LIVE @ TAG

WORKBOOK

THE ART OF SUCCESSFUL TRADING

Successfully Following The Trend In Any Market or Time Frame

By Andy Abraham

COVERING: STOCKS AND INDICES

In his workshop, Andrew will explain a powerful trend-following concept viable for all periods and all markets. Andrew will show you how to identify the market trend and determine where it begins and where it ends by using basic technical analysis, and how to maximize your profit possibility by trading with the trend. You will learn the importance of position sizing, money management, and low-risk trades. You will see numerous example charts so that you can follow his concepts. He will introduce and discuss dual-period ideas and teach you the advantages of using them as well as some of the drawbacks. Most money managers underperform the stock market indices. Andrew has spent years researching ideas that have the potential to outperform indices as well as maintain fewer draw downs. These concepts are based on breadth, sentiment, momentum and interest rates. Andrew will discuss these with you, as well as give you the exact formulas.

Andrew Abraham is a trader as well as a senior broker at Angus Jackson, an introducing broker for Ed F. Mann. Andrew specializes in mechanical systems and assists clients in their research. He also helps traders find the methodologies or systems that are best suited to their personalities. Andrew trades his own account and spends considerable time doing research and testing various concepts. He is a proponent of mixing periods, markets and simple systems for synergistic results.

Andrew's articles have appeared in publications such as *CTCN, Club 3000,* and Stocks *and Commodities* magazine. He graduated from the University of Florida with a major in marketing and is looking forward to progressing to the point of managing money for clients and forming his own hedge fund.

Mr. Abraham's Personal Workshop was presented and recorded at a recent LIVE @ TAG conference.

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1. PSYCHOLOGY

THE MOST IMPORTANT component of successful trading.

Regardless of whether a trader uses discretionary methods or a mechanical system, a proper mindset differentiates successful consistent traders from others.

A."KEYS TO SUCCESS"

1 . Correct Mindset
2. Commitment
3. Proper Capitalization
4. Position Sizing
5. Money Management
6. Being Responsible for Your Own Trading

B. IMPORTANCE OF A LOW RISK TRADE

2. DISCRETIONARY METHODS

Trade the Trend
(an idea which I discussed in an article in
Stocks and Commodities magazine Sep 98.)

A. "Trade the Trend" - a basic, simple concept that is viable in all periods and all markets.

B. Trends are comprised of Up Waves and Down Waves.

C. In theory to catch a move, we want to:
Buy Up Waves in Up Trends, and
Sell Down Waves in Down Trends
(BASIC TREND FOLLOWING).

1. Identi ing waves

A. The Volatility function

An algorithmic formula measures that the market volatility by plotting a smoothed average of the True Range. It returns an average of the True Range over a specific number of bars, giving higher weight to the True Range of the most recent bar.

B. True Range functions
Algorithms originating from the work from Welles Wilder Jr. in his book New Concepts in Technical Trading Systems

1. True Range is defined as the larger of the following:
a. The distance between today's High and today's Low.
b. The distance between today's High and yesterday's Close,
or
c. The distance between today's Low and yesterday's close.

2. Up Waves
Where the Close is greater than the smoothed average of the true range (volatility) over x number of periods multiplied by a constant.

3. Down Waves
A down wave is designated if the close is less than the smoothed average of the true range over x periods multiplied by a constant.

This concept is based on the work of Welles Wilder
and his work on volatility stops. To visualize these waves we
color-code the Up Waves blue and the Down Waves red.

2. Determining if a Trend is Up or Down

A. Up Trends
Up Waves of Higher Highs with prior Lows not being surpassed
B. Down Trends
Down Waves of Lower Lows with prior Highs not being surpassed

3. ENTRIES/EXITS

BUY UP WAVES IN UPTRENDS!
SELL DOWN WAVES IN DOWN TRENDS!

