



# DAY TRADING

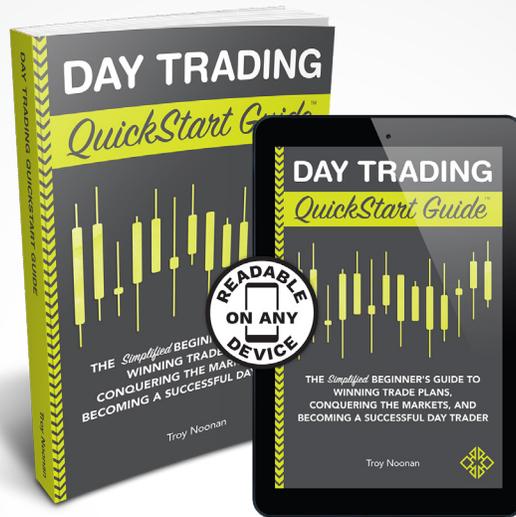
## *QuickStart Guide*<sup>TM</sup>

**AUDIOBOOK COMPANION**



YOU HAVE THE AUDIOBOOK...

**NOW** **SAVE 10%** **ON**  
**YOUR NEXT PURCHASE**



**BUY THIS BOOK IN ANOTHER FORMAT,  
OR EXPLORE OUR ENTIRE LIBRARY OF**

*QuickStart*  
*Guides*<sup>TM</sup>

**GET 10% OFF OF YOUR ENTIRE ORDER**

WITH COUPON CODE:

companion10

**CLICK HERE TO SHOP WITH 10% OFF →**

or visit [www.quickstartguides.com](http://www.quickstartguides.com)

# TABLE OF CONTENTS

---

<b>CHAPTER 1</b> .....	5	fig. 33.....	20
fig. 1.....	5	fig. 34.....	20
fig. 2.....	5	fig. 35.....	20
<b>CHAPTER 2</b> .....	6	fig. 36.....	21
fig. 3.....	6	fig. 37.....	21
<b>CHAPTER 3</b> .....	7	fig. 38.....	21
fig. 4.....	7	fig. 39.....	22
fig. 5.....	7	fig. 40.....	22
fig. 6.....	8	fig. 41.....	23
<b>CHAPTER 5</b> .....	9	fig. 42.....	23
fig. 7.....	9	<b>CHAPTER 8</b> .....	24
fig. 8.....	9	fig. 43.....	24
fig. 9.....	10	fig. 44.....	24
fig. 10.....	10	fig. 45.....	25
<b>CHAPTER 6</b> .....	11	fig. 46.....	25
fig. 11.....	11	fig. 47.....	26
fig. 12.....	11	fig. 48.....	26
fig. 13.....	12	fig. 49.....	27
fig. 14.....	12	fig. 50.....	27
fig. 15.....	13	<b>CHAPTER 9</b> .....	28
fig. 16.....	13	fig. 51.....	28
fig. 17.....	13	fig. 52.....	28
fig. 18.....	14	fig. 53.....	28
fig. 19.....	14	fig. 54.....	29
<b>CHAPTER 7</b> .....	15	fig. 55.....	29
fig. 20.....	15	<b>CHAPTER 10</b> .....	30
fig. 21.....	15	fig. 56.....	30
fig. 22.....	16	fig. 57.....	30
fig. 23.....	16	fig. 58.....	31
fig. 24.....	17	fig. 59.....	31
fig. 25.....	17	fig. 60.....	32
fig. 26.....	17	fig. 61.....	32
fig. 27.....	18	fig. 62.....	33
fig. 28.....	18	fig. 63.....	33
fig. 29.....	18	fig. 64.....	34
fig. 30.....	19	fig. 65.....	34
fig. 31.....	19	fig. 66.....	35
fig. 32.....	19	fig. 67.....	35
		fig. 68.....	36

# TABLE OF CONTENTS

Continued

---

fig. 69.....	36	fig. 109.....	51
fig. 70.....	37	<b>CHAPTER 11.....</b>	<b>52</b>
fig. 71.....	37	fig. 110.....	52
fig. 72.....	38	<b>CHAPTER 12.....</b>	<b>53</b>
fig. 73.....	38	fig. 111.....	53
fig. 74.....	38	<b>CHAPTER 13.....</b>	<b>54</b>
fig. 75.....	39	fig. 112.....	54
fig. 76.....	39	fig. 113.....	54
fig. 77.....	39	fig. 114.....	55
fig. 78.....	40	fig. 115.....	55
fig. 79.....	40	fig. 116.....	55
fig. 80.....	41	<b>CHAPTER 14.....</b>	<b>56</b>
fig. 81.....	41	fig. 117.....	56
fig. 82.....	41	fig. 118.....	56
fig. 83.....	42	<b>CHAPTER 15.....</b>	<b>57</b>
fig. 84.....	42	fig. 119.....	57
fig. 85.....	42	fig. 120.....	57
fig. 86.....	43	<b>CHAPTER 16.....</b>	<b>58</b>
fig. 87.....	43	fig. 121.....	58
fig. 88.....	43	fig. 122.....	58
fig. 89.....	44	<b>APPENDIX I.....</b>	<b>59</b>
fig. 90.....	44	fig. 123.....	59
fig. 91.....	44	fig. 124.....	60
fig. 92.....	45	<b>APPENDIX II.....</b>	<b>61</b>
fig. 93.....	45	fig. 125.....	61
fig. 94.....	45	fig. 126.....	61
fig. 95.....	46	<b>APPENDIX III.....</b>	<b>62</b>
fig. 96.....	46	fig. 127.....	62
fig. 97.....	46	<b>GLOSSARY.....</b>	<b>63</b>
fig. 98.....	47		
fig. 99.....	47		
fig. 100.....	48		
fig. 101.....	48		
fig. 102.....	49		
fig. 103.....	49		
fig. 104.....	50		
fig. 105.....	50		
fig. 106.....	50		
fig. 107.....	51		
fig. 108.....	51		

# CHAPTER 1

## Challenges and Rewards

---

fig. 1

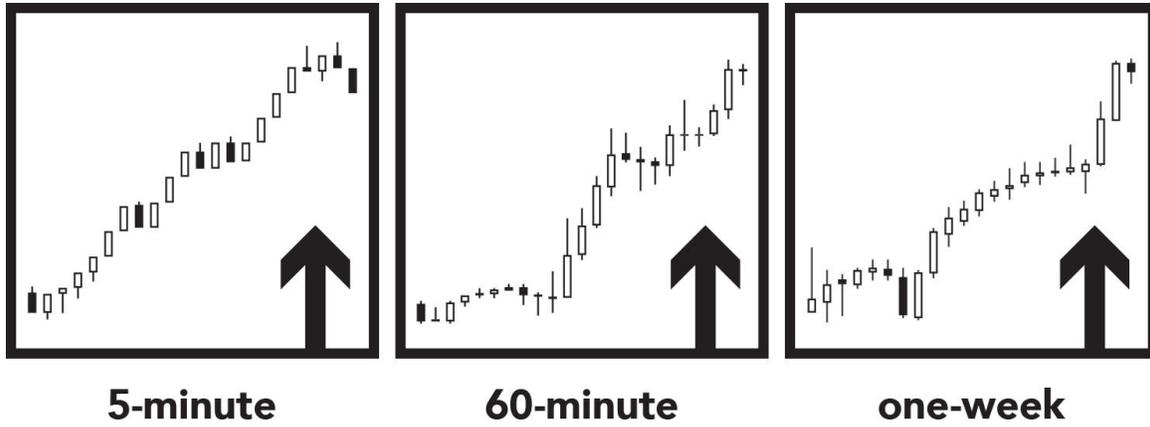


fig. 2



## CHAPTER 2

### Why Most Day Traders Lose

---

fig. 3

# A LONG WAY BACK TO EVEN

Day 1 return:	Day 2 return required to get back to even:	Number of days at 10% return to get back to even:
- 10%	11.1%	1.11
- 20%	25.0%	2.34
- 30%	42.9%	3.74
- 40%	66.7%	5.36
- 50%	100.0%	7.28
- 60%	150.0%	9.62
- 70%	233.3%	12.64
- 80%	400.0%	16.89
- 90%	900.0%	24.16

# CHAPTER 3

## You Must Have an Edge

---

fig. 4

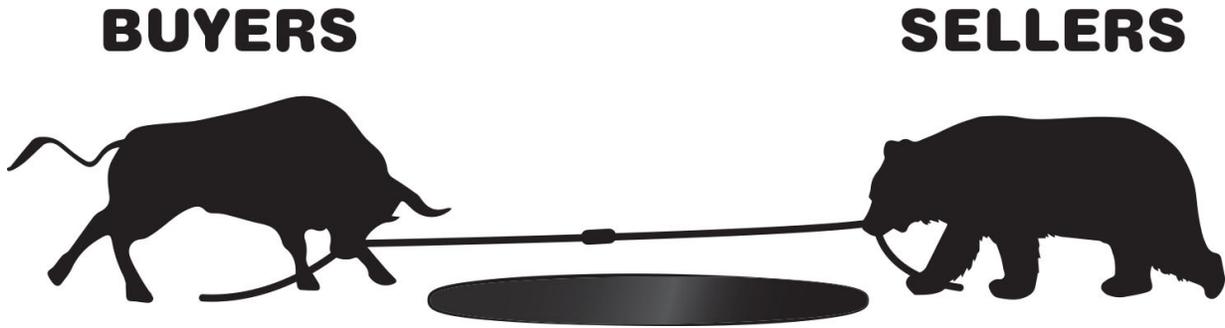


fig. 5

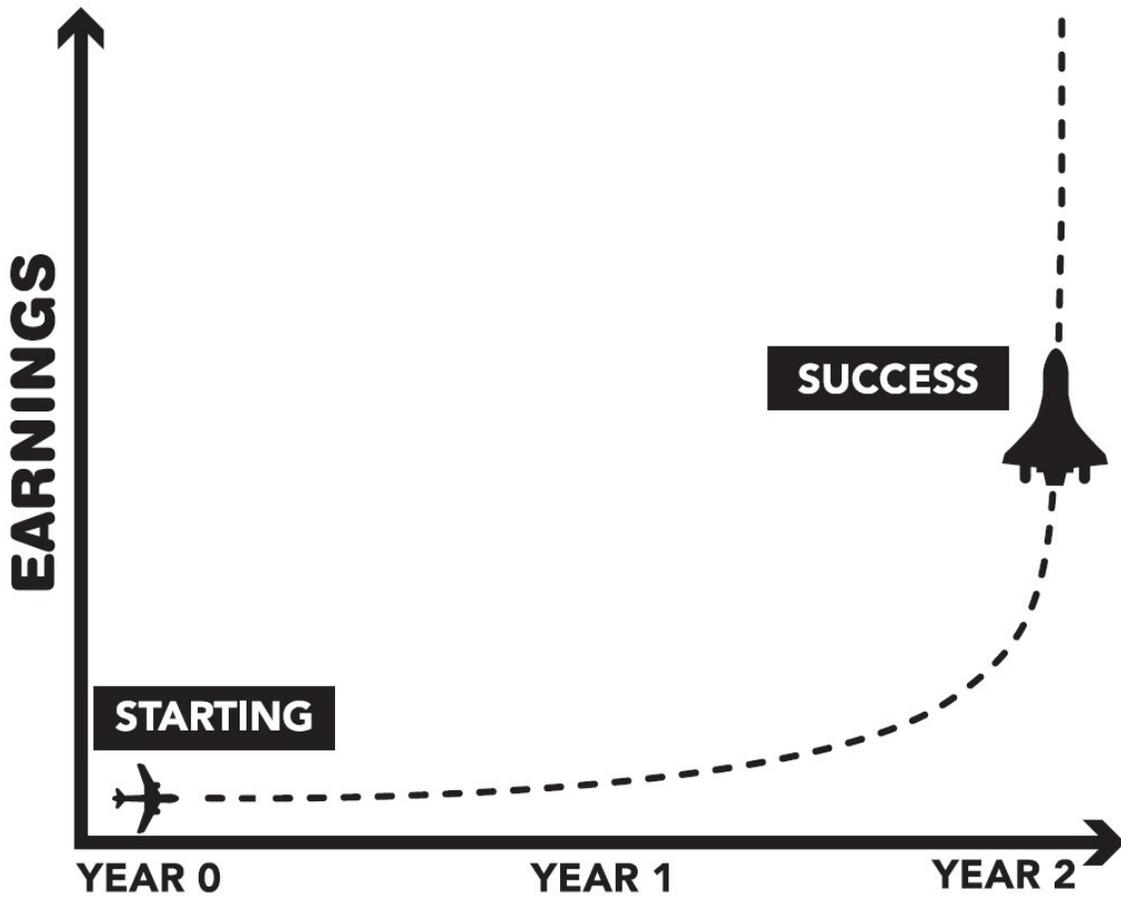
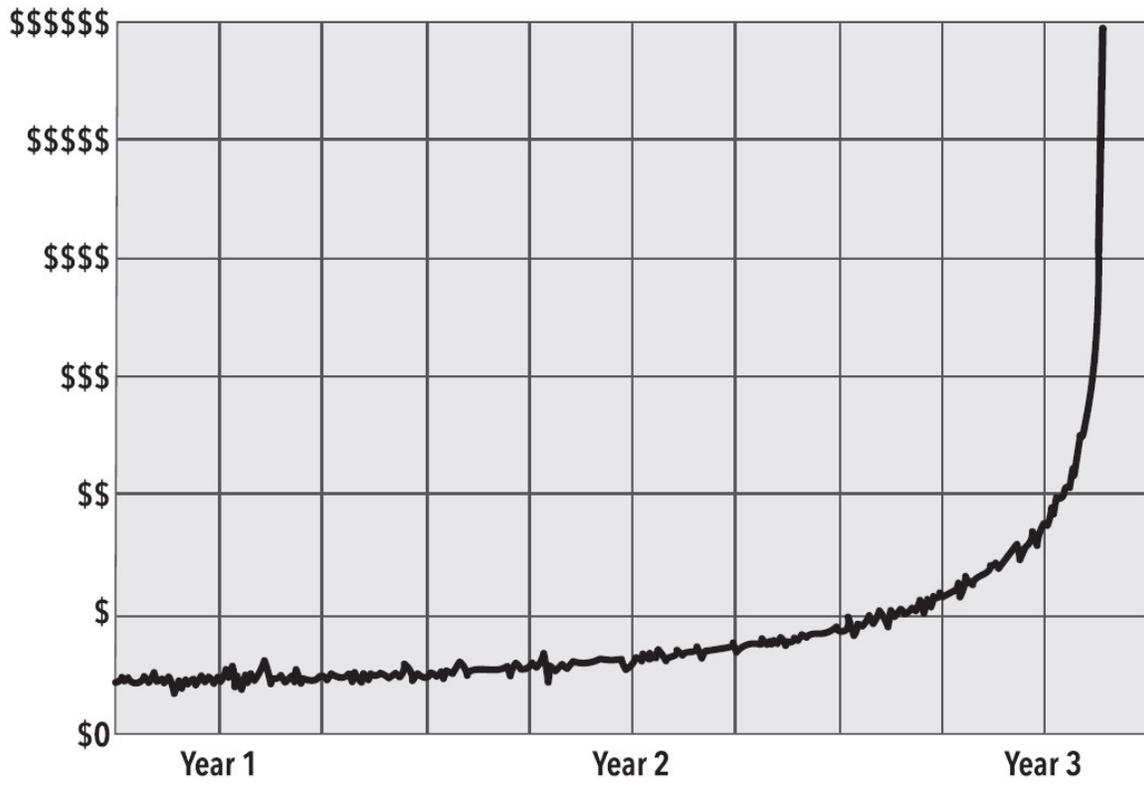


fig. 6



## CHAPTER 5

### Choosing What to Trade

fig. 7

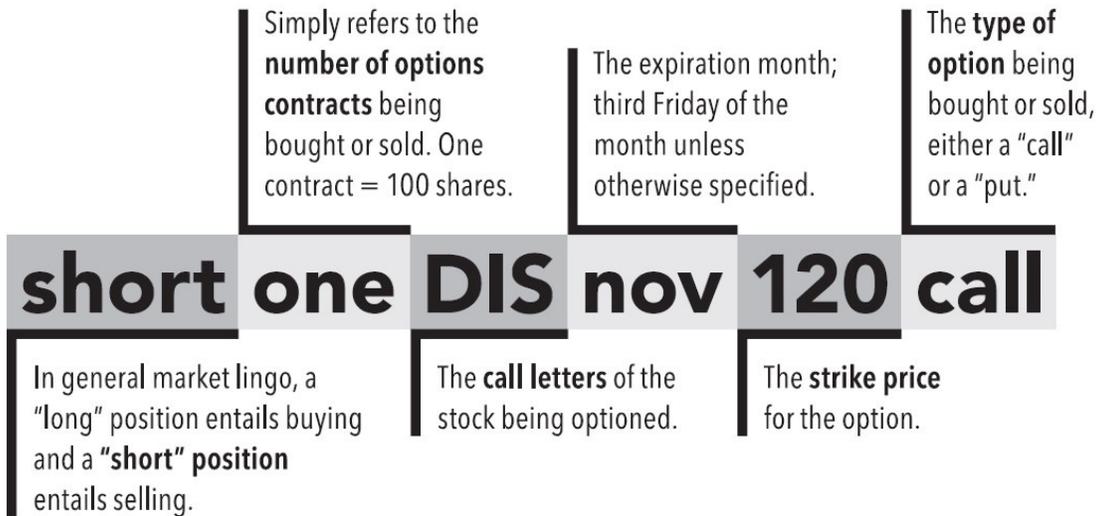


fig. 8

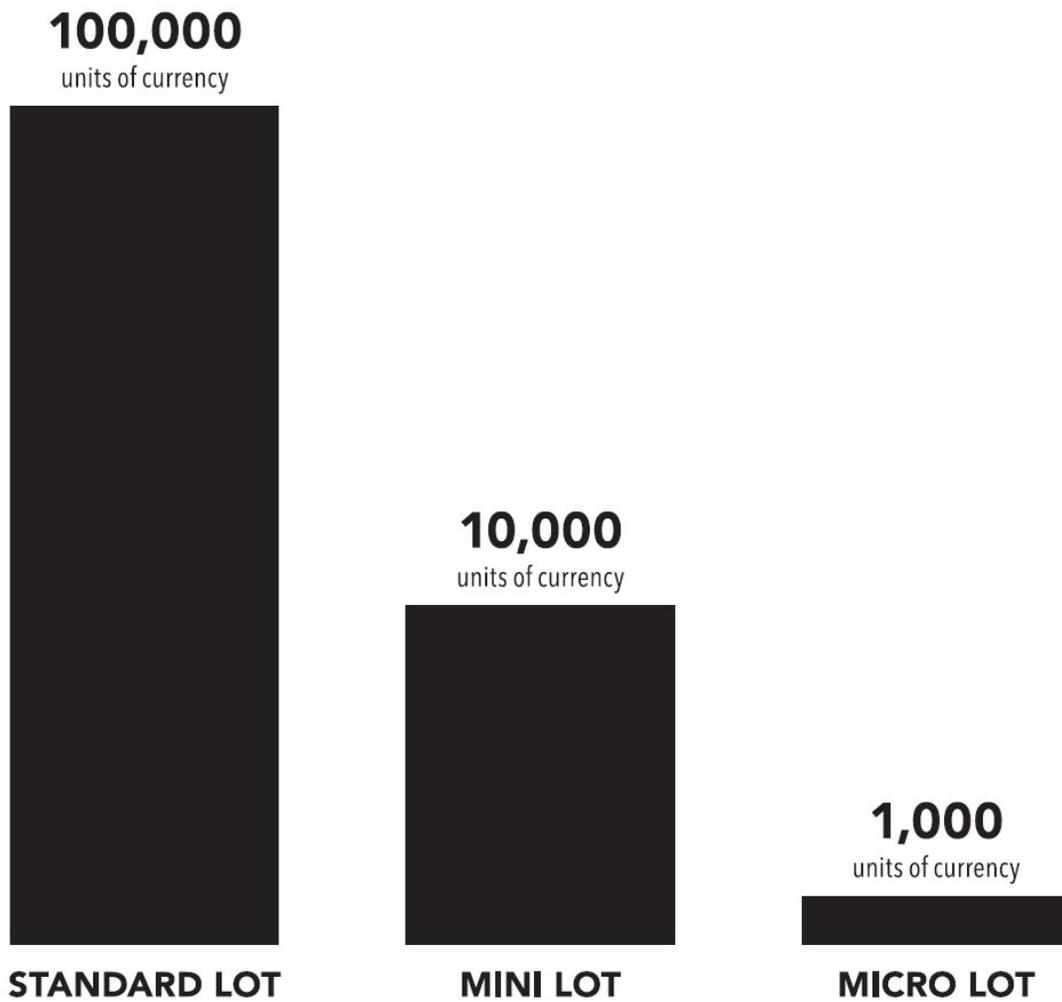
<b>a</b> Strike Price	<b>b</b> Price of Options Contract	<b>c</b> Change	<b>d</b> Bid	<b>e</b> Ask	<b>f</b> Volume
120	34.12	+0.30	33.80	33.95	29
130	24.27	+0.42	23.80	24.00	79
<b>g</b> 140	14.25	0.00	13.85	19.00	110
150	4.39	+0.12	4.35	4.45	238
160	0.21	+0.01	0.21	0.22	2059
170	0.01	-0.01	0.01	0.03	12

- a** The buyer of the call option buys the **right to purchase** the stock at a given "strike price."
- b** **Option chains** list the last price paid (per share) for the option at the given strike price. The price of a call option **always increases in inverse proportion** to the strike price.
- c** The **Change column** shows the recent increase or decrease in the price of the options.
- d** The **Bid column** shows available offers (bids) to buy options.
- e** The **Ask column** shows available offers to sell options.
- f** The **Volume column** shows the quantity of options recently traded at the given strike price.
- g** These four call options are "in-the-money" because their strike prices are **lower** than the stock price (153.80). Option chains will usually highlight the options contracts that are "in-the-money."

