

Trading the Moves

Consistent Gains in ALL Markets

By Ed Downs
CEO, Nirvana Systems, Inc.

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Contacts

andreybbrv@gmail.com

andreybbrv@yandex.ru

Skype: andreybbrv

You Will Learn How to:

1. Use Index movements to trade with less risk.
2. Make Money –
NO MATTER
WHAT the Market is doing.
3. Sleep well at night.



Markets have Changed..



But the Energy is There!



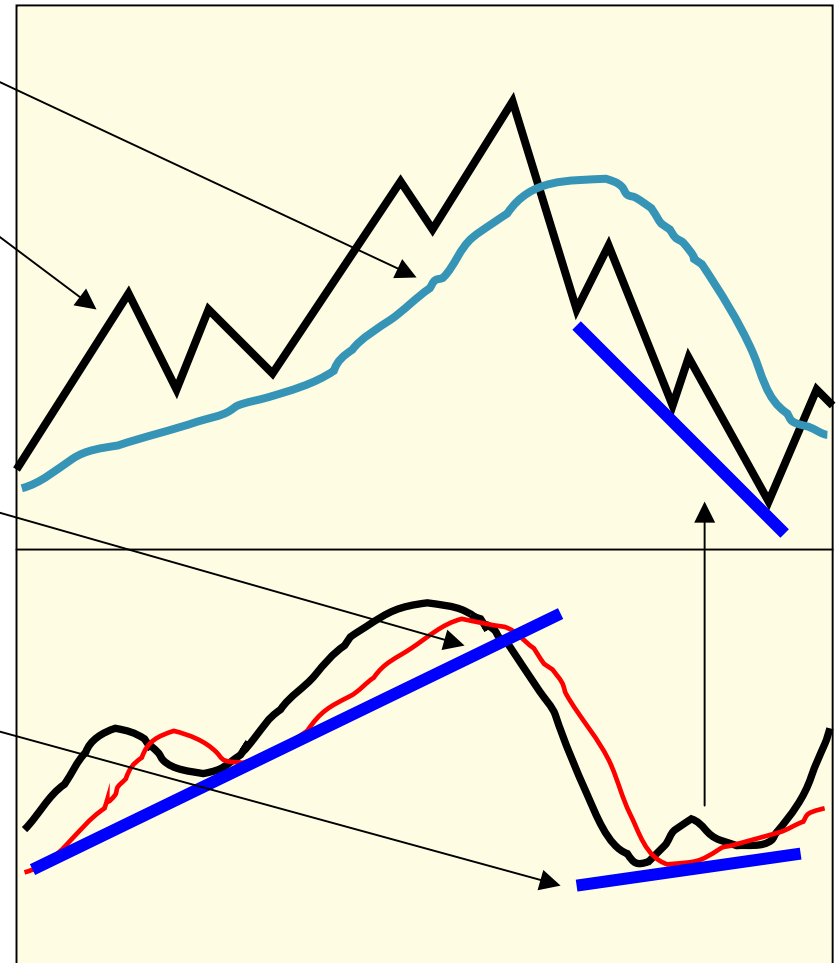
$$28 + 48 + 43 + 40 + 46 = 205\% \quad \text{Potential Gain}$$

Finding Index Direction

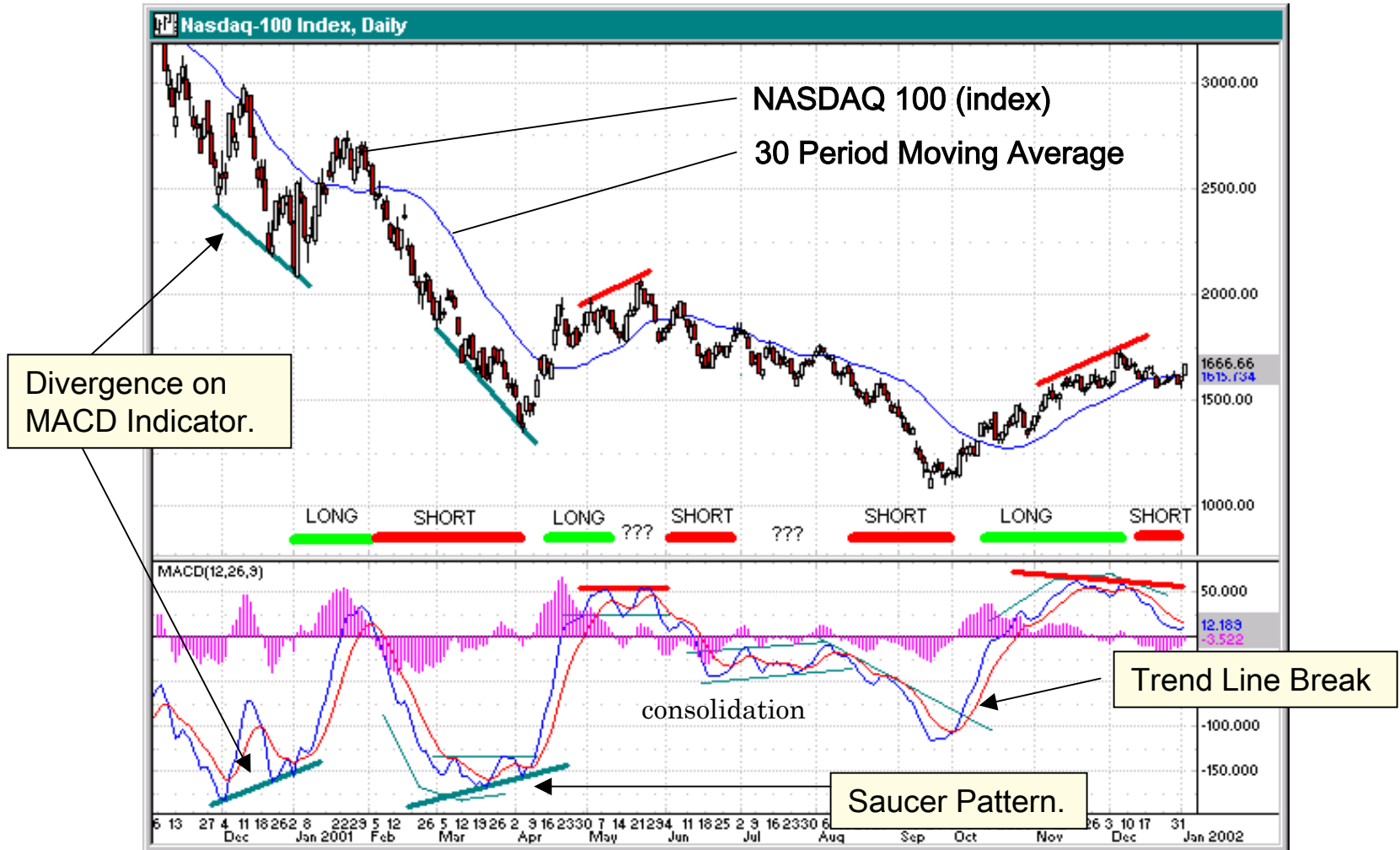
1) Plot a 30 Period Moving Average and MACD on the index you are using.

2) Mark "Chart Patterns" on the MACD itself.

- Trend Line Breaks
- Saucers
- Consolidations
- Divergence
- Supt/Resistance



NASDAQ 100 in 2001



Score the Index

Factor	State	Score
Price	Above the 30 Period Moving Average	+1
Price	Below the 30 Period Moving Average	-1
MACD	Above the MACD Trigger Line	+1
MACD	Below the MACD Trigger Line	-1
MACD	Bullish Divergence	+3
MACD	Bearish Divergence	-3
MACD	Trend Line Break to the Upside	+2
MACD	Trend Line Break to the Downside	-2
MACD	Saucer Turned Up	+2
MACD	Saucer Turned Down	-2
MACD	Resistance (consolidation) Break Up	+2
MACD	Support (consolidation) Break Down	-2

Scoring Examples



Interpretation

Add up the scores.

(+) Long, Cover Short

(0) No position

(--) Short, Close Long



When taking positions, the score can determine weighting. If you typically trade 10% of your portfolio on one trade, consider going Long with 20% when score is +2, and 30% when the score is +3, Short with 20% of capital when score is -2, 30% when score is -3 ...

What Should You Trade?