A. Entries

1. Breakouts
2. Retracements
3. Pattern Recognition

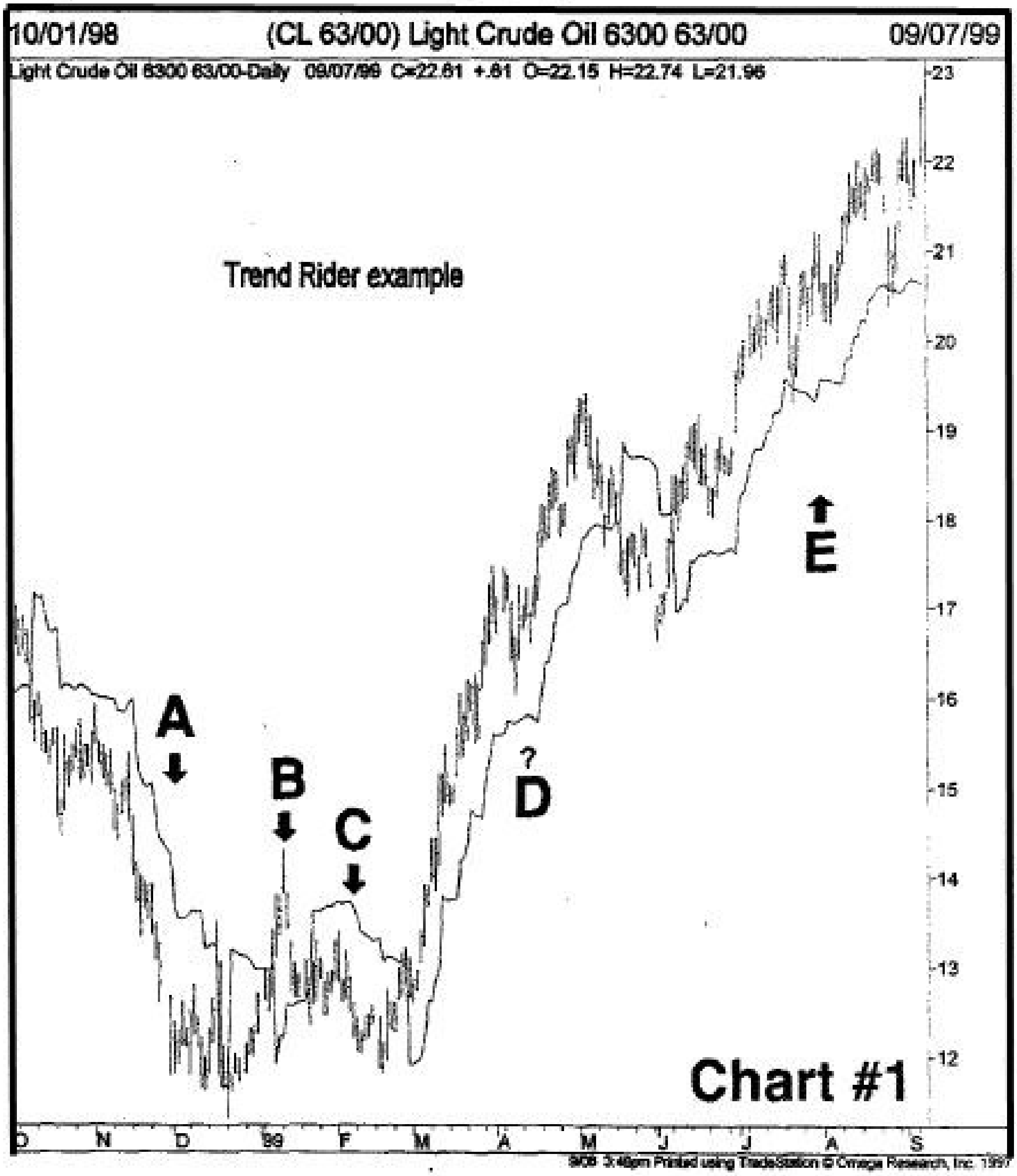
Least important issue is the entries.
Most important are position sizing & exits

B. Pattern Recognition Codes

If (h > h [1]) and L > 1 [1] and c >c [1], then sell
If low of today < lowest(l, 13), then buy tomorrow at the highest (h, 3) stop;
If high of today > highest(h, 13), then sell tomorrow at lowest(1,3) stop;
If ADX(14) > 30 and DMIMinus(14) > DMIPlus(14), then buy highest(h,5) stop:
If ADX(14) < 30 and DMIMinus(14) < DMIPlus(14), then sell lowest(1,5) stop;
If ADX(14) > 30 and DMIPlus(14) > DMIMinus(14), and High :5 High[l], and High[l] < High[2], and Low ~! Low[l], and Low[l] > Low[2], then buy highest(h,3) stop;

Entries don't matter!!!!

