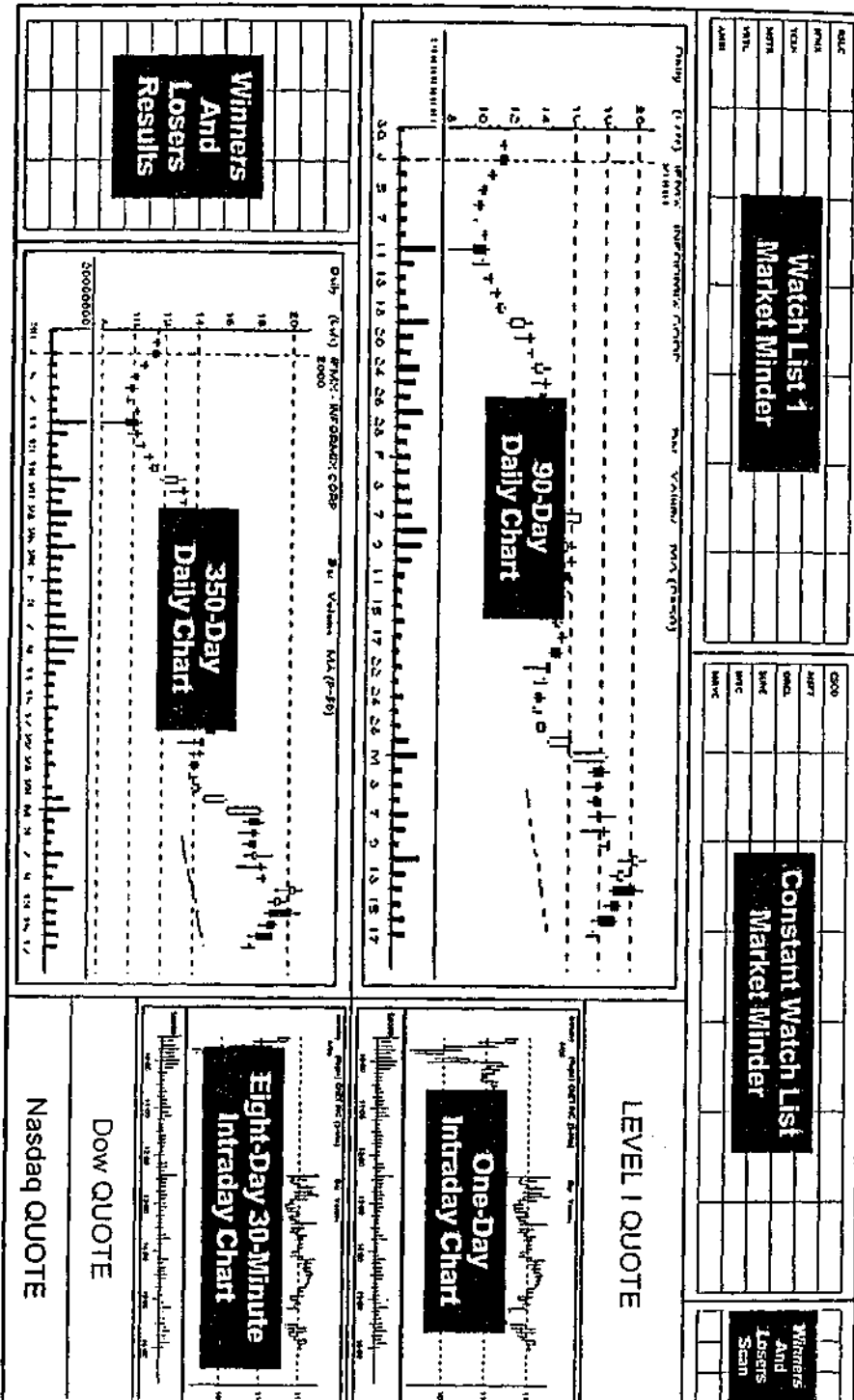
Page 257 shows the setup I have on my left monitor. I can follow and trade four stocks on this monitor, while monitoring the intraday charts for the indexes.

Page 258 shows the setup I have on my right monitor. I can research any stock on that monitor, while monitoring all my watch lists.

'Super SOES is a proposed new execution system that will replace the current SOES system and SelectNet. It has been delayed a couple of times already. Currently, a Market Maker has 15 seconds to refresh his quote.

