

QUICK START GUIDE TO MAKING MONEY ON STOCKS THAT GO DOWN

Week 1: Get Ready to Rumble



Introduction

When the student is ready the teacher will arrive. Hopefully you have been a good student and have read the entire *Down Traders* book front to back. Now the time has come to enter into the exciting game of Down Trading. To maximize your odds of success you must take baby steps first and then increase the action as you perfect the system. You must learn to make money by gaining knowledge and experience along the way. But the best way to learn is by following the beaten path of other Down Traders. Or as Zig Zigler once said: “Some of us learn from other people’s mistakes and the rest of us have to be other people.”

So study the *Down Traders* book and implement the proven strategies that you have learned. Take advantage of the many free resources in the book that are available to you. And then JUMP! Jump into the Wall Street River and start filling your bucket with lots of money—money you have earned as a successful Down Trader! But first, we must simulate our success by paper trading. *But do I have to Paper Trade first?* I’m sorry, but YES. Here’s why . . .

Paper Trading Made Easy

Just like an Air Force pilot will train for hours on a flight simulator before putting his or other people's lives on the line, the successful Down Trader will want to simulate his or her trades through paper trading. I suggest starting out paper trading with the online brokerage firm through which you will eventually be trading real money. So be sure to choose a broker that has great paper trading software available. My personal favorite is Think or Swim (www.ThinkOrSwim.com).

Not only does this allow you to learn and master one particular company's software, it is more efficient than learning multiple trading platforms. There is no point in learning one brokerage firm's software when you will not need to use it in the future. Other brokers, such as Schwab (www.Schwab.com), TD Ameritrade (www.TDAmeritrade.com), eTrade (www.eTrade.com), Zecco (www.Zecco.com), or Scottrade (www.ScotTrade.com) are also good resources for paper trading.

You can also use a service like the Wall Street Survivor (www.WallStreetSurvivor.com), a very popular stock simulator where you can learn while you play. You will need to do your own research and see which trading platform meets your needs before you begin your pre-trading exercises.

This is Not a Game

Paper trading is like a game, but you want to think of it as a serious game. Your success at paper trading can determine your future success as a Down Trader. Your paper-trading platform will simulate the actual trades you will soon be doing. So get into it; act like it is real. To add a little more emotion and challenge, you can also compete with other paper traders in a contest, sometimes with real prizes! This helps infuse your trading with a little more excitement.

You will gain valuable experience by seeing and feeling how the market works on a daily basis. Paper trading is a great way to test out your favorite Down Trading strategies from the Down Traders book and see which will work best for you. This way you can master your trading without risking any real capital.

Get Emotional

There is, unfortunately, a big disadvantage to paper trading. It lacks the emotional challenge that can be one of the biggest obstacles to success in the real trading world. Once you have real money involved, your emotions can alter your ability to make good decisions. Paper trading, however, is a great way to practice and work out the technical bugs so you know what you are doing. Once you've tackled the mechanics, you can learn how to get your emotions

under control. I wish there was a simulator for that! Until you actually start placing real trades you won't be able to get a true sense of Down Trading. But be patient, make it fun, and paper trade your way to becoming a successful Down Trader!

Real-Time Quotes, Charts and Technical Analysis

Some of the best sources for charting Down Trade opportunities are Reuters and Bloomberg, but these systems are typically used by professional money managers and are usually cost prohibitive for individual traders. eSignal (www.eSignal.com) is one of the top rated real-time programs and is very popular amongst active traders. In terms of price and functionality, however, one of the best real-time technical analysis programs is Medved QuoteTracker (www.QuoteTracker.com). The company was purchased by TD Ameritrade, so now the full features of the program are available for free to all TD Ameritrade customers. Additionally, they have a free version that has most the features needed for active Down Traders. Another great feature of Quote Tracker is its seamless integration with data feeds and its ability to connect directly into other online brokers. So, yes, I love Quote Tracker!