The Index vs. Individual Stocks

Should You Trade the QQQ?



Stocks are Better

1) Individual Stocks move more than the index itself.

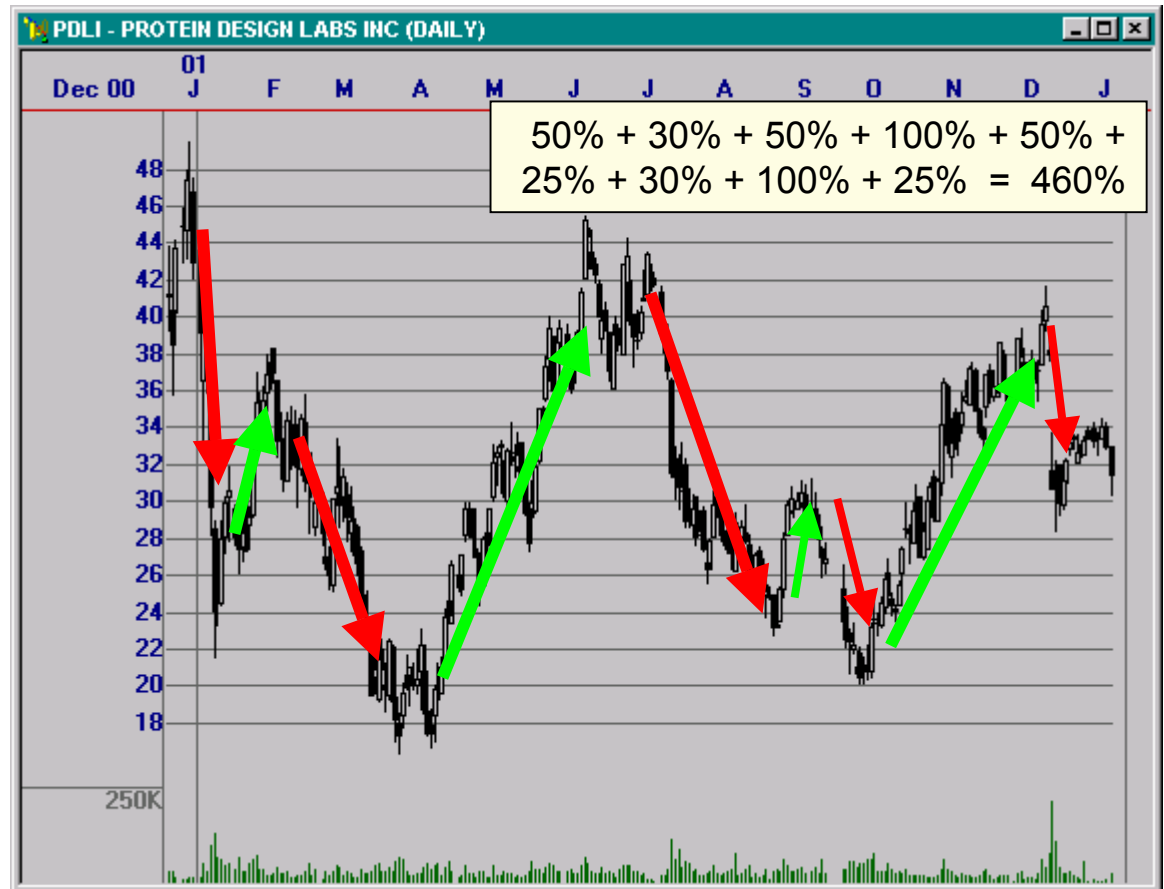
2) We can usually find clear patterns in the charts to *confirm* our trades with.



These moves on MERQ that add up to over 370%

Stocks are Better (continued..)

Moves like these are common on the NASDAQ.



PDLI doubled its value TWICE in 2001.

Stocks are Better (continued..)

This stock shows us what “Trade the Moves” is all about.



PeopleSoft moves in a range to gain 360%

Conclusion:

We make more
\$\$\$ if we can do
a good job
trading the
individual
stocks, rather
than the index.



Entries and Exits

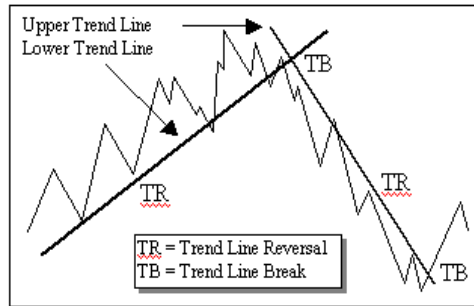
A Quick Review of the 7 Chart Patterns
and the Eighths/ATR Scale.

Use 7 Patterns to Confirm Entries

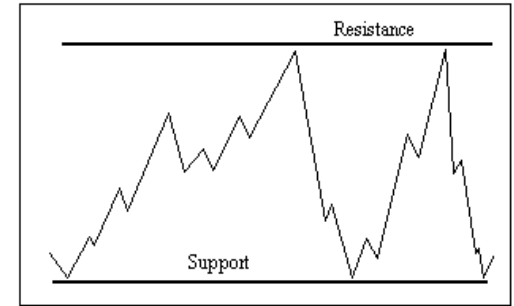
We use 7 Patterns to confirm entries.

These patterns are discussed in detail in The 7 Chart Patterns that Consistently Make Money *

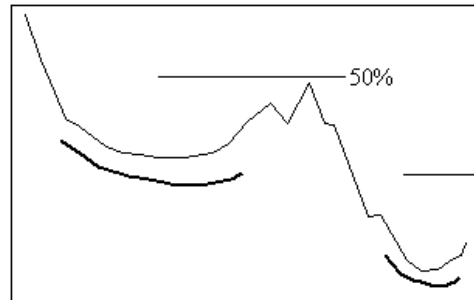
* Available from Traders Library or Nirvana Systems



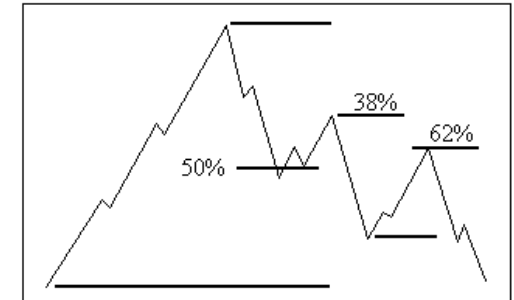
Trend Line Break



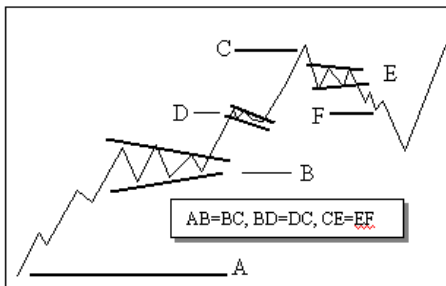
Support and Resistance



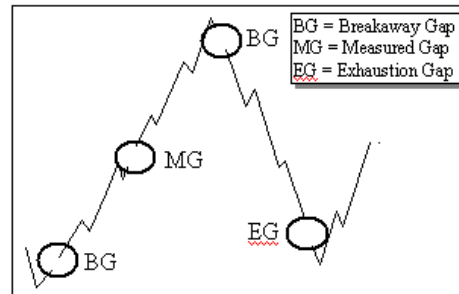
Saucers



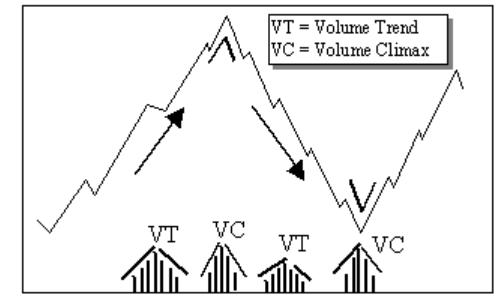
Fibonacci Retracements



Consolidations



Gaps (Breakaway, Measured, Exh)



