

# Trading the Trends

## Tools and Methods

# The Talk Today

- Purpose of the Talk
- Using spreadbets to trade the Cash Dow
- What is spreadbet bias
- Using the bias
- What is a trend
- Using the trend
- Tips and guidelines
- Review and questions

# Purpose of today's talk

- Present the methods I use
- Provide a development foundation
- Not a 'Holy Grail'

# Trading the Dow using spreadbets

- Why the Dow
- 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 10 000/10 007

You buy at 10 007

Dow moves to 10 010

SB quote is now 10 004/10 010

Actual moved 10 points in your favour

Your LOSS is 3 points

# How the bias works against you

Current level of Dow 10 000

SB quote is 10 000/10 007

You buy at 10 007

Dow moves to 9 999

SB quote is now 9 993/10 000

Actual has moved 1 point against you

Your LOSS is 14 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 10 000/10 007

You sell at 10 000

Dow moves to 9 999

SB quote is now 9 992/9 999

Actual has moved 1 point for you

Your GAIN is 1 point

# Using the bias

- Buy when biased down
- Sell when biased up

# What is a trend ?

- The trend is the overall direction the market is moving in.
- The market can move up in a downwards trend and down in an upwards trend.

# What is a trend ?

- The trend can be up, down or sideways.
- Up – bottom left to top right.
- Down – top left to bottom right.
- Sideways – left to right.

# Why trade the trend ?

- The trend is your friend.
- The market is too big to fight.

# Method - Setup

- 6 min candlestick chart with 10 period Simple MA and 30 and 60 period Exponential MA
- 1 min candlestick chart with 10 period Simple MA and 30 and 60 period Exponential MA

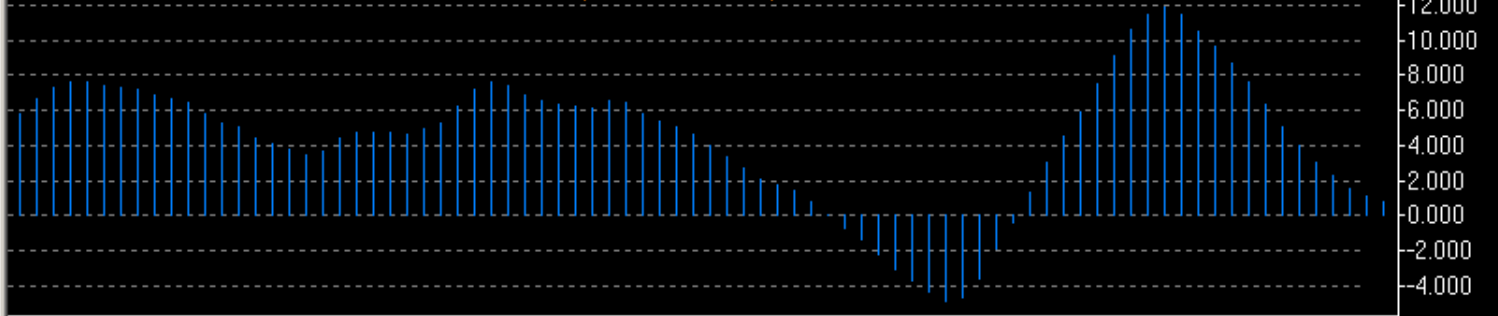
DJI 6 min - #4

DJI 1 min - #2

DJI 1 min - #2 C= 8776.18 N= 0.00 1/9/03 16:30 H= 8776.18 L= 8776.18 O= 8776.18 V= 1 T= 1 B= 0.00 A= 0.00 0x0 Moving A

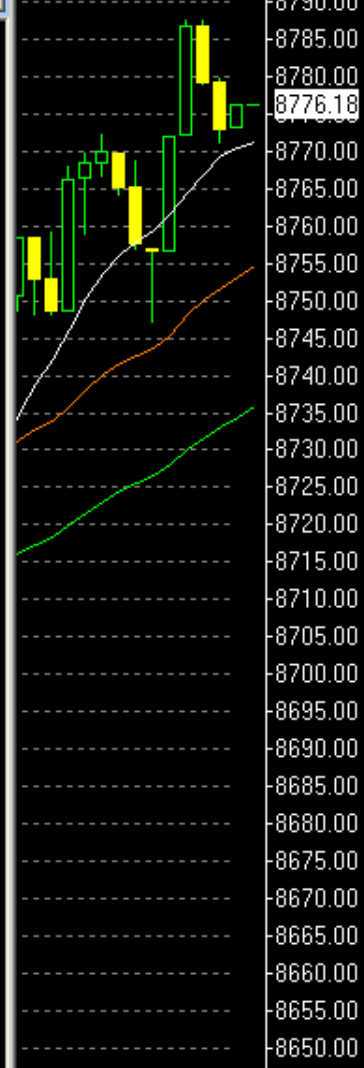


DawMACD: K= 0.765 L= 0.000 M= 0.000 N= 0.000 ( 1, 1000, 0, 1, 2, 0)



4:43 14:48 14:53 14:58 15:03 15:08 15:13 15:18 15:23 15:28 15:33 15:38 15:43 15:48 15:53 15:58 16:03 8

76.18 O= 8776.18 V= 1



14:54 15:24 15:54 8



# Method – Simple Rules

- Buys when 30 EMA above 60 EMA.
- Sells when 60 EMA above 30 EMA.
- 1 min and 6 min chart should agree.
- Buy into weakness, sell into strength.

# Danger Zones

- Wide divergence on 1 min 30 EMA and SMA
- 6 min EMAs flat or turning
- First half hour
- Last half hour
- News and Economic Indicator announcements

DJI 6 min - #4



DJI 1 min - #2



DJI 1 min - #2 C= 8750.06 N= -0.75 1/9/03 14:42 H= 8750.81 L= 8748.55 O= 8750.74 V= 0 T= 0 B= 0.00 A= 0.00 0x0 Moving



3:21 13:26 13:31 13:36 13:41 13:46 13:51 13:56 14:01 14:06 14:11 14:16 14:21 14:26 14:31 14:36 14:41 8

48.55 O= 8750.74 V= 0



18 13:48 14:18 8



DJI 1 min - #2 C= 8753.00 N= -1.04 1/9/03 11:58 H= 8754.65 L= 8753.00 O= 8753.83 V= 0 T= 0 B= 0.00 A= 0.00 0x0 Moving



DJI 1 min - #2 C= 8586.33 N= 3.50 1/8/03 15:51 H= 8586.47 L= 8582.56 O= 8582.90 V= 27 T= 27 B= 0.00 A= 0.00 0x0 Moving



39.55 O= 8589.76 V= 2



# 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](http://www.financial-spread-betting.com)