Forward

ZoneTraderPro was created out of a need for something different. After attending seminars and reading books, it seamed that every trader had the same questions, and used the same indicators, and I was one of them. It also seamed that traders wanted that guru to hold their hands through every trade. Traders, me included, pay large sums of money, for that Holy Grail black box system, only to find, there was a reason the seminar was held on a weekend. The reason was under realtime trading conditions the black box doesn't work. And there were no refunds. The guru has sold you a seminar, and showed you cherry picked examples about why his system is so great, so you buy the software. He has only had to perform one time, and on a weekend when the market is not moving.

I was constantly frustrated when I took a trade, watched it go against me, and then be stopped out. What was even more frustrating was that after being stopped out, the market instantly reversed. I would also set an arbitrary profit target based on what would be a "good" amount of profit. In other words, I was letting fear and greed drive my trading. I was also letting my preconceived ideas about what the market should do, affect my trading. That is another mistake. And I was using old and outdated indicators to guide my trading. In other words, I was losing money, along with the other retail crowd, by using the same indicators, going to the same seminars, and letting emotions be my guide to trading. It was out of this frustration that ZoneTraderPro was developed.

In developing ZoneTraderPro the main objective was to eliminate the fear and greed from the trade. If you know where the market should statistically trade at, for both the buy and sell areas, the emotions that drive your trading are reduced. And when you see the market reacting to the Zones as you expect they would, there will be less stress in your trading. This also eliminates any preconceived ideas about how the market should be trading.

The main advantage to ZoneTraderPro is that you do not need other common indicators that every other trader is using and you may have used in the past. ZoneTraderPro is all about recognizing 6 simple patterns. When you recognize the patterns you will read the short and intermediate term market direction.

The average maximum favorable excursion for a ZoneTraderPro trend trade is over 11 ticks. If you have a $10,000 account, and you trade one contract in one trend trade and just get the average MFE (less commissions), you have over a 1% account gain, which is outstanding for a days trading. Now look at the website and see how many trend trades ZoneTraderPro averages per day, and what percentage of trades end in a loss. Losses can and will occur, however by studying the manual and taking the lower risk trend trades, you can minimize the losses and maximize the gains.

It will be obvious when ZoneTraderPro says the market is bullish, and when it is bearish. If you have a bullish view of the market, but ZoneTraderPro says it is bearish, simply avoid the trade. If you are correct, ZoneTraderPro will give you a logical bullish entry. If you are incorrect, and ZoneTraderPro is right, you have been saved more money than the monthly lease on the product.

This manual is meant to answer your questions. How do I trade the open? Where do I enter a trade? Where do I exit a trade? Where do I find the lowest risk, highest reward trades? The manual will also detail unusual circumstances and how you can read the market and understand that something unusual is occurring. Understanding and avoiding unusual circumstances prevents losses.

ZoneTraderPro offers a free 14 day trial. The purpose of this trial is to see the see the market developing the patterns described in this manual, and learn how to use the system. It will be very risky if you try and trade during the trial, because you will be concerned with winning and losing, rather than learning. So please take the trial time to learn and study the system. The market is available 5 days a week, 52 weeks of the year. You can also use the Esignal tick replay function to download the last 10 days of data and replay them for study purposes, giving you a total of 15 trading days of data to study.

Add in some excellent tools that do work, and ZoneTraderPro can be a successful trading system.

If you have any questions about this manual, or have any comments, good or bad, please feel free to give me a call or send an email. Good luck and good trading!!!

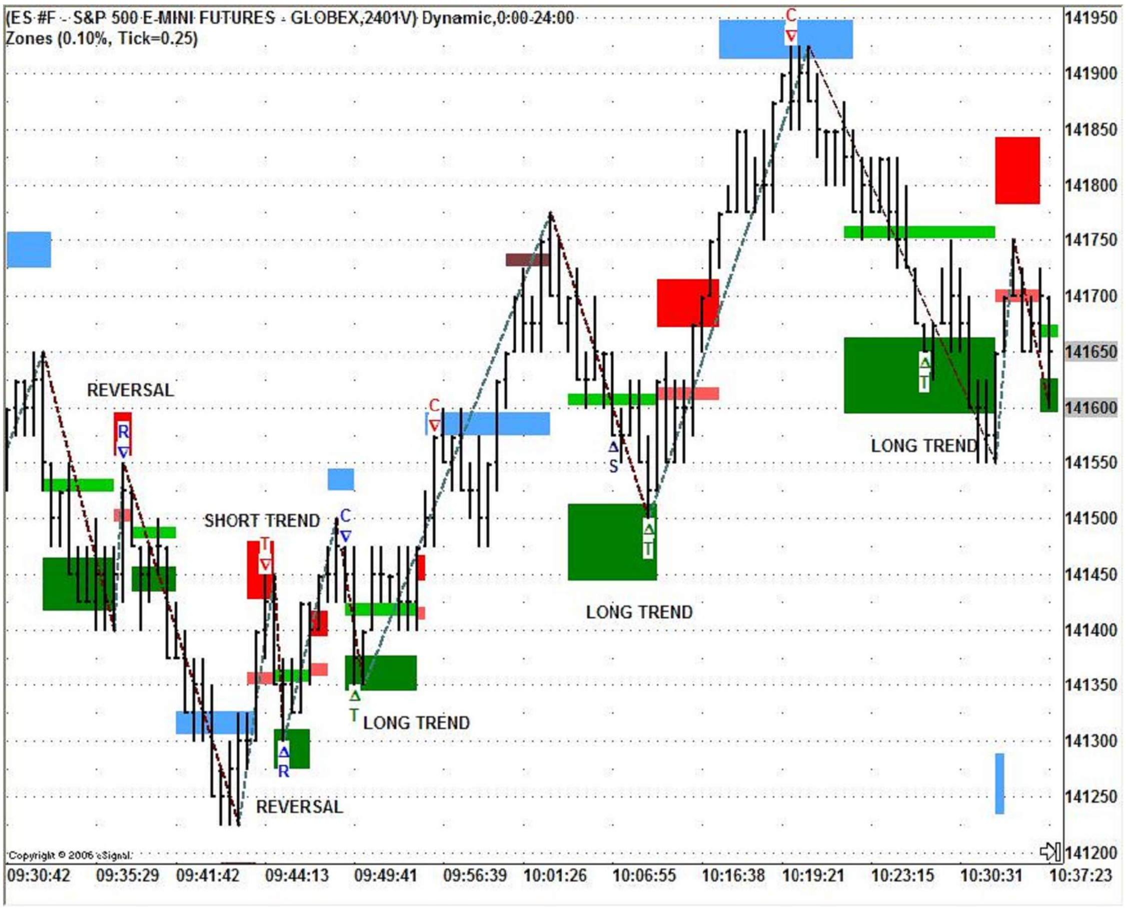
ZoneTraderPro Introduction

ZoneTraderPro is a revolutionary new way to trade, bringing to the trader a new tool providing a high degree of confidence in the trades. ZoneTraderPro allows the trader to visually see high probability trading zones develop ***in advance of the market that zone***. ZoneTraderPro will define when a trend is established, where to enter a new trade, and most important, give the trader a high probability target to exit at.

The Purpose of ZoneTraderPro Software

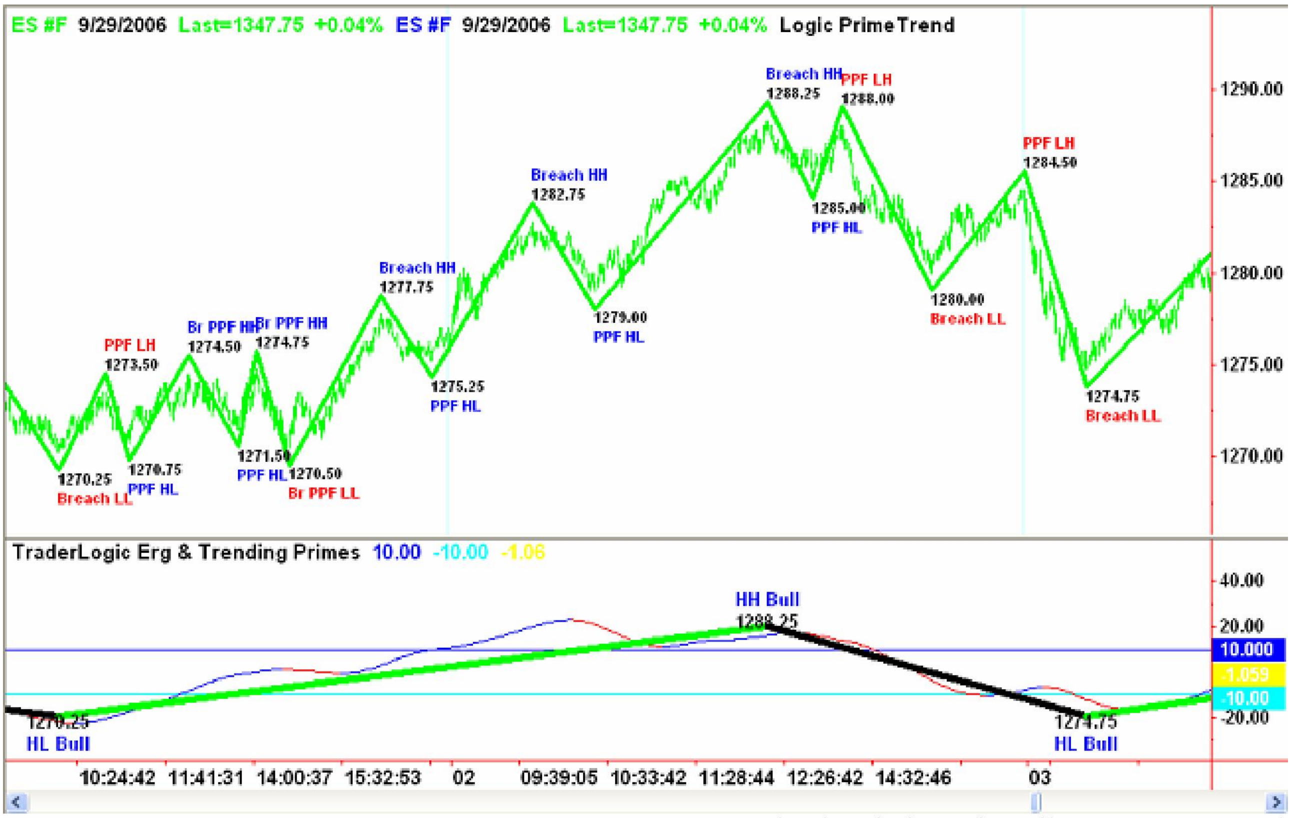
1. Education, by teaching the trader to understand the markets intent through price and volume. This is accomplished through the visual display of trading zones in ZoneTraderPro.
2. Reducing risk by developing high probability entry and exit profit zones.
3. Reducing risk by clearly defining high probability trend and countertrend trades.
4. Reducing risk by clearly defining when not to trade.
5. To identify the 6 commonly repeated market patterns. These patterns define the current trend in a markets' price, whether a market is reversing trend, or whether a market is under accumulation or distribution.

The difficult part about trading is knowing when and where to trade. ***What makes ZoneTraderPro different is that it will tell you where those pivot zones are, in advance.*** That information, about where the pivots will form in advance, is the most valuable part of information a trader can have. The ZoneTraderPro user will then have the information necessary to enter trades in the direction of the trend and at the proper pivots for lower risk trading opportunities. Additionally ZoneTraderPro will identify potential trend reversal areas. Notice in the chart below how trends and reversals are identified and the market trades within the zones.



No market will ever go straight up or down, it will move in waves, with retracements followed by resumption in the trend. In a bull market trend, higher highs are made, along with higher lows. The opposite is true for a bear market.

Notice on the below chart, the trend is bullish, because higher highs and higher lows are being made, until midday when a reversal occurs. This chart is from 8-2-06.



Created with MultiCharts (http://www.tssupport.com)

But the difficult part is knowing when and where to trade. The pivot lines on the above chart are drawn ***after the fact***, and not when the highs or lows were being made. ***What makes ZoneTraderPro different is that it will tell you where those pivots are, in advance.*** That information, about where the pivots will form in advance, is the most valuable part of information a trader can have.

What is also important to note is that the historical trade record for ZoneTraderPro accounts for all trades, including those trades that occurred pre-market, during economic and breaking news events, and the release of economic indicators or fed announcements while the market was open. All trades that could be initiated between 0800 hours EST and 1615 hours EST were documented. It is not advisable to be trading during these news or economic events, as it is a 50-50 coin toss which way the market will trade based on the event. But so that traders can see ZoneTraderPro in all market conditions, all trades were documented and included in the daily statistical analysis.

The ZoneTraderPro website statistics are also based on the worst possible entry point, not the best.

It should also be noted why only the ES contract is charted in the examples. ZoneTraderPro will work on all instruments, Russell, Dow, Nasdaq, stocks, and Euro Futures. The ES contract is the most liquid and has greater market depth than other indexes. There are also fewer excursions outside of the intermediate and trend zones. This is important and you will understand why when reading further, but the standard trend trade looks to take profit between the intermediate and trend zones, because it is the most predictable and lowest risk trade. Other instruments such as the Russell 2000, Nasdaq, and Mini-Dow, trade out of the trend zone more frequently. These instruments also have less liquidity and fewer traders, which allows for market manipulation by a few larger traders.

The ZoneTraderPro Learning System

ZoneTraderPro has a learning curve like anything else in trading. But ZoneTraderPro is different. You will not be asked to choose indicators, try and optimize them, and then make a guess using real money to see if that worked.

If trading was easy

- Wall Street would be losing money to daytraders
- A certain red light / green light system that looks to make wize trading decisions would be demonstrated when the market was open
- Traders would sit down in front of Tradestation, put 3-4 indicators on a chart, hit the optimize button, and come back 5 hours later, and see a box that says "You have found the Grail!"
- Goldilocks would not be lost
- You could listen to a trading room and successfully make the same money the guru claims to be making.

But trading is not easy

- Wall Street makes money using proprietary trading desks
- Simple red light / green light systems can not work in a complex stock market. You might get lucky because you still have a 50/50 chance of getting it right, which are the same odds without the software $4,495 software
- Tradestation strategies are available to everyone and do not consistently make money, because everybody is using the same old ideas, and every market day is unique. The S&P will not be optimized using a moving average, CCI, and Stochastic's system

- "If your looking for Goldilocks, you can find her face on the side of a milk carton." - Art Cashin
- Trading gurus do not show you their rooms profit and loss, if they are even trading for themselves

What will you be asked to learn?

Because ZoneTraderPro is nothing you have seen before, it is unique. You are going to need to visually recognize commonly repeating patterns. These patterns identify when a market is behaving normally, and when the patterns suggest increased risk. It is also important to know some historical statistics and create a trading plan based on that knowledge.

After identifying the patterns, you will make decisions based on real time indicators. There are several proprietary trading methods and real time supply and demand. Real time supply and demand is explained in this manual, and the proprietary methods will be disseminated upon purchase of ZoneTraderPro. That is all. These indicators are unique, just like the ZoneTraderPro system.

A trader using the ZoneTraderPro trading system will be expected to learn the following material. It is suggested that you follow the steps in the order that they are presented to maximize your learning.

The ZoneTraderPro Manual - The manual is approximately **137 pages** and covers all aspects of the system. Print the manual and if you have any questions on a concept, email or phone ZoneTraderPro support.

1. The ZoneTraderPro Video Series - The video series will build visually on what you have learned in the manual. The videos that are important at this point are the first 21 videos that cover Setup, Lessons, and Strategies.
2. Sign up for eSignal and start the ZoneTraderPro trial. It is now time to start watching the market and its' patterns operate in real time. It is very important to realize that you have just started your learning process, and it is time to learn, not to trade. By adding the pressures of trading, you will slow or stop the learning process, because you are now focused on making money and not learning. You will need the least expensive eSignal package, and the CME e-mini feed. There are

several sources for getting the Yen carry trade information, or you can add this from eSignal also.

3. Illiquidity volatility was the reason the Bar Color EFS was created. The Bar Color EFS is a simple way to determine if increased risks are associated with the trade you about to enter. On a "normal" day you would expect to see less than 2-3 color bars. If you are seeing a dozen on a chart, or if you see a color bar develop as you are entering a trade, you will understand there is an increased risk of trading. There are two reasons color bars develop. Know what each one is, why they occur, and how to identify each reason. Please be sure to watch the video on illiquidity volatility.

At this point you should be ready to start testing some of your knowledge.

Take the ZoneTraderPro Basic Training video test. The Basic Training video will test your knowledge of what you learned in the 5 sections above. The test is 20 questions that cover the material covered in the manual. If the answers are not easy, do not worry. Stop the test and review the material in the manual and videos that covered the concept. It is very important to note that some of the questions in the test are based on previous answers, so do not go on to the next question without fully knowing an answer.

This next step is the hardest. It is not hard because you will be asked to do complex math that you have forgotten years ago. It is hard because most traders have never done it. That is creating a trading plan. A trading plan is nothing more a detailed look at each type of trade. There are 6 types of trades. You need to study each trade, and have a detailed plan for each. The steps you need to take are outlined on the Advanced Video Training page. In addition to the questions, ZoneTraderPro provides Excel worksheets that detail all of the trades made that create the statistical history of the system.
Why is this important? First you can see where ZoneTraderPro has losing trades.

You will see losing trades occur

1. During the 0800-0900 news release time period. ZoneTraderPro cannot control the news. Taking a trade before the news is just a 50/50 coin flip.
2. During the 0945-1005 new release time period. Why not just look at trades starting at 0955, why start at 0945? The answer is because the traders on the floor controlling the market have a whisper number or

may even have the real number. Trades leading into the news will be head fakes as the smart money tries to suck in the retail traders into trading in the wrong direction. That means taking the S&P to strong trend levels and losing trades.

3. At the end of the day. In the last 45 minutes there is an increased number of losing trades. This could be because large traders who can move the market must initiate trades and hedges prior to the close.
4. Illiquidity volatility, which is covered in this manual.
5. High risk trend trades.