Volume Climax and Trend

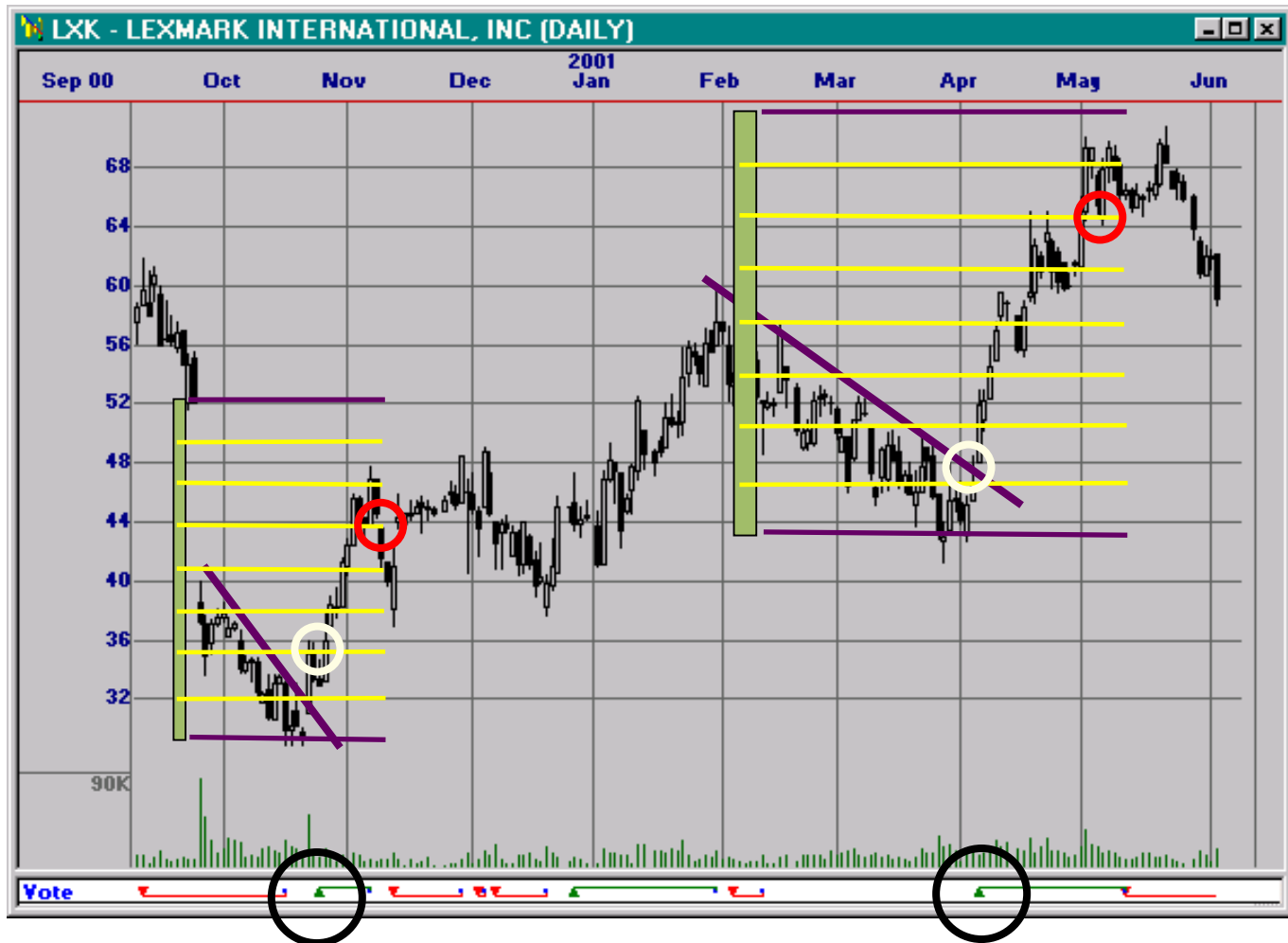
Support/Resistance

America OnLine



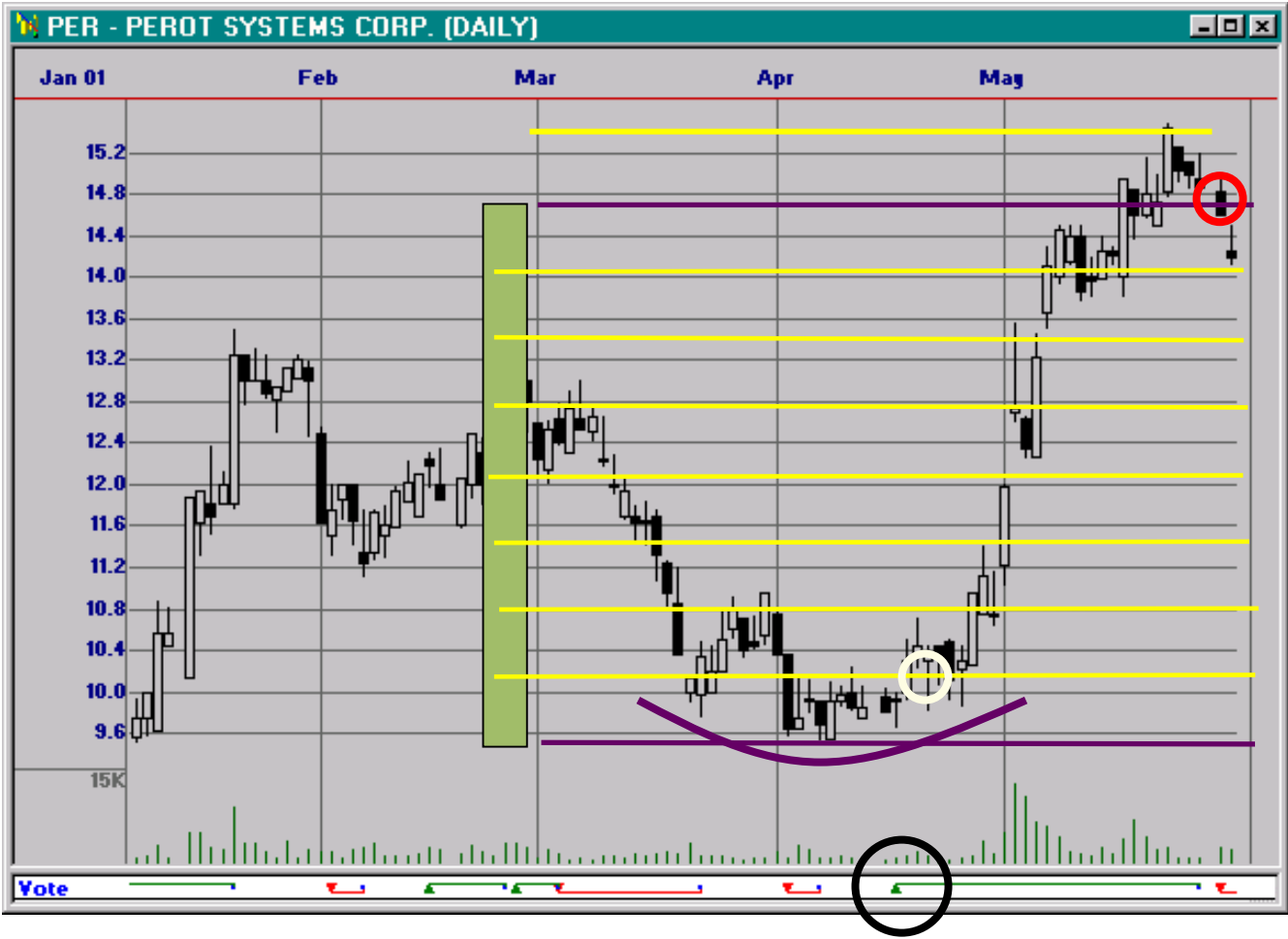
Trend Line Breaks

Lexmark International