\*\*I can also use both the INCA (Instinct) and the REDI (Redibook) ECNs to post bids and offers through my MB Trading order entry software. I use them the exact same way as I use ISLD.





## APPENDIX

# G

### Advanced Features of MBTrader™

MB Trading continues to lead the industry in the active trader brokerage arena with software, support, and service that provides the investor and active trader with the tools necessary to remain competitive in the face of an ever-changing market.

They have developed an array of ground-breaking Orders, which must be studied very carefully. I have used some of these Orders during the challenge and found them to be extremely valuable. For this, I am taking the time to illustrate how these features work.

#### Discretionary Orders via the ARCA ECN

Name	Bid	Size	Name	Ask	Size
MASH	70 9/16	10	SBSH	71 1/8	2
PIPR	70 9/16	1	PHCM	70 3/4	1
FBCO	70 1/2	1	MASH	71 3/8	4
REDI	70 1/2	1	LEHM	71 7/8	1
LEHM					1
RSSF					4
SHWD					1
MONT					2
PERT					2
HMQT					1
GSCO					1
BTRD	70	3	NFSC	74	1

**Submit Discretionary Order**

Order Details: Buy 1000 PHCM at 70 3/4 on ARCA

Discretionary Price:

Volume	Price	Discretionary	Stop Price	VolType	Order Options
1000	70 9/16	<input checked="" type="checkbox"/>	70 9/16	Partial	<input type="checkbox"/> Bid/Offer <input type="checkbox"/> Short <input type="checkbox"/> Exempt <input type="checkbox"/> PIPR <input type="checkbox"/> Conditional Order
Route: ARCA		Expiration: Day	Account Type: Margin	Reserve Amt: 1000	

Buy PHCM    Sell PHCM    Cancel All PHCM

Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

This new and powerful feature allows you place an order with a discretionary range (for example to BUY 1000 PHCM at a limit price of 70 9/16 with a discretionary price of 70 3/4). Your order is displayed at your specified limit price, not discretionary price. When a bid or offer appears at or within your discretionary price range, your order will be matched in ARCA or routed to the NASDAQ Market Participant(s) at their quoted price using the



SmartBook logic (SmartBook proprietary software utilizes an exclusive preferencing algorithm to find the best price available internally and/or externally by routing the order directly to the market participant(s) displaying the best price and order execution/ratio based on % fill history, time and size shown). We think this powerful feature will help you with your trading, however, please keep in mind that a stock can trade ahead of you because your discretionary price does not necessarily make you the best bid or offer

### Stop Limit Orders via the ARCA ECN

Name	Bid	Size	Name	Ask	Size
MASH	70 9/16	10	SBSH	71 1/8	2
PIPR	70 9/16	1	ISLD	71 1/4	1
FBCO	70 1/2	1	MASH	71 3/8	4
REDI	70 1/2	1	LEHM	71 7/8	1
LEHM	70 3/8	1	FBCO	72	1
RSSF	70 3/8	1	REDI	72	4
SHWD	70 3/8	1	RSSF	72 3/8	1
MONT	70 1/8	1	GSCO	72 5/8	2
PERT	70 1/8	2	SHWD	73	2
HMQT	70 1/16	1	HRZG	73 1/8	1
GSCO	70	2	PIPR	73 1/2	1
BTRD	70	3	NFSC	74	1

Volume	Limit Price	Stop-Limit	Stop Price	Vol Type	Order Options
1000	67		69 7/8	Partial	<input type="checkbox"/> Bid/Offer
Route	Expiration	Account Type	Reserve Amt.	<input type="checkbox"/> Short <input type="checkbox"/> Exempt	
ARCA	Day	Margin	1000	<input type="checkbox"/> Pref. <input type="checkbox"/> Conditional Order	
Buy PHCM		Sell PHCM		Cancel All PHCM	

Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

This new feature will allow a trader to place a "trigger price" which activates a Limit order. For example, you buy 1,000 PHCM at 71 1/8 but want to cut your losses and close the position if the price falls below 69 7/8. YOU are actively trading many other stocks and don't have time to keep an eye on PHCM. You can enter a Stop Limit order to sell PHCM at 67 (or better) if PHCM trades at or below 69 7/8.