fig. 9

POPULAR CURRENCY PAIRS AMONG DAY TRADERS	
Symbol	Pair
EUR/USD	Euro/US Dollar
USD/JPY	US Dollar/Japanese Yen
GBP/USD	British Pound/US Dollar
GBP/JPY	British Pound/Japanese Yen
EUR/JPY	Euro/Japanese Yen
USD/CHF	US Dollar/Swiss Franc

fig. 10



# CHAPTER 6

## How Markets Work

---

fig. 11

### WYCKOFF MARKET CYCLE

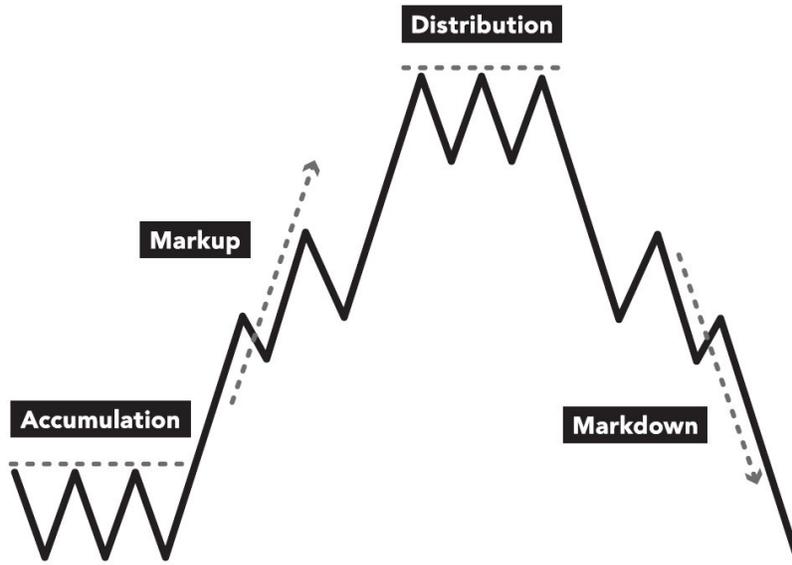


fig. 12

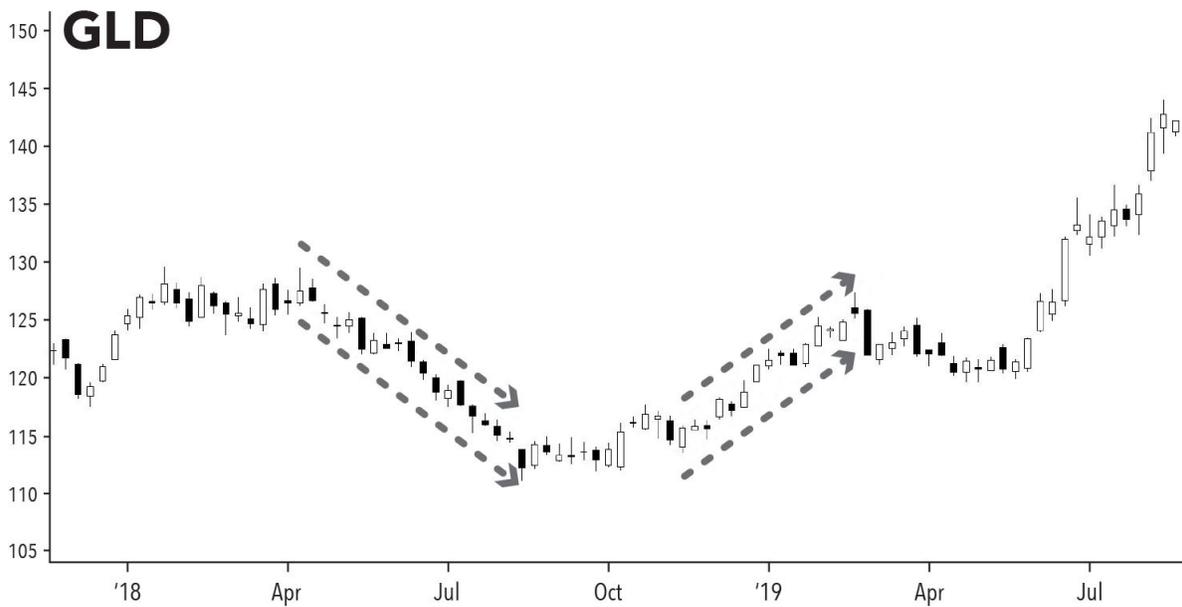
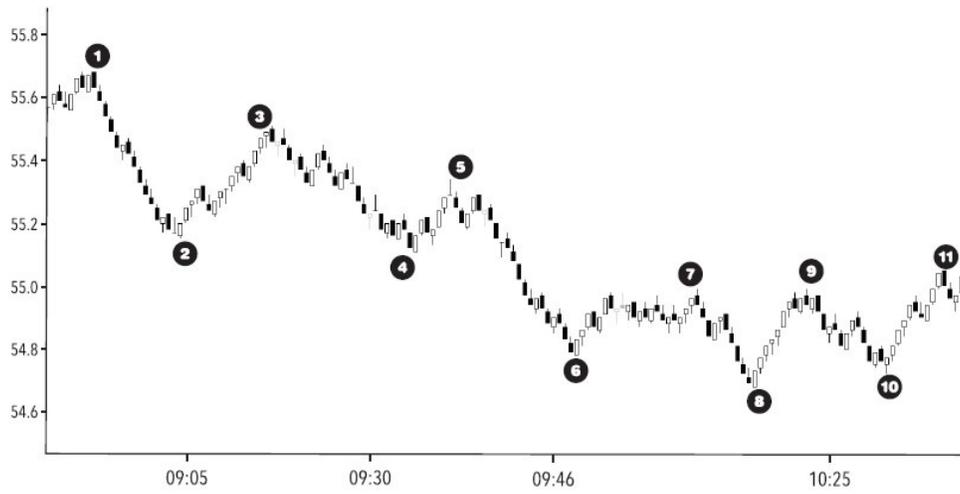


fig. 13



- ➊ → ➋ is an **action move**.
- ➋ → ➌ is a **reaction**.
- ➌ → ➍ is a **subsequent action** and later becomes a new first action.
- ➍ → ➎ is a **new reaction**.
- ➎ → ➏ is a new **subsequent tradeable action move**.
- ➏ → ➐ is a **new reaction**.
- ➐ → ➑ is a **new subsequent action** but is weaker and sets up a possible new action in the opposite direction.

fig. 14

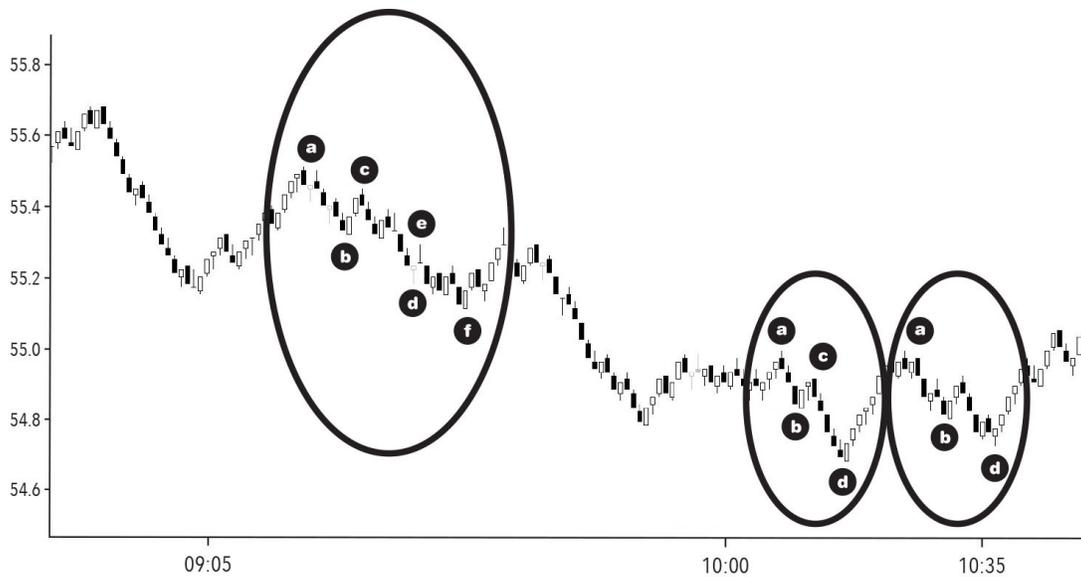


fig. 15

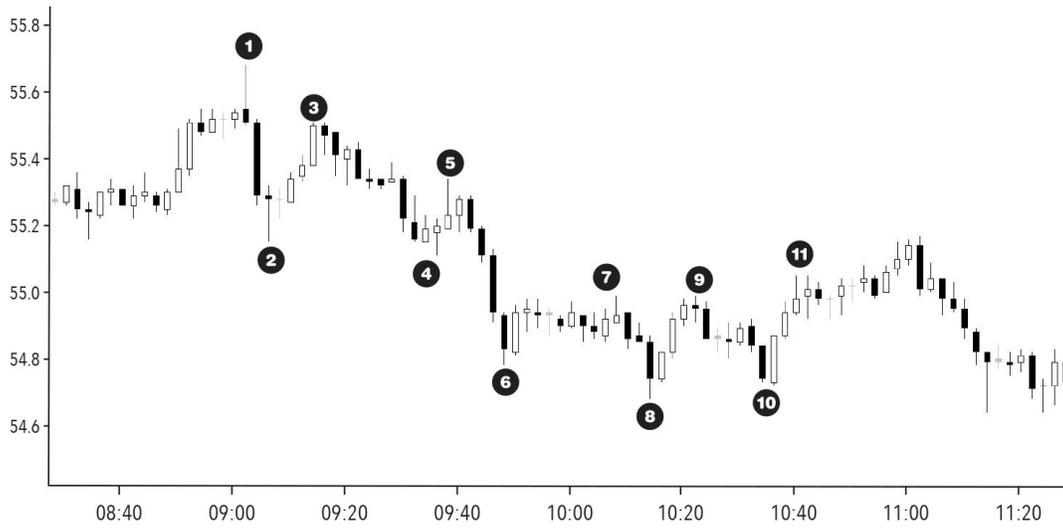


fig. 16



fig. 17

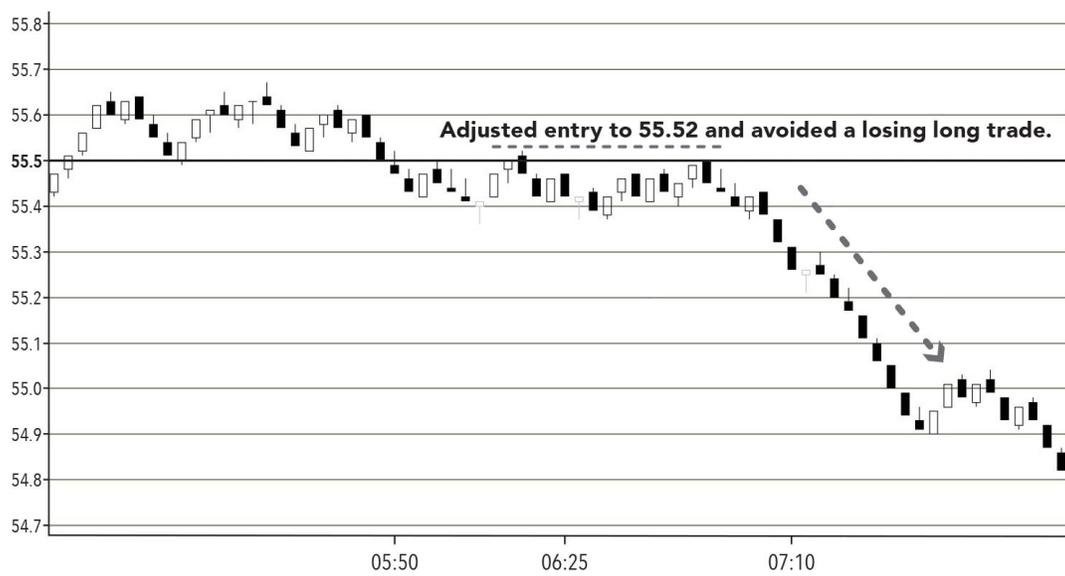


fig. 18

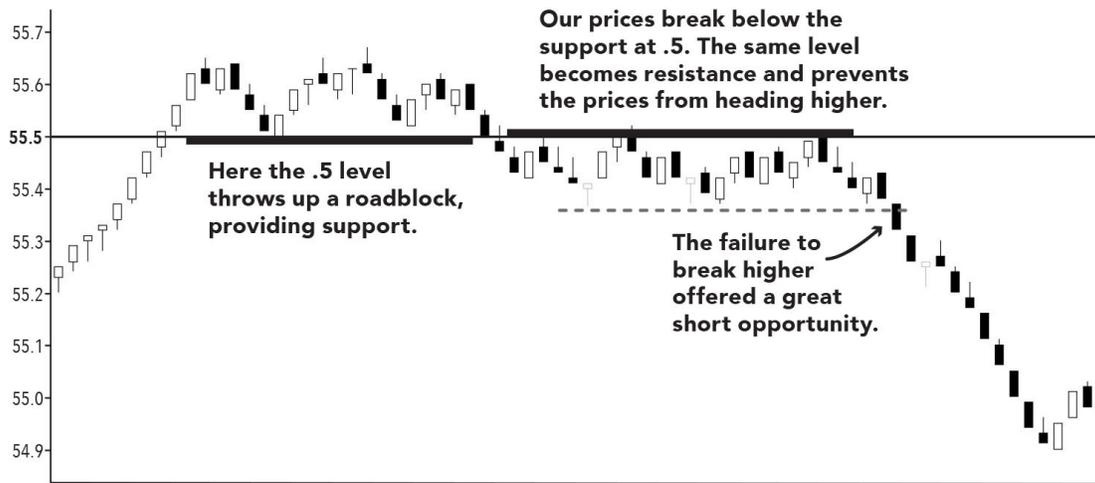
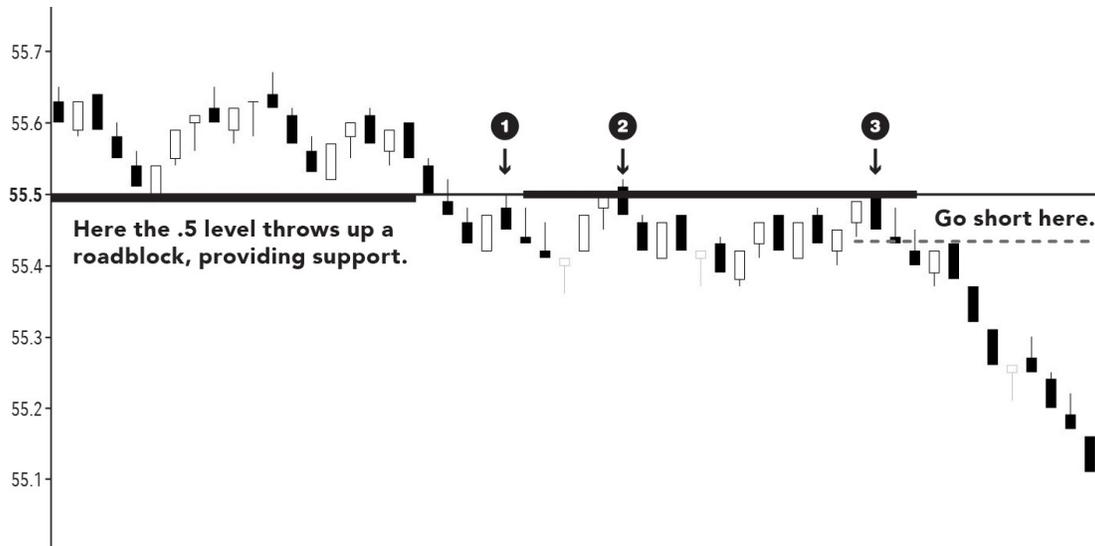


