

Trading the Dow

Making spreadbet
bias work for you

The Talk Today

- Using spreadbets to trade the Cash Dow
- What is spreadbet bias
- Using the bias
- A trading method
- Tips and guidelines
- Review and questions

Trading the Dow using spreadbets

- Why the Dow
- Why not the FTSE
- Why use spreadbets

What is SB bias?

SB bias is the bias the SB companies apply to their prices to reflect the current direction and momentum of the underlying index and the expected immediate future direction.

It is effected by the value of the Futures, news, the SB company exposure ...

How the bias works against you

- It reduces gains
- It increases losses

How the bias works against you

Current level of Dow 10 000

SB quote is 10 000/10 006

You buy at 10 006

Dow moves to 10 010

SB quote is now 10 004/10 010

Actual moved 10 points in your favour

Your LOSS is 2 points

How the bias works against you

Current level of Dow 10 000

SB quote is 10 000/10 006

You buy at 10 006

Dow moves to 9 999

SB quote is now 9 993/9 999

Actual has moved 1 point against you

Your LOSS is 13 points

Wouldn't it be nice

If the Dow moved 10 points in your favour and you gained 10 points in profit.

Make the bias work for you

Current level of Dow 10 000

SB quote is 10 000/10 006

You sell at 10 000

Dow moves to 9 999

SB quote is now 9 993/9 999

Actual has moved 1 point for you

Your GAIN is 1 point

Using the bias

- Buy when biased down
- Sell when biased up

Method - Setup

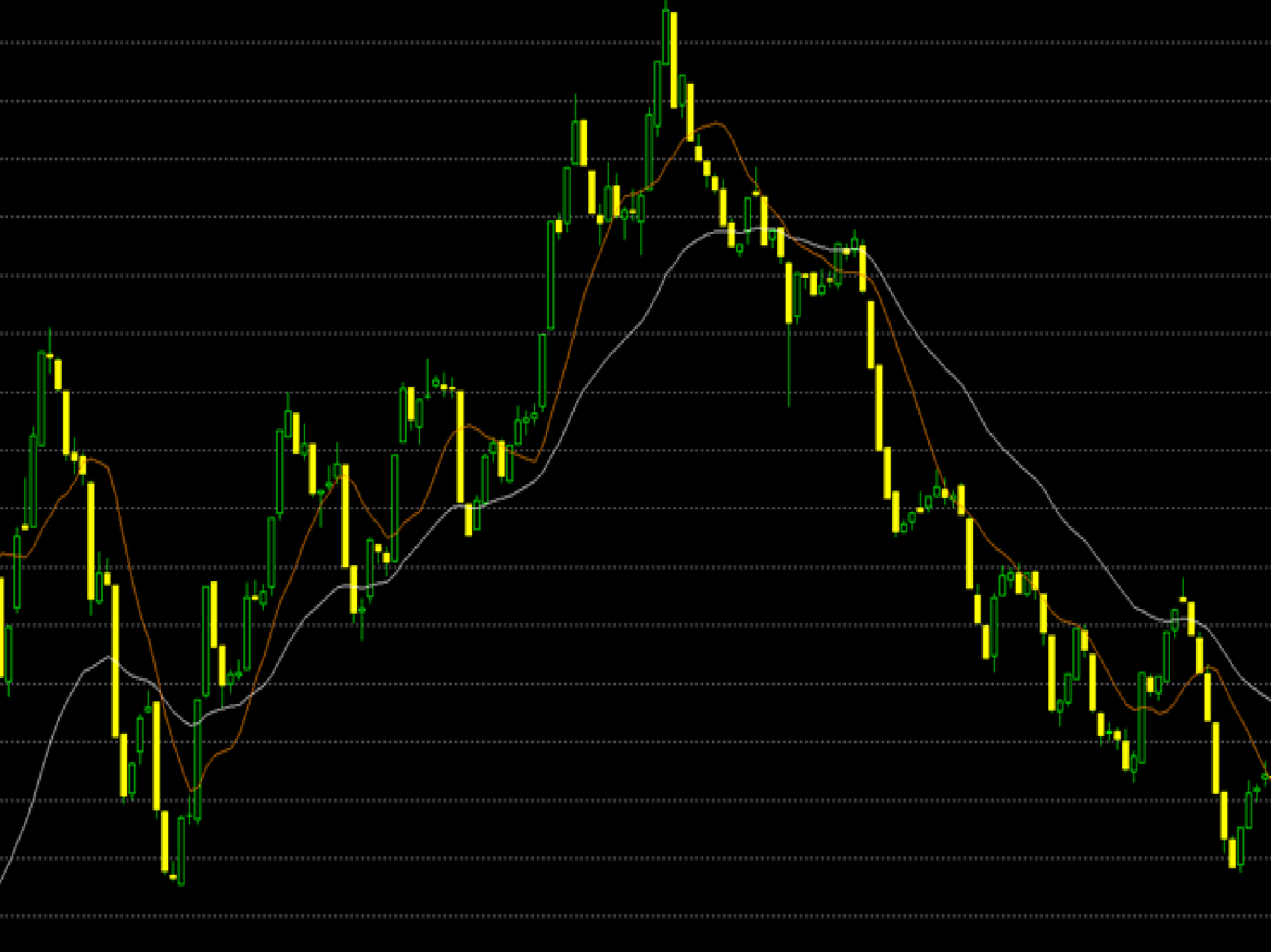
- 6 min candlestick chart with 10 period Exponential MA
- 1 min candlestick chart with 30 period Exponential MA and 10 period Simple MA