Saucer

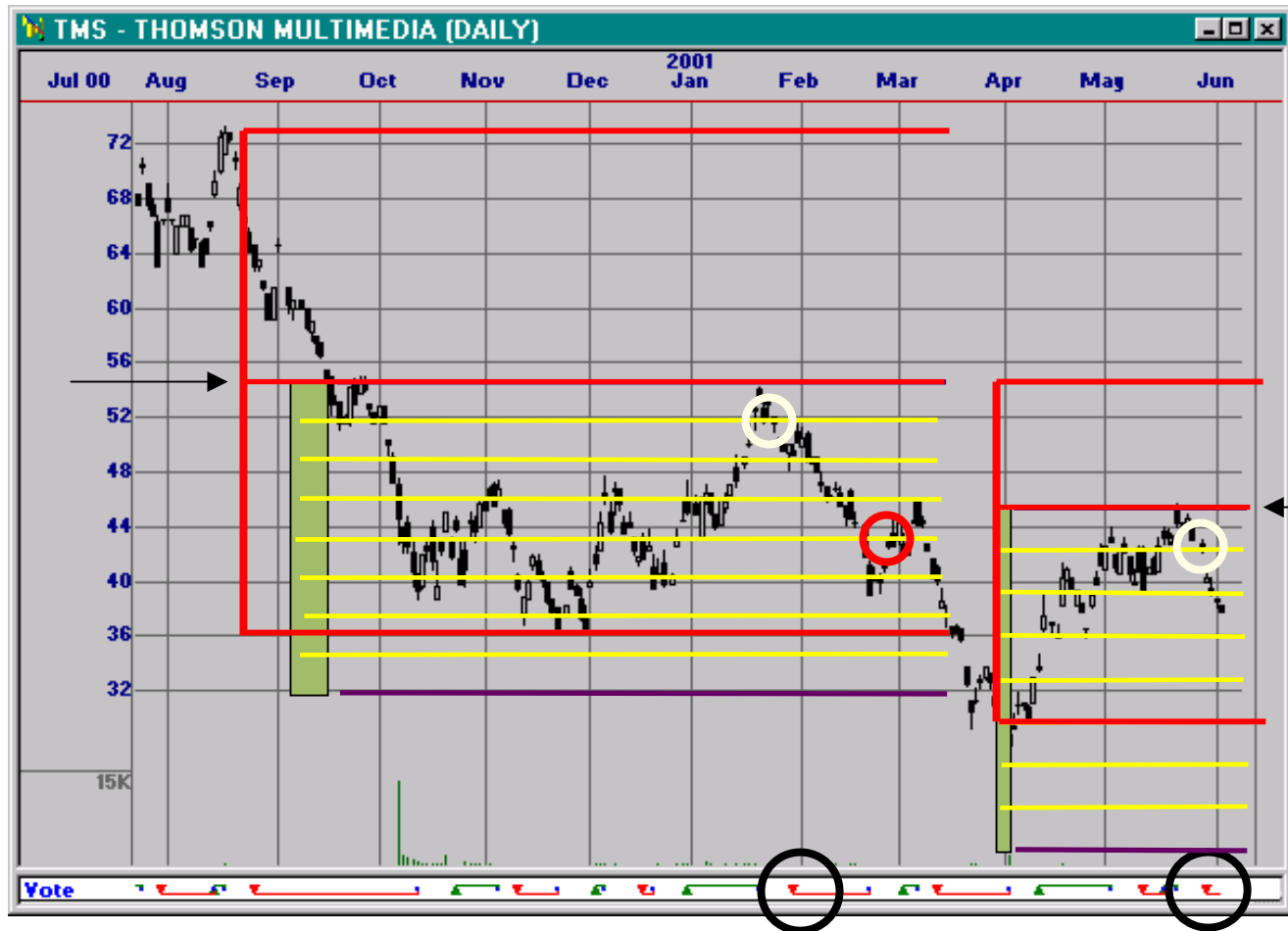
Perot Systems Corp.



Fibonacci Retracement

Thomson Multimedia

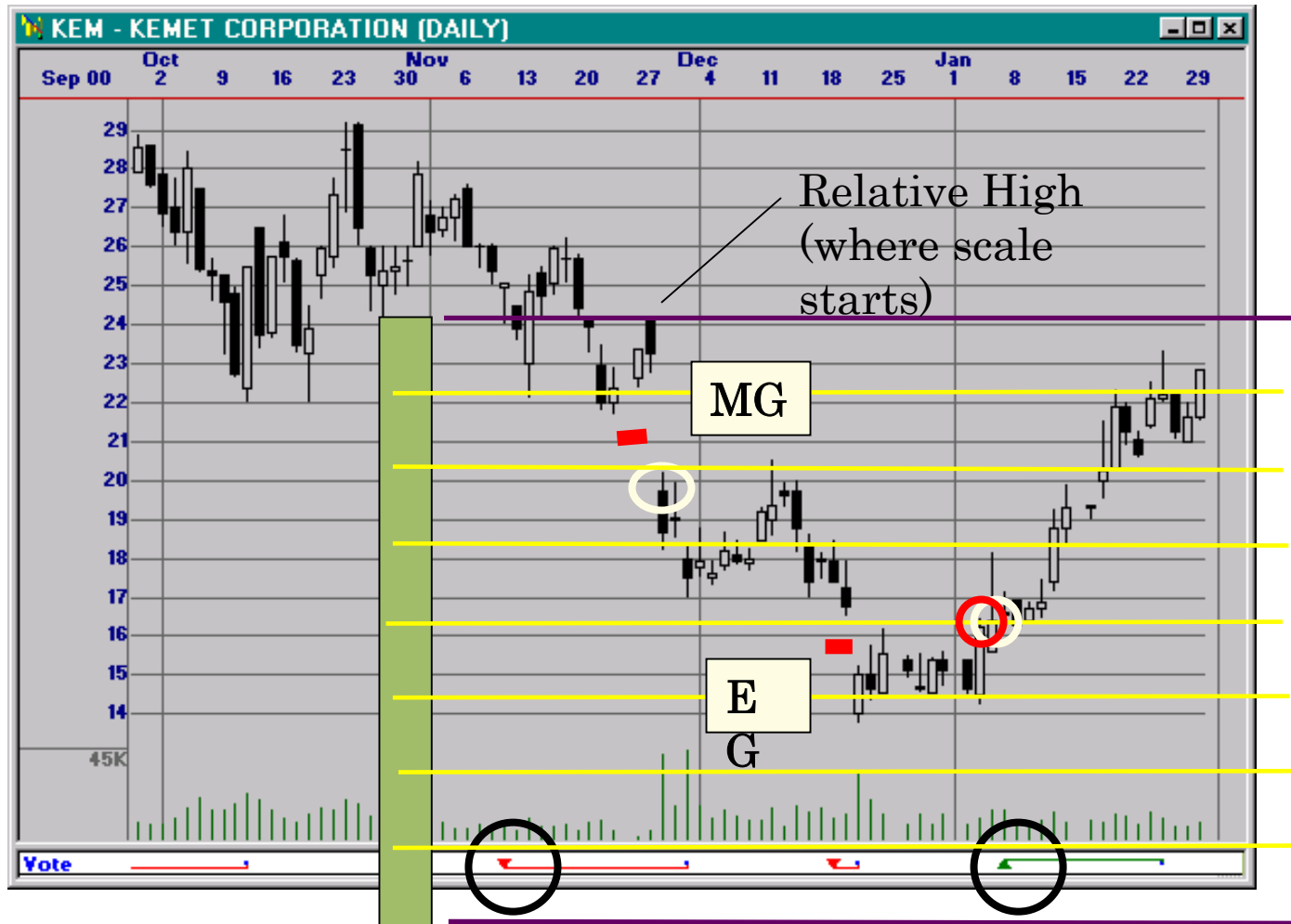
50%
Ret.



62%
Ret.

