# HOW THE MARKET MAKERS EXTRACT MILLIONS OF DOLLARS A DAY

## & HOW TO GRAB YOUR SHARE


MARTIN COLE

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# MARTIN COLE

## PREFACE

A chance meeting or was the universe just delivering that which I was seeking?

I was in a crowded cafe at lunchtime eating some minestrone soup and whilst pondering the elements that made it so good, my table shot to the left and the soup exited on the right. The culprit, a very expensive suit who apologised and ordered me another.

I tried to make polite conversation but sitting down with his colleague he made it clear that conversation was not on the cards.

I admit I was eaves dropping, I had to, they were talking about the markets and at that time I was trading and things were not going well for me.

I was just about to try my luck at gleaning some information when one suit said to the other. “Ok so the deal is this, you do not act today in one, you assist if needed thats all. Blue will be setting up from 2-3:30 news at 2.30 you step in at about 46 and pick up the stragglers, OK?” “Yes got it” the other suit replied, “now lunch and no more work talk” They drifted of into talking about boats and my courage to interrupt faded.

Soup finished I decided to go and see the London Stock Exchange building before heading back home. I got lost on the way but eventually I was standing in front of the building when I heard a familiar voice, I turned to see Mr minestrone as I now like to call him. He looked dead at me with a very surprised expression which then turned to what I can only describe as a glare as he brushed past, he looked again over his shoulder as he entered the London Stock Exchange building. That was the last I ever saw of Mr Minestrone and although I did not realise it at the time he was to be the most influential person I ever met regarding trading the markets.

However, it would be several more years before the overheard words of Mr minestrone would change my life forever.

***For Denise***. *My wife, my best friend and mother of our two wonderful adventurous sons. Having you by my side always makes me feel like the richest man on the planet.*

*Martin Cole.*

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## HOW I BECAME A TRADER

My name is Martin Cole. I am a trader and, more importantly, a husband and father of a family. Because of trading, I have enjoyed the luxury of living a comfortable lifestyle in several countries. At the time of writing this, I am now aged 52 years and live in spectacular South Island New Zealand. I wasn't born into a life of this privilege. For me, the road to prosperity has been a long and difficult one.

The third of six children, I grew up on a small farm in the village of Towcester in Northamptonshire, England. Our father, Jim, hoped that we would all become farmers, but although it took me many years to find my professional path, I always knew that agriculture was not for me. (Strangely enough, I now live on a 6-acre lifestyle block with a selection of farm animals) While never a very academic child, I was bright. "He can turn his hand to anything" was the comment people used to make. I have indeed turned my hand to plenty of activities over the years. While I didn't discover for a long time that my strength lay in trading, I always felt that I was destined to do something unusual with my life. Deep down, I knew that I was capable of much more than I seemed to be achieving.

I met my lovely wife when she was just sixteen and a half, and I almost as young, I knew straight away that she was the one for me. She didn't realise so quickly, though, and stood me up three times before we went out on our first date! We got married when we were eighteen and twenty. Denise has supported me in everything I have done through difficult times, bankruptcy, success and everything in between. Her philosophy has always been: "Do it.

If you don’t, you might regret it.” We have two wonderful sons and Denise is even more beautiful now than the evening of our first dance. Even if I had not achieved financial freedom, having her by my side, I would have always been a wealthy man by default.

I started in business and became involved in the building industry, meeting with some success until the British economy collapsed–along with my order book. In that year–1990, there was a 75 per cent increase in bankruptcies in the area where we lived. We lost everything, our house, our lifestyle the lot and had to return with our two small boys, Steven and James, to live in a mobile home (trailer if you are American) at my parents’ place in Towcester, Northamptonshire.

I went to work with my father and Denise took a range of menial jobs cleaning and so on to make ends meet. Between us and with the help of a close friend, we saved up enough money to open a business, a pizza restaurant. We kept on our day jobs and worked in the restaurant at night. Those were difficult times. Our sons were little more than babies. We would put them to sleep upstairs in the restaurant and take them home, still sleeping, at one or two in the morning before getting up again to start another day.

The pressure that the situation put on our little family was horrendous. We kept going for fourteen months until we sold the business and made a small profit. At that stage, we needed a break so we headed off to Greece, with the idea that we might find something to do there. We didn’t.

Greece is a beautiful country, but without an occupation, I ended up sitting in front of our rented house doing nothing but contemplate the view and my increasing waistline! After about three months, we realised that we were not doing the right thing, and we headed back to England, harsh reality, hard work, and a new house. The business had its difficulties, and then, at last, I got interested in trading. A copper trading scandal that was making waves ignited the spark. At around the same time, I got an unsolicited mailing in the post, advertising a trading course. I felt sure that this could be an excellent way to escape all the hassles and problems of a traditional business. I spent a couple of months trying to work out how to do it, paper trading, holding positions overnight and just trying to get a handle on the business, but with no real money involved. At this stage, I knew nothing about the technical side of trading – I had never even seen a live trading chart on a screen. So I worked only from newspapers until I realised that what I was doing was not practical to make a living. I still needed a lot more information.

My first contacts told me about data feeds and other technical details, but I wasn't informed enough to know what I needed. Eventually, I got in touch with a broker in London. He asked me what I knew about trading and suggested that I get in touch with a gentleman who was offering training. I completed a course with him over several weekends. We were taught technical information with little practical use, but as I had no reference point with which to judge, I wasn't aware of the course's discrepancies. Nonetheless, the course introduced me to the world of trading, and for that reason, I have no regrets for having taken it.

After completing the course, I sold the business in which I was involved, making a profit of twelve thousand pounds. I invested this in a data feed, software and some capital for my broker's account. In the first six weeks, I made six and a half thousand pounds profit, and thought I'd found Utopia! It was incredible.

Reality struck, however, and soon I found myself just holding my own. Losing a little, winning a little. Things seemed to go horribly wrong, and my stress levels were affecting not just me, but also my wife and children. I reached the point where I felt that everything was against me. The market was against me. The world was against me. No matter what I did, I lost to the extent of carrying out thirty-two losing trades in succession! That was my turning point. At that moment, my training in psychology came to the fore. I recognised that the failures were being generated by myself because of the fear I had built up around trading. My subconscious was trying to remove me from a stressful occupation by bankrupting me, leaving me with no choice but to leave the market. *I believed that I would lose, and my belief became self-fulfilling*. I stopped trading and spent some time analysing myself and other peoples' trading practices, growing fascinated by the way peoples' beliefs affect the market and themselves. While before I visualised the market as a free-standing entity, I now saw it as a sea of people; Rather than prices, a sea of indecision and fear. So many people didn't know what they were doing, they were essentially gambling.

I started trading again, and now there were no gambles, just steady earning. I held onto most of my gains, and I made sure losses were minimised quickly. I was also trading much less than I had done before. Sometimes as little as once or twice a week. As my account grew, so did my confidence. But I still sensed there was 'something' not right.

Then, destiny stepped in the form of Alex Whitcombe, a computer technician whom I contacted for help with a broken computer. When he opened my machine, he recognised that there was trading equipment installed, and we started talking about trading.

As our friendship developed, Alex would come and watch me trade, and eventually, I approached him with a proposal. I wanted to get my ideas about using belief structures to trade turned into a software programme.

I carried on trading, and he developed his programming skills. As his expertise grew, we worked together creating a software package for mapping the market none of which were successful in the long-term, but we were getting close.

I started looking at market beliefs within a single day's trading, trying to identify the days when it seemed likely that I would lose money and to avoid trading during those times. My success in identifying "no-trade" days did wonders for my account. I was trading less and earning more.

I continued working with Alex, and between us, we produced a piece of software which we called "Bright Futures"–a simple piece of end-of-day software.

A financial journalist investigated the program and found that it worked eight times out of ten–an extraordinary success for trading software.

But still that 'something' was eluding me, I could not get into the big time and start making serious profits because I felt that every time I stepped up to trade all was not as displayed. I felt like every time I looked at a chart on a computer screen I was staring into a shop window, a shop window that had been prepared for me.

1 Webb, Andrew, *Beyond Belief*, FOW Intermarket Intelligence for the Risk Professional, Issue 343, December 1999, pp. 22-4.

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# A BAD TRADING DAY

I was having a bad time of it, my trading account had been almost emptied yet again. I remember, head in hands repeating over and over, "It's a bloody mess."

The sense of desperation and confusion was overwhelming. If I did not stop what I was doing, I was likely to lose everything.

During this time, I was working out of a converted stable on my father's small farm and on his way to tend the animals, he popped his head around the door. "What's up?" "Oh nothing, I just can't seem to crack this business" He looked at my computer screen for a moment and said, "Mmm, my father always used to say, money and corruption, where you find a lot of money you will often find corruption." My father left to tend the animals I continued staring at the computer screen.

A few moments later, my subconscious invited in Mr Minestrone. I was thrust back in time to the cafe where again I heard the words.

*"OK so today, you do not act today in one, you assist if needed that's all. Blue will be setting up from 1.30 to the news release at 2.30 you step in at about 46 and pick up the stragglers, and away we go OK?"*

They say when the student is ready, the teacher appears. Well, I was ready, and the financial markets were about to become my most excellent teacher.

Within a very short time following that message from my subconscious, I was well on my way to financial freedom. I had left England and was living on the coast of sunshine in Spain. Today as I am writing these words, I am aged 52 years, semiretired and living in South Island, New Zealand. From my perspective, life doesn’t get better than this.

This book is about how from a seemingly random overhearing of a conversation that led me to uncover something that I believe has always existed within all financial markets. Something for the benefit of the few to the detriment of the masses.

I used this information to secure financial freedom for myself, and I know that armed with the information contained within this book, you can do the same.

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## WHY TELL MY STORY NOW?

I have been considering telling my story, Mr Minestrones story of how the financial markets really work for some time. But the lure of a beautiful trout river has always proved to be too bigger pull from a keyboard.

But now something has happened, something that I predicted would happen when the corrupt nature of markets was discovered. I did not envisage this happening in my lifetime, but it seems like it may be underway.

The Occupy Wall Street movement has started, the common man is suspicious, he senses that something is wrong with the system.

Given recent developments, I feel confident in the prediction that within a few problematic years, we will see a world-wide shift in monetary and ownership policy that will provide a much fairer and just world. This change, however, will not be without human cost as the power brokers try to maintain control of the lives of the masses for their own benefit.

By taking the contents of this book and carving out your own financial future. You will take nothing from the common man, but reclaiming that which has been taken from you and is still being taken from you through the consummate greed of those controlling financial markets.

Well, it's time to make a start, it's time to reveal what Mr Minestrone was planning and just how well his plans were executed that day and will be tomorrow.

Before we get to the actual market makers business model, I will first share with you what I learned along the way. Some of what I have to share is not so 'exciting' as Mr Minestrones activities, but nonetheless, give them equal importance.

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# IT'S NATURAL FOR YOU TO WANT TO BE A TRADER

Trading – the exchange of goods between individual people or institutions – is as old as human society itself. Today it exists among all organised groups of people, from the most complex, technological societies to small-scale groups still living in the Stone Age – even if the goods that are traded are very different.

The exchange of valued items has been the impetus behind every imperialistic movement, irrespective of ethnicity. European societies (including the British, the Spanish and the Dutch) colonised Africa, the Americas, parts of Asia and elsewhere to have access to goods with which to trade and accumulate wealth. All around the world, peoples from the Aztec to the Zulu have developed social relations, conquered and been defeated to further commercial interests.

The history of human existence is, to a considerable extent, *the history of trading*. The question of access to material goods has been behind most alliances and many wars. It has been the reason for strategic marriages between important families, and the inspiration of many religious practices. It is part of what we are. Even though the hunter-gatherer's exchange of a bow and arrow for another useful item may seem to be very different to the buying and selling in a modern marketplace, the impulses behind the deal are very much the same.

The modern trader must never forget that the qualities of "use" and "value" are very subjective. If a social group (or an individual) *believes* that an object is valuable, then, effectively, it is. The belief in use or value of an object is the impetus behind the sale, rather than that object's actual value if “actual value” can even be said to exist at all.

Modern trading is a complex, multinational business, involving individuals and large corporations who work with innovative technology and with their most important tools – their intelligence and understanding of the market. In its contemporary form, trading remains the driving force behind national and international movements. To an immeasurable extent, the failure or success of governments and alliances is determined by important actors in the trading sphere. Now, thanks to the increasing accessibility of technology, and that trading is conducted increasingly on the Internet, many people from different backgrounds and educational backgrounds can enter the market as independent traders.

People sometimes ask “what type of person becomes a trader?” – and to that, there is no straightforward answer. There is not a simple “traders personality”, but there are prepared and unprepared traders. There are weak and strong players.

This book is for two groups of people – those who have never traded, and wish to start off on the right foot, and those who already experimented with trading, with less than satisfactory results.

Many books about the market and trading concentrate on the “how-to” elements of the business. Here, we will examine not only the basics of the market and trading but also a neglected aspect that is at least as important. This overlooked aspect is your personality, your subconscious and the people around you have on your trading performance. People are not machines, but emotive beings – not a bad thing but a factor that has to be monitored and controlled in an environment that makes no allowances for a bad day. Awareness of one’s potential strengths and weaknesses is the first and most crucial step in launching oneself upon the market. It is my intention to help you to know yourself better and, in doing so, to become a successful trader. My aim in creating this book is to bring to you the advice that I wish I had had at hand when I started trading. I want to help you to avoid the mistakes I made. This book is a forum for introducing the market makers business model – This is a trading system that has succeeded, not only for me but also for those with whom I have shared it. Perhaps what is more important as you will soon come to discover this is a trading system that never changes, a system that once learned, can be applied to any market you wish to trade.

The most important attitude to bring to any new enterprise is optimism, mixed with just the right amount of humility and willingness to learn.

Approach trading with an open mind, and be ready to challenge, not only your conception of what trading is all about but also your preconceptions about yourself. You may find that both are somewhat different than you thought.

1 The vast medieval trade in religious items such as bones purported to be of Jesus Christ is an excellent example of the dominion of subjective belief over objectivity in assessing an item's value.

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## UNDERSTANDING THE MARKET

The exchange of goods is as old as time, but the market in its modern form is a relatively recent phenomenon. The explosion in technological advancement has caused tremendous changes. These changes mean trading is now available to a much wider range of people than ever before.

### Types of markets

There are two principal types of markets. The *cash* or *spot markets*, and the *futures'* or *"forward" markets*. Both of which can be traded using the market makers business model. This model will be explained in a later chapter. To explain the market makers methods, we will focus on the currency markets, referred to as Forex, meaning foreign exchange, but first a broad survey of the other markets, all tradeable using the market makers business model.

The **cash market** in equities, for example, is the stock market as we know it for buying and selling shares. The "futures" market is a speculative future value of an index such as the Dow Jones, DAX or FTSE 100, on which one can speculate by buying or selling the speculative "future" value on "margin" For example, ten per cent of the real value of the instrument/currency pair, etc.

This margin allows the trader to "gear" his account so that he can speculate on the future value of a share. This gearing allows you to use a small amount of money held with your broker to trade a larger volume.

This opens up possibilities for high profit or loss gearing, therefore, an increased risk. This book shows you how to identify lower-risk opportunities for that higher gearing, and explain how to limit your losses when things do not work out as planned so that you may return to trade again.

If you are to become a trader, you will need to be clear about the differences between the types of market, so we'll start by setting the record straight.

The **cash market** is a forum for the exchange of goods as diverse as gold, agricultural products, and computer parts. Items are bought and sold. Depending on the commodities in question, payments are made in actual cash or in cash instruments.

The **futures market** seems much more abstract at first glance. Essentially, the traders buy and sell goods that are not immediately available, but which will become so at a specific future date, with a traded price.

The **forex/currency** market as the name suggests the market for the trading of currency, which is traded in pairs. Pairs will be represented like the following examples EURUSD – GBPUSD – JPYCHF Let's examine these three markets in more detail.

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# CASH MARKETS

Market makers are the most important force behind movements in equity cash markets. 1 To understand what the cash market is, and how it operates, you must gain a full understanding of the part they play both their real one, and the perceived one which is, as you will see, much more different from most people imagine. A failure to understand or a partial understanding of what they do is behind many, if not most, trading failures. You owe it to yourself to invest a little time and patience, gaining some critical information *before* you trade.

With equities, if the market makers are holding – for instance – 1000 shares of XYZ, and a demand for that stock develops, they will mark it up in value, to make as large a profit as possible.

Let's suppose that, while the demand lasts, they sold 100 shares of XYZ, leaving the market maker with 900 lots, now marked up to the new price. The remaining set of 900 is now worth more than the initial 1000. As this scenario is repeated over and over again, it generates a higher and higher price for the outside buyer and an increasing stock value for the market maker. During this time, the market maker must make a bid price (the price at which he buys the stock), which rises in tandem with the increasing ask price (the price at which they sell stock off to the customer).2

While all of this is going on, traders are observing the market and deciding about what to buy and sell. Many do not focus their attention to a sufficient degree on the actions the market maker is taking and, what is more important, *why* he is taking them. These traders do not make fully informed trading decisions and are unlikely to remain in a winning position for very long.

So you will never join their ranks I will place a great deal of emphasis on the role of the market maker in the chapters that follow, and on the vantage point that the market makers method enables you to have.

1 While this is generally true of the stock market, it may not *always* be so of the commodities cash market.

2 The bid price sometimes lags behind farther than usual in a very fast-moving market.

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# FUTURES OR FORWARD MARKETS

The idea of trading futures or forward markets in an environment where goods do not really exchange hands is initially challenging. To make the concept of futures trading more accessible, let's take a brief look at the origins of the idea.

Futures trading came into being as a way to deal with the seasonal nature of many essential products, especially perishable goods. Merchants dealing in perishable products of this nature gradually evolved a type of futures trading by issuing receipts that entitled the bearer to a certain quantity of the product when it became available. Holders of the receipts could then exchange them, and the receipts themselves acquired a particular value.

Modern futures markets came into being to guarantee a future price. In the case of agricultural products, the future price of delivery can be guaranteed by selling the crop at the market price before it is available. This has distinct advantages for the producer; moreover, it ensures the buyer that he will be able to obtain the product at a specific price in the market.

While over the years, the range of products involved has widened and changed, the essence of future trading remains the same. Traders deal with contracts that require the delivery of the product in question at a specific date in the future, at a specified price. Rather than trading in goods, they trade in the *promise of future goods*. However, in recent years, the introduction of modern futures markets have led to faster market movement and much more open access for the individual, who can now trade in seconds from a terminal anywhere in the world.

The key thing to remember in futures trading is that the majority of traders are “speculative” in other words they do not intend to take delivery of the shares in an index or oil in commodity futures. They are trading on a “geared”, “margined” basis for high profits from relatively short term movements. Because of the high gearing, profit and loss fluctuations may be greater in futures trading than in other types of investment activity.

**What does the stock market offer a company?**

Markets offer companies the possibility of raising capital by selling stock to outside investors. The very first time a company offers stock to the public, it is sold at a standard, non-fluctuating price, known as the initial public offering. At this stage, shares are generally sold without the intervention of the stockbroker. The price is referred to as the “opening price.” Now that the company has been made public, shares can be sold in the market in the usual way, and if everything goes well for the company and it’s investors, values will rise, and everyone will make a profit.

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# THE FOREX MARKET

The forex market is the largest market in the world, with literally trillions of dollars traded daily around the globe, and due to different time zones, this goes on 24 hours a day. Not only is it the largest market, but it's also the most liquid. A liquid market means that it is continually ebbing and flowing, which offers more trading opportunities than say a market that does not move very much throughout the trading day. It is this liquidity and ease of access that makes the forex market the most popular with traders.

Traders are trading one currency against another. Currencies are always traded in pairs. In the case of say the GBPUSD (often referred to as cable) a trader might, for example, believe that the GBP (Great British Pound) is going to rise in value against the USD (United States Dollar) this trader would take a trading position by, buying the GBP in the expectation that he could sell that position later on for a profit. At the same time, we could have a trader who believes the opposite, and he thinks the USD is going to increase in value over the GBP causing the value of the GBP to fall, so he sells the GBP hoping to profit from the GBP falling value.

Here we can see that we have two traders with completely opposing beliefs about the future value of the currency. One is going to win, and one is going to lose. Belief is a critical topic for later.

To sum up, the fundamental difference between the cash futures and forex market is that in a stock exchange, as an example of a cash market, the stocks bought and sold represent partial ownership in the company which initially made the stock available.

A cash market is for immediate exchange, and a futures market represents the exchange of a commodity or a determined number or value of an index at a predetermined date in the future. In reality, the cash market needs to have transactions settled in full almost immediately. In the case of the futures market, one can trade the value of the futures contract on a geared basis, thus trading on price differences. This appeals to the person who wishes to trade in and out for a few points.

There is often a defined mathematical relationship between a cash and a futures market which maintains a certain price differential. In turbulent times stock index futures may trade at a discount to the cash market, which is expected to fall imminently, and are following the futures down. Generally, the stock futures market will trade at a small calculated premium to the cash stock market, which will fall steadily on a calculated basis until expiry day, when it will be traded at precisely the level of the cash market.

In a futures exchange, *contracts* are bought and sold. These are standardised as to quality, quantity, delivery time and location, to enable a common tradeable unit for future delivery. The quality that changes is that of price, which is revealed through trading. The contracts represent the intent to accept or deliver a quantity of a product on a future date.

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# MARKETS AND THE MAKERS

Of course, it is not possible to discuss all the markets in the world – or even a large percentage of them in this book. Still, we can scratch the surface by examining the profiles of several famous markets, both electronic and those which are still housed in physical locations, such as the New York Stock Exchange (also known as Wall Street). [1] If you have some interest in the market and trading – and as you are reading this book, one supposes that you do – you will already be familiar with the names of the most important international markets. Even the least trading-conscious person cannot help but come across financial news in his or her daily life. All of us feel the consequences of trading action in one way or another, whether in the changing value of our country's currency or that of the stocks and shares we hold.

While a few major markets still have trading floors, most trading is now conducted in the electronic realm, and those working in the market will often deal with many people whom they never physically meet, probably making the world-wide community of traders the largest virtual community that exists.

The following are just a few of the many markets around the world, although it is fair to say that they are certainly among the most important, with a large percentage of the globe's trading money passing through them. All maintain informative, accessible websites, and it is very much worth your while browsing through them. Each trader must choose the market or markets that suit him best, and should undergo considerable research to find that suit.

1 Even the New York Exchange is partly electronic, thanks to its Superdot system which is used for small order execution.

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# SOME IMPORTANT MARKETS.

The London Stock Exchange

This is Britain's leading stock exchange, and one of the most international of all exchanges. It provides investors with the opportunity to buy and sell shares in the British or foreign companies that interest them, thus enabling the companies in question to raise money. The market has a venerable history, tracing its origins to the seventeenth century. Since 1986, it has been in the electronic domain rather than on the trading floor.

The exchange maintains a variety of markets tailored to the needs of different kinds of companies. Most British and international shares are listed in the main market, while the Alternative Investment Market offers space to developing companies. Technology companies are represented by techMARK within the principal market.

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## THE NEW YORK STOCK EXCHANGE

The New York Stock exchange, with two hundred years of trading under its belt, still operates a trading floor where exchange members do substantial business for their investors using the old-fashioned method. While small orders are carried out by the system's small order execution system, known as Superdot, which trades both national and international equities. American companies still represent a large majority, although international companies are increasingly represented.

The market shares an electronic trading system with other U.S. markets which traders can access by computer. Larger orders are still handled manually through the physical floor. Traders who want to do business here need to place an order with their broker, who must be a member of the exchange, and in the case of smaller orders he or she can now execute through their broker through the Internet, instantly.

## NASDAQ

No doubt you have heard the name NASDAQ mentioned in the news, even if you have never traded before. NASDAQ has seen spectacular growth in recent years. The market, which was founded in 1971 as the world's first electronic stock market, is controlled from the United States. NASDAQ exists mainly in the electronic domain, broadcasting information simultaneously to over half a million computer terminals around the world. Traders use the information to decide what they are going to buy and sell and will often execute their orders electronically.

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## FOREX

The FOREX market developed in the 1970s when floating exchange rates were re-established as a cash inter-bank or inter-dealer market. The most important foreign exchange activity is the business between the dollar and the four major currencies (British Pound, Eurodollar, Swiss Franc, and Japanese Yen.) There is no centralised trading area; trading occurs over the telephone and through computer terminals.

Throughout the rest of this book, we will be concentrating primarily on the currency market.

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# THE MARKET MAKER

A market maker is a firm that is attached to the stock exchange, engaging in the buying and selling of stocks, shares, bonds, currencies, and so on. The actions it performs establishes the market. However, when I am talking about market makers, I am referring to the very highest level of market manipulators.

The market-making firm derives part of its profit from the difference of the price at which it buys the stock – the bid price – and the price at which it sells it the ask price. Market makers also sometimes run a stock higher (mark prices up) and attempt to sell stock if they expect lower prices, and they will also mark prices lower in expectation of a rise. They are in a unique position to play the market.

Markets are always mobile, and supply and demand never cease to ebb and flow. Market makers are constantly marking prices up and down, relative to their holdings of the security that is rising or falling in quality. They are experts at manipulating the fears – and hence the behaviour of the vast ocean of traders who do not even realise that they are being controlled from behind the scenes.

There are a number of types of market makers. The retail market-making firm has a brokerage network serving individual investors. It provides them with a continuous flow of orders or sales opportunities, ensuring stability in the marketplace and ease of movement for the company's stock or currencies.

The institutional market-making firms make large orders for such institutions as mutual funds, pensions funds, insurance companies, and asset management companies.

You must *never forget* that the market maker is in an extremely powerful position, which he maintains through his overview of the market and its strengths and weaknesses. He can monitor supply and demand and knows in advance when large blocks of buying or selling are going to come into the market. While the market maker tends not to flaunt himself, his presence infiltrates every marketing scene, and he manipulates the fears of the majority of traders, thus determining their actions to a large extent. Financial journalists frequently consult market markers or city representatives for their interpretations of the market. In this way, the news can be very reflective of their stance, rather than of objective reality.

If you hope to become a successful trader, one of your most important tasks will be to learn how to think how the market makers think, and to anticipate market reactions to his actions.

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## THE PRESS

The press tends to present itself as impartial and objective. Still, for financial news, it is often the market maker's right hand, packaging manipulation as information, and leading the masses to exactly where he wants them.

Learn to distrust financial news, or at least to receive every item with a healthy dose of scepticism, because what the papers report is often only partly true. Market makers have access to the media, and every reason to wish to control the movements of the traders. The financial news reported in all major newspapers never reflects the whole truth of underlying market activity. It reveals the value of securities and illustrates trends but *does not show* the reason for the values, or the fact that prices may be forced down or up depending on what the market maker wants the bulk of traders to do.

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## AMATEUR TRADERS

These are volatile players in the market whose moods can swing from excitement to despair during astonishingly brief periods of time. While amateurs may feel themselves to be in control of the situation, they are often psychologically controlled by the market makers, who lead them in such a way as to serve their own purposes.

Their understanding of the market is limited. They listen to outside information and pay attention to the financial press. They have limited funds with which to trade and are often overextended with investment. They are interested in quick results and easy profits and consider this to be an acceptable risk. All too often, these are traders that are forced to leave the market as they are unable to sustain a viable position.

Amateur traders often make profits in the short term but they are unlikely to be able to maintain a winning position for very long. Sadly, they represent the majority of traders and are responsible for the common perception of trading as glorified gambling.

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## WELL-PREPARED & KNOWLEDGEABLE TRADERS

These are often traders with much more experience in most aspects of trading than their amateur colleagues. They have built up strong asset columns and are not phased by the outside perception of the market. They read between the lines of press comments and make up their own minds based on the evidence as they see it. They have long term trading strategies that have worked well for years, and are interested in results acquired over time.

The well-prepared trader is the one that has done his homework before entering the market. (He may well have read this book!) He is not led astray by panic or excitement resulting from news in the financial press. He has a strategy to which he is faithful because he knows it to deliver results. He is among the minority of traders; whom achieves consistent success.

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## THE “GREEK CHORUS”

In ancient Greek theatre, actors were accompanied by a chorus, which hovered in the background making remarks about what the principal actors were doing, the likely outcome of their actions, and so on. Of course, the audience could see and hear both actors and chorus, but the performers – or, more properly, the characters in the play, paid no attention to the chorus whatsoever, as if they couldn’t hear a word of what they were saying.

Just about every trader has his own “Greek chorus” – his family, friends and well-meaning observers of the stock market, all of whom monitor the trader’s performance, uttering remarks about what is being done and the likely outcome of it. Many traders make the mistake of listening, and acting according to the advice and often gloomy predictions – making the “Greek chorus” an important, if generally unrecognised, player in the market. Professional traders, just like the professional Greek actors from long ago, remain calm and oblivious.

# BECOMING A TRADER -

## IMPORTANT CONSIDERATIONS.

Now that we have established a clear picture of what the markets are and, an overview of their workings it is time to turn inward and get a little closer to yourself

Innumerable would-be traders take the plunge and start trading without being properly prepared, either psychologically or with practical information about how the markets work. Don't let yourself be one of them! Careful planning, learning a method that never changes and self-awareness are the keys to your trading success.

To maximise your chances of success, you will need the right tools. Whether you realise it, you probably already have the most important of them, as well as the ability to acquire whatever it is you are still lacking.

An important and often overlooked task will be to identify your strengths and learn how to use them in the environment of the market, while recognising potential weaknesses and taking measures to counteract them, and remember there is no flaw so great that it cannot be overcome so do not be discouraged if you think you are going to run into any hurdles.

When I first began trading, I lost heavily. In fact, at an early stage in my career, I entered the market no less than 32 times *in succession* with losing positions. The odds are so much against this sequence, that it would be hard to achieve such a "run of bad luck" on purpose! Then, I was unable to explain my recurring failure, but now I know that I had become entangled in the wrong loop, or behavioural sequence, and thrown myself onto a self-destructive trading path. I had also become completely entwined in the market makers web of deception and misdirection. With hindsight I can see that, ultimately, my weakness was my strength. The thirty-two failures I initially endured set a course for my turning point and my rebirth as a professional – and successful – trader.

The knowledge that I have acquired since then has put me in a position to help you by-pass that frustrating stage and avoid needless losses. Experience has taught me how to avoid the pitfalls, and I can teach you how to maximise your trading potential, giving you at an instant advantage over the novice traders who enter the market unprepared for the surprises that lie ahead.

I hope that you will enter trading with a spirit of optimism, but I don't intend to lead you to believe that trading is easy money. If you decide to take this path, you should be prepared for hard work and to combat the early frustration and the temptation to give up. Every new challenge is difficult at first, but try to remember that testing times are the crucible that will forge you into a mature, successful trader of which the rewards can be staggering.