### Stop Loss Orders via the ARCA ECN

Name	Bid	Size	Name	Ask	Size
MASH	70 9/16	10	SBSH	71 1/8	2
PIPR	70 9/16	1	ISLD	71 1/4	1
FBCO	70 1/2	1	MASH	71 3/8	4
REDI	70 1/2	1	LEHM	71 7/8	1
LEHM	70 3/8	1	FBCO	72	1
RSSF	70 3/8	1	REDI	72	4
SHWD	70 3/8	1	RSSF	72 3/8	1
MONT	70 1/8	1	GSCO	72 5/8	2
PERT	70 1/8	2	SHWD	73	2
HMQT	70 1/16	1	HRZG	73 1/8	1
GSCO	70	2	PIPR	73 1/2	1
BTRD	70	3	NFSC	74	1

Volume	Price	Stop Price	Vol Type	Order Options
1000	70 3/4	69 7/8	Partial	<input type="checkbox"/> Bid/Offer
Route	Expiration	Account Type	Reserve Amt.	<input type="checkbox"/> Short <input type="checkbox"/> Exempt
ARCA	Day	Margin	1000	<input type="checkbox"/> Pref. <input type="checkbox"/> Conditional Order
Buy PHCM		Sell PHCM		Cancel All PHCM

Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

This type of order allows traders to protect themselves from market fluctuations while maintaining the comfort that their order is safely stored on the ARCA ECN. Unlike other trading firms which hold such orders "client" sided, these orders are held on a confidential ECN server which activates the order automatically, whether your MBTrader™ is online or not.

## Conditional Orders

Name	Bid	Size	Name	Ask	Size
MASH	70 9/16	10	SBSH	71 1/8	2
PIPR	70 9/16	1	ISLD	71 1/4	1
FBCO	70 1/2	1	MASH	71 3/8	4
REDI	70 1/2	1	LEHM	71 7/8	1
LEHM	70 3/8	1	FBCO	72	1
RSSF	70 3/8	1	REDI	72	4
SHWD	70 3/8	1	RSSF	72 3/8	1

Volume	Price	Stop Price	Vol Type	Order Options
1000	70 9/16	LMT	70 9/16	Partial
Route	Expiration	Account Type	Reserve Amt.	
ARCA	Day	Margin	1000	
Buy PHCM	Sell PHCM	Cancel All PHCM	<input type="checkbox"/> Bid/Offer <input type="checkbox"/> Short <input type="checkbox"/> Exempt <input checked="" type="checkbox"/> Conditional Order	

**Enter Conditional Order**

Trigger Condition				Place Order
Symbol	Data Item	Condition	Price	Cancel
\$COPMX	Last Price	>=	4500	

Order to Execute			
Buy	Symbol	Volume	Price
	PHCM	1000	70 9/16
Sell	Route	Expires	Size Type
	ARCA	Day	Partial

Request confirmation when conditional orders are triggered

Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

This function will grow as you grow. Now you can place a programmed order and the MBTrader™ will "work" it for you. Imagine the possibilities of telling your MBTrader™ to buy a stock at its 50-day Moving Average price level and sell it at its 200-day Moving Average price level when the NASDAQ crosses a particular point. Not only will you get that type of flexibility, but imagine telling your MBTrader™ to buy 1000 PMCS at a particular price when DELL crosses its 52-week high. You won't be encumbered by setting conditional orders to activate just one stock.

As seen above, an order to buy PHCM at 70 9/16 should the Nasdaq go over 4500.

## Change Orders via the ARCA ECN

Imagine the commission savings you will receive by having the ability to change your order's price or volume without incurring any additional charges. Unlike other providers, there are no 5 minute rules or share size limits to contend with... just right click on the live order and modify the price, volume or order type. It couldn't be easier!