Now that you can understand where losing trades can occur, you may consider removing all (winners and losers) of those trades from the Excel worksheets. I am only referring to the trades occurring during news events and the end of the day. There is no way to determine if illiquidity volatility caused the losing trade.

The next part of creating a trading plan involves **the most important table on the web site.** That table is the Maximum Adverse Excursion table.

TOTAL WINNING TRADES	MAE = 0	MAE 1-3	MAE 4-5	MAE = >6
2755 TREND	1533 / 55.6%	889 / 32.2%	232 / 8.4%	101 / 3.6%
1836 COUNTERTREND	921 / 50.1%	686 / 37.3%	164 / 8.9%	65 / 3.5%
4591 TOTAL	2454 / 53.4%	1575 / 34.3%	307 / 8.6%	39 / 3.6%

There are 2 important statistics in this chart that will directly affect your trading of this system. The first is the MAE = 0. MAE = 0 simply means that a winning trade had zero adverse excursion. Most trades have a small 1-2 tick entry window. So that means if you entered a normal trend trade, the system says you have a 50.1% chance that the counter trend trade that will follow will have no adverse excursion. If you believe the counter trend trade will be a typical trade, why would you plan to place any profit target at or below the light blue trend support/resistance zone?

What have you just done? **You have started to create a plan.**

There other statistic that is important is when the MAE goes against you. Out of 4591 winning trades, only 307 or 8.6% turned into a winner if the MAE went 4-5. That number drops to 3.6% if the MAE goes to 6. If you have only an 8% chance to have a winning trade, you can make the decision to move your profit target to breakeven and wash the trade.

Now study the Excel worksheets (with the news and end of day trades removed) and create plans for each type of trade. You need to answer the following questions

1. Develop profit targets or a profit strategy.
2. Develop a breakeven strategy if the trade goes 4-5 ticks in your direction and reverses. About 11% of all trades go 4-5 ticks in the direction of the trade from the fixed entry point, then reverse.
3. Develop a breakeven strategy if the trade goes 4-6 or more ticks against the fixed entry point.
4. Develop a stop strategy.

Note: Determining the fixed entry point is detailed in the manual. Study this. The fixed entry point is going to be different from where you entered the market. Where you entered the market is irrelevant. The market responds to the Zones and this is why you measure the reaction based on the Zones.

Now you have a trading plan, but will it work? ZoneTraderPro provides the answers. On the **Advanced Video Training** page, there are a series of videos on the bottom of the page. The video will advance at a rate of 1 bar per second. The video will pause at key decision points to allow you to apply your strategy and to evaluate risks.

You have now seen how your strategy will work in the real market and can make any adjustments that you deem necessary.

Now you have a trading plan that you have tested and you are nearly there. Now you will need to start paper trading the system. Now you will need to learn some additional material.

The first is you trade execution platform. Contact ZoneTraderPro if you need a paper trading platform. You will be directed to a broker who will provide the Ninja Trader platform and data feed for free.

The next thing you may want to consider is to download the **Camtasia video recorder**. This is also a free 30 day trial. ZoneTraderPro suggests that you record the screen with Camtasia so that you can go back at the end of the day and study the critical turning points where the trades occurred at. You will not be able to focus constantly on the all of the critical data. But if you can go back and replay those turning points at the trading signals, you can study what to look for in real time.

Those are the steps. This is a unique trading system based on real time patterns. It is not a simple red light / green light that says buy or sell and has a very slick marketing campaign, complete with Nerf footballs. The ZoneTraderPro system asks you to look for established market patterns to gauge risk and trade. What does a red light or a moving average cross tell you about your risks? Nothing.

The goal of this system is to give you the confidence to read the market and evaluate the risks, and not allow indicators that do not work, or a guru with a mythical black box system to guide your trading decisions.

Do not be discouraged by the amount of work you will need to do to learn the system. If trading was easy, everybody would do it and our trading execution platform would just be a picture of an ATM machine with buttons to denote how much we want today.

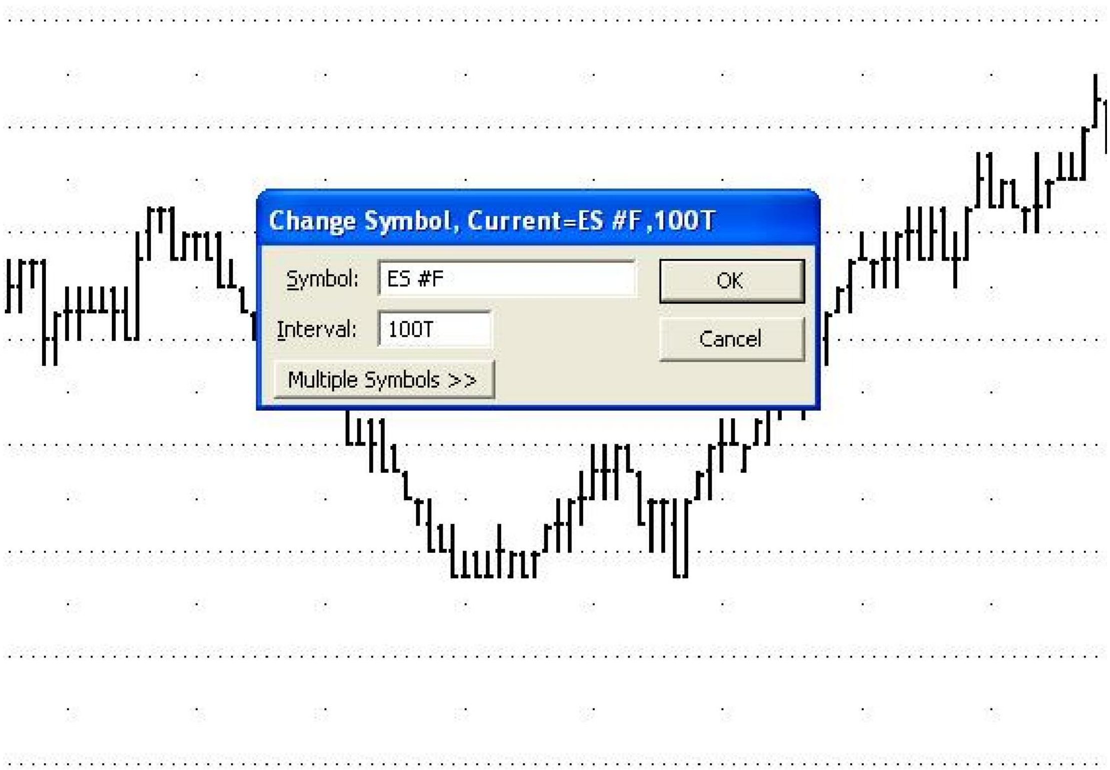
I talked with a trader that has over 15 years experience day trading. In addition to trading for himself, he also teaches others to trade. This trader told me it took him 2 months to fully understand the complete system. Do not expect that you will be trading real money next week. That is unreasonable. You will need to sit and watch trades and gain experience by paper trading.

Chart Setup

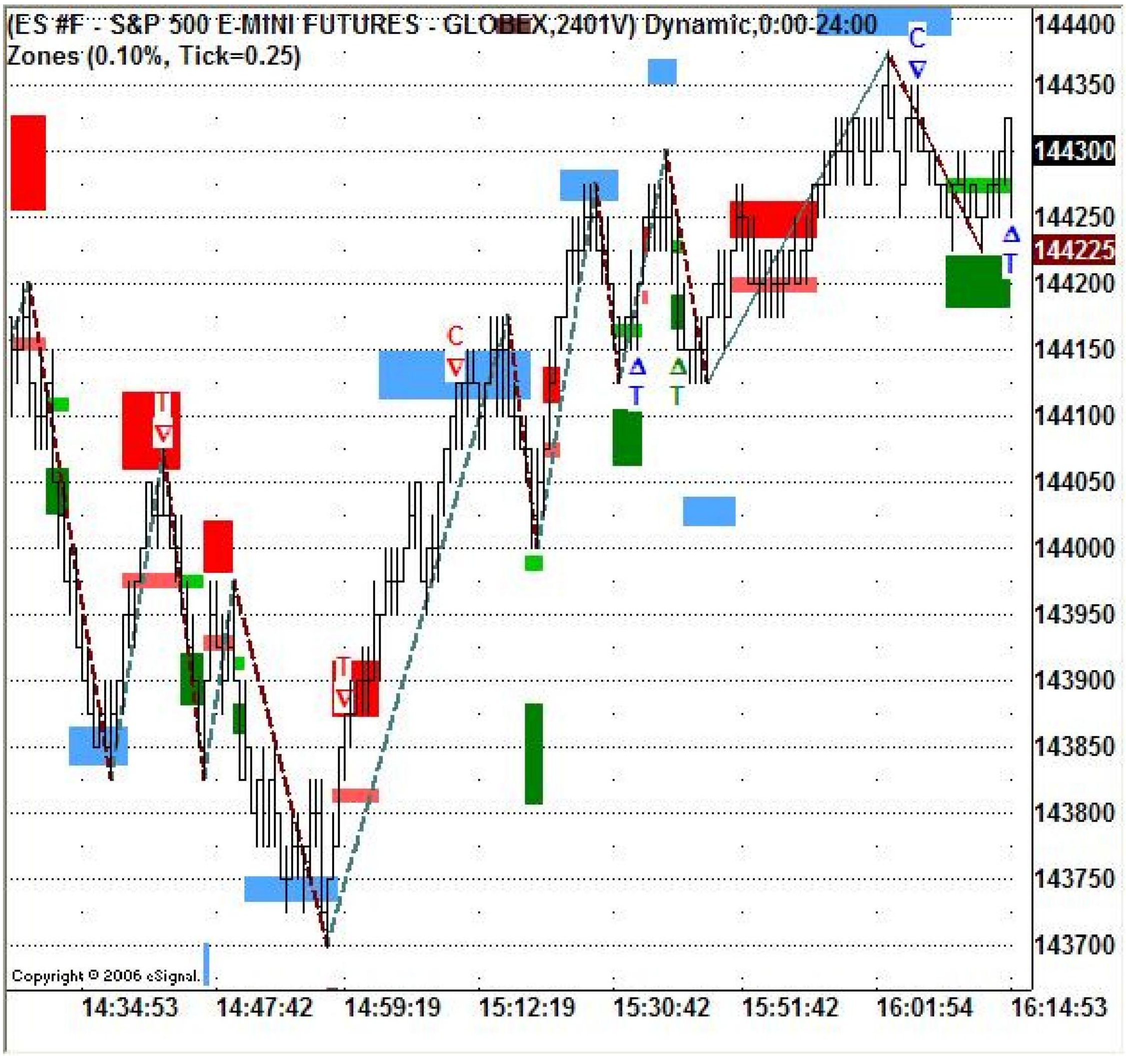
Download and save the ZoneTraderPro.efs to your hard drive. It is strongly suggested that you download the file to C: /ProgramFiles/eSignal/Formulas, however it may be placed anywhere in the formulas folders. The following examples are based on this location. An example download and chart setup video is available on the website under the Support – Video Library tab. Under Windows Vista you may have to download the EFS to the x86 ProgramFiles eSignal folder. Do not download it to the desktop or your Vista downloads folder as it will only have to be moved again.

First open an advanced chart, and change the symbol to ES #F and the interval to 100T. (100 Ticks) You do this by right clicking anywhere on the chart and then start typing ES #F. When you start typing, eSignal knows you are changing the symbol and the change symbol dialog will come up.

I have previously suggested a chart of 2401V. This chart is still important for the BarColor.EFS. So you should have a separate small chart that looks for colored bars. However, in my personal trading I have it easier to study the patterns on a 100V. There will be little difference in the answer that ZoneTraderPro provides. If there is a difference in the charts, you should favor the 100T answer. The reason is the math logic completes with each new bar. There will be more bars for a 100T chart than a 2401V chart.



Next you will place the ZoneTraderPro.efs on the chart by right clicking anywhere on the chart, placing the cursor over formulas, and left clicking the ZoneTraderPro.efs.



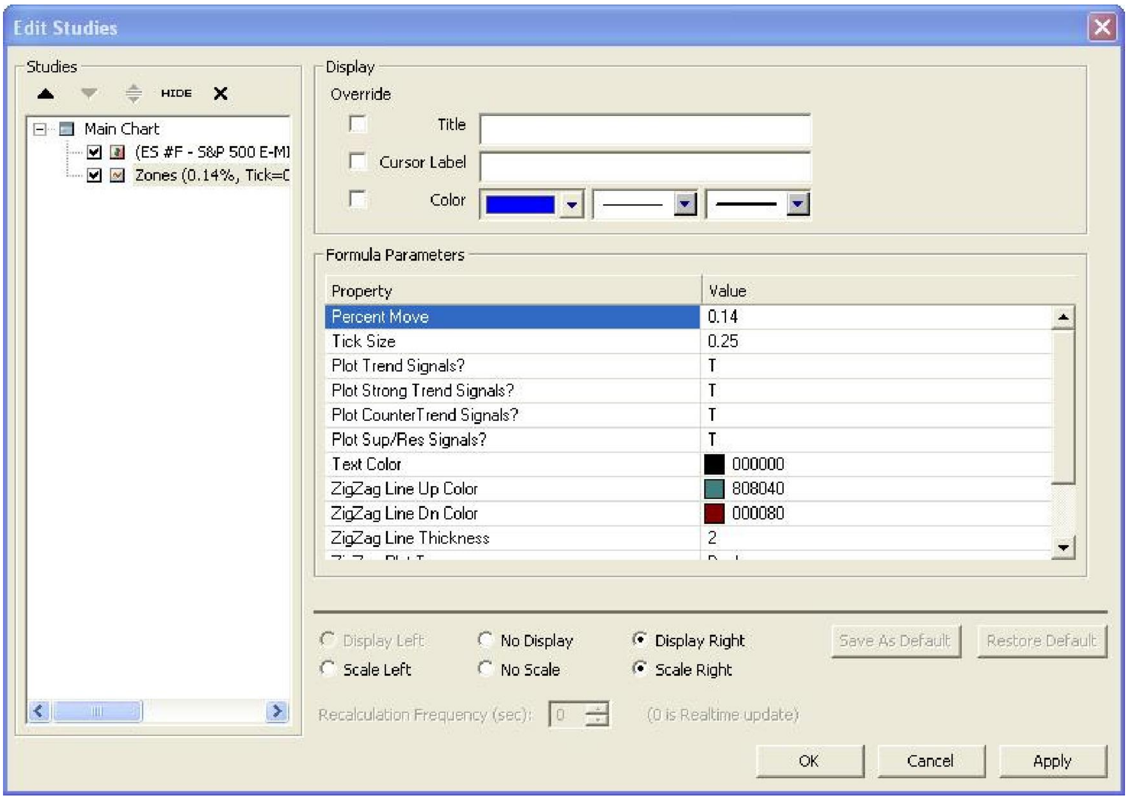
If the chart does not display the zones, and says to contact ZoneTraderPro, either your trial subscription has expired or you are not authorized in the database.

When ZoneTraderPro was created the ES was trading above 1000. The default value for Percent Move is .1

This number is important, because if the ES is below 1000, I suggest that you change the default value higher to give you a minimum 6 tick move.

If the ES is below 1000 and you are using the default setting, you will get a new wave at 5 ticks instead of 6. The system was designed with a 6 tick move as a new wave.

If you multiply .0014 by the current value of the ES, you will get the value that will cause ZoneTraderPro to create a new wave. For example, if you multiply .0014 times 1000 you get a value of 1.4. If the value is between 1.25 and 1.5, ZoneTraderPro will create a wave at 6 ticks.



You may also change certain values in the ZoneTraderPro EFS file. The most common value to change will be the tick size if you are trading an instrument other than the ES or NQ, which is the default .25 tick size.

Tick values for other common instruments are;

1. YM #F is 1
2. AB #F is .1
3. 6E #F is .0001
4. Stocks is .01

In order to change these values you must right click on the chart after the EFS is applied. Then you will choose "Edit Studies" from the context menu. At the top of the box that appears you will change study, which will show the instrument and chart, to "Zones" and a list of options will appear. In the example below the Tick size has been changed to .0001 for the Euro Futures.

Setup for the ES chart

The chart we will use is a 100 tick chart. Lets up look at why we use a tick chart.

A volume or tick chart represents a more accurate representation of what occurred than in a time chart. This is because during periods of extreme market activity during news events, or at the open, there me be a wide range in a 5 minute bar. During a period of market volatility, 25-30 volume bars may paint and it is these volume bars that accurately tell you how the market moved during the period. ZoneTraderPro will instantly show where support and resistance are as they are developing during the heightened activity. A 5 minute bar shows high, low, open, and close. ***It does not show the activity that occurred inside the bar, and this is a major problem.*** As you have seen, once a zone has been hit during a typical trade, the market moves away from that zone and ZoneTraderPro tells you where to expect the next market move. ZoneTraderPro would have to wait for the close of the 5 minute bar to start evaluating the next move.

The overnight Globex session is also important. Using a 100T will accurately record the session as a constant. You will see zones that are hit, and trades develop, just as you would the normal trading session. However using a 5 minute bar, there would be empty bars and the data is much more spaced out.

Do not use ES #F=2 as you chart symbol. The =2 part represents day session only and the overnight session is very important to ZoneTraderPro.