Anybody starting out in a conventional business would have a plan an idea of costs, overheads and profit potential. Most planners would visit their bank manager. Traders should be equally cautious before starting out – but many if not most of them are not. One of the reasons for their carelessness comes from the trading environment, which, unlike most businesses, does not demand that you establish a plan or answer to anyone other than your ego.

When starting out, the typical trader will usually source market data, buy a computer and the necessary software, deposit money with his broker, observe the markets overlay the chart with a few standard indicators and start trading. As simple as that.

Most of the considerations thought to be crucial when starting a traditional business are simply conveniently excluded by the budding trader. The financial elements are not present, and an overall plan is completely absent.

Just why doesn’t the new trader create a plan? One reason is the somewhat artificial trading environment, which arises from the fact that there are no outside influences, their is nobody to answer to.

Trading is a very solitary pursuit in this computerised era. You will need to force yourself to ask questions, such as: What if? How many? Expenses? Control? Organisation?

In a more orthodox business environment one is *always* able to influence the outcome of any given situation. There is no business component that the individual is unable to influence even if only in some small way. One’s personal influence creates the manner in which the business is run and ultimately determines its success or failure. Trading is very different.

The average trader is unable to influence the outcome of any aspect of trading, and this can cause all sorts of difficulties. Trading is a process undergone alone, and the individual’s natural need to control events is turned inward, causing a critical self-examination of psychological characteristics, and creating a forced awareness that can set him up for failure. In this fraught environment, decisions are of utmost importance. Failure to carry out a successful trade throws doubt on the decision-making capabilities of the individual, and the next time that a decision has to be made, the trader is affected by the memory of earlier failures. Decision making capabilities within the trading environment may be systematically destroyed by such personal conflicts.

## SO WHAT SHOULD YOU DO?

If we accept the fact that the trading environment is very different to that of an “ordinary” work environment, we must realise that the skills necessary for success are also distinct. Hence, when you draw up your plans, they must be tailored specifically towards trading. A well-executed, professional plan is essential, and no factor is so unimportant that it should not receive your full attention. Let’s go through the procedure step by step.

Generally, however, your plan should address the following issues, which you will have to consider both systematically and critically.

- What are your trading aims and ambitions?
- What markets to you intend to trade? (futures, options, shares, FOREX,
- How much time are you going to devote to your trading?
- Where are you going to trade from?
- What time frames (intra-day, daily, weekly and/or monthly) are you going to trade?
- How much are you prepared to risk in achieving your goals?

Consider each of the questions carefully before deciding what your answer is. Query your answer. Don’t rush these decisions. They are important and should not be taken lightly. Write down your answer, put it aside and look at it again later. Is there anything you’ve left out? Keep working at the answer until you are fully satisfied with it. There isn’t just one right answer to these questions. Each plan should be tailor-made for the trader in question.

Now, let’s address the components that your trading strategy must contain. While everyone is different, there are some key features that are essential.

- Successful trading systems are based on repeatability. If you are going to make profits, you need to know you have a repeatable plan. The plan should be simple.
- Your strategy should be *durable* and *flexible*. Market conditions change, and your strategy must be able to adapt to new circumstances. Your strategy should be able to indicate when the market is unsuitable for you to trade. Any trading strategy should be repeatable don’t base yours on coincidence. Test it on paper in diverse market conditions before venturing into the real market.
- Be *objective* in your interpretation of signals. If you are looking for three certain actions to take place in a given order, then *that* is your strategy. If you find yourself questioning the validity of any given element, you have introduced subjectivity and set a bad precedent.
- Your strategy should give *no relevance to price*. Price should merely reflect the fact that a transaction between you and the person from whom you bought or to whom you have sold has taken place. Buying or selling on the basis of price alone, is “price trading” not “strategy trading”. Price is an *emotive and destructive element*, and is never of itself a reason to enter or exit a market.
- Consider how you are going to monitor your trading. Once you enter a trade, you are in the market until your strategy determines the time to exit. The may be, for instance, a simple stop loss order, sudden high volume, or whatever your strategy contains. You may wonder why there is a need to monitor your trade when the strategy should determine all your actions. Imagine the following scenario: You are in the market; your trade is now some forty points in the money and your original stop loss order is way below the market. This will need to be moved up to the last reaction. This is the process of monitoring your trade.
- It is important to note that the moving of your stop must fall within your tested strategy. For example, if you move a stop up to

the last reaction, this action should be tested within your overall strategy.

- Keep a trading log. It will become your most valuable asset. While amateur traders record prices, profitable professionals keep journals and records, not only of each trade but also of all the steps they actioned and what was going through their mind at the time of trade placed. From this journal, you will be able to hone and improve your strategy. It does require discipline, and you will have to be prepared to accept the possibility that it will highlight flaws in your strategy that you may be unwilling to acknowledge.

The trading journal is so important that I have produced many videos just on this one topic. You can get the links to these on my website. https://learningtotrade.com/

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## WHAT TYPES OF TRADES WILL SUIT YOU

An **intra-day trade** is one that results from trading activity lasting for part of a day, or for a day, according to the amount of profit sought. A **short-term trade** involves staying in the market for a longer period of time to reap the profits of a larger price move. A **medium** or **long-term trade** is when the trader holds on to his position for a considerable time and through large price changes. Some traders prefer to work just one type of trade, while others are interested in the full range. While the basic mechanisms for making a trade – observing the market, making a decision, and placing your order – remain the same, the details are very different. For intra-day trading, one observes market actions within a single day, together with selective use of longer time frames, including day or week charts. Trading activity, as such, is confined within the limits of the day. Longer term tactics involve observing market trends over greater periods of time.

# TRADING TOOLS

Great care must be taken when selecting tools, which include the broker, the data-feed and associated analysis tools. Quality varies considerably in each of these categories, and companies come and go. While the advice given here will be helpful, you should not neglect to research everything thoroughly by yourself.

To begin trading you will need a charting software package that provides you with the ability to make intelligent, informed decisions. A wide range of charting packages is available, many of which may be downloaded from the Internet. There are all sorts of ‘free’ software and ‘free’ data available, but before you head down the free route you may like to question why this is freely available. Research your choices this is important!

The use of software to predict market moves is known as “technical analysis” and involves the use of charts. The trader charts the price of a stock or currency pair within a period of time.

As discussed earlier the type of chart most commonly used by traders is the **candle chart**, which gives the high, low, opening and closing prices of the stock / currency over a particular period of time, and illustrates its trading range.

Apart from a charting package, there are many other types of software for you to choose from, including market data providers, which bring information such as quotes and market information to your desktop.

Choosing the right software can be a daunting business, simply because of the sheer number of options available. Again, research, before you make a decision. Software is generally designed to work with one of the well-known computer systems, such as Windows from Microsoft, and it is important that your computer is kept up to date to be able to deal with innovations as they emerge. On the whole, there is no need for any expert help in downloading software from the internet or installing it on your computer.

Market information is available through the Internet and the placing of trades through the Internet is now fast and efficient.

However, data sent this way is subject to the problems associated with the medium, and even the best connections in the United States suffer the occasional “brownout”, or internet data traffic jam. At these times, you should stop trading for that period. It is wise to have at least two ISP backups ready to go at any time, and it is often worth paying to get a better internet service when dealing one that may not be so busy with traffic.

The “brownouts” periods when there are delays in the transmission of data. Many data feeds are now building the ability to chart the market directly into their software. This offers some significant benefits, such as the instant update of the data to the chart. Some software packages still require a linking database that connects the data feed with the trading charting software, these database feeds all ad time for the data to be displayed on your screen.

The most important feature of the data-feed is that it sends all the data in real time. This might sound like stating the obvious but, there are more than a few available that either miss out some data – in some cases a considerable amount – or send it delayed, or both. One decisive factor in choosing a data-feed system is one that you pay for. Free feeds are attractive until you are trading at serious money levels and you suddenly realise you are relying on some free data service being available with nobody to call.

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# CHOOSING A BROKER

Your broker may be electronic or manual. Ideally, however, you will be offered either option or a combination of the two. A purely electronic broker usually offers an Internet based service, through the broker's computer directly into the exchange dealing computer. This is known as "electronic trading". Some brokers offer electronic only dealing, which means you can't call the broker if something goes wrong.

The following are some of the points that you should remember when choosing a broker:

- Make sure your broker is polite always, and does not comment on your trade. Remarks such as "really", "well done," and so on, are unnecessary, and can be distracting. If your broker does this kind of thing, either ask him not to, or consider closing the account. His job is to be totally professional and impersonal always.
- Be wary of small brokers. If you use the services of one, one day you may find that the business has gone bankrupt something that happens much more frequently than many suspect. Even with regulators and insurance, recovering trading capital or a portion of it can take months, or, in some cases, years to get any of your money back.
- Make sure that you trade with a reputable, efficient company, especially if you are dealing with large sums. For example, it is unlikely that a broker owned by a national bank will run into problems, and in the unusual event of a large bank crashing, it is

unlikely that the national government would not bail it out.

- Medium sized brokers do not usually go bankrupt, but it has been known to happen. However, such companies often offer traders the best deals. When you are looking into using the services of a medium sized broker, you should be wary of companies that ask for a monthly minimum trade size, as you may want to go away for a while.
- A modern broker should be able to email as well as “snail mail” your contract notes to you.
- If the broker starts to make frequent mistakes, such as posting other peoples’ trades to your account, there is something wrong. My advice is to change broker.
- Any dealing room worth your investment should answer the phone on the first or, at most, second ring. Brokers who go home early, give vague answers, and cannot answer questions easily and competently should be viewed with suspicion.
- Make sure that the broker you are dealing with is regulated. In the Middle East, Far East, Germany, Switzerland and many other places, brokers are either lightly regulated or not regulated at all. Should any problem arise, you are at his mercy – and so is your money.
- Never forget that to most brokers you are simply a number, another client. Your wins or losses are of no consequence to him, (unless your broker is one of the ‘new’ set-ups that trade against your position). So far as he is concerned, you simply generate commission and move on. Your relationship is not a personal one. You, for your part, have a perfect right to expect efficiency, fast execution, reliability and polite behaviour.
- Assess your tax situation very carefully. It is worth consulting with at least one tax expert to make sure that you do not end up giving all your hard-earned profits back to a tax authority.

You need to feel confident that you can trust your broker, so don’t just opt for the first one that comes along. Investing money and time in a brokerage is not to be taken lightly. Shop around until you feel confident that you have found someone or dealing software that you can really trust. Investigate the true costs of an account with the professional or firm –

sometimes low commissions conceal hidden costs elsewhere. You need to have ready access by phone to your brokerage. Will you be provided with assistance when and if you need it

If you are going to use a human broker as your point of contact, make sure that he doesn’t have to phone a third party to execute trades in an electronic market. It is important that he can execute trades for you directly and immediately.

In choosing a broker many traders make hasty leaps of faith. The wisdom of conducting at least preliminary research should speak for itself.

## COMMUNICATING EFFECTIVELY WITH YOUR BROKER

It is important to know how to communicate with your broker. He will appreciate it if you can keep your requests concise and specific, and it is your money that is on the line so you have certainly got a vested interest in knowing that there is no confusion about what it is you want! In most case now you will not be calling or speaking to anyone as the vast majority of traders are now executed from a platform right on your computer screen with the click of a mouse button.

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## ORDER TYPES

There are a number of types of basic orders.

A **market order** is the most frequently used order. It is carried out at the best possible price available at the time the order is traded. Its greatest use is in ensuring that the customer does not have to invest much effort "chasing" the market, and trying to get in and out of a position.

The advantage of a market order is that you will get in at the next available price. This is very useful when you need to get in or out quickly as when the market is moving very quickly. The disadvantage is that you will not be able to "work" the order to extract a better price from the market (as is often possible when the market is moving slowly in a tight range). In such cases a limit order can be employed.

A **limit order** is an order to buy or sell at a prearranged price. Limit orders to sell are placed above the market; those to buy are placed below the market. As there is no guarantee that the market will go high or low enough to fill the order. If the market is falling or rising away from you rapidly, either place a limit well inside what you think you will get (to save yourself from being filled at *absolutely* any price, as is the case with a market order) or use a market order to make sure of getting out, because, by the time you have another chance to change your limit, the market may have moved well away from your price.

More importantly though, limit orders can be used during volatile conditions to get a fill at a better price when the market is violently oscillating between prices in a close range, so that the broker *must* execute the order if the price trades even one tick above or below your sell or your buy “at limit” order. Limit orders, if intelligently and realistically placed, can save hundreds of pounds. This is their real power, especially on floor traded markets. Their use effectively prevents unscrupulous market makers and the like filling your order at a price that suits them, not you!

Let’s take a look at an example of the effective use of a limit order. Suppose that the E Mini S&P is quoted with a 1386 bid and a 1387.50 offer (ask) price. In this case, if the trader wants to sell immediately, he can hit the offer at 1386, as someone is definitely willing to buy at this price.

What happens when an offer is entered into the system at 1387.00, with the hope of a sale at a higher price? Imagine that the current offer of 1387.50 is the best sell price on the system for someone who wants to be sure of buying. But the moment an offer to sell at 1387 is entered, all the quote screens around the world instantly offer that instrument at 1387 - a better price for a buyer instead of the previous 1387.50. 1386 will then be the nearest sure place to make a sale. In an electronically matched market the trader effectively acts as a market maker. He can make an inside price, and when someone enters a market order to buy, he will instantly be matched with the next best available price to sell. The initial trader gets traded at 1387 to sell, a full point above 1386. Should there be no other offers in the system, the screen instantly offers 1387.50 again as the best offered price.

In the markets when an offer or bid has been taken up, it is said to have been hit. This process is how markets are made. For example, if someone keeps hitting the offer/ask price, the price moves to the next higher seller. This can lead to price spikes of many points. In one example I observed recently[1], someone spiked the E Mini S&P from 1348 to 1380 in five-seconds. He kept buying all the offers, and soon the next offer was way above the market. It was hit and ten-seconds later the market was back at 1355. In less than a minute, the market saw as much activity as it often sees in a whole day.

The type of activity I describe is sometimes the result of professionals “running the stops”. It occurs when a couple of traders artificially run the market up, triggering all the buy stop orders above the market to get people long (buying) way above the real market.[2]. For example, if there is an electronic system that can see a buy order at 1375, then the market can be artificially taken up by arranging that someone will take out all the offers on the way up, resulting in trading occurring at a much higher price. The market reacts by returning to its real value, leaving the person who traded at the higher price, stopped in with a huge loss. All this is infrequent, but possible – so be careful! ( this will be fully covered as we get into the actual trading method)

A **stop order** is used for three basic reasons. To minimise a loss on a long or short position (respectively, anticipating a rise or fall in prices), to protect a profit on an existing long or short position, or to initiate a new long or short position. A buy stop order is placed above the market and a sell stop order is placed below the market. Once the stop price is touched, the order will be treated like a market order, and will be filled at the best possible price.

Most traders use stop orders either to limit loss or to lock in a profit. A stop order to enter the market allows you to let the market prove itself by moving towards your (in this instance) buy order.

A **market if touched order**, often referred to as an **MIT**, is the opposite of a stop order. A **buy MIT** is placed below the market and a **sell MIT** is placed above the market. This type of order is generally used to enter the market or to begin a trade. Once the limit price is touched or passed, the MIT order becomes a market order and can be carried out at, above or below the specified price. The order is not executed if the market fails to touch the MIT specified price.

An **OCO** or **one cancels the other order** is a combination of two orders. Once one side of the order is filled, the remaining side should be cancelled. By placing two instructions on one order, the trader cuts out the possibility of a double fill.

If you assume that the instrument you are trading is currently at 100 and you would like to buy into this market at 110, you should say “Buy me one (name of instrument) on stop at 110.” This order is instructing your broker to buy you one contract / share, etc., if the price touches 110.

A **stop limit order** is a way of limiting damage by specifying that the broker should sell or buy your order at a specific price, and not a lower one. The danger lies in the possibility that the market will bypass your stop and you will not be filled at all, but exposed to more loss.

When **slippage** occurs, you are not filled at your specified price. For example, when you have a stop in the market at – for example – 95, and the market trades at 92, and is then followed by a rapid price movement through 95 to 99, the three points difference would be termed slippage. Slippage generally occurs when the market is moving very quickly and the sheer volume of business forces the broker to get you in or out of the market at the best possible price that he can, rarely far from your original order. Stop limit orders avoid the occurrence of slippage, but the market must trade at the limit price to ensure that you are filled. Should it gap through the price you specified rather than trade there, your order may not be filled.

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## YOUR WORK AREA

Remember the proverb "for the want of a nail"? Don't overlook the important detail of your trading environment. As you know, few traders ever need to set foot on a trading floor, and almost everybody works from their remote computer terminal. This brings to mind the important issue of your office – and it *is* important. Working from home has some major advantages you can set up an office in your house at very little cost – no extra heating or electricity bills, no transport costs – but a home office is not necessarily for everybody. Parents of young children may find their attention distracted, and end up being unfair to both work and family. There is always the temptation to return to your computer when the work day should really be over, or to leave your workspace when you should be concentrating to attend to some family matter that could really wait until later. For some, a separate work space is necessary to achieve the psychological distance essential to clear minded trading. If working at home is liable to cause stress, you should seriously consider other options. A stressed trader is not a good one, and a stressed family member is equally ineffective. If you do decide to work at home, set clear boundaries for space and time – and stick to them. If you feel that a home office is a potential source for stress and disturbance, renting an office elsewhere is a possibility that might be viable, particularly for those who intend to trade full-time.

Another item that is definitely not too insignificant to mention is the question of physical comfort. An orthopaedic chair is an excellent investment – just try making level-headed decisions when your back is aching. Natural light is also much to be desired. Take a break from your computer at least every hour or so to rest your eyes. Be careful to get some physical exercise during your working day – brains as well as bodies become sluggish if the whole system is not given an opportunity to work out. Those involved in any office bound job should ensure that their working space has plenty of fresh air, that the atmosphere does not become too dry and that they themselves do not become dehydrated – keep plenty of drinking water on hand.

Many new traders, having made the decision to become a trader, are so eager to begin that they start trading without having made all the necessary plans. Getting organised may not be glamorous or exciting, but every hour that you invest in careful planning will be repaid in market success.

In locating both broker, dealing platform and a data-feed you need to search for speed and efficiency. Without speed, you are at a severe disadvantage in the intra day market. Making trading decisions and taking actions on data that is historical in nature is not a winning approach. Successful trading demands a timely reaction to an unfolding situation. You need a broker / dealing platform that gets you out fast when things start to go wrong and in quickly when opportunity beckons. Similarly, you need a data-feed that *always* reports what is happening *now*. Price is important, but so is quality of service. As standards change constantly, keep ensuring that you are getting the service you deserve in executing your strategy.

Most importantly, in your preparations you should never forget that there is no detail so minor that you can afford to overlook it.

## MANAGING YOUR PERSONAL CIRCUMSTANCES

In a later chapter, I will discuss the technical side of the market in still more detail and examine the market makers method in greater detail. However, of at least equal importance to such matters are the attitudes and personal characteristics that you take with you into the market.

The issue of personality is a fascinating one, and psychologists and social scientists of all kinds agree on at least one point – it is an infinitely complex subject. We are all the products of our genes, our upbringing and all the things we have experienced throughout our lives.

In trading, it is important to recognise one's innate tendencies – not to be judgemental, not to see if you are the "wrong sort of person" to go into trading – but to identify potential problems *before* they are manifested in an uncontrolled fashion.

Another important point that is easily overlooked is that nobody is alone in this world – we are all surrounded by family, friends and acquaintances and, being the emotive beings we are, we are influenced by them by our desires to impress, please or even anger them.

These facts, together with practical issues such as funding and planning, affect in no small measure our abilities in the challenging trading sphere. New traders are willing to devote time to choosing office equipment and software, but all too often they neglect to sit down and think carefully of these other, even more important issues – perhaps because they are afraid of what they might have to admit.

Before we examine the technical aspects of the market, stop and examine your own, personal, potential strengths and weaknesses as a trader.

Everybody’s circumstances are different, and many types of people go on to become successful traders, pending careful planning.

## FUNDING

One is often cautioned by the well intended to trade strictly within one's means. This unnecessarily pessimistic approach presupposes failure, and while you should certainly take sensible precautions, that can hardly be the right way to embark upon an important new career! Of course, care should be taken so that you won't end up in an awkward financial situation, but be positive.

If you need to make a living from trading, my advice is that you ensure that you have living expenses for at least six month in a separate account. Quite apart from being the sensible thing to do, this will remove much personal pressure that could easily affect your decision making and overall performance as a trader. Lack of sufficient funds can cause traders to hold positions for longer than they should, in the hope that the market will turn and give them back their money. Of course, there is no guarantee that this will happen, and frequently it does not, resulting in an untenable situation.

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# PEOPLE AND CIRCUMSTANCES CAN INFLUENCE YOUR TRADING

N*ever* underestimate the effect of your family and friends on your attitude and overall performance. In ideal circumstances, they can help you win. In less than ideal, they can contribute to professional catastrophe.

Of course, everybody's personal circumstances are different, but take care not to overlook the possible dangers. Sit down and think about it. What does your spouse or partner think of the prospect of your trading? Does he or she dismiss it as gambling? Are you the sort of person to be overly affected by the opinions of others? If the answer to any of these questions is "yes", the negative environment you are in may seriously affect your performance, and you need to redress this by ensuring that your professional life as a trader is kept completely separate from such concerns. It is important to identify and deal with potential problems *before* they happen. Don't let yourself get dragged down by another person's pessimism. More than one trader has ended up having to choose between continuing to trade, and getting divorced, or stopping and staying married, so try to plan things well. Trading can appear to be a drug at times, and for those close to traders it can become a nightmare.

## Deal With Other People in a Positive Manner.

No-one is ever going to completely share your point of view or way of understanding things, no matter how hard to try to make them. If you feel that you *must* explain and justify yourself, keep it simple. Never attempt to manipulate someone else into providing a support system for you – that is a recipe for disappointment. You will need to decide up to what point you are prepared to discuss your trading, and you should avoid involving another person in your professional decisions. Don’t let your personal trading-related feelings of anger, frustration or elation seep into your private life. To let this happen would be unfair to you as a professional, and to those with whom you share your life. If people ask, restrain yourself to simple statements such as “It was a good day” or “It was a productive day for learning” – they’ll soon learn that there are some things you would prefer not to discuss.

## Have a Well-Defined Strategy

If you are lacking a well-defined strategy, you will be left wandering aimlessly without an idea of where you should go or how you should get there. This can only result in an enormous loss of time – and money. You must develop a strategy that you trust completely, so that you can act according to it without doubts or hesitations. This book will help you to do just that.

**Be Your Own Trader!**

The press is an important influencing factor in the professional life of a trader. Let me present you with a possible scenario to explain what I mean. We’ll assume that you have decided not to let newspapers affect your decisions, and that you will be influenced purely on the evidence that you have accrued. As you sip your coffee and browse through your daily paper, you notice that a certain group will be meeting today to announce some new finance measures. Still later, you notice a market action that you don’t fully understand, and you search for an explanation. Whether you wish it or not, you remember the story you read, and the *very act of remembering* causes you to be influenced. You may find it difficult to trade, and your interpretation of the evidence you had gathered will have been affected. Avoid letting this happen, and similarly avoid being led astray by phone calls “just to let you know about something that is going on”.

Another dangerous area you should be aware of is that of expressing your opinion about what is happening in the market. Let me present you with another imaginary scenario. Someone calls you and asks for your professional opinion. This appeals to your sense of pride and you explain certain market activities. The act of doing so engraves your opinion in stone in your mind. You are no longer flexible, and even if the evidence before you suggests that you were incorrect, it will be difficult to change. No-one is more easily won over to someone’s opinion than oneself. Voicing your opinion can cause you to prevent to take action based on the real evidence as it reveals itself. My advice is that whenever anyone asks you what you think the market is going to do, is simply to state the truth; “whatever it likes at any given moment”.

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# TAKING EARLY PROFITS

AND

## Accepting Losses as Part of the Trading Process.

If a fair world, the crime of taking early profits would be prohibited by law! Nonetheless, there are many reasons why people make this fatal mistake. Some are unwilling to accept a loss, others have undercapitalised. More have allowed themselves to fall under the unhelpful influence of someone else, or have failed in developing a strategy. Rather than putting yourself in a situation that will cause you to be tempted, ensure that you are prepared to avoid making this mistake.

The trader who is unwilling to accept a loss puts himself at a disadvantage. Situations will arise in which you simply need to accept that loss is inevitable. For some people this is difficult, especially in a situation where a strong opinion about what is likely to happen has already been voiced, as I mentioned earlier. Never interpret a loss as an attack against you. The market is impersonal and as a trader, you should be too.

## UNDERSTANDING HOW MARKETS REALLY WORK

The trader that does not have a comprehensive understanding of how markets work is at a serious disadvantage, and you owe it to yourself not to enter trading without having addressed this issue. For example, trading futures without properly understanding the nature of contract expiry could cause any number of problems. Traders must fully understand the market, and especially the particular aspect of the market with which they deal, if they wish to operate successfully. Be prepared.

## TRUST YOURSELF AND MANAGE FEAR

Failure to trust oneself in the market is invariably the result of not understanding exactly what is going on with the market makers. Imagine that you start working, with your strategy in place, when suddenly the trade reacts in a manner inconsistent with what you expected. As the trade nears your stop you find that your anxiety levels are soaring. Why? You are committed to your strategy. You *know* it succeeds more often than it fails. Let's examine a number of the factors that cause confidence failure.

Imagine that you enter the market using the strategy that you have developed. You are confident that the trade is good, when suddenly it reacts in a manner that you had not anticipated. As the trade approaches your stop, you become increasingly anxious. Why? You have tried and tested your strategy and have every reason to be confident in it. Are you underfunded? To be so puts you in a highly stressful situation, in which fear of failure overcomes your trust in your strategy. Are you using a strategy which you feel, either consciously or subconsciously, to be untested? Have you traded outside your strategy? This last possibility generally arises from the trader's sense of frustration when the market does not permit the use of his or her own strategy. In such a circumstance, the trader tends to look around for something that appears consistent with the tested strategy before trading. I refer to this as "stepping outside the strategy". It is a very destructive position to take, and may cause damage that will take many weeks to repair.

Fear also springs from incomplete understanding. To avoid it, you must put yourself in a position to make a connection between your strategy and a danger free zone. Once you have achieved this, and are able to maintain it, your trading will acquire new meaning and you will be free to succeed at and even enjoy it.

## HOW TO AVOID ANXIETY ABOUT YOUR TRADING

If you are already trading and you are in a *losing loop*, discard it and create a new one. If you are a new trader, make sure you construct a *winning loop* from the outset, and stay in it!

Once you have developed and tested a profitable trading strategy, you should act upon it. This advice might sound too obvious even to mention, but there are many factors that can cause inconsistent behaviour, such as personal conflict regarding the strategy on a conscious or subconscious level. This can be the result of poor understanding of the strategy or of disavowal of certain parts of it, of a lack of trading capital, or of a tendency to delay trading, because the trade just out of reach seems more attractive – something that I like to refer to as "cherry picking". The bottom line, however, is that there are as many reasons for inconsistency as there are traders. If you start to notice inconsistency slipping in to your work, stop, calm down and ask yourself why. Once you have identified the cause, you will be able to take the appropriate actions.

Are you feeling overwhelmed? Nothing is ever easy at first, but as we continue, concepts and terms will become more familiar to you, and you will begin to learn how to apply this new information to your trading and your life. Before you continue to read, I suggest that you sit down with pen and paper and make a list of your potential strengths and shortcomings. Identifying these will be an important step forward, because the psychological make-up of the individual trader is *at least* as important as his level of understanding of the markets. Potential weaknesses are not, of themselves, a reason not to trade – careful planning can turn weaknesses into strengths. Don’t be ashamed or embarrassed of your emotional side – recognise it as a fundamental part of what you are and embrace its weaknesses as well as its strengths. You might even consider asking someone who knows you very well what they think might be your potential weaknesses in trading. One is not always entirely honest with oneself!

## THE MARKETS AS A BUSINESS

Some readers will have skipped the first part of this book fuelled by the desire to get on and 'make some money' I hope you are not one of those readers, because the information in the first part of this book, whilst not glamorous or exciting is still important to your long term success.

By now, you have achieved a number of important goals. You have a basic understanding of how the market works and how the important people in it function. You have assessed yourself *vis a vis* your personal circumstances, and you know what you will need to do to become a successful trader. You have recognised your potential strengths and weaknesses and you are ready to acquire a more detailed knowledge of market dynamics, and to learn how to view market activity from a position above the crowd.

**Ready?**

A word of warning! What you are about to read is going to possibly shock you, and for certain many of your currently held beliefs about how markets work are going to left in tatters. You are about to discover the real market, a market that few traders really ever get to truly understand and I estimate less than 1% of the general public have a notion of.

Untruths, corruption, misdirection, manipulation are the contents of the great murder mysteries novels. The financial markets have all the same ingredients.

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## REPEATABILITY

Repeatability is vitally important for traders, without the ability to repeat results we would literally be winning one minute and then giving it away the next as we leapt from one random market move to another.

It is *true* that we need repeatability.

However, there are a many trading ‘truisms’[1] the importance of which cannot be overlooked. I will highlight these truisms as we are discussing that particular area. For now we are looking at the markets as a business, not our business, but that of the market makers.

The market markers business model has rules, very strict rules which are governed by the desire and absolute need for profit.

It is often said the markets are there for the benefit of everyone. “It’s a free market and driven by supply and demand” “The markets are too big to be manipulated” These statements are designed to mislead the masses. [2]

The repeatability that you are learning about here is one based on need and greed, an absolute need for the market makers to produce profit that ultimately pays for the towering office blocks, and the greed and power lust of the market makers themselves.

*(I believe that if anyone is worth a million dollars a year then they should be paid that)*

Take one city tower block in the financial capitals of the world and then take a wild guess the hour by hour running costs, and then multiply that by huge numbers of tower blocks with ever increasing costs and you might begin to merely scratch the surface of the amount of money that is swallowed up.

Due to this inescapable need of profit seeking, we can be assured that the market makers actions are always motivated by that need, along with personal greed for ever increasing profits. Profits which can only ultimately come from the working class family. (Don’t you just hate human labels) The working class is where the real value to society is.

Given these facts would it would be naive in its extreme to believe that this need would be left to chance. Naive to believe that these huge empires of financial wealth did not have a repeatable business plan, like any other business in the pursuit of profits.

I think we would have little trouble in agreeing that the way to produce profit from trading at a base level is to buy something at a given price and then later sell that at a higher price, or sell something at a given price and then later buy it back at a lower price.

Both of these actions will create profit, both of these actions at the activities of every trader and at the same time the market makers. Clearly we can see that traders are in competition with the market makers on every level.