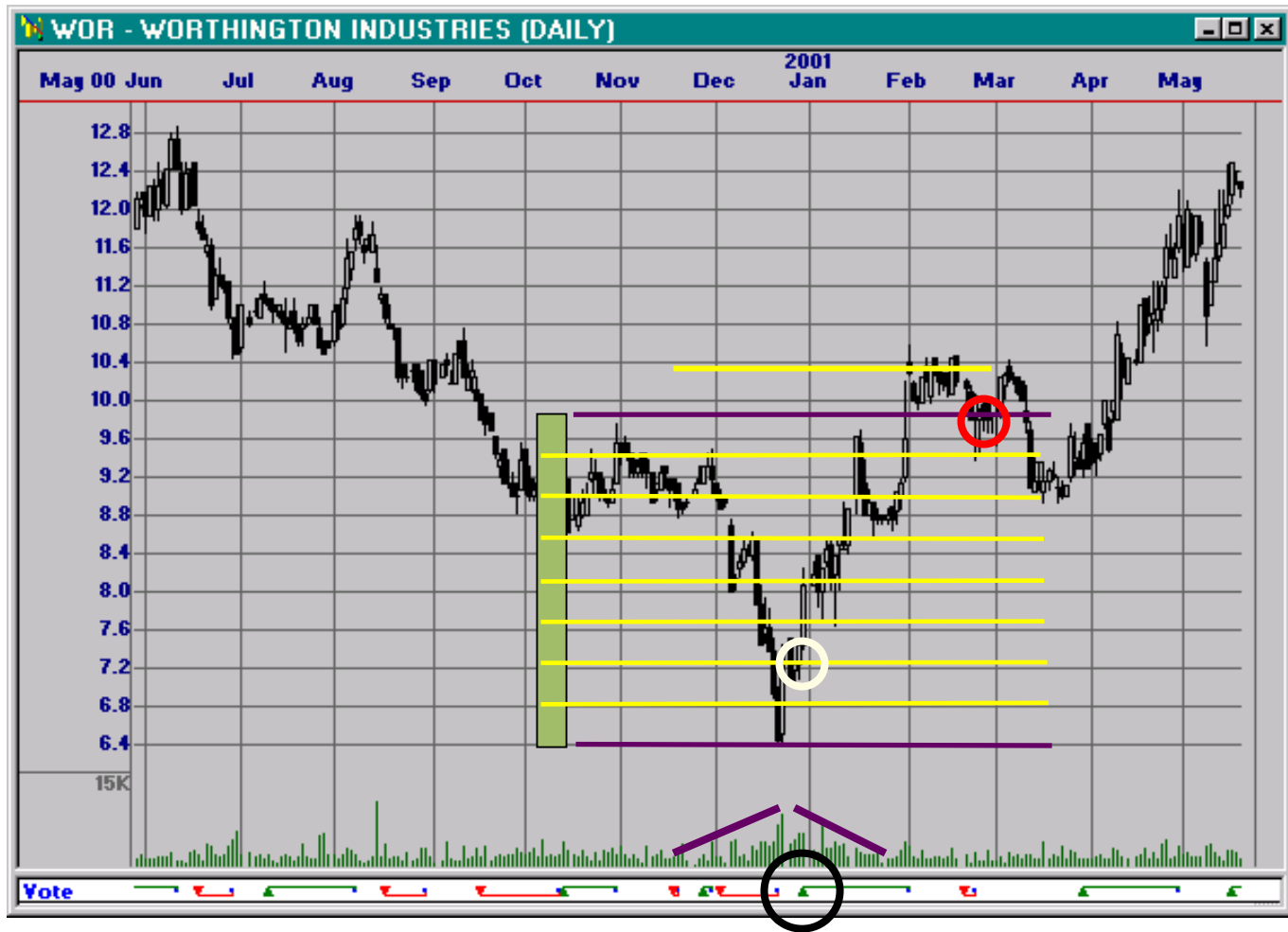
Measured & Exhaustion Gaps

Kemet Corporation



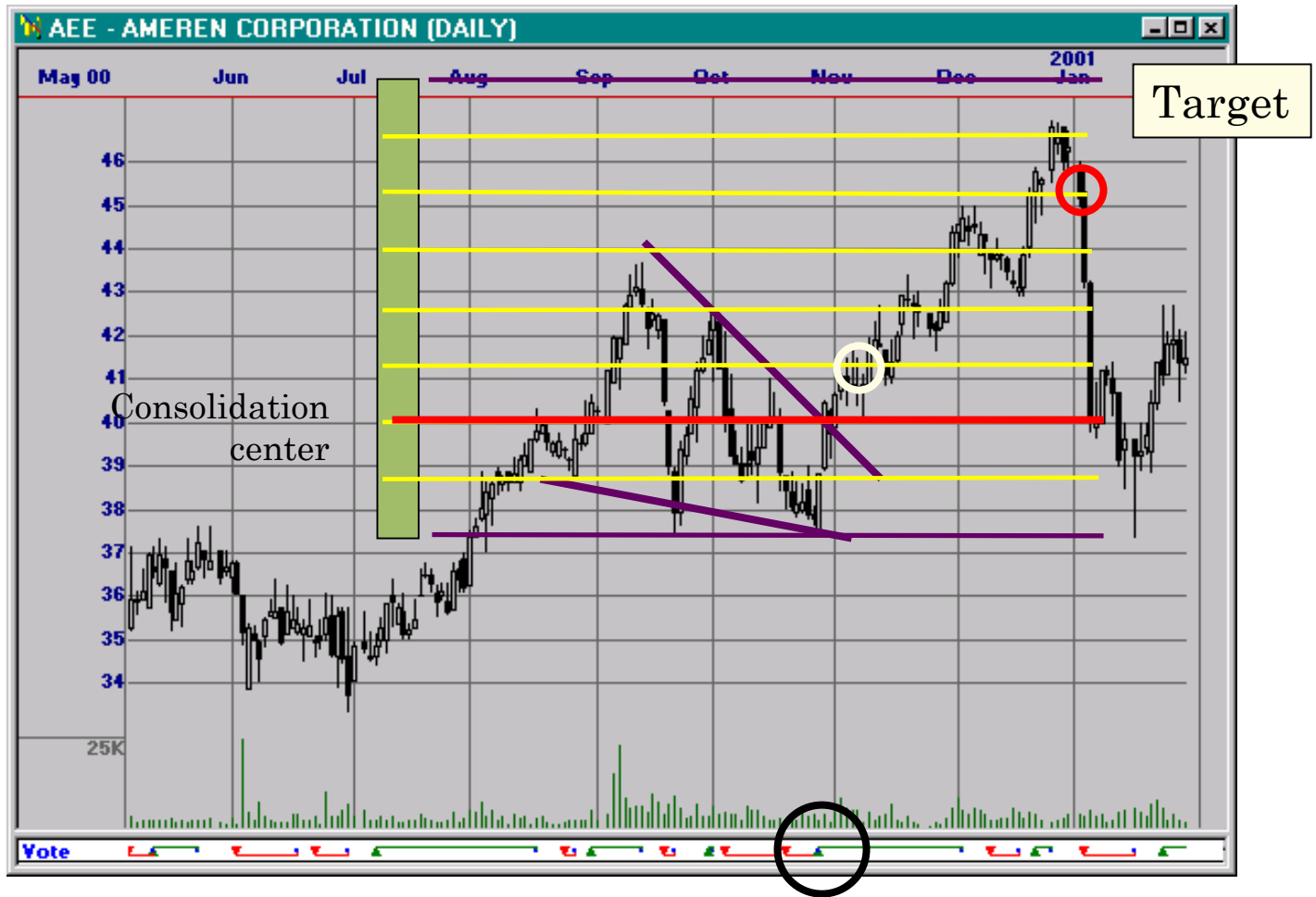
Volume Climax

Worthington Industries



Consolidation

Ameren Corporation



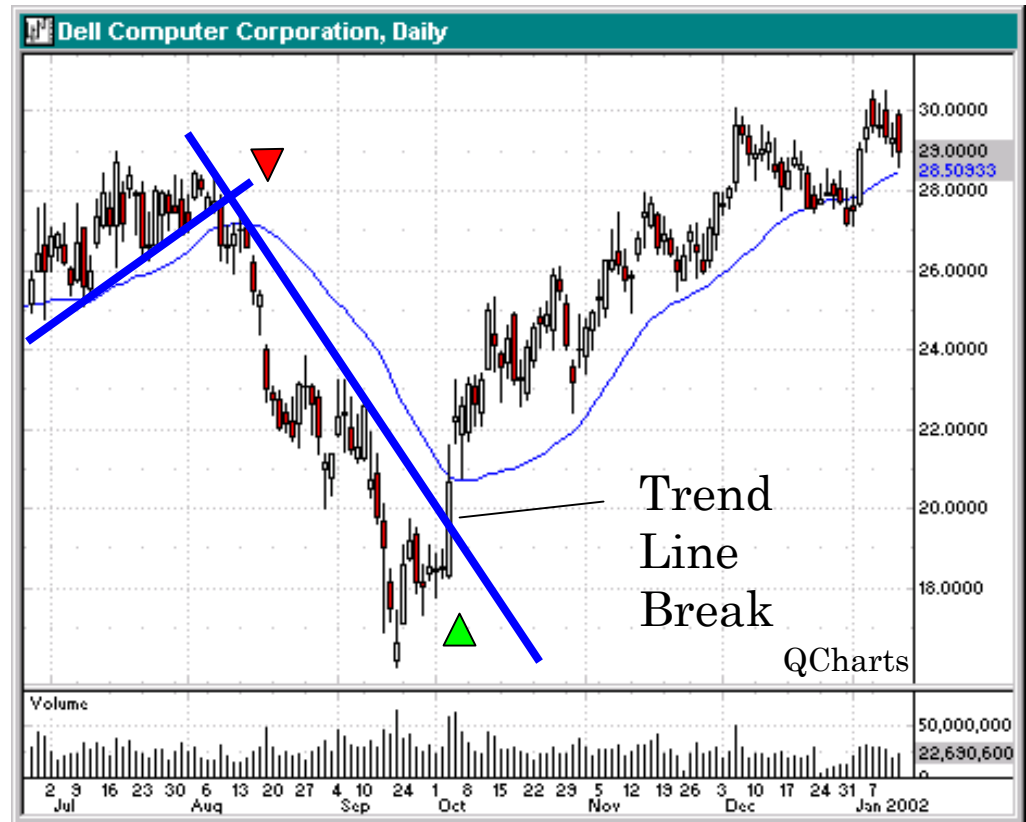
Finding Candidates

Applying Technical Analysis Software

A “Confirmed” Signal

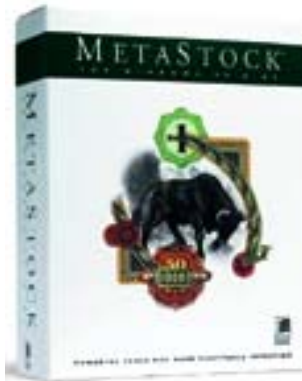
Our objective is to confirm good trades quickly. A simple Moving Average is sufficient to get the job done, though other more sophisticated methods can be applied .

The better the entry signal, the more likely you are to find good candidates in a short amount of time.



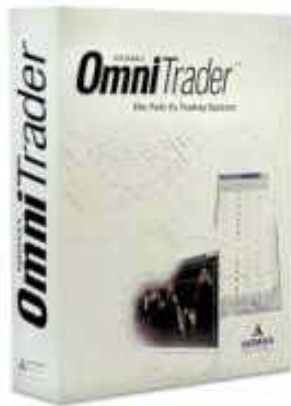
We can scan charts using any system that generates reasonable signals, and then confirm them with basic chart patterns. Here, a 30 period M.A. was used on DELL.

Scanning for Candidates