Definitions

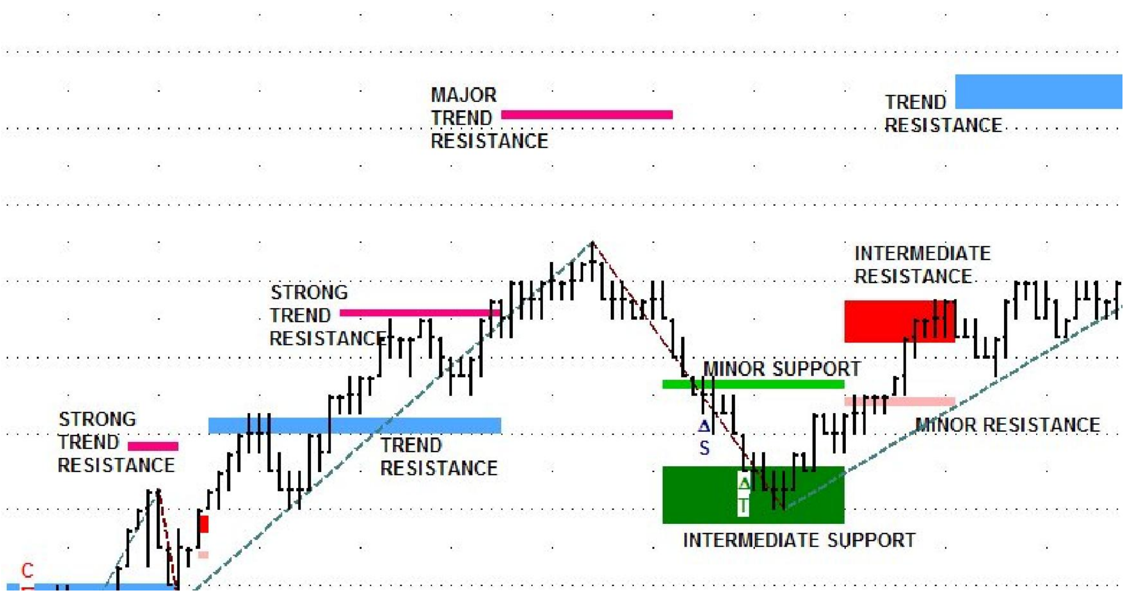
ZoneTraderPro develops accurate support and resistance zones of different strengths, so those zones must be defined and completely understood by the trader. Let us start with the zones and their colors.

The Zones

There are 5 levels of support and resistance zones and they are listed below from weakest to strongest.

- Minor – Light Red for resistance. Light Green for support
- Intermediate – Dark Green for support and Dark Red for resistance
- Trending – Light Blue for both support and resistance
- Strong Trending – Pink for support and resistance
- Major Trending – Pink for support and resistance (very unusual)

Here is an example of the trading zones



Arrows

The will be three colored arrows shown on the chart.

1. Blue arrow – A warning that a trading decision is imminent.
2. Red arrow – A short trade or exit from a long position is indicated.
3. Green arrow – A long trade or exit from a short position is indicated.

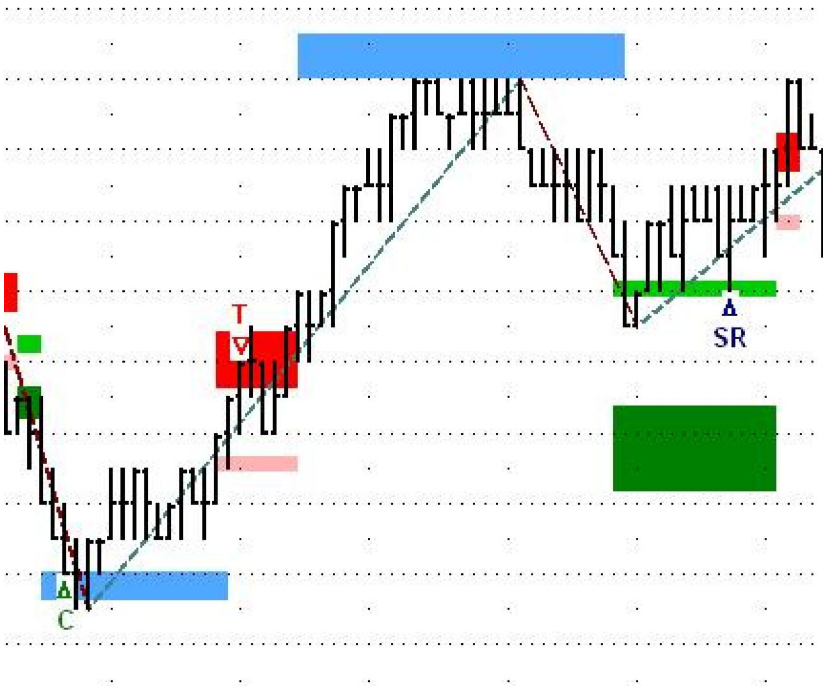
Blue Arrows

When ZoneTraderPro prints a blue arrow it is to advise the trader to be prepared to take a trade. Think of it as an early warning on the chart that a possible trade setup is imminent.

A blue arrow will print when

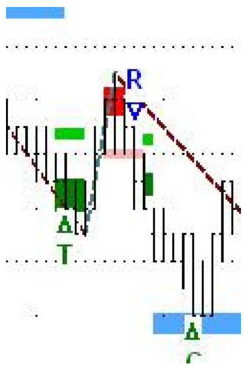
1. You are within 1 or 2 ticks of reaching a trend or counter trend trade. Based on market conditions and real time indicators, a trader may choose to initiate a trade on a blue arrow.

2. On a strong trend reversal trade. (SR)



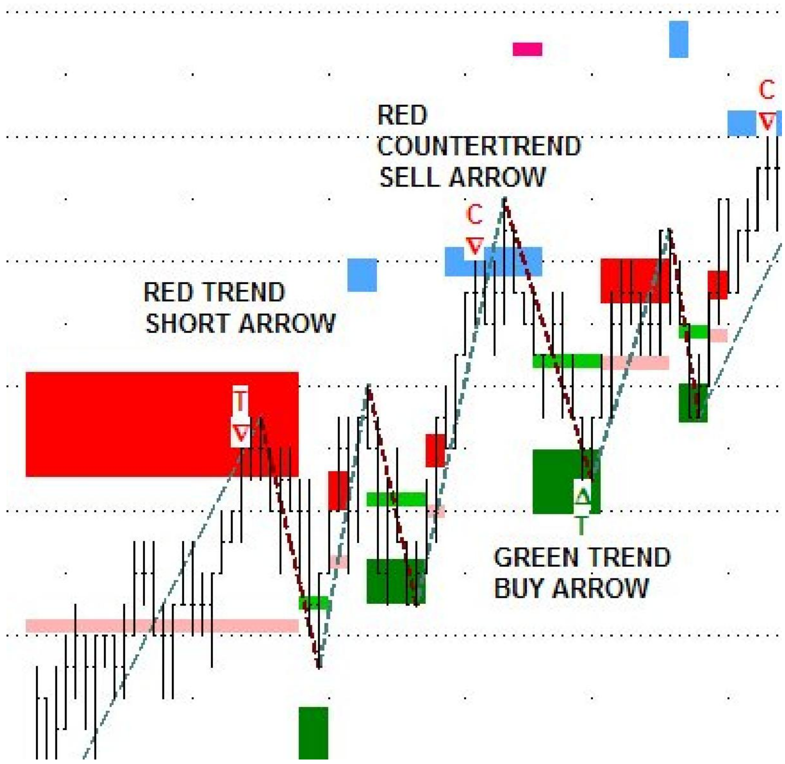
3. On a strong trend trade. (S)

4. On a reversal trade



Red and Green Arrows

A red or green arrow will appear when the market has signaled a trend or counter trend trade, and the price has touched the support or resistance zone.



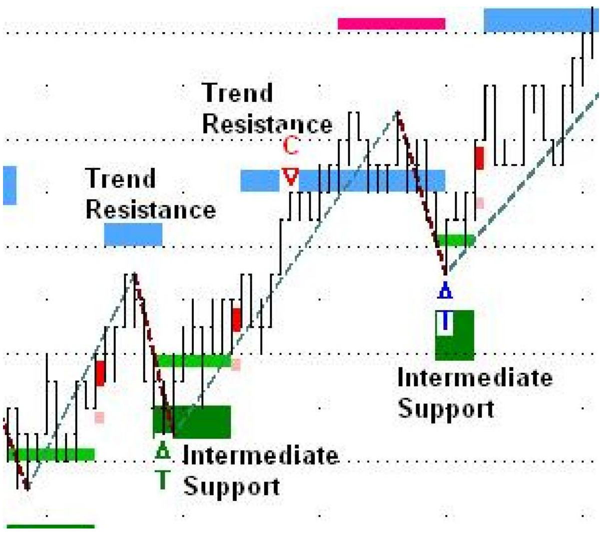
Types of Trades and Their Patterns

The trader will need to understand the basic patterns and what trades will occur out of the patterns.

The Trend Trade Pattern

- Trend Trade and Counter Trend Trade – The trend and counter trend trade is 1st basic set of patterns that ZoneTraderPro makes. In the example below, a trend is established when the price reaches the light blue trend resistance. The trend trade occurs when the market retraces into intermediate support. The counter trend trade occurs as the market reaches the light blue trend resistance, and another trend long trade occurs as the market retraces back to intermediate support.

The trend and counter trend trade have typical risk. The counter trend is considered riskier than a trend trade, because an average counter trend win is 3-4 ticks less than a trend win. You have better risk-reward with the trend trade; however the winning percentages are about the same.



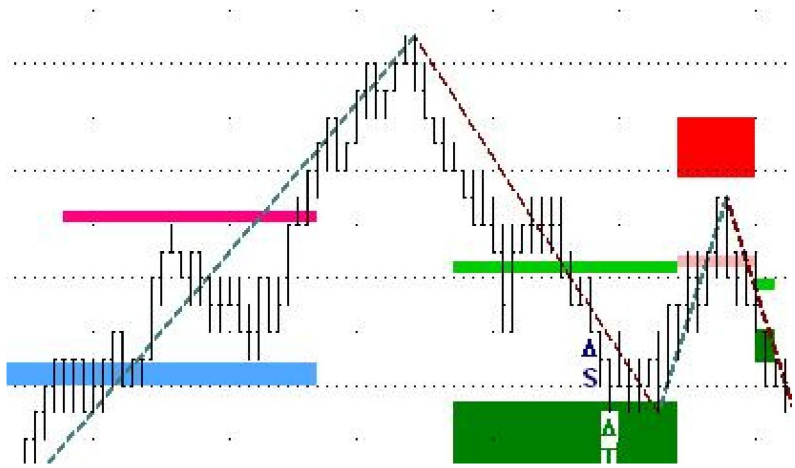
In the example below, it is very important to understand that if a counter trend trade was initiated at a trend zone and the market trades into a strong trend area, that trade should be exited at the 1st sign the trend is resuming, which is commonly from the minor zone. In a strong trending market it is very common the trend will resume before the minor zone is traded at, so caution here is advised to avoid turning a small loss into full loss.

The Strong or Major Trend Trade Pattern

On a Strong or Major Trend Trade a blue arrow will appear after the market has traded into a strong or major zone and retraced to a minor support level. **A blue arrow will appear as the market touches the minor zone.**

A logical question would be, why a blue arrow? The answer is that about 50% of the time the market will reverse the trend. In the example below you must think that the strong trend bullish pattern is broken, because the market did not react when it reached minor support. If you did buy as the price reached intermediate support, you made money. However you did so with greater risk because the market was telling you it was weak and becoming bearish.

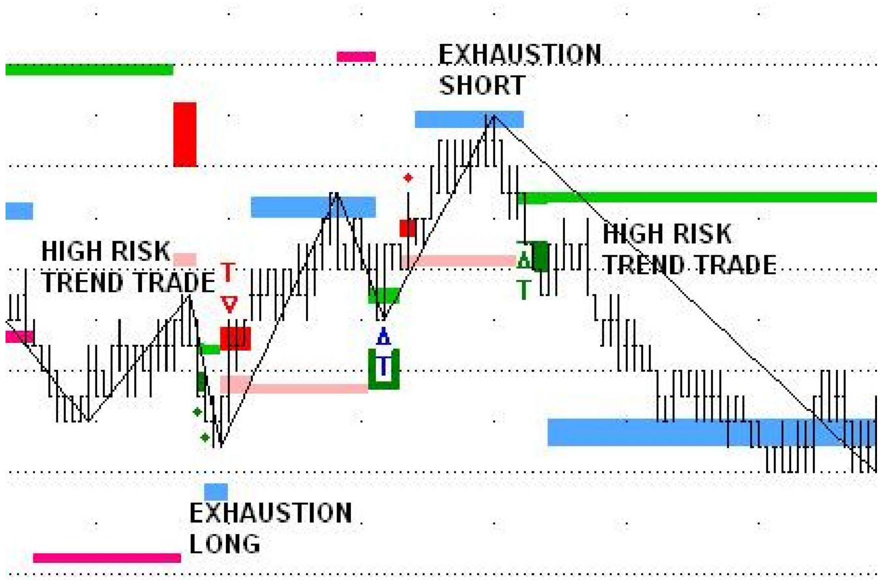
The Strong trend trade is considered among 2 most risky trades. The Strong Trend Reversal trade is the other most risky trade.



The Exhaustion Trade Pattern

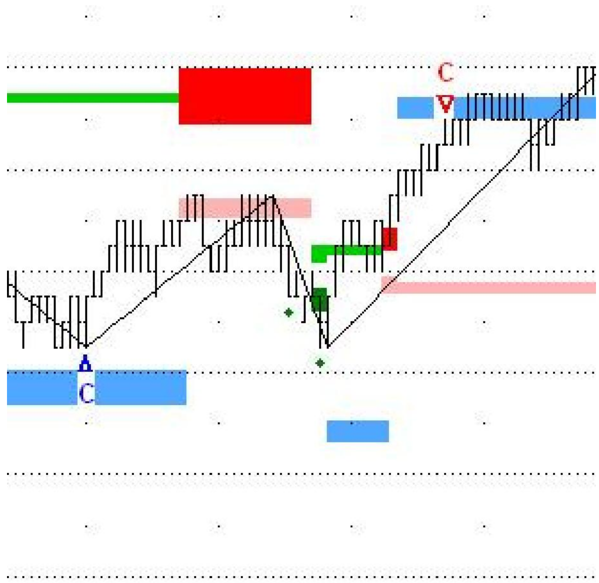
The exhaustion trade pattern also occurs out of the strong trend trading pattern. When ZoneTraderPro was created this pattern was recognized but intentionally avoided. When the exhaustion pattern occurs there is a reversal from minor support/resistance, but the market does not trade into strong trend support/resistance. As a result of the way ZoneTraderPro was initially coded, there will not be a countertrend trade indicated, because if the market did reverse at minor, the logic would be that you would hit a strong/major trend zone. After the market reverses at the countertrend zone, the next trade is a high risk trend trade. There are so many high risk trend trades that result in losses, why not take the trade at the countertrend zone with a very tight stop?

In the below example, you see two exhaustion trades, one long and one short, and two high risk trend trades.



An exhaustion trade can also occur from an intermediate support/resistance zone or a previous high/low.

In the below example the market tests a previous low. If this trade was taken, you have to increase your stop, so there is slightly less risk reward.

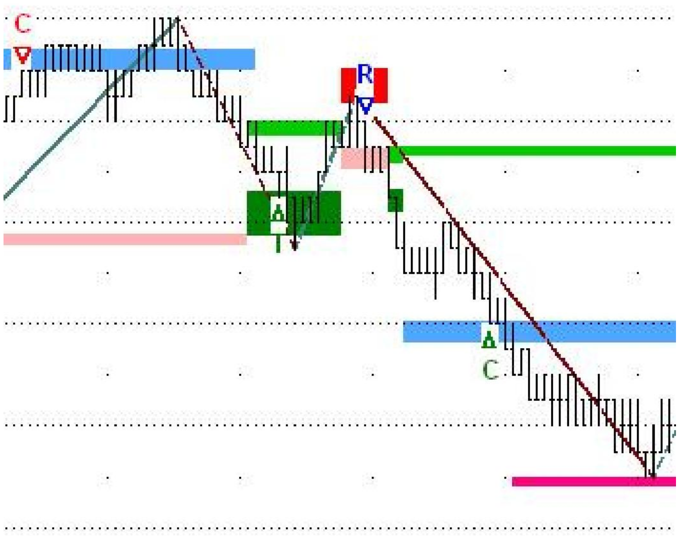


ZoneTraderPro has additional software to identify the exhaustion trade available to its lifetime members. Setup of ZonesExhaustionMembers.EFS is similar to the standard ZoneTraderPro.EFS. If you have adjusted the %move setting in the standard EFS file, you must also adjust the %move in the exhaustion EFS file.

Reversal Patterns

The Typical Reversal Trade Pattern

The typical reversal trade pattern occurs after a trend trade. The market will move in your favor, generally around 6 ticks, and trade into the opposite intermediate support/resistance zone. The market then reverses the trend.

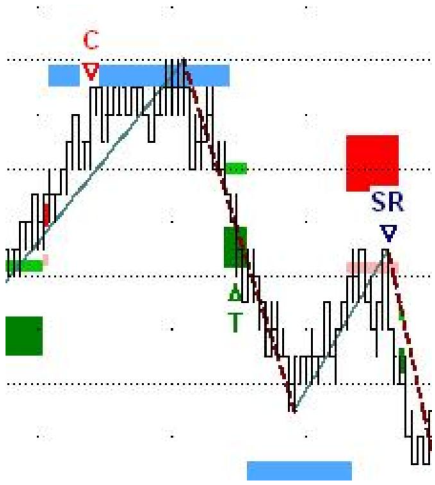


You can use the statistics to determine when to expect a reversal. If you enter a trend trade, and the market trades at least 4 ticks through the entry of the trade, you have less than a 9% chance of a winning trade. If the adverse excursion goes to 6 ticks, the chance of a winning trade is less than 4%.

Let us look at an example. In this example there were multiple reasons to expect a reversal. The market should have created a strong trend pattern by reversing at minor support. Price failed to reverse at minor support at 918.25. The market then trades 6 ticks through the entry in the trend trade. The entry to that trade was at a price of 917.25, which is the top of the intermediate support zone. The market then trades to intermediate resistance and the reversal occurs.