## Reserve Orders via the ARCA ECN

Name	Bid	Size	Name	Ask	Size
MASH	70 9/16	10	SBSH	71 1/8	2
PIPR	70 9/16	1	ISLD	71 1/4	1
FBCO	70 1/2	1	MASH	71 3/8	4
REDI	70 1/2	1	LEHM	71 7/8	1
LEHM	70 3/8	1	FBCO	72	1
RSSF	70 3/8	1	REDI	72	4
SHWD	70 3/8	1	RSSF	72 3/8	1

Show	Price	Stop Price	Vol Type	Order Options
100	70 9/16	LMT	70 9/16	Partial
Route	Expiration	Account Type	Reserve Amt.	
ARCA	Day	Margin	1500	
Buy PHCM	Sell PHCM	Cancel All PHCM	<input type="checkbox"/> Bid/Offer <input type="checkbox"/> Short <input type="checkbox"/> Exempt <input type="checkbox"/> Pref. [MASH] <input type="checkbox"/> Conditional Order	

Reprinted with permission of Townsend Analytics, Ltd. Courtesy of MB Trading

**Confirm Order**

? Buy 1500 PHCM at 70 9/16 - Reserve (Shows 100) on ARCA  
 Initial Margin: \$52921.88  
 Estimated Total Cost: \$105843.75 (plus commission)

OK Cancel

This is one of my favorite new features. What is a Reserve Order? It's the kind of order Market Makers use when they show only 100 shares, but then proceed to fill 50- 100-share blocks repeatedly (called "auto-refreshing"). A reserve order allows you to place an order for a certain number of shares, but only "show" a fraction of your actual size on Level II. Someone that trades larger sizes may find this very useful. It provides a terrific way to keep costs down because you are only charged one commission for up to 10,000 shares on NASDAQ securities, and you have the benefit and advantage of hiding your "true" order size. In the above example, I am about to enter an order to buy 1,500 PHCM at 70 9/16 on ARCA showing only 100 shares. That's very powerful, because I get to hide my true intentions.

Once the challenge was officially over, I spoke with the owners of MB Trading and told them how impressed I was by both their software and customer service. I thought that it would be great if we could add a CD Rom to this book, which will feature the trading platform I used for the challenge. MB Trading has agreed to assume the cost of producing a CD ROM and provide it as an additional learning tool for the readers. I want to take this opportunity and thank them for that.

**Disclaimer:**

Goldman Brown Business Media Inc. has agreed to attach the CD Rom to the back cover of this book per Tony Oz's request. We felt that it would be beneficial for the reader to see the actual platform Tony used for all his trading in this book. However, neither Goldman Brown Business Media Inc. or Tony Oz are endorsing MB Trading products and services. The CD Rom is provided for informational purpose only and without warranty of any kind. Neither Tony Oz or Goldman Brown Business Media Inc. are owners or employees of MB Trading.

## APPENDIX H

### Resources for the Active Trader

*www.stockjunkie.com*

We have created *www.stockjunkie.com* for the active trader. Our goal is to be the leader in traders resources and education. Feel free to visit us anytime. Please join our e-mail list to receive our newsletter and updates.

*www.briefing.com*

*www.daytradingstocks.com*

*www.bestreturns.com*

*www.hardrightledge.com*

*www.mbtrading.com*

*www.traderslibrary.com*

*www.cnbc.com*

*www.nasdaqtrader.com*

*www.nasdaq.com*

*www.cnnfn.com*

*www.thestreet.com*

*www.tradingmarkets.com*

*quote.yahoo.com*

*www.bigeasyinvestor.com*

*www.traderspress.com*

*vtnvw.onlinetradingexpo.com*

*www.daytradersitsa.com*

*www.marketmavens.com*

## **GLOSSARY**

---

**Accumulation:** The first phase in a bull market when investors buy shares from other investors who are uncertain about the stock market. Volume is increasing slightly during rallies.

**Advance/Decline:** Each day's total number of declining stocks is subtracted from advancing stocks. The Ratio is added to the last number if positive and subtracted if negative.

**After-Hours Trading:** Trading activity in a stock after the market closed.

**Arbitrage Activity:** Traders who try to profit from buying and selling two related securities, at the same time.

**Ascending Triangle:** A bullish continuation pattern in an uptrending stock. Drawing a line over the price tops and a line under the bottoms creates a right-angle triangle, where the slope is rising (from left to right.) Successful penetration of the horizontal line (over the tops) can indicate a continuation of the trend and generates a buy signal.

**Ask:** The lowest price sellers are willing to sell a stock.

**Average Daily Volume:** The number of shares traded over a period of days, then divided by that same period.

**Back Testing:** Using historical data to test a strategy.

**Basket Trades:** Trading a number of different stocks at the same time, usually all from the same sector, or having similar characteristics.