MetaStock has a wide array of indicators and an Explorer feature making it easy to run indicator scans across directories of data.

www.equis.com



OmniTrader ** is designed to scan for opportunities using systems related to patterns, such as the Trend Line Break System and the Gap System.

www.omnitrader.com

** All Signals in this presentation were generated by OmniTrader.

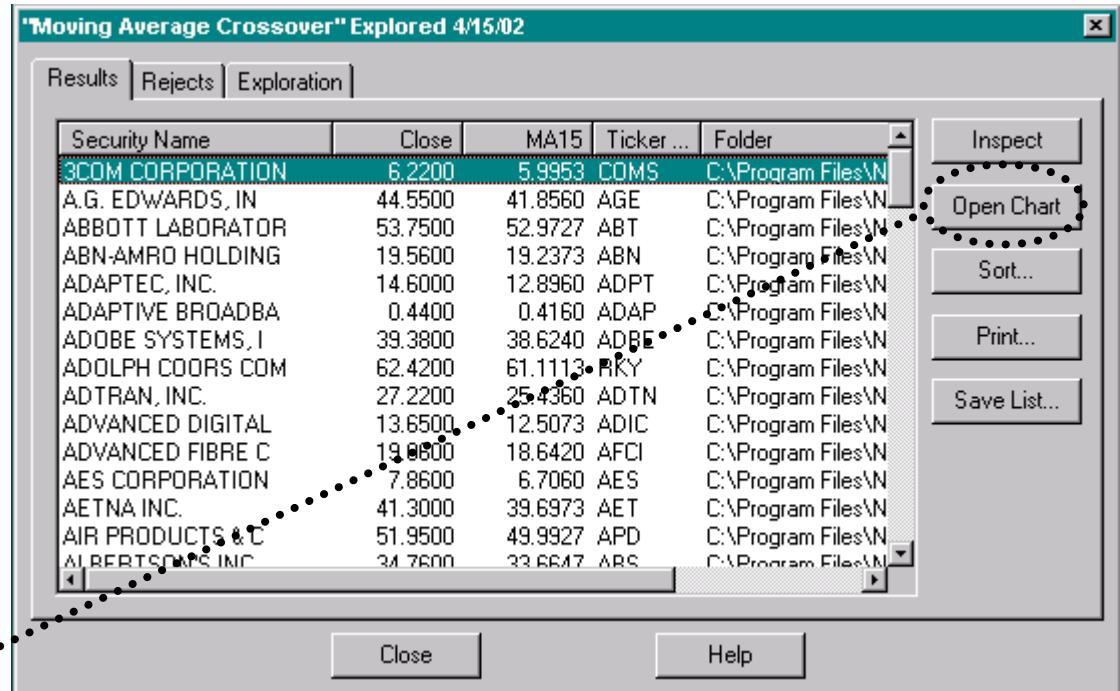
Scanning with MetaStock

Open the Explorer feature of MetaStock

Establish a filter to flag all stocks crossing the 15 period Mov Avg.

Run it to produce the report shown here.

Click "Open Chart" for each chart in the list, and review.



The Explorer feature of MetaStock can scan directories of data for specific conditions based on indicators.

Scanning with OmniTrader

Open a Symbol List.

Run the ToDo List.

Review the charts with signals.

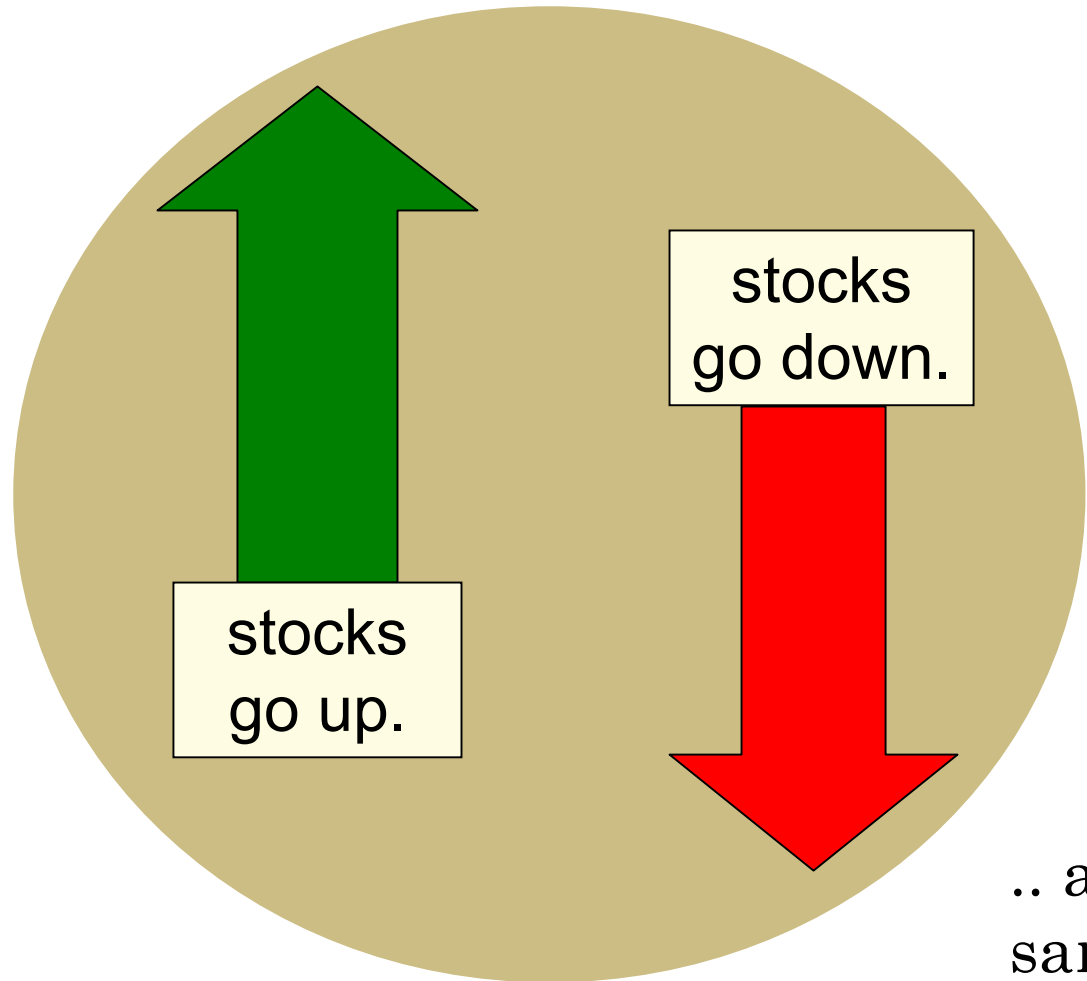


OmniTrader is specifically designed for the Scan & Confirm Process.