Real-time quotes are essential to the short-term trader. Yahoo.com and MSN.com probably offer the best free real-time quotes. Yahoo's site will stream those quotes as you view the page, so there is no need to hit the refresh key on your browser. Both sites also allow you to create your own portfolio, giving you the ability to track the prices of more than one stock at a time.

Some other great resources for charting and technical analysis are:

Stock Charts (www.StockCharts.com)

Big Charts (www.BigCharts.com)

Prophet Charts (www.Prophet.net)

Track Your Paper Profits

Plotting out your successes and failures is the only way that you will become a better Down Trader. By seeing where you started and knowing where you've been, you will be able to see exactly where you are. Some sites will do this for you, while others assume that you will be charting yourself. One way or another, each day you must track where you started with each trade, where you ended, and tally up how much you made. It is a fairly simple process and should not take more than a couple of minutes. As you watch your profits steadily increase, you will find those few minutes to be the most rewarding part of your day.

Using a trading journal will also restrain you from making impulsive decisions and repeating mistakes. How important is tracking your trades? I think the famous trader Dr. Alexander Elder put it best when he said, "I realized that the quality of record-keeping was

the single most important factor in a trader's success or failure.”

You can download a copy of my Trade Tracker XLS spreadsheet at: www.DownTraders.com/TradeTracker

Week 2: Time to Jump in the River

If you are not comfortable with paper trading by the end of the first week, hold off on the plan for week two. Although the Quick Start Guide is set up to allow you to make money within a month, it can be altered to fit your personal learning curve. Do not move to week two unless you are comfortable and successful with paper trading. That being said, the day will come when you will have to jump head first into the Wall Street River. Be sure you have thoroughly studied the *Down Traders book*, practiced your paper trading, and feel confident that you have a firm hold on the basic strategies of Down Trading. Now is where the real fun begins! Are you ready to rumble? Let's make sure you are set for successful trading first.

Set Up a Trading Platform

You will need to decide which methods you will be using to analyze trades without making your first trades overly complicated. A mixture of fundamental and technical analysis is essential, but make sure you don't give yourself information overload. This phenomenon is often referred to as “paralysis by analysis” since too much information leads to too much time spent studying trades and not enough time executing them. Don't try to re-invent the wheel. Utilize some of the proven strategies that were revealed to you in the Down Traders book and maintain the discipline to stick to the program. Remember, keeping it simple can be the key to staying on track and creating repeatable trading strategies that make you money over and over again.

Choose the type of trading that suits you best, stick with it, and master it. Be sure to read the Down Trader book entitled *The One and Only Trade*. Now, re-read chapter 6. It will remind you to find your niche trade and bring it to perfection. Know it like the back of your hand. Fine-tune it to the point that it just pops off the charts at you.

There are also systems for sale on the web. For a “small” fee, traders will sell you their software package, trading strategy, and watch signals in order to simplify everything for you. These can be helpful, but if you will be investing your money, it will be beneficial to invest your time as well. A prefabricated trading plan will not be effective if you don't understand the basis behind it. You've spent this much time studying how to Down Trade, so use what you have learned from this book as a solid foundation for any system you want to use. Only use other people's strategies as a last resort. You've made it this far—be confident in yourself.

Fund Account

Don't trade with money that you will need to pay your bills. It sounds obvious, but it is worth saying. You cannot be successful if you are too emotionally attached to your money.

With that said, most experts recommend that if you will be day trading, you need to start out with at least \$10,000. This may seem excessive, but it is good advice. In order to overcome the brokerage fees of Day Trading and have enough leverage, you will need to be trading at a larger volume. You will also have your own learning curve to overcome. For this, you will need to have a larger pool of money to trade. This sum also allows you to diversify your trades so a few bad trades don't shoot you out of the water early in the game. You also need to be aware that if you'll be a high-volume trader—e.g., trading four or more times in a five-day period—there are regulatory requirements that require you to have \$25,000 in account equity. Regulators implemented this rule for the same reason that I stress not trading money you'll need to pay bills; if you want to trade actively you need to be able to absorb losses. Talk to your broker about minimum balances and account requirements before you start learning their system. You don't want to start trading only to find out that you can't afford to trade with the broker whose system you've learned. So if you don't start with \$25,000 in your account, you will have to trade less frequently until you pass the \$25,000 level.