**Basing Pattern:** A stock that is trading in a relatively narrow range over a period of time.

**Bear:** An investor who believes the market or a stock will go down.

**Bear Market:** A period of time in which stock prices decline 20% or more from the top.

**Beta:** A measurement of the sensitivity a stock has to the movement of the broader market. High beta stocks rise more in price or decline more in price

in direct relationship to the broader market. Low beta stocks do not rise or decline as much as the broader market does. Negative beta stocks move in inverse relationship to the broader market. They can decline when the market goes up or rise when the broader market goes down.

**Bid:** The highest price buyers are willing to pay for a stock.

**Block Trade:** A transaction reflecting a large quantity of stock, normally 10,000 shares or more, bought or sold as one unit.

**Bottom:** The lowest trading price a stock traded at, over a period of time.

**Breadth:** The difference between advancing issues and declining issues in the market. If there are more advancing issues then breadth is positive, if there are more declining issues then breadth is negative.

**Breakout:** When a stock successfully penetrates through support or resistance, or any technical pattern.

**Bull:** An investor who believes the market or a stock will go up.

**Bull/Bear Ratio:** Published by Investor's Intelligence, shows the ratio between those investment advisors who feel positive or negative about the market. We look for extremes at one end or the other as a contrary indicator.

**Bull market:** A period of time in which stock prices rise 20% or more from the bottom.

**Channel Pattern:** A stock that trades in a pattern in which drawing straight lines under the bottoms and over the tops result two parallel lines.

**Chart:** The display of price data over a period of time in a chart format. Price is on the Y axis and time is on the X axis.

**Confirmation:** When a technical indicator agrees with a certain price movement.

**Confirmation of Trend:** Using multiple indicators and/or indexes to verify a trend or change in trend.

**Congestion:** Consecutive periods with no real progress in price.

**Continuation Pattern:** A technical pattern that suggest a continuation of an

existing trend such as ascending and descending triangles.

**Consolidation:** A period of time in which a stock is changing hands with no real direction. Normally, it is indecision time between bulls and bears.

**Correction:** A reversal price movement from the ongoing trend which is not significant enough to reverse the over all trend. Corrections are also called a pullback in bull markets or rallies in bear markets.

**Daily Range:** Difference between the high and low prices during one day of trading.

**Day Order:** A trade order to buy or sell a security during the market hours in a trading day.

**Depth:** The number of shares on the bid or ask that can be purchased or sold without dramatically changing the price of a security.

**Declining Trendline:** A trendline drawn over the top prices a security traded in and is sloping downward.

**Declining Trading Channel:** A stock that trades in a pattern in which drawing straight lines under the bottoms and over the tops result two downward-sloping parallel lines.

**Descending Triangle:** A bearish continuation pattern in a downtrending stock. Drawing a line over the price tops and a line under the bottoms creates a right-angle triangle, where the slope is declining (from left to right.) Successful penetration of the horizontal line (under the bottoms) can indicate a continuation of the trend and generates a sell signal.

**Distribution Phase:** This takes place near market tops, or at the end of a bull market, when lucky investors sell their shares to bag-holding investors. In this phase, rallies normally occur on lower volume.

**Divergence:** When a technical indicator disagrees with a certain price movement.

**Dividend:** Distribution of profits by a corporation to its stockholders.

**Dollar Cost Averaging:** A popular investment approach which consists of investing the same amount of money at regular time intervals.

**Double Bottom:** A reversal technical pattern where one bottom is formed on high volume followed by a rally. The stock then declines in price to test the bottom and forms a second bottom, normally on lower volume than the first bottom. If the second bottom holds successfully, followed by a rally that rises over the tops of the rally from the first bottom, a reversal is taking place. This generates a buy signal.

**Double Top:** A reversal technical pattern where one top is formed on high volume followed by a correction. The stock then rallies to test the high and forms a second top, normally, on lower volume than the first top. If the second top is not penetrated successfully followed by another correction in which price declines lower than the lows of the correction from the first top, a reversal is taking place and a sell signal is generated.

**Dow Jones Industrial Average:** A price weighted average of 30 industrial stocks.

**DovVntick:** On NYSE, a trade taking place at a lower price than the previous trade. On NASDAQ, a lowering in price of the best bid.