Strong Trend Reversal Trade

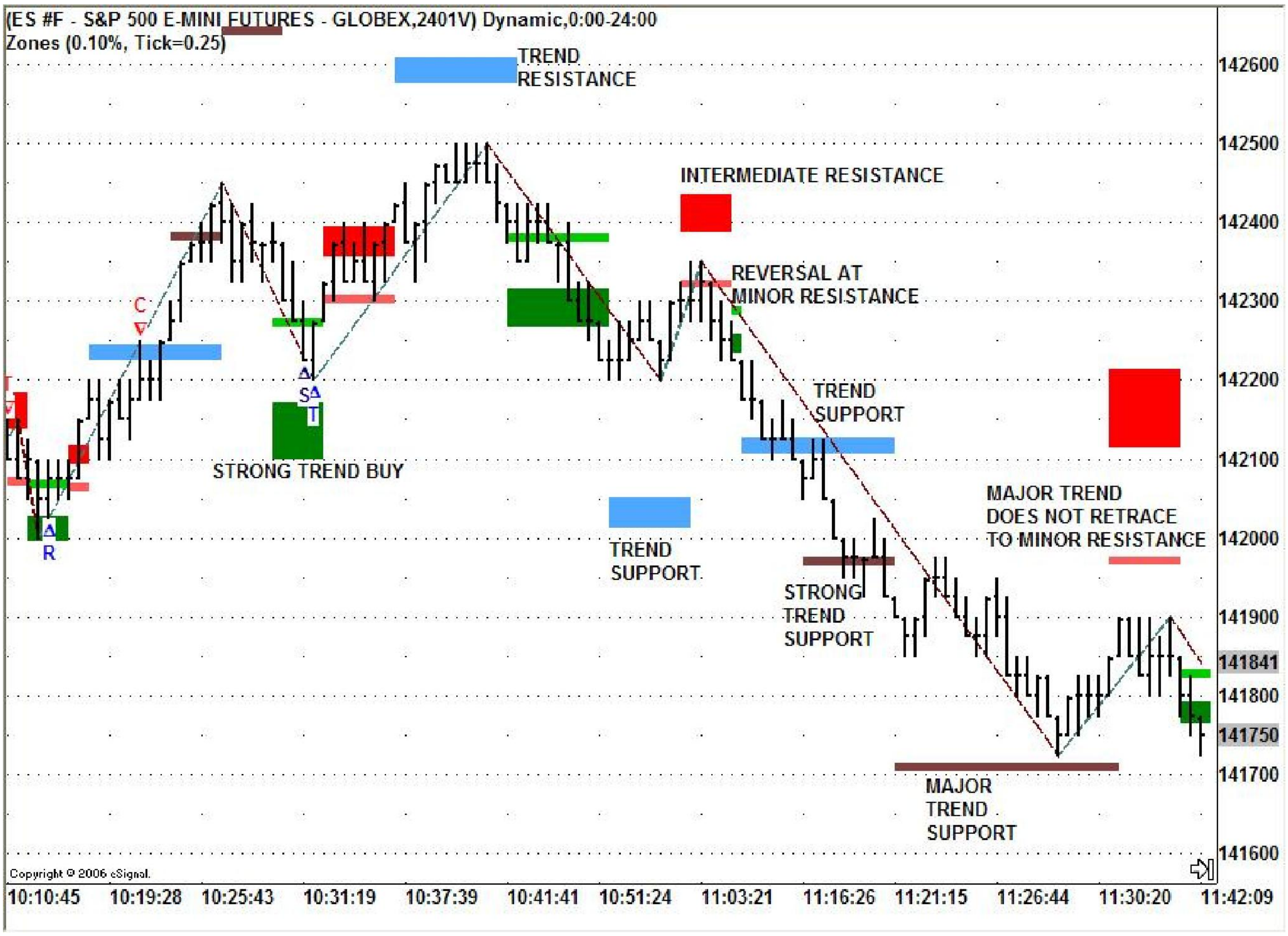
The strong trend reversal trade is the most common loss scenario. In a strong trend reversal, you will have entered a typical trend trade. After entering the trend trade, the market moves against you. Generally the market will return to minor support/resistance, and the new trend will be established.



It is very important to understand that if a trend trade was initiated at the intermediate support zone and the market trades into the bearish trend support trend area, that trade should be exited at the 1st sign the trend is resuming, which is commonly from the minor zone. In a strong trending market it is very common the trend will resume before the minor zone is traded at, so caution here is advised to avoid turning a small loss into full loss.

The most important point to note about the strong trend trade and the strong trend reversal trades, are that they two highest risk trades you can take. The reason is that additional risk has to be accepted in your stop loss order.

The following example from 1-9-07 illustrates both the strong trend trade and the reason why a counter trend trade taken at the blue resistance zone should be exited. It is also an excellent example of what happens when a reversal occurs from a minor support and resistance zone. You may get only 1 chance to exit a counter trend trade that has gone against you, and if you do not get that chance, allow the stop to take you out. In the reversal at 1100 hours, no countertrend buy is signaled, because the reversal occurs at minor resistance. It is very typical that when the major trend support zone is hit, the market does not retrace to the minor resistance.



A strong trend reversal is one of the most important concepts of this manual. A strong trend reversal occurs when a market trades from one trend zone to the opposing trend zone, ***with no test in between.*** The concept of a strong trend reversal is important because as the market trades from the trend zone, a trend trade will usually have been initiated at the intermediate zone. The market will trade through the intermediate zone and the trade may result in a loss.

The majority of reversals are not strong trend reversals. ZoneTraderPro will identify these typical reversals, and will typically warn the user to exit the trade. Even with no arrow to identify the reversal, they will become very easy to identify on the chart, because they have typically moved 6 ticks in your favor, and reversed.

In a strong trend reversal, the market made a lower-low or a higher-high, and never came back to test those levels. The test of the market will be in the form of a pullback from the trend zone to an intermediate zone. At this point the market will likely be 2 points away from the previous high/low, and a new trend trade will be initiated in the new trend direction. In a typical reversal the market will typically trade +/- 1 tick from the previously established high/low. The result of this type of reversal in trends will be a small loss or breakeven trade. You should not let the fact you may have a small loss affect your decision to exit the trade. There is a strong possibility will significantly trade against your established position.

When the market trades through the opposing zone in a strong trend reversal, a full loss may have to be taken. You should consider this a very strong move, and not move your stops.

Let us look at an example and what you must consider when faced with the situation. What is very common is that large volume traders will initially trade in the direction of the trend as it reaches intermediate zone, giving you a realtime trading signal that the trade was correct and the trend will resume. After you make the trade, it will start to move against you and thru the intermediate zone. You must evaluate the move thru the intermediate zone as sign that your trend trade will fail. When this happens, consider moving the profit target to breakeven and exiting the trade. The reasons that you entered the trade, to trade in the direction of the trend, are no longer valid, and the likelihood of failure for the trade has increased. Also be very careful as the market approaches the minor zone. We know the market was strong because it traded between trend zones. Strong markets will commonly reverse at minor zones and resume the new trend. That is why ZoneTraderPro will start to print a blue arrow labeled “SR” at the minor level. When a blue “SR” you should be prepared to exit any losing trend trade and reverse to the new trend.

In a market does not reverse at the intermediate zone after you have entered a trend trade and does continue to the opposing trend zone, you should consider the following. The stop could be moved 1-2 ticks above the trend zone to reduce risk. The market is likely to retrace 6-8 ticks from the trend zone, and you treat your exit as if you were in a countertrend trade. About

15% of all the documented trend trades will exceed the intermediate zone but retrace to breakeven or very close to it. About 5% will continue thru the trend zone and be a losing trade. You should consider that approximately 3 out 4 trades that do go significantly against you will allow you to exit will little to no loss if you allow them to retrace, by placing the stop 1-2 ticks above the trend zone. You must then devise an exit strategy based on realtime conditions.

This is why it is so important to look at the historical charts as part of the learning experience. Print these charts out and see where the wins and losses occurred or trades went against the original position. Losses are a part of trading life, and by limiting the size of the loss, that is what makes a successful trader.

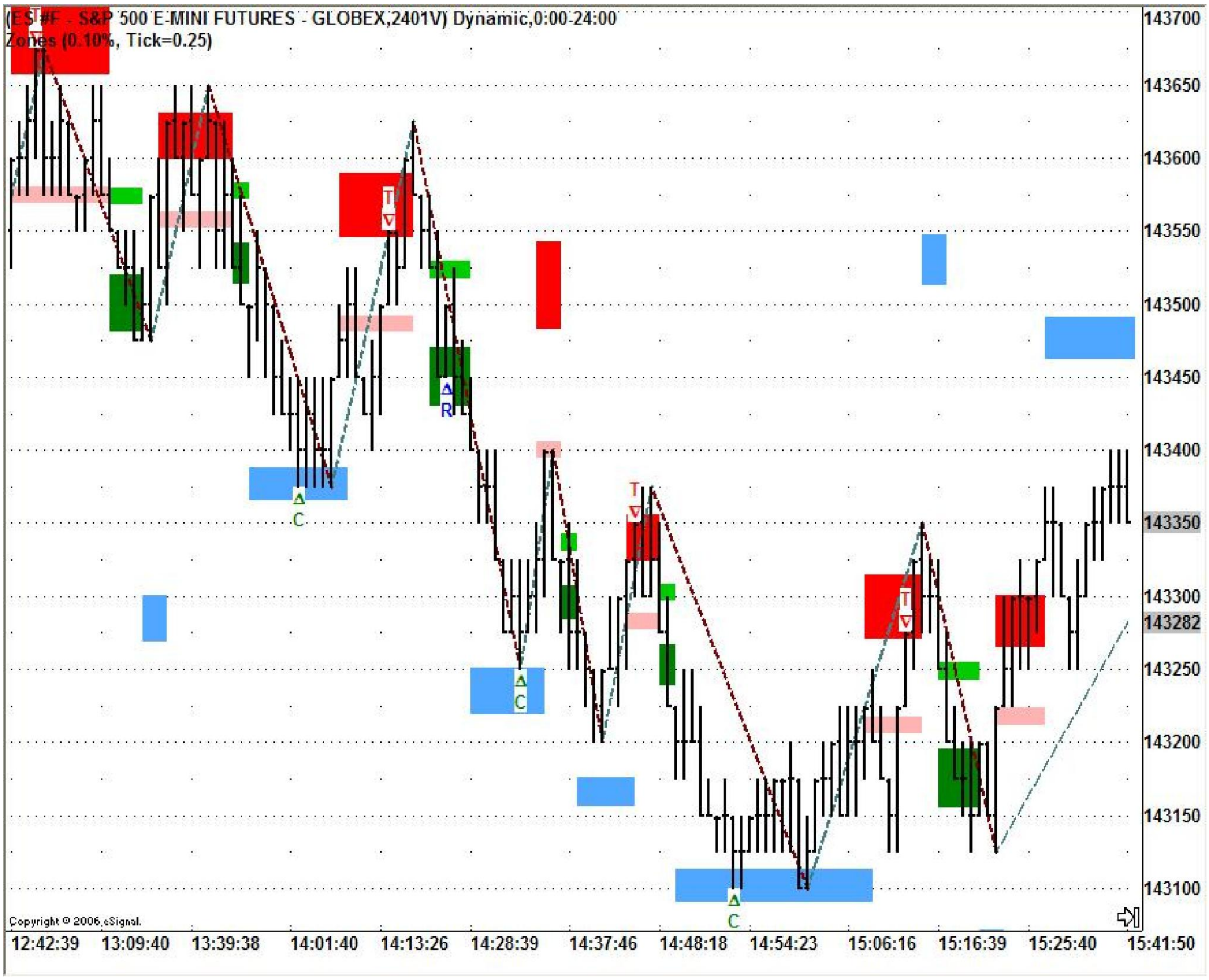
Counter Trend Trades

As the market approaches a Trend Support or Resistance Zone a blue arrow will paint about 1-2 ticks from the zone. There is a high probability of a reversal at this zone, and the trader must be ready to exit a trade based on real time indicators. Notice on the example from 1-18-07 in the afternoon. In the trade examples, notice the lower highs and lower lows, until the reversal occurs.

Here is the sequence of events on this chart.

1. A short trend trade is taken at the upper left of the chart.
2. The market trades to intermediate support then intermediate resistance. The short trade is not exited because the previous high is not taken out.
3. The short trade is exited at the trend support and a countertrend buy can be taken. It is very important to note something important on the chart. When the market bounces between intermediate support and resistance zones, this is an indication of a larger move about to occur. A clue about the direction of the move on this chart is the initial trend short, and lower highs, and lower lows.
4. If an countertrend buy trade was taken, that trade is exited for a profit, and a trend short trade is entered.
5. A reversal signal was given because the market traded into a typical intermediate support zone, and bounced up, and the software recognized this bounce and gave a reversal ***warning***.
6. The market continues the sell off into a trend support zones, the short trade is exited at the trend support and a countertrend buy can be taken.
7. The market trades to minor resistance and reverses. ***A reversal at minor support or resistance is a strong indication that a strong trend is in effect.*** Any countertrend trade should be exited when you see a reversal at a minor level.
8. The market again trades into trend support. No countertrend buy is given here, because of the reversal at the minor resistance level. ***There is a much higher probability that the strong trend zone could be hit.***
9. A trend short trade is then taken.

10. The market continues the sell off into a trend support zones, the short trade is exited at the trend support and a countertrend buy can be taken.
11. The market trades into intermediate resistance and a short trade is taken.
12. The market trades through intermediate support by 2 ticks and reverses as a typical reversal. The low was tested 3 times but not taken out. The short trade is exited for a small profit or at worst, break even.

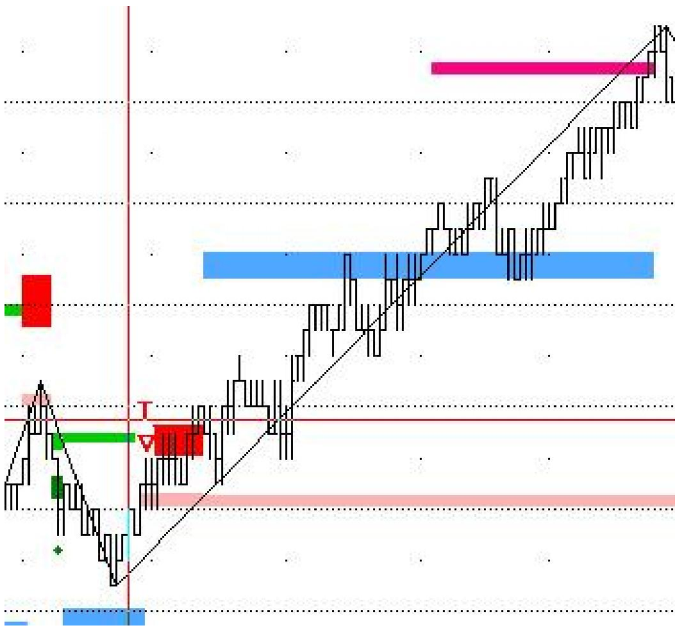


A reversal arrow was not painted at 1516 hours because the market traded thru intermediate resistance, then thru intermediate support, before the market traded up 4 ticks on a single bar. The reversal was however a classic typical reversal when the market tested the previous lows, failed to make a lower low, and reversed strongly to the upside.

The following is important to consider when taking a countertrend trade.

The following points all relate to the increased risk of a countertrend trade and why it should be considered only after trading experience with the system, as it is considered an advanced trade.

1. As the name suggests, you are trading against the trend, so this involves more risk.
2. The reward is smaller. You can only expect the market will correct 6-8 ticks before reversing and resuming the trend.
3. There is an increased possibility of an adverse excursion versus the adverse excursion risk you would experience in a trend trade.
4. If you see the market trading between intermediate support and resistance zones, the likelihood of a countertrend trade failing is greatly increased. Refer to the section and chart examples on accumulation and distribution.
5. ***Do not take a countertrend trade if the market has traded from a trend zone to the opposing trend zone in a strong trend reversal. The likelihood of a trade failure and adverse excursion are increased.*** In the below example you see a successful exhaustion trade and a market that continues past the trend resistance zone.



How the ZoneTraderPro Zones are used

There are 5 levels of support and resistance and they are listed below from weakest to strongest.

- Minor
- Intermediate
- Trending
- Strong Trending
- Major Trending

Minor Support or Resistance

The zone designated as minor is the weakest level of support or resistance. This is generally not a zone that ZoneTraderPro will look to trade from under normal trend trading conditions.

The minor zone is however VERY IMPORTANT if a strong or major trending zone has been hit, or a strong trend reversal has occurred.

When a strong or major trend has been established ZoneTraderPro will display a blue arrow in the direction of the trend when the market trades near the minor zone. An entry into the market between the minor and intermediate zone will be dictated by real time market conditions. About 50% of the time the market will retrace only to this level during a strong or major trend. ***When the price can only retrace to a minor level, this is a sign of strength that the trend will continue and will be strong.***

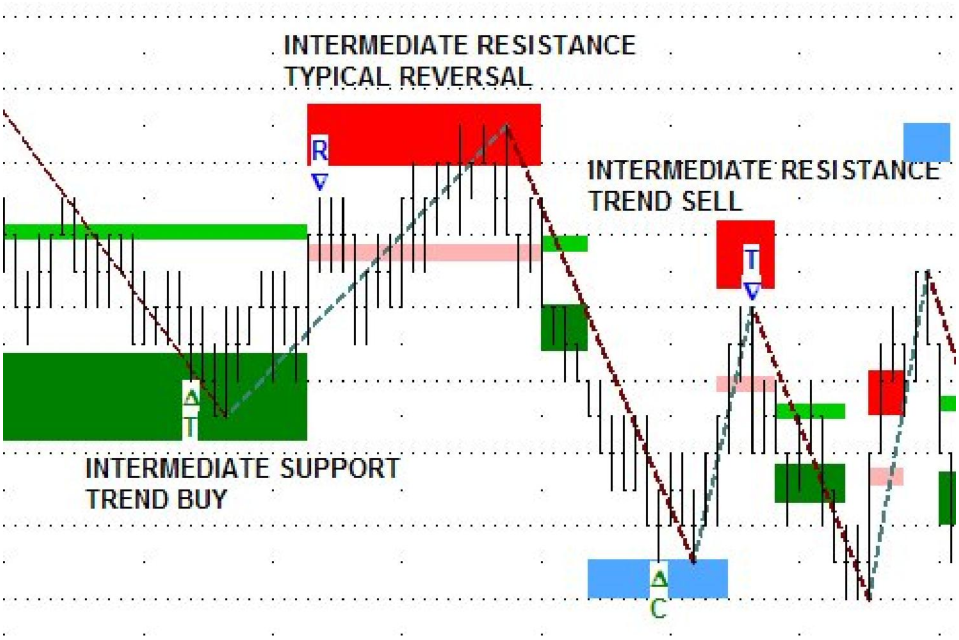

C
S
STRONG TREND ARROW
MINOR SUPPORT

Minor support and resistance are also critical in the exhaustion trade. In the exhaustion trade the market reverses from minor support/resistance and normally into a trend support/resistance zone. A high risk trend trade follows.