Of course, you should not use all \$10,000 in one trade. The money in your account should be enough to weather you through the ups and downs that are inevitable when you begin trading. Start out small, but stay big enough to turn a profit after brokerage fees. You will not win with every trade. This is just the cold hard truth. \$10,000 should be enough to overcome the losses you will incur at the beginning.

Create Your Top Ten Watch List

The market is huge! Where do you begin? The top ten lists found in the *Down Traders* book is a good place to start but you will want to design your own watch list. What parts of the market are you familiar with? Which type of stocks or ETFs do you feel comfortable looking at? The list I provided for you is a great starting point, but ultimately, you must form your own list of stocks and ETFs to watch. It's time to start whittling down your top-ten list. These will be the primary stocks and ETFs you will trade. Although you might occasionally trade off your list, you will generally want to stick to this familiar list.

Research Your First Down Trade

By this point, you should have selected at least a few securities that have caught your fancy. Now it is time to use the skills discussed within the *Down Traders* book. Have you selected which technical indicators to use? Do you know what a successful trade setup looks like? The answer

to these questions should be a resounding YES! Utilize the system that you've developed during your first week of paper trading. The true test of a successful system comes when you begin trading real money. Start small, as you should be more concerned with keeping your account alive rather than having bragging rights about hitting it big out of the gate.

Place Your Entry and Exits

Now that you've selected a security to Down Trade, you need to plot out how you want the trade executed. At what price will you enter? What kind of profits do you think are realistic when you exit the trade? Not only will you need to know the prices for entering and exiting a position, you may need to set up a stop-loss point as well. It's time to be strategic. You need to know exactly where you are going and how you are going to get there. All the basics must be in place for any given trade. For example, the following basic technical indicators should be known and plotted: support level, resistance level, 200-day moving average, 50-day moving average, 20-day moving average, and average daily volume. Also include your FFI (Five Favorite Indicators) that you chose as part of your "One and Only Trade" (review chapter 6).

Short Selling Reminders

Short selling is a great way to making money in a down market. Just follow the eight steps below.

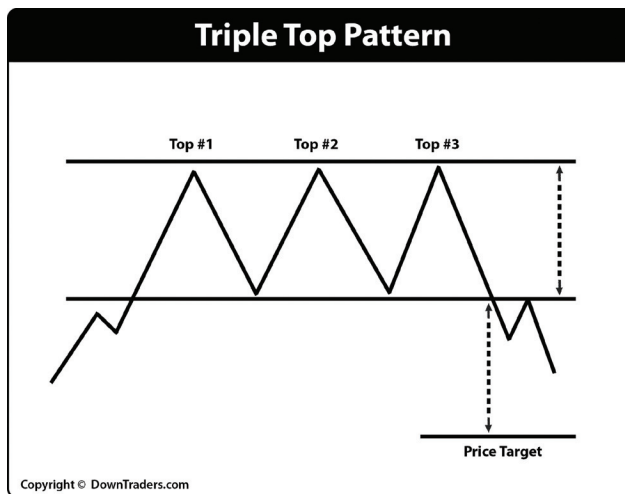
1. Use one of the many strategies in the Down Traders book to identify the probability that a stock is headed for a down swing.
2. Borrow shares of the stock from your brokerage before (or as) you see the stock heading down.
3. Immediately sell the borrowed shares of stock.
4. Wait for the price of your stock to drop to your set target.
5. Buy the same amount of shares back at your target price.
6. Return the shares you just bought back to your broker.
7. Take your profits to the bank!
8. Go look for another shorting opportunity.