**Drawdown:** Reduction in account equity as a result of losing trades, usually referred to in the context of trading a system or methodology. Even following your mlcs may result in drawdown at times, with the expectation that over time, your rules will produce more winners than losers.

**Earnings per Share (EPS):** Net company income divided by outstanding shares.

**Earning Surprise:** When analysts expect one number and a company releases a different number. The surprise could be higher than expected or lower, each having potential affect on the stock price.

**ECN:** Electronic Communications Network. It matches orders from buyers and sellers together, and executes them against each other, at lightning speed. This order execution vehicle is available to subscribers of the ECN only, or via SelectNet preference orders. Examples are: INCA, ISLD, REDI, BTRD, ARCA, ATTN, STRK, NTRD, and BRUT.

**Ex-Dividend:** The day the dividend is subtracted from the price of a stock, it is now trading without its dividend.

**Exponential Moving Average (EMA):** Calculated by applying a percentage of today's closing price to yesterday's moving average, placing more

weight on recent prices than older prices.

**Fading:** Selling as the market is rising or buying as the market is selling.

**Fill:** An order that gets executed and placed into your account.

**Float:** Number of shares available for trading. A company can have 10 million shares outstanding and only 1 million float.

**Fundamental Analysis:** Analyzing a company's performance based on financial data related to sales, earnings, growth potential, balance sheet, management, new products, R&D etc.

**Gap Open:** The difference between a closing price and the next trading session's opening price. The gap is the price range in which no shares were traded during market hours. A gap up occurs when the opening price is higher than previous day's closing price. A gap down occurs when the opening price is lower than previous day's closing price.

**Horizontal Trading Channel:** A stock that trades in a pattern in which drawing straight lines under the bottoms and over the tops result in two horizontal parallel lines.

**Index:** Average! price of a group of stocks used to study the overall market, industry, sector, etc. Famous indexes are the Dow 30, S&P 500, NASDAQ Composite, Dow Transport, Dow Utility.

**Inside Market:** The highest bid and lowest offer make the inside market.

**Insider:** Someone with at least 10% ownership in a company, an officer, or a director.

**Insider Trading:** 1. Company officers buying and selling stock for their own portfolios. 2. Investors buying and selling a company's stock based on knowledge the general public does not have, which is illegal.

**Instinct:** An ECN that allows subscribers to display quotes and trade during, before, and after market hours.

**Institutional Ownership:** Shares owned in bulk by mutual funds, banks, 401K, etc.

**ISLD (Island):** An ECN that allows subscribers to display quotes and trade during, before and after market hours.

**Limit Order:** An order to buy or sell a stock at a specific price.

**Margin:** Extended credit granted by a broker to an investor which is governed by the NASD.

**Market Maker:** A participating firm publishing a quote for a NASDAQ security. Market Makers are required to honor their quote should they receive an order to buy or sell at their published quote price. Market Makers are only required to honor orders up to the size they are quoting. The size can be seen on a level 11 quote screen.

**Market Order:** An order to buy or sell a stock at the current market price.

**Market Timing:** Using various analysis methods for attempting to determine changes in market direction, in advance of when they actually happen.

**Market Value:** Determined by multiplying the stock price by shares outstanding.

**Money Flow:** Technical Analysis indicator that tracks the money flowing in and out of a stock. Multiply volume by the averaged price.

**NASD:** National Association of Securities Dealers which is responsible for the operations and regulations of the NASDAQ.

**Noise:** Price movements that jerk up and down contrary to the trend, providing temporarily false direction, and often causing doubt or confusion in the trader's mind.

**Odd Lot:** A transaction of less than 100 shares.

**Open Order:** An order to buy or sell a security which remains open until it is filled or cancelled by the customer.

**Order Flow:** Orders sent by brokers to Market Makers to buy or sell a security.

**Overbought:** A stock that has been rising in price and is considered overvalued at this point of time.

**Oversold:** A stock that has been declining in price and is considered undervalued at this point of time.

**Panic Selling:** A situation where sellers are in abundance, rushing to sell their stocks, causing sharp decline in stock prices.

**PE Ratio:** Price-to-earnings ratio is calculated by dividing the price of a stock by its annual earnings per share. It is normally calculated based on earnings from the latest fiscal year. However, earnings estimates for the next fiscal year can be plotted into the formula as well, often referred to as forward PE ratio.

