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**The Stock Market Lies: How to Cut Through The B.S. and Make Money!**

# Shortcuts & Secrets To Winning The Stock Market Game

## Steve Mitchell & About-Secrets



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# Shortcuts & Secrets To Winning The Stock Market Game

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## Introduction: Does Size Matter?

Dear Reader,

Don't let the size of this report fool you. I've only included information that will help you make money. The rest of the stuff that only 'sounds' sophisticated has been purposely left out.

If you would like to get a book on trading that's hundreds of pages long, but filled with fluff and useless information, you can find many out there.

If you want to learn only the stuff that can help you be successful with your trading, this report is for you. It's an easy read, and it gets to the heart of the profit strategies!

## Why Should You Trade?

Trading is one of the fastest ways in existence that I know of to make a lot of money.

It is also one of the fastest ways to lose your life savings and end up in the poor house.

The fact is that over 90% of the individuals who trade the stock market end up losing money. Only about 5 to 10% of the investors are making all the money.

Those percentages don't sound very inviting, do they? Then, why should **you** risk trading if over 90% of the investors are losing money?

Because, what I will share with you in this report is the wisdom that very few people know about. Armed with this knowledge, you will be able to join the 5% of investors who are making money.

I will also blow away some common myths, assumptions, and outright lies and shroud the trading world so that you don't have to waste your time (and money) just so others can get rich off you.

Sounds good so far? Great. Let's continue…

## Trading Is Easy

In trading, there is a lot of data, figures, charts and stuff that will confuse the heck out of you, especially if you're a beginning trader.

Don't let that bother you. Some of it is important, I'll show you how to read those and use them. The rest of the stuff is useless. You don't need to worry about them.

In reality, trading is very easy. You only need to know 3 things to make money with trading:

1. What to buy
2. When to buy it, and
3. When to sell it.

This report will show you how to do all three of those things.

## The Best Time To Start Trading

Just like any other skill, learning to trade successfully takes time. It can take months, and sometimes years, to really understand and learn to invest successfully.

It's not complicated at all. It's just something "new" - so there is a learning curve to work through. That's what takes time.

Therefore, *this* is the best time to start investing. Because the longer you wait, the longer it will take for you to get good at it. So, **now** is the best time to get started.

Don't rush things. Take your time and learn what I'll share in this report and it will serve you well. You'll find that patience will become one of your most profitable assets.

The trading terms I discuss below may seem complicated at first. They really aren't. Just spend a few minutes learning the terms and pretty soon, you'll get it.

Do take the time to learn the terms. It will definitely make your life easier… and more profitable!

## Go Where Others Won't Go

People are generally lazy. They don't want to invest the time in learning a useful skill unless they really have to *or are forced to* learn it.

They jump in blindly without learning the ropes. It's no wonder most of them lose money.

When money is concerned, you can't afford to learn by trial-and-error. Your best bet is to learn as much as you can about trading before you ever put any money into it.

To get the kind of results that few people are getting, you have to do the opposite of what most people are doing. It's really that simple.

And most people don't do their homework. That's one of the biggest mistakes they make. It's also one of the most costly mistakes they make.

There are many other mistakes beginning traders make. I'll go over them in this report so that you don't make those same mistakes.

By avoiding these common mistakes right from the start, you will have a huge advantage over most traders. More importantly, you will be able to profit where most other traders lose big.

Read through this report several times until you really "get it"… so that you're actually *applying* the lessons to *every* single trade you make.

**Don't Follow The "Herd"**

As I mentioned above, most investors don't know what they're doing. They're just going in unprepared, and losing money fast.

Take any industry and you'll find that only about 5% of the people are successful at what they do. More importantly, about 95% or more of that group are not successful and have no clue what they're doing.

Unfortunately, humans find comfort in numbers and tend to follow the herd, like sheep.

Most people will make trades just because they heard or saw many others (friends, brokers, office acquaintances) making those trades.  If it were that easy to find winners, every trader would be rich. But that's not the case.

Remember, most traders LOSE money. Only a small percentage of them know what they're doing. So, you should never follow majority, unless you have done your own research and found the trade to be a good bet.

In fact, you will win more times (in trading as well as in other areas of life) if you just did the **opposite** of what 'most' people are doing. If most of them are buying, you should probably be selling. If most are selling, you should probably be buying (provided you've done your research, of course.) Do NOT put your money (and your success) in the hands of others. Ever!

Don't follow the herd. Learn to do things *differently*. Learn to do things the way winners do it, even if it means having most people tell you that it's wrong. They don't know what they're talking about anyway. They **lose** money! So, don't worry about what they will 'think' or say.

Do things differently than what *majority* is doing and you'll dramatically improve your chances of success. Just pick any big name in any field and you'll find that they're doing things very differently than the rest of the population. Their mindset is different, their attitude is different, and most often, their entire strategy is different… or there's something unique they've added to it that no one else has. Majority is usually wrong. Sad but true.

## Don't Trust Your Broker!

This may sound crazy, but it's absolutely true AND extremely important for you to understand. Your broker is there to take your orders and execute your trades. That's it.

Your broker's goal is to get you to make as many trades as possible. That's how he makes his money, on trade commissions and fees. You don't have to make a trade just because he wants you to. Your job is not to make him money, it's to make you money.

He is not the one to take trading advice or analysis from. If he really knew how to trade, he wouldn't be working behind a desk. He wouldn't have to. He'd be taking his own advice and making lots of money!

If you're a beginning trader, you can ask him questions about "definitions" of trading terms you're unfamiliar with, prices of stocks, etc. That's all good and well. But, **don't** let him give you actual trading or strategic advice about what to trade and how to trade it.

The same goes for most of the "free" advice you'll get out there, *especially* through the media and most financial institutions/programs. Often times, their 'advice' is driven by self-interest and greed. There are also many 'self-proclaimed' experts out there. Often times, it's these so-called "experts" that will drive you to the poorhouse. Don't listen to them!