In order for a trader to buy or sell we are forced to do business with the market makers. (orders may be placed through an online broker, but ultimately everything leads back to the market makers) In order for a trader to buy anything the marker maker must supply the sell to match the buy. If a market maker is willing to sell to you at a ‘bargain’ price and since the market maker has a vested interest in making a profit we can at least believe he has done the math and is not selling you something that he knows you are going to make money on, and he is going to lose money on.

I reduced this to the most basic level of a single transaction solely to explain the business plan of the market makers at root level. When it is reduced to this level it is hard to place everything into perspective. What we need to do is now amplify this transaction into hundreds of thousands of transactions every day. This continuous cycle of buying and selling, and selling and buying gives us our first repeatability factor.

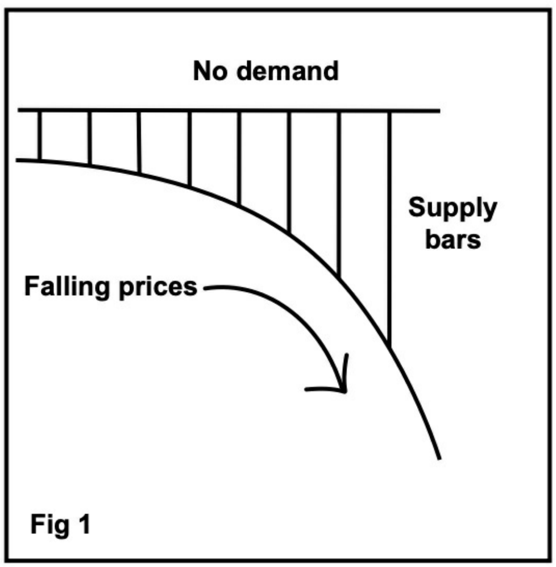
The second level of repeatability is the methods they use to generate their profits. The market makers use the same methods day in day out to achieve their aim.

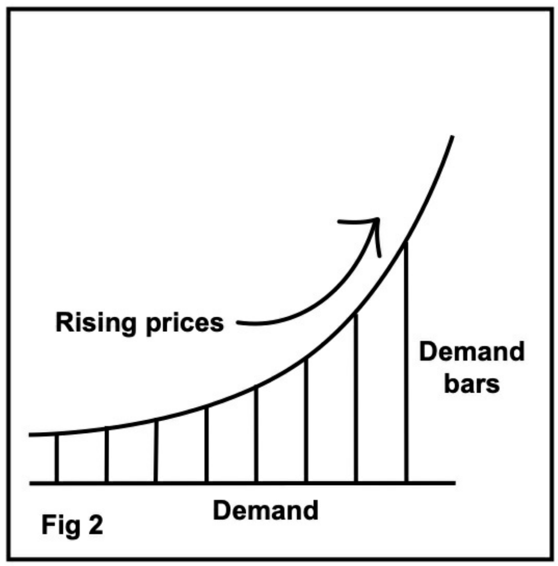
By trading the market makers business model you are assured that your trading model will be repeatable and never change.

The third level is supply and demand. You many have the best widget in the world but if there is no demand for it then you are not going to be able to sell it.

In the markets however, supply and demand is not nearly so straight forward.

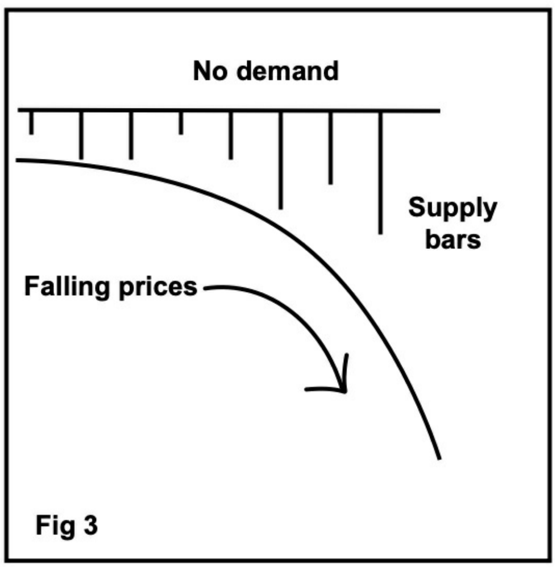
## IDEALISED SUPPLY AND DEMAND




The two diagrams above illustrate idealised market movements. In fig 1 the price of stock is falling in alignment with supply, as supply increases without demand the price will fall equal to the supply bars to the angle of descent. Fig 2 shows the opposite; prices are rising with equal demand. Together, these images illustrate the public’s perception of the market where supply and demand are matched in a simplistic manner. The truth is that the reality of supply and demand is *never* that straightforward.

## MARKET MAKERS SUPPLY AND DEMAND



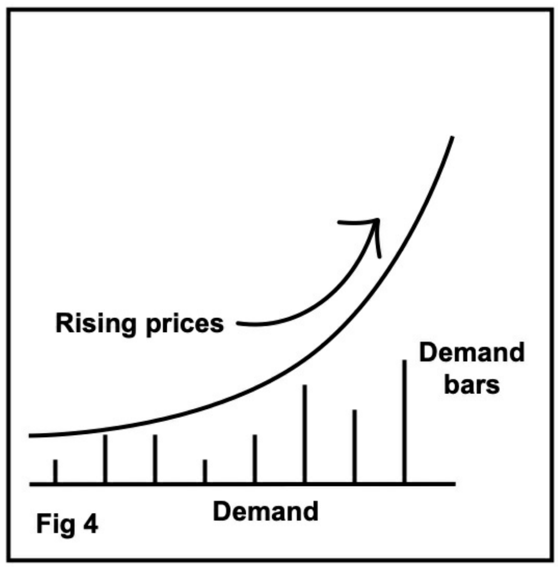




Fig 3 and 4 are a much more accurate illustration of market movement with relation to supply and demand.

This illustration reflects that markets can be manipulated away from matched supply and demand in direct relation to the market makers profit driven motives.

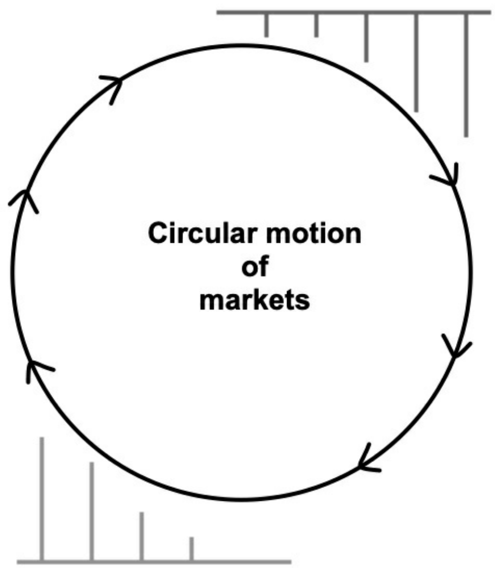
## THE CIRCULARITY OF STOCK MOVEMENT

So far you have only been introduced to market basics along with a brief look at supply and demand. To acquire the ability of a professional trader, you will need to develop an insiders perception. You will need to work with this inside perception whilst being aware of the outsider's perception.

The outside perception of markets is linked to the peaks and troughs that are visible from the images that are presented. Those wavy lines rising and falling that we see as back drops to the news readers create that impression.

The truth is, the markets are *circular*. *Fig 5*

Fig 5



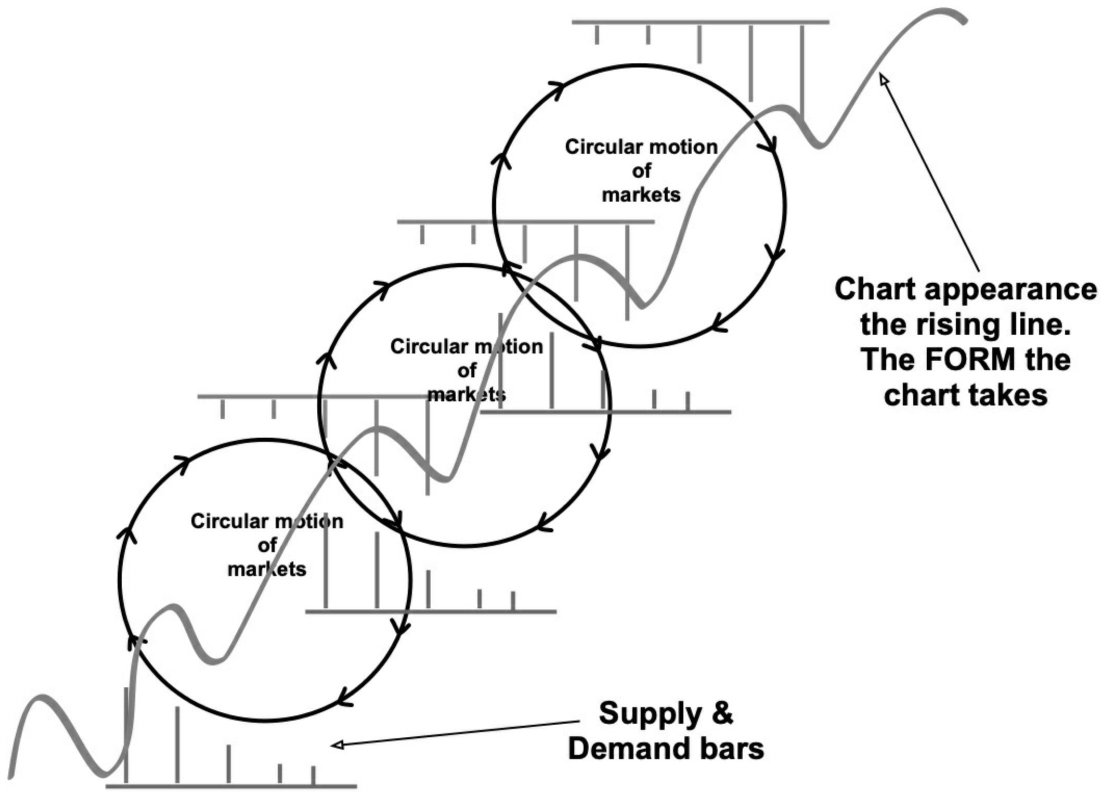

Whilst this circularity is true of all markets, the explanation of this circularity is more easily explained using the stock of an individual company.

The circular nature of stock is inevitable because the amount of stock issued is finite. Market makers cannot simply generate fresh stock in a company, they must work with the limited amount of material that they are presented with.

The way that the market makers work the market creates the apparent peaks and troughs that outsiders see illustrated in charts. Insiders and profitable traders view the market from a very different, and much more accurate stance.

As you look at fig 6 below keep in mind the limited supply of any one stock.

Fig 6




As the supply of any one stock is limited, the only way for you to buy any of that stock is for someone to sell it.

Why would anyone sell a stock that is continually rising in value? They would not, however, if the price of that stock moves down this may encourage some traders to take the profits the stock has already provided. Others still will sell their stock for a fear of any down turn continuing. Negative news, poor reports can all be used to mark a stocks value down and encourage selling.

As this value of this stock falls further increasing numbers of traders will want to get out of that stock, (lets call this falling stock RED company stock) and back into another one that is showing excellent reports and is growing fast in value. (Lets call this new excellent stock BLUE company stock)

As more and more of the *perceived poor value red* stock is sold, so the market makers can start to buy, to accumulate the red stock for later use. Later use, will be when the market makers have accumulated all the available red stock.

The very act of this accumulation withdraws this stock from the market, it make it more difficult to obtain, and something that is more difficult to obtain rises in value. Now with a little promotion of this red stock, demand for it increases and the prices are now marked up. As demand for this stock increases the market markers are now able to sell that which they accumulated as the price was falling. Thus, the circle of accumulation and then profit release is accomplished.

Now multiply this into say the FTSE 100 index and you will begin to understand the vast and yet simple workings of an overall market index. With the FTSE 100 there are 100 companies that are all cycling through the never ending circle of accumulation profit release accumulation ad infinitum.

The market makers want outsiders to view the markets as simplistic supply and demand, and thus keeping true manipulated market activity hidden from view.

The outsiders market view is the view of the chart, the *appearance*, the *form* the chart takes. The market makers do not want the outsiders to see which stock is being accumulated and which is being sold back to investors after the accumulation process. If everybody understood the reasons behind rising and falling stock prices the market makers they would lose their position of power.

Are you asking yourself how you can ever hope to become a successful trader without being privy to the financial muscle or information that the market makers have?

As a trader you are, by definition, on the outside of the market in comparison to the market maker. To make progress you have to use the best tools at your disposal. In short, your brain, and your knowledge of how market makers function. To trade like a professional you have to be able to *think the way the market makers think*, to be able to look at the market from the inside, and to disregard the *apparent* form of the market, you have to disregard the *form* the chart takes and concentrate on the *content.*

You must learn to understand exactly how traders act and react to market conditions. This will give you a depth of insight comparable to that of the market-makers.

The good news is that by the end of this book you will have the knowledge and skills that are required.

# ELEMENTS OF THE MARKET MAKERS BUSINESS MODEL

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# ACCUMULATION

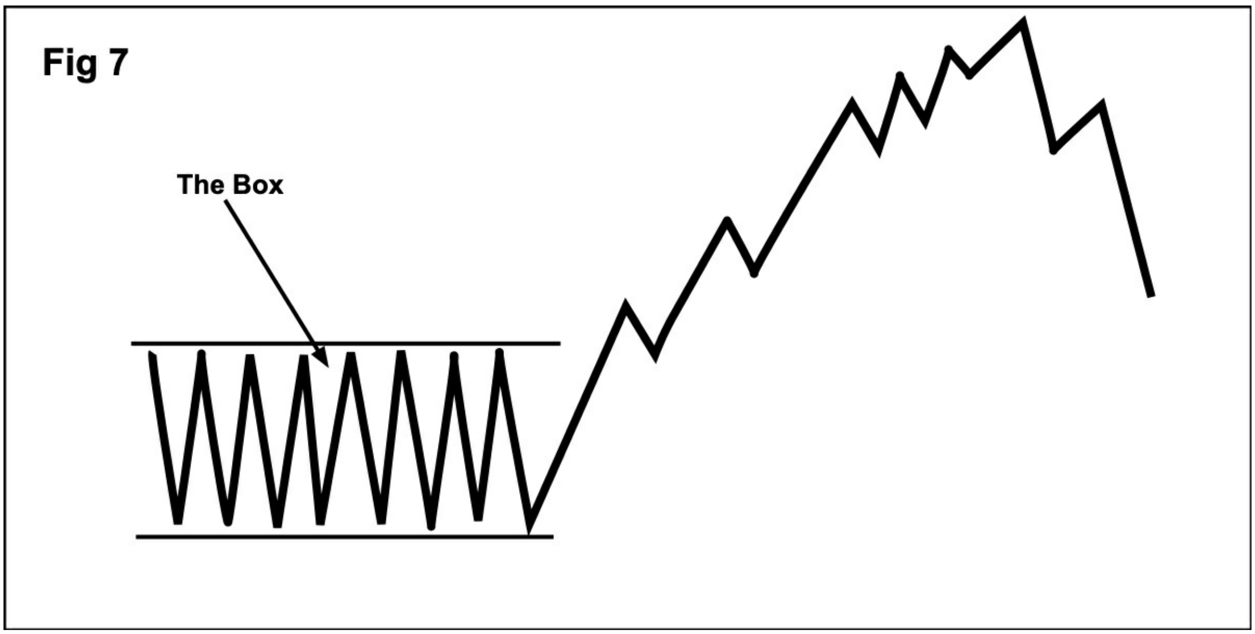
To better understand accumulation let us draw on an analogy of an apple orchard owner who tomorrow has to stock his market stall to sell his apples. Should he pick for one hour or two? Should he pick all the apples today and then take them all to market? Clearly the best course of action for our orchardist is to pick that which he knows he can sell and leave the rest for another day.

The next day he might asses demand differently and pick accordingly. He might be able to pick fast if one tree is holding a dense crop or it may take longer if several trees have light crops. What we can draw from this is the quantity is going to be governed by demand, and time taken to accumulate, is going to be governed by the ease or difficulty in which he can accumulate all the apples he wants.

Returning to the market maker we can see that he is in the same situation as our orchardist. The market maker will complete his accumulation according to the anticipated demand, and his accumulation time will depend upon the difficulty or ease in which he can do this.

I cannot over emphasize the importance of understanding these accumulation factors.

## ACCUMULATION AREAS




In fig 7 you can see that I have highlighted an area and labeled it the box. From now on we are going to interchangeably reference the accumulation area by also calling it “the box' this will give us a much faster way to bring our attention to it during further discussion and distinguish it from other areas of accumulation. You might find it useful to think of this box like our orchardist box that he is filling with apples.

Let us now examine the elements of accumulation individually.

## THE ACCUMULATION CYCLE

There is a phrase often quoted 'perception and reality'. I believe there is no place more appropriate for this phrase than financial markets, and the activity of accumulation fits this phrase like a glove.

The perception of an accumulation cycle is due to another trading truism, and as we know these are used to influence traders beliefs. They are often accepted as true by the majority of traders regardless of supporting evidence. They are accepted as true because they *look* as if they *ought* to be true. They exist and are perpetuated because they serve a purpose for the market makers. The truism in this case is that the accumulation area is just congestion.

The word congestion when used by a trader seems to well explain a tight range of prices displayed on a market chart. This is perception, it looks right, it appears this way and it is shaped like a box. Not only is this description incorrect but it also prevents us from digging deeper into why this area on the chart has appeared. The reality is that this congestion is a covert operation of either, the accumulation of buy orders or accumulation of sell orders.

Given the fact that the market maker, has instant access to information that we do not, we can draw a logical conclusion that he can at any time, not only asses with a high degree of accuracy whether the masses are favorable to either higher or lower prices, but can also create market sentiment for either direction based upon that knowledge.

Once the market maker has discovered or manipulated the most desirable overall future market direction he can then plan to accumulate either buy orders or sell orders from which he will later release profits. However this accumulation must be done in such a way as to not reveal which side of the market he is accumulating.

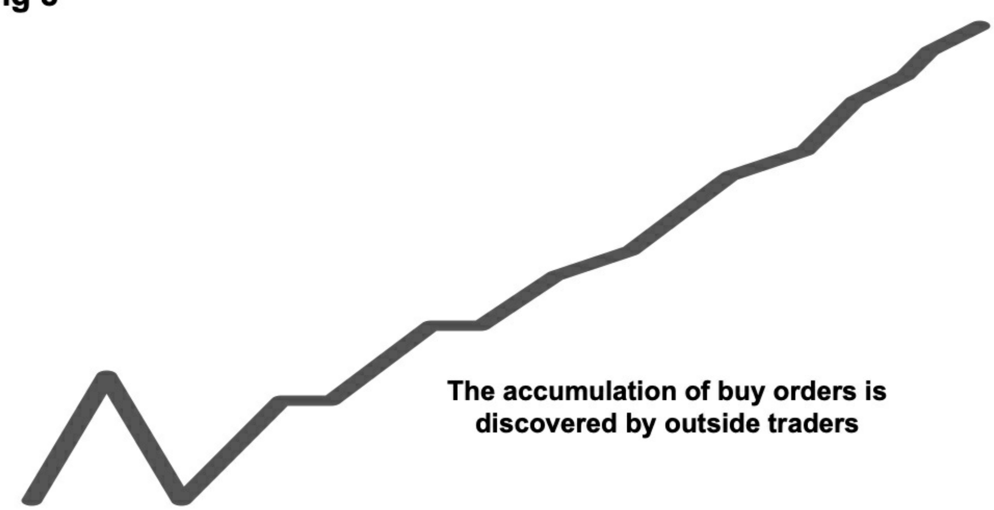
## A COVERT OPERATION

The entire accumulation cycle must he hidden from view. If it is not then the market maker would not be able to accumulate successfully.

To better understand this, imagine for a moment that you are the market maker and you wish to accumulate BUY orders to later sell at a higher price.

If you were to advertise this fact, this would not encourage outside traders to sell to you, in fact quite the opposite would occur as in fig 8

Fig 8




What you would end up with would be a situation were the masses would want to be buying with you, this would have the effect of almost instantly increasing prices. Any accumulation planned by the market makers will have failed, thus they will not be able to generate profits.

During the accumulation cycle there must not a be a showing of any intention as to which side of the market the market maker is accumulation. This is achieved by the market maker, marking the prices up and down within a tight range. This tight range will take on the chart form resembling a box like shape. The box like shape is only the *form* of the chart and bears no reflection to the *content.*

Form and content are so important that they are covered in a later section of the book

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## DIRECTIONAL BELIEFS

Keeping prices in a tight range fulfils another criteria which is that beliefs will not be developed by the outside traders regarding any one particular direction that the market will ultimately take.

This inability to develop a belief about future direction causes a state of mind in the masses of conflict and confusion. This conflict and confusion will also be used by the market maker to reach out and quickly grab large amounts of either buy or sell orders, depending upon which side he is accumulating that will fill his accumulation quota.

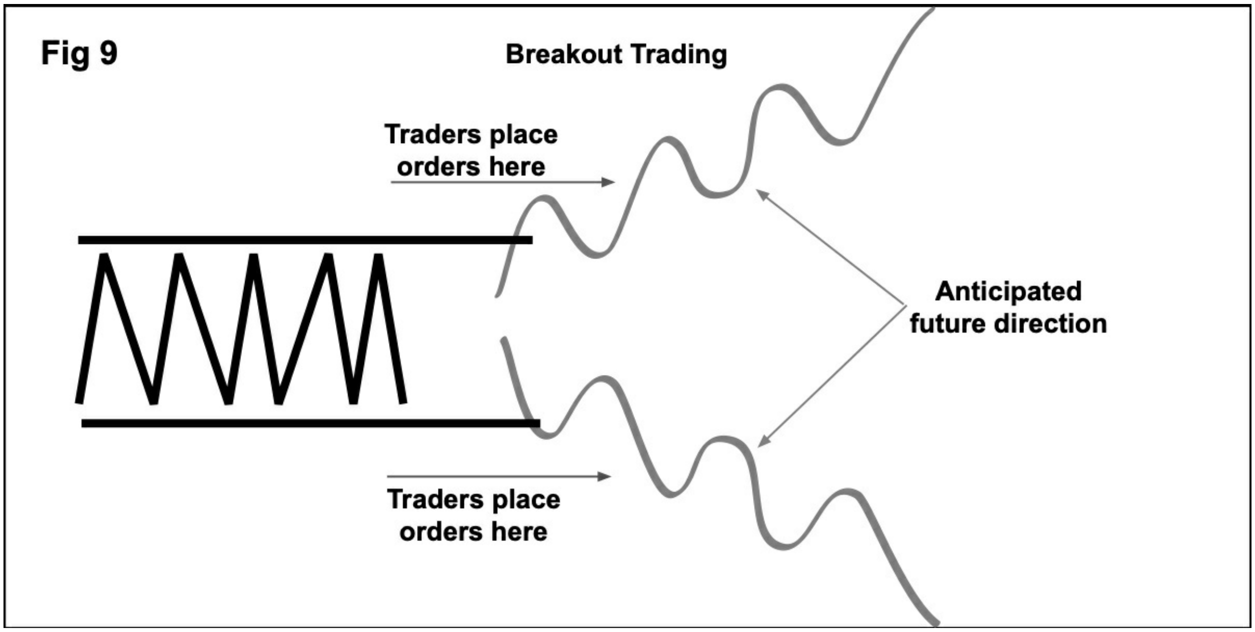
This conflict and confusion causes a conditioned response by the outside traders. This conditioned response initiates the setting up of orders either side of the box like area in an attempt to capture profits from a market move when the market eventually breaks free of this box area.

This method of trading is often called breakout trading or break from congestion trading. This is another one of those misleading trading statements.

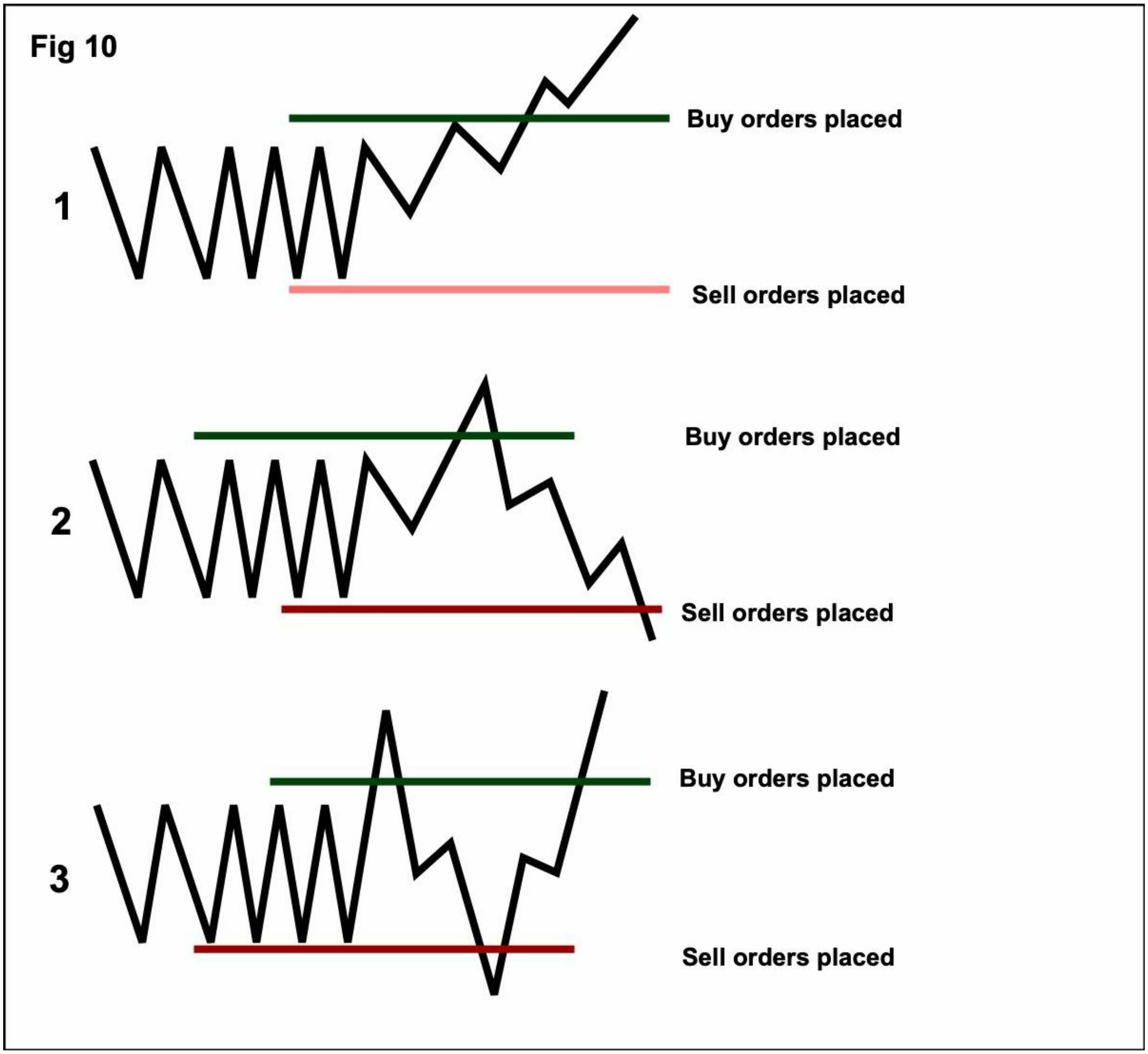
On paper and in trading books this truism has the perspective of being a wise thing to do and indeed as all good market makers promote any method that appears as if it were logical and sensible. However, the reality of trading like this will mean you are right back playing the slot machine and regardless of you catching breaking moves, you will lose money over time because the market maker uses this conflict and confusion to his advantage. Let us now have a look at how this works against the trader and for the market maker.

## ACCUMULATION BY WAY OF TRADERS BREAKOUT ORDERS

The breakout trading method promotes the placing of orders either side of what traders assume is congestion. Trades placed in this way allow the market makers to trigger orders that they wish to accumulate. Fig 9




Let us look at this in practice.




In fig 10 example 1 The market moves up and triggers the buy orders where outside traders have placed them. The market move continues up and has the potential of a successful trade for the trader.

In fig 10 example 2 The market moves up and triggers the buy orders where outside traders have placed them, but rather than continuing upwards the market falls and now triggers any sell orders placed. Along with this, the traders whose orders were triggered when the market first moved to the upside would have placed sell stop orders to protect themselves from open ended loss. These traders would have placed sell stops, and as the market moves lower these orders would have been triggered resulting in losses for the traders who had bought on the first move up.

In fig 10 example 3 The market moves up triggering the buy orders, then triggers the sell orders, then again triggers the buy orders.

The traders caught in example 3 generally suffer heavy losses and are often to ‘shell shocked’ to continue trading at this point and thus miss any subsequent profitable move. This type of market movement is often called ‘whipsaw’ this is another trading explanation that offers no real insight as to what is really going on. The purpose of this type of move by the market makers it one of rapid accumulation whilst creating maximum confusion and fear.

As you can see from these examples' breakout trading seems like a good idea, it sounds plausible to simply place orders either side of a market and then wait for it to break.

This type of trading is encouraged and promoted by the market makers and is readily accepted by many traders.

Breakout trading is another form of accumulation for the market makers that they can use as and when they have been unable to accumulate the desired amount whilst the market was trading in the tight accumulation range.

What defines the desired amount of accumulated buy or sell orders is the amount that the market makers believe they can later release profit from.

They will not accumulate more orders than they believe they can later release for profit.

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## STOPLOSS ORDERS

The word stoploss holds the connotation that it will stop or limit your losses. In part this is true and one should never trade without a stoploss order in place, however, stoploss orders are also one of the tools of the market makers.

We know from our earlier discussion that a primary part of the market makers business is accumulation. Like our orchardist, if you have not accumulated your apples from the tree then you cant take them to market.

We also know that the market maker is always going to try to accumulate all that he wants or rather all that he knows can be taken to the end result of releasing profits.

The stoploss order is an excellent tool for the market maker and he will use it whenever he has the desire.

A trade consists of two sides, so if a market maker wants to accumulate buy orders then he will need to create the belief in the wider market that the market is likely to fall rather than rise. As traders start to believe this, they will be less likely to want to buy the market and will favor selling.

When these traders sell, the market makers will take the other side, they are buying, they are taking the other side of the sell order. They are accumulating buy orders.

## WHERE STOPLOSS ORDERS ARE PLACED

Where traders place stoploss orders is highly predictable

Stoploss orders will be placed at:

- Even number price levels
- Recent price reactions
- Published areas of support or resistance

Traders will also place mental stoploss orders in an attempt to hide from the market makers where they will close their trade. See footnote[1]

**Even number price levels**

Even number price levels are often used by inexperienced traders who are under stress as they are trading. Under stress the human mind will always take the path of least resistance. It is a lot easier for the mind to just jump to a price such as 1.5600 than it is to jump think about 1.5873. Marker makers are well aware of this and this is why one will often see markets retrace from their overall trend back to even numbers before then continuing in the overall direction of the trend again.