**Penetration:** The point at which a stock price penetrates through support, resistance or technical pattern lines.

**Program Trading:** Computerized trading decision based on a particular formula sent to the market electronically.

**Range:** The difference between the high price and the low price for the studied period of time.

**Resistance:** A price level which a stock has difficulty rising over due to the forces of supply and demand.

**Reversal Pattern:** A technical pattern suggesting that the existing trend is changing. Examples: Head and Shoulders, Reverse Head and Shoulders, Double Bottom, Double Top, Triple Bottom, Triple Top, Rounding Bottoms, Rounding Tops, Falling Wedges in downtrending stocks, Rising Wedges in uptrending stocks, etc.

**Rising Trading Channel:** A stock that trades in a pattern in which drawing straight lines under the bottoms and over the tops result two upward-sloping parallel lines.

**Rounding Bottom:** If you draw a line under the lows it will form a concave shape similar to a saucer. It is important for the volume bars to form a similar pattern as volume declined as the stock moved lower, to the lowest point, and started rising as the stock price move higher from its lowest point.

**Rounding Top:** If you draw a line over the tops it will form a convex shape pattern similar to a pitcher mound. It is important for the volume bars to form a concave pattern as volume declined as the stock moved higher, to the highest point, and started rising as the stock price decline from its highest

point.

**SEC:** Security and Exchange Commission. It is a governing agency which deals with protecting the public (as much as they can) from fraud and stock manipulation.

**Section (area) Pattern:** A time period in which a stock forms a technical pattern such as continuation or reversal patterns, triangles, wedges, round top, etc.

**ScIcctNet:** This is an automated service which is employed by NASDAQ exclusively. It allows traders to route orders to market makers in which they can negotiate terms and prices and execute trades electronically. It eliminates all human contact from the trade, which is different from NYSE trades routing.

**Sentiment:** The emotional and psychological attitudes of analysts, investors, and traders toward the market, whether bullish or bearish.

**Short Sale:** Selling a stock which is not owned. This is done with anticipation that the stock price is to decline in the future at which time an investor can buy the stock back cheaper and profit from it. It is done by borrowing the stock from a broker (if he has it) and selling it. This opens a short position. To close the position, a purchase of a stock takes place and the stock is returned to the lending broker. A profit or a loss will be the difference between the sale price and the purchase price. You may only short sell a stock on an uptick.

**Short Interest:** The total number of shares that will have to be bought to close all short positions in a stock. It is the total number of shares reflecting short open positions by investors.

**Specialist:** An exchange market member who deals in one or more stocks in which all trades pass through him.

**Spread:** The difference between the bid and the ask.

**SOES:** Small Order Execution System. It is an automated order execution system of up to 1,000 shares of stock offered by the NASDAQ stock market. It was implemented after the 1987 crash.

**Stair Stepping Pattern:** A pattern which is similar to a stairway in appearance. In an uptrending stock, it presents itself as an upswing followed by

sideways movement, followed by an upswing followed by sideways movement and so on. In a downtrending stock, it presents itself by a downswing followed by sideways movement followed by downswing followed by sideways movement and so on.

**Stock Split:** A company which increases the number of shares outstanding by issuing more stock. It is also looked at as a stock dividend, where shareholders will receive additional shares without changing the existing ownership ratios of the company. A 2-for-1 Stock Split, means that each shareholder will receive an additional share of stock for each share he owns now. The price of the stock will be adjusted accordingly. If John had 100 shares of XYZ Corp at \$10 a share the day of the split, after the market closes, he will receive an additional 100 shares and the price of the stock will be adjusted to \$5 a share.  $100 \times 10 = 1,000 = 200 \times 5$ . There is no monetary gain.

**Stop Orders:** These are orders that have an activation price which is out of the current inside market. They are most often used to limit losses. Stop Buy is an order to buy a stock once it reached a certain price which is above the current market price. Stop Sell is an order to sell a stock once it reached a certain price which is below the current market price.

**Support:** A price level in which quantity demanded is greater than quantity supplied, preventing the stock from going lower. This can change, but until it does, this price level will be considered support.

**Symmetrical Triangle:** A period of sideways congestion where the latest tops fail to reach previous tops and latest bottoms fail to reach previous bottoms, causing the range to narrow down. Eventually a breakout should occur.