Unless the advice givers are 'real-world' trading experts, with the track record - and bank balance - to prove it, don't listen to them.

Run away fast, in the opposite direction, if someone "guarantees" that you will make money from a certain stock, mutual fund, or commodity. No one can predict the market. No one.

A lot of what I'm saying here may be very different from what you've heard before, or from what you believe to be true.

Remember what I said earlier… to be successful in this game, you'll have to do things differently than how most people do it. You'll have to learn things that few people know.

What I share with you here may shock you at times, and it will most definitely differ from the "popular" beliefs. But, that's what will make you money while most people will not.

**Passion, Emotions, and Instinct**

When it comes to most other areas of life, I rely a lot on my instincts. But when it comes to trading, I do not. *Very few people* are able to use 'instincts' to make successful trades. The rest of us shouldn't fool ourselves, especially if you're a beginning trader. Trade using a strategy… backed with fundamentals and solid research. I'll show you how to do this.

The same is true for 'emotions.' Most traders are driven by two main emotions: fear and greed. And, as you already know, most traders are usually dead wrong… they lose money in trades.

Whenever fear or greed is involved, you will lose. Emotions have no place in trading.

Passion is a tricky one. You can be as passionate as you want about your stock, option or commodity. But you should never let that get in the way of your strategy. You should never get 'attached' to any of your trades. The stock or commodity you trade is only there to make you a profit.

I don't care how much you love the company that you're trading. When it's time to dump the stock, you should be able to do it without blinking. If you don't, it will cost you big! Don't ever get attached to any of your trades. You're trading for one reason, and one reason only… to make money!

You're not trading because you love the stock or because you enjoy the rush. You're doing it only to make money. Period. If you enjoy the process, that's great. But, never get emotionally attached to anything that you trade. The only way you'll make any real money is when you actually "sell" the stock or commodity.

 

## There Are No Guarantees

Trading is not investing. That may be another surprise for most people to hear.

Let me repeat that… **trading is not investing**!

Your broker and Wallstreet may want you to believe otherwise. They may try to convince you that the stock market is a safe place to put your money for "long-term" investment. Don't buy into it! As I said earlier, do not trust your broker, or Wallstreet, or even what you hear in the news and financial networks.

I know it may be hard for you to believe, but you have to know this now… **before** you put your hard-earned money into the market.

Trading is **NOT** investing, no matter what others may tell you. It is 'speculating.' Always keep that in mind. The stock market is no place for a nest egg. Most people learned this the hard way. I don't want you to be one of those people. (Most people are usually wrong, remember?)

Every trader loses money at one time or another. I have definitely lost my share of it.

No matter how much you learn and how good you get at trading, you will never be able to pick winners 100% of the time. You must understand that fact now. It is extremely important.

As you get better and better at this game, you'll tend to pick more winners than losers so that you wins highly outweigh your losses. But you'll never be able to pick winners 100% of the time. Even the best and most experienced traders will pick losers at times. So, don't worry about it, and don't let it bother you. That's just the way it is.

The trick is to minimize your losses as soon as you realize you've made a bad pick, and maximize your returns with the good picks!

This report will show you how to do both. It will show you how to do what few people know how to do. And it will show you why you shouldn't do what most people are doing.

## You're Playing With Real Money

This may sound obvious, but many forget it quickly. Always remember that you're playing with "real money." Just because you don't see actual currency exchanging hands during trades doesn't mean that it's not real money.

Sometimes this reality doesn't hit home until it's too late, especially if you're using your credit cards to fund the trades (which you should never do.)

You have to really understand this fact before you ever make an actual trade. You have to be prepared emotionally, even when you're paper trading. Before you make each trade, clearly understand that this is 'real' money you're putting on the line. And there is always a chance that you will lose it.

Therefore, don't trade with money you don't have. And don't trade with money you can't afford to lose. I don't care how safe or foolproof they say the trade is, it's never 100%. If you're trading, you're **speculating**. There are no guarantees and there's always a chance that you will lose that money. Once you lose it, it is gone.

If you can’t afford to lose that money, you can’t afford to take the risk of that trade or to reap the rewards. That's the bottom line.

### Devise a Battle Plan

Planning your trading strategy is what will usually take the longest. And rightly so.

Think of it in this way…. let's say that you're watching a movie which is about an hour and 30 minutes long, from start to finish. That's not very long, is it?

But… how long do you think it took to make that hour and 30 minute movie? How many weeks (or months) did it take for the writer to conceive the idea and write the script? How many hours do you think the actors spent on making it? And how much time do you think it took for the rest of the crew to prepare everything, from stage to costumes to makeup, soundtrack, etc. etc.

Of course, planning a trading strategy will not take you as long as that. But you get the idea. Preparation is key… that is what will dictate your rate of success (or failure.)

You have to plan out every move before you ever execute the trade. You have to figure out what to buy, when to buy it and even when to sell it. Everything depends on your preparation.

The strategy I reveal to you here will put stocks through a **rigorous** screening process. It's the only way to ensure that you pick winners most of the time, unlike other traders.

We'll discuss this screening process further in the upcoming sections.

 

## Start With Paper Trading

Before you start playing with real money, use your strategy and do some paper trades.

When you do paper-trading, you are merely pretending to place an order on a specific stock or commodity, at a specific price on a specific date, and then keeping a *running log* of the progress of the trade. It's a good (and safe) way for you to get a feel for how trading works.

You can simply use the paper and pencil method, or you can use a spreadsheet software. The drawback to paper-trading is that it's not "real." In other words, you're not as emotionally involved in paper trades as you may be in real trades where you could lose 'real' money.

It's also a lot easier for you to stay disciplined, calm, and 'true to your strategy' when you're doing 'pretend' trading.