A Couple of Popular Trades from the Down Trader's Book

The Triple Top

A Triple-Top pattern occurs when a security has fallen slightly off its high only to retrace back to the high price again; this then repeats for a third time. It's just like the Double Top, but even better! So here are the rules of the Double Top repeated here for the Triple Top.

1. Decide on your vehicle to Down Trade the Triple-Top pattern. Will it be selling short, buying put options, buying inverse ETFs, or executing one of the other Down Trading techniques you learned about in the Down Traders book?
2. Be sure the peaks are very close to the same height, within 5% or less. Try to find Triple Tops where the drops from the peak to the support levels are at least 10%.
3. Place your trade as soon as the price dips down through the support level, after the third dip. Be sure to get firm confirmation of the breakout before placing the trade.
4. Determine your exit strategy. For a Triple-Top pattern a good sell point is the entry price minus the distance between the top of the highest peak and the support level. This is what a Triple Top pattern looks like:



Head and Shoulders

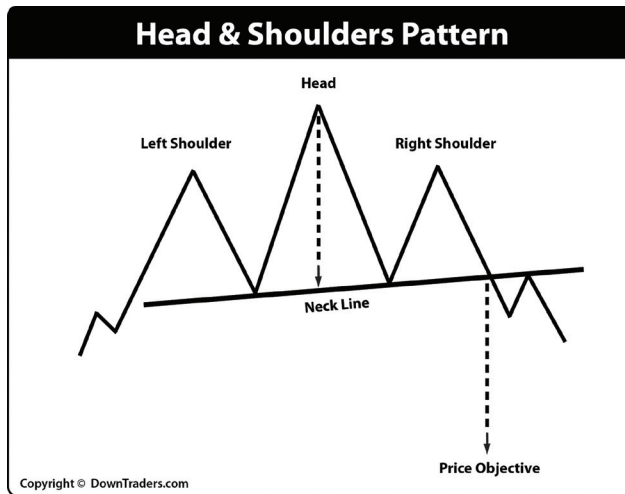
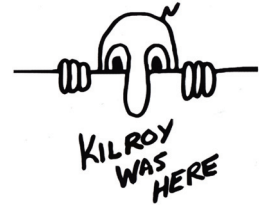
The Head-and-Shoulders formation is the classic Down Trading signal. It portrays a high price, or a "head," surrounded by two lower peaks, or "shoulders." In order for this to be most effective for a Down Trader, the right hand shoulder should be lower than the left hand shoulder, but this doesn't need to occur in all cases. In the ideal setup, the volume will also be increasing as the stock price breaks through its support level.

The Head-and-Shoulders formation is, in most cases, a series of failed rally attempts. The

time period prior to the Head and Shoulders is usually bullish, but with the three failed rally attempts the stock is about to turn in the favor of Down Traders.

Kilroy

The Head-and-Shoulders pattern is considered by many to be the *crème de la crème* of chart patterns in the Down Trading world. Many traders just scan the market looking for those glorious three peaks to form. As soon as the stock starts to plummet through the support level—voila, its money in the bank. I like to call him Kilroy. Once you master the art of identifying the Head-and-Shoulders pattern, you will see Kilroy pop his head up everywhere! This is what the Head and Shoulders pattern looks like:



After the first peak the stock dips down, signaling that buying demand is starting to weaken. Investors who think the stock is now undervalued quickly start buying shares at this great “low” price. Then the second peak forms, followed by a flood of selling when investors fear the stock has run too high. This drop in price is followed by another buying spree that fizzles out early. Finally, the stock drops to its true value below the support level, signaling that the party might be over.

Head and Shoulders 1-2-3

1. Decide on your vehicle to Down Trade the Head-and-Shoulders pattern. Will it be selling short, buying put options, buying inverse ETFs, or executing one of the other Down Trading techniques you learned about in the Down Traders book?

2. Place your trade as soon as the price moves below the neckline (support level) after the descent from the right shoulder. Be sure to get firm confirmation of the breakout before placing the trade. Kilroy likes to fool you sometimes.
3. Determine your exit strategy. For a Head-and-Shoulders pattern, a good sell point is the entry price minus the distance between the top of the head and the neckline.