**Technical Analysis (TA):** Analysis of stock prices over a period of time.

**Technical Indicators (Studies):** These are derived by applying mathematical formulas to historical price and volume data. Examples include: Moving Averages, RSI, etc.

**Time and Sales:** A transaction print report in which the time, the number of shares, and price are printed within 90 seconds of the actual time the trade took place.

**Top:** The highest trading price a stock traded at, over a period of time.



**Trend:** The general direction a stock is moving in over a certain period of time.

**Trendline:** A straight line drawn over the tops or under the bottoms which illustrates the general trend for that period of time.

**Trading Range:** When a stock moves up and down within an area between two price levels.

**Uptick:** On NYSE, a trade taking place at a higher price than the previous trade. On NASDAQ, a rise in price of the best bid.

**Volatility:** A measurement of price fluctuation for a stock. When stocks move sharply they are more volatile.

**Volume:** The total number of shares traded over a period of time.

**Whipsaw:** Buying and/or Selling a stock at the wrong time. The closing of a relatively new stock position due to price fluctuation at a loss, only to watch the stock move in the anticipated direction shortly after.

---

## Recommended Reading

---

### ***Stock Trading Wizard, Tony Oz***

In his book, *Stock Trading Wizard*, Tony Oz discloses his short-term trading strategies in a simple yet comprehensive manner. The book goes straight to the point covering all the essential elements for short-term trading. It was designed by the author for everyone who is serious about trading stocks for a living. Among other things, the book covers Technical Analysis, Level II Quotes, Advanced Order Execution Systems, Market Psychology, Trader's Psychology, Secrets to Successful Trading, Money Management, Stock Screening Formulas, and much more. The author did not save on paper and included numerous charts and tables in his attempt to paint a clear stock trading system.

### ***Reminiscences of a Stock Operator, Edwin Lefevre***

There is one problem with this book, and that is that you will never understand that all the secrets to making BIG money, in good and bad times, are right in front of you - not before you trade for many years and read it over and over again. As the years go by, my respect for the story and its lessons continues to grow with each new reading. I think it is a must for stock traders and especially for ones who have been actively trading for more than a year.

#### More Books on Trading:

*Market Wizards : Interviews With Top Traders*, Jack Schwager.

*The New Market Wizards*, Jack Schwager.

*Technical Analysis of the Financial Markets*, John Murphy.

*Technical Analysis of Stock Trends*, Edwards and Magee.

*Electronic Day Trading Made Easy*, Misha Sarkovich, Ph.D.

*A Beginner's Guide To Day Trading Online*, Toni Turner.

*Trading for a Living*, Dr. Alexander Elder.

*The Strategic Electronic Day Trader*, Robert Deel.

## **Seminars and Workshops**

---

Tony Oz's short-term trading workshops are designed with one goal in mind - to give you the tools and knowledge to build a successful stock trading system. These workshops are designed for everyone who has the passion and desire to learn how to become a more successful stock trader. Tony will show you how to put all the pieces of the puzzle together and develop a winning trading system.

### **Workshops Outline**

1. High Probability Patterns for Short-Term Trading.
2. Spotting Opportunities in Nasdaq Level II Quotes.
3. Advanced Order Execution.
4. How to Write and Execute a Trading Plan Successfully.
5. Where and How to Find Stocks to Trade.
6. Trading Fast Moving Stocks and IPOs Successfully.
7. The "Do's and Don'ts" of Trading After the Bell.
8. Psychology, Discipline, and Money Management.
9. Utilizing a FREE scan program to find potential trades.

As a bonus, students will get to see the most recent trades Tony Oz has executed. These trades will be featured in vivid details, including what prompted the trade, the strategy, the execution, and the final result. This is a great way to learn from the experience of a highly-regarded trader. In addition, students will get to join Tony Oz and participate as he picks stocks and plans out trades for the following week. This interactive session shows the students exactly what Tony Oz does everyday without keeping any secrets!

At the end of the workshop, students should get a firm understanding of what it takes to make it in this business. By spending time with Tony Oz, students will be able to understand how a professional trader thinks, and more importantly, profits from the opportunities in the stock market.

More information at

*[www.stockjunkie.com/seminar.htm](http://www.stockjunkie.com/seminar.htm)*