Trend Rider



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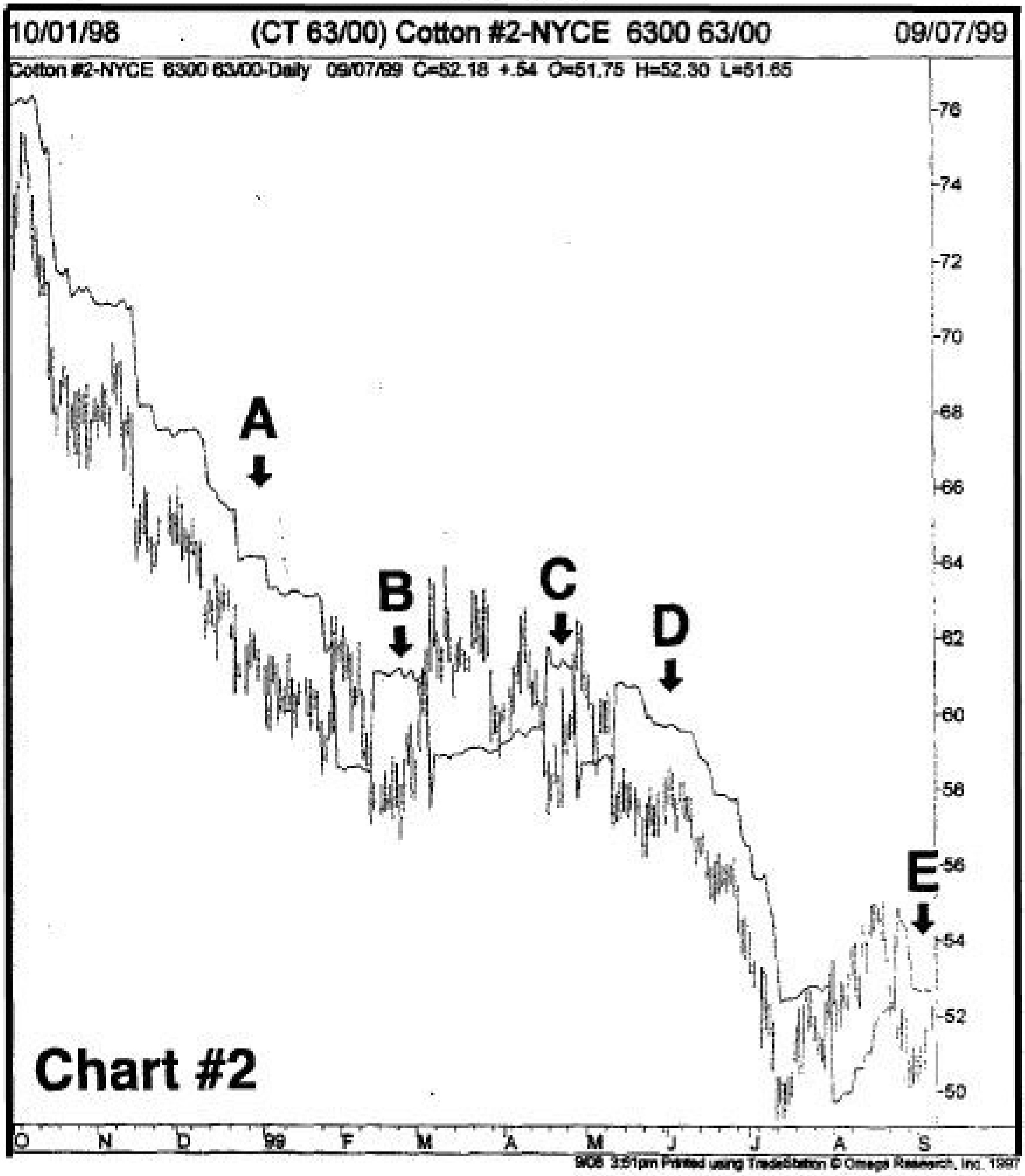
Trend Rider



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C. Exits

1. End of Day
2. Money Management
3. Bars

Since entry > x, exit long or exit short

4. Time exits
If time = (sessl end time - 40)
5. Volatility based exits

Dual Time Frame of Trading the Trend

In our last article we presented several concepts of identifying the trend and trading it. Trends are made up of upwaves and downwaves. In UPTRENDS we look to buy upwaves and in DOVINTRENDS we look to sell downwaves.

Over the years we have found that utilizing Dual time frames gives traders one more edge in their trading arsenal. We have seen after years of trading the greatest possibilities for success comes with simply listening to the market and look to flow where ever the market wants to go. This means no opinions or preconceptions.

In order to be successful over time one doesn't need to have the ability to call market tops or market bottoms. We just need to be able to identify where we stand in the trend and look for low risk opportunities to flow with the market.

Firstly we look to a higher time frame to verify that we are in sync with the trend. For instance if we are trading intraday 3 min SP 500 [as we do on a daily basis] we look to see where the 9-minute trend is. One could utilize the same concept and trade a daily chart with a weekly. Even a weekly with a monthly is viable.

A signal that we recognize and feel confident is seeing both time frames confirming each other. Both are in uptrends or in downtrends. Traders must be flexible and as easily go short as they would go long. The actual waves they are in are of also im- portance. In order for us to be able to trade with the trend on the long side, the higher time frame's Trend must be up. As well it must be in an upwave. We look at the lower time frame we are trading and would want to see that the 20 exponential moving average is greater than the 50 exponential moving average as well as be above TREND BREAK LINE. We would wait until we would enter an upwave. Once in this upwave it becomes a personal matter of risk management. Just because we are in an upwave in an uptrend doesn't guarantee success. It just puts more of an edge on our side. Some suggestions are to look for retracements to a Keltner Band, or TREND BREAK LINE or even waiting for a trend line break. These concepts enhance our edge as well as lower our risk. It becomes very obvious very quickly if we break a trend line and then it turns and surpasses the trend line that this particular trade didn't work. The same applies if we arrive to a bottom of a Keltner Band and starts moving in our direction but abruptly changes direction and violates the bottom of the Keltner Band. In general if you are risk averse as myself you will wait for some type of reversal as entry point. Upon taking action like this you are entering in on a low risk trade. This is one of the closest tenets to the Holy Grail if one exists. With a low risk trade you might be able to take a larger position due to the low risk. This issue is more of an issue of money management or position sizing but the key is to look for low risk situations and trade with the trend.

To trade from the short side we would need just to invert our rules. We would like to see the 20 exponential moving average below the 50 exponential moving average. We would look for retracentents up to the top of a Keltner Band or to the Trend Break line or any type of retacement you see fit.