Intermediate Support or Resistance

The intermediate support (dark green) and resistance (bright red) zones are important for 3 reasons.

1. Trend trades are executed from this area.
2. Trend reversals occur when trend typically reverses at these levels.
3. Accumulation or distribution is occurring when the market bounces between these areas several times.



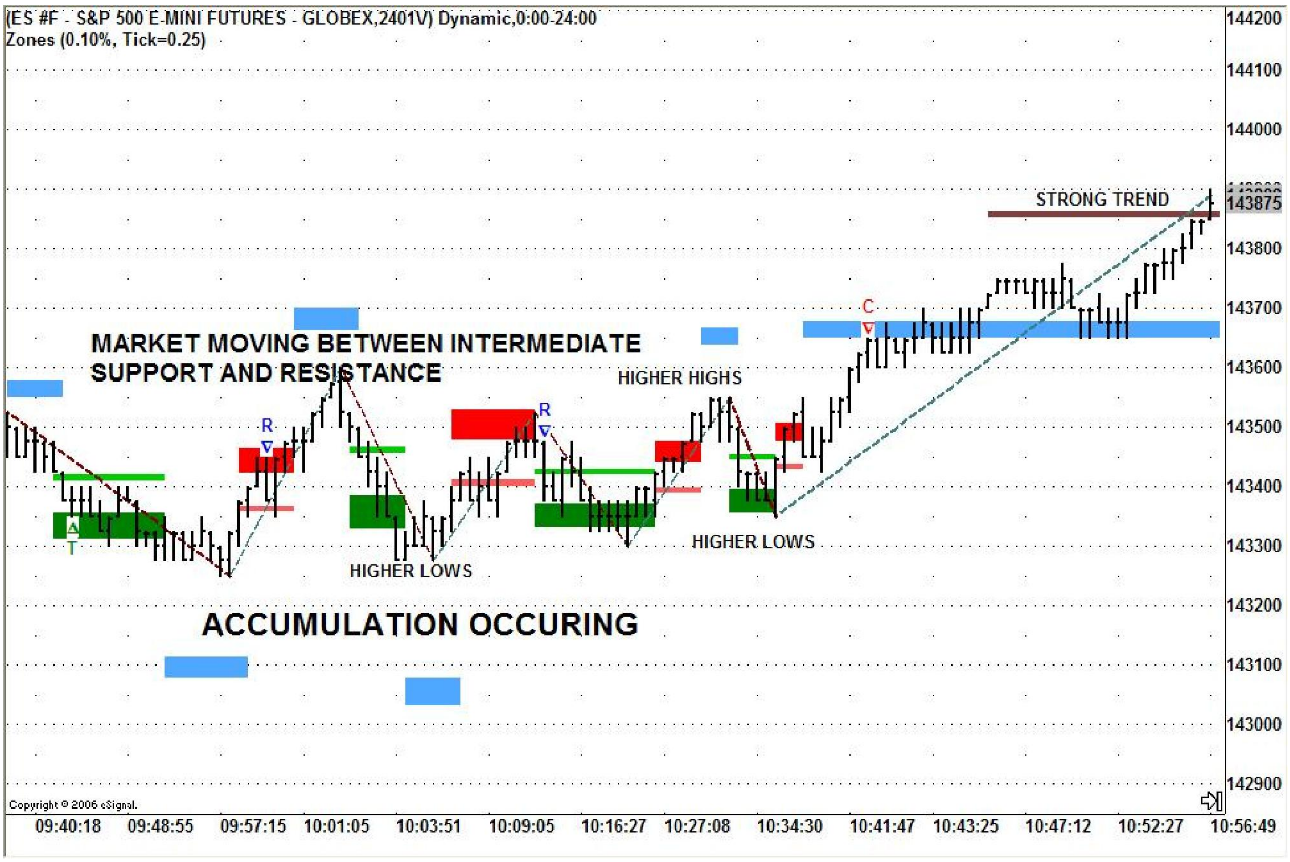
Intermediate support and resistance examples for trend trades and reversals are detailed in above examples.

Accumulation and Distribution

Distribution and accumulation will precede large market moves. ZoneTraderPro can not specifically identify these with buy or sell arrows, but there is a pattern that can be recognized from the chart. When the market bounces between the intermediate support and intermediate resistance zones, that is a clue that a big move is coming. This trade is very risky and very advanced because the potential move is very large. The move directly preceding the breaking may quick and hard, running the stops, and trying to suck new traders into the wrong direction. There are 2 videos located in the video library section of the website on accumulation and distribution.

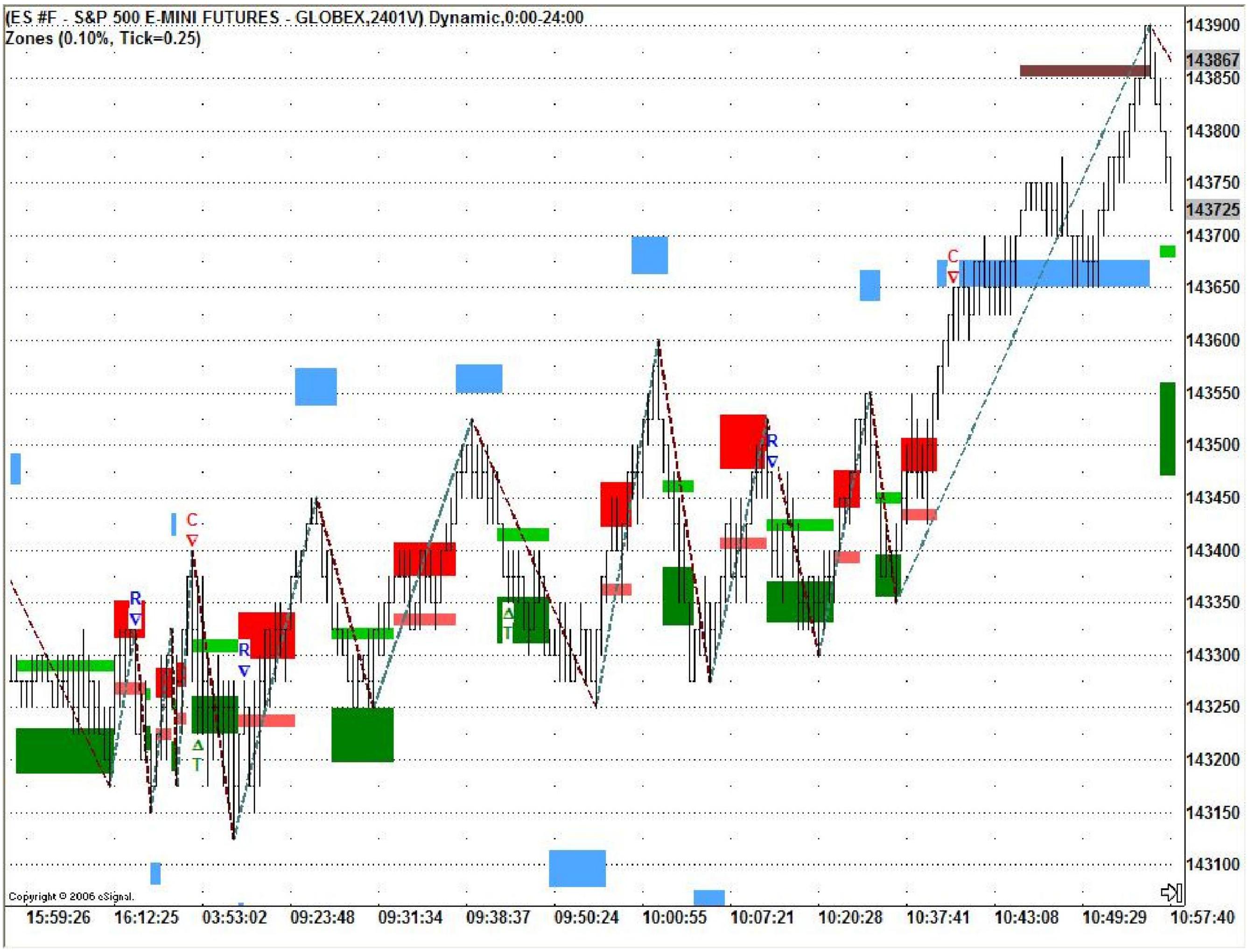
There will be several examples in this section. The reason is that when they occur, you will recognize them as they are developing, and avoid this type of trade because of the risk. There will be plenty of standard trend trades, typical reversals, and exhaustion trades which are a less risky trade for a ZoneTraderPro user. Being able to recognize accumulation and distribution will make you avoid certain countertrend trades, and wait for a valid trend or strong trend entry.

In the next example from 1-19-07, we see accumulation. It is a bit clearer than in most examples, because you can see higher highs and higher lows, both indications of a bullish market. Also 3 times the market traded above intermediate resistance.



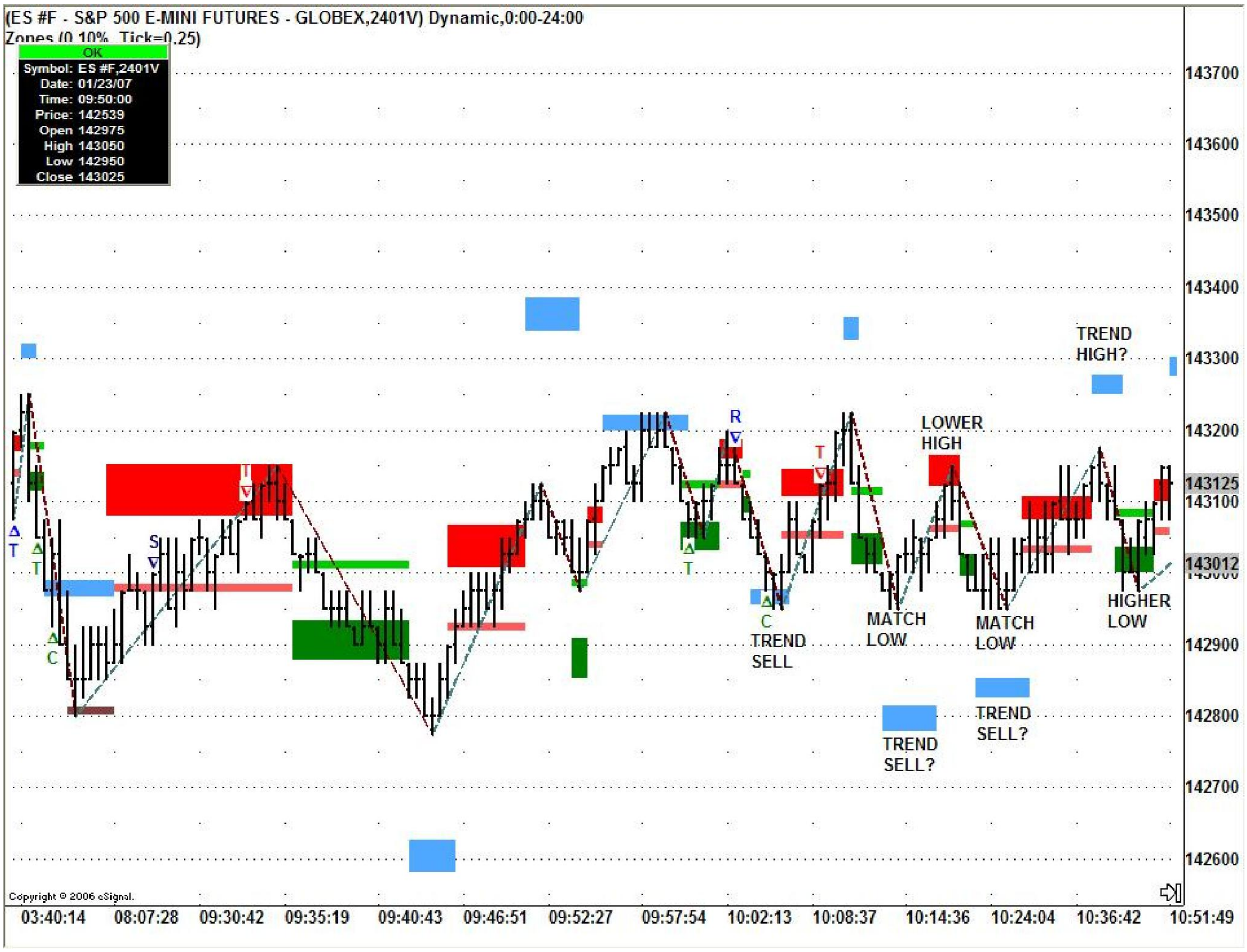
Remember that ZoneTraderPro does not identify these trades because they are much riskier trades. **There are plenty of standard trades that occur during the day.** In the video section, you will see an example of accumulation, but the patterns created, lower highs and lower lows, made it look like distribution.

The chart below is from 1-19-07 in the morning. In this chart you will notice the accumulation occurring as the market traded between intermediate support and resistance. In this case however, we can see higher highs and higher lows being made, a bullish sign. The market has also traded through the intermediate resistance zones several times, another bullish indication.

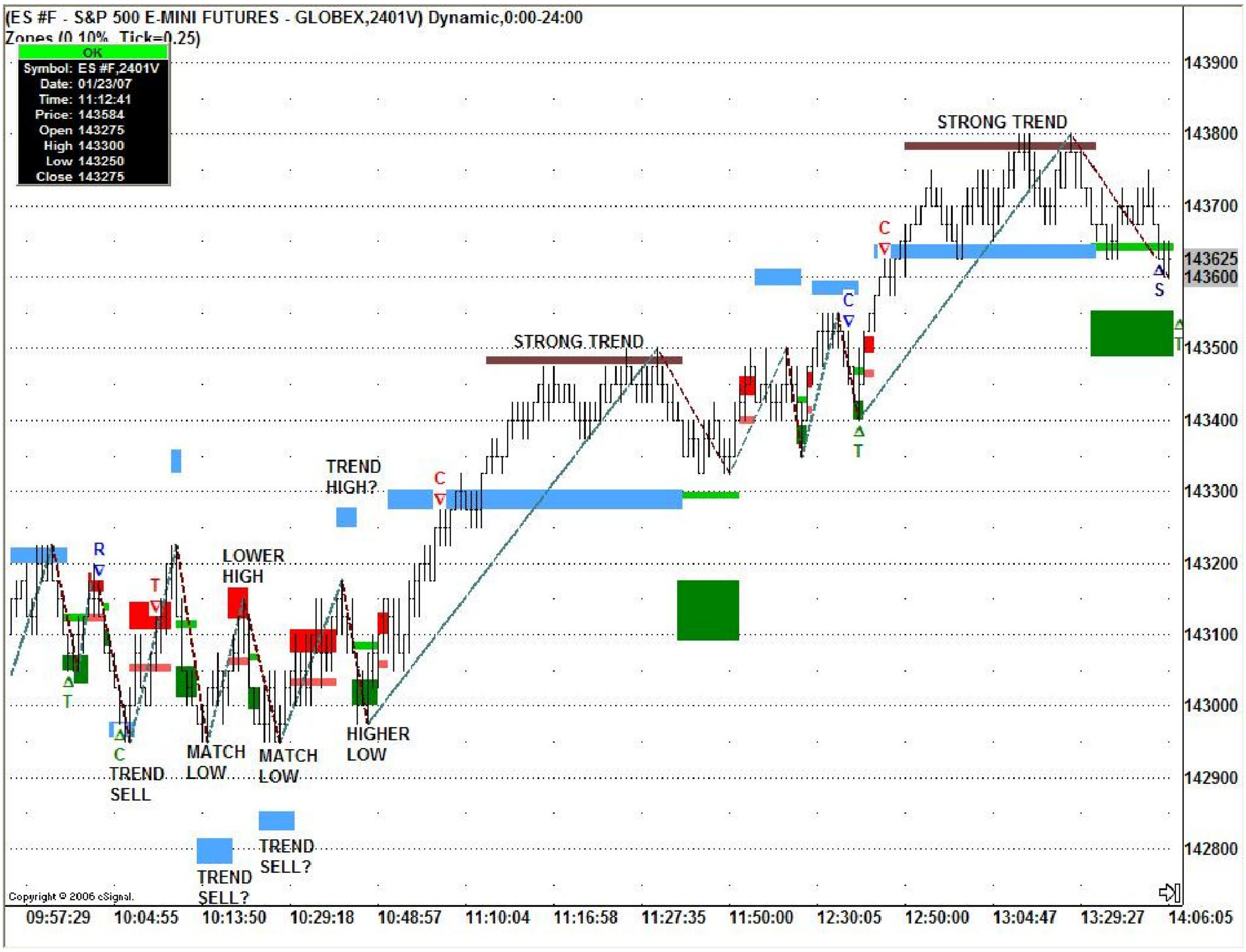


Below is a 5 minute chart of the same period on 1-19-07. Ask yourself which chart is clearer? Which chart shows the higher highs and the higher lows? This is the reason that ZoneTraderPro uses volume or tick charts for trading decisions.

The next chart is from 1-23-07. Look at the confusing signal the market is sending us. There are higher highs and higher lows, then lower highs and lower lows, and match lows extending past intermediate support. ZoneTraderPro correctly identifies 3 trend trades on the chart, none of them losers. The second two trend trades should have be exited when the reversal test was identified. The point is that the market is giving us a mess and as a trader you trade accordingly. This means identifying the trend trades, watching for signs of weakness in the trend, and exiting trades when the chart is not clear. What is actually occurring is an accumulation, but it is not clear from the chart.