It's just a different feel when real money is not on the line.

So, what I strongly suggest you to do is to *pretend* as much as possible that you're actually playing with your real hard-earned money. I want you to be serious about it so that you will learn the lessons that you need to learn during those initial trades.

You cannot learn those lessons by just reading this report. You have to do some trades. It's similar to reading a manual on how to drive a car and then actually getting in the driver's seat and going into real traffic. It's a very different feel. That's what I want you to experience. And paper-trading is the *safest* way to get you one step closer to the real action.

When a paper trade loses money, I want you to dissect what happened and why you lost money. Those are the lessons and understandings that will make you a good trader.

Also, since you can't simulate the actual prices of when you enter the market, I would like you to place "limit orders" when you paper trade i.e. you  specify a particular price for entering a trade instead of letting the market decide what you entry point is. If that particular price is not reached, your order will not be filled. This will give you a feel of how trades really happen.

## Don't Trade Too Many Different Things At Once.

Unless you're a seasoned trader with discipline, patience, and lots of experience (i.e. successes), you should not trade too many different stocks, options and/or commodities at the same time.

When you see several opportunities at the same time, it can be very tempting at times to want to make money from all of them. Resist the temptation, at least for now.

Keep your trades under 5 or it could very easily get overwhelming, especially if you're starting out. In fact, I would recommend that you only do one or two trades at a time. As you get more experience *and success* under your belt, you can take on more trades simultaneously.

This is not a test or a competition to see how many balls you can juggle at one time. You don't have to prove anything to anyone. This is serious stuff. Your hard-earned money is on the line. Don't bite off more than you can chew, especially when you're still learning how the market works. That's how most people lose their hard-earned money.

Your main goal should be to learn how trading, and the market, works.

## Have An Exit Strategy

As you learned earlier, preparation and planning is key in this game.  Most traders don't have any real reason or research to back up their buying decisions with. They buy based on assumptions, rumors, or just hype.  There is no logic or solid research behind their actions.

And, even fewer traders *sell* according to any real strategy or game plan. It's usually unplanned and sporadic, and often times out of their control. In short, most of the time, the market conditions force them to sell because they're losing too much money.

For this reason, most traders get out of their trades either too early… or too late, in hopes that the stock will go back up from it's massive decline.

It is just as important to know when to sell as it is to to *buy*. In fact, knowing **when to sell** is even **more** important… because, you don't make any money until you actually sell the stock!

It doesn't matter how much your stock has gone up since you bought it. It only matters what price you *sell* it for because that's when you actually make any real profit. Otherwise, it's all just paper gains that could vaporize at the blink of an eye.

Before you make any trade, figure out how much money you're willing to play with, how much *loss* you're willing to stomach, and most importantly what your entry (buying) and exit (selling) points are.

Most traders let emotions, ego, instincts or even market news dictate when they buy or sell their shares. Don't ever do that.

Calculate these figures *ahead* of time, long before you ever make the actual trade. And then, stick to the plan. Yes, there are times when breaking this rule will be wise. But it's rare, and it shouldn't be done unless you know what you're doing.

Always have an exit strategy in place. You don't make a penny until you sell the stock. All the other stock prices don't mean anything as far as your profits are concerned.

## Minimize Your Losses and Lock In Profits

Since you've never 100% sure whether your trade will make money (as you're hoping) or lose money, it's always a good idea to have a little insurance in place.

Most traders don't know that you can use "**stops**" to minimize your losses and/or lock in profits.

Stop orders (or "stops") are limits you can set on your trades, which will execute (sell) automatically if the price of your stock reaches a specified amount.

A stop-LOSS is a stop order set to limit your potential loss. This stop is generally placed below the current price of the stock in order to protect you from losing money during a falling stock.

For example, if you purchased a stock at $50 and are hoping that the price will go up, you can place a stop order at $45. **If** the stock happens to start falling from the current $50 price, your stop order will be activated automatically as soon as the stock falls to $45 or below. That means, your **loss** would be limited to $5 per share.

On the other hand, if you didn't place a stop and the stock continued to fall, you'd continue to lose more and more money, with the possibility of never being able to recoup that loss. (Some stocks just don't go back up once it starts falling.)

You can also use a stop to lock in profits.

 

Example: If you purchased a stock at $50 in hopes that the price would go up, and the stock does climb up to $60 per share or more, you can then place a stop order at $55. If the stock decides to fall back down from $60 to $55 or lower, your stop order will be activated automatically and you will still be able to walk away with $5 profit per share. (Since you bought at $50 and the stop (sell) was activated at $55.)

If you didn't have the stop set to lock in your profits, you would lose the profits that had accumulated. And, if the stock continued to drop, you would even start losing the money that you started with.

Of course, if your stock continues to *rise*, you can continue to move the stop higher and higher with each move upwards the stock makes. This is called a "**trailing stop**." (It's another strategy that most traders don't know about.)

Example: If the stock which you initially bought at $50 continues to go up from the current high of $60, to $65, you can move your stop order from $55 to $60. If the stock then goes up to $70, you can then move the stop up to $65, and so on. With each trailing stop, you are locking in your profits at a higher price, to protect against an unexpected drop. If the stock continues to rise, you can continue to move the stop higher and higher, locking in more and more profits each time.

If the stock decides to fall from a high of $70 back down to $50 (where it originally was) or lower, you will still be able to walk away with a **profit** because you were smart enough to use a trailing stop (which would be activated as soon as the stock drops to $65 or below.)

My advice is to set your stops at about 8% below the current price (10% at the most.)

You should know that stops are not foolproof. There are rare occasions when a stock drops so quickly that the stop cannot be activated in time. But, it's still better to have stops in place than to not have them at all.

There are also times when a stock will fall temporarily (activating your stop order) and then moving back up again. I don’t like it when that happens because you get kicked out and then the stock starts going up again. But it does happen sometimes. Don't get mad. Just move on to your next trade.