fig. 19



# CHAPTER 7

## Charting

---

fig. 20

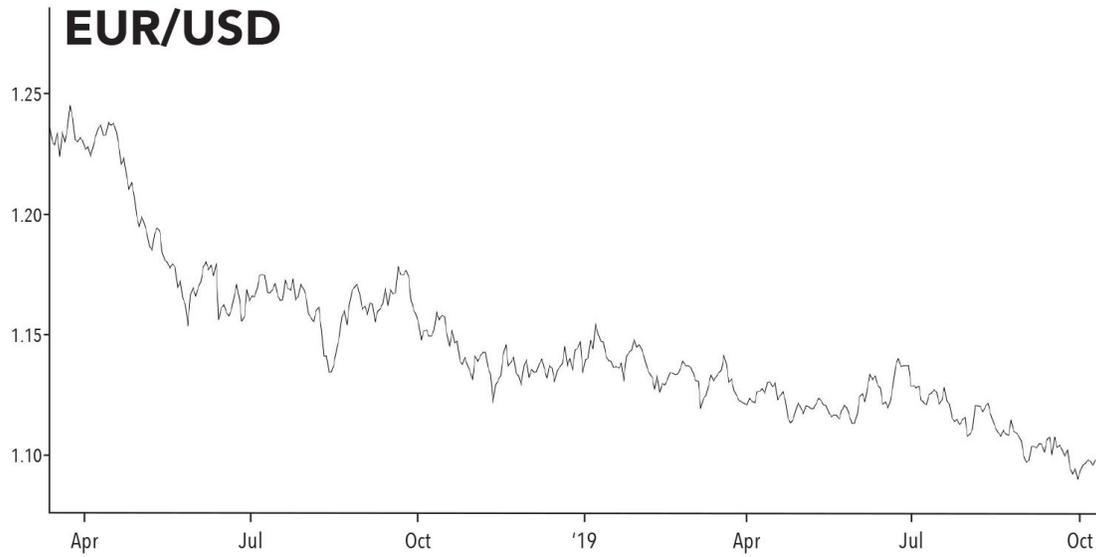


fig. 21

## OHLC CHART

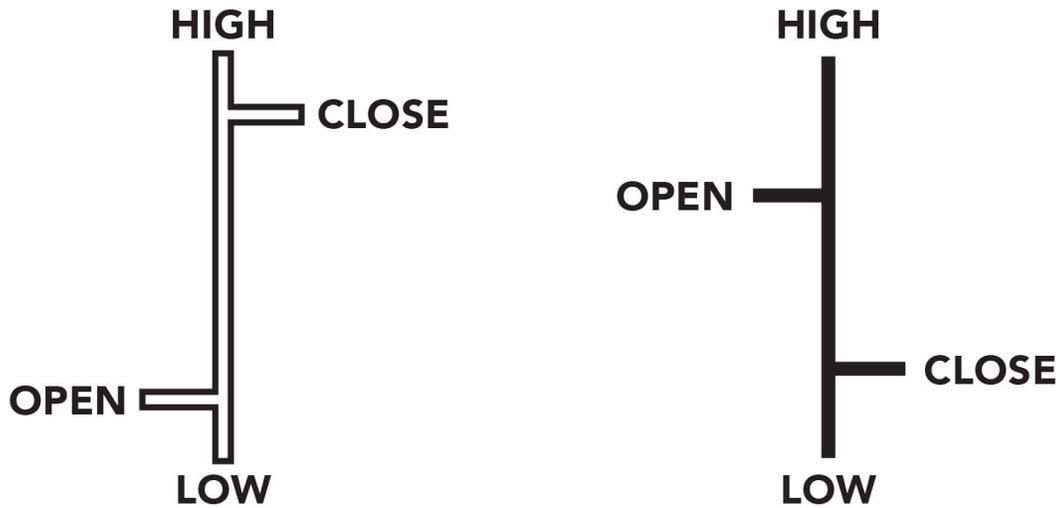


fig. 22



fig. 23

## CANDLESTICK CHARTS

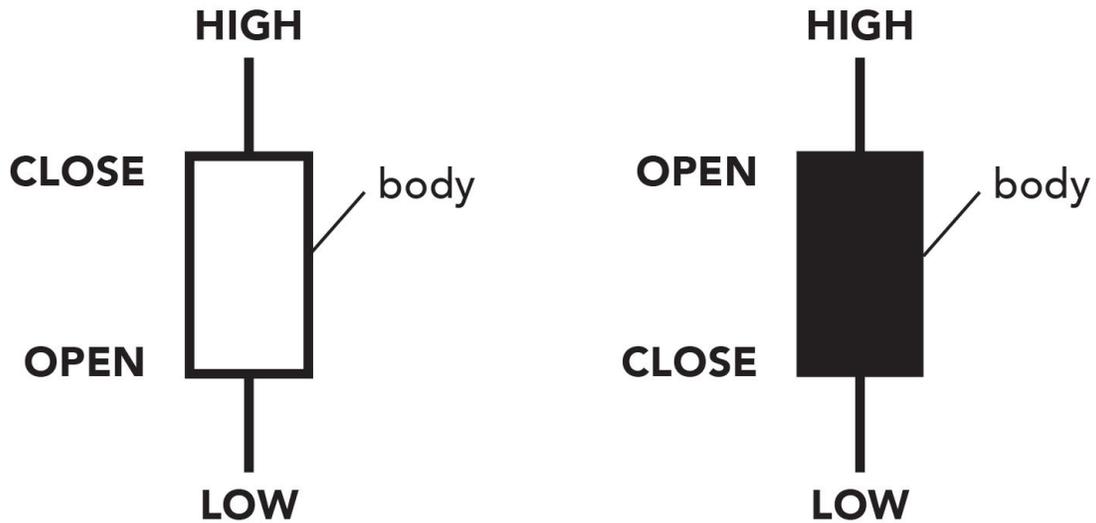


fig. 24

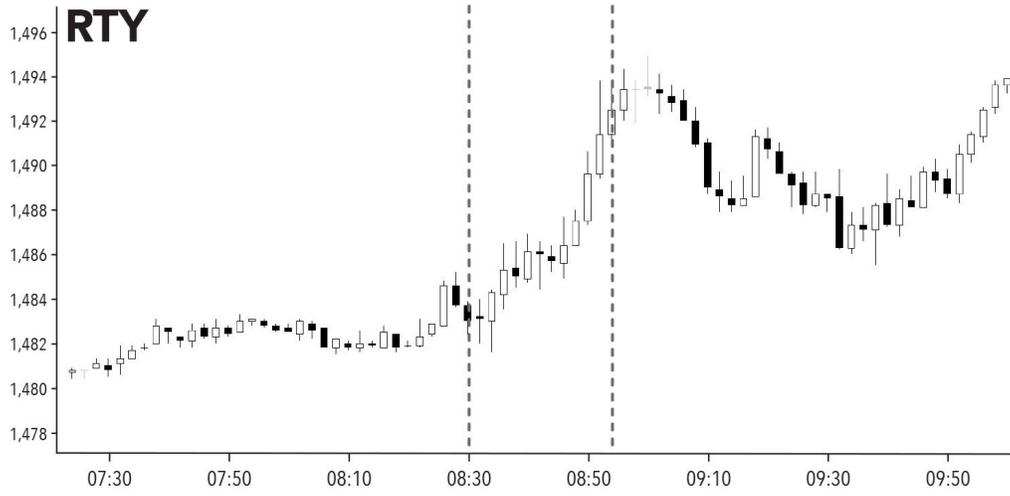


fig. 25

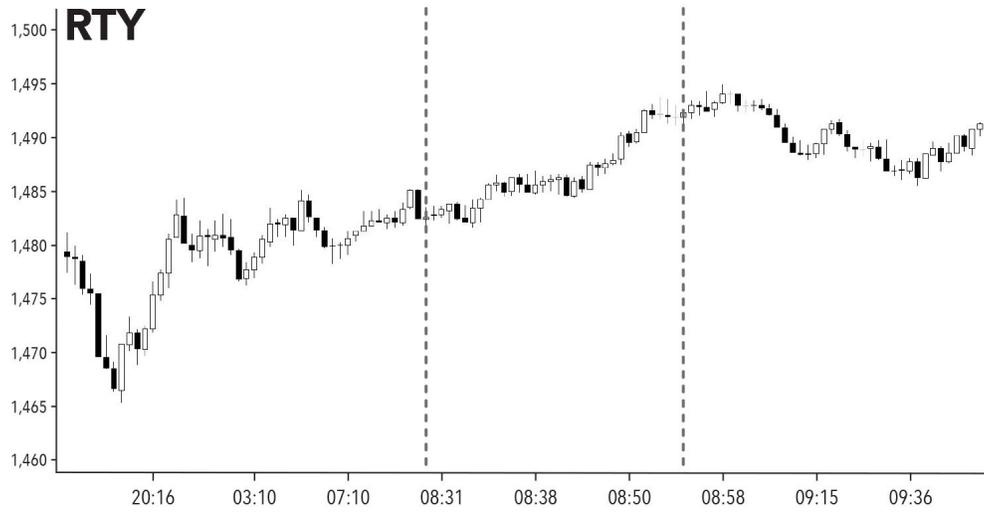


fig. 26

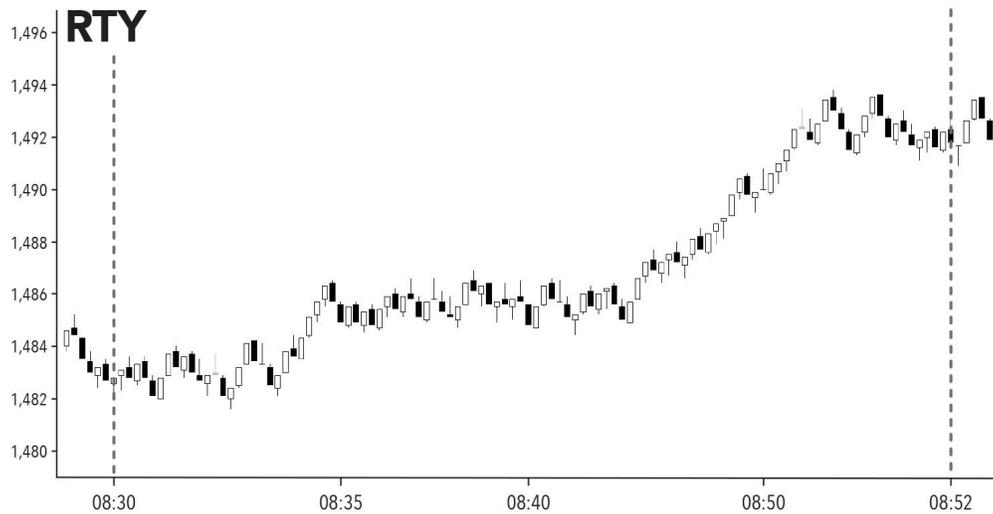


fig. 27

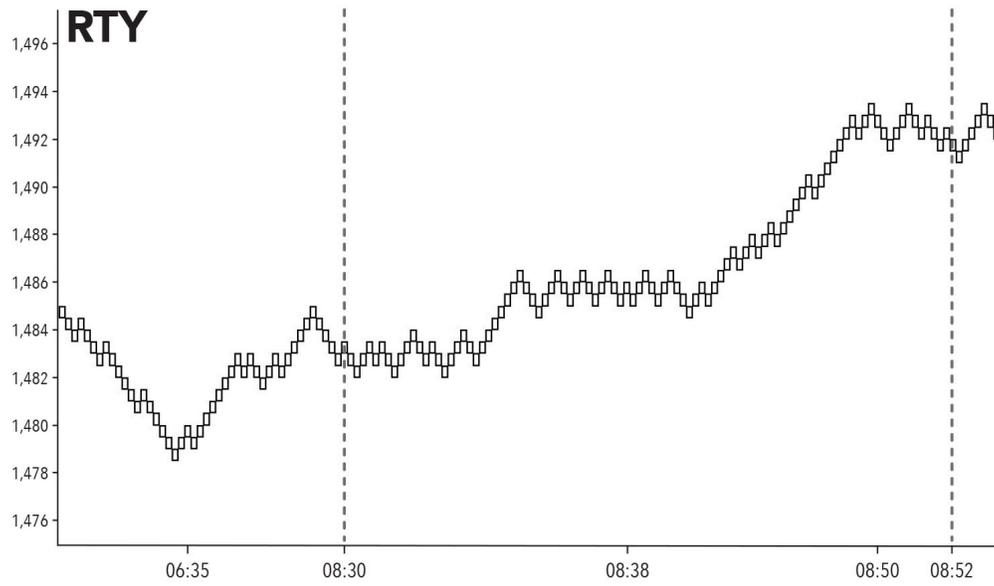


fig. 28

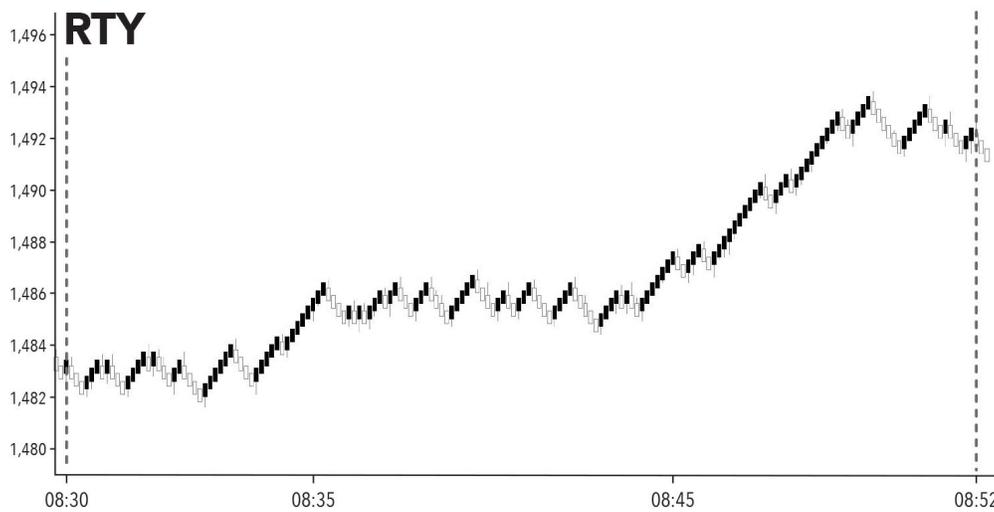


fig. 29



fig. 30



fig. 31

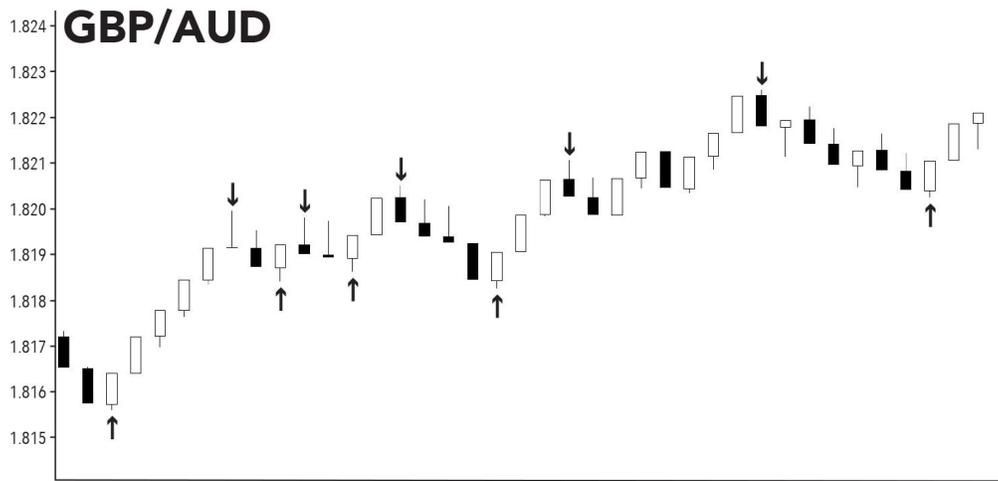


fig. 32



fig. 33

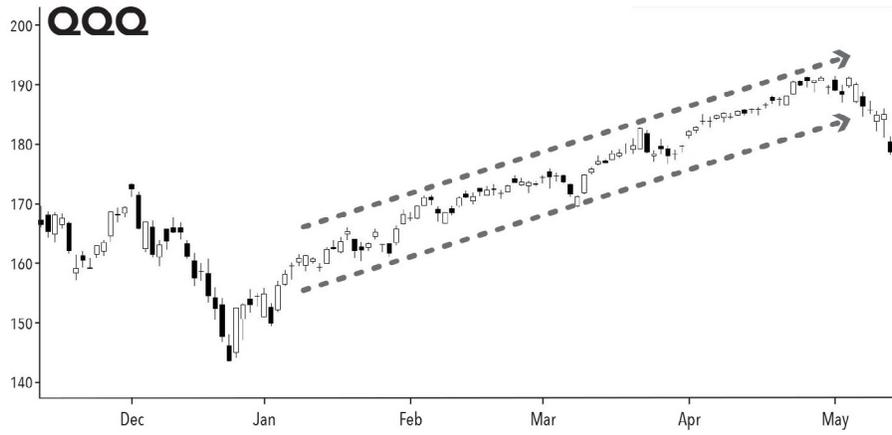


fig. 34

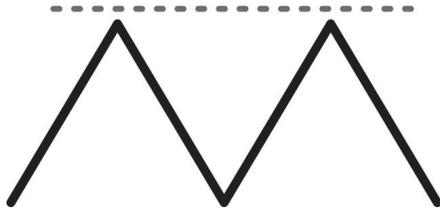


fig. 35



fig. 36

### DOUBLE TOP PATTERN



### DOUBLE BOTTOM PATTERN

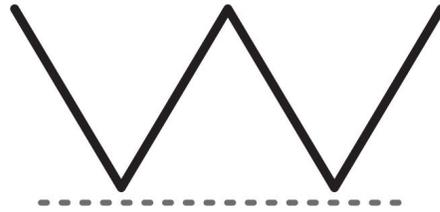


fig. 37

### HEAD & SHOULDERS PATTERN

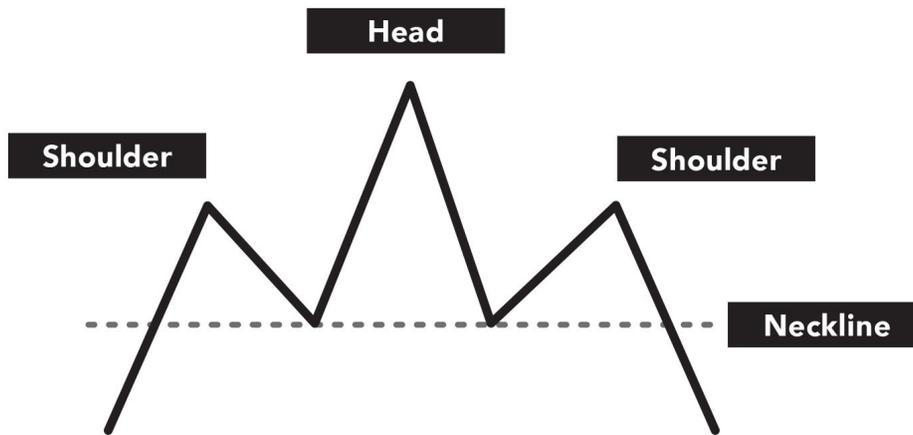
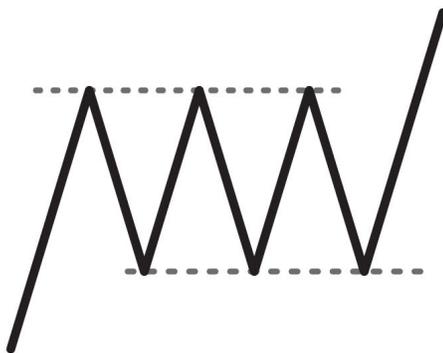


fig. 38

### BULL FLAG



### BEAR FLAG

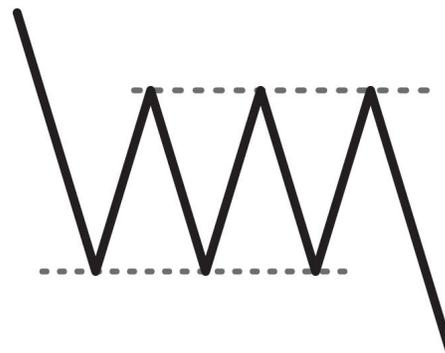


fig. 39

# ASCENDING TRIANGLE

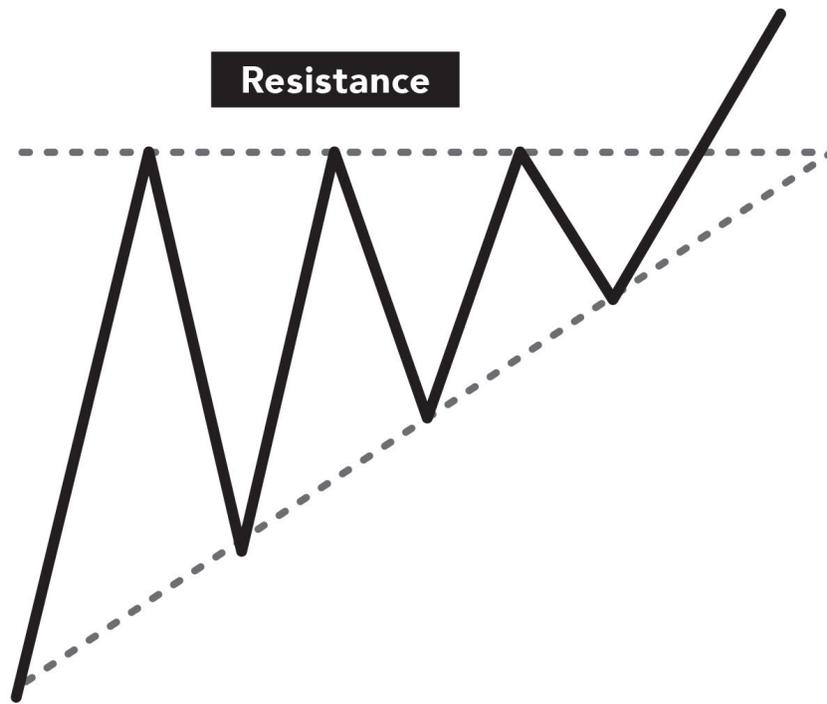


fig. 40

# DESCENDING TRIANGLE

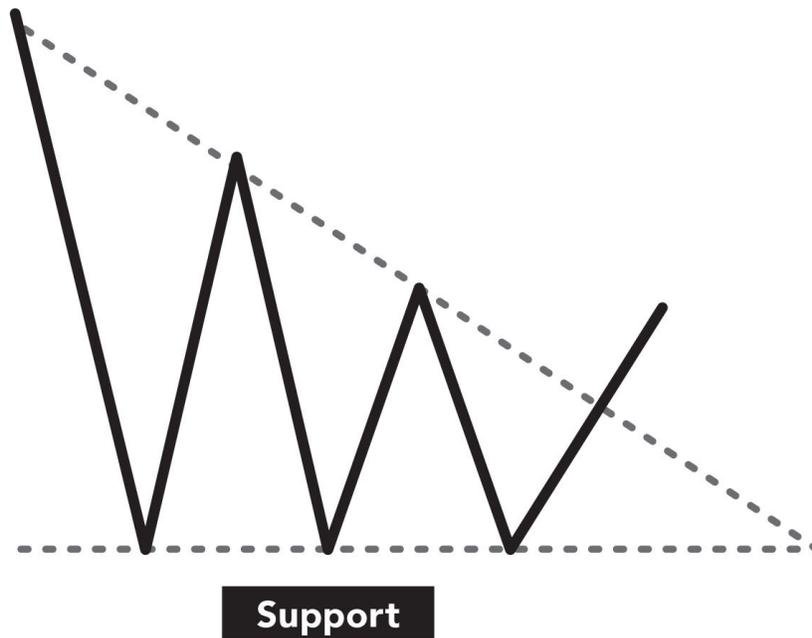


fig. 41

# SYMMETRICAL TRIANGLE

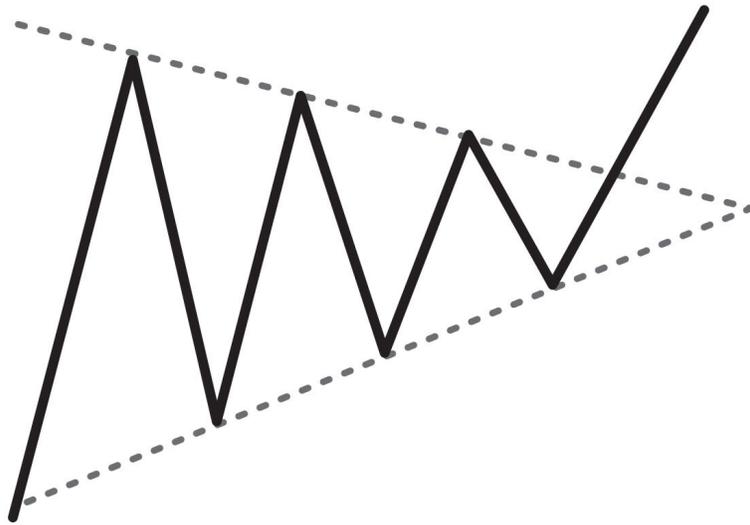
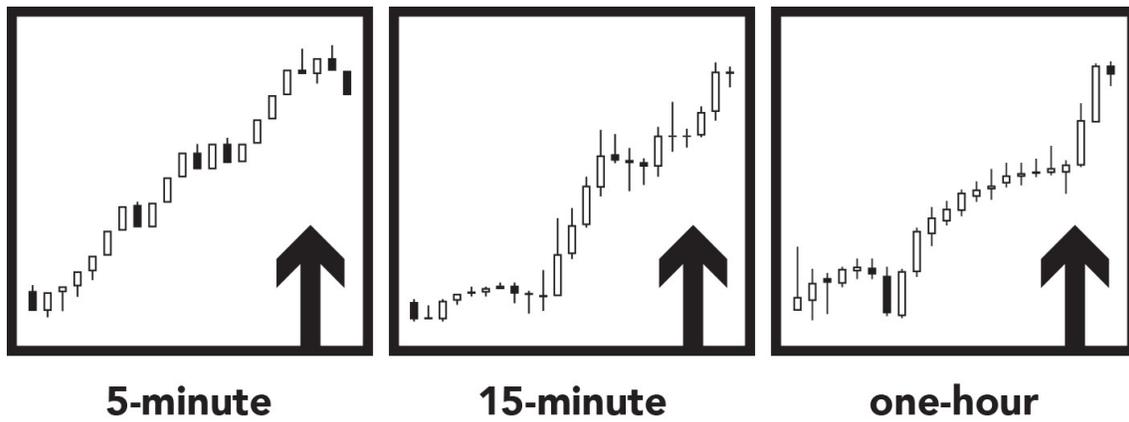


fig. 42



# CHAPTER 8

## Technical Indicators

---

fig. 43

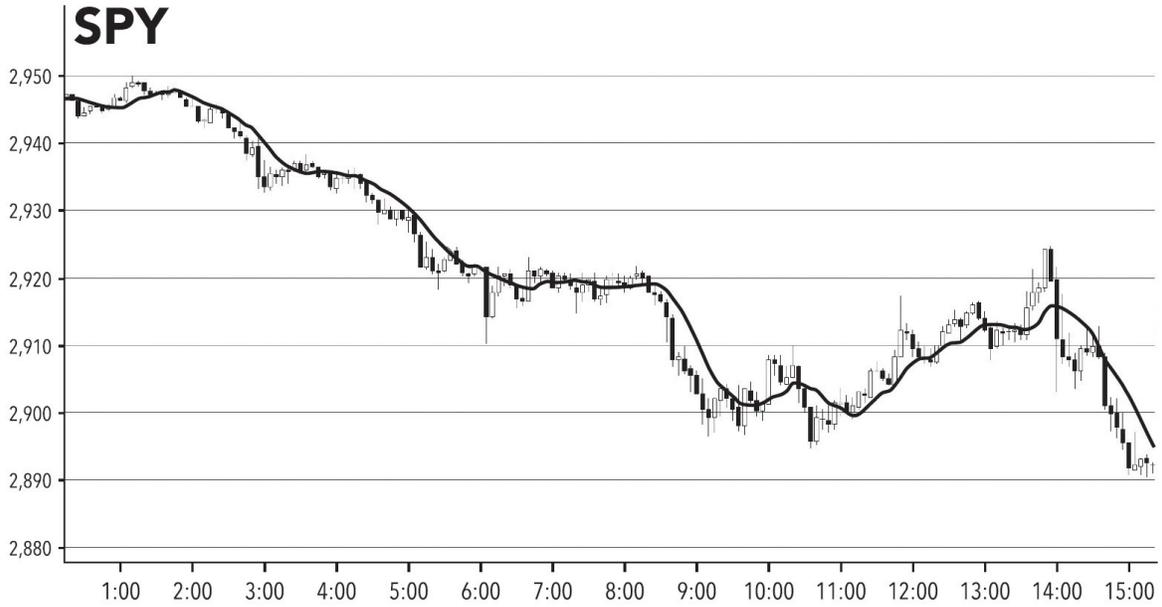


fig. 44



fig. 45

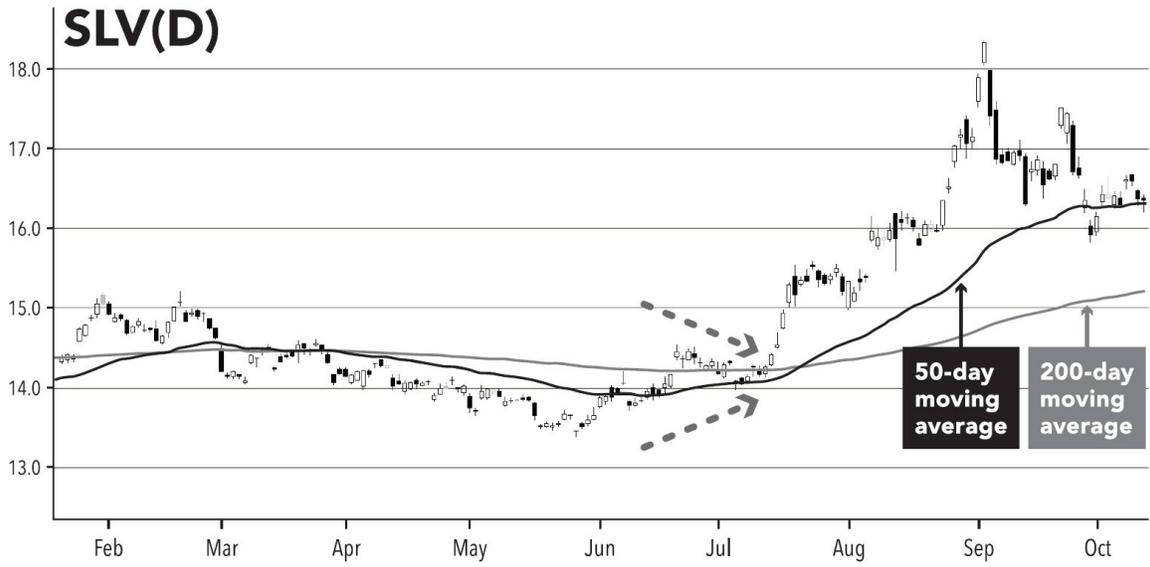


fig. 46



fig. 47



fig. 48



fig. 49

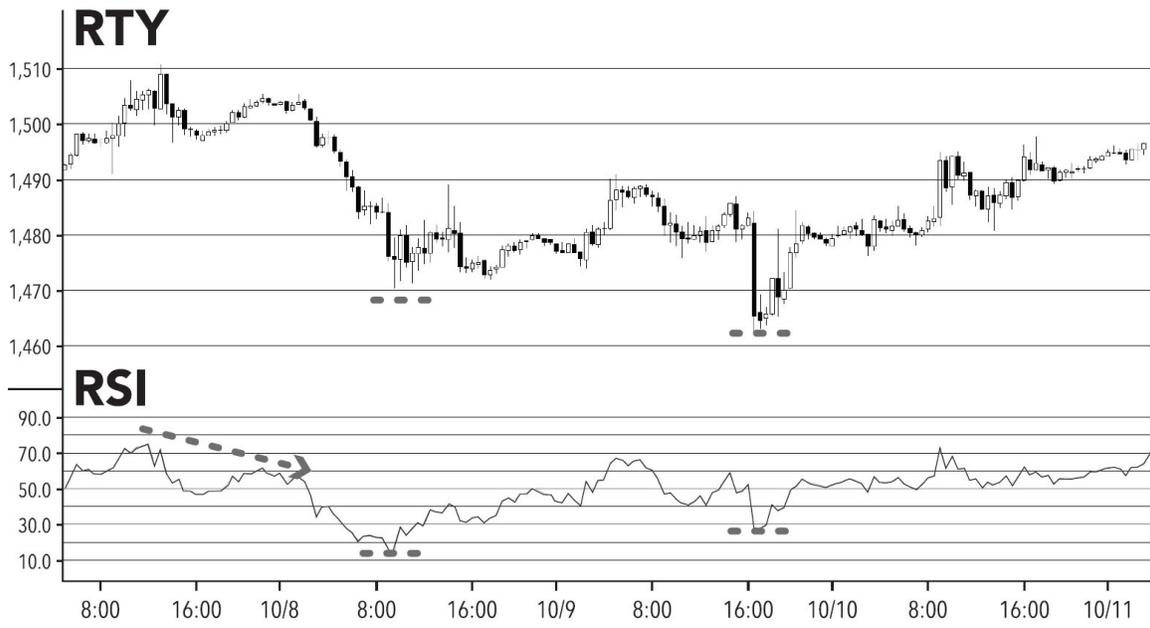
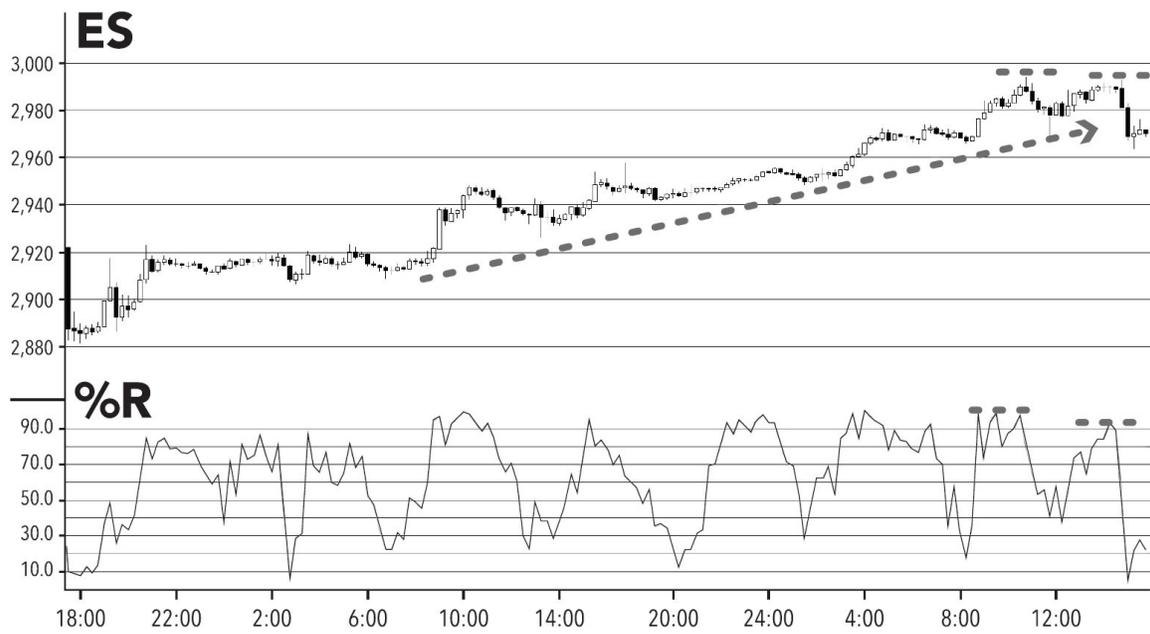