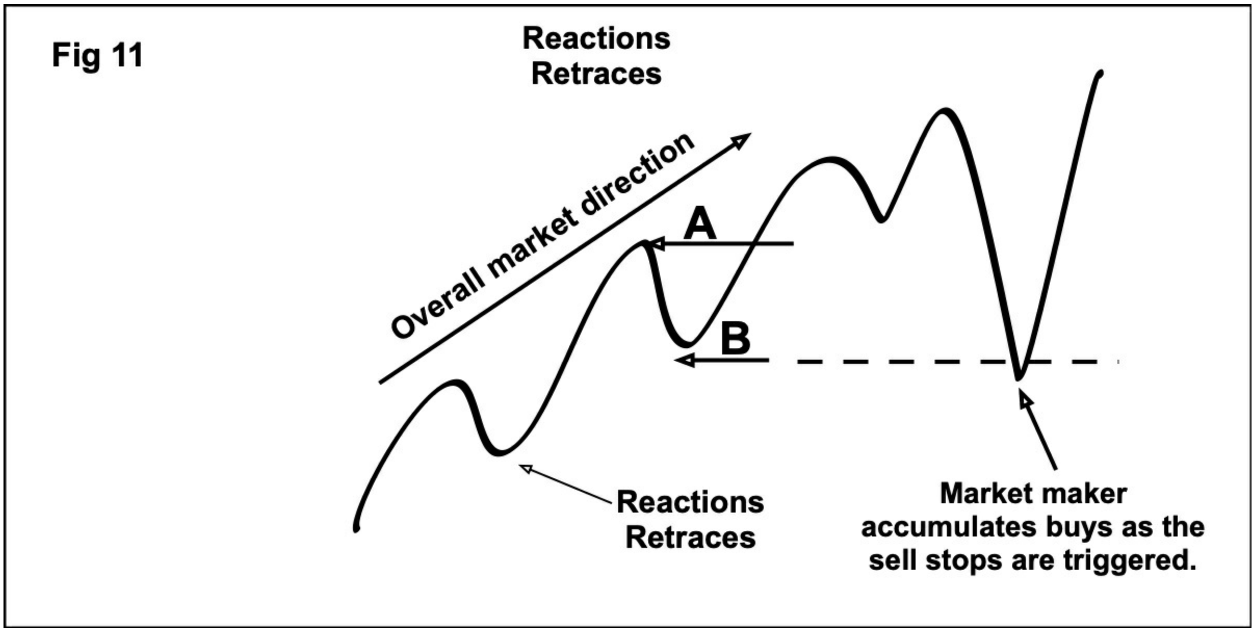
## RECENT PRICE REACTIONS

Recent price reactions are most traders favourites. The reason for this is because they *look* like they should work. The *form* the chart takes gives the appearance that a price has moved either up or down to a certain price and retraced from there to then continue its overall directional trend.

Traders will then draw the conclusion that as the market found support [1] at these retrace levels it is unlikely to return to this level, thus any stop loss placed here is likely to be in a safe zone allowing the trader who had earlier bought the market to make profits from the continuing rise.

Stop loss orders placed like this offer great potential accumulation for market makers accumulation should they wish to fill up or add to their desired accumulation quota.

Let's have a look at how market makers use outside traders stop loss orders for accumulation.




In fig 11 as the market moves above the peak at (A) traders will place stoploss orders at the base of the retrace (B) Should the market maker want to accumulate more buys orders to sell higher, all he has to do is drive the market down below the level of (B) which will trigger traders sell stops, the sell stops are quickly bought by the market makers causing an immediate and rapid rise to continue the overall trend.

Placing stoploss orders like this will sometimes work out for the trader and steady gains will be made, until that is the market makers wants to accumulate some more orders at which time the trader will fall victim to this manipulation.

## PUBLISHED AREAS OF SUPPORT AND RESISTANCE

Market makers release news about where they say major support and resistance levels are. One will often hear news statements like *“We believe xyz price to be a significant support level for the market and as long as the market stays above this, investors are likely to reaming positive”*

The advantage for the market maker releasing this type of information and then what it prompts traders to do concerning the placing of stops should be self-evident.

As we can see, the common stop loss as it is known is a very powerful market makers tool that he will use with impunity against traders. However, there is no need for despondency, because given this knowledge it can be used to the informed traders great advantage.

Understanding why, when and where traders place stop loss orders allows the informed trader to view things from the market makers perspective.

Once you can anticipate where stops are likely to be in large numbers and then you see the market makers harvest those stops you will have little doubt whether they are accumulating buy or sell orders. Given the knowledge of the accumulation of buy or sell orders you will be able to predict the resulting future market direction with remarkable efficiency.

## YOUR ONE SINGLE TASK AS A TRADER

As a trader your single task is to discover the plot, to discover the contents of the box. Are the market makers accumulating buy or sell orders? This answer to that question is achieved by asking ‘what if’ questions of the market. These what if questions keep your mind focused on what you need to have your attention focussed on, and they form the basis of reading the market.

Lets look at this from the angle of a movie plot (some better than others of course) as we watch the movie, the plot unfolds, there are a few twists and turns on the way to keep us hooked but bit by bit the villain is revealed the plot discovered and the movie reaches its climax.

Entering a trade with the intention of making a profit from a market move follows much the same path as the movie.

First we have the plot set up, which is the accumulation. Next we may get some misleading information that sends us off in the wrong direction, this is like the stop taking moves we have covered

Then finally we see the where the plot is heading in the movie, which is likened to when we see the direction of the profit release.

Each part of this trading story is vitally important to you. Imagine trying to guess the outcome of a movie without knowing the plot? Without ever knowing the contents of the box?

At this stage you are likely to now understand the accumulation area, and the placing of stops which are harvested by the market markers when required. It is to be hoped that also at this stage you will begin to see that this is a never ending story in the constant cycle for profits, a never ending story that you can profit from.

## LOSING AND DISCOVERING THE PLOT

Without doubt we all sometimes lose the plot of a movie. This might happen when we miss a vital part, or even something as simple as not hearing an actors line, or misinterpreting a line. But if we keep watching the movie gradually we will get the ‘ah ha’ moment and we will be right back on track and feel more confident in where the movie is heading.

Trading the markets is the same. Every move starts off with a covert operation of either the accumulation of either buy or sell orders. Our job is to uncover that covert operation and to do this we need to continually ask the following questions.

1. Have I clearly defined the accumulation area?
2. Where have the masses likely placed their stop orders?
3. If the market makers try to take out the stops to wrong foot the masses where will this take place?
4. If the market makers stop taking takes place what will I expect to see?

If the market makers stop taking takes place to accumulate buys we can safely assume that the contents of the accumulation is buy orders and from then we can plan our *market entry strategy*.[1]

The answer to 1 does not provide you with a trading opportunity, neither does the answer to 2, 3, and 4 these are just the planning factors to focus on while we await the emergence of the signal that the profit release phase is underway.

The path to making a trading decision is discovering the plot, and the plot in this case is either the accumulation of either buy orders or sell orders.

The emergence of the profit release phase is the result of the accumulation cycle, whether that be buy or sell orders, and this emergence will be our indication to join in with the market makers activities.

When you stop and think about this for a moment, you can say that all your analysis, at any moment is 100% focussed on discovering the contents of the accumulation box.

## WHEN THINGS GO WRONG

In life things go wrong, we make wrong decisions, say the wrong thing and take the occasional wrong turn on the highway. Trading is the same, and we need to understand what is going on and how to deal with it.

The knowledge when to withdraw from a market is every bit as powerful as the knowledge on when to enter the market. Few traders every really master the skill of closing trades that are not working out as planned, they will rather move stop loss orders and then just wait in the hope that the trade works out, what happens is that over time they consistently lose on these trades and these losses mount up.

Understanding this inability to pull of trades that are not working out can be likened to you standing toe to toe in a boxing ring. The other boxer is constantly hitting you on the end of your nose. Soon you try to dodge the punches. What are you trying to do? You may think you are trying to dodge the punch, but what you are really doing is avoiding pain.

This pain avoidance is a normal human reaction, but it is the reaction of an amateur boxer, a professional boxer will sometime leave himself open to a punch and take some pain because at that moment he can also be the most dangerous to his opponent.

As a trader you need to learn how to counter punch and doing so will often involve closing a trade even at a loss and then waiting for the next opportunity to develop.

If you have been trading for any degree of time you will likely already fully understand taking punches on the nose. Likely you will also understand that if you are completely honest with yourself you ‘somehow’ know when your trading is going bad. Often rather then dealing with that punch you sidestep this by either moving your stop loss or by going into a hope mode.

Hope mode is when you intrinsically know you are not in a good trading position, but rather than do something about it you sit staring at your charts in the hope that it will all turn out good. You are likely just avoiding the inevitable pain.

If you are a new trader I urge you to cultivate the recognition of the very human sensation and emotion of hope. When you recognise this feeling within yourself, it is time to take that punch on the nose as a loss and get out of the market so that you can return to the task of discovering the contents of the box. Once you are in a trade, your ability to continually question the contents of the box diminishes as you focus on your belief being correct.

Likely by this stage you are thinking about getting ready to make a start. You maybe thinking that you can understand the ideas so far and now all you have to do is turn on a chart and start picking some trades.

However, if you were to start now, chances are you will either fail, or achieve mediocre trading results. On the other hand, if you are prepared to make a leap, a leap of faith in what I am about to try to convey to you then your trading world and quite possibly your life as a result of your trading world is unlikely to ever be the same again.

# THE POWER OF BELIEF

Everything that you are today, right down to the very moment can be reduced down to the beliefs you hold. Your next thought will be based upon your currently held beliefs. Free will? Only so far as your beliefs allow that.

Beliefs effect the market, we can say with certainty that you as a trader will not buy something that you believe will fall in price and reward you with a loss. Likewise you will not sell something that you believe will rise in price rewarding you with loss. But what about group beliefs and commitment to those beliefs?

I found one definition of the word commitment that suits us well. That definition was, ***“An obligation that may be mutual or self-imposed”***

First let's deal with the mutual obligation. A mutual obligation can be defined for the trader when we see other traders taking actions that we feel obligated to join.

To better understand this it may help to create an image in your mind. Imagine that you're standing high up on a cliff overlooking the ocean. Floating on the ocean you can see thousands upon thousands of hand folded little paper boats. As you observe these boats you notice that every time there is a slight breeze so the boats jostle and then start to drift in the direction of the breeze.

As this breeze starts and stops from different directions, create the image in your mind how those little boats would react.

Next, further imagine that within each boat is the mind of a trader, this mind is trying to work out, or better put trying to **predict** the next direction that the boats will move in. There is however, one problem, and that is that the mind of the trader cannot feel the breeze and can only predict the next direction based on the action or reaction of the other boats.

This imaginary scene represents how I view the market. Traders are developing beliefs about future price based upon what they believe to be the reactions of other traders. These reactions, however, are all interrelated, that is they are all connected and created by the effects of a breeze and the breeze is being created by the market makers.

What we can draw from this is a trader's mind is in reality highly dependent upon the minds of other traders, or at this stage better put, the beliefs that those traders’ minds hold, beliefs that may or may not be true.

From the point of view sitting in one of those boats we can now see that it would be near impossible to predict with any degree of certainty the beliefs of those other minds sitting other boats. What we need to do is to climb out of the boat and navigate our way back to the top of the hill where the market makers are sitting. We need to view the market from the same perspective as the market makers.

## BELIEFS MOVING MARKETS

Once we understand how beliefs work and what the commitment to those beliefs will translate into, we can start to better understand how market makers move a market. The outside perception is that markets are price driven, but this is not true because at the back of every buy or sell is a traders *belief* that this trade will be a winning trade. It is only when that trader develops that belief that he will be able to push the button to either buy or sell in alignment with that belief.

## CHANGING BELIEFS

Beliefs change in one of two ways, a sudden reception of something that we instantly know to be true; or slowly over time.

As an example of a sudden shift in belief we could use the example of the first report of a flying machine. Previously to that historic event it was widely believed that man would never fly. Newspapers and very early television destroyed that belief forever when the forever famous brothers took to the air.

In that instant everyone who saw this experienced an instant belief shift to some degree.

There would of course been others who did not see the flight, did not read the newspapers and would only have heard the news second hand from other sources. This group faced with an existing firmly held belief that man would never fly would gradually over time be forced to give up their old belief and accept the new one.

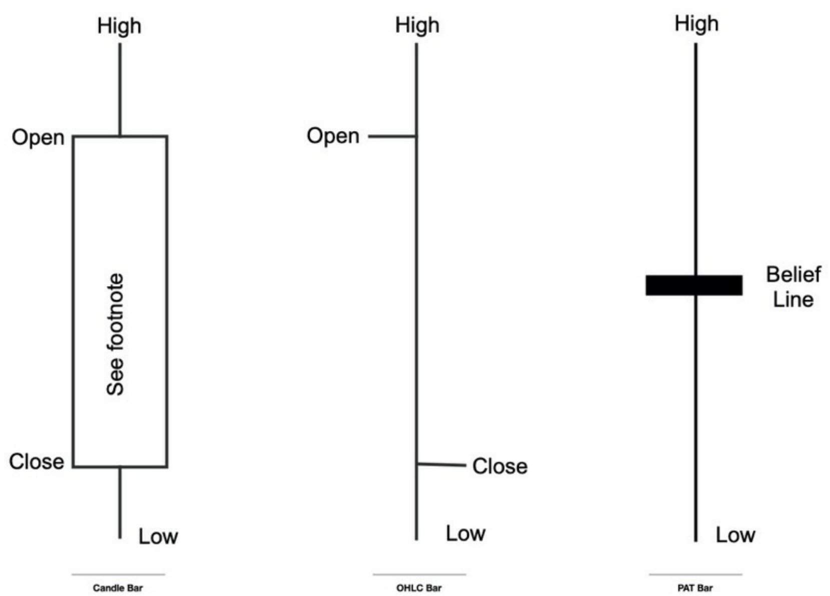
In summary I think it safe and fair to accept that since it is traders beliefs that are at the back of every trading decision it is fair to say that far from the perception of markets being driven by price, they are driven by belief.

The market makers do not manipulate price, they manipulate belief!

Let’s now have a look at how market information is presented to the trader and what effect this has.

**Fig 12**

**Three bar examples**




*The candle bar could show the close and open positions reversed. If this were the case then the body of the candle would be painted in a different color by your charting software to signify this.*

Fig 12 depicts a Candle bar, an Open - High - Low - Close bar and a Pat bar. Let’s compare the three examples from left to right and see what they are displaying to us.

From the left we have the candle bar and reading this bar when it closed at the end of its respective time period it displays to us:

1. Where the market price was at the beginning of the time frame.
2. The highest price the market travelled to during the time frame.
3. The lowest price the market travelled to during the time frame.
4. Where the market price was at the end of the time frame.

Carrying that logic forward to the OHLC bar we can see the same information is provided to us by the OHLC, minus the purely aesthetic body of the candle.

On the far right is the PAT bar. The first thing you may notice about this bar is that it does not contain any information regarding the opening and closing price relative to the time frame being charted.

The PAT bar consists of only two elements. The first being the vertical line similar to all other charts in respect to the high and low prices traded to in the respective time frame being charted. The second element unique to PAT software is the horizontal line the crosses the vertical line. This is known as the belief bar.

The belief bar represents our collection of little paper boats each with a trader sitting inside.

## WHAT IS THE BELIEF BAR TELLING YOU?

Given that the belief bar is a representation of where the *collective* beliefs are, relative to the time frame we are charting, and that no trader will buy or sell anything until that trader develops a belief regarding the moving up or down of the market in the future. I believe it fair to say that the position of the belief bar relative to other belief bars offers us real insight into predicting the contents of the box.

Earlier I discussed the idea of changing beliefs over time or having beliefs changed in an instant. I now like to further explain this idea with the use of some graphics and an imaginative story called climbing stairs in the dark.

Fig 13

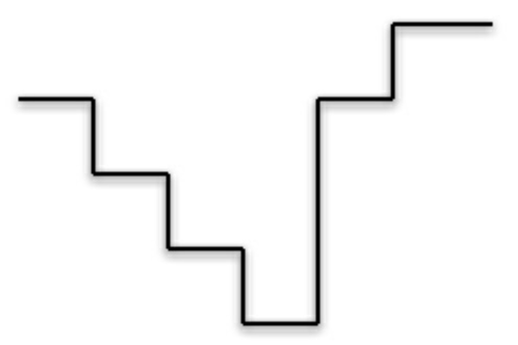
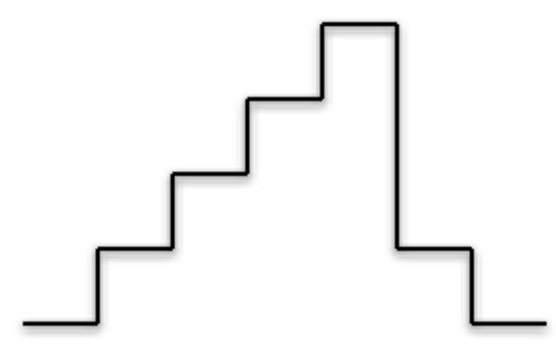


Fig 14



Imagine you are in a dark room unable to see anything at all. As you stumble around you discover some steps, fig 13. You start to descend in the complete darkness lower and lower you go gaining increasing confidence and belief in the next step being a down step. Then all of a sudden there is no down step and a big jump up step confronts you.

Now you move to another room fig 14 again you're find some stairs, and you climb higher and higher as you build confidence in the next step being up. Then suddenly the next step is down and it provides and unpleasant jar to your body.

What is now your state of mind about having to enter a third room and doing the same?

The reason I wanted you to experience this story is because I want you to understand these feelings in your fellow trader. When you understand your fellow trader and you realise they are just like you, you will be able to understand market movement on a much deeper level.

The belief bar enables you to view sudden shifts in traders beliefs regarding price, reading this information backwards to an accumulation area can often clear up whether or not the market makers are accumulating buy or sell orders.

## FORM AND CONTENT

I would now like to introduce two very important terms. They are **Form** and **Content**. These two ideas are essential to understanding how to read the markets.

When we talk about content, we mean the market makers business model. This consists of both a set up phase and the profit release phase. This content is always the same but the *form* that it takes on the chart, is many and varied. In other words, the content can appear in many forms on the chart but it is still the one content.

I am not saying that every time the market makers cycle of manipulation occurs, it will appear on the chart in a discernible way; what I am suggesting is that it will appear enough times in a discernible way for us to make profits on a regular basis. It will only appear discernible to a person who is practised in the market makers business model.

The main skill is to be able to perceive the accumulation and manipulation cycle, using the many and varied forms that it takes on the live chart. Sometimes the manipulation cycle is obviously very discernible on a chart; however, most times it is only discernible to a practised eye.

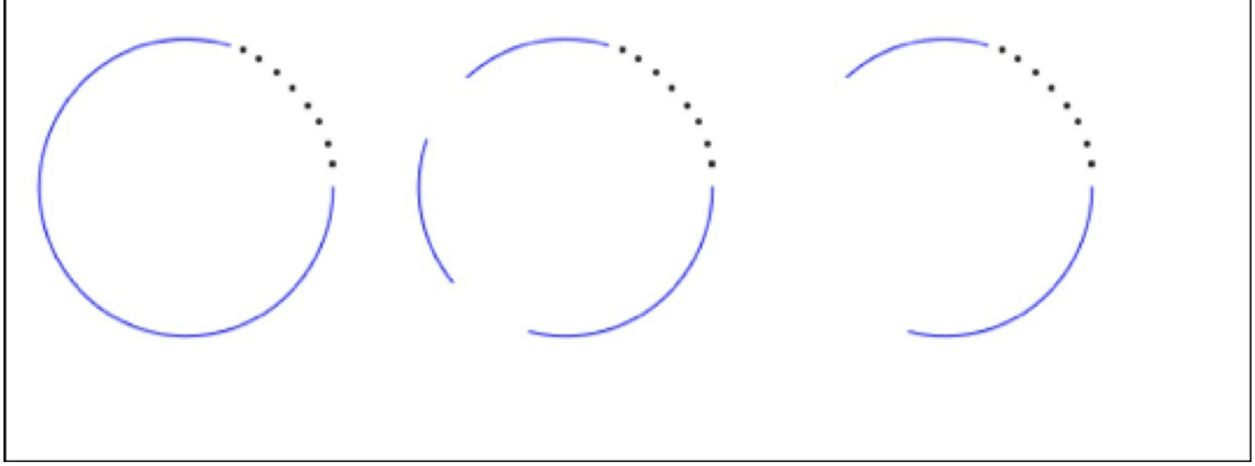
An example might help here to clarify what I mean by form and content. Let us take the definition of a circle. **A circle is an enclosed curved line, alike in every particular, every point of which is an equal distance to the point in the centre.** This is a very clear statement of content. This is a content that we can UNDERSTAND with our minds, although it is not something we can see with our senses, until it takes form as a sensible object.

I could draw a big circle, a small circle, a purple circle or a yellow circle.

It won’t matter. If I understand what a circle is, I will recognize it in any form that it takes. Circles can come in many forms. In other words, the form is what we can see with our eyes.

Now an interesting point here is that even if the form of the circle is not complete, it can still clearly indicate the content. This fact is very important for those of you who are learning this method of trading. It is important because even though many times the form the manipulation cycle is taking on the chart is not complete, it will still clearly indicate to a trained eye the content. In this case the mind fills in the gaps.

**Fig 14a**



As you can see, in fig 14a there are many ways to indicate quite clearly a circle, even though in terms of form there are big gaps. However, with a thorough understanding of what a circle is, the mind can easily fill in the gaps and a circle can be clearly discerned.

The reason that I am making this point, is that you can never know BEFOREHAND what the form of a chart will look like. This does not matter, however, because it is the **minds' recognition** that is the important factor, not what the chart looks like in form.

In earlier lessons I needed to show you examples of form, and at the beginning these examples had to be clear and obvious. The reason for this is so you could begin to get a sense of how the content we are interested in takes a particular form on a chart.

The main point I am trying to make here, is that we are not trying to learn chart patterns from which we can predict market moves. Rather, we are looking at the market makers business model that the chart is presenting, and seeing if we can discern what phase that model is in and what which side of the market is being accumulated.

Once your mind is practised in this approach, you will look at the chart and your mind will automatically fill in the gaps and where the market makers are in their cycle of accumulation, manipulation and profit release. This will become clearly evident even if the chart “look” or form is one that you have never seen before.

I don’t want you to think of chart patterns. **I want you to think of the market makers business model, and practice recognizing that model being played out using the chart**.

When you are well practised in this, your mind will have the necessary skill of looking at a chart and without any logical process involved, you will be able to spontaneously discern the model. When you can rely on yourself and your own understanding determining your trading activity, your trading will move to an entirely different level.

# INTRODUCING THE MARKET MAKERS BUSINESS MODEL

At this stage you should now have a solid understanding that the markets are akin to a shop window that is 'dressed' for traders to shop in and this shop window is manipulated over time with different displays as chart patterns. You will also have learned the financial markets are a business whose sole purpose is to produce profits for the business owners, the market makers.

We are now going to examine the market makers business in much closer detail so that you can learn, first the correct way to observe and then how to profit.

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## HOW TRADING INFORMATION IS PRESENTED

Trading information is presented to us in the form of charts, that we are presented with a series of graphic images that purportedly offer us insight into a stream of numerical figures. This simple and yet vital transition is often completely overlooked by many traders as they forget what market data is and instead focus on these graphic images.

You might like to think of this like looking at a shop window or through a shop window. Looking at a window we see the surface of the glass, looking through the glass we are no longer aware of the glass and our attention has shifted to what lies beyond the glass.

When traders are looking at chart patterns they are looking *a*t the glass, not *through* it. Looking at the glass, the traders vision is obscured and does not have the depth that is required to trade successfully.

# LEARNING TO TRADE THE MARKET MAKERS MODEL

There are several important skills to learn in order to succeed in trading the market makers business model but the two most important are:

1. A thorough understanding of what is going on behind the charts.
2. Self observation.

The thorough understanding is achieved by learning the market makers business model and how this functions (the purpose of this chapter)

Self observation involves learning and then developing the skill to quickly detect whether you are the on the outside looking at the shape of the chart, or on the inside observing the market makers activity.

This may seem like a simple task but the effort required for constant self observation is intense, and if your guard is dropped for very long the risk of being removed from the inner observation to the outer rises quickly.

The instant you are moved to the outer observation, the outer being the *form* of the chart on your screen, the charts start to take on life and meaning of their own.

This transformation from the inner to the outer generates thoughts and feelings that lead towards decision-making, decisions that will be based upon the *form* the chart is taking and thus flawed.

Self observation is the process of monitoring your perspective and listening to your inner conversations to spot early signs that you are being drawn to chart analysis and not content analysis.

There are however early subtle clues that you are wavering from the required content path. Amongst these are:

- Focussing in individual bars.
- Comparing one bar to its immediate predecessor.
- Becoming fixated on a chart pattern.
- Ignoring earlier price activity in favour of now activity.
- Watching the live price of the market continually change.

The greatest teacher for learning self observation will be yourself as you experience these sensations and thus become aware of them.

## The three phases of the market makers business model

The three phases of the market makers business model will always happen in order. There may be an occasional deviation[1] if the opportunities present themselves but nevertheless the phases will fall naturally back into sequence. It is this continual repeatable sequence that offers the great advantage over traditional technical analysis trading methods.

## PHASE ONE

The first phase of the market makers business model is either the accumulating of BUY orders or the accumulating of SELL orders.

If buy orders are being accumulated the market makers will be later moving the market to higher prices, conversely if the accumulation of sell orders is taking place then the market will later be moving to lower prices.

These directional moves relative to what is being accumulated are inescapable facts and provide what I call a default market move that you can profit from, once you discover which side of the market is being accumulated.

## THE ACCUMULATION BUY CYCLE

The purpose of the this cycle is for the market maker to accumulate BUY orders, the only way this can be achieved is they convince a proportion of traders to SELL to them

How this proportion will be persuaded to sell will be explained in greater detail later on, briefly, they will sell to the market maker if they *believe* that the market is going to fall either now or some time in the future.

## THE ACCUMULATION SELL CYCLE

The purpose of this cycle is for the market maker to accumulate SELL orders, the only way this can be achieved is if they convince a proportion of traders to BUY from him.

How this proportion will be persuaded to buy will be explained in greater detail later on, briefly, they will be willingly to buy from the market maker if they *believe* that the market is going to rise either now or some time in the future.

You will notice what must be more than a ninety percent similarity of the two most recent paragraphs. That similarity was not an oversight, but rather to impress the small but significant differences between them.

## PHASE ONE COMPLETION

Phase one of the set up is complete when the market maker has achieved his desired quota of buy or sell orders, depending upon which way the market is going to be taken, either up or down.

In the case of an accumulation of buy orders we can be confident that the major part of any move from the accumulation area will be going up. Like wise we can be confident in the case of an accumulation of sell orders the major part of any resulting market move will be down.

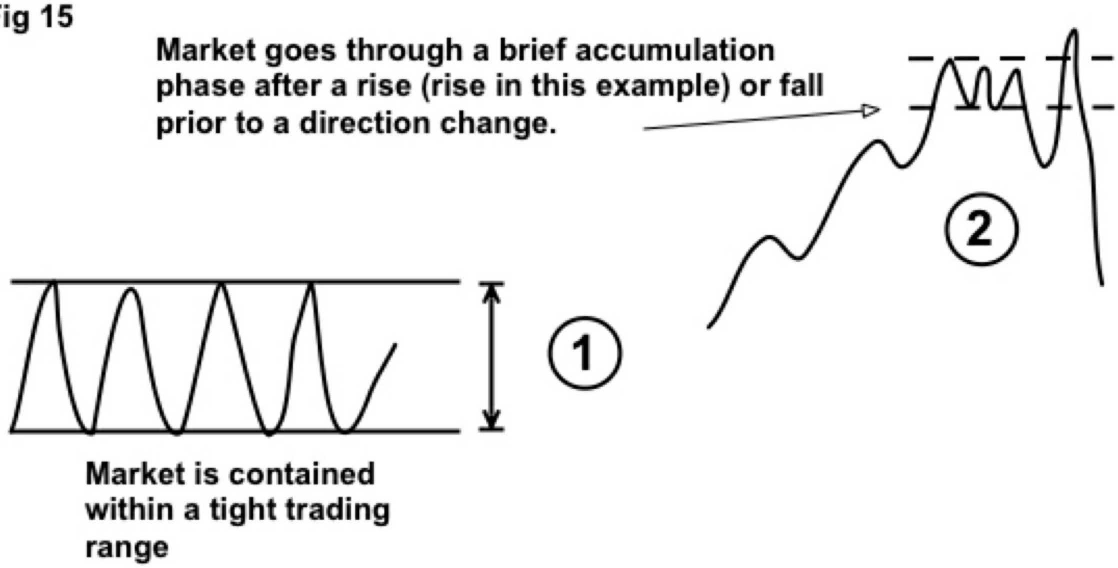
# PHASE TWO

The second phase of the market makers business cycle is one of manipulation. However, this manipulation phase also blends into phase one.

For a clearer understanding we will separate this manipulation into two distinct market maker purposes.

1. Manipulation to accumulate.
2. Manipulation to wrong foot traders at the most opportune time to rapidly accumulate.

Fig 15



In fig 15 we can see two different market shapes and yet they are intertwined as they are both part of the accumulation phase. The upmost diagram in the graphic has an element of stop taking to add to the accumulation.

Manipulation to accumulate is carried out by holding the market in a fairly consistent shape, (1) this shape we call the box, however, it is vitally important that in thinking of this as a box you are not just looking for a shape, there is also accumulation at the point of market makers targeting traders stoploss orders (2)

## RULES OF MANIPULATION TO ACCUMULATE

1. **Covert operation**
2. **No discernible direction**
3. **No desire to create predominate beliefs**

The accumulation cycle is always a covert operation. Failure to keep hidden whether the market maker is running an accumulation of buys operation, or an accumulation of sells operation will jeopardise the second phase.

In all my years of trading I have not been able to decipher with 100% consistency which side of the market is being accumulated, however, this is of little importance because just like the poker player with the most expressionless face, eventually the player (in this case the market maker will be forced to show his hand. It is this showing of his hand that presents to us the opportunity to join the market maker on his inevitable journey to either higher or lower once the accumulation phase is complete.