The next important issue is when to exit the trade with a profit or a loss. Let's first discuss the instance when we have a profit. A simple concept we like to do is scale out of positions. Before we enter a trade we enter a preset stop as protection in the event the trade doesn't work. If the trade works and shows a profit we like to take a small profit on part of our position at a preset target level. This does various things for a trader. One is it lowers the overall risk of the trade, helps traders develop confidence as well as taking quick profits on partial positions has the possibility of a high success rate. The remaining shares or contracts one could simply stay in sync with the moving averages or use the Trend Break line as a stop. Another concept a trader could consider is to be goal orientated. Take the profit the market has afforded him as a stepping stone to a preset goal he has set for himself. There are many other types of exits, which are viable. These consist of volatility stops based on the average true range, or even standard deviation stops.

To exit a trade with a loss is detem-iined by our initial risk. We can use so many different ideas again here. The key is to trade what you are comfortable trading so in the heat of a trade you have a plan. This is paramount to trading success. HAVE A PLAN AND FOLLOW IT AND MAINTAIN THE PROPER MINDSET.

Going back if our stop is penetrated we must clean the slate and look forward to the next trade. Traders must learn that it is a very natural occurrence for trades not to work. They must learn it is a numbers game of possibilities and it is OK to have trades that looses money. Each trade is an independant occur-rence and shouldn't prohibit the ability to take the next trade that one would perceive as an opportunity. Traders need to stay in a mindset that they make themselves available for any opportunity that can occur I like to think in terms of flowing. As in a river. We want to envision ourselves floating on an inner tube and having fun. In summation in order for a trader to achieve his desired results, A simple basic concept is in order but probably more importantly is a correct mindset that enhances trading discipline.

Traders need to realize that trading is a simple game of probabilities and possibilities. In conjunction COMMITMENT... MONEY MAN-AGEMENT AND A SIMPLE LOW RIS K STRATEGY traders can ascertain the success they are seeking in the markets.

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4. MECHANICAL SYSTEMS

A. Unlimited types (a whole conference just on this)
B. Simple concepts stand the greater possibility of holding up

over time.
C. Make sure you are capitalized.
D. Buy drawdowns of systems with positive expectancy.
E. Mix systems.
F. Mix markets.
G. Mix time frames.
H. You do not need to reinvent the wheel.

An example of the above giving the potential to outperform:

Stock Market Matrix Concept

1. Momentum Models
2. Breadth Models
3. Sentiment Models
4. Interest Rate Models

1. Momentum Methods

A. Mix time frames (daily and weekly)
B. Multiple Moving Averages
C. Rate of Change

2. Breadth

A. Utilize New Highs/New Lows
B. Advancing issues/declining issues (both daily and weekly)
C. Volume Up/Volume Down

Ideas for your Use

Track the number of the new yearly highs and yearly lows on a daily basis. Add these two numbers together to get a daily combined value. Then divide the daily number of new yearly highs by this sum and calculate a 10-day exponential moving average of the results. When the daily value of the moving average exceeds a certain level, a BUY signal is given. (70 may be used.)

Take a six period moving average of the new yearly highs and divide by the six period moving average of the sum of the new yearly high and new yearly low. Long positions are established when the results are greater than 0.5. Exits are given when the six period moving average of the new yearly lows divided by the sum of the yearly highs and yearly lows are greater than 0.8.