For the above reason, you don't want to place your stops too close to the current stock price. Give it a little room to fluctuate - markets do tend to move around a bit sometimes.

To review, a stop-loss is simply a standing order with your broker to sell your position at a specific price.

 

A "trailing stop" is used when the market is going your way (usually up.) You continue to move the stops higher by canceling the old stop and setting a higher one. Each time the market would rise, you would raise your stop as well, locking in more and more profits.

## Control Big Shares With Little Money

Typically, the more money you have to play with, the better your profit potential can be since you get to control more shares of the stock with more money.

For example, if you have $2000 to play with, and the current stock price is $50 per share, you can own 40 shares of that stock for your $2000 (i.e. $50 x 40 shares = $2000.)

And, if you have $5000 to play with, you can control a lot more shares of that same $50 stock. Your $5000 will get you 100 shares of the same stock. More money equals more shares of stock in your control. Pretty simple, right?

Well, what if I told you that there was a way for you to control a lot more shares of that same $50 stock for much less money!? Would that get you excited? It would get me excited, that's for sure.

There is a way to do just that. By using "**Options**."

I wouldn't recommend options for beginners. But, I want to mention it here because you can make big money from small investments using options, provided you know what you're doing, of course. When you're ready for it, you should definitely add this to your trading arsenal.

What are options, you ask?

**Options are "contracts" that give you the right, or the "option" (but not the obligation) to buy or sell a stock or commodity, at a specific price, over a specific period of time.**

You're not really buying the stock. You're buying a 'contract' - you're making an agreement that allows you to buy or sell the stock.

Getting options is a lot like paying for insurance. For example, if you pay auto insurance for next month and nothing happens by the end of that month, the money you paid is gone. You don't get it back. If something does happen by the end of next month, you will receive a payout, depending on how major the incident was.

Options offer you leveraged profit potential. You get to control a lot more shares of the stock or commodity for a much smaller fee.

Example: Buying 100 shares of Microsoft at the current price ($26.67) will cost you $2667 (plus broker fees.) But, controlling 100 shares of Microsoft using a call **option** will cost you about $10 (that's ten dollars!) at the time of this writing, plus broker fees.

Another big advantage with options is that it allows you to play with many different financial instruments and commodities, not just individual stocks. You can trade stock indices (Dow, NASDAQ, S&P500), gold, silver, commodities and futures, etc.

The price you agree to buy or sell the stock at is called the "strike price."

If you end up *buying* or selling the actual stock/security, you are "exercising the option." And, since there is a specific period of time involved, the last day you are able to exercise the option is called "the expiration date." After that date, the option expires and becomes worthless. (Just like the 'paying for insurance' example I gave above.)

An option that gives you the right to **buy** a stock or commodity is named a "**call**." An option that gives you the right to **sell** the stock/commodity is called a "**put**."

So, if you think the stock or commodity is about to go up in price, you would by a 'call option.' If you think the stock or commodity is about to go down in price, you would buy a "put option."

After you buy an option, if the stock or commodity starts going in your favor (i.e. the direction you want it to go) and meets or exceeds your strike price, you are "in the money." If it doesn't meet or exceed the strike price, you are "out of the money."

In other words, an option must get "in the money" before you can profit from it.

The more out of the money an option is, the less it will usually cost. This is so because the market will have to move a lot further before your option makes you money.

Example: Let's say that you are about to buy a June 'call' option on Microsoft, with a strike price of 30. Which means, you are *betting* that Microsoft stocks will go up in price from it's current price (26.67 today) to at least 30, by the month of June.

If the price of Microsoft starts to go up, you start making money. If the price of Microsoft starts to drop, your call option starts to lose it's value.

The upside with options is that you can control a lot of shares of a stock with a minimal investment. At the time of this writing, controlling 100 shares of Microsoft using a call option will cost you about $10 (that's ten dollars) plus broker fees (compared to buying 100 shares of Microsoft using the regular method, which will cost you about $2667, plus broker fees. Quite a difference, isn't it?)

Options offer you leveraged profit potential. You get to control a lot more shares of the stock or commodity for a much smaller fee.

Of course, there is a downside to options. Using the above example again (a June 'call' option on Microsoft, with a strike price of 30) if the Microsoft stock price doesn't go any higher than the price at which you entered the option contract (26.67) by the time June comes around (your time limit to exercise the option) the option will become worthless i.e. you will lose all the money you invested into the option.

So, in order for you to profit from an option, 1) the market has to go your way; and 2) it has to do so within a given time-frame. If both of these things happen, you make money by 'exercising the option.' If both of these things don't happen, you lose money.

As I've mentioned earlier, most traders lose money when trading stocks as well as options. And this is why you have to do your homework before you start trading stocks or options.

**Make Money Even When The Market Goes Down!**

This is another secret that most traders don't know about.

You can make money when the market goes up as well as when the market goes down!

One way to do that is to "short" the major indices (Dow, NASDAQ, S&P500) using Futures contracts . With futures contracts, you're betting that the market will go down. This is one of the riskiest trades. It is also the most profitable if you know what you're doing.

If you are not familiar with futures trading, you may want to learn about it down the road. It's not hard but it will require some investment of your time. I cannot cover the details of futures trading in such a short report. There are many books available on the subject at the bookstore.

If you're a beginner, I don't recommend that you trade futures. Just know that it's available to you when you're ready for it, in the future.

 

If you want lesser risks than Futures, consider **Rydex** funds. The Rydex funds (which short the market) are designed to go up 20 percent when the market indices go down by 10 percent. For more information on Rydex funds, go to http://www.rydexfunds.com. Be sure to read the prospectus before investing in any fund. (They also have funds which go up when the market goes up.)

Another way to bet on a *declining* market is through options - namely "put" options. I briefly mentioned this earlier, in the 'options' section above.

