

THE PROFIT TRADER'S JOURNAL™

www.tradersjournal.com

Volume 5 Issue 9



**The 3-Steps System To
Win At Trading**

**Trading Broadening
Top/Bottom Patterns**

**The Hamster On
The Wheel**

Gold Bull Seasonals

**The Power Of The
10-Year Cycle**

**Where Most People
Get It Wrong**

**Being Honest
With Yourself**

ISSN 1793-2149



9 771793 214905

MICA (P) 103/07/2009

Australia - A\$9.95
Hong Kong - HK\$68
Malaysia - RM\$19.80
Singapore - \$9.80

DAR WONG

The 3-Steps System to Win at Trading



Dar Wong discusses three requirements for successful trading – forecasting, risk management and trade duration.

Most people lose money in trading. In fact, 90 percent of all traders fall into the losing community. This fact is nothing to be amazed about because even corporate traders are included in suffering this agonizing fate!

Trading is never a simple business – nor is it an easy task. It is important for a trader to develop an effective trading system if he wishes to stay in the market for a lifetime. Put simply, an effective trading system should always have a low risk to high reward ratio. Since many losing traders will comment that this statement is easier said than done, in this article, we will discuss creating your own effective system in trading.

Develop Your Forecast Power

When you wish to enter the market, do not trust anyone teaching you to make fast money by scalping the market. Honestly, scalping in very short timeframes (even for just few seconds) is no more possible now in electronic trading that it was in the days on the trading floor.

Before you open a new trade, use any method that you have learned in the past to help you make your trading decision. You may turn to technical analysis or fundamental studies among the oceans of different teachings that we are not going to discuss here. However, it is a “must” for you to be able to foresee the near-future trend that you will eventually exit for the potential profits!

This power of forecasting the market to reach your price projection must tally with your stipulated time duration. In other words, if a trade is to be closed in the intraday timeframe, you must be mentally prepared to close it, otherwise it could be held to about three calendar weeks!

Whatever you target to make in eventual potential profit, this is what we called “trade reward.”

Tighten Your Risk Management

After you have aimed at an expected exit target (potential profits), the next immediate task is to gauge your effective stop-loss point. Usually, this can be achieved by taking the previous labeled wave extreme as a level to safeguard your open position.

According to studies, many of the traders that eventually create mother-of-all-losses had the bad habits of opening new trades with these mal-practices – no contingent stop-loss order, sitting on random losses or shifting the stop-loss order further away when the market level approached! Unfortunately, almost all the losing traders that we came across in the past fell prey to one or all of these weaknesses.

Take note that the exit order at your potential profit-level and the stop-loss order should be placed simultaneously to safeguard your open position. In the worst case, if you have a secondary opinion of another market extension in your potential profits, you should at

least place the stop-loss order first before putting in the exit order later!

By comparing potential losses with potential profits, the risk/reward ratio can differentiate a profitable trader from a trading newbie! In our opinion, this reward ratio on winning trades should be at least 3 to 1 in general trade activities. In cases where the reward factor is less than 3 times the risk factor, a reversal will soon end the trading career of the newbie in no time.

Control Your Trade Duration

After you have established a trade entry and safeguarded it with an effective risk/reward ratio by putting the simultaneous exit and stop-loss levels, the final factor that you should be aware of is the “waiting time” for exit if the market does not reach either of your targeted levels.

If you pay close attention to the daily chart of any market instrument, you will realize that the markets consolidate in sideways formations at certain times for short periods of a few days. This pattern reflects uncertainty in the market and its indecisiveness in breaking out of the consolidated trend.

According to our studies, such a tight formation usually lasts for 4 to 7 days while the market is waiting for some fundamental news to lead a new breakout trend. During seasons of low volume, the longest inactive period may last 11 days before traders can find new market direction.

Therefore, you should have a clear mind of how long you should stay in the position if it has not paid off or the market movement has triggered the stop-loss. If you are an experienced trader who can recognize the technical pattern reasonably well, you should stay out of the sideways trend and wait for a new entry at the end of the targeted period (4 to 7 days of consolidation). Strictly speaking, this can ease trading tension and help you to conserve trading funds while trying to capture the right timing to re-enter the market.

The Summary

All experienced and profitable traders practice this 3-step system to make their living trading. Broadly speaking, this is uncompromised to the 10% market community that is classified as market winners! Remember that trading is never dependent on luck. Winning a few times with luck will never help you survive for the long-term in the market.

If your trade entry stop-loss order is triggered before your position extends towards your profit level, this indicates a serious error in your trade judgment. Generally, if your stop-loss is triggered with losses on 5 times out of every 7 entries, you should start to re-evaluate your trading system or look for a trading master for fine-tuning. A series of blind searches through the oceans of books or hearsay from your friends will eventually cause your downfall with disastrous red figures!

In summary, trading for consistent profits requires an individual to be well versed in technical analysis, fundamental reading, margin (funds) management and understanding market psychology. This combination of knowledge can be gathered through years of trading experiences. Any superficial learning from quick-strategy (trading method) or fast trading-scheme (trading software) must not be compromised with losses if you are unfamiliar with the above four skills.

Unlearn fast. Re-learn fast. Succeed fast.

Dar Wong has 20 year of trading experience in global derivatives and the Forex markets. His past employment in the financial industry began in 1989 with Bank of America, followed by Bankers Trusts, Barclays ZW PLC and as a senior floor trader with S.B. Shearson (Citigroup). Currently, he writes for The Borneo Post and financial magazines and functions as a hedge advisor, coach, seminar speaker and trades on his personal account. Using his PowerWave Trading™ concepts developed since 1998, Dar has groomed many retail and corporate traders to become financially successful in leveraged trading.

Dar can be reached at dar@pwforex.com