The next chart is the strong trend move into the afternoon. Notice again in this chart the market does not reach the minor support level after the 1st strong trend move. Then there is further accumulation that occurred for about an hour, before a trend buy signal is given before the second strong trend move. There are also higher lows and higher leading into the buy signal. Based on the trade between the intermediate zones and the high probability it will lead to a strong trend move, none of the more risky advanced countertrend short signals should have been considered.



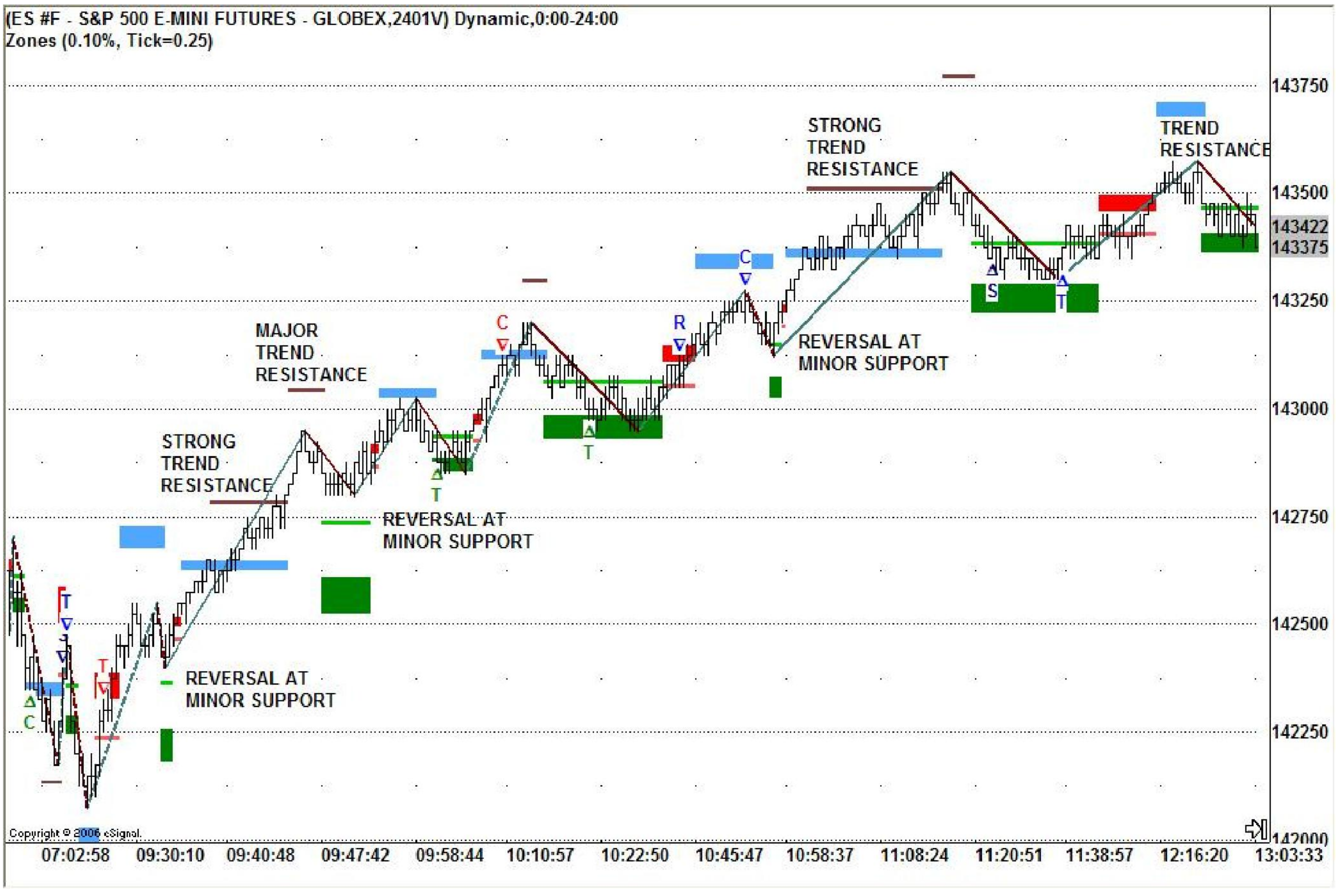
Trend Zones

The trend support and resistance zones are light blue in color. They are important because they are the 1st step in the standard trade setup. The trend zones are also where you would commonly take profit at. Profit is generally taken at this point because of the low percentage of trades that will exceed the trend level on the current move. Again, realtime conditions dictate when targets are set at trend zones. If price trades through the trend zone by 3 or more ticks, that is a sign of strength in that direction. The same is true if you entered a trend trade from the intermediate zone, and the market trades through the intermediate zone by several ticks. You do not need to immediately exit that trade, just be aware that a sign of weakness has developed in your trade.

Here are some examples of why you would not use the trend zone as a target to take profit at. 1-11-07 was a major bullish trend day.

On this day you saw

1. Reversals that did not get to minor support
2. A Major Trend move
3. Several Strong Trend moves



Strong and Major Trend Zones

There are two common questions and comments are that are heard in trading seminars. How do you trade the open? It is very hard to trade on a trend day. The open will be addressed in future section. So we will look at trend days. There are two types of trend days.

The first type of trend day usually involves a pre-market news release of either very very bad, or very very good economic data. This will cause the market to trade into and possibly through a major trend zone. The retracements, if any, will be small, and there are very few clear trading signals until late in the day, when the trend resumes, and the market closes on the highs or lows of the day, depending on the trend. This day is tough to trade because you normally didn't make any of the easy money on the first move. The easy money was made by people who guessed right about the news. Guessing is a 50-50 chance.

You can choose to follow any ZoneTraderPro signals before the news release. There is a big risk in doing this, because if you are wrong, your stop will not be filled for possibly 8-12 ticks. That is a big risk and would equal what you are normally expecting to make. The risk-reward could be less than 1:1 depending on where the fill was at. In making this play, you would be betting that the "smart money" knows the number and is acting accordingly. But you are taking a horribly poor risk reward scenario.

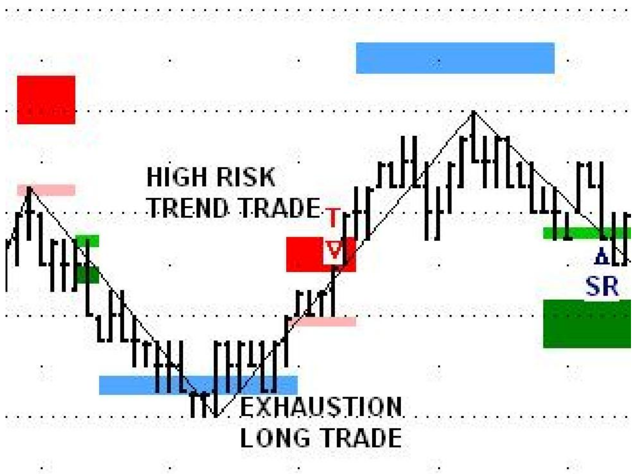
The only way to trade the day is to have patience and trade the signals accordingly. Several examples have been given for this type of trend day.

Identification of High Risk Trend Trades

THIS IS SIMPLY THE MOST IMPORTANT SECTION OF THIS MANUAL.

The ZoneTraderPro concept wants the user to read what the chart is telling you. For example, if you have a reversal for minor support or resistance you would expect to see that the market trade to a level of strong support or resistance. The reason is the market reversing at these levels is a sign that of strength and momentum in that direction.

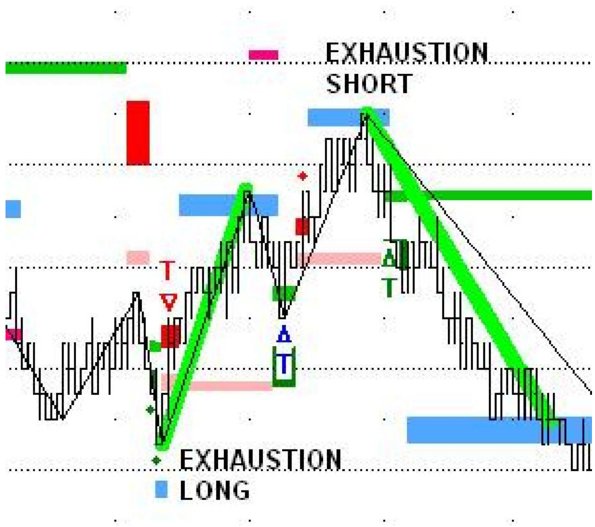
But what happens when the market does not reach a level of strong trend support or resistance. You can interpret this as a sign that the next trend trade is not going to be as strong and may possibly fail. This is a high risk trend trade.



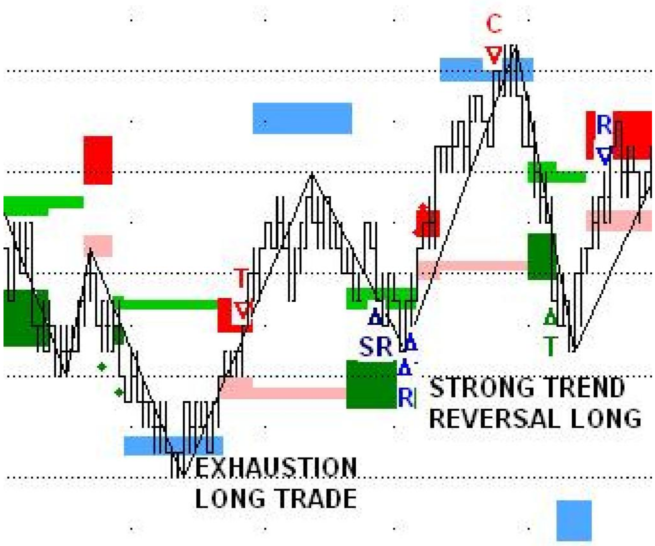
There are generally 3-10 exhaustion trades per day. In the pattern below was the price trading into minor resistance and the short sellers reversed at that point. The market found support and the light blue trend support area. Remember no countertrend buy arrow will be given, because the reversal was from minor resistance, and we expect the market to trade be very weak and trade down to the strong trend support level. **This is the exhaustion trade pattern.** The market then traded into intermediate resistance and a high risk trend short trade was generated.

In this 1st example we see a high risk trend short trade that will fail after the strong trend short trade fails to have the momentum to trade down to strong trend support.

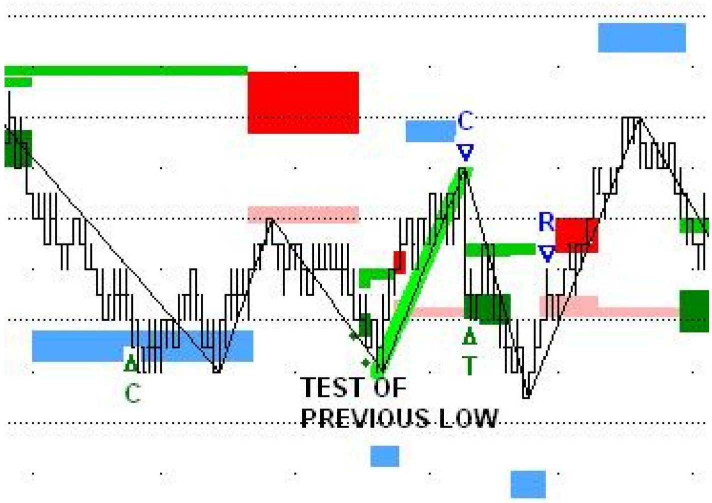
In this next example we see two exhaustion trades within a 10 minute period.



Here is another exhaustion trade, which is followed by a high risk trend trade.

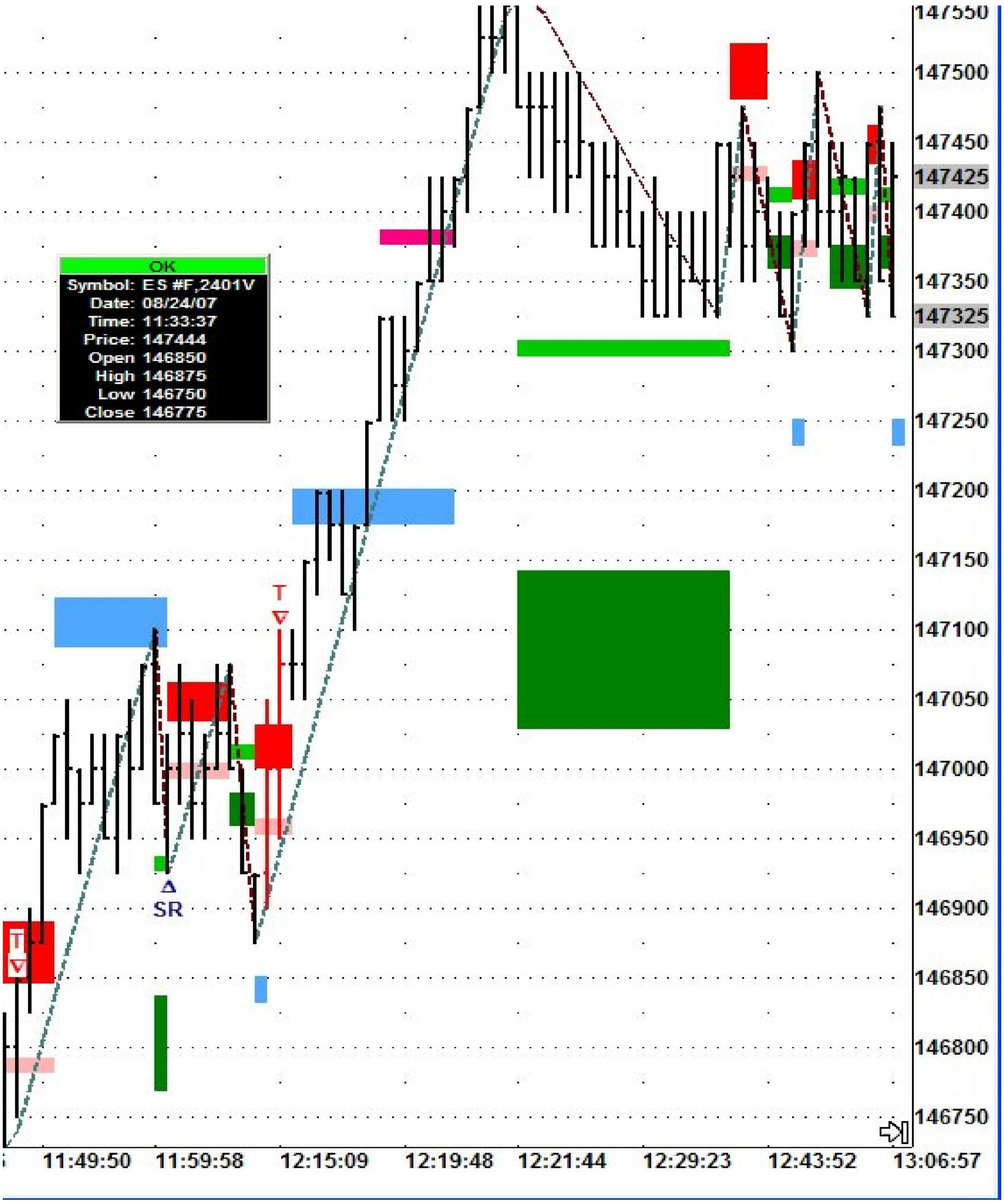


Sometimes the exhaustion trade is a test of a previous low. If that is the case, as in the example below, there will be no high risk trend trade.



The second way to recognize a trade with higher than acceptable risk is the BarColor.EFS theory. It is also important to recognize that there is an increased amount of risk when you see the BarColor.EFS painting color bars. The bar color EFS was made to identify unusual trading. And if you cannot explain why the unusual pattern has occurred, there will be increased risk in that trade. One important note here is that you must have BarColor.EFS on a separate 2401 volume chart. It was not intended to be used on a 100 tick chart, which is the suggested setup.

Take for example this losing trend short trade from 8-24-07. You see a red bar from the low at 1468.75 into the intermediate trend resistance zone, signaling a trend short trade. This red bar was in fact caused by a large program buy trade. This is verified by the next bar also being red and an up bar. Please read the Bar Color EFS section for additional examples.