Reducing Market Risk

Hedge your Bets!

Hedge Trading Theory

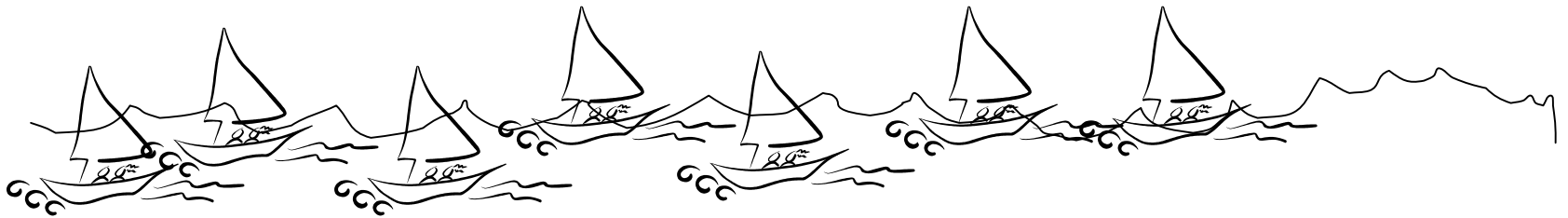


.. at the
same
time!

Our Objective:

Let the rising tide
carry our “convoy” of trades.

If one ship sinks,
our account still floats!



Hedge Example #1

Different, individual stocks move up and down – AT THE SAME TIME.

Here, you can see BMET and BRCD moving in opposite directions in the same time period.

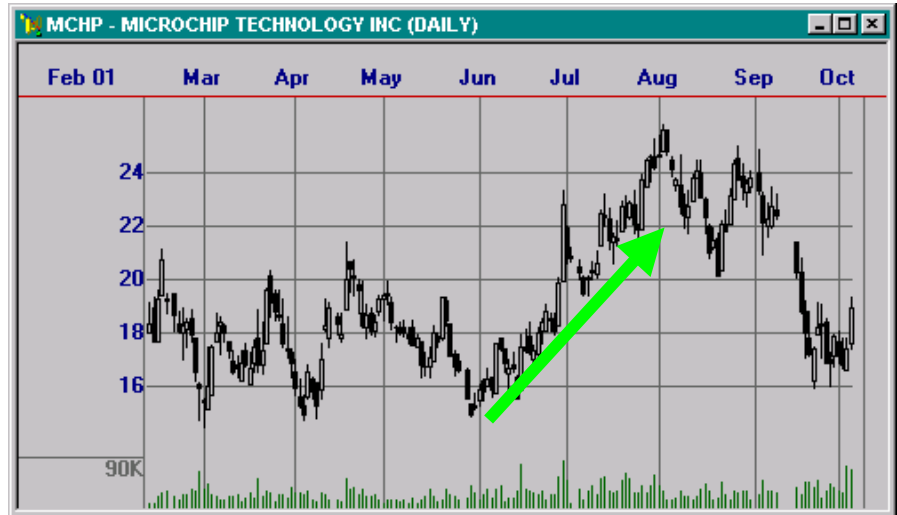
If we went LONG on BMET and SHORT on BRCD in Feb., we would have made \$\$\$ on both positions.



Hedge Example #2.

Our objective?

BUY stocks that
look like this:



And,

SHORT stocks
that look like this:



- at the SAME TIME.

Our Hedge Method

1. Assess likely Index Direction to define the mixture of Longs and Shorts.
2. Find good candidates to establish the mixture.
3. Apply sound mechanical exit procedures to each position.
4. Re-define and maintain the mix as necessary each day.

Index Score for 1/2/2001



Balance Longs & Shorts

We establish a mix of Longs and Shorts based on the score.

This keeps us properly balanced at all times, protecting our portfolio against adverse moves while taking maximum advantage of new trends.

Score	Long %	Short %
+4	90	10
+3	80	20
+2	70	30
+1	60	40
0	50	50
-1	40	60
-2	30	70
-3	20	80
-4	10	90