fig. 50



# CHAPTER 9

## Types of Traders

---

fig. 51

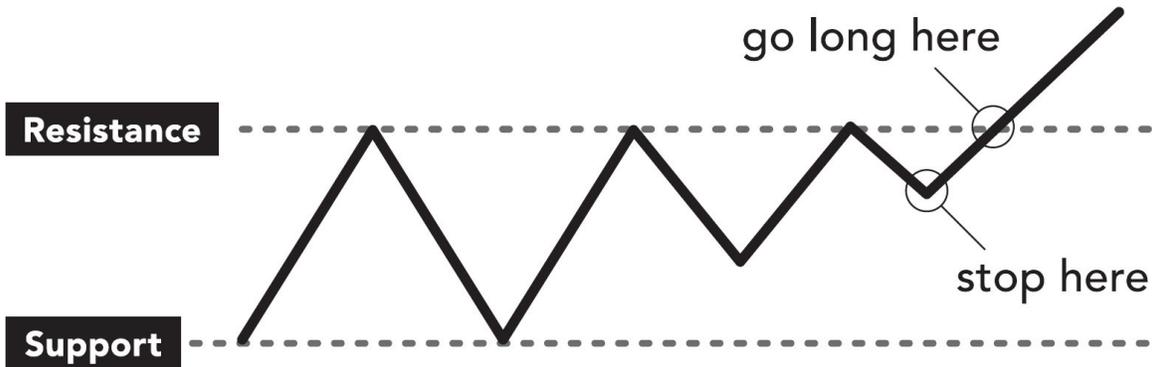


fig. 52

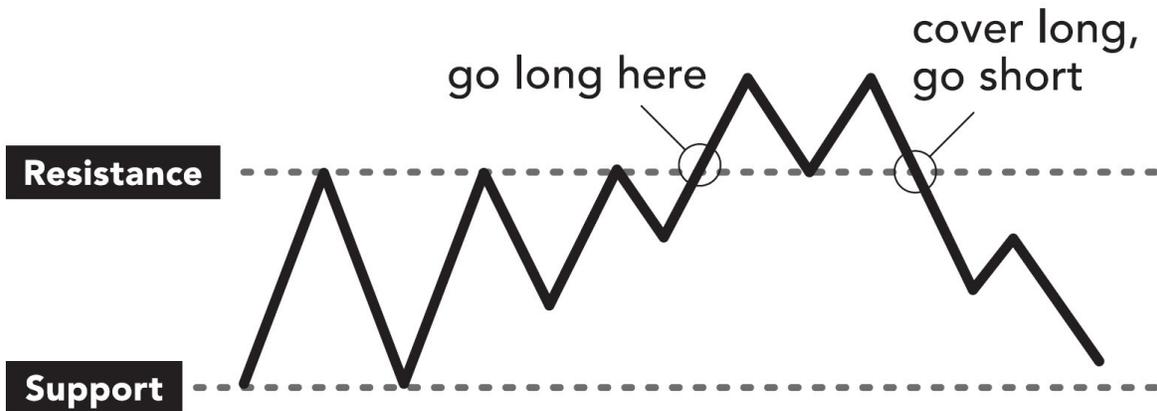


fig. 53

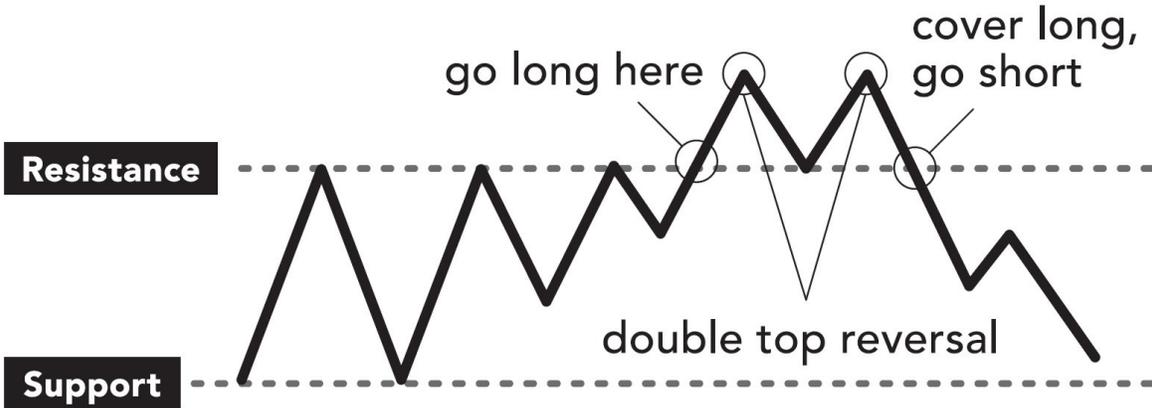


fig. 54

# A TRAILING STOP EXAMPLE

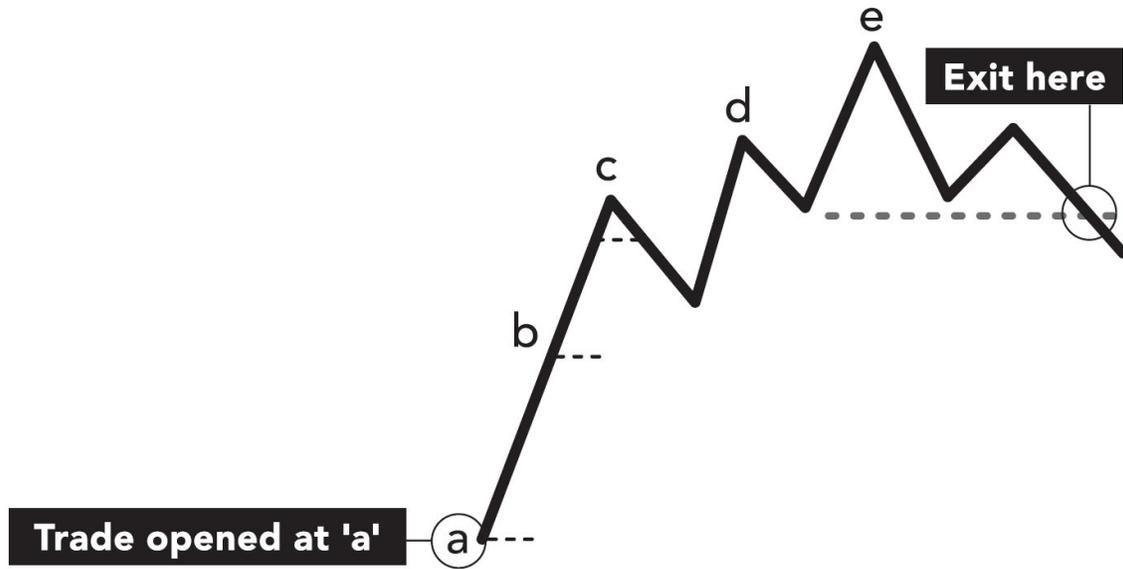
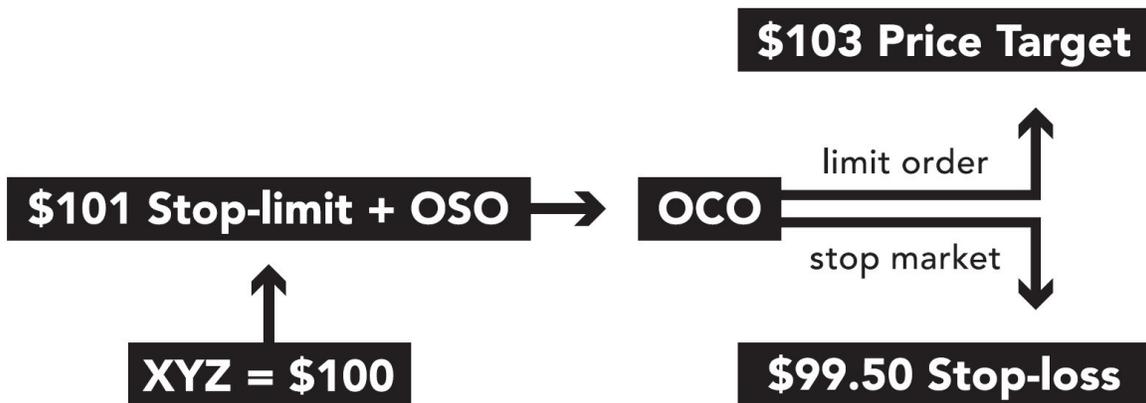


fig. 55

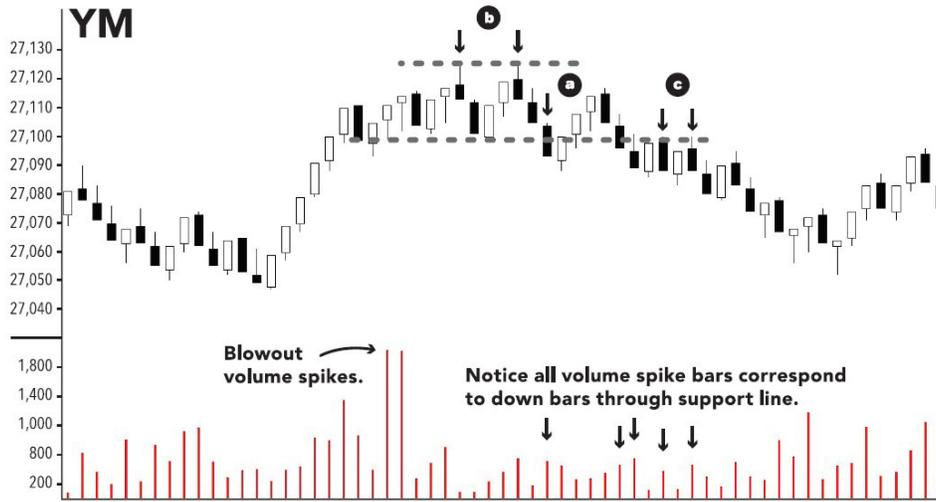


# CHAPTER 10

## The Big Chapter - Trading in Action!

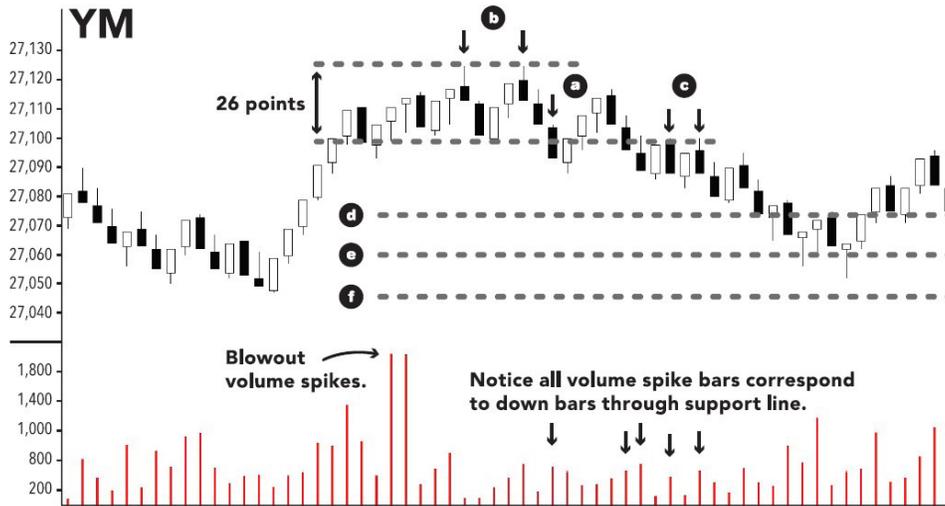
---

fig. 56



- a** An aggressive entry on the first downward break through the support line is the riskiest.
- b** Place the stop-loss a few ticks above resistance.
- c** Better odds can be had when entering on a retest of the support line. Support becomes resistance.

fig. 57



- d**  $1 \times 26 = 26$  points = \$130 profit per contract when hit
- e**  $1.5 \times 26 = 39$  points = \$195 per contract when hit
- f**  $2 \times 26 = 52$  points = \$260 per contract when hit (the price was unable to reach this 2x target level in this case)

fig. 58



- 1** Is the first shoulder (or the "left" shoulder).
- 2** Marks where the sellers initially find support. The buyers then step in and push the price to new highs (point 3).
- 3** Marks the head, and the highest point of this pattern.
- 4** Shows where sellers find support again as they attempt to push the price lower.
- 5** Shows the feeble attempt of the buyers to push the price higher. They quickly run out of energy, as exhibited by the very weak right shoulder (2nd shoulder). This is a very bearish pattern.
- 6** Shows where shorts can be taken (a few ticks below the ascending neckline).

fig. 59

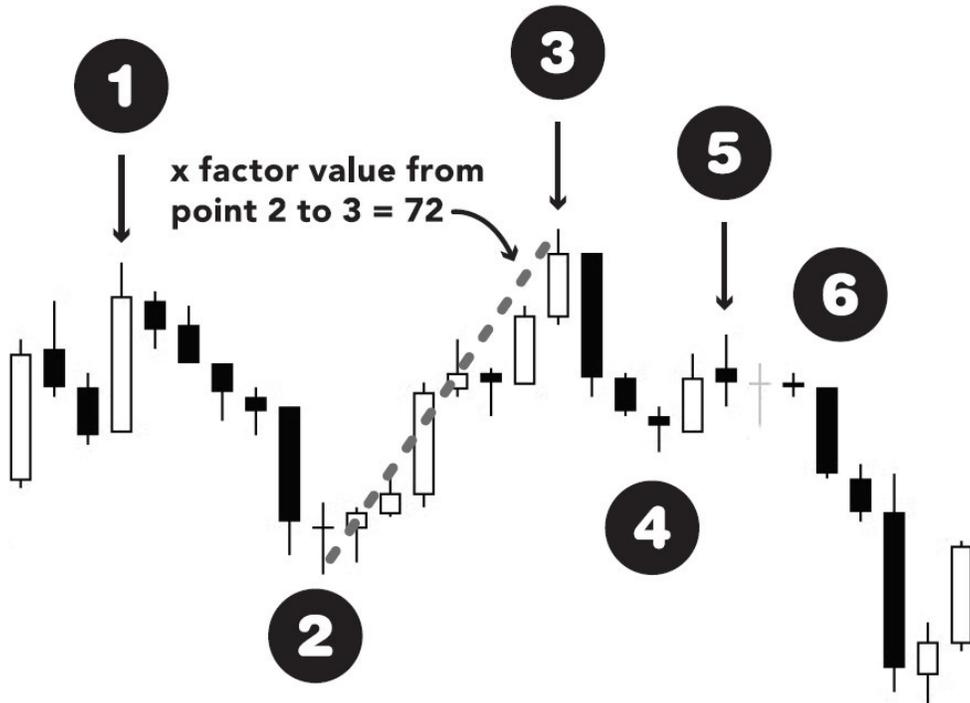


fig. 60

<h2 style="text-align: center;">TRADE PROFILE</h2> <h3 style="text-align: center;">Shorting the Dow E-Mini (YM)</h3>		
<b>ENTRY</b>	27227	The entry is a couple of ticks (one tick = \$5) below the ascending neckline at point 6.
<b>STOP</b>	27266	The stop is a few ticks above point 3. (I like to hide the stop around the key level of 5, so I put the stop 4 ticks above point 3.)
<b>TARGET 1</b>	27120	1x below point 2
<b>TARGET 2</b>	27084	1.5x below point 2
<b>TARGET 3</b>	27048	2x below point 2
<b>RISK</b>	39	The risk is stop-loss - entry x \$ per tick ( $27266 - 27227 = 39 \times \$5 = \$195$ risk per contract)
<b>PROFIT AT TARGET 2</b>	+143 = \$715 per contract	
<b>PROFIT AT TARGET 3</b>	+179 = \$895 per contract	<b>x = 72</b>

fig. 61

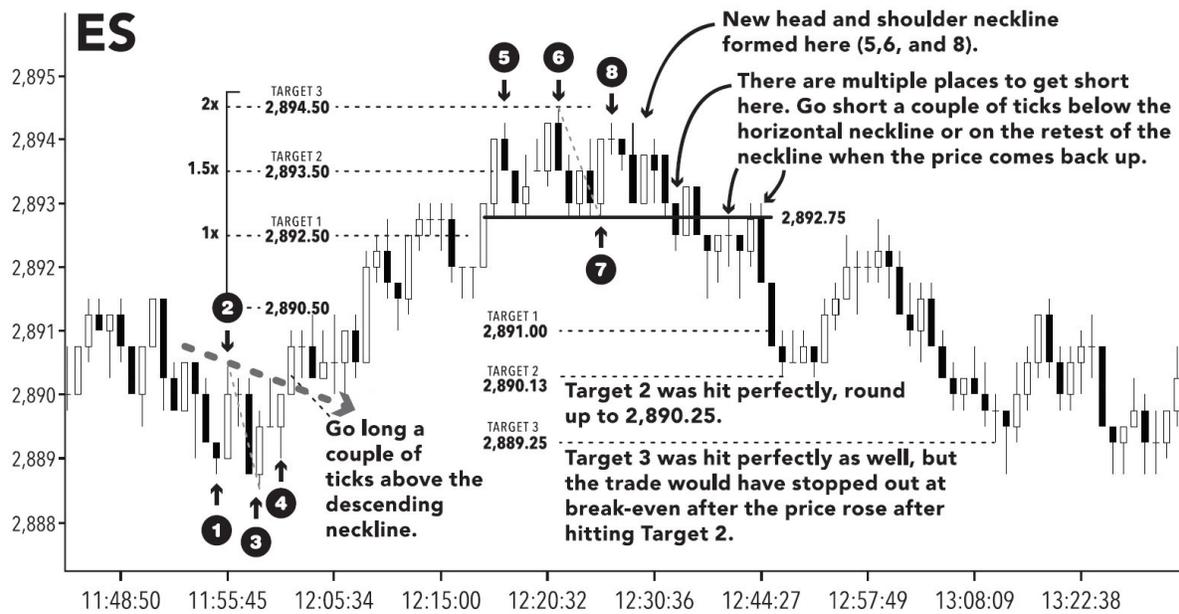


fig. 62

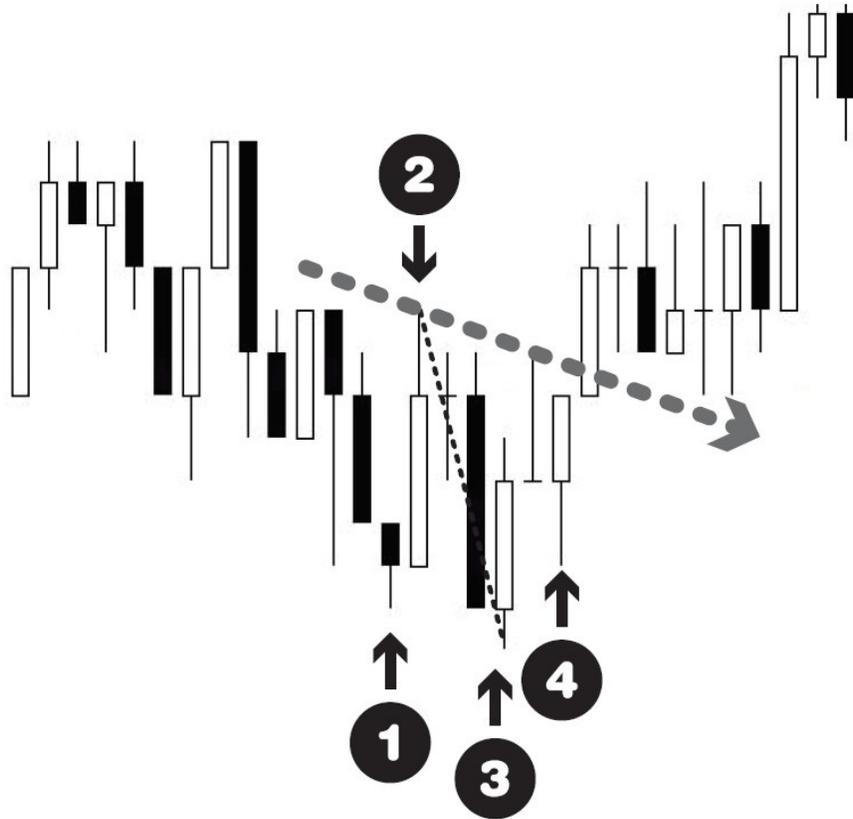


fig. 63

<b>TRADE PROFILE</b> <b>Going long on the S&amp;P E-Mini (ES)</b>		
<b>ENTRY</b>	2890.75	Enter off of the right shoulder, a couple of ticks above the descending neckline (each tick = \$12.50).
<b>STOP</b>	2888.00	The stop is placed two ticks below point 3.
<b>TARGET 1</b>	2892.50	1x above point 2. Remember, when Target 1 is hit, move the stop one tick beyond the entry for a risk-free trade.
<b>TARGET 2</b>	2893.50	Primary Target Objective. 1.5x above point 2, \$137.50 in profit when hit (2.75 points of movement at \$50 per point)
<b>TARGET 3</b>	2894.50	Enhanced Goal. 2x above point 2, \$187.50 in profit when hit (3.75 points of movement at \$50 per point). The second target when trading additional contracts (notice how perfect it was).
<b>RISK</b>	2.75	The risk is the difference between the entry and the stop (2890.75 - 2888 = 2.75 points = \$137.50).
<b>PROFIT AT TARGET 2</b>	+2.75 = \$137.50	
<b>PROFIT AT TARGET 3</b>	+3.75 = \$187.50 per contract	<b>x = 2</b>