Once again, you can get **put** options for the major indices, Dow Jones and NASDAQ-100 puts Options or Leaps. Since both indexes are bound to decline during a down market, you can buy put options on one or both. You will need to set up an options trading account with your broker to start trading options.

As I explained in the last section, if you think the stock or commodity is about to go down in price, you can buy a "put option" and get a shot at profiting from a sliding market.

The more the stock falls, the more your put option will be worth i.e. the more money you will make.

A put's value increases as the stock price falls and usually offers a strong leverage, so a small fall in price of the stock usually equals a large increase in value of the put. In other words, put options offer great leverage.

The above recommendations are all designed to work against the market.

Of course, if the price of the stock starts to go up, you will lose money (since you're betting that the price will *fall*.) If a put option expires before the price of the stock starts to drop, the put will become worthless.

Keep in mind that these are speculative recommendations. They offer high profit potential but are also high-risk. Do not use money that you cannot afford to lose on these recommendations.

And remember, you can only make real profits when you **sell** your shares, options or funds. Otherwise, it's only paper profits. In order to lock in profits from all of our recommendations, you need to keep a close eye on all of them. And of course, as mentioned before, place stops on all your trades to minimize losses.

If you have never traded before, start by buying and selling stocks first. Don't jump into options just yet. When you have a better understanding of how the markets work and what you're doing, you can then look into trading Options.

## Keep Your Trading And Strategy A Secret

I am a giver, for the most part. When I hear about a great investment or opportunity, I can't help but share it with others. So, it was very hard for me to learn this lesson...

Always, always keep your strategy a secret!

Whether you believe it or not, the market is designed to take money from you! It's not the safe 'nest egg' that they've promised you. (Another shocking revelation for most people.) Individuals in the recent tech wreck found that out the hard way.

When it comes to trading the market, you're swimming in an ocean full of sharks. Giving away your strategy will put you at a disadvantage.

What you'll learn here is 'in-the-trenches' experience that few people know about. It has cost me thousands of dollars and several hard years of my life to gain these strategies and wisdom.

Now you have access to this same knowledge. You can use it to design your own customized battle plan. Once you have that plan, keep it to yourself… and you will do well.

## What To Buy

What you buy depends on what type of person you are. You can keep your trades conservative, moderate, or highly aggressive.

The most conservative way to make money from the stock market is also the slowest. You simply put money into index funds and let it sit for 10, 15, 20, or even 30 years. You don't have to watch it everyday, or even every month. You can add shares to your portfolio whenever the market drops, to improve your average price per share.

Of course, past performance does not guarantee future results. But so far, it has worked for those who have played the long-term game up till now.

Personally, I'm not big on using the stock market as a long-term investment vehicle or a retirement nest egg. I have seen too many horror stories. But, past performances show that you can make money (slowly) by using the above "buy it and forget it" strategy.

The moderately aggressive trades include other funds that have been able to beat the performance of S&P500, at least in the short term. You can get these funds, or you can even get options for these funds where available.

To get a list of the top performing mutual funds, just go to http://www.morningstar.com and view their list of top 20 funds. Go for funds that have performed well at least for the past 5 or 10 years.

If you want to go for more aggressive trading, you can trade individual stocks or their corresponding "options" for quick short-term gains. I will show you how to pick the right stocks and options for this type of trading.

## How To Pick 'Em

There are thousands of different stocks (and commodities) to pick from. So, how the heck do you pick the ones that will make you money, let alone big money?

Forget all the confusing analyses and calculations you may have heard of. Don't let all the numbers, figures and charts confuse you. I'll show you exactly what to pay attention to. The rest of the stuff can be left for others to waste their time on.

To pick winning stocks, you need to do 2 types of analyses: fundamental and technical. And if you want to increase your chances of picking winners, you have to put the stocks through a very rigorous screening process. (This is where most people fail, and why they lose their money.)

Here's a great system I use to pick winners:

FUNDAMENTAL ANALYSIS:

Buy High, Sell Higher

Everyone's telling you to buy low and sell high. Right? Well, that makes sense… in theory. And yet, most people don't have any luck with that strategy. Why? Because often times, when a stock is at a low, it just tends to continue going lower. You can't just depend on the "buy low, sell high" technique. By itself, it means nothing. There are other factors to consider before you jump in.

To pick stocks that have a greater chance of moving higher, you have to look for stocks that have reached a **new high**. That means, the stock has recently reached it's highest point. (This is very different than what most people do, which is why it works.)

Of course, this alone isn't enough to pick the stock. Now we go to the next screening step…

Price Means Nothing. Earnings Mean Everything!

Just because the price of a particular stock is higher than most other stocks does not mean that it's a better stock. During the dot.com tech disaster of the early 2000's, a lot of traders got sucked into the market because they didn't understand this principle.

Stock prices don't mean anything. Stock "earnings" is what you should look at.

I could take a beat-up old car that doesn't even run and put a price tag of $100,000 on it. Does that make the car run any better? Of course not. Yet, this is the same thing Wallstreet has been doing to investors for years and years. And most of them are falling for the trick everyday. Price does not mean squat! It's the actual value of the item that should dictate how much **you** should to pay for it.

Often times, the price of the stock may be fairly high, but the earnings per share of that company may be extremely low.

It's not uncommon to see a stock that's priced at 20, 30, 40 or more but has an "earnings per share" value of 1 or less! That's no golden stock. It's a loser.

If the earnings are low, you don't want to touch that stock because sooner or later, the market will come to it's senses and the price of that stock will settle 'down' to what it's *really* worth. And that's when all the shareholders will wonder what happened.

I like to pick stocks that are in the top 20% of earners. That tells me that those stocks still have some room to move *upwards*. If you want winning stocks, you have to pick winners. Common sense, right?

I'll tell you how to find these stocks. For now, let's go to the next step in your screening process.