Method - Rules

- Buy when SMA above EMA on 1 min and 6 min EMA pointing up
- Sell when SMA below EMA on 1 min and 6 min EMA pointing down
- Buy into weakness, sell into strength
- Immediately close if SMA crosses EMA against trade direction

Danger Zones

- Wide divergence on 1 min EMA and SMA
- 6 min EMA flat or turning
- First half hour
- Last half hour
- News and Economic Indicator announcements







6 min EMA trend is down so looking for sells

First negative cross is at point (1) so now looking for strength in the actual to trigger the trade.

Point (2) provides a good entry point. The actual is up and the SMA is close to the EMA giving a good exit from the sell if the upwards move continues and the SMA crosses the EMA.

Would be looking to close at (3) and would definitely close at (4)

Wide divergence at (5) so would not enter a sell trade at this point.

Little divergence at (6) so would sell with a view to stopping out if the positive cross is confirmed.

Possible close at (7) with another entry at (8)

Close at (9)

Cautious lower stake entry at (10) because of divergence

Exit at (11) due to wide divergence and possible cautious long entry due to wide divergence.

Long confirmed at (12) by positive cross

Patience Pays

- Wait
- Wait some more
- Wait a bit more

- There is always another trade and another day
- Don't enter a trade because you think you will miss the boat
- Let it go, another one is coming

Patience Pays

Only trade when you can get the price you want and the price is in your favour and the setup is correct.

Check the price and trade without hesitation.

Stops and Sizing

- Stop distance is a function of time frame, volatility and stake size
- Determine your stop level
- Adjust the size of the stake to reflect the distance of the stop
- Far stop = smaller stake
- Tight stop = bigger stake
- An opposite cross on the MA's can be used as the stop signal

Times to Trade

- Avoid the first half hour
- Avoid opening new trades in the last hour
- Wait for news
- Tick trading before the market opens is gambling
- Avoid the end of quarter - whippy window dressing

Discipline

- Only trade when the price is in your favour
- Adjust stake size and stops to suit the trade not the other way around
- Don't add to a losing trade
- Never increase the stake to recover a loss, stick to stake sizing rules
- Stick to the stop

Percent Rules

- Close all trades and walk away for the day if losses total 3% of trading capital
- Close any single trade if the loss is 1.5% of trading capital
- Don't overstate
0.02% to 0.04% of available trading capital is a basic rule of thumb for per point stake size

Monitor and Review

- Record all trades
- Have daily, weekly, monthly and long term targets and plans
- Review trading record frequently

Setting Targets

My own targets are:

- 32 plus points per trading day
- 1.1% capital gain per trading day

Actual Results

Date	Points	Capital Gain %
03/06/2002	54	1.68
04/06/2002	56	1.79
05/06/2002	33	1.43
06/06/2002	-50	-4.67
07/06/2002	58	2.78
10/06/2002	27	1.32
11/06/2002	44	2.01
12/06/2002	80	1.92
13/06/2002	92	2.16
14/06/2002	102	2.76
17/06/2002	49	6.45
18/06/2002	52	1.93

Date	Points	Capital Gain %
20/06/2002	110	3.79
21/06/2002	75	4.42
24/06/2002	180	5.23
25/06/2002	196	4.99
27/06/2002	192	4.86
28/06/2002	87	5.61
01/07/2002	-62	-2.17
02/07/2002	153	7.74
03/07/2002	110	1.99
04/07/2002	0	0
05/07/2002	0	0
Total	1638	

What have we covered

- What is bias
- The bias can be used to your advantage
- A trading method
- Stake sizing, stops and capital management
- Discipline
- Monitor and Review

Further Information

Full notes and further explanation
will be available at:

www.financial-spread-betting.com