THE EASIEST WAY TO IDENTIFY A HIGH RISK TREND TRADE IS THAT THERE WILL BE NO COUNTER TREND TRADE PRECEEDING IT

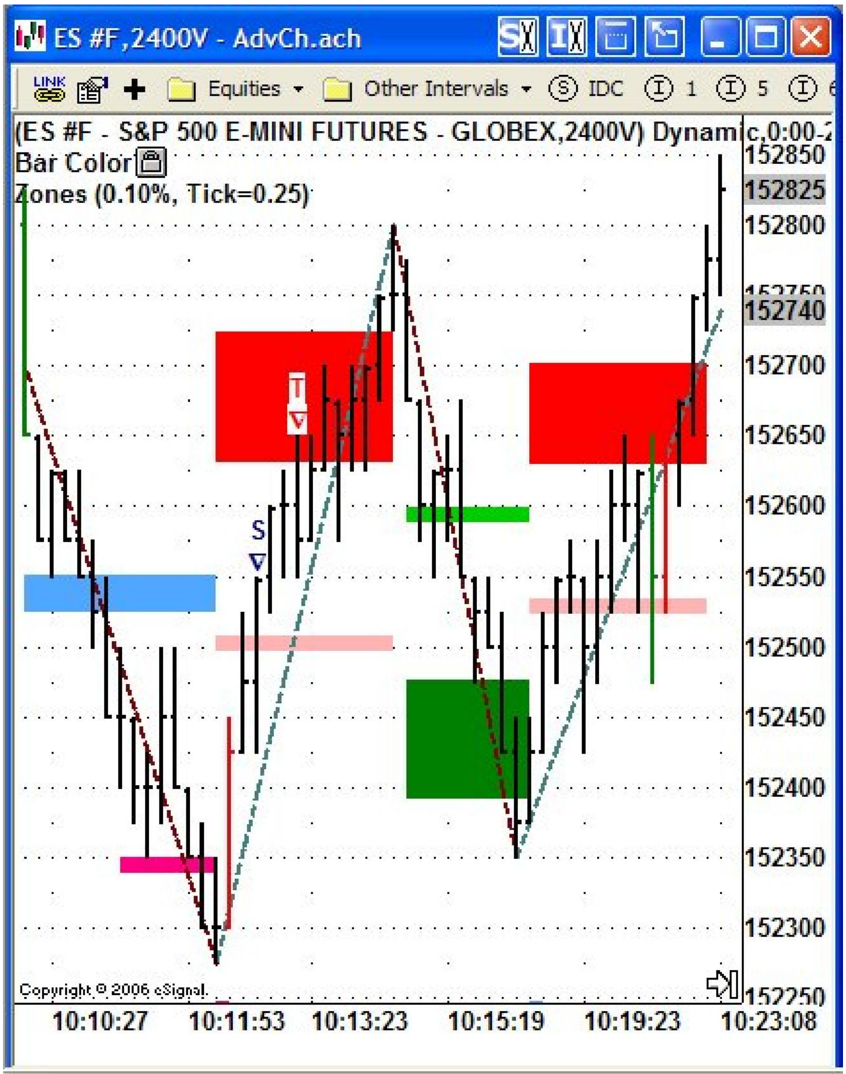
Trading a Gap Down Day

On 11-1-07 bad earnings for Exxon and serious concerns about Citi caused a large sell off in the futures starting around midnight, and ZoneTraderPro gave its' first sell signal at 0630 hours EST. The S&P futures lost 20 points between this sell signal and the open. The news was so bad about Citi, the shares in this widely held financial opened up down about 7%. What also started around 0800 hours EST was a strengthening of the Yen. The preferred contract of the Yen Carry trade is the Yen Euro. The significant strengthening of the Yen is generally considered bad for the ZoneTraderPro system, because it is these traders that borrow the Yen, and add depth to the S&P E-mini. The chart below shows the strengthening of the Yen on 11-1-07.

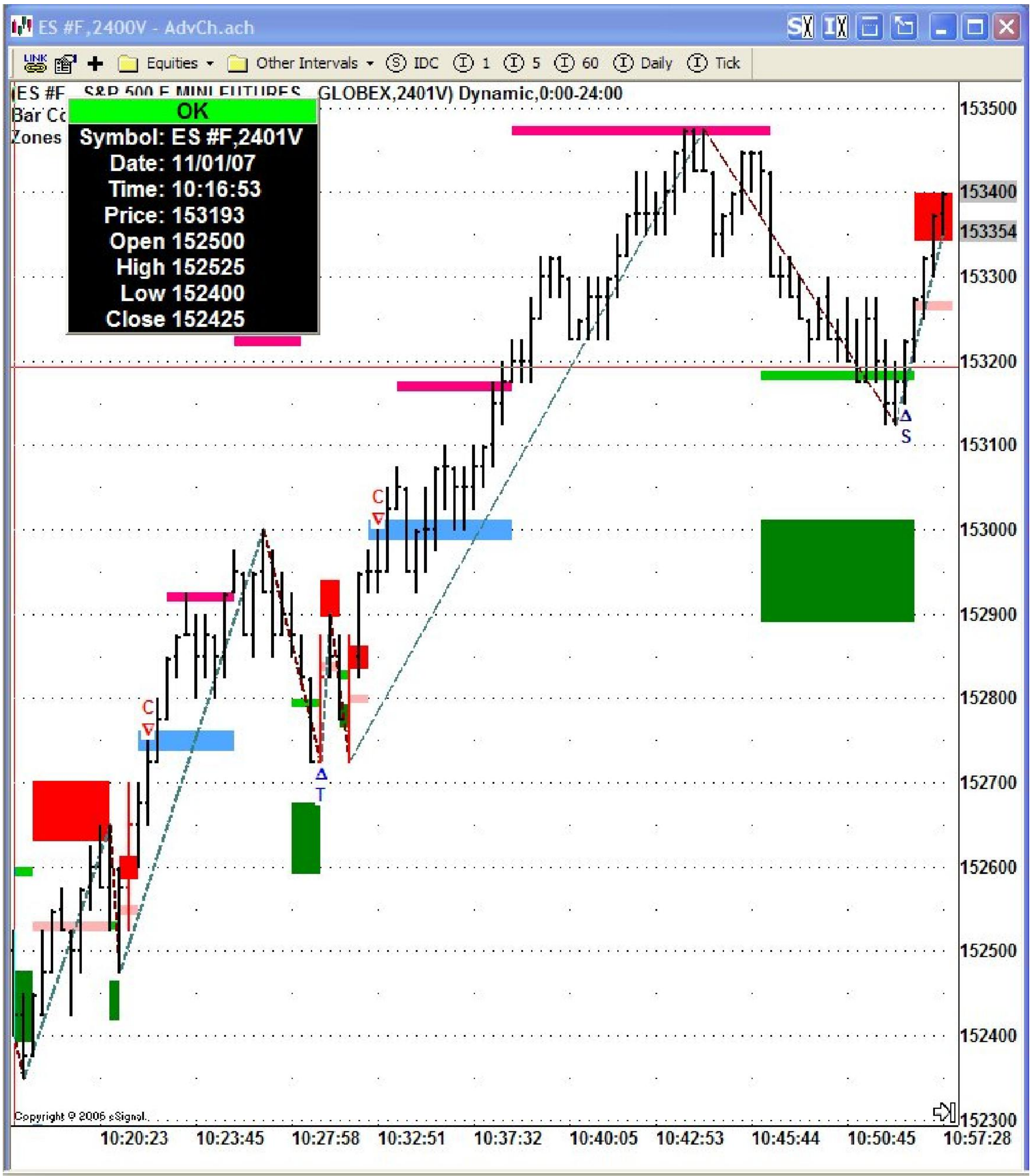
After the July 24, 2007 sell off, the Yen carry trade weakened (The Yen got stronger) for 4 weeks until the Fed lowered the discount window 50 basis points. At this point the normal stability returned to the S&P. What is meant by stability? Stability is where the market depth of buyers and sellers in the price dome has between 1000-2000 contracts at each price level. When this stability is missing, you will see large and rapid illogical moves in price. This is referred to as **illiquidity volatility.**

This was the reason the bar color EFS was developed. When the S&P futures move 6 ticks or more on a single 2401 volume bar, there is a problem and this increases the risk of the trade.

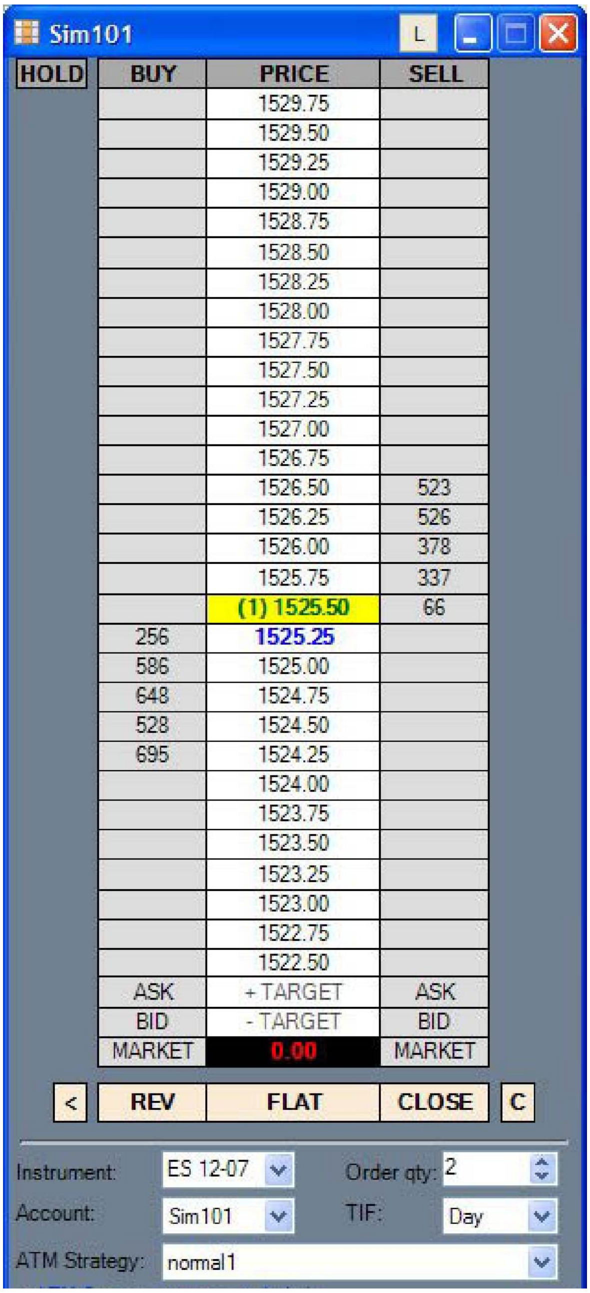
What occurred on November 1, 2007 provides a very important lesson about how the market operates. As mentioned above, the Yen was strengthening significantly and Citi has now gapped down 7% on the open. Beginning at 1011 hours ZoneTraderPro begins to tell us the market is going to start heading up. First we see a red color bar coming off the newly set morning low. When we see a color bar coming off a top or bottom, this is likely a large buy or sell program, as opposed to a manipulation of price. The market does not react as it reaches the minor resistance which is the second clue that something is wrong with the current short trade signal. The market then trades 7 ticks through the intermediate resistance zone which is the third sign the market is strong and reversing. It is not surprising then when the market trades into intermediate support and reverses trend in typical reversal. It was still profitable by 6 ticks at the strong trend short entry point.


ES #F,2400V - AdvCh.ach
Equities
Other Intervals
IDC
(ES #F - S&P 500 E-MINI FUTURES - GLOBEX,2400V) Dynamic,0:00-2
Bar Color
Zones (0.10%, Tick=0.25)
152850
152825
152800
152740
152700
152650
152600
152550
152500
152450
152400
152350
152300
152250
T
S
Copyright © 2006 eSignal.
10:10:27
10:11:53
10:13:23
10:15:19
10:19:23
10:23:08

Now here is the interesting part. ZoneTraderPro gave a buy signal at 1029 hours and the market establishes a major bullish trend, exactly touching the major resistance zone.



As this was happening the SuperDom was telling us something was very wrong. This image was captured at 1021 hours EST.



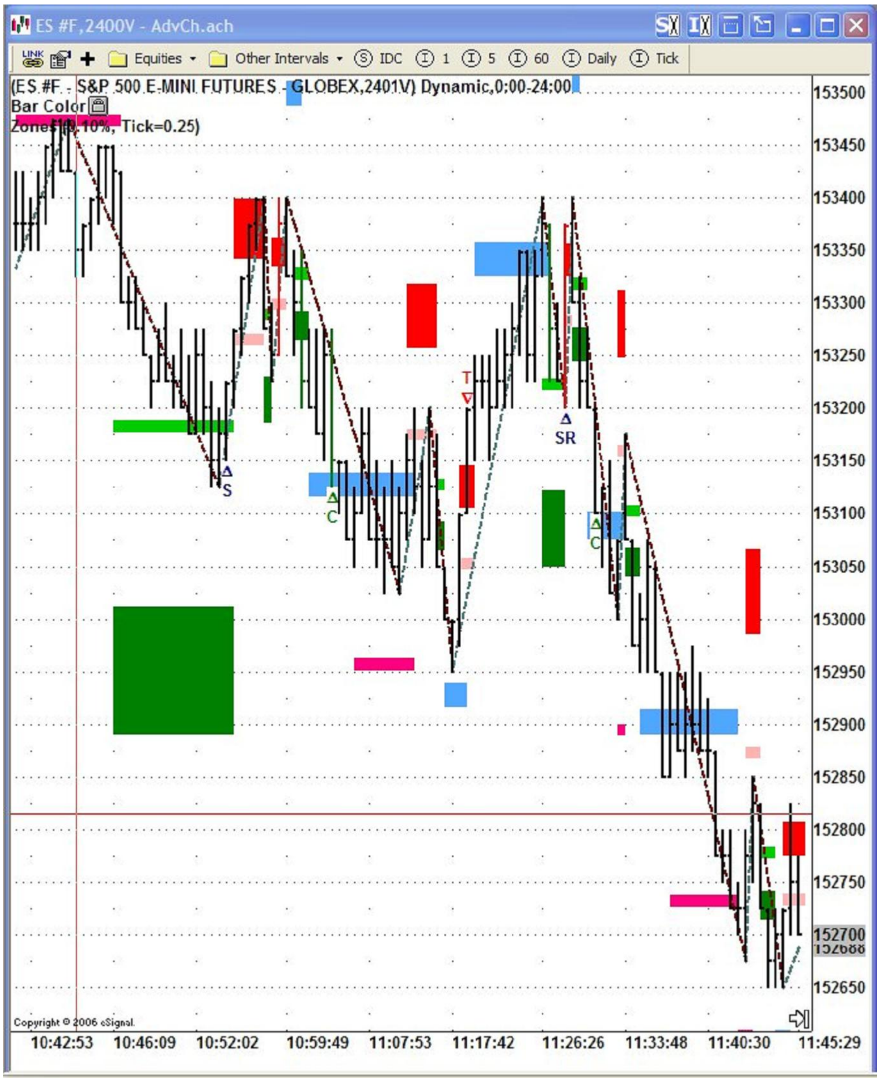
Notice the lack of depth on both the bid and ask. At 1021 in the morning there was not a single price level had more than 526 contracts on the ask. Where is the selling pressure? It is non existent and allowing the market to rise violently and establish a major bullish trend. This is what you expect to see in illiquidity volatility.

What is the reason for this lack of depth? The Yen carry trade had moved over 200 pips. This is significant but is there another lesson? **The price of the futures will lead the cash price of the S&P, so where the futures price goes, so will the cash.**

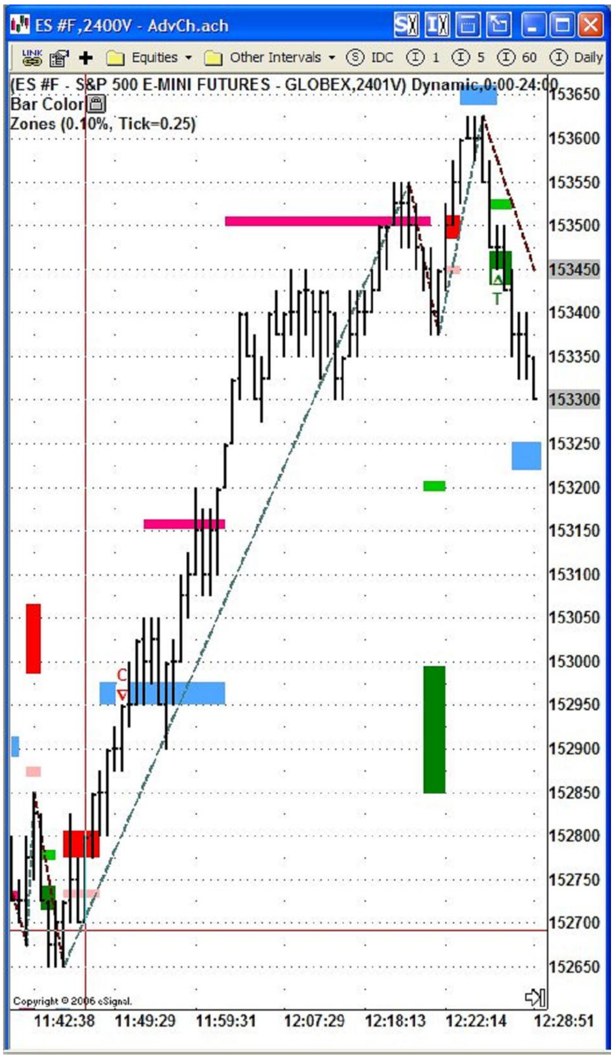
What was happening as the cash market was strengthening? The price of Citi stock was raised from the morning lows \$38.15 a share to a high of \$39.35. Notice the decreasing volume as it nears the high.

We can look at another theory why there was a lack of sellers. Sure there were some sellers not participating due to the Yen carry trade. But hedge funds and brokerage trading desks will also trade the S&P. These brokerage firms and hedge funds are also long the financials including Citi. They knew at 0700 hours EST they had a big problem on their hands if they owned Citi and the other financials. They could not sell in the pre-market as there would be no buyers. But if those firms were buyers of the futures, and did not exert any selling pressure, the futures price will rise and the cash would follow, and now they could start unloading the financials, including Citi, at a much higher price, up to 1.20 per share higher in just 1 hour.

In the following 60 minute period, the S&P sold off 8.25 points.



What then followed was again highly unusual. The market rallied 9.75 points and again created a major bullish trend.



And it did that in all one move higher, straight from the lows. It is highly unusual to see a major trend develop, but to see two major bullish trends, within 2 hours, on a day the S&P is down 20 is very unusual. During this rally however, Citi only gained .31 before it was sold off again. The S&P would then fall some 26 points to the low of the day, and the ZoneTraderPro trades started working with much less adverse excursion and less risk. Note: Citi shares traded as low as $31.05 on 11-8-07, just 1 week later.

What are the lessons here? You can make up your own mind about whether the hedge funds and brokerage firms manipulated the market using futures so they could lighten up their stock positions. What is important is that you realize on a gap down day like November 1, 2007 the market makers are going to do what is good for them, and you will likely see instability from a market like this, highly increasing the risk of all trades.

When you see a lack of buyers and sellers in the SuperDom, numerous color bars showing up, a small numbers of contracts significantly moving the market, or a significant weakening of the Yen carry trade, there will be an increased number of problem trades.

What is also important is that this type of read, or theory, is that it can not be made in real time. The only thing you know is that if you took a counter trend short trade as the market pushed higher, you were in a losing trade. You can only be aware that this theory is possible on the big gap down days, and you must decide whether or not the trades you take present excessive risk.

There is also one interesting note about the 11-1-07 sell off.