fig. 64

<h2 style="text-align: center;">TRADE PROFILE</h2> <h3 style="text-align: center;">Shorting the S&amp;P E-Mini (ES)</h3>		
<b>ENTRY</b>	2892.25	Enter short 2 ticks below the neckline.
<b>STOP</b>	2895.00	Place the stop 2 ticks above the head (point 6).
<b>TARGET 1</b>	2891.00	1x down from the neckline.
<b>TARGET 2</b>	2890.25	1.5x down from the neckline. Target 2 is an even 2 points away from the entry; hitting target 2 will earn \$100 in profit per each contract traded (notice how perfect the target projection proved to be).
<b>TARGET 3</b>	2889.25	2x down from the neckline.
<b>RISK</b>	2.75	The risk is the difference between the stop-loss and entry x \$ per tick ( $2895 - 2892.25 = 2.75 \times \$50 = \$137.50$ risk per contract).
<b>PROFIT AT TARGET 2</b>	+2 = \$100 per contract	
<b>PROFIT AT TARGET 3</b>	+3 = \$150 per contract	<b>x = 1.75</b>

fig. 65

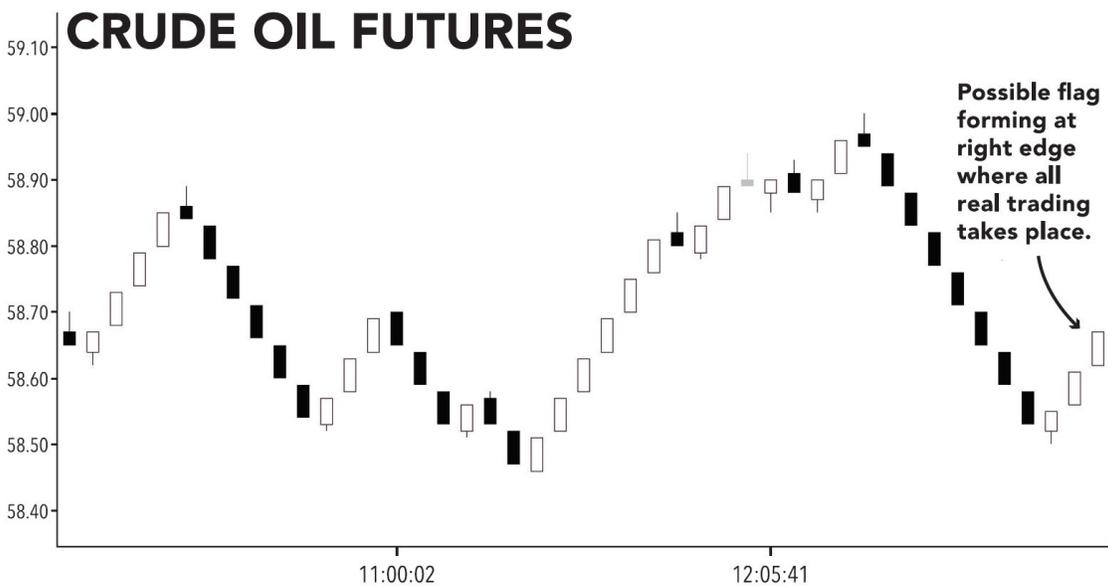


fig. 66

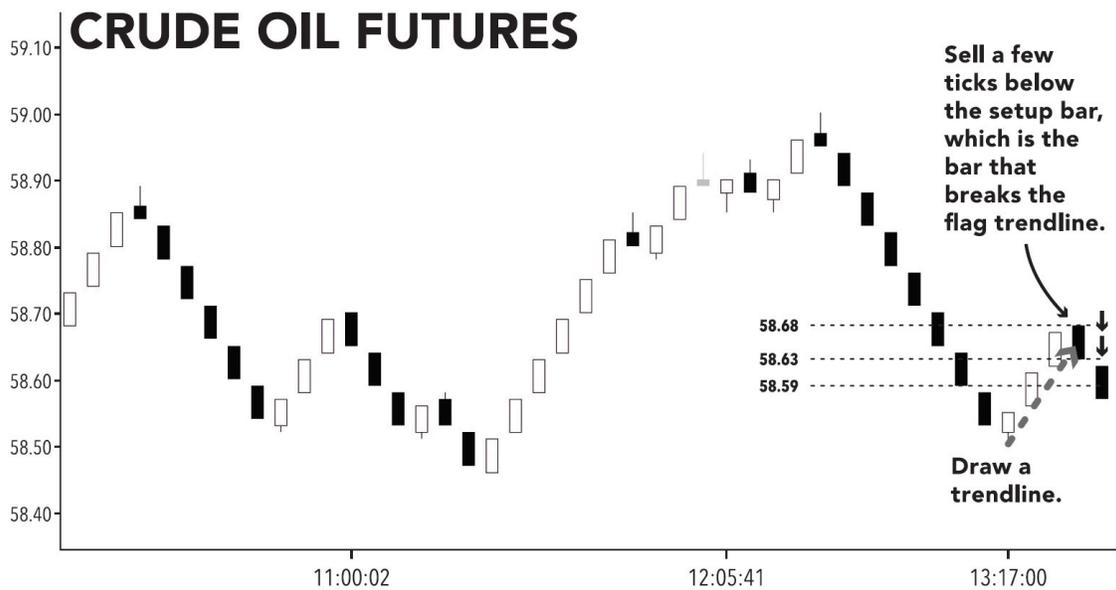


fig. 67

<b>TRADE PROFILE</b> <b>Shorting Crude Oil Futures</b>		
<b>ENTRY</b>	58.59	Each tick in crude oil = \$10
<b>STOP</b>	58.71	We set our stop 1 tick above the 58.70 key level. We don't want to exit the trade until it's broken against us with enough force to overcome the key level. We need to adjust the stop one point higher than the key level.
<b>TARGET 1</b>	58.45	1x lower than 58.63 (1x from the bottom of the setup bar)
<b>TARGET 2</b>	58.36	1.5x lower than 58.63 (1.5x from the bottom of the setup bar)
<b>TARGET 3</b>	58.27	2x lower than 58.63 (2x from the bottom of the setup bar)
<b>RISK</b>	0.12	The risk is the difference between stop and entry (58.71 - 58.59 = .12 = 12 ticks = \$120 per contract).
		<b>x = .18</b>

fig. 68

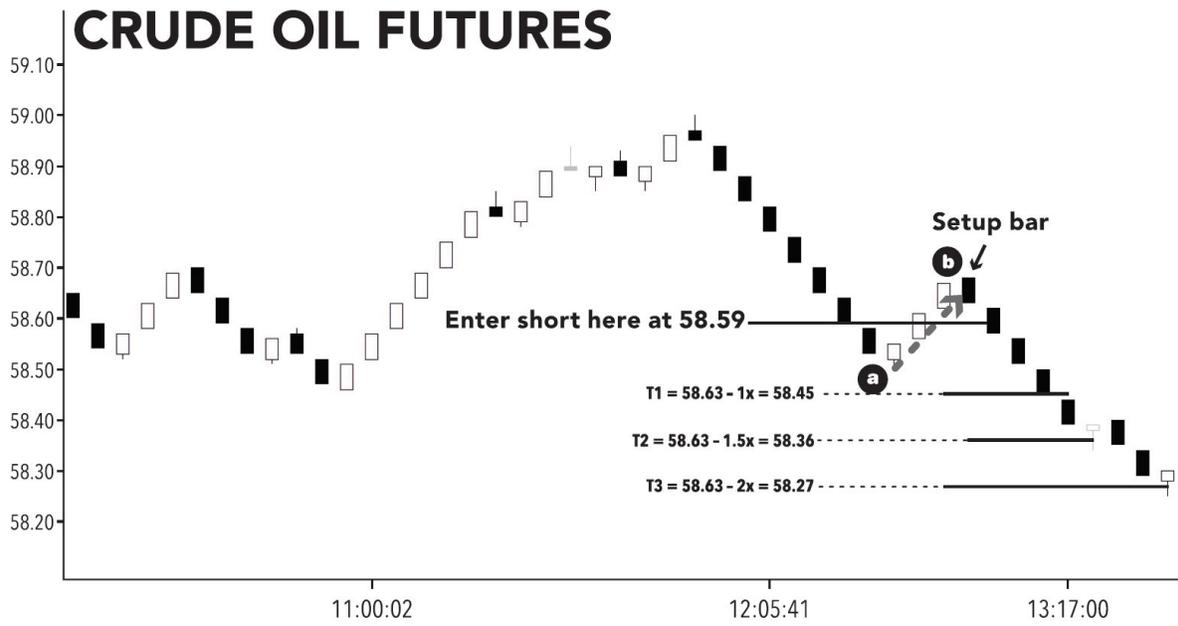


fig. 69



fig. 70

<h2 style="text-align: center;">TRADE PROFILE</h2> <h3 style="text-align: center;">Going long on FOREX: GBP/AUD</h3>		
<b>ENTRY</b>	1.8241	3 pips above the high of the setup bar. Ordinarily we would enter 2 pips above the setup bar, but we are going to make a KLA to ensure we push past the key level of 1.8240.
<b>STOP</b>	1.8228	2 pips below the low of the setup bar.
<b>TARGET 1</b>	1.8262	Money Management Level. 1x pips above the high of the setup bar (+21 pips profit).
<b>TARGET 2</b>	1.8274	Primary Target Objective. 1.5x pips above the high of the setup bar (+33 pips profit).
<b>TARGET 3</b>	1.8286	Enhanced Goal. 2x pips above the high of the setup bar (+45 pips profit).
<b>RISK</b>	13 pips	The risk is the difference between entry and stop.
		<b>x = 24 pips</b>

fig. 71



fig. 72



fig. 73



fig. 74



fig. 75



fig. 76

TRADE PROFILE Going short on the ES		
<b>ENTRY</b>	2920.00	2 ticks below the setup bar.
<b>STOP</b>	2921.50	2 ticks above the highest point on the triangle.
<b>TARGET 1</b>	2918.75	1x below the low of the setup bar.
<b>TARGET 2</b>	2918.00	1.5x below the low of the setup bar.
<b>TARGET 3</b>	2917.00	2x below the low of the setup bar.
<b>RISK</b>	1.50	The risk is the difference between entry and stop = .50.
The x is the distance between the highest point on the triangle and the lowest point.		<b>x = 1.75 points</b>