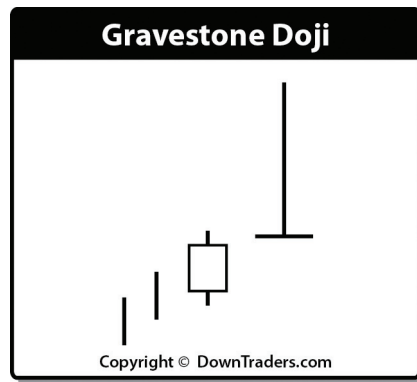
To see more of our favorite Down Trading chart patterns visit: www.DownTraders.com

A Few Popular Candlesticks from the Down Traders Book

Gravestone Doji

This indicator with a Doji body shows an opening and closing for the day that is at the low of that day's activity.

Gravestone Dojis are usually found at the top of a bullish trend and indicate that the security in question's price is about to drop.



Hanging Man

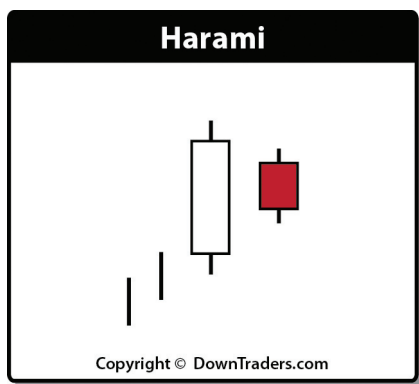
The Hanging Man occurs at the very end of an uptrend and provides a great signal for Down Traders who know how to recognize the signal. They occur when traders unload the security at the beginning of a trading session, yet it rallies later to close at or near its opening price. A Hanging Man will have a pronounced low price and a small trading body.



A Hanging Man found at the bottom of downtrends is often referred to as a “hammer.” These can indicate that it is time to buy a stock if you are an Up Trader.

Harami

A bearish Harami is an indicator that a bullish trend is about to reverse. This occurs when a large candlestick is followed by a smaller candlestick. The larger candlestick will appear to be engulfing the second, smaller one.



History has shown that the smaller the second candlestick, the more likely a downtrend is about to occur.

To view the complete candlestick guide to Down Trading visit: www.DownTraders.com

Pull the Trigger!

Your trade is coming. Your hand is steady on the mouse. Your eyes are focused on trigger points. Wait for the signal. Wait . . . Wait . . . FIRE!

Congratulations, you just made your first official Down Trade!

Week 3: Moving to the Next Level of Success

Playing to Win

This is where most traders will make their first mistake, especially if their first trade is a success. It is important that you remain focused and stay vigilant over your trades. The successful trade euphoria can easily cloud your judgment, but you must stay serious about your business. And don't forget that it is a business—not a game. If you don't treat it as such, you will not be successful.

Using rationality and planning will be the keys to becoming a successful Down Trader. Keep the emotions of greed, fear, and vengeance outside of your trading, just as you would in the business world. Especially in the beginning, do not fall prey to a false sense of security. And never let your emotions override your trading discipline. As famous trader Nicolas Darvas said, "I became over-confident, and that is the most dangerous state of mind anyone can develop in the stock market." Stay in control, play to make money, play to win.

Remembering the Rule of Engagement

Staying disciplined is perhaps the hardest task to accomplish as a successful Down Trader. It can be so exciting after a few good down trades; you might feel invincible and be more willing to take on higher risk trades. After a few bad down trades, it is not uncommon for traders to become desperate, trying to strike back at the market and thereby taking on too much risk. Indeed, the odds seem to be against you in your quest to keep focused and unemotional.

The easiest way to stay focused is to follow the rules that you learned here, in the Down Traders book. Remember the horror story of Jesse Livermore, the man who lost the \$100 million he earned while shorting the stock market during the Crash of 1929? He fell victim to listening to others, caving into his emotions, and not following through with his precise plans and trading rules.