*As a brief example here which will be covered in depth further on, the 'showing' of the market makers hand can often be clearly shown to the trader by monitoring when and how the market makers run a stop accumulation move.*

*By discerning if a stop running move is accumulating buy or sell stops, one can determine what the content of the main body of accumulation is. If a market maker has been accumulating buy orders than any stop running* *exercise to accumulate more, will by default be organised to accumulate more of the same.*

# NO DISCERNIBLE DIRECTION

There can be no discernible direction during the accumulation phase. This is achieved by keeping the range[1] of the market within tight confines. This tight range is normally given the label of congestion.

This word whilst highly descriptive is very deceptive. Congestion implies that nothing is happening, a little like sitting in a traffic jam it creates apathy and boredom.

At this point it is worth highlighting again the idea of form and content relative to the word congestion. If the trader looks at this area of the chart and defines this a congestion area then that trading is looking at the *form* the chart is taking and not the *content.*

## No predominant beliefs

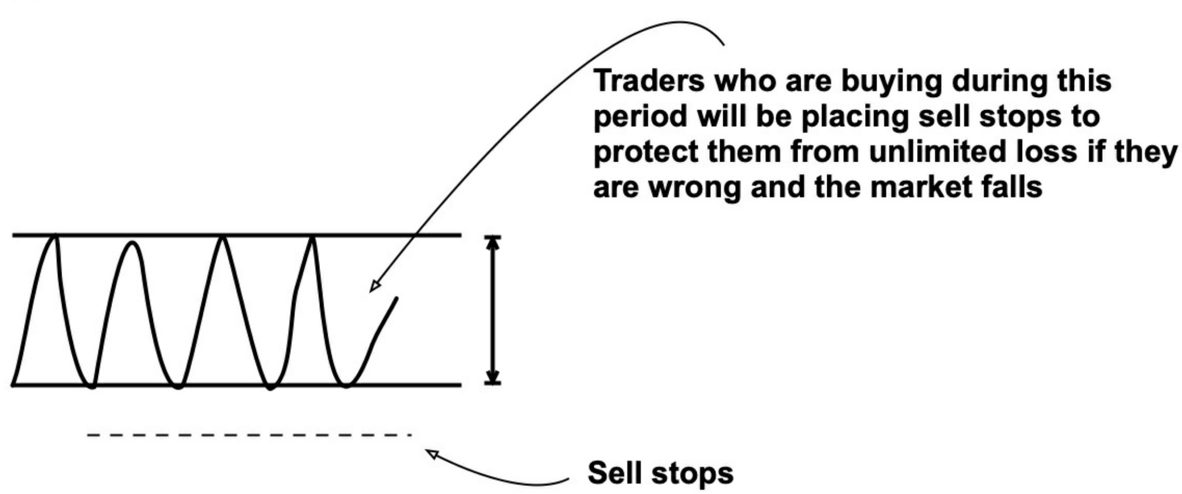
The avoidance of creating predominant beliefs about future direction is paramount. This is achieved by moving the market up and down at a slow rate and in a tight range. During this period traders will be unlikely to develop beliefs in any one particular direction at the expense of another. This allows the market makers to continue accumulating the side of the market they desire without significantly extending the price range.

## MANIPULATION TO WRONG FOOT TRADERS

Manipulation to wrong foot traders will come generally at the point where 90% of the desired accumulation quantity has been achieved. The method is simple and yet devastatingly effective to conclude phases one and two.

The set up for this wrong footing starts in phase one, however, this is not something the market makers do. This activity that sets up what is about to happen is carried out by traders willingly due to a trading truism regarding stoploss orders.

Fig 16



As the market makers move the price up and down within the tight confines traders will naturally take trades according to their beliefs at that time.

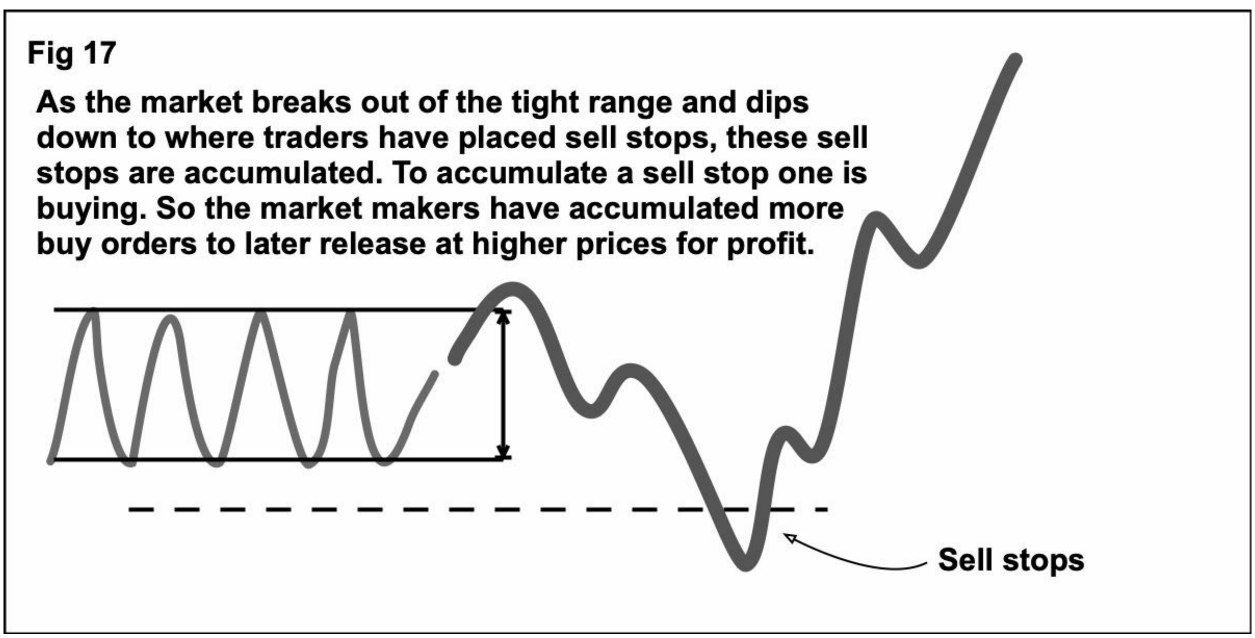
For ease of explanation we will assume that in this instance the market makers are accumulating buy orders for a later rising market. Gradually as time extends other traders will start to also accumulate buy orders in the same area.

During the accumulation phase the outside traders[1] who are also accumulating buy orders will be placing stoploss orders to protect themselves in the event of the market falling. These stop loss orders will be placed at and around proximity to recent ranges. (see fig 16)

The longer the accumulation process continues the more nervous and jittery the outside traders become and the closer in they will move their stop loss orders in an attempt to limit potential losses.

Keep in mind that the trader group we are discussing here are the group who are at this stage buying with the market markers, albeit they are not aware of this liaison.

The market makers are aware of these stop placements and can now accumulate that last quantity of buy orders that they know, they will later be able to sell when the market takes off into the next phase.




In order for the market makers to accumulate many buy orders very quickly all they have to do is to drive the market down past where the stoploss orders will be triggered. As these orders are triggered the market makers buy the sell stops thus accumulating huge blocks of buy orders at bargain prices. (fig 17)

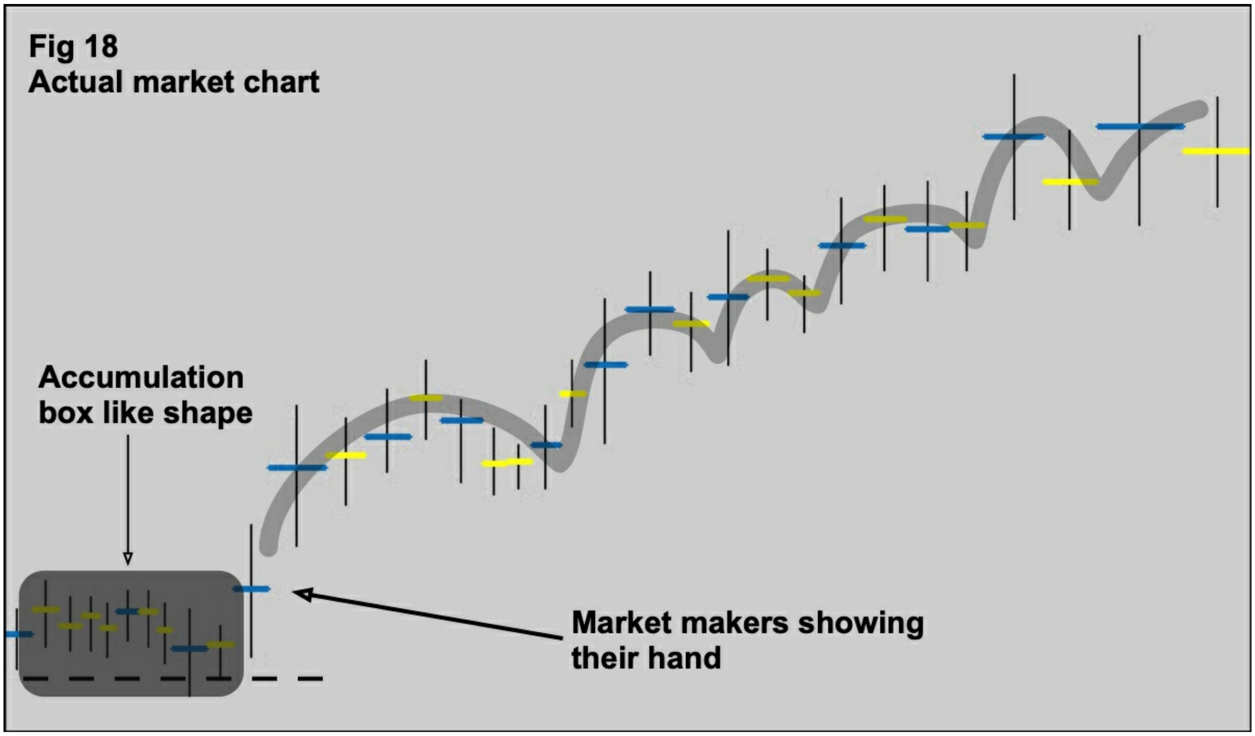
As these buy orders are accumulated the market makers hand is just being revealed and quickly prices will be marked up, taking the market higher.

# PHASE THREE

Phase three is the profit release phase, this is the phase where the outside traders are actively encouraged to join in and make money for themselves. However, the only reason this is encouraged is because it is during this stage that the outside traders provide the means by which the market makers can release their profits.

The market makers need willing buyers to enter the market so that they can sell to the now willing buyers thus releasing profits from the buy orders they accumulated during phase one and two. Let’s now look at this in graphic format.

Now the outsiders can see this, and they start to buy en-mass, which creates further up movement.




The bars in fig 18 are actual market bars taken from the PAT software [1] As the market makers show their hand this creates a flurry of buying activity by outside traders. They are buying from the market makers who had earlier been accumulating buy orders.

In order for an outside trader to buy, someone must be willing to sell. Who is willing to sell in an ‘upward’ moving market?

The market maker is pleased to sell to you and actively invites traders to join in on the rise because each time a traders buys the market maker SELLS to that BUY order.

As the market maker is selling to the trader at a price that is higher than his accumulation price, he is of course releasing profits. The higher the market moves the more profit the market maker releases.

## PROFIT RELEASE IN A RISING MARKET CYCLE

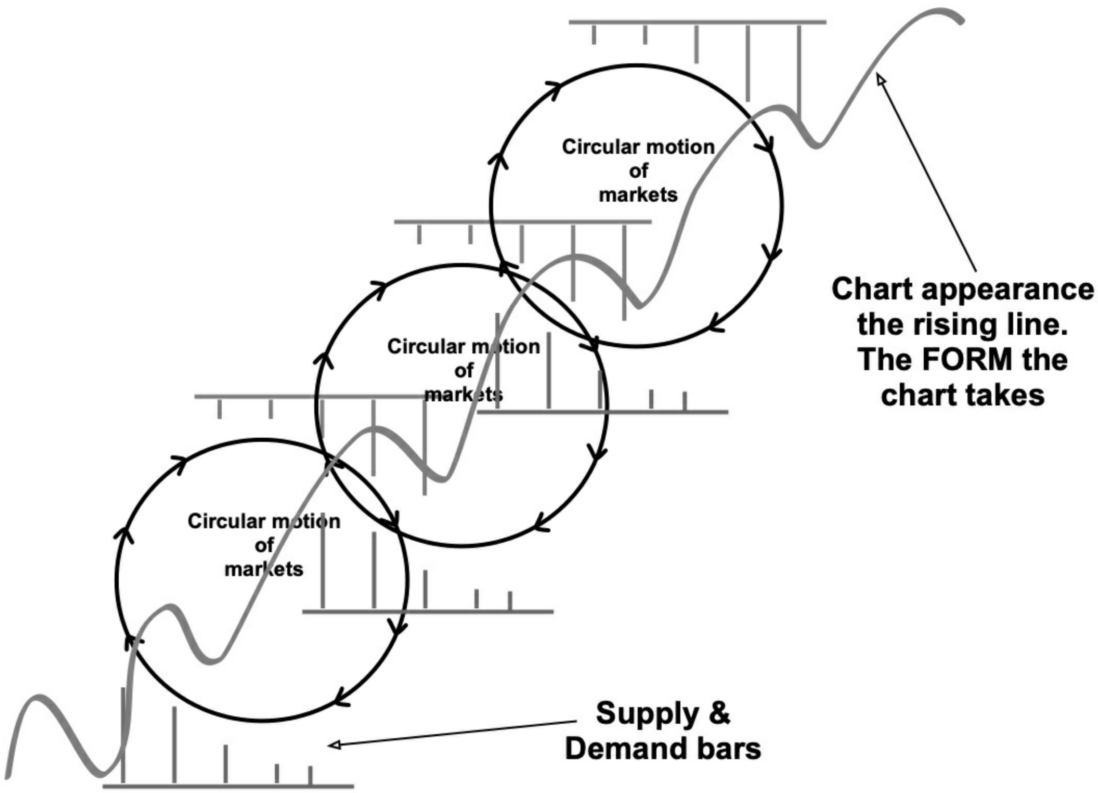
Fig 18 shows the profit release phase under way, but this time I have marked up each rise and fall on its overall climb.

Once the market breaks from the accumulation area, it might seem like a completely different scenario starts to play out, that is we just see the market steadily rising over time. Most traders view in exactly this way, and in doing so they are viewing the form the chart is taking and not the content behind it.

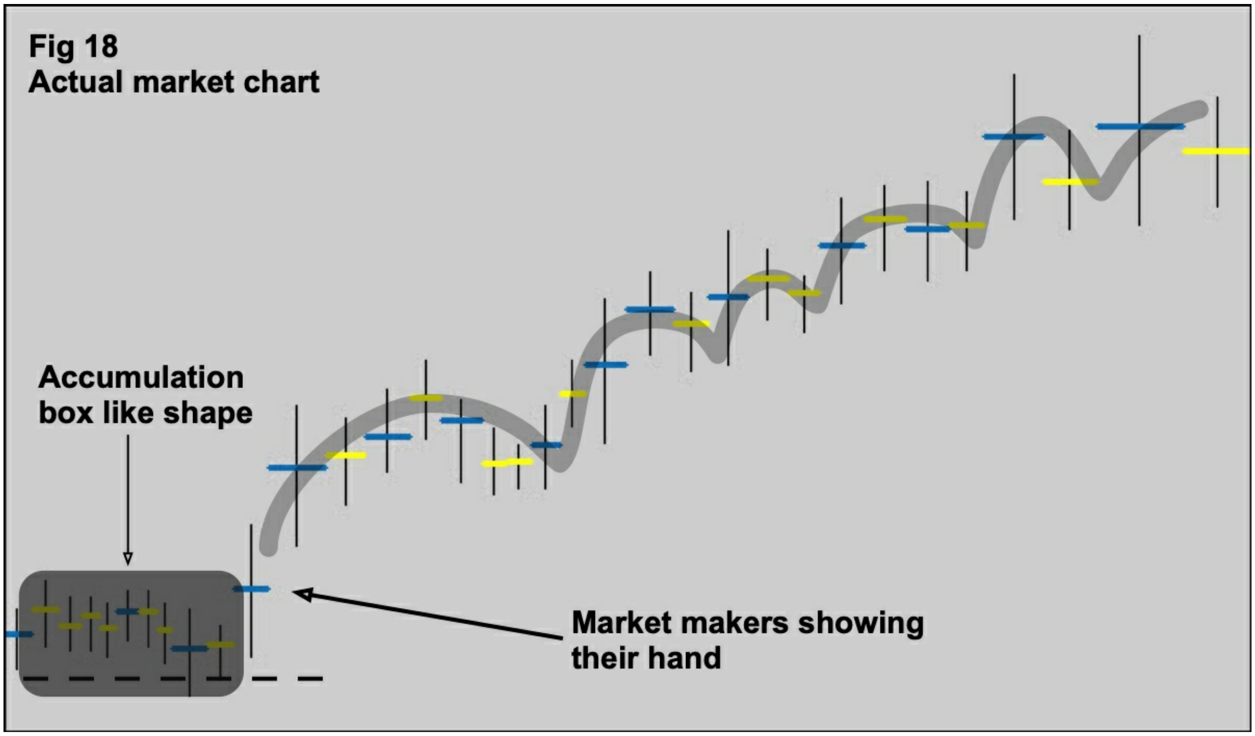
So let’s have a look at this content.

Do you remember this image?

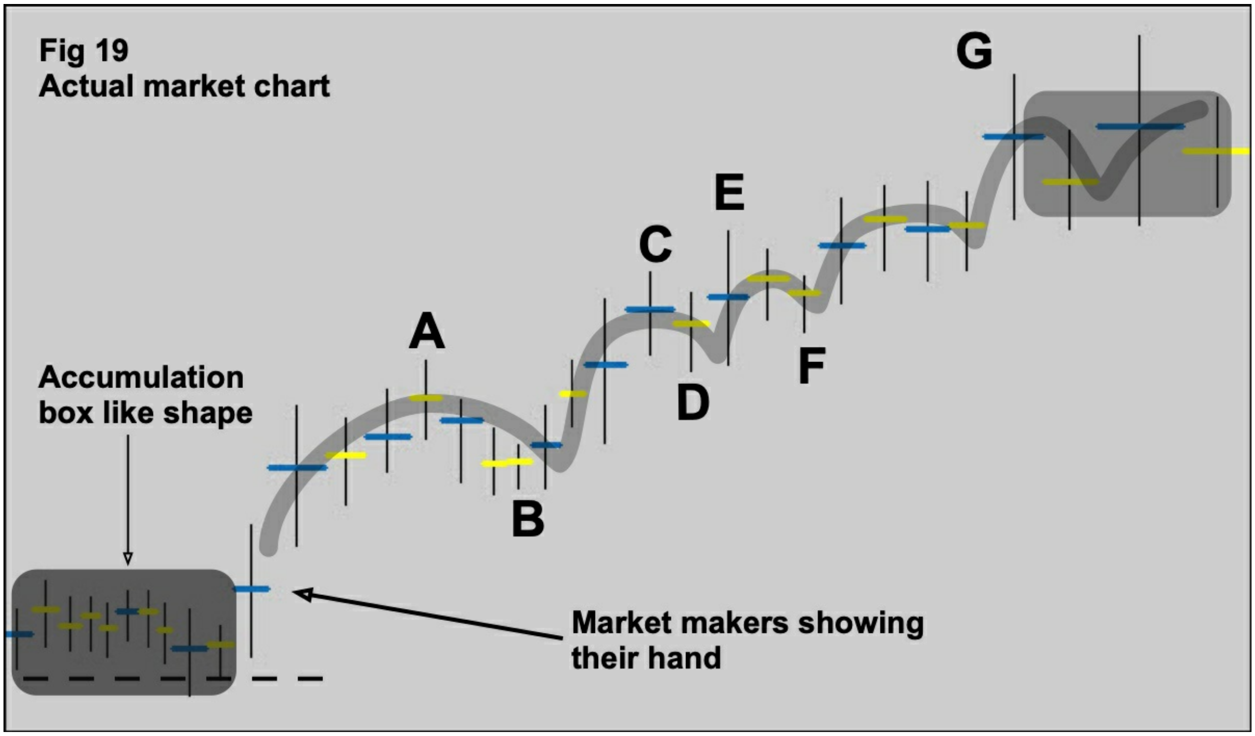
Fig 6




What I would like you to do is mentally superimpose this image Fig 6 over fig 18 repeated below.




What we can clearly draw from this are some visual similarities, but as mentioned several times before (due to its importance) the visual representation is the form the chart takes over the content. To trade successfully we must observe form only as a means to read the underlying content. The real and present danger for financial loss is only a momentary mental lapse away from allowing your mind to be drawn into the pattern / form the chart is providing.




We can see in Fig 19 that once the market makers show their hand there is a rapid move upwards. This is a deliberate and well calculated move on the part of the market maker, because now he wants to be sure that outside traders are willing to join in on this upward moving market, which aids his profit release phase.

On fig 19 you will see a rising market up to point (A). It is during the rise that the market maker is rapidly supplying the demand of the outside buyers, that is he is selling into that demand and thus releasing profits from the buy orders that he accumulated at a much lower price.

As this rapid selling into the demand continues it starts to outstrip demand thus that market will give the appearance of rolling over, of changing direction.

Some traders who bought earlier will see this and panic into thinking that this was a false move and now the market is likely to go down. They will quickly place stoploss orders and or sell the market in the anticipation that the market is likely to fall from here.

As they sell the market so the market makers will buy the sell orders thus adding to their original accumulation of buys quota. When they have absorbed all the selling at (B) the market will quickly rise up to (C) where the process to (D,E,F,G continues until the market makers have sold everything they accumulated and then re-accumulated on the way up. When this process has been completed the market makers will start the complete process again and return to phase one, the accumulation phase.

It is also during this time that the market makers activity causes many popular technical analysis indicators to deliver (in this case) buy signals. However, these signals although correct, will arrive at a time when the traders is extremely vulnerable to a retrace.

*During the profit release phase you are actively encouraged to make profits, however, this is only to assist the market maker in making larger profits. When this phase is over the market maker will then set about taking back the profits that he freely encouraged you to take. This is why so many traders report excellent gains to then only see those gains returned to the markets over the following few days.*

## PROFIT RELEASE IN A FALLING MARKET CYCLE

For the market maker to release profits in a falling market cycle he must BUY the SELLS that he accumulated during his accumulating SELLS cycle. The only way he can do this is if he convinces the outside traders that the market is going to fall in value. As you see the *form* of the market moving down your mind will lock onto this and you want to jump on board. As you enter the market and place a SELL order, the market maker buys back. What has he done? He has just bought from you something he sold earlier at a much higher price. *He has released profits!*

You will no doubt notice that the rise and fall is just a mirror image of each other.

The market makers business model is exactly the same whether it be a rising or falling market. However, notice that whilst the *FORM* of the chart is different, the *CONTENT* remains the same.

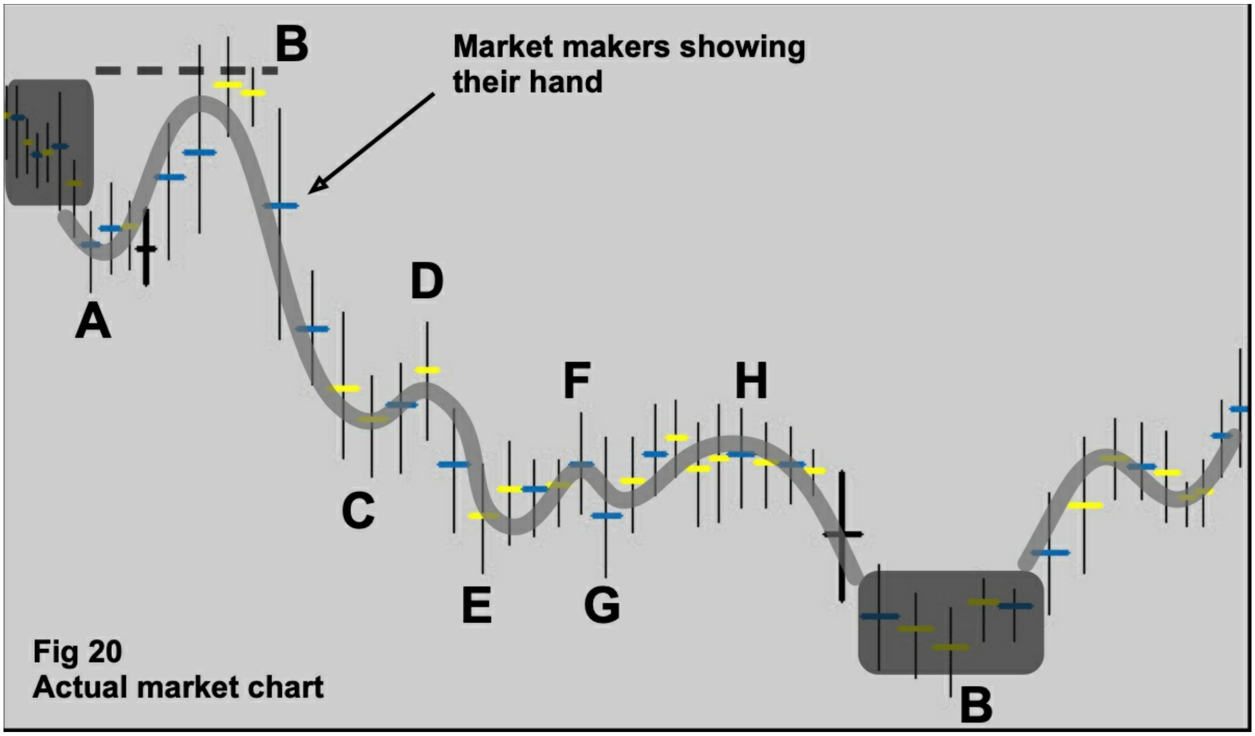


Fig 20
Actual market chart

In fig 20 we can see that (A) the market moves down from the accumulation area but then starts to move up.

Earlier we took a look at where traders placed stops. This chart is a very clear example of when a market breaks from the accumulation area which gives a good indication of the contents of the accumulation area and encourages outside traders to sell. These traders will place stoploss orders (buy stops) at the top side of the accumulation area. The market makers then manipulate prices to move the market higher to trigger the buy stops which they sell to, again they have accumulated more sell orders to fill up their quota.

As they have achieved the desired quota of sell orders they show their hand to the outside traders and the price rapidly falls.

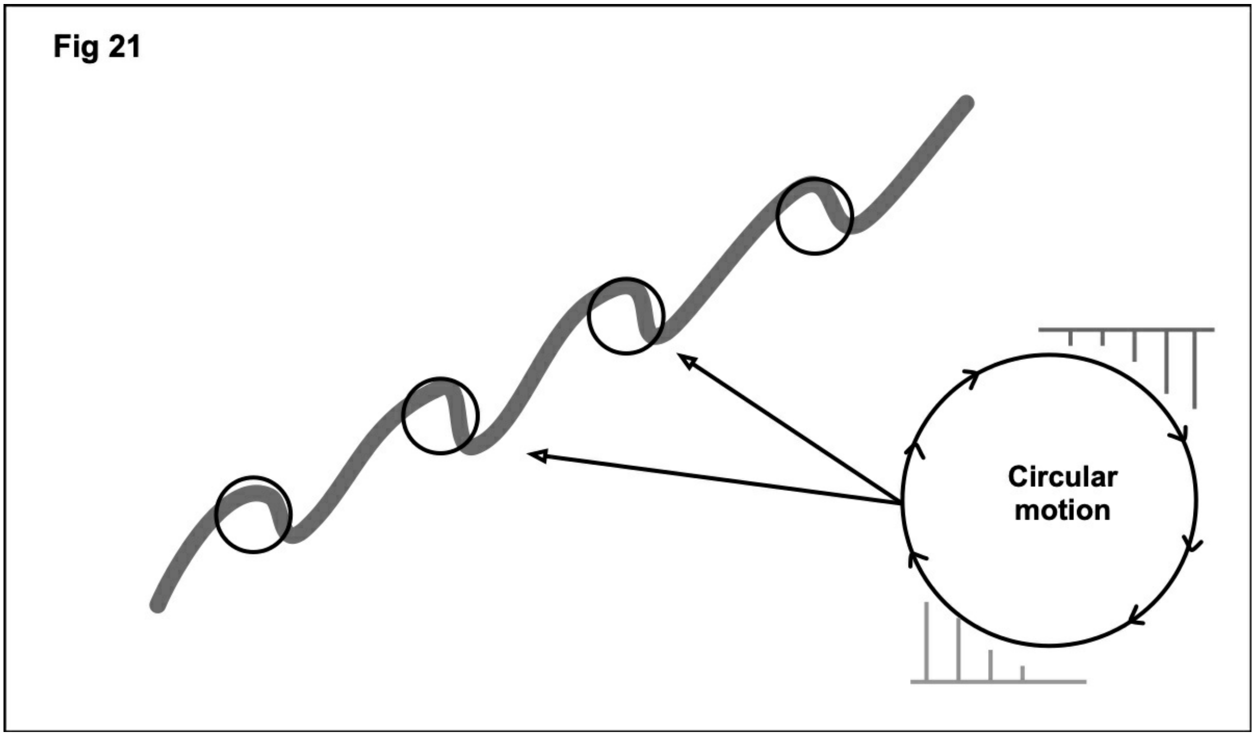
The outside traders see the fall and join in by selling, as they sell so the market maker takes the other side of that sell order which is a buy, but now of course his buy allows him to collect profit from the difference in price of that which he accumulated as sells earlier.

# MARKET RETRACES

Market retraces are another type of truism. We can see the retrace, we can justify it in some way by calling it something and this we give meaning to it. But what is really going on? Why would this happen if the market makers just wants to sell into higher and higher prices? Why not just take a market up in a straight line and get it over with?

The reasons are as always profit motivated.

Let's now have a look at a retrace from the perspective of a mini cycle of the accumulation phase.




In Fig 21 I have circled small drop backs on the simulated market line. These drop backs in trading terms are referred to as *retraces.*

As a market maker who has in this case earlier accumulated buy orders, he will know there is good demand and will indeed sell all the buys he earlier accumulated, so why not on the way up collect some more buys to sell higher?

As the market starts to rise higher, those that bought with the market maker are now starting to make profits, however, these profits are not bankable profits, that is to actually take possession of profits the trader will have to close their position by now selling what they bought at a lower price.

If the market maker can persuade the trader to close their position and take some profits this means the market maker can buy the sell from the trader taking those profits to then later sell at a higher price for even more profit for himself.