Relative Price Strength

When you've found the top 20% earners, you then want to look at the stock's Relative Price Strength. A high value tells you that this stock is relatively strong, compared to the rest of the stocks. It's all about picking the top of the heap.

Pick stocks with a Relative Price Strength of at least 80, or higher.

## Go For A Leading 'Sector'

Next, you want to look at the "industry strength" of the stock. You're looking for stocks that are at the top of all other industry groups. i.e. their price performance over the past 6 months is better than all other industry groups. You can spot these stocks by looking for an Industry Group Relative Strength of "A." If the stock's group strength is "A", it's in a leading sector, and a good bet.

## Go For Lower Prices

Only after you've put your stocks through the rigorous screening filters given above can you now look at it's actual price. Now, price can mean something.

Look for stocks that are priced under 30. The lower the price is, the more shares you can buy of this stock with the money that you have to play with. The lower the price, the more leverage you have. Makes sense, right?

Okay, we're done with the fundamental analysis. Now we move on to the 'technical analysis.' Don't worry, it's not as complicated as it sounds.

## TECHNICAL ANALYSIS:

I'll make this really easy for you. What I want to do next is to look at the actual chart of the stock that made it through all the screens of the above fundamental analyses. I won't bother looking at the chart if the stock didn't make it this far.

To look at the chart, just go to [http://yahoo.com](http://yahoo.com) and select the "Finance" link. Or you can go there directly using this link: [http://finance.yahoo.com/](http://finance.yahoo.com/)

Pull up the chart of one of the stocks that made it through the fundamental analysis.

Basically, we're looking for a chart that shows a nice steady climb upwards, without too many sudden drops or spikes. In other words, we're looking for a stock that's stable and doesn't jump around too much in price.

If it's too unstable with too many big dips and hikes, we don't want it. After all, we've got 'real' money on the line.

If you've got a few stocks to analyze, look at all their charts and pick one that looks the most stable. i.e. the one that has the most steady upward climb without too many jagged edges (big drops and climbs.)

<u>50-Day Moving Average</u>

Next, we want to look at the chart of a 50-day moving average for this stock, over a 6-month period.

We're looking for 1) a steady climb of the 50-day average line, and 2) a stock price that's higher than the '50-day moving average' figure.

If we don’t see a steady climb of the 50-day average line in the chart, and if the price of the stock drops below the 50-day average number during the last 6 month period, we don't want that stock.

If the stock meets the above two criterion, there's a good chance that the stock will continue to move higher.

(I'll show you exactly how to get these figures from Yahoo in a later section.)

Next, we figure out when we want to buy this stock.

## When To Buy

After the stock has passed all of the above screening, you can now add it to your "watch list" and figure out when you want to buy it.

From previous experience, I have gathered that the best time to buy a stock is when it is in the "oversold" category.  If the stock is "oversold", it means that there are more sellers of this stock than buyers. And, since the market has a tendency to balance itself out, an 'oversold' condition of a stock usually means that there's a good chance for this stock to bounce back. And when *that* happens, the price of the stock usually goes up.

Naturally, you want to buy the stock when it is extremely 'oversold' and is about to bounce back, i.e. increase in price.

When the stock has gone past the 80% oversold mark, and is preferably around the 90% oversold mark, it's time to buy it. (I'll show you how to chart this figure on Yahoo.)

You wait till the next day for the market to open. After it opens, you give it at least an hour to settle. Usually, the market is volatile during the first hour of trading, so you want it to calm down a bit before you make your move. This will also help you in getting a reasonable price for the stock.

If after that first hour, things still look pretty good, you can then buy the stock.

 

## When To Sell

This is one of the most important decisions in the trading game. And it's also the most difficult.

I can give you the general guidelines that I myself use to sell a stock. After that, it's up to you to figure out what you're most comfortable with and what works best for your needs and personality.

I like to make as much money as possible with every trade. However, I don't want to get greedy and lose my profits. This is where discipline and common sense comes in.

After the stock has moved up a nice amount, I can either 1) sell all of the shares and take profits, 2) sell half of the shares and wait to see if it will go any higher, or 3) place a stop-order on it about 8 to 10% below the current price and wait to see if it will go higher.

The choice I make will depend on how high the stock climbed, how long it took for the climb, and how steady the climb was.

If there were many ups and downs, I may just sell, take profits and run.

If it has been a steady climb with moderate gains, I may put a stop-order to lock in profits I've earned so far and wait to see what happens next.

If it's a moderate-to-fast climb upwards, I will mostly likely sell it all and take profits. Or, I may sell half my shares to take profits, and put a stop-order on the other half to see what happens next.

It really all depends on how I feel about the process.

Remember, that greed and fear are the major factors that come into play during trading. So, if you feel either of these coming on strong, it may be time to make some hard decisions. If you've seen a nice climb up and have made some nice profits, don't get greedy. Sell it and lock in those profits. Then move on to another trade.

Keep in mind that a successful trader is not someone who makes one or two spectacular trades. A successful trader is someone who makes moderate-to-large gains <u>consistently,</u> over a long period (of at least 6 to 12 months.)

 

You may get lucky during the first few trades and really experience some amazing gains. DON'T get cocky. Luck does not belong in trading. Stick to your strategy and continue to rigorously research each stock before you make your trades.

More money has been lost by traders who thought they knew it all and stopped practicing the fundamentals -- the same fundamentals that made them the initial few winning trades in the first place.

Remember what got you the winning trades: your strategy! And your rigorous screening process that highly increased your chances of picking winners. Don't ever make a move without first applying your strategy and screening on any stock.

## How To Screen Stocks Using Existing Charts & Figures

Okay… now you know exactly **what** to research and screen before you buy the stock.

Next, you need to learn **how** to research and screen the stocks. We'll discuss the details in this section.