Never fall prey to this false sense of security. And never let your emotions override your trading discipline. If you don't follow your rules, you will open yourself up to guaranteed failure, whether it's 1929, 1959, or 2029.

Protecting Your Profits

Money management is another tough aspect of trading, especially for those who are successful. You should have definite goals set forth, and you should always keep them in mind. Staying organized is also an important key. You should always know where your money is, and how much there is. Keeping track of your trades is extremely important and should be done on a trade-to-trade basis, as well as a daily basis.

A budget, though it sounds trite, is important as well. You should know how much you can spare for each trade and how much you want to pocket. Your stipend for trading will grow, but how much you want it to grow is up to you. If you want to stay at \$10,000, your profits will stay relatively small. If you keep a portion of your earnings in your account, and a portion for yourself, you will be able to both grow your business and use the money for yourself and your family. How much is completely up to you.

If It Works, Don't Fix It

If you have developed a winning strategy, stick with it. There is no point in trying to fix something that isn't broken. Sure, work on perfecting your trades and honing your analysis, but don't tinker around with the fundamentals if there is nothing wrong. Remember the lesson from chapter 6? Learn one trade and master it. There is no point in becoming a Jack of All Trades (pun intended) when you can be equally successful with less effort. Learn that one trade like the back of your hand and you will be churning profits before you know it.

Is It Time to Give Up Your Day Job?

At this stage in the game, it is probably too early to decide whether or not you will be able to quit your day job and take on a full-time trading career. If you think you are truly ready, review your trading journal. What types of trades were most successful for you? Are you able to duplicate that trade? Your journal will let you know whether you have achieved the success necessary to turn trading into a full-time career.

There are a few other obvious points that need to be addressed. The first is your money-making ability. Are you making enough money with your trades to give up your day job? If you are a highly skilled professional, such as a trial lawyer or a surgeon, the answer may not be as obvious as if you are someone who does not make as much money. Trading is fun, but is it really worth giving up such a reliable source of income? The market can turn at any time. Are you prepared for its fickleness?

Another point to consider is your temperament. Trading for a living is stressful. Are you able to handle that load of stress and maintain your current lifestyle? There is many a trader who has collapsed under the stress of his chosen career. I understand that this may be a harsh judgment, but some people are simply not cut out to handle the worry and stress of fending for themselves in the market on a minute-by-minute, day-by-day basis. Remember, you can always set your stop-losses and trigger points to enact your trading plan, even when you are away from your computer working full-time.

Week 4: Solidify Your Success

Track Your Profits

Your trading journal is one way of tracking your profits, but you should also be tracking your trades on your computer. A simple spreadsheet program or your trading software can do this for you. Having a visual representation, such as a line graph, is also helpful since you will be able to see more clearly how much you have improved. This is a key element of money management and should not be overlooked. Tracking your profits and losses is an integral part of any business, especially one in which your business is money! Download a copy of Trade Tracker XLS at: www.DownTraders.com/TradeTracker

Join the Community of Down Traders

Join an online forum where you can chitchat with other Down Traders. Not only will this enable you to share stories of your success, you will be able to hone and refine your skills. Yahoo! has many chat groups in their business and finance sections. Or visit www.DownTraders.com for more networking opportunities.

Share Your Success

By this point, you should have made several successful Down Trades. First of all, congratulations! The skills discussed in the Down Traders book are not simple; the fact that you have made it this far speaks much for your character. Remember when your friends or family members told you that you were crazy for wanting to make a living Down Trading securities? Is it time to show them that you appreciate them for putting up with you? Maybe you should take your wife out to a fancy dinner. Or let your husband know that he can retire a few years early. It feels great being able to reward those that have been putting up with your new obsession.

Congratulations!

With your Down Trading system in place and your successful trading record already beginning to grow, I congratulate you as a new member of the Down Traders' Revolution!



Be sure to come learn more at: DownTraders.com