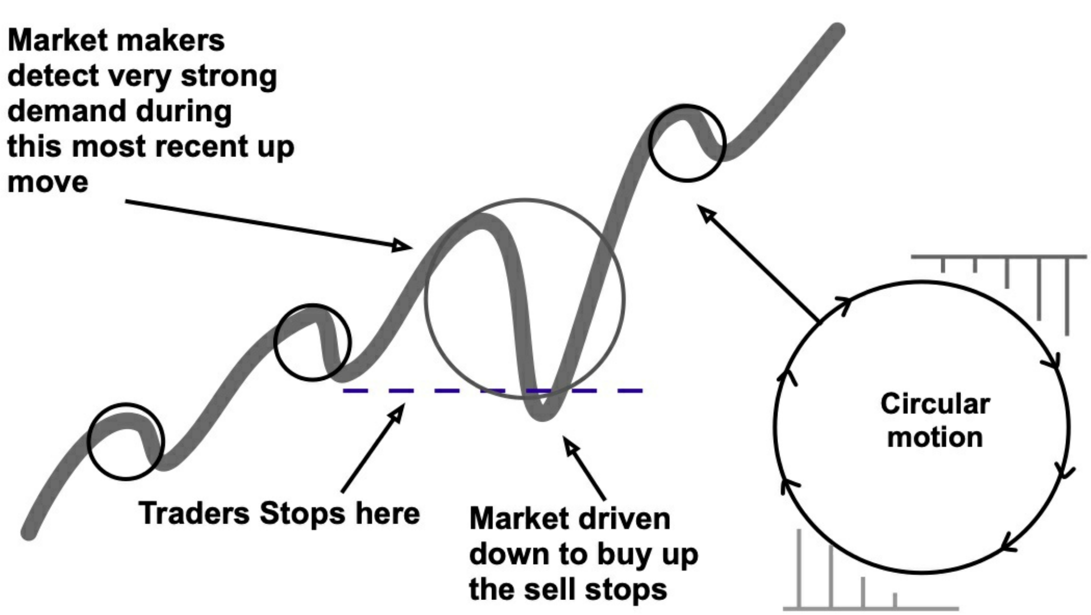
How can the market maker persuade the outsider trader to sell back to him a perfectly good trading position that the market makers knows is a highly profitable trading opportunity?

As a trader sees his position move into the money and sees the profits start to mount the trader will start to think about not wanting to lose that money. To not lose money or lower the risk of losing what the trader thinks he has, that trader will start to move up his stop loss order to protect his *on paper profits*[1] As the trader moves his stop loss closer to the live price so his emotional attachment to the fear of loss will rise, and he will become more attached to the trade.

This heightened state of awareness produces the effect of closely watching any retrace and during this time a certain group of traders will close their positions when the market *appears* to be retracing against their chosen direction.

The next group of traders who are a little more seasoned will wait awhile to see if this really is a turn or just a retrace. Once this next group sees that this was just a retrace, they will now move up their stop loss orders to the base of what they term as a confirmed retrace as part of the overall move.

**Fig 22**




In Fig 22 we see that those more seasoned traders who did not sell their buy orders at the first sign of retrace, are more likely to wait for each retrace and then place their stoploss orders at the base of a retrace.

If however, the marker maker detects very strong demand on a rise and realises that he can see much more than he accumulated earlier, he will drive the market down below where he knows the more seasoned traders will have placed their stoploss orders. The *form* the chart takes during this time will also have the effect of causing additional outside traders to sell.

The market maker aware of the strong demand will absorb all the selling by, buying and thus accumulating many buy orders to sell into the pending rise.

This type of move will generally take place fairly quickly so to not establish negative beliefs in traders minds about the rise not continuing.

It may seem at this stage as if we have departed from the market makers business model and are now covering different traders and their methods but nothing could be farther from the truth. Every aspect of these traders activities are highly predicable and part of the market makers business model. These traders are being guided by the market makers activity into making decisions that will benefit the market makers.

## SOME MORE ON STOP LOSS ORDERS

The outside perception of a stop loss is as the name implies, to stop or limit losses, the inside perception or rather the market makers use of the stop loss is an accumulation tool.

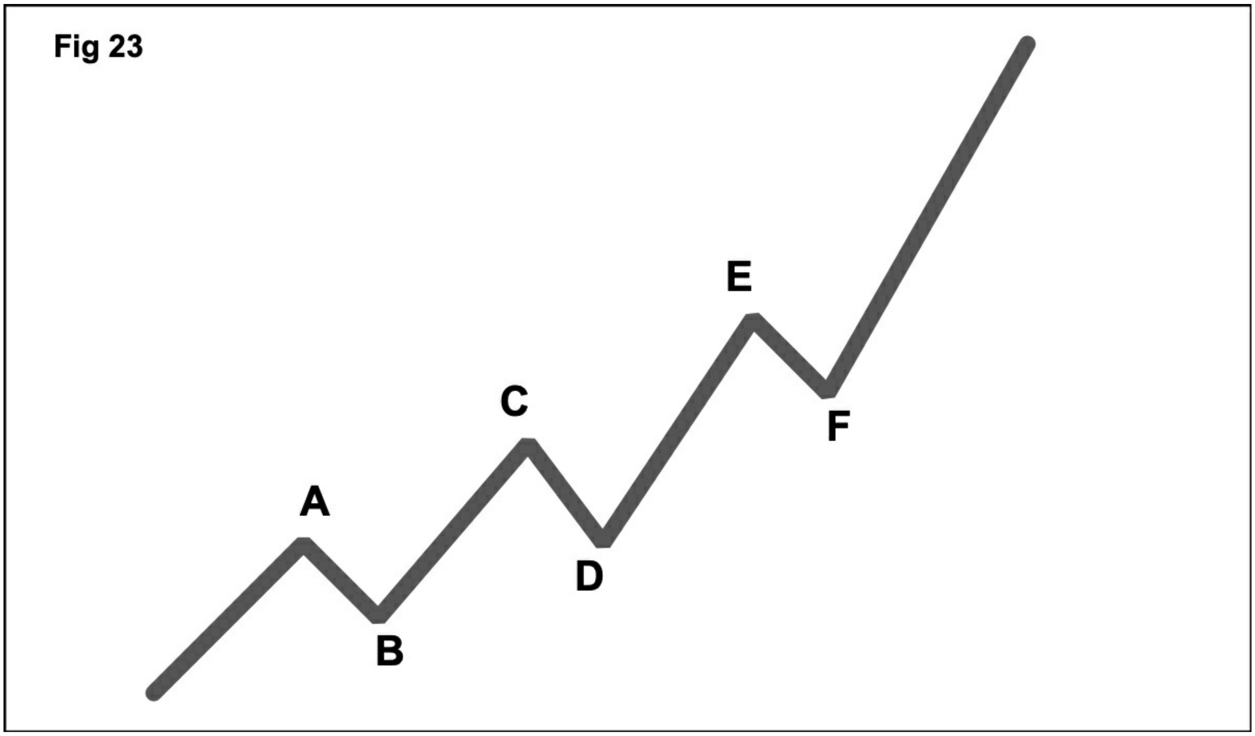
The predictability of where traders place stops comes about as a result of the instructions that traders are given, instructions that are freely handed out to all that will listen through the many thousands of traders resource portals. One of the most popular questions on these portals is "where should I place my stop loss?"

The reason for this popularity is that traders quickly become aware of how often they are stopped out and then see their initial trade later turn into what would have been a big winner for them.

Looking at the *form* this graphic takes, fig 23 you can see that it looks logical and seems a sensible thing to do. You will often hear statements like "that was a support area that will hold" "It's a confirmed retrace area" "It was oversold at that point so that is why it went back up" These statements sound plausible, they are so plausible that for the most part they go unchallenged.

The truth of the matter is that a retrace area serves two purposes for the market maker.

1. It allows immediate accumulation from those traders who are most easily able to have their beliefs manipulated.
2. It allows the setting up of accumulation areas that can be acted upon if market conditions are such that the market makers want to accumulate large numbers of orders quickly.




The most popular place for a trader to place a stoploss order is what is know as (in the case of an upwards moving market) under the most recent reaction. Fig 23

The traders who are most easily manipulated will start to close their trading positions and take small profits at the first sign of any downturn from point (A) to (B) Traders who place their stoploss orders under reactions (B) may or may not have their stops targeted, but nevertheless they are there just waiting should the market makers decide to accumulate them. (see fig 23)

In the event of the market continuing to rise traders will moved their stoploss orders up under each subsequent reaction.

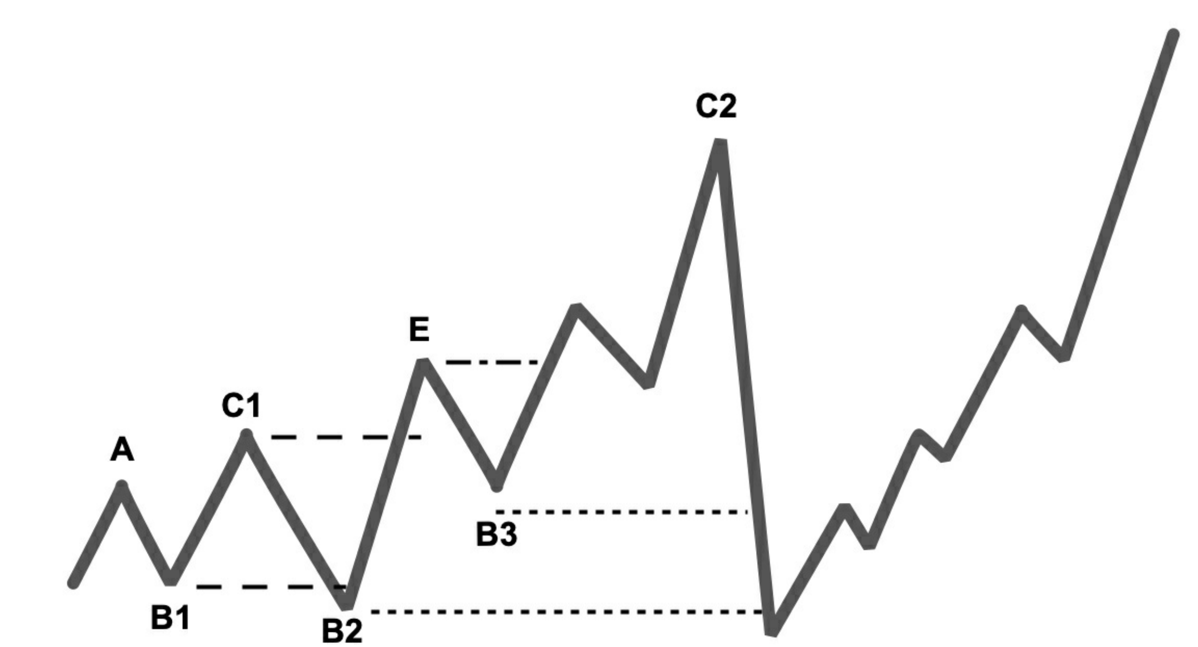
More traders will also place buy orders above where a reaction starts its downturn. (C) These traders will place these orders with the logic that says: If the market goes back above (C) after a retrace then this will be a good place to buy into the market. This is another widely held trading belief that places the trader in a very vulnerable position.

Looking back on (A,B,C,D,E,F) note how logical and informative this looks for the trader. So logical and foolproof that some readers will start to think this is a good trading strategy to follow the next time the market moves like this.

This is exactly how most traders are trained, with logical historic charts laid out in this manner. This is trading the *form* that chart is taking, with little or no understanding of the real underlying forces of the content.

Now what I would like to do is return to the business model of the market maker and examine the form of fig 24 whilst thinking about the market makers business. This example is the real world, more common chart you will find on an almost daily basis in any market from pork bellies to currencies.

Fig 24




The first thing you will probably notice in fig 24 is that it is not quite so uniformed, the peaks and dips are not quite so conveniently placed for the trader.

Let’s now cycle through this chart from the market makers perspective.

As the market moved up towards (A) some traders will start to open buy trades, then the market started its first downturn from (A) to (B1) and some of these traders will close their buy positions by selling and taking small profits if possible. The market makers will buy these sell orders thus accumulating more buys to later sell at higher prices. This accumulating of buy orders by the market makers will cause the market to rise from (B1) to

(C1). Again on this journey some traders will open buy orders and will place sell stops at (B1)

As the market then moves up to (C1) the market makers are able to sell into that rise and thus release profits from the orders. (this is not a full profit release phase, rather it is part of the manipulation phase)

By the time the market reaches (C1) outside traders will have placed stop loss orders at (B1) the marker makers will now start a small downturn by marking the prices down from (C1). Just the same as on the journey from (A) to (B1) some traders will start to sell and take profits, but this time the market makers will be less willing to absorb these sell orders by buying them. The result will be a faster falling of the market from (C1) to (B2).

As the market moves lower than the low at (B1) the sell stops placed by those traders who bought on the way up from (B1) to (C1) will be triggered, also at this point other traders will have set up sell orders under (B1) believing that should the market move below (B1) it will continue on down.

What happens (in the case of the market makers planing an overall up move) is that as the market breaks below (B1) all the sell orders are bought up by the market makers, thus accumulating large numbers of buy orders and causing the market to return to its overall upward trajectory. Again the market makers are into a profit release up move as they sell that which they bought at bargain prices at (B2) into the rise on the way up to (E)

Notice the dashed line extending from (C1), here traders will have placed buy orders with the belief that should the market break above (C1) then the market will continue upwards.

The market maker will quickly sell to these buy orders in large quantities thus causing another drop back towards (B3). Again a further accumulation of buy orders for the market makers for a later profit release phase.

This process repeats itself on the way to (C2) and on the way the market starts to show its visible *form* of an overall upward trend on its way to (C2).

The trend traders are starting to see their technical analysis tools indicating upwards and confidence levels are building for a continuing rise.

If at this stage the market maker had a strong market and wants to accumulate more buy orders all that is required is an excuse to rapidly mark down prices to create a fall. As this fall passes lower than the stop loss placed on the way up at (B2 -B3) so this will trigger the sell stops of the outside traders and allow the market makers to accumulate at bargain-basement prices to later sell into a profit release rise.

As I am writing this the GBPUSD currency pair has just completed one such cycle. Below in fig 25 you will find the actual market chart.


It is to be hoped that you are now starting to realize that much of what is portrayed about the market as being complex is misleading. In reality, markets are far removed from complexity and are merely a highly efficient profit generating machine for the benefit of the few at a cost to the many.

The market makers business model is simple, however, to trade the model requires understanding every step of the way. It requires dedicated practice and ongoing correction until the necessary trading skills become second nature to you.

At some point in this book you will have a paradigm shift and you will from that moment view the markets from the inside out instead of like the masses who view it from the outside in. This will be your defining moment as a trader and for some whom may have been trading for many years without success it can be an emotionally charged experience.

## EXITING THE MARKET

I have a trading saying that I believe to be true.

*"Any fool can get into a market, but it takes skill to know when to get out"*

Today it is so easy to enter any market with a trading position. With a click of your mouse you are in the market live trading, but then what?

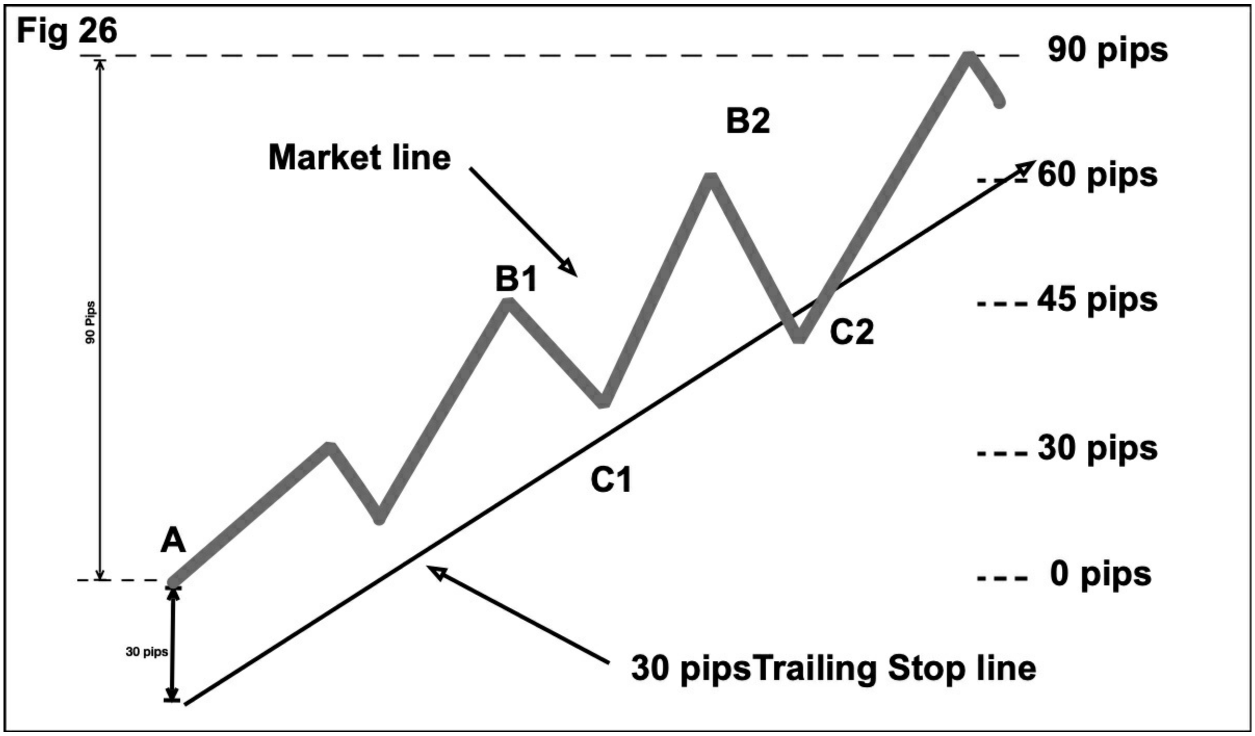
To make money from any trading position, that position will have to be closed. If you buy you will have to sell and if you sell you will have to buy. Making that decision to close your trade too early or too late is critical to your profitability and therefore critical to your overall success.

Most traders who are not trading the market makers business model can only really use technical analysis tools, such as stop loss orders, or trailing stops, etc. The problem with this is that you will always be at a disadvantage.

If we take the example of the trailing stop, we can immediately logically see that this seems like a great idea. For example; the trader opens a buy position and sees that trade start to move into the money as the market climbs. We will assume that the trader places a 30 pips trailing stop.

The trailing stop means that as the market moves up so the stop loss order follows at a 30 pips distance. When the market starts to move down the stop loss stays at its last position, meaning the lower the market falls the closer your stop loss order becomes to the current market price. So, if the market retraces back 30 pips the trader will be stopped out.

Lets look at this in Fig 26




For ease of explanation we will keep the prices to unit of $1.00 so in this example we are assuming that the trader buys at point (A) a $1.00 lot. At the same time he places a trailing sell stop loss order 30 pips[1] below this level.

If the market immediately moved down from (A) this position would be stopped out and the trader would lose $30.00.

Assuming our trader has opened a trade in the right direction and the market now starts to move upward he will start to see that trade move into the money.[2]

By the time the trade reaches (B1) the trade will be 45 pips ($45.00) in the money and the trailing stop loss will have automatically moved up 30 pips behind that. Now if the market retraced 30 pips our trader would be stopped out and have made 15 pips ($15.00)

In our case however, we can see that our trader was not stopped out and the market continued up to (B2) so now the trade is 60 pips in the money ($60.00) but now the market retraces down to C2 and crosses the 30 pips trailing stop loss line and stops out the trader. The trader has made 45 pips ($45.00) We then see the market move on up to touch the 90 pips line where our traders could have taken 90 pips profit instead of 45 pips. A 100% increase as a result of not using a trailing stop loss.

Clearly knowing when to get out and take maximum profits is vitally important for the long term success of a trader.

The common belief that a trailing stop allows you to maximise your gains by letting them run is another of our trading truisms. It's a great tool for the market maker to use as an accumulation tool, at the expense of the trader.

Next the market retraces down past the level of (B1) to (C2) and in doing so stops the trader out for a $30.00 gain.

This all seems very good, however, note at one point the trader was in the money for $60.00, further more had the market not have stopped the trader out at the (B1) level and had continued to the 90 pips peak, the trader would have been in the money to the tune of 90 pips ($90.00) and had a stop loss back at 60pips profit.

What we can draw from this is that the theory of trailing stops provide for open-ended gains whilst minimizing losses is not correct and a far better description, is that they are another tool of the market maker that allows easy accumulation if so desired.

Last night whilst writing this chapter I was also looking at the markets (this is not a theory book) and I saw a trading opportunity present itself. In fig 27 we can observe how that would have turned out if I had used a trailing stop loss.

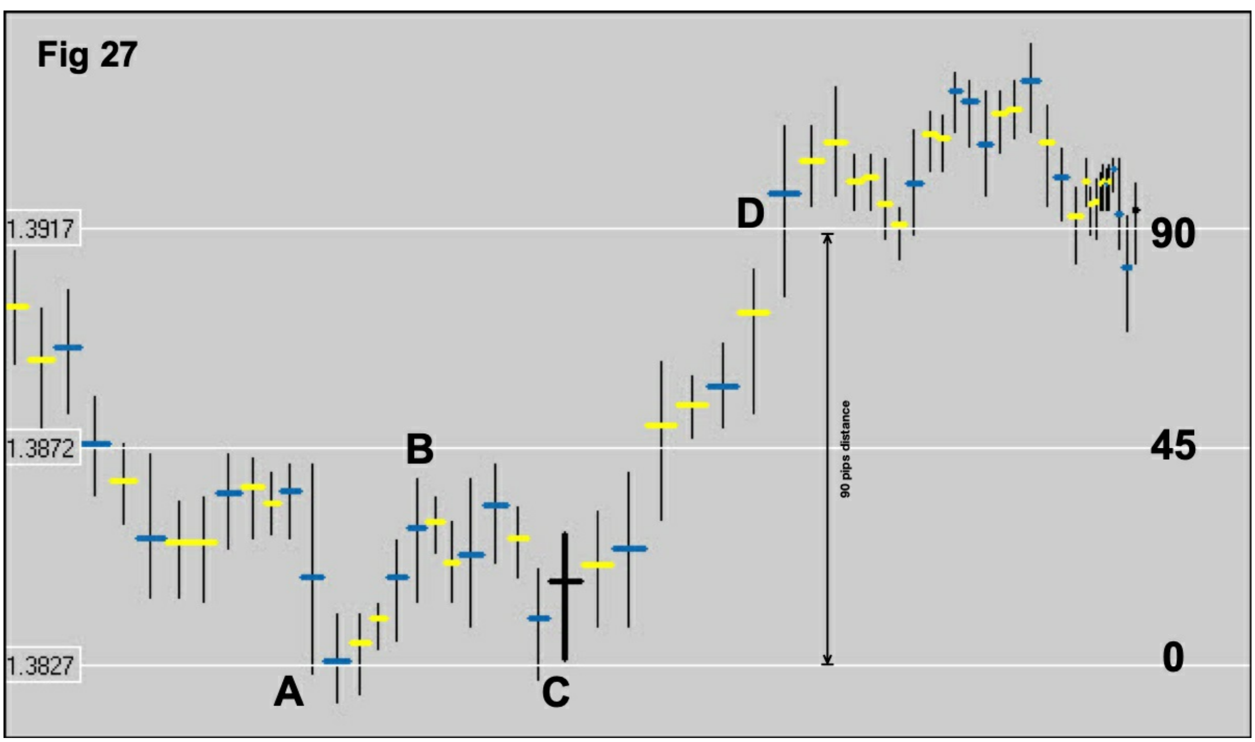


Fig 27

I bought that market at (A) at a market price of 1.3827 and placed a 25 pips stoploss at 1.3802. It was very late here in New Zealand when I opened this trade so I had to go to bed almost immediately the trade was opened, but as we can see later on the market moved up to (B) 1.3870 and my trading position was then 43pips in the money. If I had used a trailing stop my stoploss would now be 30 pips below that at 1.3840.

This would now mean that as the market retraced down to (C) I would have been stopped out at 1.3840 and made a profit of 13 pips.

What happened was I achieved a profit of 90 pips (all charts relating to this trade can be seen on my website www.learningtotrade.com

As a trader one thing that you will quickly be faced with is that question, where do you exit your trades?

In this example I exited at a predetermined level of 90 pips higher than where I entered, but just applying a numerical target like this, whilst highly accurate is not a trading solution in itself.

To answer the where to exit question we have to return to the market makers business model, we have to look at this from his perspective.

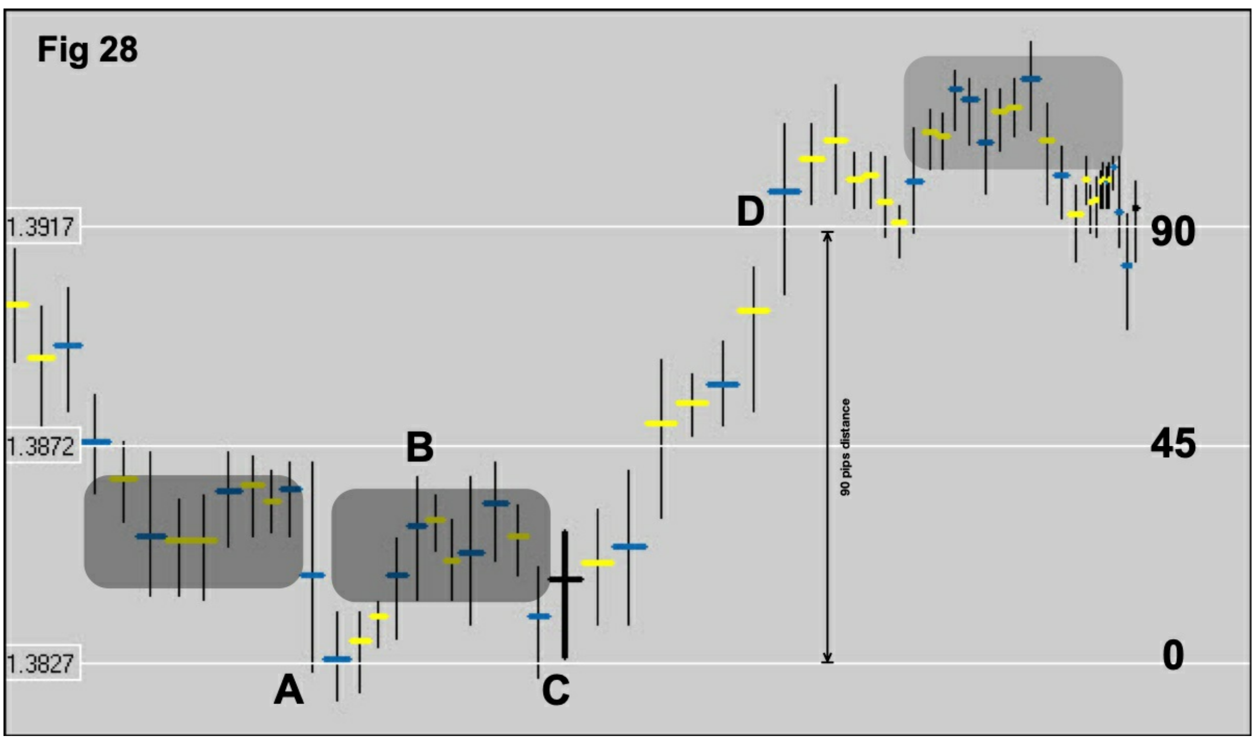


Fig 28

In fig 28 we can see in the lower shaded areas that there was accumulation going on. As the market moved down to (A) the market makers also accumulated further orders. (off the screen to the left was a level were traders had placed sell stops, which the market makers bought thus accumulating buy orders)

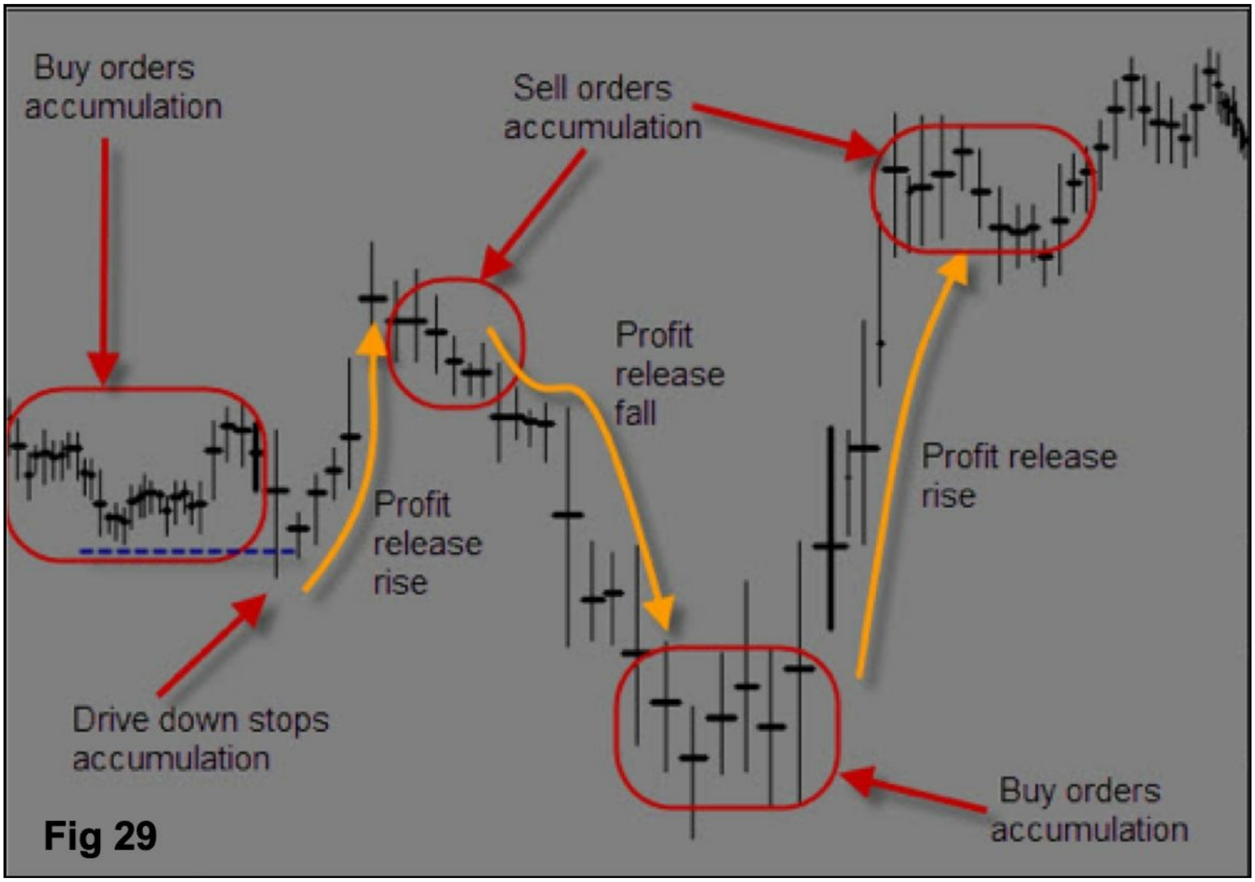
It was the outcome of this stop taking that revealed the market makers contents of the box, it revealed that they had previously been accumulating buy orders. As we know from an earlier explanation, the only way for the market maker to make money from an accumulation of buy orders is for the market to rise. But how far?