fig. 77



fig. 78

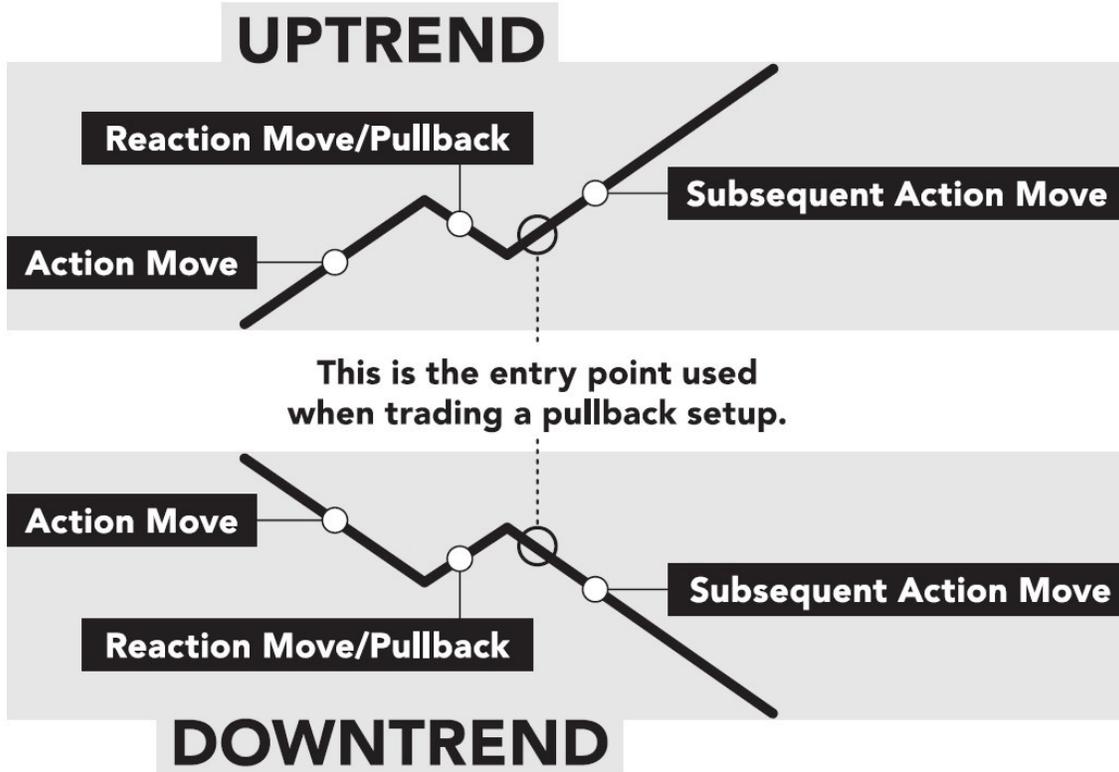


fig. 79

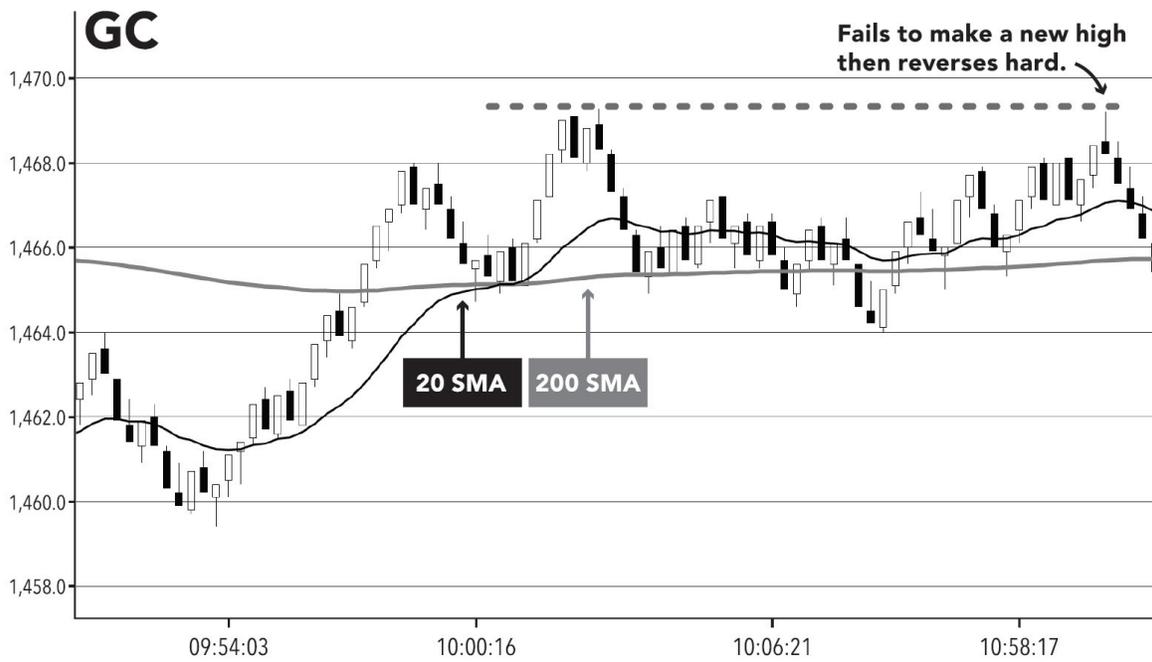


fig. 80

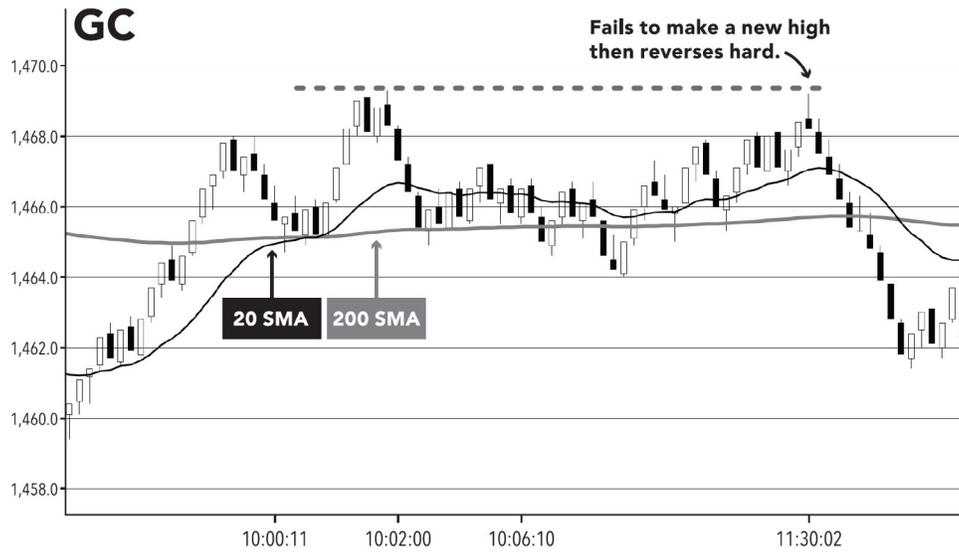


fig. 81



fig. 82

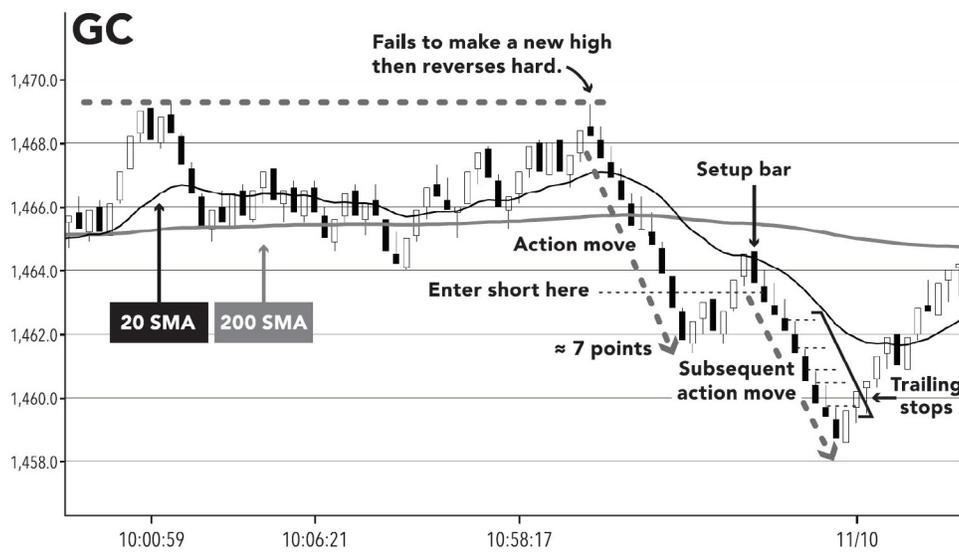


fig. 83

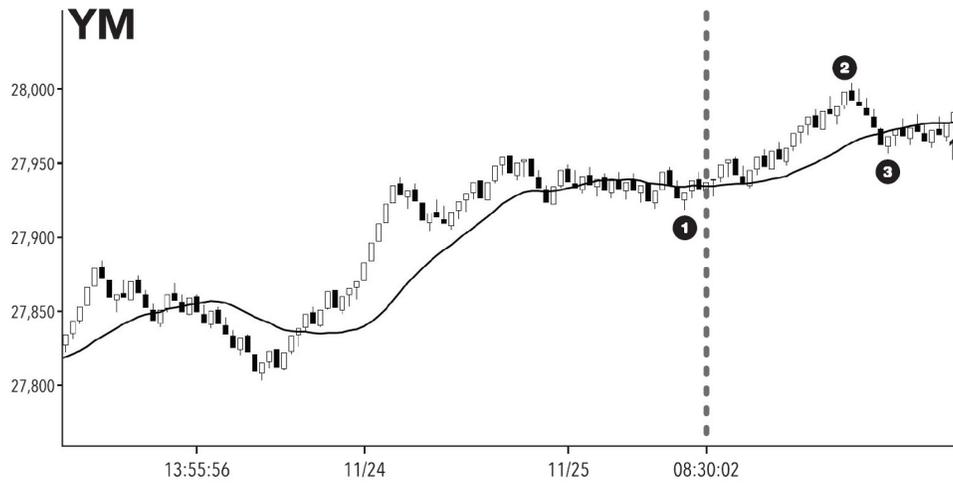


fig. 84

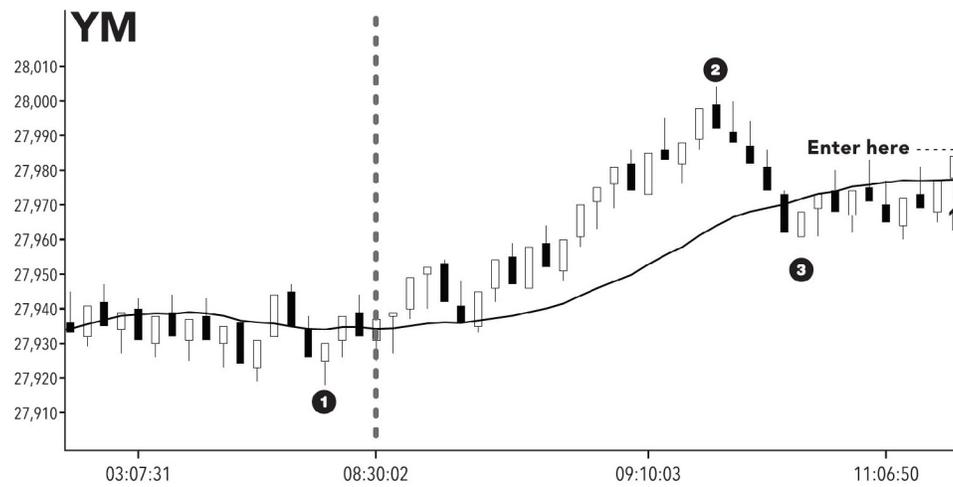


fig. 85

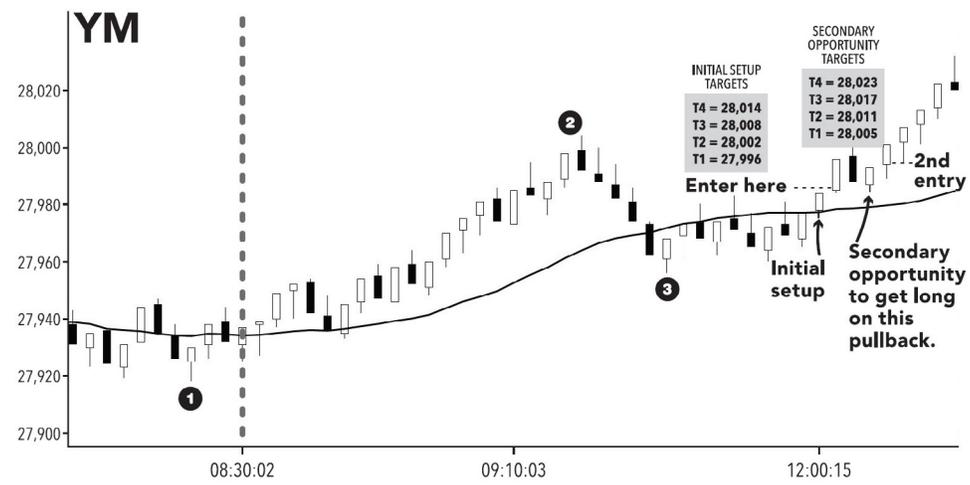


fig. 86

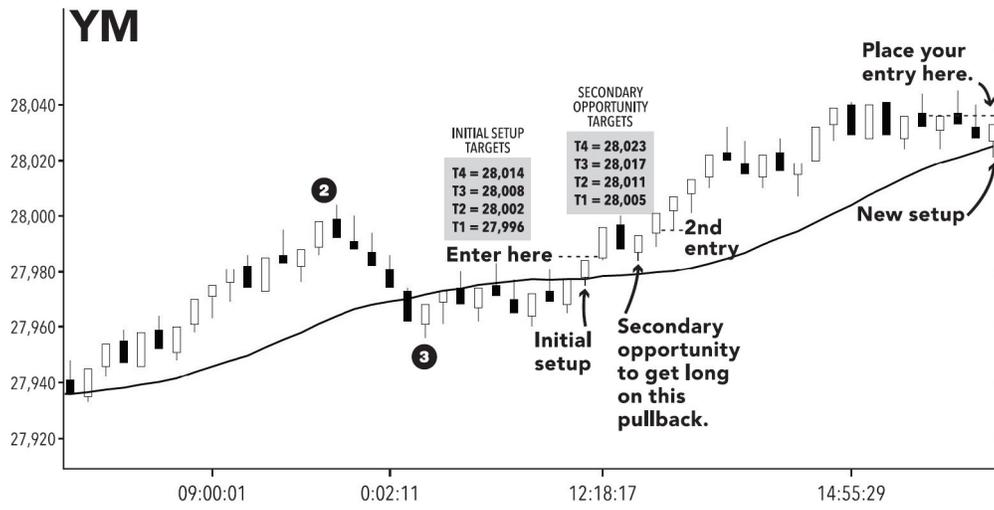


fig. 87

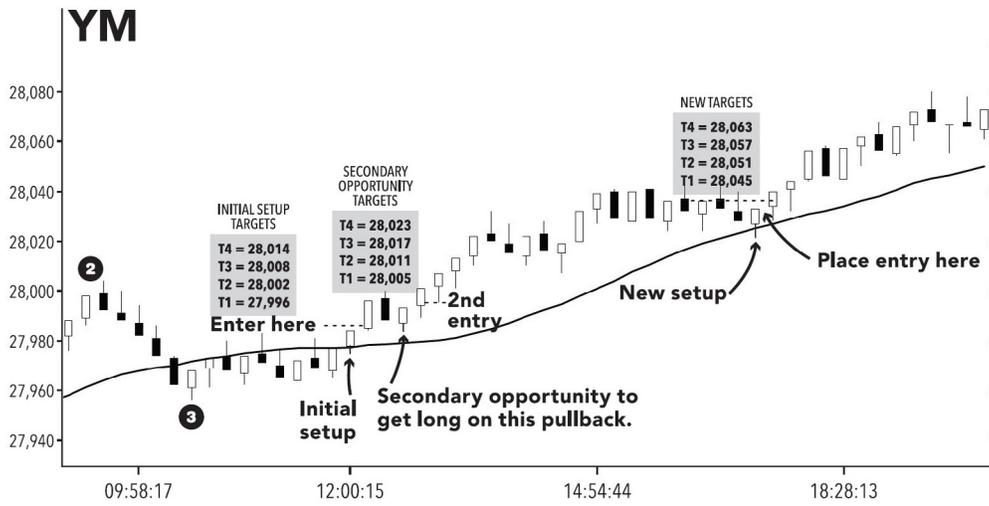


fig. 88



fig. 89

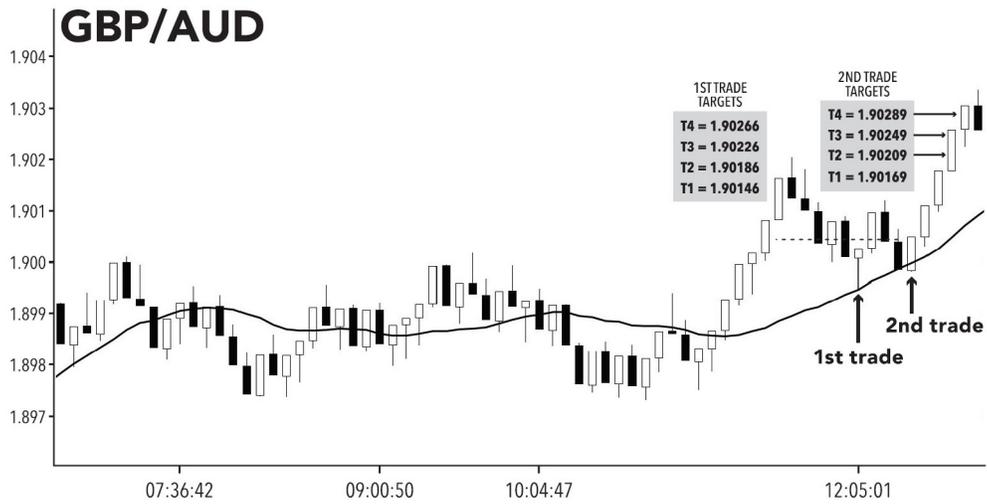


fig. 90



fig. 91

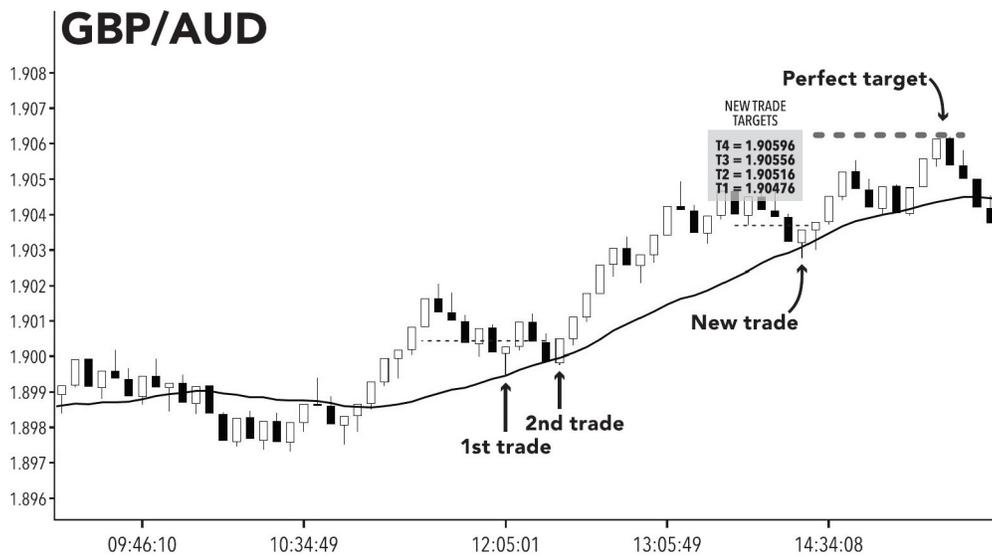


fig. 92

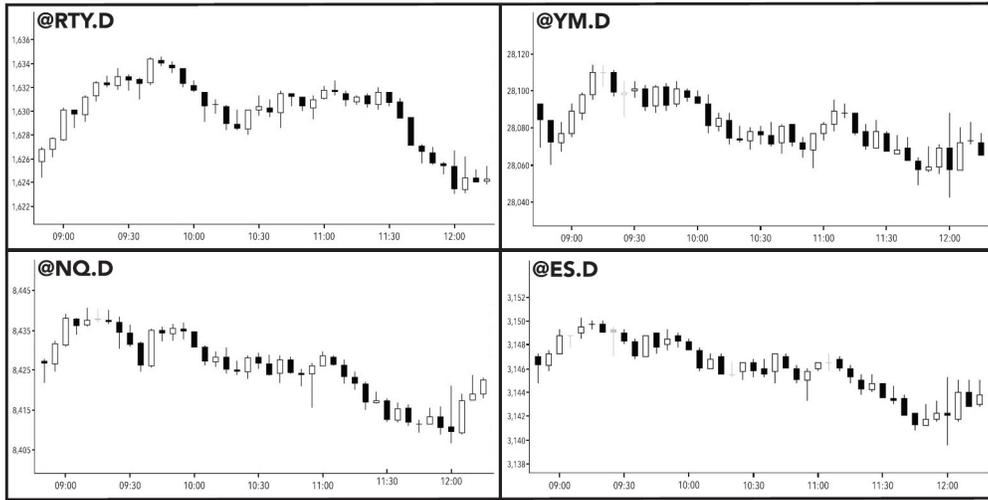


fig. 93

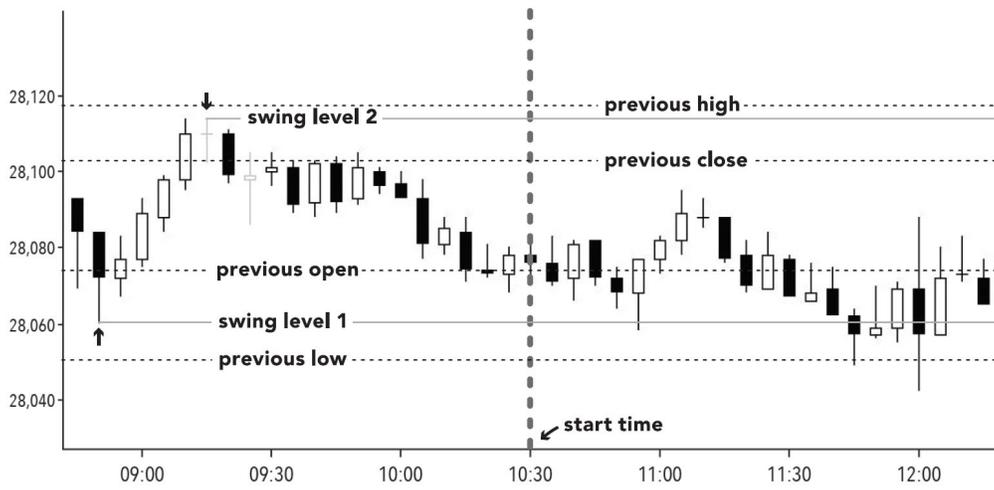


fig. 94

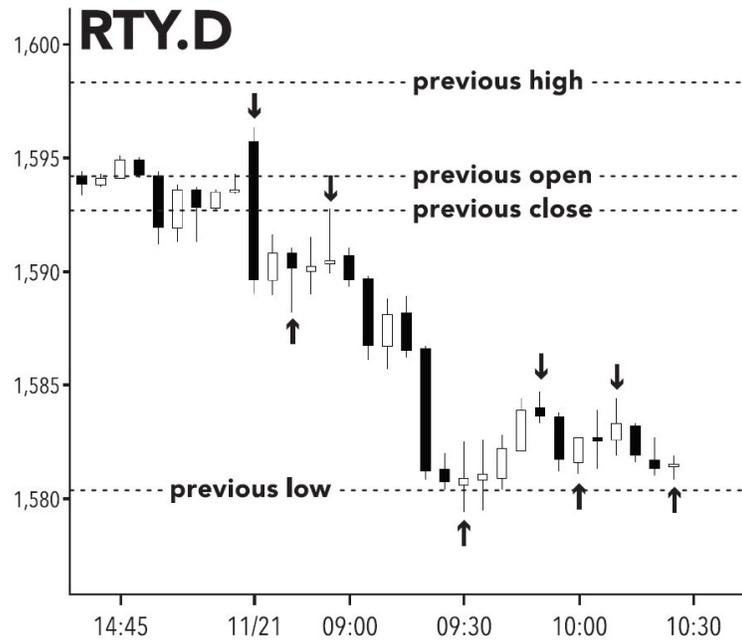


fig. 95

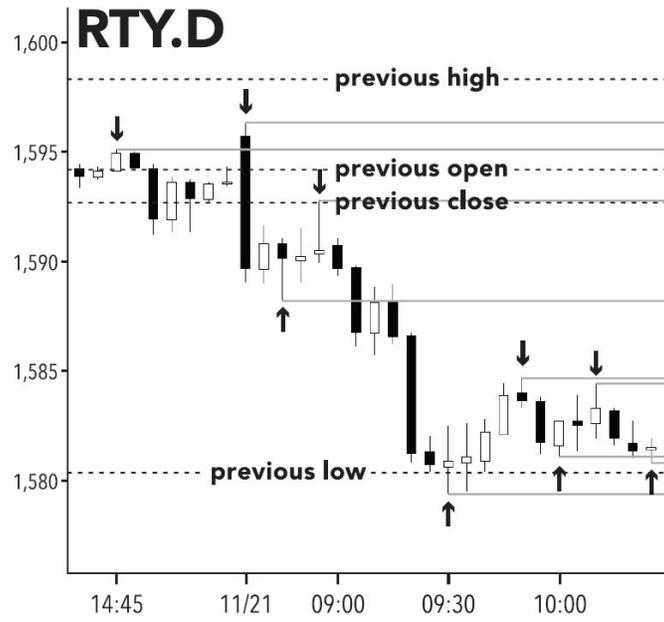


fig. 96

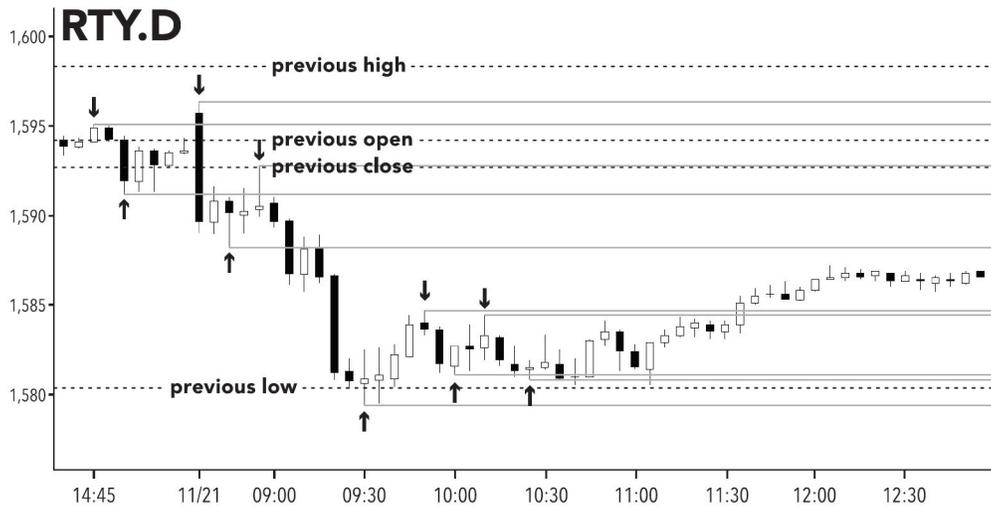


fig. 97

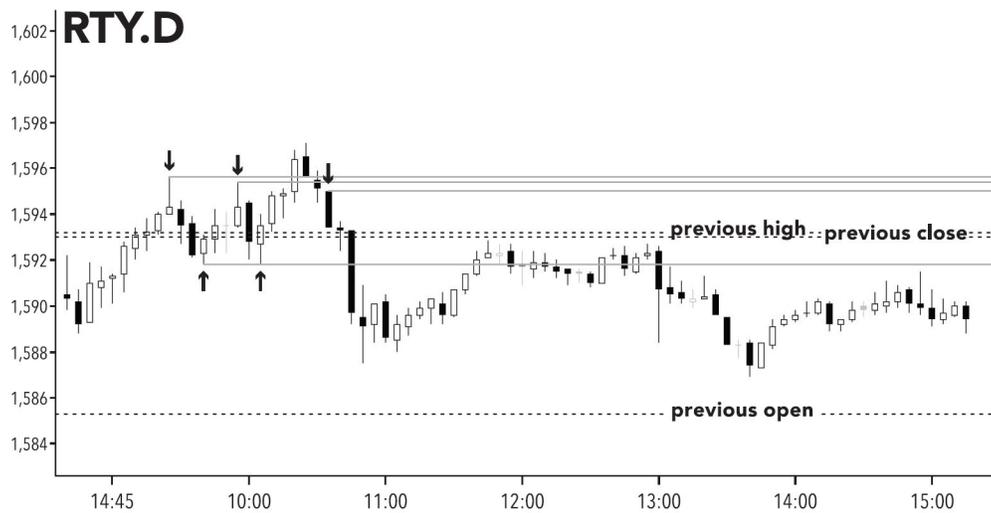


fig. 98