3. Sentiment

A. Various algorithms of Put/Call ratios
B. Moving averages and lowest lows and highest highs of the VIX

4. Interest Rates

A. Moving averages of the Dow Jones Utility Index
B. Moving averages as well as Rate of Change of various
Bond durations


11/15/96
(SP 63/00) S&P 500 Index-CME(da 63/00
09/03/99
S&P 500 Index-CME(da 63/00-Daily 09/03/99 C=1362.50 +42.30 O=1344.50 H=1363.00
6 PERIOD HIGH LOW BREADTH
LONG FROM 8/5/96
A
B
C
D
E
Chart #3
1400
1350
1300
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1150
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850
97
Apr
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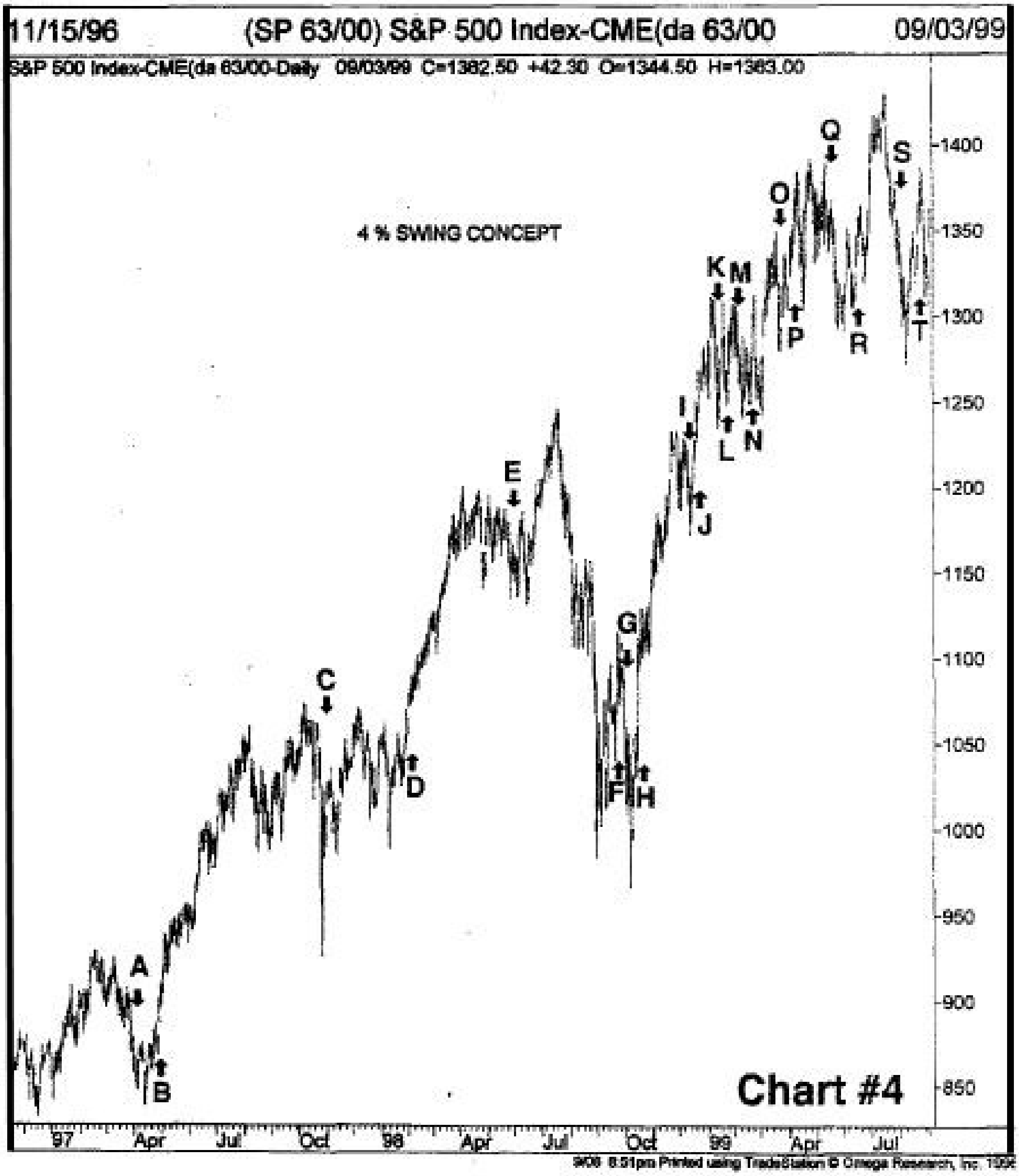
Jul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09/03/99
S&P 500 Index-CME(da 63/00-Daily 09/03/99 C=1382.50 +42.30 O=1344.50 H=1383.00
4 % SWING CONCEPT
Chart #4
97
Apr
Jul
Oct
98
Apr
Jul
Oct
99
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Jul