To answer this question we can use a fundamental rule of doing business that the market maker is forced to comply with.

*You cannot sell that which you do not have, and even if you could, you could not release any profit from this activity*.

This means that any move that the market maker instigates will come to an end when all that has been accumulated has been released for profit. No further movement will take place until the market maker has again run his accumulation phase.

This simple rule of *doing business* provides us with the very best exit levels at which point we can take our profits.




What you should be able to draw from fig 29 is that entry and exit are intertwined. It has to be this way because the market markets business model is a never ending cycle of accumulation, manipulation and profit release.

However, to provide a more consistent way of exiting for the best return possible, the trader of the market makers business model should be aware of the consistency of the profit release phase to cover a distance of around 90 pips. Whilst this is consistency is difficult to convey in a written format, you will soon discover this consistency for yourself once you start exploring the market makers business model.

## MANIPULATION

To fully understand manipulation, you will need to have an understanding of how beliefs work. To appreciate the interpretations offered here, it is important that you start to examine your own beliefs about certain aspects of your life and how they make you and your world what it is at this given moment.

All of us hold beliefs about ourselves, others and everything around us. These beliefs dictate our daily actions to a considerable extent.

Generally speaking, we will only carry out a task that contains an element of risk if we believe that we are able to manage that risk and survive it.

Imagine that there is 2-inch wide plank 50 feet (15.24 metres) high that spans two buildings. You need to get from one building to another. As you look down, the possibility of falling will cause you to question your belief that you are able to make it across. The very same plank on the ground will not, of threaten this belief in your ability to succeed in crossing. It is your *belief* in the possibility that you will fall that creates the conflict.

Another important thing about beliefs is that it is *only possible to hold one belief about a particular idea at any one time*. In the example of the plank, one cannot believe that it is possible to make it across the plank and at the same time believe that it is not.

How does this relate to the market? To put it simply, one cannot believe that the market will go up and at the same time believe it will go down. And that no trader will ever buy a market they he believes is going to fall and will not sell a market that he believes is going to rise.

This may seem an obvious observation, but for a trader this has some farreaching implications regarding manipulation.

Until this point we really only looked at manipulation from the price perspective and whilst price is the ultimate result of manipulation, it is not the price manipulation that causes traders to buy or sell.

Some traders may argue that they have no belief about future market direction. Whilst this seems plausible, a belief is inevitably born at some point. When this belief is born, the trader will only take a trade that is consistent with his belief.

Once the trade has been placed, his belief is suddenly reinforced to the point that all other possible outcomes are rejected. The further the market moves in the anticipated direction, the stronger and stronger the trader's belief will become.

This process may be referred to as "birth of a belief structure". The trader is very vulnerable at this time, as irrationality can take over, and indications that show the end of the market direction is near may be overlooked.

Attachment to a belief structure is completely natural – and it is fully understood and exploited by the market makers.

Once you have started mapping the market for manipulated beliefs rather than price you will be able to understand market activity from the same perspective as the market maker.

Price is not the real issue. Traders who concentrate on price alone are unable to observe beliefs and how they are manipulated by the activities of the market makers.

Nothing lasts forever, and belief structures are particularly fickle! In order for a new belief to be born the previously held one must be changed. This process is always a painful experience, because one has to "cut the umbilical cord" of the currently held belief to accept another. In trading, losses are often inevitable at this point. The unpleasant experience of taking a loss creates a subconscious association in the trader's mind between changing a belief and pain or stress, seriously affecting future trading decisions.

The good news is that this can be measured.

# UNDERSTANDING MARKET BELIEFS

The revelation of the astonishing degree of consistency in belief structures came to me during a live trading course that I conducted many years ago. To test the belief threshold[1] of a group of students I devised a simple exercise.

Each person marked the results of my coin flipping on a sheet of graph paper to simulate a market chart. The number of flips was plotted on the X axis, while the Y axis starting from a centre line indicated whether a tail or a head had come up.

Each time a head came up, the students marked a cross one box higher and for tails one box lower.

Participants were also asked to mark the point on their imagined market chart where they believed that the finish point would be above or below the mid line starting point after the chart was full. They were also asked to sign their name[2] at this point

They were then further instructed that If the "simulated market" subsequently moved against their original decision they were to mark the point where they changed their mind about the final result and again sign their name.

I then deliberately misrepresented the results so that the plot was well above the starting point after a few throws. Once I had observed that the participants had committed themselves to the belief that the simulated market" would finish above the starting point, I began to manipulate the results in the opposite direction.

The alternation between discomfort when the position moved against them and relief when a few heads were called was palpable. The really astonishing thing was that, although the students were unable to see each other's charts, they were all remarkably similar. That is the points at which participants marked their belief that the result would finish above the line and where they changed their minds were virtually identical.

I then took the results and overlaid them onto actual market charts revealing that I could predict on nothing more than visual distance, where a trader was likely to develop beliefs about taking a trade, and then where that trader would change their mind about their initial trade. No matter what market I overlaid this on, the results were consistent.

The results of this simple exercise made it clear to me that the way in which traders’ belief structures change over time could be used in formulating an efficient trading technique.

## USING BELIEFS IN A DECISION-MAKING PROCESS

Imagine you are standing at the edge of a busy road which you need to cross. There is one lane coming at you from the right, a central reservation and beyond that a lane coming from the left. How are you going to cross this road? Most will say, “Wait until the road is clear and then cross” Well that is the logical answer, it ‘seems’ like this is all that is required, but it runs a little deeper than this.

You will not be able to step off the kerb until a *belief* is born within you that says you can make it to the other side or at least to the central reservation. Without this belief you will be rooted to the spot.

This is *your belief*, you generated this within yourself.

Now imagine another instance where there are others standing beside you, also wanting to cross. They like you are looking for that gap in the traffic. Suddenly one of them steps out and you join them and in that instant you realise that this was not the best idea.

Chances are you will have at one time or another, perhaps many times experienced these two events.

First *you created your belief,* in the second instance *someone else's belief* caused you to step off the kerb. The subtle difference between these two beliefs is vitally important to understand from a trading perspective.

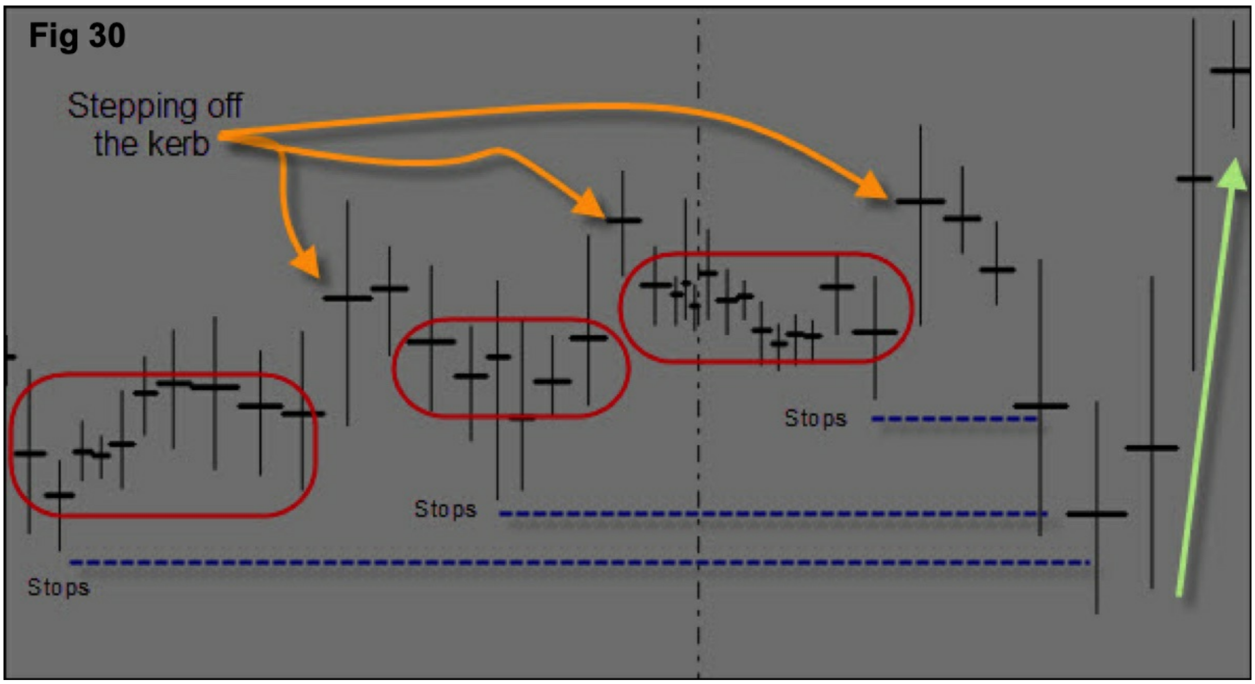
Market makers will always be stepping off the kerb creating beliefs in outside traders that now is the time to cross the road, now is the time to join the market.

Have you ever stepped out to cross a road on the basis of someone else’s belief only in an instant to see them change their mind and retrace leaving you with a very bad decision? It’s uncomfortable right?

Market makers are in the belief business. In order for them to get you to join them you will have to generate a belief that says you are going to win from this next trade. Its is only at this point that you will then enter the market in the direction that you believe will be profitable, either up or down.

However, is this your belief, or has this belief been forced upon you like the person stepping out beside you to cross the road?

Let’s have a look at this is chart format.




In fig 30 you see three boxed areas. We have discussed these before with the label accumulation areas and that description still stands. However, for the purpose of explaining beliefs I would like you to consider these accumulation areas as groups of people building up on the kerb line waiting to cross the road.

The three arrows point to a dramatic shift, the market makers have stepped off the kerb to cross the road, to encourage other to follow. All the traders left sitting on the kerb would likely be thinking saying to themselves “is it safe to cross the road?” Some traders will follow only to find that almost immediately it was not safe.

The traders that had their beliefs manipulated into crossing the road will now likely place stop loss orders according to trading truisms at a previous low.

Later we see exactly the same process repeated and each time traders are manipulated into the market and are manipulated into placing stop loss orders.

These traders over a time start to see their poor trading positions move a little into the money, then after the last ‘stepping off the kerb’ the market is driven down triggering all the sell orders which the market makers buy up, thus adding to their stock of buy orders. The market then reverses and heads up where the market makers enter into their profit release phase.

It is important at this stage that you start to look beyond the facade of the chart. The chart is only a graphical representation of prices and looking at it in this way offers little insight to the trader.

By looking *through* the chart, by looking at how traders *beliefs* are manipulated and then overlaying that with the market makers business model which is

Accumulation, manipulation and then profit release, you are able to get an unprecedented look into the real workings of the market.

It is to be hoped that by now you are starting to realise that the shape of a bar, a moving average, a pattern formation, far from providing you with information is clouding the very information that will allow you to profit.

Trading decisions should never be made in the heat of the moment, you should not take a trade just because someone else jumps out in the road. All trading decisions should always be part of the overall market makers business model and by asking the question. What is the market makers execution strategy be this time?

## THE MARKET MAKERS EXECUTION STRATEGIES

***Because the market makers have strategies you don't need one.***

Whenever I say that to a group of traders it is normally followed by what seems a lengthy silence, some disbelief and then often a little vented frustration.

Thinking about it, the reaction is normal, after all, many of these traders have been devising trading strategies for years. Many of them have become experts in all forms of technical analysis, and they *love* strategies. Suddenly they are faced with cutting what is perceived to be the umbilical cord that is keeping their strategies alive, and they don't like it.

To calm things down I quickly say that I will give them all a strategy that they can observe with clarity, they can endlessly analyse for validity, and then they can use for profit.

Suddenly everyone is happy again, however, I then say that before I give them this strategy, we should first understand the market makers execution strategies. After all there are only three, so we may as well learn them. Everyone agrees to this.

The market makers business model is:

1. Accumulation
2. Manipulation
3. Profit release

This is their business model, this is how they make money. The model is in many ways no different to opening a shop, and just like the shop that needs customers to make the business model function, so to the market maker need customers.

People need to be persuaded to enter the shop and traders need to be persuaded to enter the market.

For the market makers accumulation phase to be successful they need a strategy. This strategy must allow them to accumulate either buy or sell orders, (relative to the ultimate direction of the market) without alerting the outside traders. The method for this is to keep the market trading in a tight range.

Keeping the markets in a tight range restricts the birth of beliefs in traders minds about any one particular direction, it creates an environment where the market makers can covertly accumulate the side of the market they desire. However, the longer this tight range continues there will be a decreasing number of traders who will enter the market as seen in th

Most traders who are trading using traditional trading indicators will try to associate this decreasing activity to one side of the market, either buying or selling. Not only is this impossible to know for sure, this type of thinking and analysis will start to build beliefs about which way you think the market is likely to move from here.

The very moment you create such a belief you will become committed to that side of the market even in the face of contrary market activity.

At this stage then we can state that there are two market makers strategies for the accumulation phase. These two strategies involve a tight trading range and stop taking. With very little practice you should have little difficulty in spotting both of these strategies being used.

Just before we leave the ***stop taking*** *accumulation strategy* can you work out how this can be used to predict future market direction?

If the market makers drive a market down to take out sell stops they will be ***buying*** those sell stops. If the market makers are accumulating buy orders then their intention can only be to drive the market higher and sell those buy orders at a higher price later on.

Just before we move onto the second part of the market makers business model, that being manipulation, maybe now is a good time to consider this:

Do you need to devise a personal strategy to show you the market makers accumulation if his strategy which is honed to perfection, provides you with the information you are seeking?

## THE MARKET MAKERS MANIPULATION STRATEGY

The market makers manipulation strategy unlike the accumulation strategy is not covert at all, if it were covert it would have no effect and thus not provide the market maker with any benefit.

Do you remember the paper boats analogy? This is where we get to examine this in more detail.

We will for this example assume that the market maker has completed part one of his accumulation strategy, that is the covert accumulation of (in this example) buy orders.

As explained earlier it will nearly alway be impossible to accumulate the full desired quota in this manner due to what will be increasing apathy as the market range decreases along with volume of activity.

The manipulation strategy of the market makers will be to manipulate the *beliefs* of the outside traders so that they will place orders in the wrong direction. The preferred and most consistent method of achieving this is by moving the price steadily in a direction towards a high or low price that is very close to the current market activity. Let’s have a look at this in chart form.

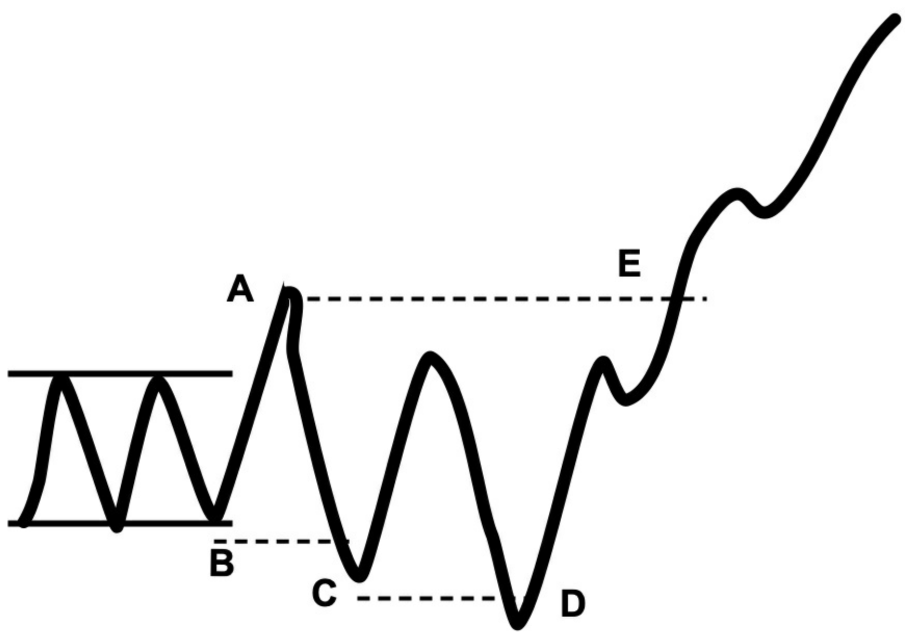



Fig 31

Here in fig 31 we can see that the market makers have completed their first strategy of accumulation, shown by the box. (we are assuming accumulation of buy orders in this instance)

During this time outside traders will have also have purchased buy orders, because whilst they do not *know* that the market makers are accumulating buys they *believe* that the market is likely to go up.

These traders beliefs will be reinforced by any upward movement.

By the time the market reaches point (A) The outside traders who bought within the market makers accumulation area will be now feeling good about their trading decisions. They are likely to place their sell stops (with the idea of preventing losses) at the underside of the box like accumulation area (B).

If the market continued up from (A) the market makers will not have the opportunity to accumulate more buy orders and thus their profit release phase will be dramatically reduced.

The market makers at point (A) are likely to sell a block of orders that will have the effect of turning the market down towards (C). This *turning down*[1] will provide them with many buy orders.

Remember the traders that bought earlier on and placed their sell stop loss orders at (B)? Now as the market turns down to (C) the sell stops will be triggered and the other side of a sell order is a buy, thus the market makers accumulate the sell stops as buy and the market rises.

Traders see this and also start to buy, they will place theirs sell stops at (C)

At this stage if the market maker has accumulated all the buy orders he wants then the market would continue directly up from (C) and beyond (D) into the profit release phase.

If the market maker wants to accumulate more buy orders then he will repeat the process of taking the market below (C) to (D) again trigger the sell orders that he can then accumulate as buy orders.

This type of market activity is manipulation. The market makers are manipulating the market but ultimately they are manipulating the *beliefs* that traders hold about future market direction.

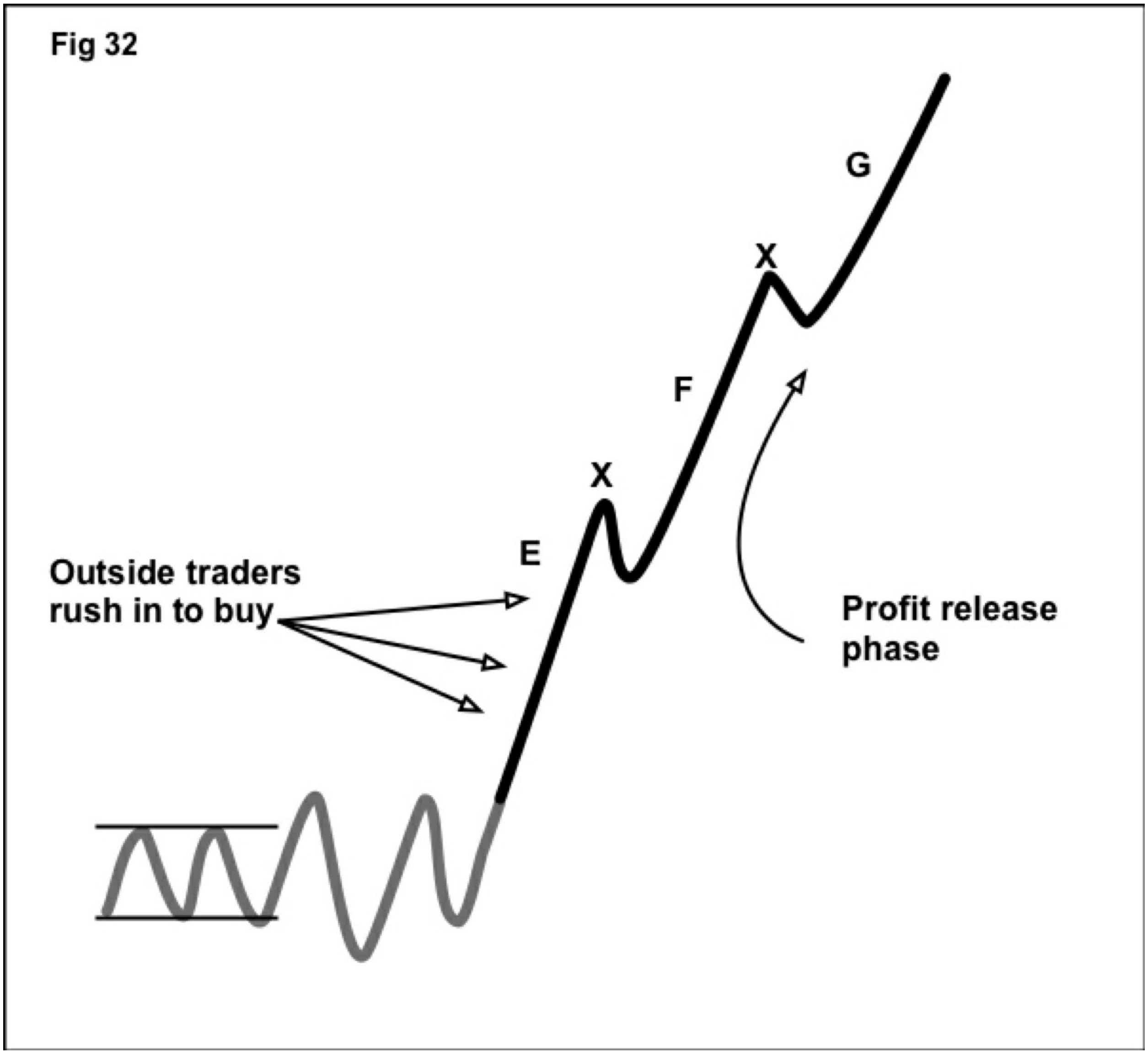
Once the market maker has accumulated all the buy orders that he desires he will move to phase three and strategy three.

## THE PROFIT RELEASE STRATEGY

The profit release strategy is the easiest to orchestrate. It will be kicked off by either or a mixture of:

- A rapid price move out of the final accumulation area
- A news release
- A rapid movement in another market

This phase has some very clear characteristics, the reason that are clear is that this is where the outside traders are actively encouraged to make money. Without the willing participation of the outside traders at this point the market makers will be left holding the bag with nowhere to go.




In fig 32 the market makes a clear and defined move (E) the outside traders will see this and will immediately start to buy the market. The market makers who bought earlier and have a much lower average price[1] will now sell some of their buy orders to the outsiders thus releasing profits for themselves.

Looking at the chart you will notice a series of small drop-backs. I have marked these with (X) These drop-backs are caused by the market makers profit release on this first lift. As the market makers willingly sell to the outsiders who are rushing in, they over sell to the demand, so demand from the outside is not enough and thus the price retraces a little.

The market maker sees this and quickly buys back that which he over supplied on that lift. That again has the effect of pushing the market higher onto its next lift (F) encouraging yet more buyers for the market makers to release their accumulated buy orders to, and so onto (G)

## Where is a high and where is a low?

It is said there is more money lost on predicting market high and lows than any other form of trading strategy. I believe this to be true and the reason I believe this to be true is that traders use chart patterns and technical indicators to numerically measure something that can never be consistently measured.

However, there is a simple law that will always predict the end of any up move and the end of any down move. That law is one of profitability. The market makers will only move a market up as long as they have buy orders to sell at a profit. They will only move a market down for as long as they have sell orders to profit from.

To take a market higher without and buy orders to sell higher is like a shop owner opening a store without anything to sell. Sure a few people may wander in but how long will they hang around?

**Well, this brings us full circle.**

The three phases of the market makers business model and the three strategies that drive that model.

Do you remember my statement a while ago?

***Because the market makers have strategies you don't need one.***

Does this now make sense? I hope so because once you understand the market makers business model and then you understand the strategy that is attached to each phase of that model you have complete understanding of the market. You have a trading strategy that NEVER changes.

This book contains the market makers business model. Their business model is their strategy. In order for you to consistently profit from your trading you must attach YOUR trading to THEIR trading.

Once you are able to observe each phase along with each strategy for each phase being played out, you only have to wait for the profit release phase and then join it.

This is the MARKET MAKERS strategy this is YOUR strategy.

I will go as far as saying that if you operate outside the market makers strategy then you are 95% certain to become a victim of it.

## THE ESSENTIAL STEPS BEFORE ENTERING A TRADE

Before you enter any market you should have a clearly defined outcome, you should have a plan for where you are going to get out.

The market makers method provides you with a never changing business model with three never changing phases and three never changing strategies that are used to action the business model. This is an unbeatable formula for success. This formula can be reduced even further by saying all that we really need to know is what the market maker accumulating, is it buys or sells.

When we discover the contents of the box then we have discovered the future direction of the market.

The essential steps:

1. Discover the contents of the box (buy or sell orders).
2. Discover when the market maker has accumulated all that he wants.
3. Work out your exit.
4. Join the profit release.

In the early stages many traders try to join the profit release without working out the contents of the box. The problem with this is that without the contents of the box being known to the best of your ability. You are entering a profit release phase that you have no idea to which side, (buys or sells) that profit will be released.

# THE MOST IMPORTANT AREA ON THE CHART

Many traders believe or are led to believe that the most important area on a chart is at the live edge. This misinformation causes the mind of the trader to be drawn to watching the live prices flicking up and down on the chart. This constantly moving price will be toying with the traders beliefs about whether the market will ultimately start to move higher or lower.

By becoming fixated on the live price movement the trader becomes distracted from what is the single most important area on any chart in any market. That being the accumulation area, the *box*. Without the box there is nothing, there is no substance and there can be no understanding of future market direction.

The market is driven by constant profit seeking and it all starts in the box because the box is the area of accumulation of either buy or sell orders. The accumulation of buy orders will mean by *default* that the market will rise. Likewise, the accumulation of sell orders will mean by *default* that the market will fall.

Given this fact, based upon the absolute need for profit the trader should be quite clear on his one solitary task if he is to make a success of his trading.

All traders need to focus on the one solitary task of *discovering the contents of the box*.

If we allow our minds to stay connected to the box then we stay connected to the actions of the market markets. If we stay connected to the actions of the market makers we will be able to read their actions which will logically draw us to discovering whether they are accumulating buy or sell orders. Once discovered it is but a short step to joining in on the market makers profit release phase for ourselves.

# THE PSYCHOLOGY OF TRADING

There continues to be much written about trading psychology and whilst I agree much is written in good faith I also believe that trading psychology is nowhere near as important as traders are led to believe it is.

The basis of trading psychology is centred around the premise that trading causes psychological interference with trading decisions and if this interference were not present successful trading would emerge.

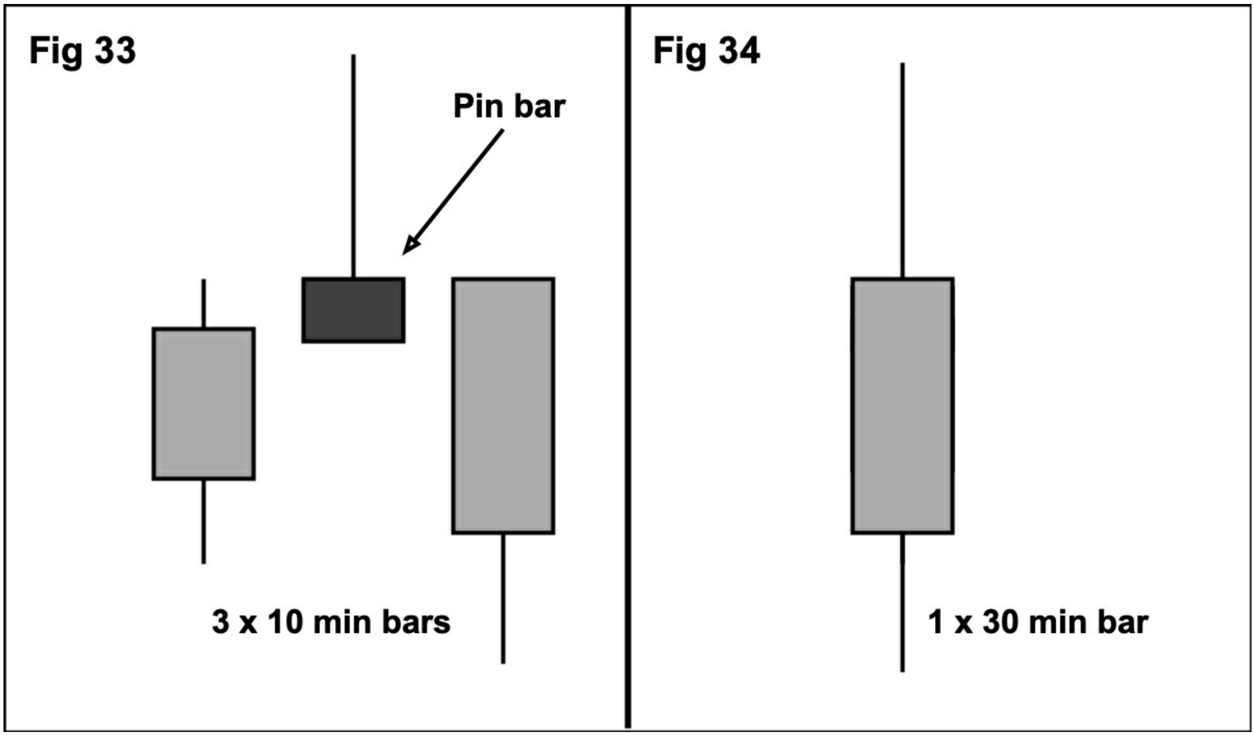
What I would like to suggest is that this is a normal part of a decision-making process where there are variables to consider.

The decision to buy a loaf of bread or not does not conjure up much of a decision-making process. If we overlay that decision with a few more variables such as brown or white, wholegrain or processed, large or small, things start to become a little more complex but certainly nothing that would likely cause a psychological issue. However, if our decision might make us ill in some unknown way then we are likely to introduce an element of psychology into the mix.

Trading is unlikely to make us ill but it does have unknown outcomes and its these unknowns that set up the foundation for what many call ‘the psychology of trading.'

Most of these unknowns stem from what pattern trading. Pattern trading as the name suggests involves searching for repeating patterns that result in repeating outcomes. The logic of this goes something like:

Once the trader has a known repeatable outcome, psychological interference will evaporate.




As a simple example of a repeatable outcome let us use a popular chart pattern seen here in fig 33. This pattern has been created from 3 x 10 minute bars of market activity. This three bar pattern contains a popular single bar called a pin bar.

The pin bar in fig 33 is pointing upward which traders who look for pin bars will tell you that the market is likely to fall from this point. All good sound advice if it were true and if it were consistent. The problem with trading the form presented on the chart is that this form is completely arbitrary in nature, that is we can change the form by simply changing the time frame.