I use two resources to do my research:

1. Investors Business Daily - for the fundamental analysis
2. Yahoo Finance - for the technical analysis.

1. Investors Business Daily (IBD)

IBD is a paid resource but it's worth my time to use their service since all my fundamental analyses are easily laid out for me. I don't have to do the research myself.

You can get a trial subscription from their site: http://www.investors.com/ (I don't make any money for recommending IBD. It's just a publication that I have found useful.)

IBD lists all the numbers I use to do my fundamental analysis that I described earlier, in my screening process.

Using their **Corporate Ratings** list, you can look for stocks that have had a recent **new high (NH)**, you can also locate their **Earnings Per Share**, **Relative Price Strength**, **Industry Group Relative Strength**, and of course, the Current or **Closing Price** of that stock.

Everything you need for your fundamental analysis is right there in that one listing. Pretty kewl, eh? ;-)

2. Yahoo Finance

I don't care much for the yahoo search feature anymore. But I LOVE their finance section. I do most of my research using Yahoo Finance.

Here are the steps I use to screen a stock:

1. Go to their finance section at: http://finance.yahoo.com/
2. Pick the stock(s) that passed your fundamental screening (from the Investors Business Daily tables) and get their "symbols" (also found in IBD under the "Symbol" column of the Corporate Ratings listing.) Enter those symbols (one at a time) into Yahoo's finance site where it says "**Enter symbol(s): e.g. YHOO, ^DJI**." There is a search box right next to those words where you can insert your symbol, and then click on the "**Go**" button.
3. You should now be taken to the "**Quotes and Info**" page for that stock. Under the chart/graph for that stock, you'll see a set links that look like this: 1d 5d 3m 6m 1y 2y 5y. Clicking on those links will give you the 1 Day (1d), 5 Day (5d), 3 Month (3m), or 1 Year (1y) view, respectively. Click through those to see how steady and stable the stock looks. Let's start with the 6 Month (**6m**) view.
4. To the far left of the chart, right next to the edge of your computer screen, you'll find a column with more links. Find and click on the "**Technical Analysis**" link under the "**Charts**" heading.
5. You should now be taken to the "**Technical Analysis**" page for that stock symbol. You'll see a bunch of new figures above the chart as well. Locate the words "**Moving Avg**" from that section (above the chart) and click on the number "50" which appears to the right of the words "**Moving Avg**." Your chart will now display a red line, which represents the stocks 50-day moving average. If this red line has a steady climb, and the price of the stock is higher than the 'moving average' value, we're doing good.
6. Next, look for the word "**Indicators**," which should be right below the "**Moving Avg**" row (still in the area above the chart.) Towards the end of the "**Indicators**" row, you'll see a link labeled W%R - click on that link.
7. You should now be able to see a smaller chart that sits right below the main chart. This smaller chart will also have a gray line going across it, horizontally, through the middle of the chart. If the blue line on this smaller chart is below that gray line, that means the stock is oversold. If that blue line is close to the "90" mark or below, we're good to go. If not, we can continue monitoring this chart till the 'oversold' value reaches "90" or below.

## Conclusion

There… that wasn't so difficult, was it? I didn't think so.

Well, that's all there is to it! Now, you are pro at doing your own research! ☺

You now know more about trading that most "traders" ever will! You should be feeling pretty good.

If you're still a bit confused, that's normal. I've given you a lot of info to digest. Don't rush it. Go through this report again (as many times as you need to) and familiarize yourself with IBD and Yahoo Finance, as well as the entire process I've laid out. Do this until you're comfortable with the process, and with the terms I've used.

When you're ready, you can start trading… **Paper Trading**, that is.

I advise that you do paper trading for at least the first 2 to 3 months, until you're comfortable and familiar with the actual trading process. Then, when you're able to see good profits with your paper trading, you can set up an account with either Etrade, Ameritrade or any other broker, and start doing some trades. (I have used Etrade and had a good experience with them. I've also heard others talk positively about Ameritrade.) You can also find a list of brokers at the back of the Wallstreet Journal and/or IBD.

Let me repeat this: <u>stick to your strategy</u> and continue to rigorously screen the stock before you make your trades. Don't ever make a move without first applying your strategy and screening on the stock.

And, as I mentioned earlier on, there are no guarantees. Even with all the above screening and systematic selecting, you won't be able to pick winners 100% of the time. But, you'll definitely have a much, much better chance at picking winners than most other traders ever will.

If you stick to the plan, do your research and keep your head in the game, you will do well. You will make a profit.

I wish you the best!

Happy trading!

Sincerely,

Steve Mitchell

 

## Common Trading Terms

**American Stock Exchange (AMEX)** - Second largest stock exchange in the US

**AMEX Market Value Index** - Measurement of all stocks on the American Stock Exchange

**Asking price** - The price an investor pays to purchase stock

**At-the-money option** - when the strike price of an option is the same as the current market price of the underlying commodity. For example, suppose the strike price on a June gold option is $305; and gold is now trading at $305. That option is at the money.

**At the money** - The condition that exists for an option when its underlying stock reaches the strike price before its expiration date

**Bear** - a person or who thinks market prices are going to fall.

**Bear market** - when market prices are falling.

**Bid** - an offer to buy a specific commodity, at a specific price.

**Bid price** - Price the investor receives for sale of stock

**Blue-chip stock** - Stock of a large, stable, well-established company

**Broker** - A company or individual that facilitates a stock transaction but does not have ownership of the stock at the end of the sale

**Bull -** a person who thinks market prices are going up.

**Bull market** - A prolonged period of rising stock prices

**Buy-and-hold** - A strategy in which an investor purchases securities and holds on to them taking into consideration the long-term outlook of the underlying companies

**Call option** - An option that give you the right to buy a specific commodity or financial instrument, at a set price, on or before a specific date. When you own an option, you do not have to buy the underlying commodity. The price you pay to buy the option itself is called the "premium".