1400
1350
1300
1250
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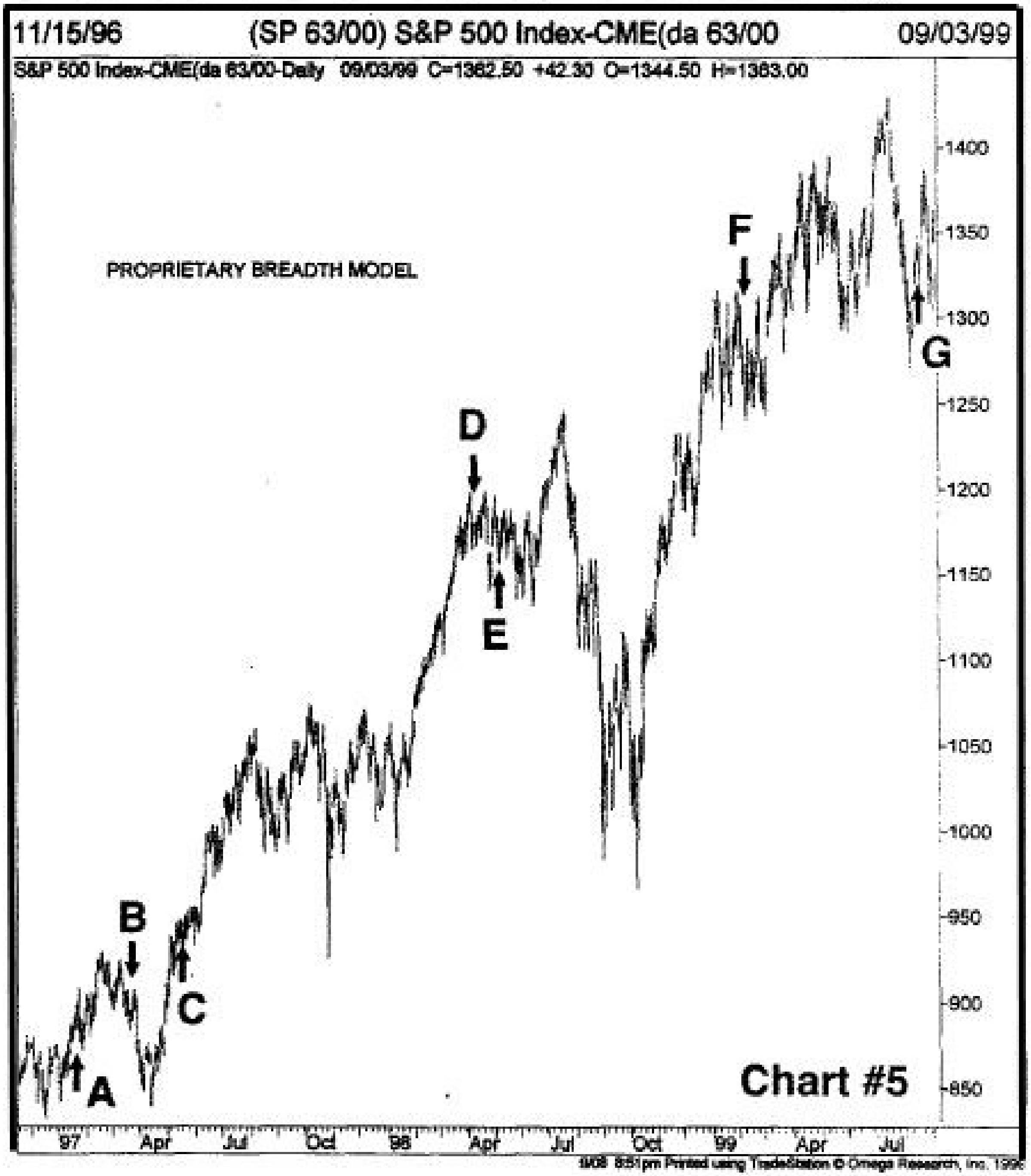
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S&P 500 Index-CME(da 63/00-Daily 09/03/99 C=1362.50 +42.30 O=1344.50 H=1363.00
PROPRIETARY BREADTH MODEL
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Chart #5
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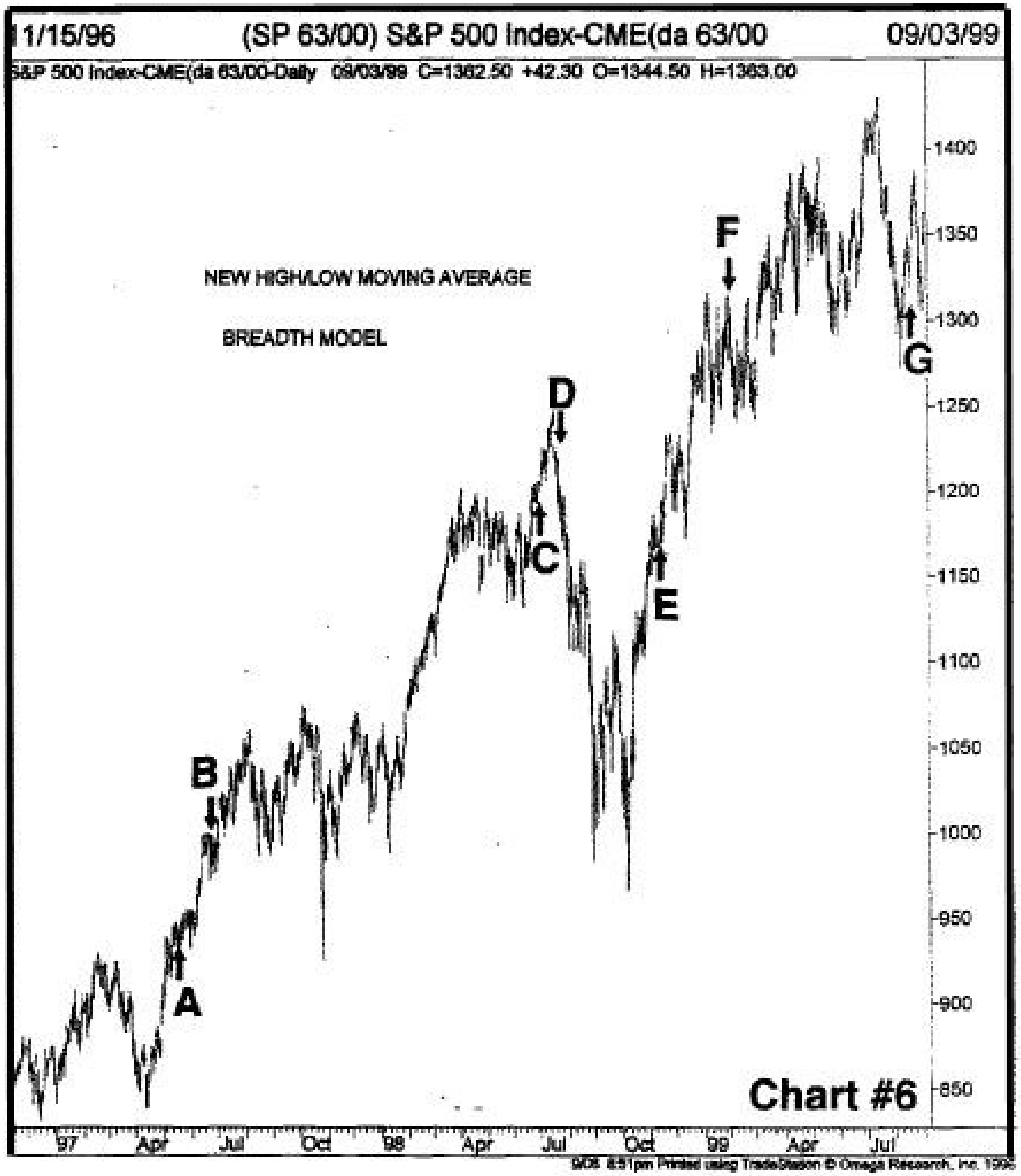
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09/03/99
S&P 500 Index-CME(da 63/00-Daily 09/03/99 C=1362.50 +42.30 O=1344.50 H=1363.00
NEW HIGH/LOW MOVING AVERAGE
BREADTH MODEL
A
B
C
D
E
F
G
Chart #6
1400
1350
1300
1250
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1150
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850
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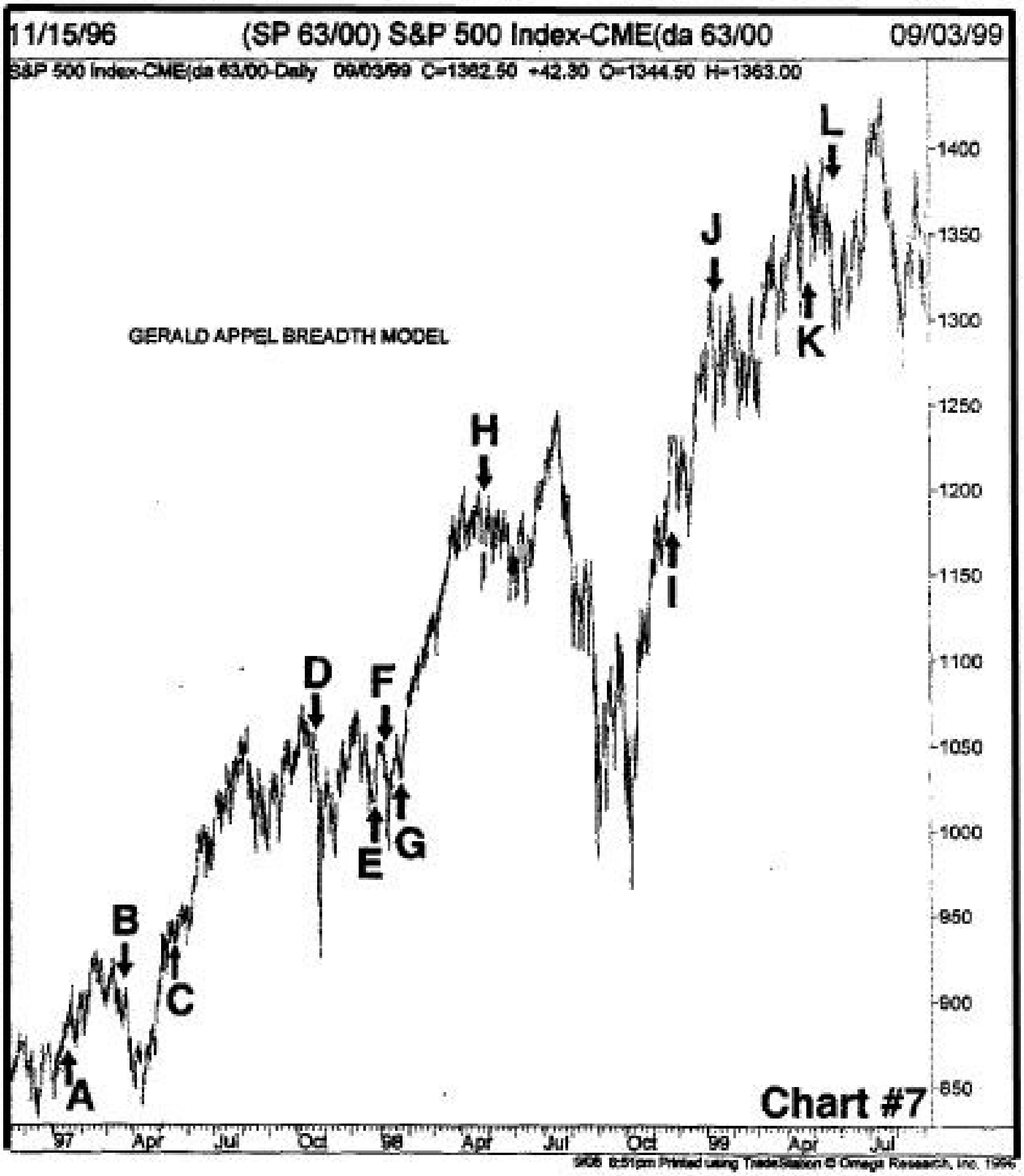
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S&P 500 Index-CME(da 63/00-Daily 09/03/99 C=1362.50 +42.30 O=1344.50 H=1363.00