Fig 34 is the same 3 x 10 minutes of market activity but in a single 30 minutes bar. Same data, same information, different *form.*

***The fact is that any bar pattern appearance can be changed by nothing more than the changing of the time frame.***

For sure our pin bar trader will have many and varied explanations about why ‘some’ of these bars are accurate and others are not, but when all said and done every pattern can be manipulated by a simple time frame change.

Further more, since the market is a constant stream of prices, where does one start or stop any time frame?

The human mind will always see an unknown variable as a potential threat and the more times the mind is exposed to that threat the greater that threat will be the perceived. Trading the markets under threat, real or perceived is untenable for the mind and will result in failure.

Trades, in an attempt to rid themselves of what they now perceive as their problem, will engage in the process of strategy design in an attempt to remove the psychological element of placing a trade. These strategy designs are centred around automated systems that requires no human input.

Automated systems, whilst widely advertised and constantly promoted are a pipe dream and if you are up to the hike will only be found at the end of a rainbow.

Trading psychology has evolved into a complete industry centred around traders having personal issues that prevent them from achieving success. The truth is that in almost all cases these so-called personal issues are based squarely on having to make decisions based on patterns that cannot only be created at will but also produce inconsistent results.

The end result is huge numbers of traders believing that there is something wrong with them, something wrong with the way they trade.

The solution is to trade from a position of understanding the reason behind every market move. Once you understand the market makers business model, once you see that model in action you will be in a position to trade the markets without any psychological overlay.

## THE SUBCONSCIOUS MIND

Experience has taught me that the role the subconscious can play in trading is far too significant to overlook. The insight that my training and work in hypnotherapy gave me have provided me with the means to "lift the lid" on some inner workings of the brain, and to examine how they affect trading.

In the normal day-to-day environment, any task – from picking up a coffee cup to negotiating a flight of stairs is conducted using experience as a model.

All these experiences are recorded in our subconscious minds, available for instant retrieval *without* conscious awareness.

The subconscious is a complex mechanism, and associations between events are often much less straightforward than one might expect as the following story of the girl and the lollipop reveals

In my 30s I trained as a hynotherapist and was consulted by a woman who suffered from an excessive hand washing affliction.

This had begun following a seemingly incidental car accident that had left her rather upset. Over the years that followed, her condition had worsened to the point where her hands would crack and bleed from the washing. Her life and family were deeply affected by her problem, but despite all her efforts to rationalise and deal with what was happening, she could not break the cycle and stop the obsessive behaviour.

Working together, my client and I finally arrived at an incident in her childhood that resulted in the emergence of the affliction. She remembered standing beside her mother at the kitchen sink enjoying a cherry lollipop when she was told to tie her shoelace. The little girl reached up, placed the lollipop on the work surface and bent down to tie her lace. As she did, the sweet rolled onto the floor, whereupon she picked it up and put it in her mouth. Unexpectedly the mother shouted and slapped the little girl, shaking her violently as she explained with great drama all the terrible things that germs could do to her.

An *emotional event* of huge proportions had occurred, and it was locked away in the child's subconscious only to emerge years later at the prompting of the stress caused by the car accident. As her mind struggled to deal with the car accident, it latched on to the childhood incident, prompted by the similar emotions that the two quite different events caused.

The incident described above might not seem, to an adult, to be significant enough to result in the condition suffered by my client, but when it occurred, the subconscious had to handle it as best it could for the child's protection.

In such situations, the subconscious often locks the memory and the *emotional content* of the experience away where they cannot readily be accessed. The idea of "locking away" is important to your understanding of the following examples and discussion.

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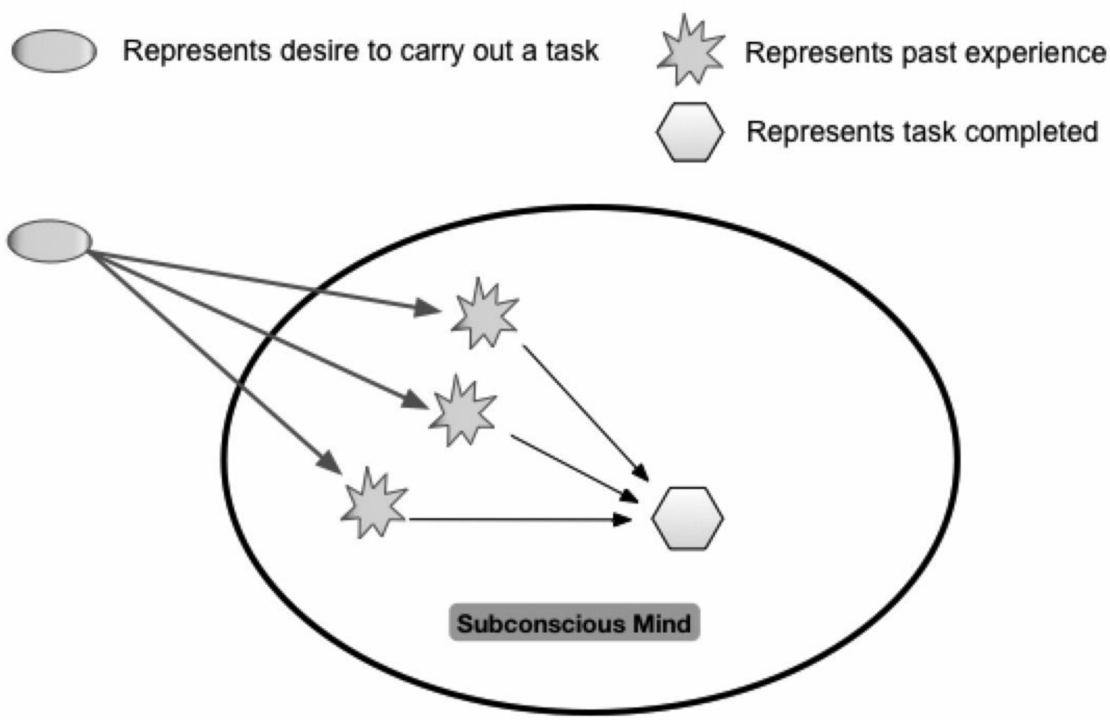
## DAY TO DAY TASKS AND THE SUBCONSCIOUS

**Fig 35**

Normal day to day task environment

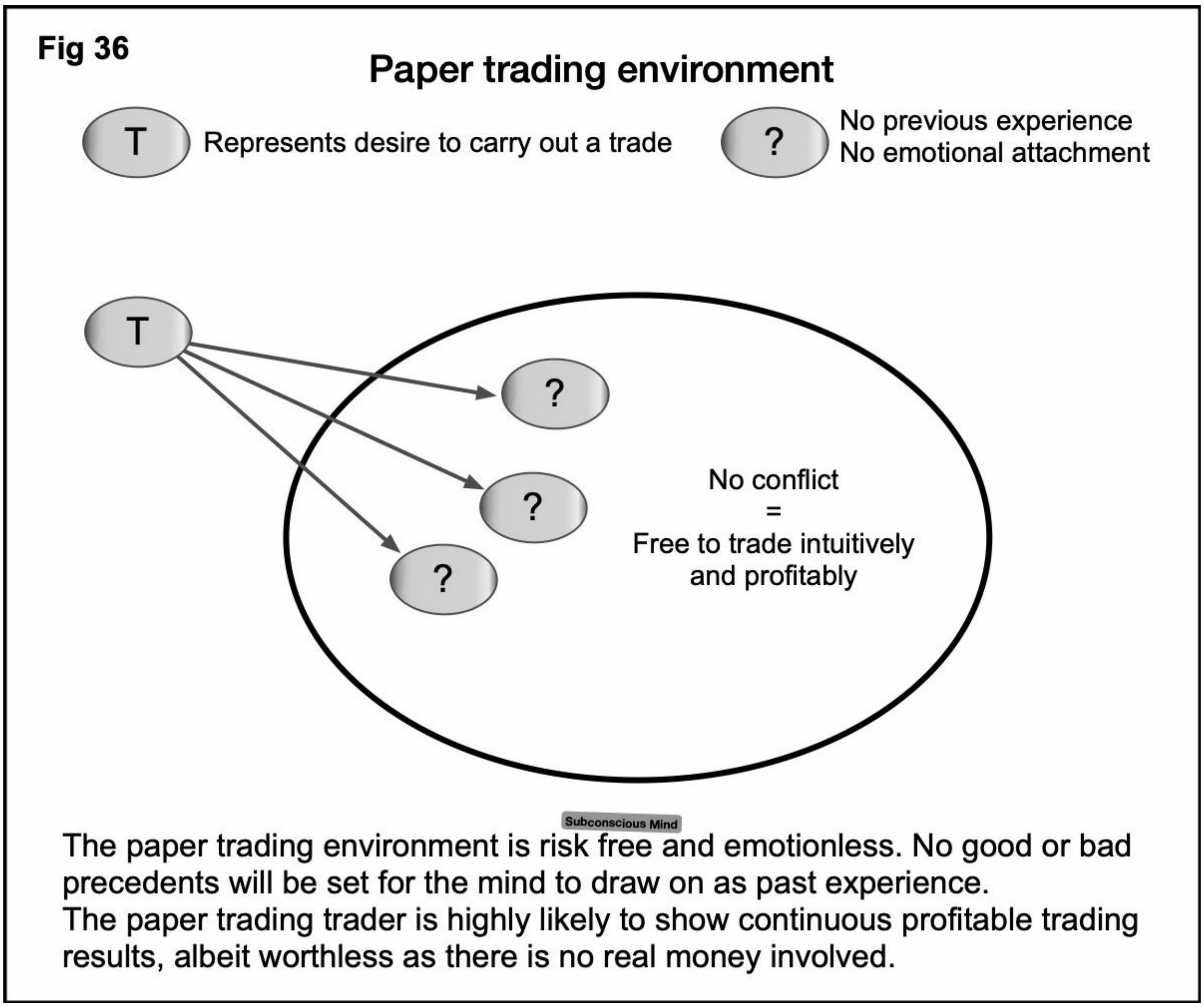



The desire to carry out a task will locate past learned experience of this task or a similar learned experience. Information is then drawn from this experience and the task is then passed for completion.

Fig 35 shows the normal day to day task environment illustrated above, we are able to operate very efficiently, we do not have to think about how to pick up a coffee cup, how to bring it to our lips, how to prevent spilling or how to put it down.

We simply carry out the task with an “autopilot” response. These responses are like well worn paths – it is very hard to deviate from them. Try using the opposite hand to the one you usually do and you’ll see that your actions are not nearly so smooth and automatic.

# THE PAPER TRADING ENVIRONMENT

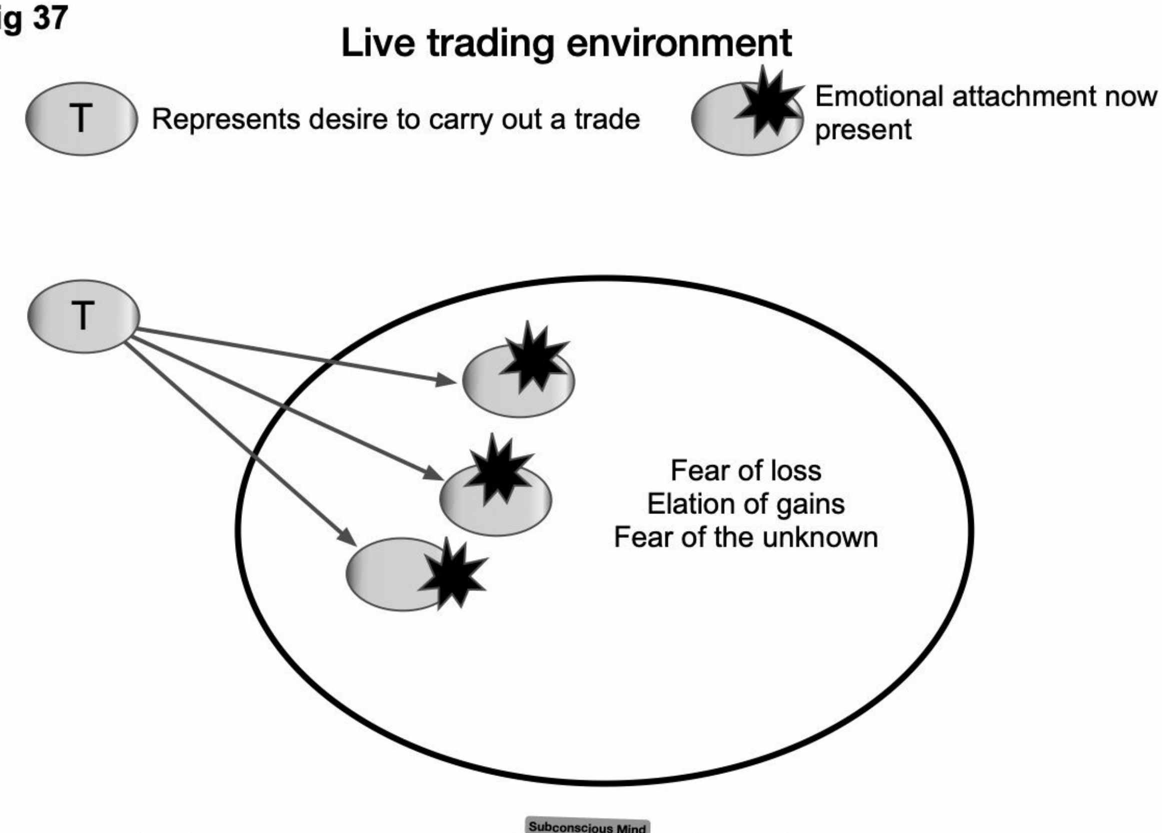


In the fig 36 (T) represents the desire to carry out a trade, in the context of a paper trading environment. In stage two, the mind scans rather like a radar screen for a previous experience with the components it seeks. As there is no real emotion in the paper trading environment, the mind finds little, if anything, to question in carrying out the trade, resulting in a fast, intuitive action.

As increasing paper trades are carried out, the response to paper trading gets increasingly intuitive and uncomplicated. Traders in this environment are often able to produce outstanding results that convince them that the time is right to do it for real!

# THE LIVE TRADING ENVIRONMENT

Fig 37




The live trading environment eventually builds to contain risk and emotion. As the traders mind draws on this past experience conflict and indecision come to the surface. The trader is highly influenced by this and will now try to avoid this by the use of some mechanicalised trading method.

In the live trading environment, fig 37 the desire to carry out the trade appears the same as in the case of paper trading, with the trader's mind scanning through memories, searching for a comparable experience against which to judge his current situation.

Now, however, emotion is present, completely altering the trader's mental environment and because, no two events are ever the same in trading, he will not find a suitable event to serve as a model for his behaviour.

The mind only has *emotional content* on which to form the basis of a search. In other words, it will automatically begin to scan for memories associated with similar emotions to those felt at the time of trading.

Because the trader is now trading live, the trader's current emotion is uncertainty and a degree of fear, the subconscious mind will locate *memories associated with fear*. Invariably, the memory of a fearful event is located, resulting in a strong association between trading and fear. The next time the trader moves towards placing at trade, the mind will automatically navigate to the association of fear. This neural pathway in the mind is reinforced every time he trades until he simply cannot trade without the feeling of fear being triggered.

Decisions taken in a fearful state of mind do not produce good results. Most frequently, they cause traders to enter the market in completely the wrong direction, causing a loss and thus releasing the trader from a fearful situation. The subconscious, in short, does all it can to prevent the trader from experiencing negative emotions, to the extent of pushing him towards failure and removing him from the stressful environment.

Over a time, psychological paths to negative emotions may become deeper and deeper. The trader who finds himself in this position becomes totally irrational in his trading behaviour – a situation that often results in an endless search for a means to escape inner conflict and turmoil, from the latest software fad to esoteric trading guidance.

Successful traders need to engage a trading method or technique that allows them to take their decisions unemotionally, bypassing the subconscious association between trading and fear.

This strategy should always the same, and if the trader adheres to it, is operated in an emotion-free way, which does not admit the problematic elements of fear, subconscious association and unnecessary failures.

Recognising the power inherent in the subconscious is the most important step to take in neutralising its potential to damage your trading success.

The market makers business model never changes so once the trader learns this there will be repeatable known outcomes. Inner reflection and a period away from the market are certainly very important as is the study and application of the market makers business model as a trading solution.

# THE WRAP-UP

It is said that traders fail for a variety of reasons, including risking too much money, lacking an exit strategy, a dearth of numeracy and the failure to understand risk. After my now near 20 years in this business I have to disagree.

I believe that traders fail because that is how the market makers business model is designed. This is their business not ours. If we trade with the tools and data that they freely provide we will be forever under their shadow. We will forever be victims of their manipulation.

Dealing with losses is a matter of adjusting your attitude. Losing traders believe that losses are a reflection on their own personality, and lose self-esteem every time they lose money. They believe that loss is liable to continue, coupled with the idea that they must never lose while trading. Winning traders accept that losses are part of the business, and do not assume that a loss is a reflection of their personalities.

A certain amount of loss in trading is inevitable, and this has to be accepted. Winning traders focus on the fact that money is not important – trading skills are. Learn to develop the quality trade mentality. Learn to ask yourself whether your trade was consistent with the rules of the strategy. Ask yourself whether you are happy with the way it was carried out, and whether you could carry out another trade in the same manner.

The ability to answer “yes” to these questions demonstrates that you are building a quality trade mentality, that you are focussing on the *overall content of trading* and not on individual trades.

While losing traders believe that the entire market is rigged, that only insiders make money and that the market is random, winning traders know that while the market is controlled and manipulated, they can join the professionals in making a profit through using the market makers strategy for their own benefit.

Many traders use words with painful overtones when talking about getting stopped out. 'My stop was hit 'knocked out again' 'booted out, 'I took a hit' etc The reason for this is that they associate financial loss with pain, and as we know the human mind will do anything it can to avoid pain.

By associating loss with pain we will naturally try to avoid loss. Avoiding loss for a trader might be delaying in closing a trade that is not working out. Or just waiting with bated breath as the market edges ever closer to the stop loss order. You see there is always the 'hope' that the trade may work out and your stop loss will not be 'hit' better to wait and see eh! Just in case it works out.

What happens more often than not is the trader becomes fixated on his stop loss order, his pain avoidance mechanism takes over and nothing else matters. Now the trader is blind, blind to reading what is perhaps emerging as the perfect trading opportunity.

Closing a trade that is not working out will often mean that you are taking a financial loss and you need to know if you are associating this with pain or at least giving energy to the thought of pain. If you have been trading for any time you can carry out a simple test that will determine how vulnerable you are to getting caught into the trap of pain avoidance.

Have you ever found yourself in a trade and that trade was not going your way? On and on it drags almost teasing the price where you have placed your stop loss order. Cast your mind back to that time... Did you every find yourself 'wanting' to be stopped out so the pain could be over?

If you have experienced these feelings. These feelings are a measure of how you view loss and how you have maybe linked this losing to pain.

Here is a three part quick solution for when you find yourself in this situation Although this solution is easy to describe and understand, it is not so easy to implement because of our basic instinct to what we perceive as loss.

1. Listen to your instincts, when a trade is not going your way.
2. Close that trade regardless of win or loss.
3. Walk away from the screen for at least 20 minutes. If you do not move away from the screen at this point you will become mentally

anchored into battle of a crippling thought process; should I, or should I have not closed this trade? This mental anchoring will cause a negative reaction to taking a loss, which will then be anchored to the next time you intrinsically know you should close a trade. Over time this will cause a negative feedback loop that continues to do damage as long as it exists.

Well, that's it, here you are the end with the potential of a new beginning. Of course, you may or not believe that trading can be this simple. If you hold the later belief then I would ask you to do what the wright brothers did when they decided that man could fly. They chose to ignore what everyone was saying and in doing, so they changed the world forever.

I look forward to hearing how your life has changed forever. You can contact me via my website at www.learningtotrade.com

Wishing you every success along with kind regards from my family to yours

Martin Cole

PS If you have enjoyed this book and found it of value please leave comments and star rating on kindle for others. If you have not enjoyed it then please tell me!

# GLOSSARY

A***ccumulation**:* The process of accumulating either buy or sell orders over a period of time avoiding a single, substantial purchase that could drive up the market price. More specifically, accumulate which leads to the gradual build-up (to accumulate) a position. Accumulation is generally characterised by the manipulation of prices into a tight trading range commonly (though incorrectly)viewed as a sideways period.

***Ask price:*** The price at which the currency / contract or commodity is offered for purchase. Also known as the offer price.

***Asset:*** An item of value owned by an individual or corporation, particularly one that can be converted to cash.

***Bar chart:*** A bar chart is a chart that represents market activity with a “high” and a “low”. It represents the price movement within a time period as a vertical bar, often with horizontal branches representing the open and close prices. This is the type of chart maybe called is often referred to as a OHLC chart. Meaning the bars shows the Open-High-Low-Close in the respective time frame.

***Below the market:*** Taking the market to be the current price, below the current price.

***Bid price:*** Price which a player in the market/a party to the transaction is prepared to pay for a given security.

***Broker***: A broker is someone who deals in a commodity.

***Bull phase:*** Period during which it is generally believed that the market, or a section of it, is about to rise in price or is rising.

***Charting package***: Software that enables you to graph trends or other visual representations in a market

***Cherry-picking:*** The best way to understand this term is to imagine that you are picking cherries; the one just out of reach is always sweeter. The trader thinks, “I won’t take this trade, I’ll wait for a better one”.

***Contract:*** The unit of trade for a financial or commodity future.

***Contract expiry:*** Futures are traded on a three-month basis, and when the contract comes to the end of its term it is said to *expire*. You still trade in the next contract before the expiry of the most recent one. Some traders will trade across different contract periods as a form of minimising risk.

***Data-Feed:*** Generally referred to as a stream of data from a combination of exchanges that combines these different streams of data usually into a single composite stream and allows you to feed this data, typically, into your PC. Users generally receive this information by way of satellite, straight line or, the Internet.

***Draw down:*** Although the technically minded might not agree with me, I see this as another way of saying that you have lost money. Your trading strategy is currently resulting in losses, and money is being withdrawn from your account. A draw down is typically referred to by system traders in referring to a losing period on an account. People assessing systems will usually be very interested in the “maximum draw down” of the account over a time. This refers to the maximum loss situation in the account balance over time.

***Emotive overlay:*** An emotional or non-rational action or reaction to internal or external influences that affects your ability to trade.

***Entry strategy:*** A strategy for entering the market.

***Future**:* A future is a contract that requires delivery of a bond, commodity, etc., at a specific price, and on a specific date. May also be referred to as a “futures contract”. In the case of Index Futures (futures that trade as a derivative of the underlying stock index), the delivery simply involves the settlement of the difference between the underlying instrument and the expiring future on a chosen date at a specific time of day

***Gap closure theory:*** Based around the idea that gaps in a chart must have price activity through them. Not a theory held by everybody.

***Gap up, gap down:*** A sudden leap or fall in price with no traded prices in between. Most common on the open of a market from the previous night’s close price.

***Gapped market:*** The end of the trading day gives us a closing price. At the open of the market on the following morning there will be an open price. If this open price is above the close price then the market has gapped up. Similarly, if the market opens below the close the market has gapped down.

***Getting filled***: The fulfilment of your order in the market.

***Going long***: Entering a market with the anticipation of higher prices (bullish). Buying into a market.

***Going short***: entering a market with the anticipation of lower prices (bearish). Selling into a market.

***In the money***: When a trade has been initiated and the price is above the designated buy or when a sale has occurred and the price is currently below the sale price. Also referred to in options trading, when an option is above its strike price in the case of having bought a call or below the strike price in the place of a put.

***Inner voice:*** The still, small voice inside each of us, it can be a positive attribute or a negative one.

***Intuitive trading:*** Best defined as a sense of knowing, understanding and a deep psychological awareness of the condition of the market, and what is going to con

***Limit order:*** Order to a broker to buy a specified quantity of a security at or below a specified price, or to sell it at or above a specified price relative the current market price.

***Local stop:*** Stop nearby where you initiated your trade, thereby restricting loss**.**

***Feedback loop:*** When a trade has been initiated in the right manner it develops positive feedback.

***Market (stock):*** The organised trading of stocks through exchanges – any organisation or group that maintains a market place for the purchase and sale of options, securities, etc..

***Market makers:*** A brokerage or bank that maintains an ask and bid price in a particular security, by remaining able to buy or sell at a fixed price, known as “making a market”. However, The term market maker used in this book is used to describe those above the normal perception of the market makers. These are the market makes that wield huge power and are to a large degree exert influence over all financial institutions.

***Market order***: A buy or sell order in which the broker is to execute the order at the best price currently available.

***Movements:*** Change in value, rate, or price.

***Moving a stop:*** Moving your stop to maximise profit or minimise potential loss.

***Moving average (simple):*** The average price of a security over a certain period of time (for example, twenty bars).

***Moving average crossover:*** The point where a shorter moving average (drawn over fewer bars) moves over the longer moving average, indicating a possible change of trend direction.

***Offer price:*** See ***Ask price***.

***Outsider:*** A normal trader, who is not privy to information that the market makers have, including, of course, the unsuspecting public.

***Paper trader:*** A person who makes simulated transactions, with no real exchange of money, to test and practice theories.

***Point range:*** Range of points, from highest to lowest, on a trading chart.

***Pyramiding:*** This is the technique of using profits earned on open positions to purchase additional securities. It is a learned skill, which distinguishes the professional trader from the novice. It should never be carried out just because you have a feeling that a trade is good and is going to go a long way. All increases in size should fall within your proven strategy, of which pyramiding becomes a stand-alone component which may or may not be started in any given trade, in the manner of a computer program that lays dormant until called into action.

***Rally:*** A substantial rise in price of a commodity, stock, or the market, following a dip or pause in price action.

***Reaction***: A drop in the price of a stock, bond, commodity, index, or the overall market, following a rise or visa versa.

***Retracement:*** A price reaction that "retraces", i.e. goes back over the recent price action, usually measured as a percentage of the total move.

***Risk-reward ratio*** The ratio of the amount you are prepared to risk relative to the potential profit target.

***Sell-off:*** A sudden, radical drop in price as a result of widespread selling.

***Share:*** One unit of ownership in a corporation, mutual fund, etc..

***Shorting:*** The act of selling in the market in the anticipation of buying back at a lower price.

***Stock exchange:*** The official body of a marketplace where shares of stock are generally bought and sold and the body through which stock is often registered and regulated.

***Stockbroker:*** A person or firm who acts as an agent, on behalf of clients who wish to buy and sell stock.

***Stop order***: A market order to buy or sell a certain quantity of a certain security if a specified price (the stop price) is reached or passed.

***The subconscious:*** Possibly your most important asset when trading. Once your strategy has been fully accepted on a subconscious level, your trading will become more expert; you will no longer be thinking about what has to be done, but will be enjoying the phase that I refer to as “autonomous ability”.

***Top:*** The highest price reached for a given security over a certain period.

***Trade activation:*** Instructing your broker to perform a transaction on your behalf.

***Trade hunting:*** Hunting for trades often occurs when a trader has a developed strategy, but has not experienced the conditions where the strategy can be used for several days. Frustrated, the trader sets his strategy aside and starts to hunt his charts to see what is going on.

***Trading harmony:*** Your trading strategy should be aligned with your personal trading ambitions, resources, and understanding of the markets. An example of trading out of harmony would be increasing your contract size without sufficient margin.

***Trend:*** General direction of movement for prices and rates.

***Trend lines:*** Formations created when making a chart illustration the general direction of movement for prices and rates. Connecting tops or bottoms in the direction of price movement.

***Trend pattern:*** The movement of the market around the trend line; the fluctuations caused by price movement, illustrated on a chart.

***Volume:*** The quantity of shares, bonds contracts measured during a certain period. Also called “trading volume”. There are distinct types of volume, quoted volume, volume of trades provided by the market, and tick volume, which is a count of the price changes within a given time period.

***Whipsaw effect:*** Market action that is shown on a chart by erratic and sometimes quite volatile price action. Typically, a certain market direction is apparently established, when the market whipsaws the other way, catching the trader by surprise. This name whilst widely used is misleading. This type of activity on a chart is market maker manipulation designed to shake traders out of good positions into bad ones.

# BACK COVER

## Trading with the Market Makers

**Martin Cole exposes the truth behind the markets that less than 5% of traders truly understand and possibly less than 1% of the public.**

**Just where does the money go? Who rakes off billions of dollars on a daily basis to the detriment of the masses.**

**Reading this book will likely make you angry, very angry, it will then likely make you smile as you realise that once you understand the market makers methods you can turn the tables by joining in on their endless cycle of daily profit making activity.**

**This book will likely challenge every belief you currently hold about the market, it will challenge you to apply the market makers trading strategy for yourself, it will call you to action to get into the market and extract your own financial freedom faster than you can possibly imagine**

# NOTES

## 25. Order Types

1 Just before the close of business on January 4th, 2001.

2 Such unethical practices were common in the old FTSE dealing pit, when LIFFE was still a floor traded market.

# 35. Repeatability

1 Truism - something that is taken as an accepted truth.

2 Masses in this context references to anyone or any oganisation below the level of the market makers.

# 46. Where stoploss orders are placed

**1** Mental stoploss orders are prices that traders hold in the heads as they are looking at a market chart. They will be saying to themselves “I will hold this trade unless it reaches X price. (x price being a price they have mentally set)

## 47. Recent price reactions

1 Support and resistance are common traders terms that are another truism. Support and resistance are accumulation areas.

# 50. Losing and discovering the Plot

1 Entry strategy is the method by which one decides on a low risk way to enter the market.

# 60. Learning to trade the market makers model

1 The deviation would not be a moving from one phase to another, rather it would be the extending of the first or second phase.

# 67. No discernible direction

1 Range of the market is the term used to express the high and low prices the market moved to over a given period of time.

# 68. Manipulation to wrong foot traders

1 Outside traders is a term I use for anyone on the outside of the market makers business.

# 69. Phase Three

1 PAT software is my personal trading software designed to track market maker activity.

# 72. Market Retraces

1 On paper profits are profits that will show on a dealing platform as the trade is open and running. These profits will rise and fall with the moving prices. These are deemed on paper profits as they do not physically exist until the trading position is closed.

# 74. Exiting the market

1 Pips are a unit of measure for the currency markets.

2 Moving into the money means the trade is showing a profit

# 76. Understanding Market Beliefs

1 Belief threshold is deemed to be the point where a person will question a currently held belief in the presence of additional information.

2 Signing your name adds a level of commitment.

## 79. The market makers manipulation strategy

1 Turning a market against the current direction is achieved by the market makers selling a large block of orders against the current trend

## 80. The profit release strategy

1 Average price will be the price of all the market makers buy orders added up and then divided out to arrive at an average cost to them for each buy order.