**Canceling order** - an order that cancels, or deletes, your previous order with your broker.

**Capital gain** - Money an investor earns by selling stock for a profit

**Capital loss** - Money an investor loses by selling a stock for less than was paid for it

**Charting -** using charts and graphs to analyze markets, so you can predict where market prices are going in the future. (Used in "Technical Analysis.")

**Close an option position** - To buy and sell back an option to make a profit.

**Closing price:** the last price paid for a commodity or financial instrument on any trading day. This is the price the exchange clearinghouse uses, to determine each firm's gains or losses for the day. Also called "settlement price."

**Commission -** a fee brokers charge to execute your transactions. Also called a "brokerage fee." Commissions vary between brokers. Discount brokers will usually execute your orders at much lower commissions.

**Contract** - an agreement to buy or sell a commodity, specifying the amount and quality of the product, and the date when the contract matures and can be delivered.

**Covered option** - An option that is written by an investor who owns shares of the underlying stock

**Crash** - A large drop in the overall value of stock prices on a particular day or period of days.

**Day Trader** - An investor who buys and sells based on small short-term stock price fluctuations

**Depreciation** - Loss of value of an asset

**Derivative** - A security whose value is based on another security such as Options and Futures

**Dip** - Slight drop in securities prices after an upward move.

**Discount Broker** - A brokerage house that executes orders to buy and sell securities at sharply lower rates than a Full Service Broker. They usually offer almost no service or advice but trade for a reduced commission.)

**Dividend** - distribution of earnings to shareholders, prorated by class of security and paid in the form of money, stock or scrip

**Dividend yield** - Annual percentage of return earned by an investor on a common or preferred stock

**Downside Risk** - Estimate that a security will decline in value and the extent of the decline, taking into account the total range of factors affecting market price

**Downtick** - Sale of a security at a price below that of the preceding sale

**Downturn** - Shift of an economic or stock market cycle from rising to falling

**Dumping** - Offering large amounts of stock with little or no concern for price or market effect

**Earnings per Share** - EPS - Measure of a company's profitability calculated by dividing net income by shares outstanding on the income statement

**Earnings-Price Ratio** - Earnings yield - earnings per share to current stock price relationship

**Economic Growth Rate** - Rate of change in the Gross National Product as expressed in an annual percentage

**Economic Indicators** - Key statistics including unemployment rate, inflation rate, factory utilization rate and balance of trade which shows the direction of the economy

**Economic Risk** - The danger to investors that the economy will decline

**Exercise:** when a person who owns a call option buys the underlying security; or a person who owns a put option sells the underlying security.

**Exercise An Option** - To buy or sell the underlying stock of an option

**Federal Trade Commission** - FTC - US government agency that regulates competitive markets with regard to encouraging free trade and discouraging monopolies

**Fill-or-kill:** a price limit order that must be filled at once or get canceled.

**Fundamental analysis:** analyzing markets by looking at their underlying economic, political, and supply-demand relationships.

**Futures contract:** a contract made on the floor of a futures exchange, to buy or sell a commodity or financial instrument at some date in the future. Futures contracts list the commodity; the date; the amount of the commodity; and the price.

**Futures Option** - Option on a futures contract.

**Going short** - Selling a stock or commodity that the seller does not have, usually betting that the price will go down.

**Good-till-canceled order:** an order you place with your broker, which stays valid until you cancel it. Also called an "open order." (Restrictions vary depending on broker.)

**Horizontal spread:** buying a put or a call, and at the same time selling the same option, with the same strike price, but with a different expiration month.

**Index Fund** - A mutual fund that invests in all the stocks of companies in a particular index.

 

**Index Option** - An option with a stock index as its underlying asset.

**Insider Trading** - Illegal manipulation of the stock market with profit as the intent by employees and officers of a corporation through the use of information not available to the public.

**Interest** - Payment for money that is borrowed.

**In-the-money option:** an option that has intrinsic value. For a call option, that means the strike price is less than the current price for the underlying commodity. That lets you buy at the lower strike price, and immediately sell at the current market price, for a profit.

**Lapsed Option** - Option that reached its expiration date and is now without value because it was not exercised. (Also called an 'expired option.)

**Last trading day:** the final day when trading may take place in a given futures or options contract month. If you have any contracts outstanding at the end of the last trading day, you must settle them. You do this by delivering the underlying commodity, or by agreeing to a money settlement.

**Leverage:** the ability to control large dollar amounts of a commodity, with a small amount of capital. Options and Futures allow you to control large amounts of shares with minimum investment.

**Limit order:** an order for a commodity on the futures exchange, to buy or sell at a designated price. When you are buying, you place limit orders below the market. When you are selling, you place limit orders above the market. If the market never gets high (or low) enough, your limit order will not be triggered.

**Long:** a person who has bought stocks or commodities, hoping that price will go up.

**Market order:** an order to buy or sell a stock or commodity at the best possible price, and as soon as possible. Also known as placing an order "at the market".

**Mutual Fund** - An investment company that pools the resources of individuals to enable them to diversify in a variety of investments

**NASDAQ Stock Market** - National Association of Securities Dealers Automated Quotation System - electronic based equity market operated by NASD.

**NASD** - National Association of Securities Dealers - a self regulated organization of brokers and dealers responsible for the operation of the NASDAQ Stock Market.

**NYSE** - New York Stock Exchange - largest and most active stock market.

 

**Option -** a contract that gives you the right, but not the obligation, to buy or sell a particular item, at a set price, for a set time period.

**Option premium:** the price you pay to buy an option.

**Option spread:** buying and at the same time selling one or more options contracts, futures, and/or cash positions.

**OTC** - Over the counter - securities trading via computer, telephone or direct negotiations.

**Out Of The Money** - When the underlying stocks of options are below the strike price for calls or above the strike price for puts.

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