GERALD APPEL BREADTH MODEL
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Chart #7
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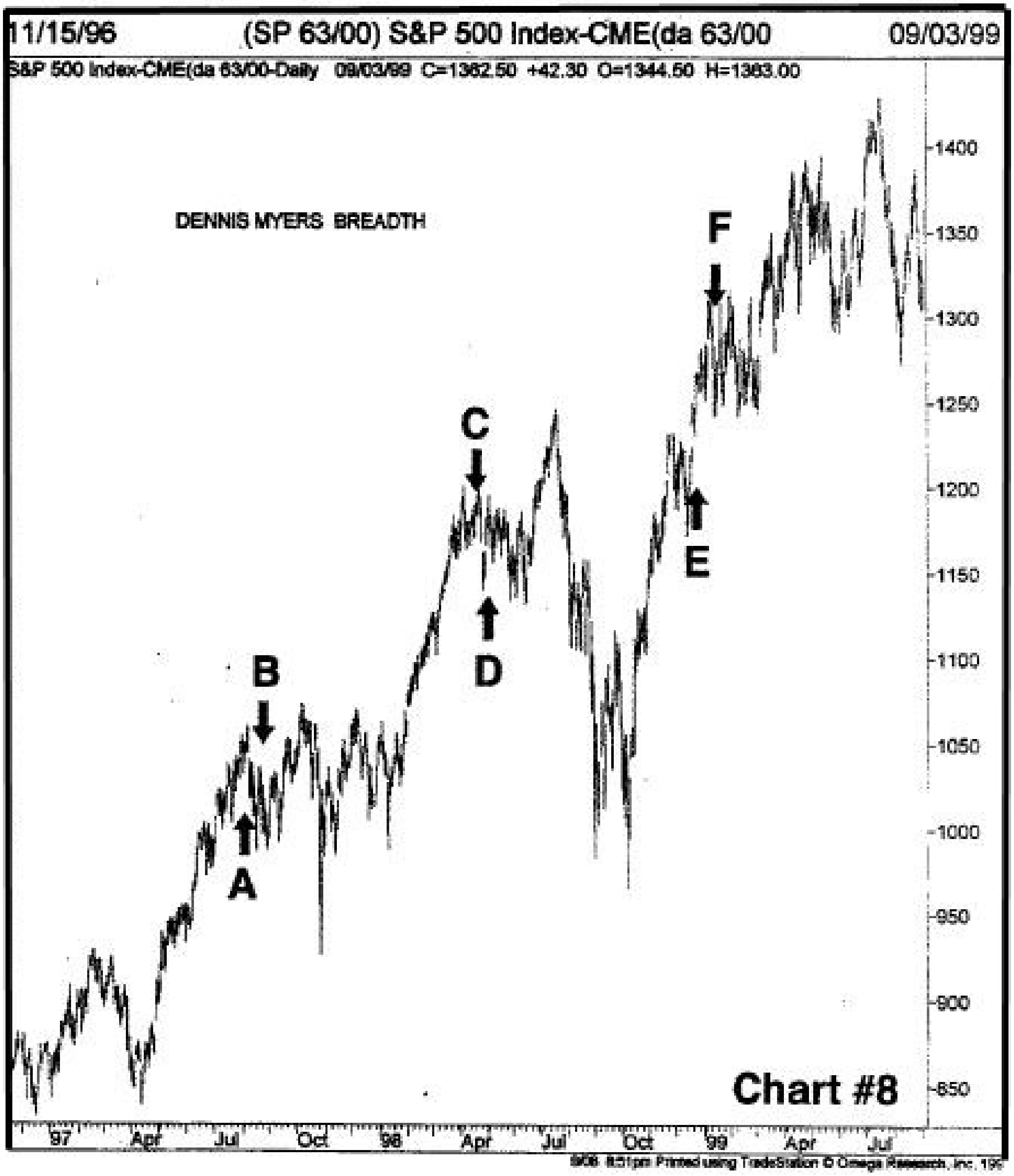
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09/03/99
S&P 500 Index-CME(da 63/00-Daily 09/03/99 C=1362.50 +42.30 O=1344.50 H=1363.00
DENNIS MYERS BREADTH
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Chart #8
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DISCLAIMER

The trading systems and techniques described above are based on sound risk and money management principles. Losses can and will occur. The individual trader is solely responsible for the success or failure using these methods. All information contained above is beleived to be accurate, but absolutely no guarantee is implied or stated as to it's accuracy. Neither the group nor any of it's employees shall be held liable for any losses sustained by the utilization of this system.

Some traders may not be mentally fit to assume the risks entailed with futures trading. These are historical hypothetical trades. These results have certain limitations. Due to the fact that these trades have not actually been executed in real time, actual results may be different, under or over compensated for results.

Results can be substantially different due to lack of liquidity and/or limit up/down constraints. Hypothetical trading is designed, in essence, with having the ability to see past results. NO REPRESENTATION IS IMPLIED OR STATED THAT ANY TRADER WIL,L OR IS LIKELY TO, ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE STATED.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURES RESULTS.

Thank you for taking this Live@TAG workshop

Speaker Info:

Andrew Abraham CTA
Voice:954.217.7982
Fax: 888.420.3619

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