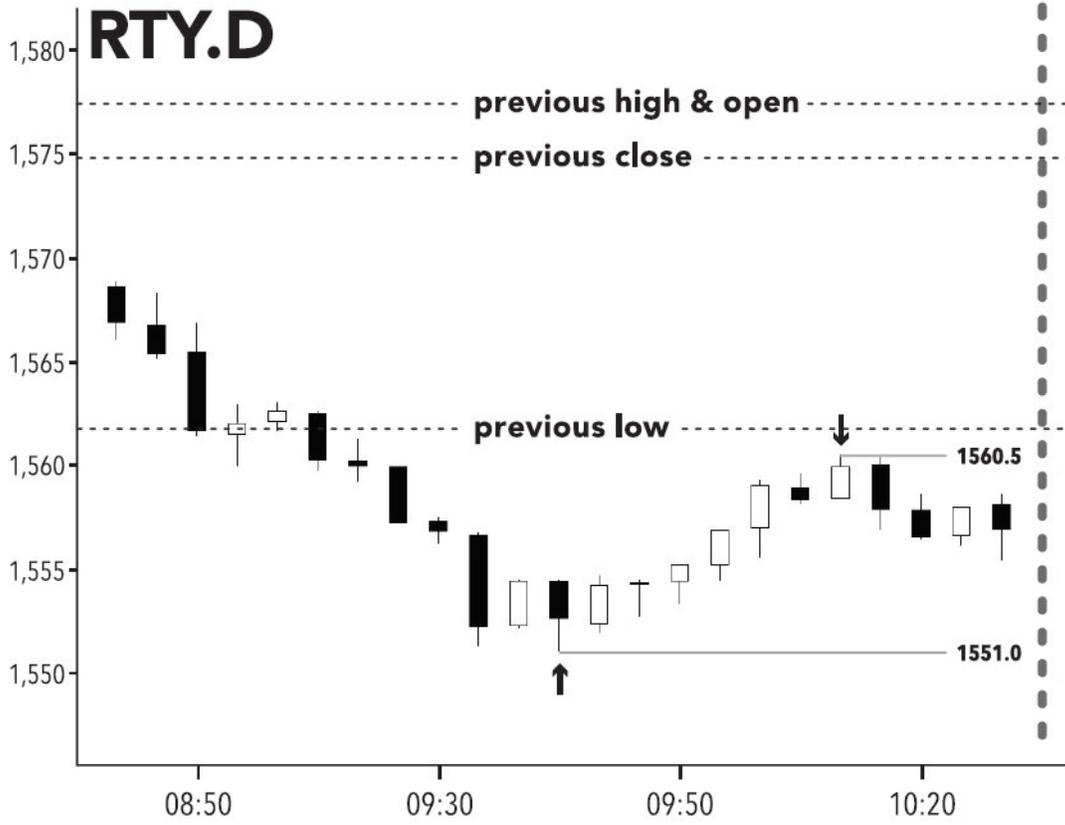


fig. 99

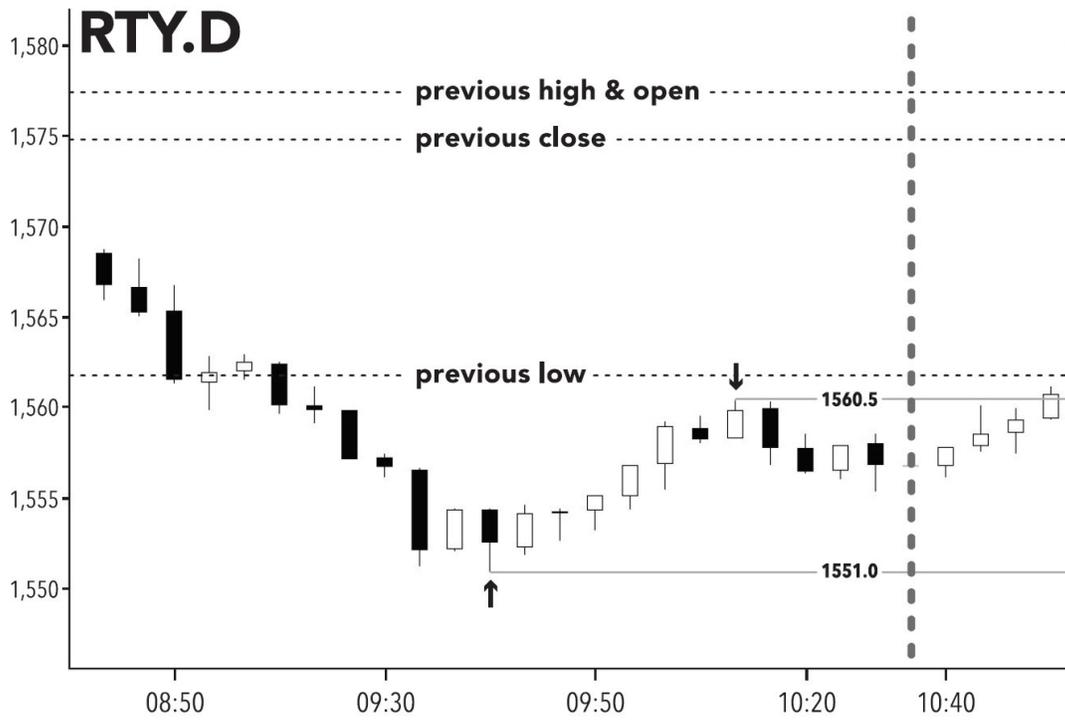


fig. 100

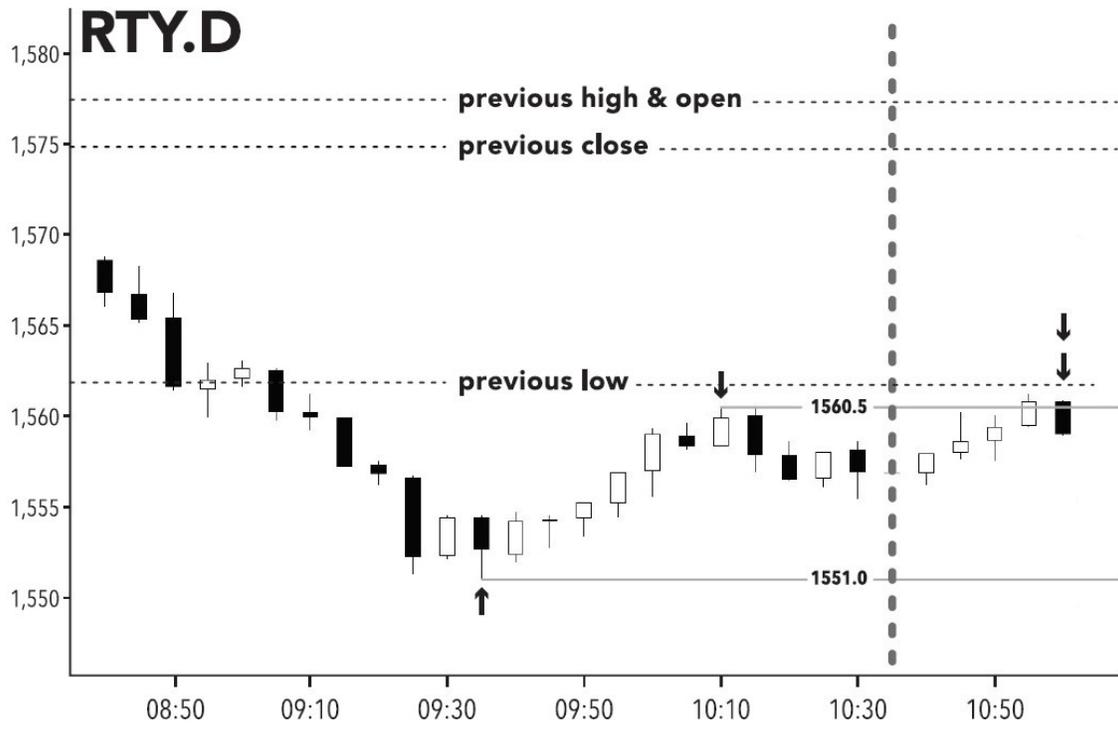


fig. 101

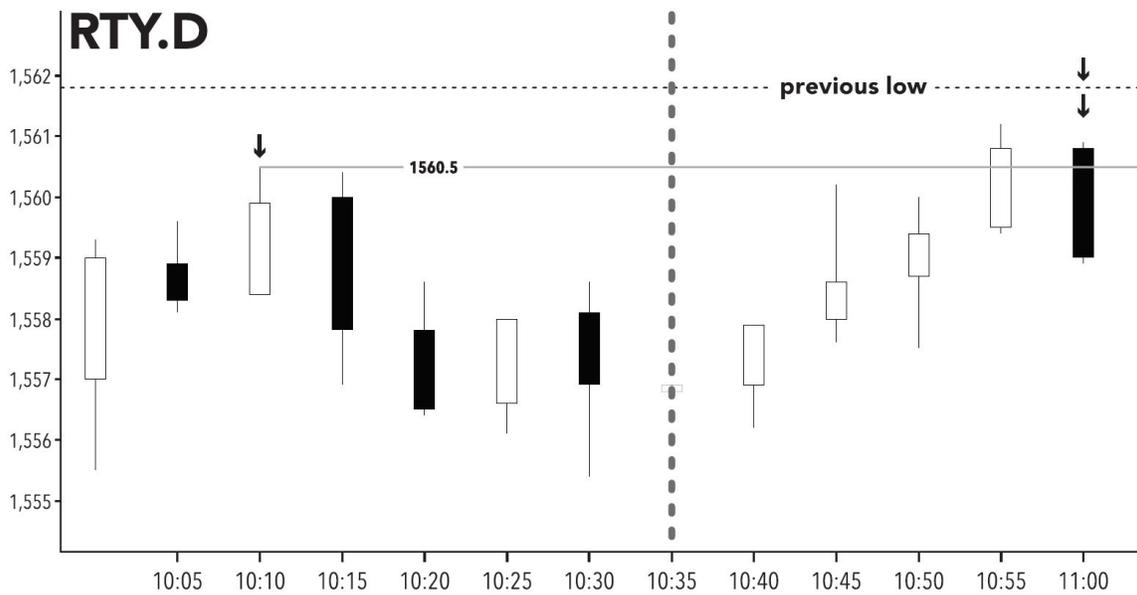


fig. 102

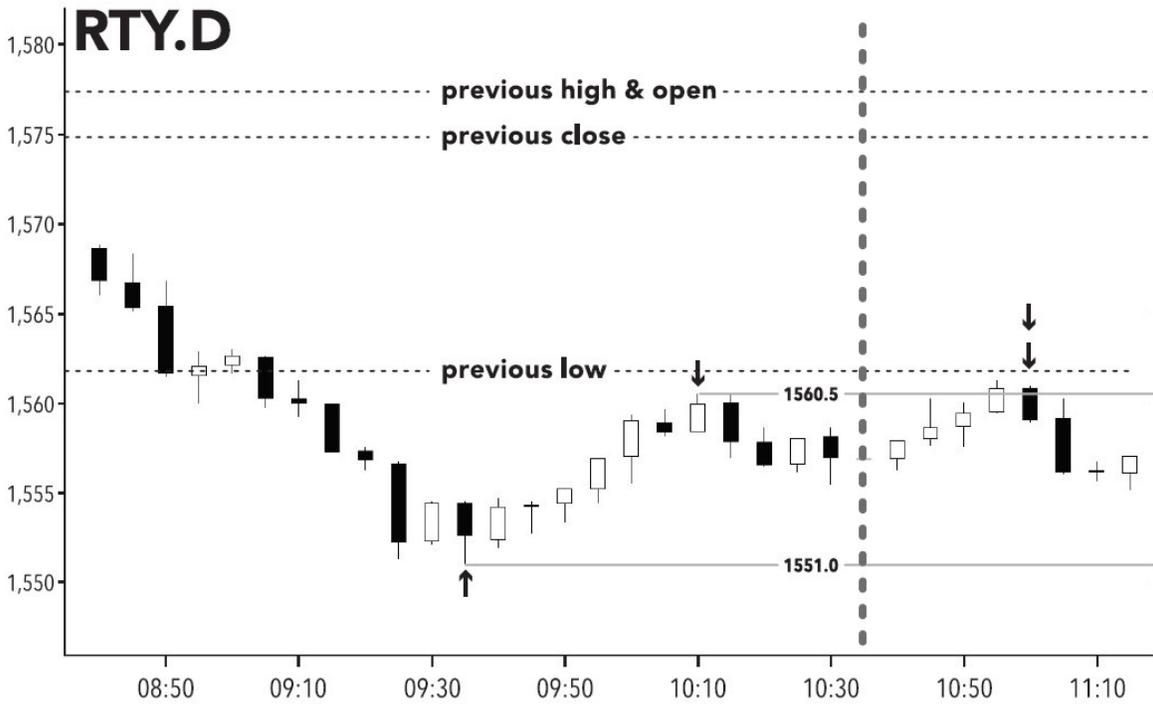


fig. 103



fig. 104

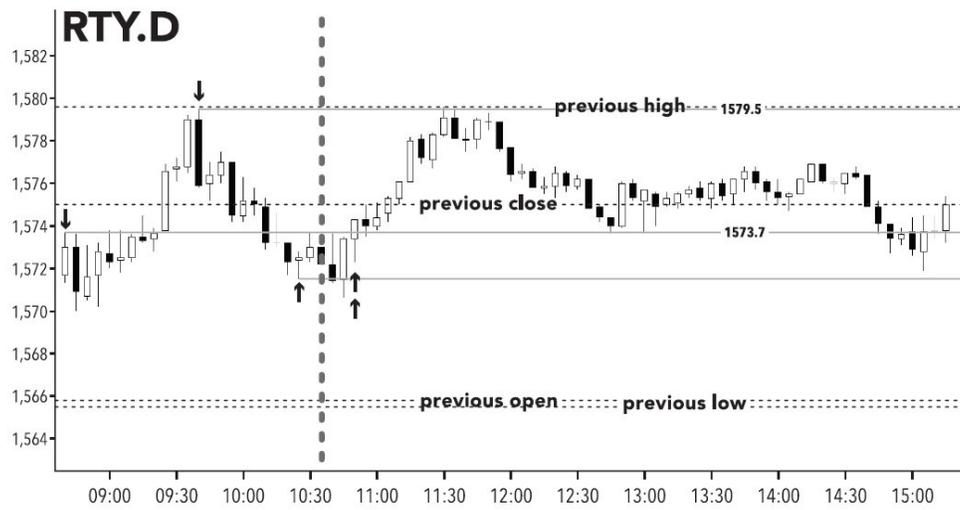


fig. 105



fig. 106



fig. 107

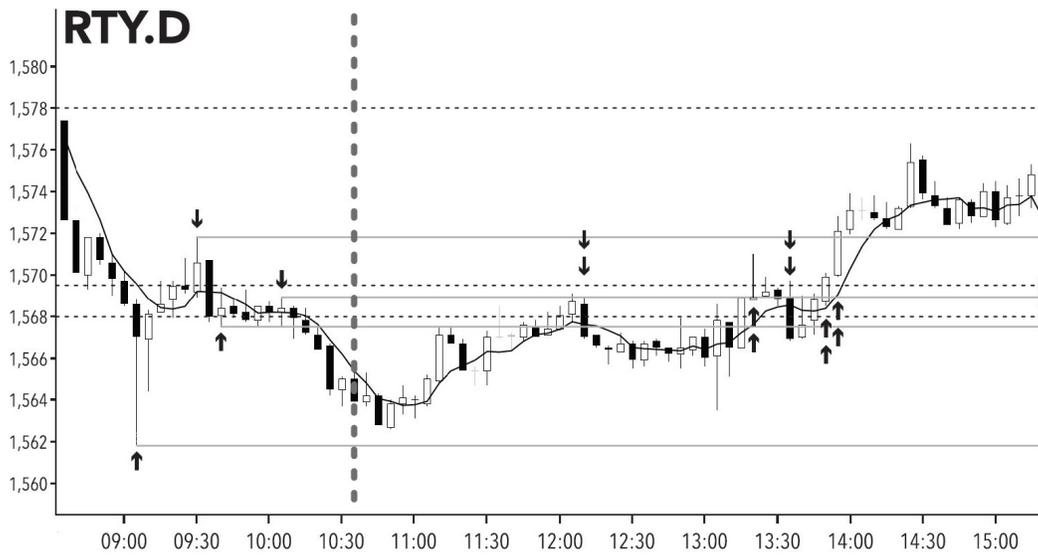


fig. 108

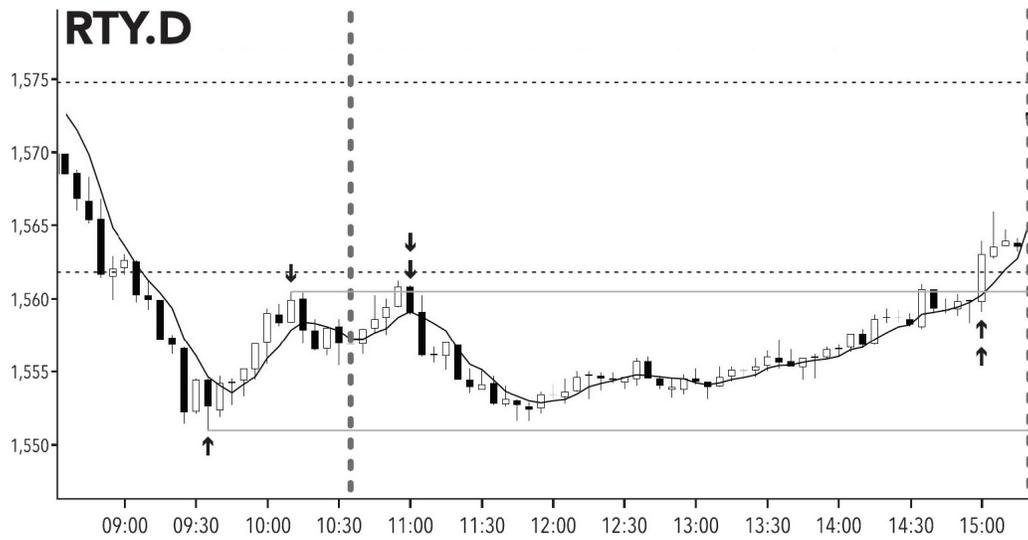
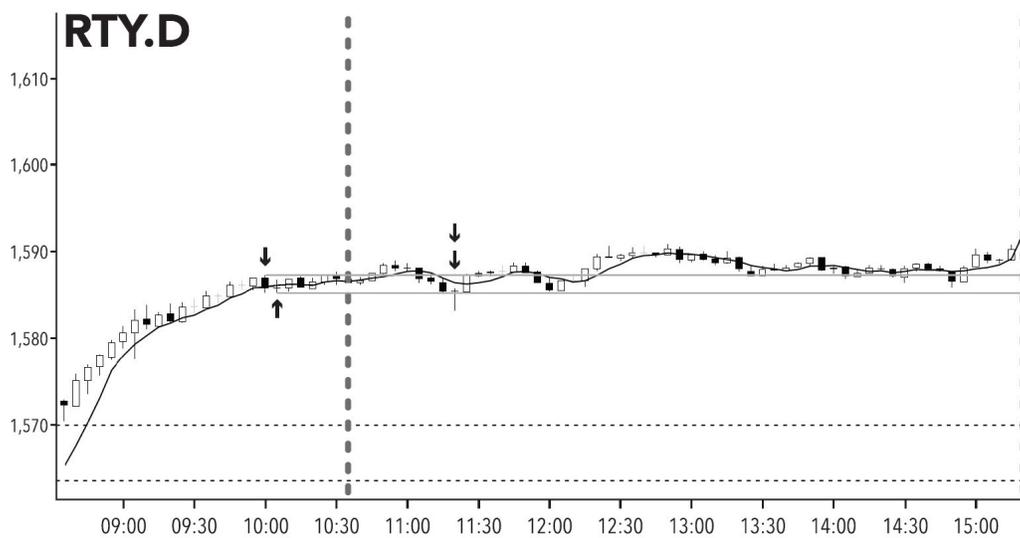


fig. 109



# CHAPTER 11

## To Be or Not To Be, a Winning Trader

---

fig. 110

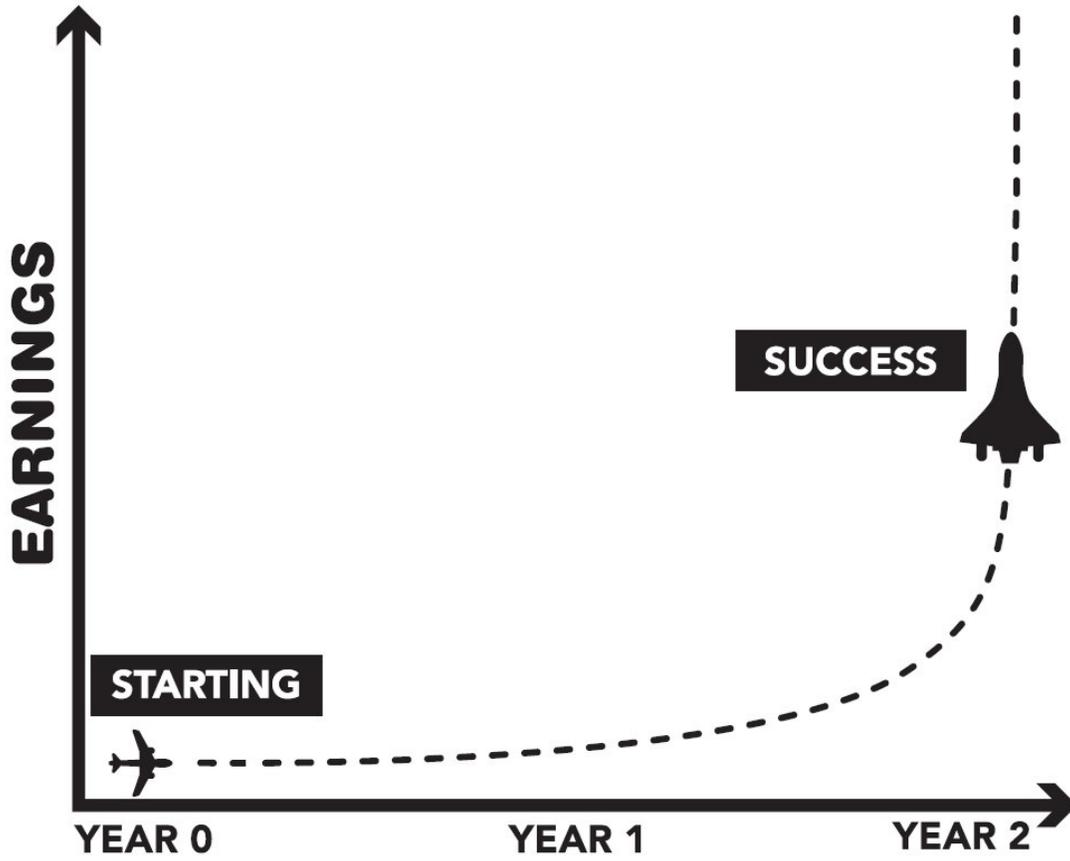


# CHAPTER 12

## Wait! Stop What You're Doing

---

fig. 111



# CHAPTER 13

## Plan Your Trade and Trade Your Plan

fig. 112

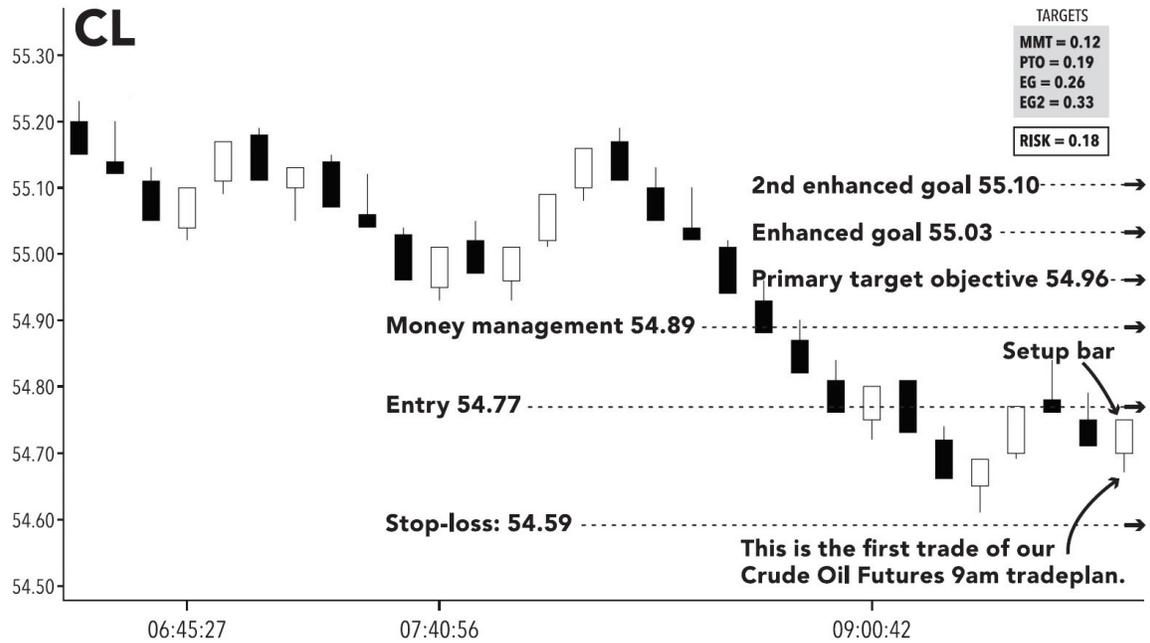


fig. 113

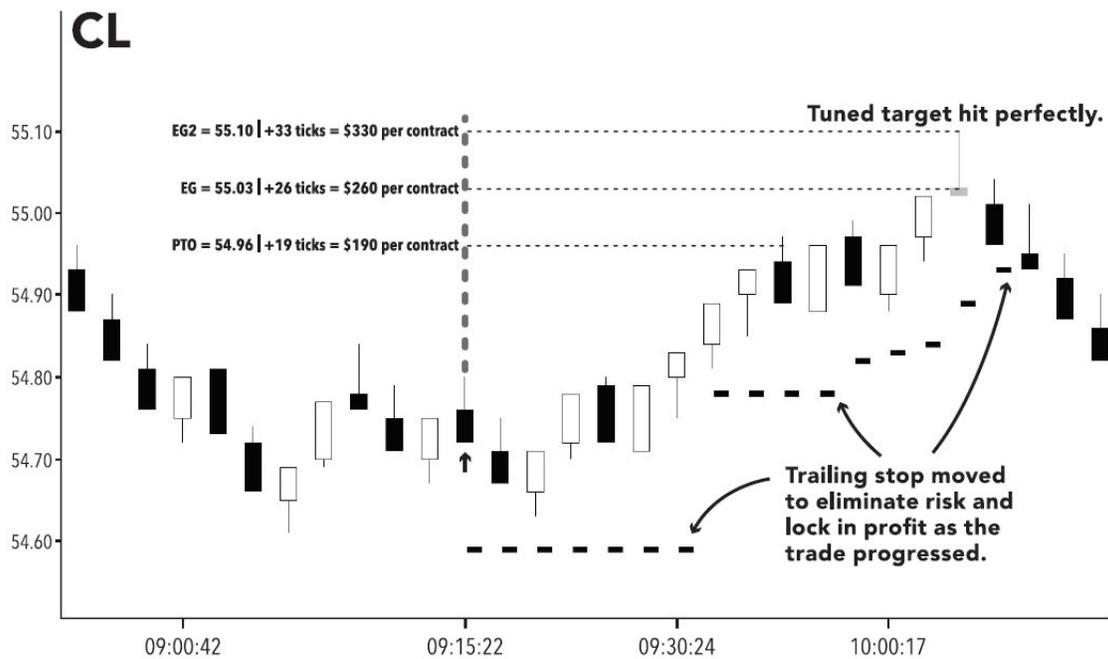


fig. 114

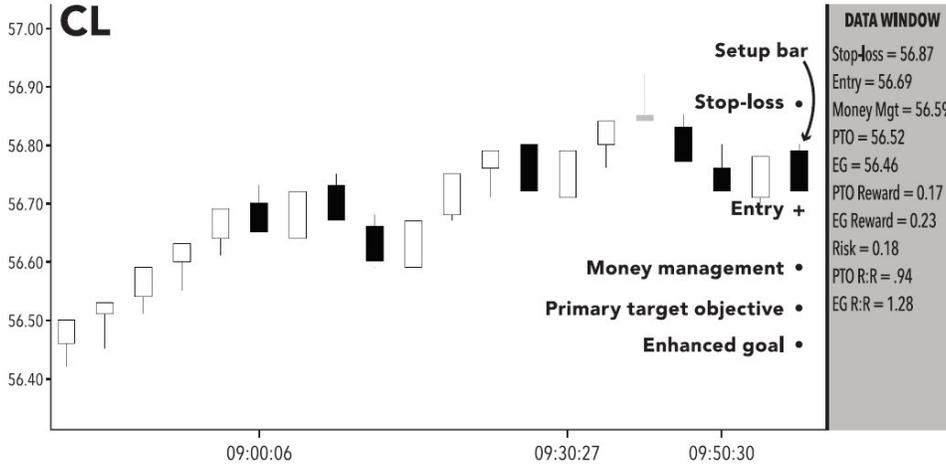
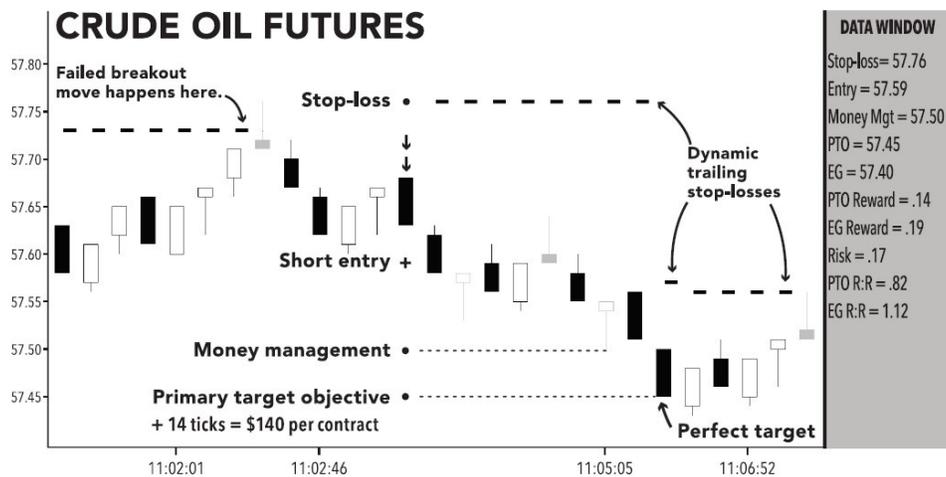