A Case Study

January 2, 2001

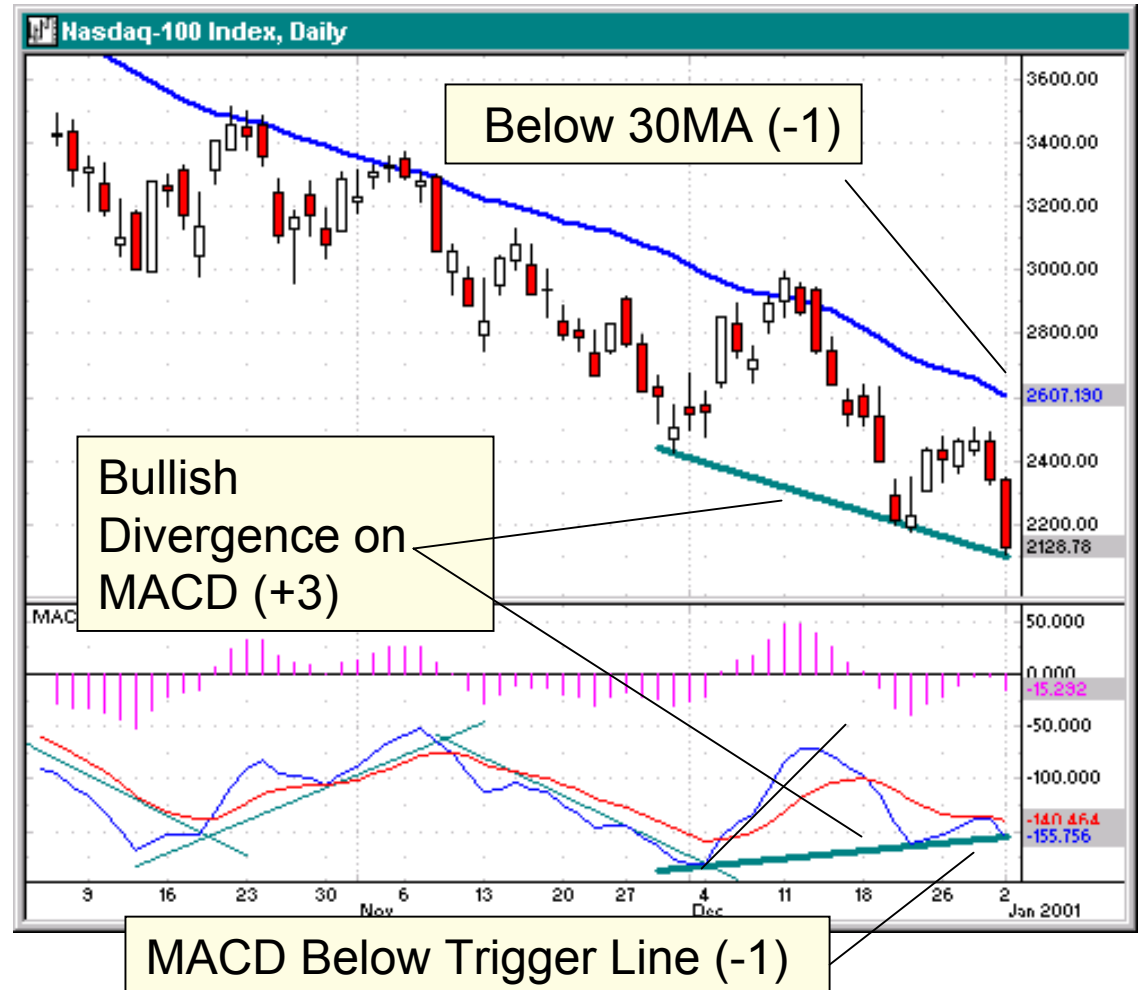
The NASDAQ 100 Index

on January 2, 2001

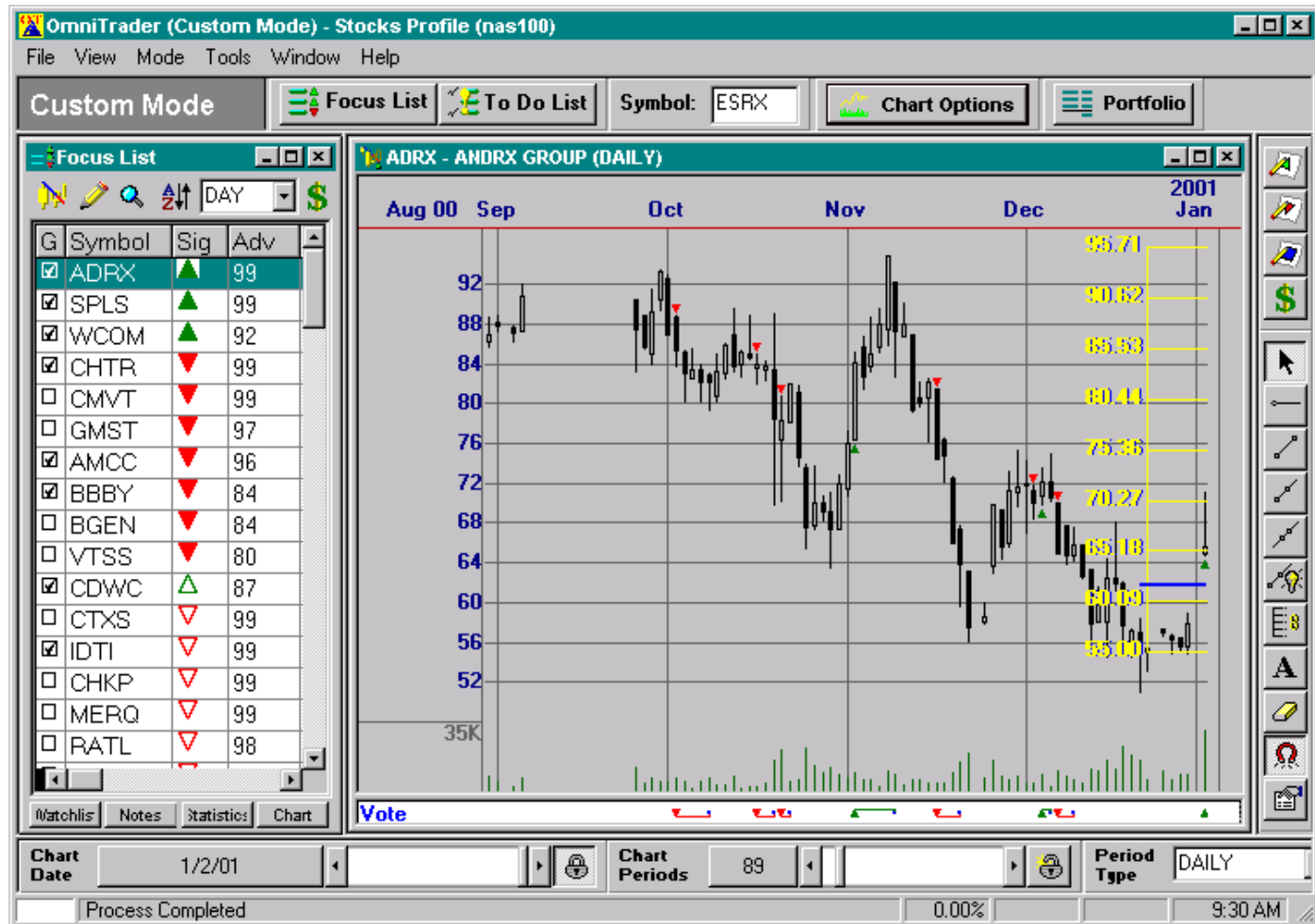
On Jan 2, 2001 the market was down, but the MACD indicator formed a bullish divergence with the index.

The total score was $3-1-1=+1$

According to our table, we want 60% Longs and 40% Shorts.



Candidates for Jan 2, 2002



Long #1: ADRX

ADRX has a gap at support, and a trend line break.



Long #2: SPLS

SPLS has a very well formed trend line across highs, and support confirmation.

We set our entry above the line, at 13.32.



Long #3: WCOM

WCOM has a saucer pattern visible and is holding at support of 14.



Long #4: CDWC

CDWC is also forming a saucer pattern, turning up off support at 24.



Long #5: KLAC

KLAC has a well-defined saucer pattern.



Short #1: CHTR

CHTR appears ready to break a trend line. We establish our Short entry just below the line, at 18.85.



Short #2: AMCC

AMCC has a consolidation formed. We set our Short entry just below the consolidation break line, at 55.00.



Short #3: BBBY

BBBY has a downside pattern as well. We establish our Short entry below the lower line, at 19.92.



Short #4: IDTI

IDTI has a triangle pattern. We set our entry just below the lower line, at 25.30.

Note: We don't need a fourth Short to achieve our 60% mix, but are including it here for illustrative purposes.



Results for our Trades:

SYM	Trade	Entry	Price	Exit	Price	P/L
ADRX	Long	1/3/02	65.43	1/8	60.31	-7.8%
SPLS	Long	1/3/02	13.32	2/5	16.31	+22.4%
WCOM	Long	1/3/02	16.43	1/22	21.68	+31.9%
CDWC	Long	1/3/02	26.06	2/21	33.31	+27.8%
KLAC	Long	1/3/02	34.06	1/8	37.00	+8.6%
CHTRX	Short	Did not trigger entry level				
AMCC	Short	Did not trigger entry level				
BBBY	Short	Did not trigger entry level				
IDTI	Short	Did not trigger entry level				

Run your own Mutual Fund!

Take control.

Counting Cards at Vegas?

In Gambling pools, a stake is divided among many participants.

The more players you have, the closer you will reach the “odds of the game.” The same concept applies to gambling devices like roulette wheels, that is, “more is better.”



The more stocks in your portfolio (Long and Short) the more you reduce market risk.

Low Transaction Costs

A new trend in brokerage provides low-cost vehicles for investors and traders.

Some of the services, like FOLIOfn.com, have trading “windows” and offer incredibly low rates (but you can only go Long).

Other services, like InteractiveBrokers.com and FreeTrade.com offer very low commissions – about \$1 per trade – and let you go both Short and Long.

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A brokerage built on the time-tested strategy of owning a diversified portfolio.

Whether you are a beginning investor, or an expert, FOLIO Investing helps you easily and affordably invest better:

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Top Five	Since Inception as of 4/30/02
Africa	41.19%
Aerospace	38.50%
Worst of 1999	38.39%
Retail REIT	28.35%
Rest of 2001	28.13%

Returns are annualized and not net of fees. Past returns are no guarantee of future returns.

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Foliofn.com lets you Buy and Sell up to 50 stocks in two daily windows, for a fraction of the cost of a traditional brokerage.

Service summary follows...

Low Transaction Costs

Broker	The Deal **	Short?
FOLIOfn.com	Up to 500 trades per month on 3,000 stocks, at 10:15am and 2:45pm, \$14.95/mo.	No
Brokerage America.com	FREE trading, including stop orders, on 1,000 shares or more (\$5 on fewer shares).	Yes
FreeTrade.com (by AmeriTrade)	From \$0 to \$3 per trade, depending on volume.	Yes
Interactive Brokers.com	\$.01 per share, \$.005 above 500 shares.	Yes

** Rates and policies change often. Please consult the individual web sites for full details.

Summary of Daily Steps

1. Analyze the Index to determine the right mix of Longs vs. Shorts. Close the oldest positions first.
2. Scan for high potential entry points using your favorite technical analysis software.
3. Confirm each entry with the 7 Chart Patterns.
4. Establish stops using the Eighths / ATR scale. If a line pattern is used (trend line, consolidation, or support), enter above (below) the break line.

With practice, this process can take just 30 Minutes a day.

You CAN Make Money...

...NO
MATTER
WHAT
the
market is
doing!



Good luck..