fig. 115



fig. 116



# CHAPTER 14

## Taking Control

---

fig. 117

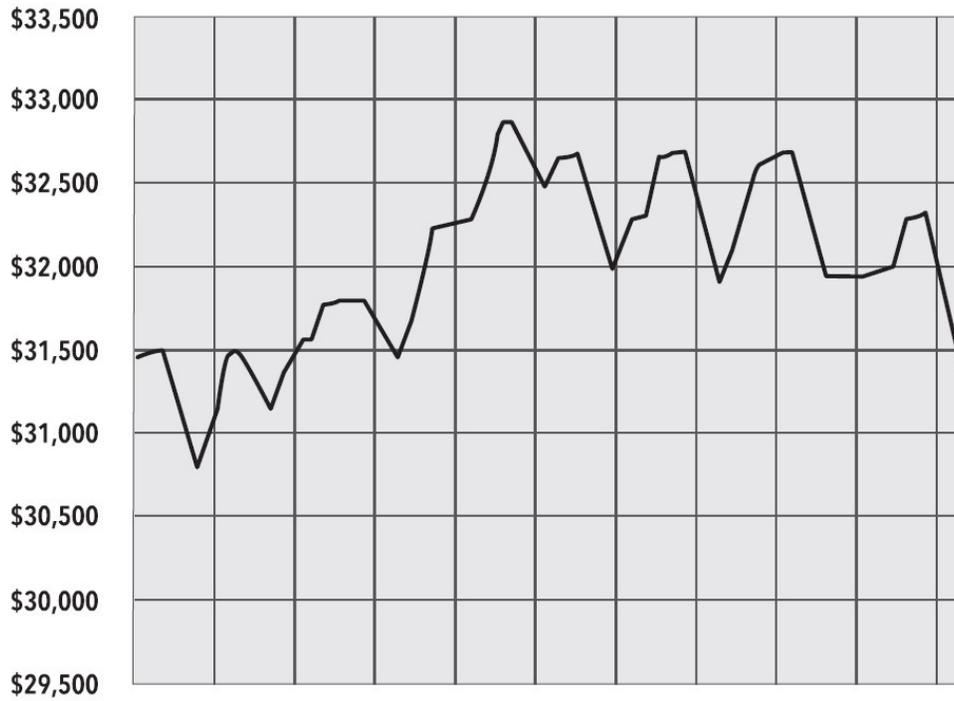
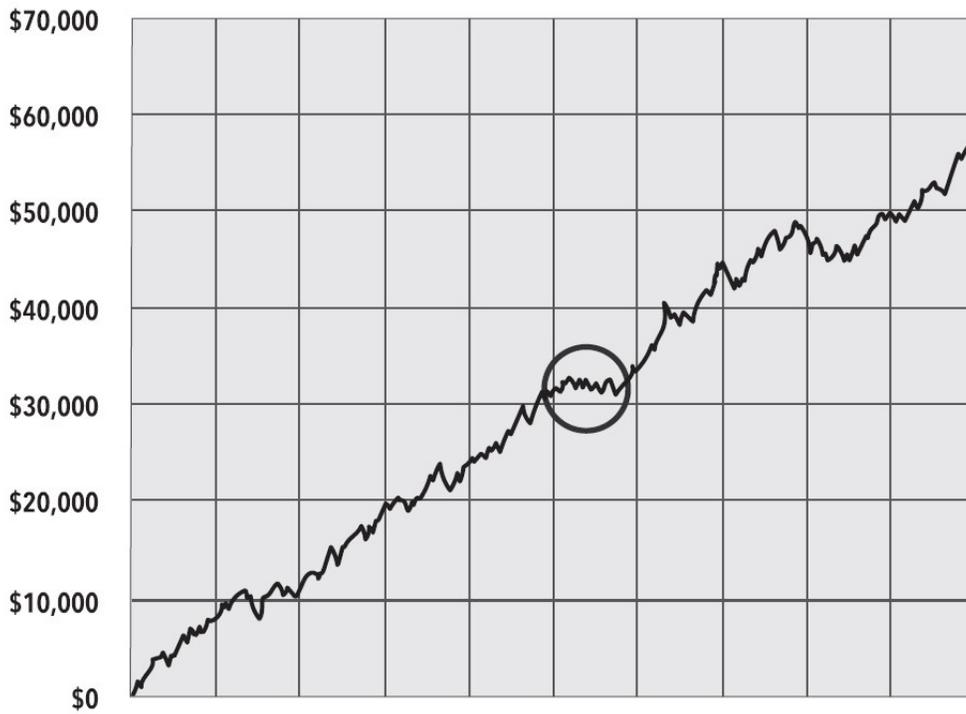


fig. 118



# CHAPTER 15

## Looking Inward and Moving Forward

fig. 119

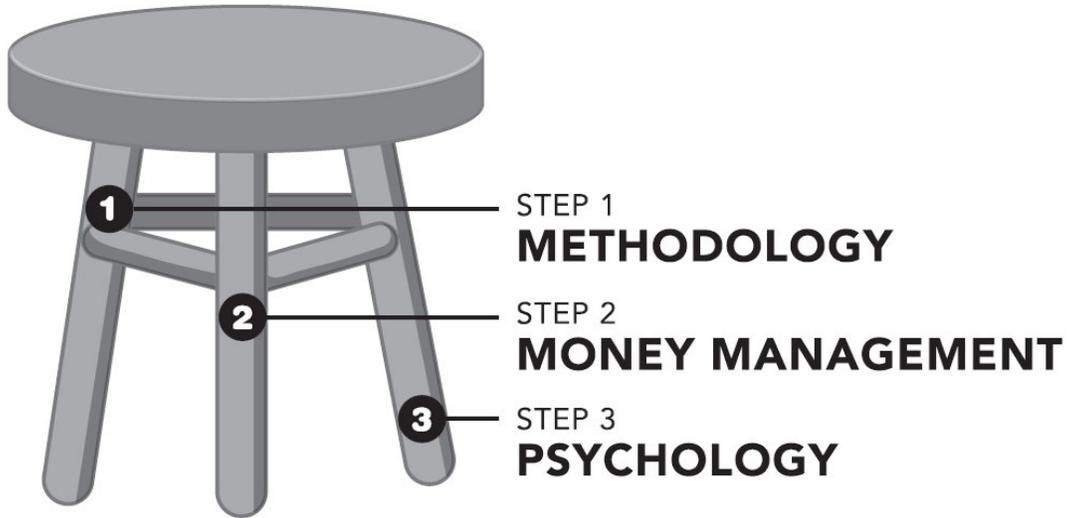
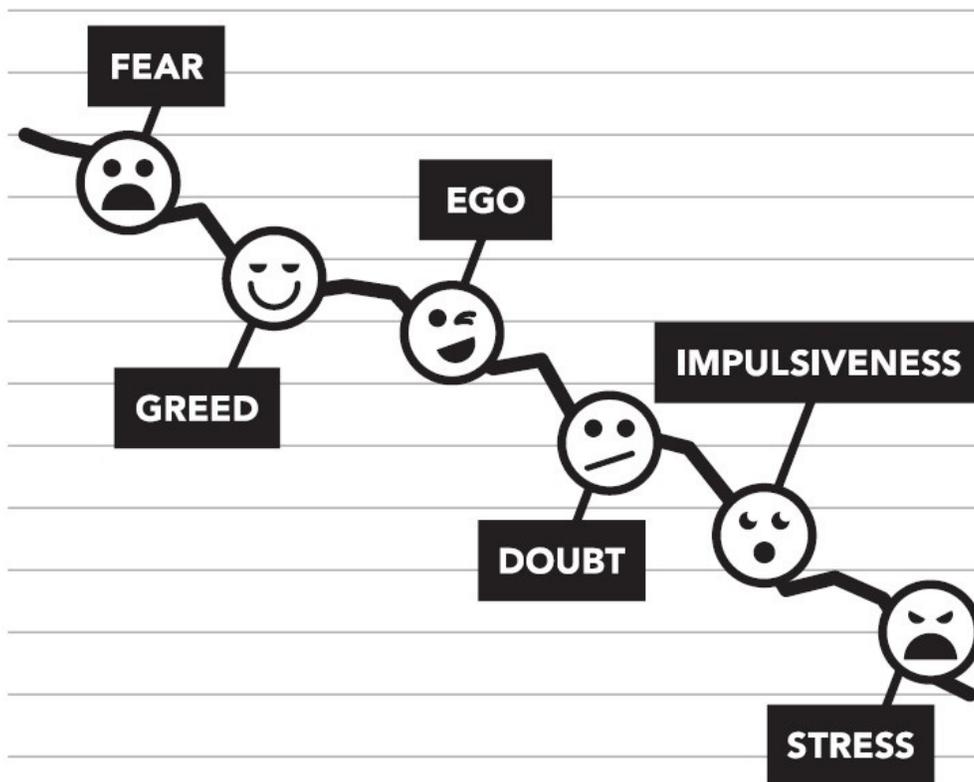


fig. 120

### EMOTIONS THAT WILL DERAIL YOUR DAY TRADING



# CHAPTER 16

## Proof of Concept

---

fig. 121

Fast-Testing	Example	Notes
Contract symbol	CL	December-Z20
Chart type	8-tick momentum bar	
Start time	10:00 am	EIA report is Wednesday
Stop time	10:59 am	2 ticks above the setup bar
Entry rules	xyz' strategy	2 ticks below the setup bar
Exit rules	xyz' strategy	Begin trailing the 'special line' when the price gets 90% to target
Trade management rules	xyz' strategy	
Min # of trades (per session)	3	
Max # of losses (per session)	2	
Session goals	Target 2 winner	Or two break-even trades
Session win/BE rate	75% - 80% or better	

fig. 122

Backtesting	Example	Notes
Did you run a fast-test?		
Contract symbol		
Chart type		
Start time		
Stop time		
Entry rules		
Exit rules		
Trade management rules		
Min # of trades (per session)		
Max # of losses (per session)		
Power of Quitting goals		
Average net profit per trade		
Average net profit per session		
Average net profit per week		

# APPENDIX I

## Futures Trading QuickStart Chart

---

fig. 123

Market	Instrument	Symbol	Value/ Point	Value/ Tick	Tick Increment	Exchange
Energies	Crude Oil	(CL)	\$1,000	\$10	.01	NYMEX
Energies	Natural Gas	(NG)	\$10,000	\$10	.001	NYMEX
Energies	Unleaded Gasoline	(RB)	\$42,000	\$4.20	.0001	NYMEX
Energies	Heating Oil	(HO)	\$42,000	\$4.20	.0001	NYMEX
Stock Indexes (E-mini)	S&P 500	(ES)	\$50.00	\$12.50	.25	CME
Stock Indexes (E-mini)	Dow Jones Industrials	(YM)	\$5.00	\$5.00	1	CBOT
Stock Indexes (E-mini)	NASDAQ	(NQ)	\$20.00	\$5.00	.25	CME
Stock Indexes (E-mini)	Russell 2000	(RTY)	\$50.00	\$5.00	.1	CME
Grains	Corn	(C)	\$50.00	\$12.50	.25	CBOT
Grains	Wheat	(W)	\$50.00	\$12.50	.25	CBOT
Grains	Soybeans	(S)	\$50.00	\$12.50	.25	CBOT
Financials	10-Year Treasury Note	(ZN)	\$1,000	\$15.63	1/64 of a point	CME
Financials	5-Year Treasury Note	(ZF)	\$1,000	\$7.8125	1/128 of a point	CME
Financials	30-Year Treasury Note	(ZB)	\$1,000	\$31.25	1/32 of a point	CME
Livestock	Live Cattle	(LE)	\$400	\$10.00	.025	CME
Livestock	Lean Hogs	(HE)	\$400	\$10.00	.025	CME
Metals	Gold	(GC)	\$100	\$10.00	.10	COMEX
Metals	Silver	(SI)	\$5,000	\$25.00	.005	COMEX
Metals	Copper	(HG)	\$25,000	\$12.50	.0005	COMEX
Softs	Cocoa	(CC)	\$10	\$10.00	1	ICE
Softs	Coffee	(KC)	\$375	\$18.75	.05	ICE

fig. 124

Month	Month Code
January	F
February	G
March	H
April	J
May	K
June	M
July	N
August	Q
September	U
October	V
November	X
December	Z

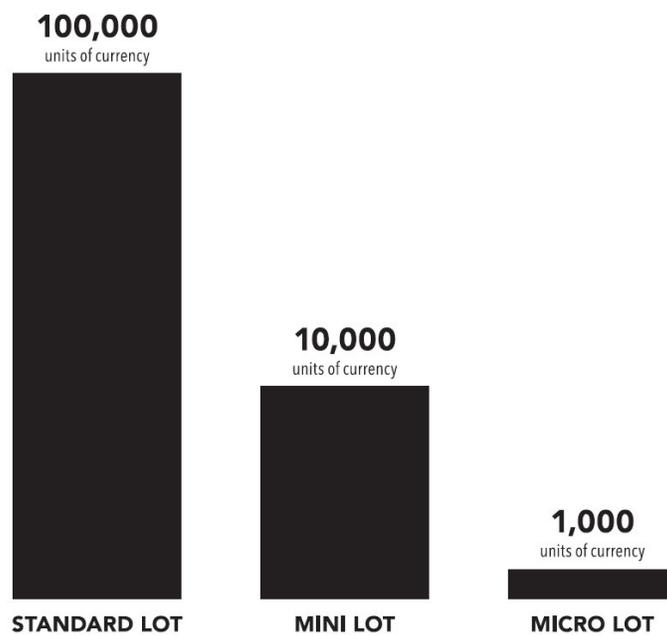
# APPENDIX II

## Key Forex Pairs

fig. 125

Symbol	Pair	Trader Reference
EUR/USD	Euro/US Dollar	"Euro"
GBP/USD	British Pound/US Dollar	"Cable"
USD/JPY	US Dollar/Japanese Yen	"Dollar Yen"
USD/CHF	US Dollar/Swiss Franc	"Swissy"
EUR/GBP	Euro/British Pound	"Euro Sterling"
USD/CAD	US Dollar/Canadian Dollar	"Dollar Canada"
AUD/USD	Australian Dollar/US Dollar	"Aussie Dollar"
EUR/JPY	Euro/Japanese Yen	"Euro Yen"
EUR/CHF	Euro/Swiss Franc	"Euro Swiss"
GBP/JPY	British Pound/Japanese Yen	"Sterling Yen"
GBP/CHF	British Pound/Swiss Franc	"Sterling Swiss"
CHF/JPY	Swiss Franc/Japanese Yen	"Swiss Yen"

fig. 126

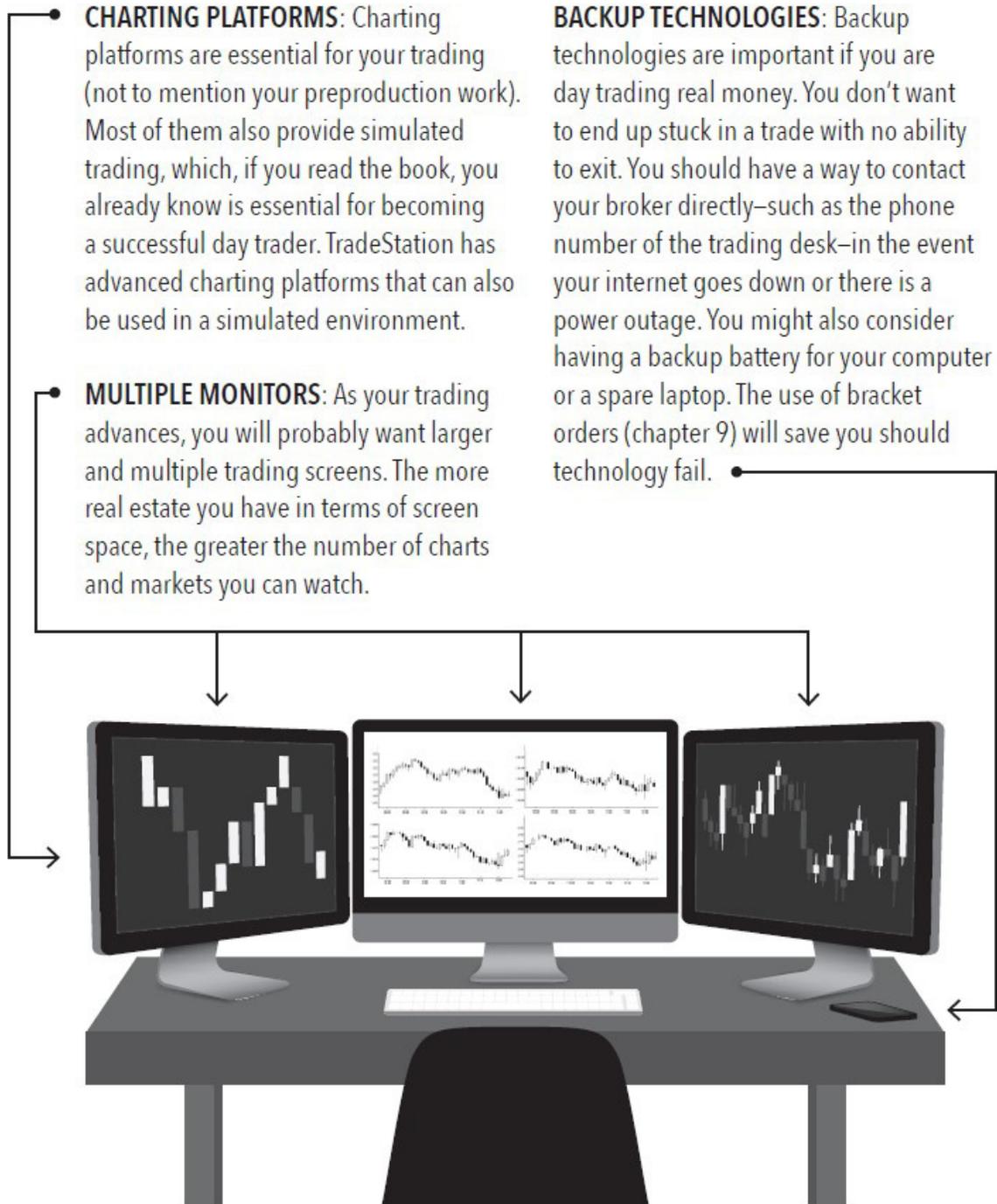


## APPENDIX III

### Designing Your Trading Room

---

fig. 127



# GLOSSARY

---

## **x factor (multiplier)**

A variable unique to a specific trade setup used to calculate targets.

## **Accumulation**

The beginning phase of the Wyckoff Market Cycle where prices stop falling, marking the end of a downtrend.

## **Action move**

A dominant movement of price either establishing a new trend or continuing an existing trend.

## **Ask**

A standing offer to sell an asset.

## **Backtesting**

The study of past data and charts to determine if a trading style or approach will produce acceptable results.

## **Bid**

A standing offer to buy an asset.

## **Bracket order**

A special type of order where the target and the stop bracket the entry, usually with the use of OSOs and OCOs.

## **Chasing performance**

A common folly in trading whereby a trader prematurely abandons a strategy in favor of another that has recently shown strong performance.

## **Chicago Board Options Exchange (CBOE)**

The largest options exchange in the United States; the site of the first stock option contract listings in the 1970s.

## **Commission**

The fees charged by brokers for buying and selling securities.

## **Congestion area**

An area of stagnant or choppy price action, where an asset price may bounce around but does not breach any support or resistance areas.

## **Consolidation**

When price action fails to break in one direction or another but remains “sideways,” choppy, or stagnant.

## **Continuation pattern**

A certain type of chart pattern that occurs in the midst of a larger uptrend or downtrend.

## **Delivery**

The fulfillment of a futures contract through the delivery of physical goods such as crude oil barrels or cattle.

## **Distribution**

The third phase of the Wyckoff Market Cycle where both supply and demand remain strong after a sustained move higher and some players begin selling or “distributing” positions to take profit.

## **Entry**

The price where a trade is initially executed.

## **Equity curve**

A graphical representation of a day trader’s account balance, depicting profits and losses over time.

## **Exchange-traded funds**

Prediversified, tradeable securities that can be used to buy or sell representative shares in an entire market, sector, or portfolio.

## **Exercised**

The state of an option contract after the contract owner chooses to purchase or sell the assets in accordance with the contract terms.

## **Fast-testing**

A fast way to test ideas—by quick-counting results—with a premise or question you want to answer in mind.

## **Fibonacci retracement levels**

Specific ratios, such as 23.5%, 38.2%, 50%, and 61.8%, that some traders use to predict the endpoints of reaction moves.

## **Forex**

A massive network of financial centers and global institutions that facilitate the exchange of foreign currencies.

## **Futures contract**

A tradeable contract that guarantees the future sale or purchase of an asset at a specific price.

## **Initial margin**

A deposit made by a trader into a brokerage account for the purpose of trading futures on margin; the initial margin deposit is typically 5% to 15% of the total value of the futures contract being traded.

## **Key level**

A technical level (such as support, resistance, or a whole number) that represents a significant price point on the chart.

## **Key level adjustment**

An adjustment to the entry, the stop, the target, or any combination of the three, based on the location of a key level.

## **Leverage**

The ability to trade a large position using a small amount of trading capital.

## **Limit order**

An order to purchase or sell a security at a specific price.

## **Liquidity**

The extent to which a security is traded frequently and buyers and sellers can be easily found.

## **Maintenance margin**

A specific amount of funds, less than the initial margin, needed to maintain an open futures position.

## **Margin**

A loan from a brokerage firm to a customer for a down payment on a stock purchase.

## **Margin call**

A request from a broker for a customer to deposit additional funds to reestablish initial margin levels, or liquidate a position, after the value of the position drops below the maintenance margin threshold.

**Market order**

An order to purchase or sell a security at the best available price.

**Markup**

The second phase of the Wyckoff Market Cycle in which the demand for an asset is driven upward on increasing volume.

**Mechanical rules**

Rules of a tradeplan that include highly specific parameters, such as specific entry and exit points that are known in advance of the trade setup.

**Moving average**

A popular chart indicator that depicts the average value of a security over a fixed trailing timeline.

**Multiplier**

A multiple that defines the value of an options contract.

**Net profit (or loss) per trade**

The average amount won (or lost) per trade in a tradeplan.

**Pattern Day Trader (PDT) rules**

Regulations imposed by the Financial Industry Regulatory Authority (FINRA) that limit high-frequency trading.

**Pip**

Short for “point in percentage,” a small measure of price movement in a currency pair, defined by the fourth decimal place in most currency pairs (or the second in all JPY pairs).

**Premium**

The price paid to own an options contract.

**Price action**

The ebbs and flows, higher and lower, of the price of an investment security driven by market sentiment throughout the trading day or period.

**Price action confirmation**

When a trader waits for price action to push past a certain level in order to confirm a trend or a likely move in a certain direction.

**Price rejection point**

A point or area where prices stop moving in one direction and begin to move in another.

**Profit factor (\$ won/\$ lost)**

The ratio of dollars won to dollars lost in a tradeplan.

**Profit target (target)**

The goal of a trade, where the trader exits some or all of the position to take profits.

**Range bar chart**

A bar chart in which each bar has the same range of price from high to low.

**Range extension**

Each leg of movement higher in an uptrend or lower in a downtrend, extending the range of the dominant trend.

**Round turn**

The opening and closing of a position, such as buying crude oil futures to enter a trade and then selling them to exit.

**Reaction move**

Price action that moves in opposition to a dominant trend; the reaction move follows the “action move” and is followed by the “subsequent action.”

**Reversal**

A significant and lasting change in price direction, often predicted by the appearance of a classic chart pattern such as the “head and shoulders.”

**Risk profile**

The distance between a trade’s entry and its stop.

**Risk/reward**

A ratio of how much money is being put at risk compared to potential profit.

**Setup bar**

A bar on a chart that serves as a critical reference point with the potential to determine where a position is opened, where the stop is placed, and where other important elements of a trade are defined.

**Slippage**

An added expense on a trade when an order is filled at a price that is worse than expected.

**Spot price**

Also called cash price; the current price (most recent transaction) at which the underlying asset is trading in the marketplace.

**Standardization**

The process by which futures contracts are formatted so that their terms are easily understood.

**Stop entry**

An entry into a trade that usually comes in the form of a stop market or stop-limit order.

**Stop-loss**

An order that is placed at a certain price point that will limit a trader’s losses if the price moves against his position.

**Strike price**

The price at which shares (or other underlying assets) are bought or sold if an options contract is exercised.

**Subsequent action**

A predictable movement that follows a reaction move and reasserts the movement of the dominant trend; the subsequent action often (but not necessarily) mirrors the action move in terms of shape and length.

**Technical analysis**

The evaluation of an asset based not on its underlying value but on its behavior in the marketplace as determined by the actions of buyers and sellers.

**Tick**

The minimal increment of price movement per symbol.

**Trailing stop**

A tactic whereby the trader progressively adjusts the stop-loss closer to the target so as to lock in profits.

**Underlying asset**

A security that has its price and delivery date dictated by the terms of an options or futures contract.

**Winning percentage**

The percent of winning trades in a tradeplan.

**Wyckoff Market Cycle**

A theory of market behavior outlined in four phases: accumulation, markup, distribution, and markdown.