On the 7-24-07 sell off the gap down was only 8 points. The ZoneTraderPro system had 35 winning trades with only four losing trades. The unwinding of the Yen carry trade had started to unwind 2 days earlier but this could have been viewed as minor profit taking and not a reversal of the trend. The trade was still strong until the afternoon of 7-24-07, and the increased momentum of the unwinding started the instability of the system on 7-25-07.

On the 2-27-07 sell off the gap down was 14 points and the carry trade unwound significantly from the close of trading on 2-26-07. The ZoneTraderPro system had 33 wins but at a cost of 12 losses.

You can review the trades from those days at the monthly statistics link on the website.

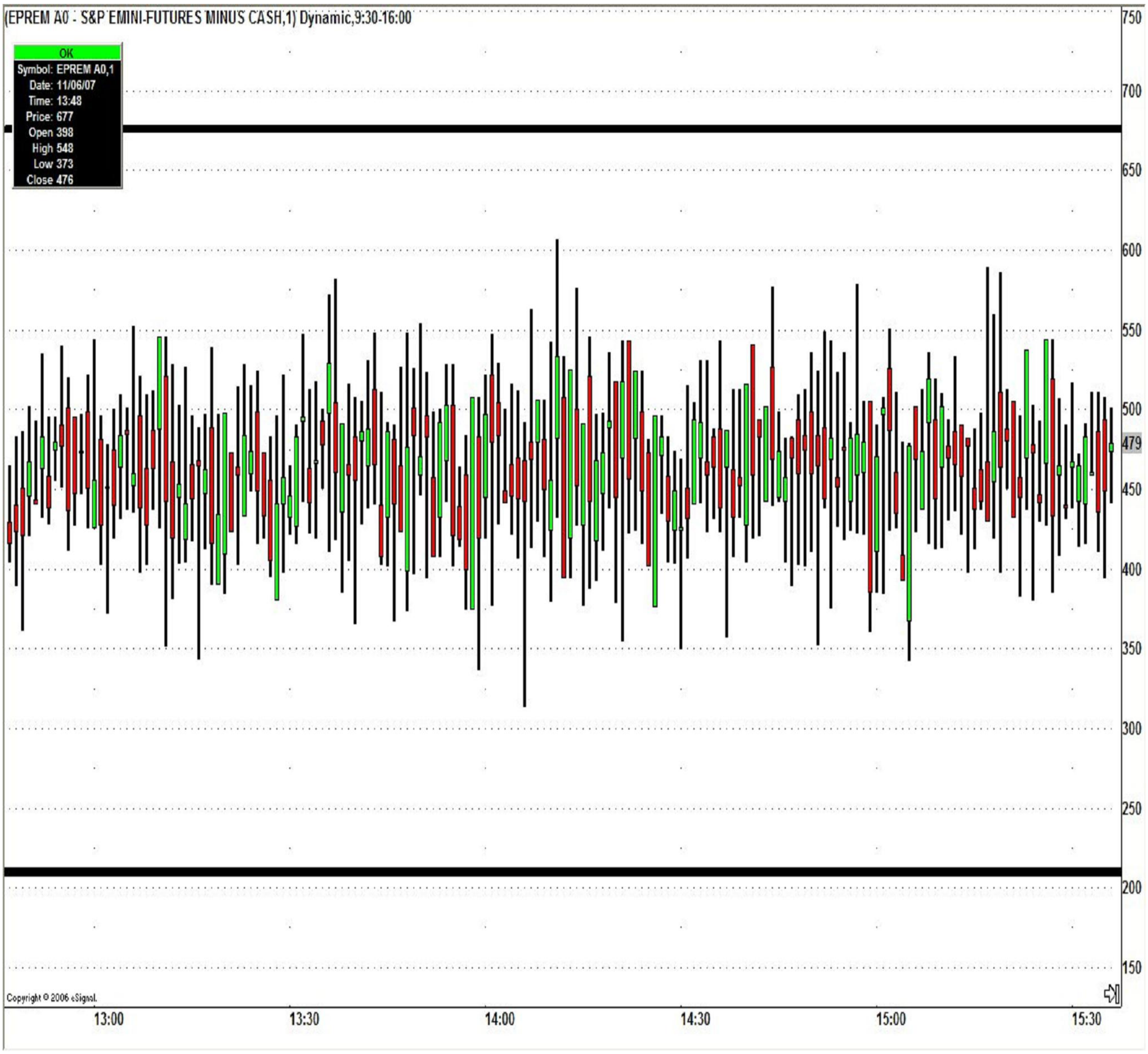
The above section was written on 11-1-07 and the following section was updated on 11-12-07. The updated section involves the developments in the Yen carry trade.

What other factors can prepare you for an increased number of risky trades? Well a closer look at the Yen carry trade will.

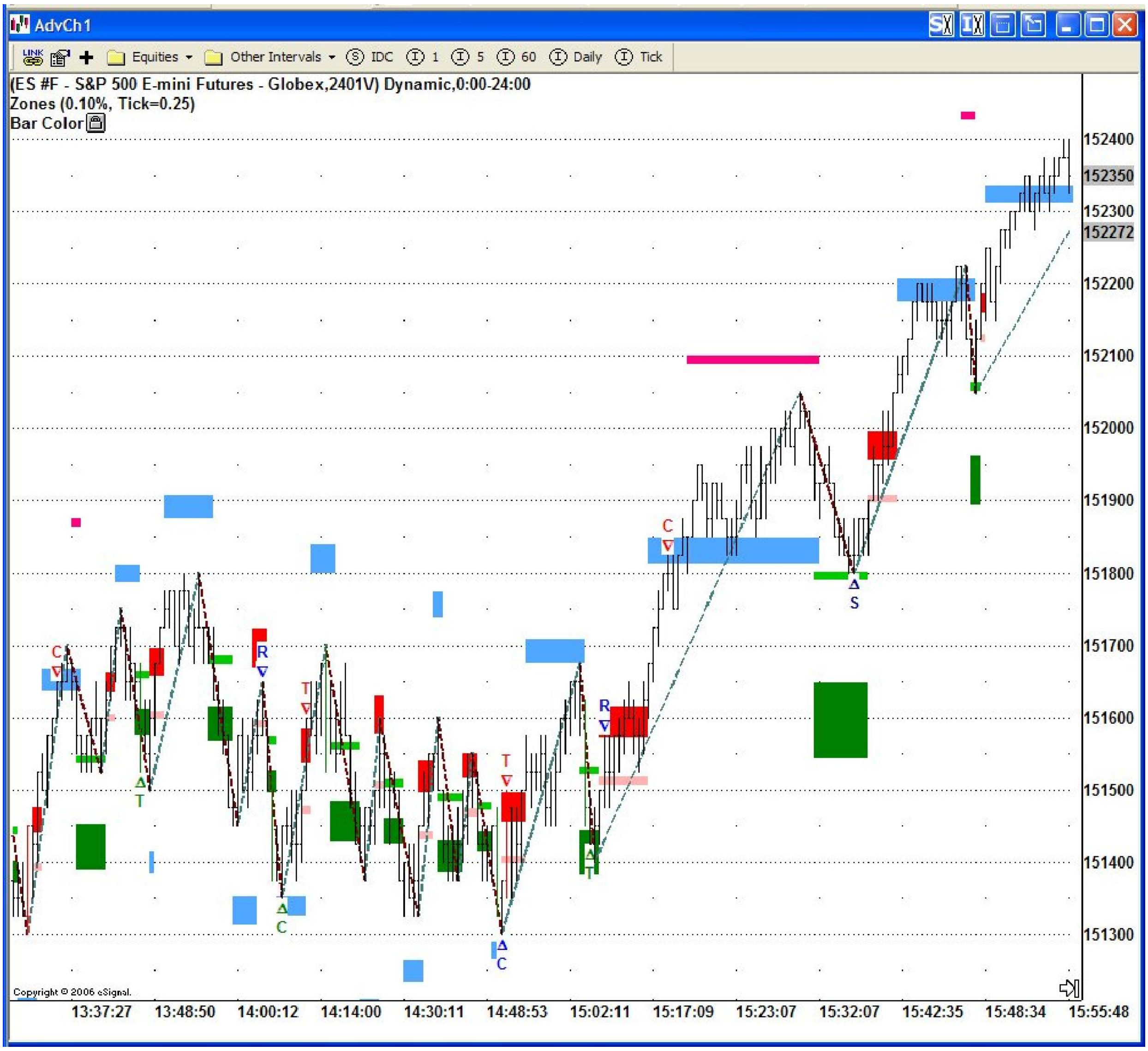
This first chart is from 9-21-07 to 10-2-07. This period had a normal number of trades and no unusual volatility.

This second chart is from 11-1-7 to 11-12-07. This period represented significantly higher illiquidity volatility. The Yen has moved 8 big numbers in 11-7-07 to 11-12-07. Also where you see large down candles on the Yen, the S&P was very unstable. The observation is quite simple. As the carry trade is put on, the market is stable and risk is being taken. When the carry trade is unwound, the traders feel that risk is too great and they are taking their bets off. This leads to instability in the S&P due to the lack of liquidity.

What else can tell us about unusual volatility? The answer is the emini premium. The emini premium is the difference between the futures price and the S&P 500 cash price. Also remember that the futures price will lead the cash index. First we will look at what is a normal looking emini premium. This picture was taken from 11-6-07. On any excursion outside the black lines, index arbitrage will occur. Also look at the above chart on the Yen carry trade. The Yen was steadily weakening through the day and as the emini premium chart shows, the market was stable. As the Yen strengthens, risk is being accepted, and the proceeds from those trades are being invested in the market.

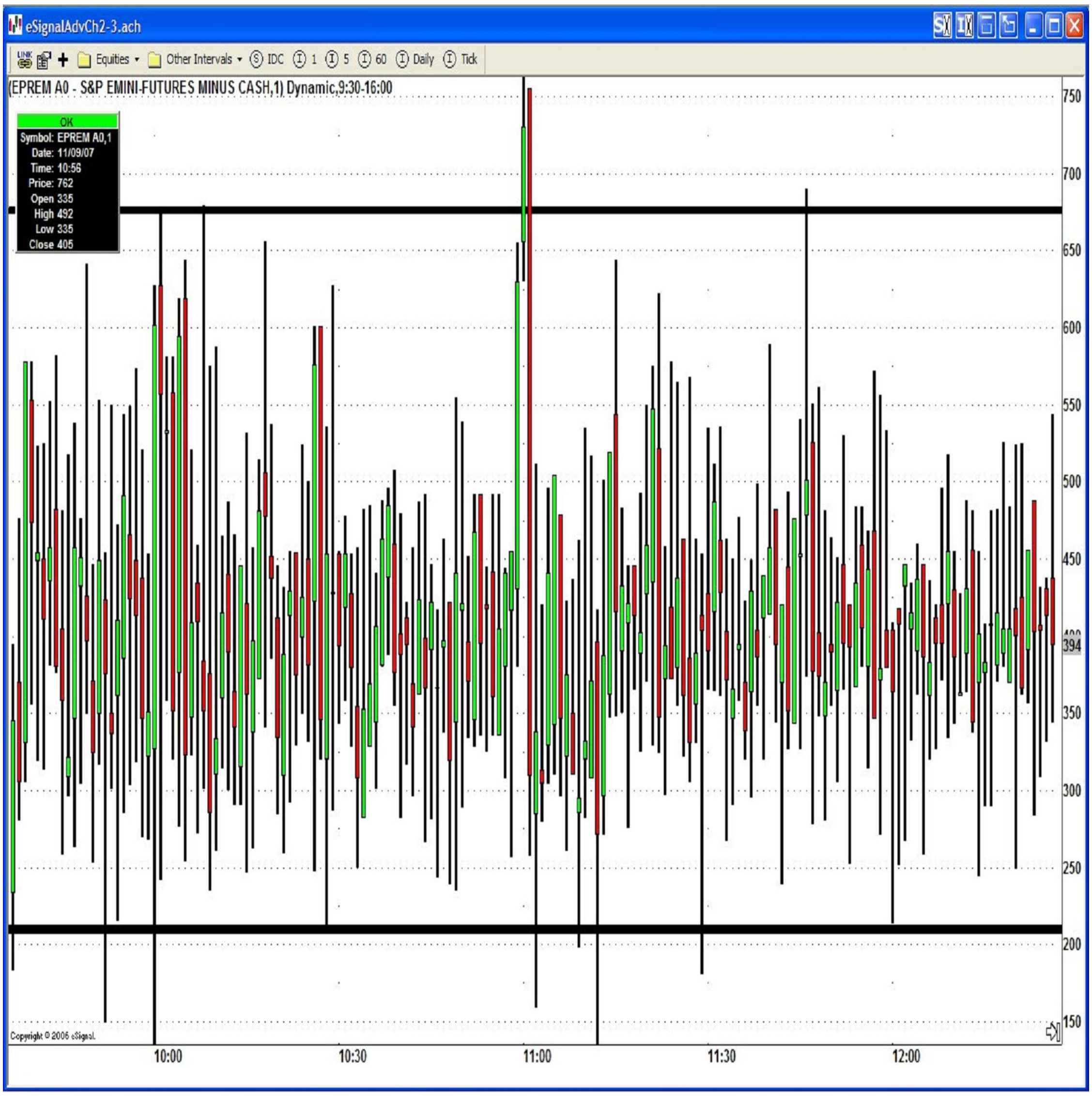


Now what is very interesting is that the market on the afternoon was in a very identifiable pattern of accumulation or distribution. Remember from the section on accumulation and distribution that we try not to identify which is occurring, just that it is, and identify that higher risk is associated with any trade until the breakout or breakdown has started. In this chart from 11-6-07, notice how the market is making lower highs and lower lows which are falsely indicating distribution, until the breakout to the upside. Also note that there is a trend short trade that fails going into the breakout, as was described in the manual. There is also a red color bar leading into the trend short trade indicating increasingly higher risk for this trade. There are no red color bars after 1451 hours indicating no lack of liquidity.



This next picture is of the eprem on 11-9-07 which was an extremely volatile day. There were numerous arbitrage occurrences, and much wider range bars. What this chart is telling us, is that the futures traders are pulling the price of the cash index where they want the price to go. Please review the video on the website entitled "Illiquidity Volatility". If the market had been liquid, with typical market depth on the SuperDom, it would have much harder for the futures traders to move the market, and the bars on this chart would not be as wide, and there would less arbitrage.

Now look at the Yen carry trade on the chart above for 11-9-07. The Yen is strengthening materially. This is going to give us an indication of illiquidity volatility.



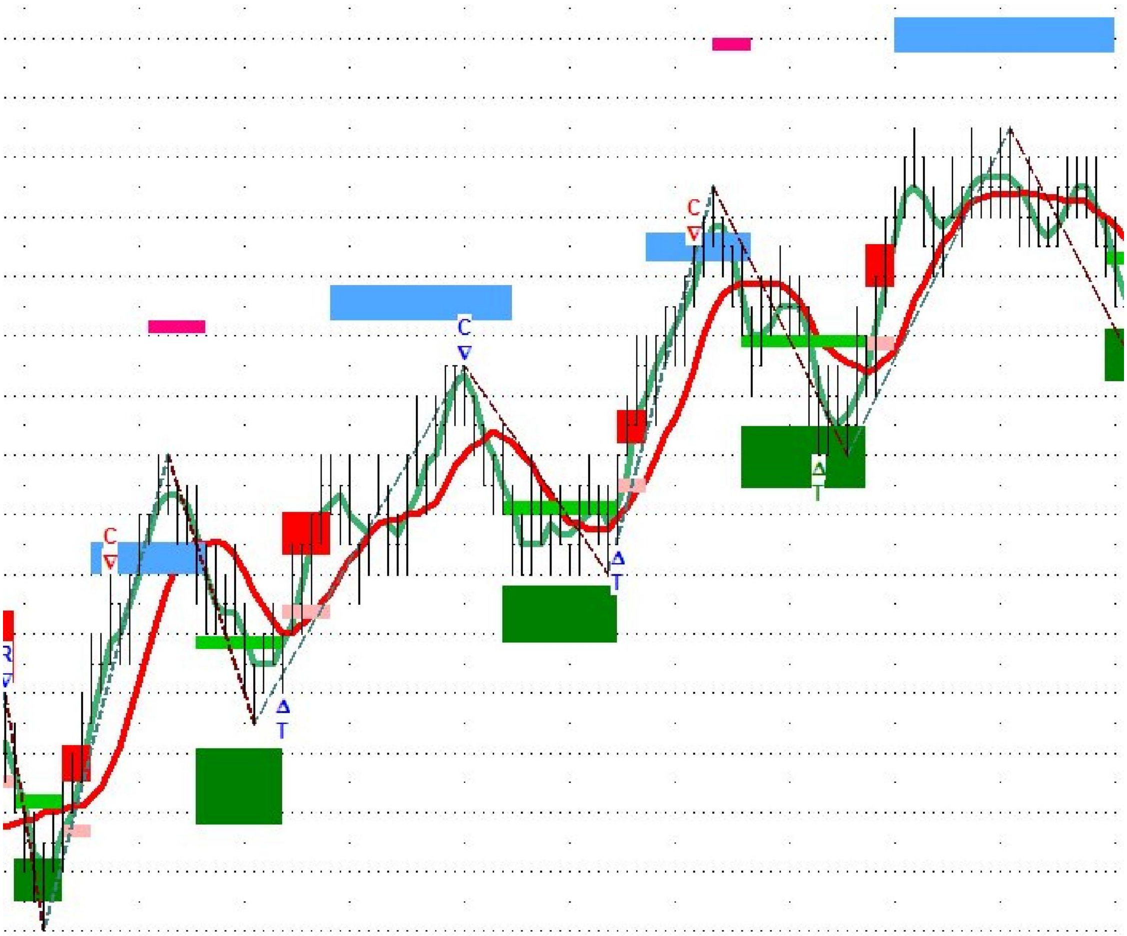
Now here is the chart from 11-9-07 to go with the emini premium shown above. The chart is filled with colored bars and the market is moving between zones with just 1 or 2 bars. While most of the trades are still working, it is a much more difficult chart to trade due to this volatility.

Other Indicators

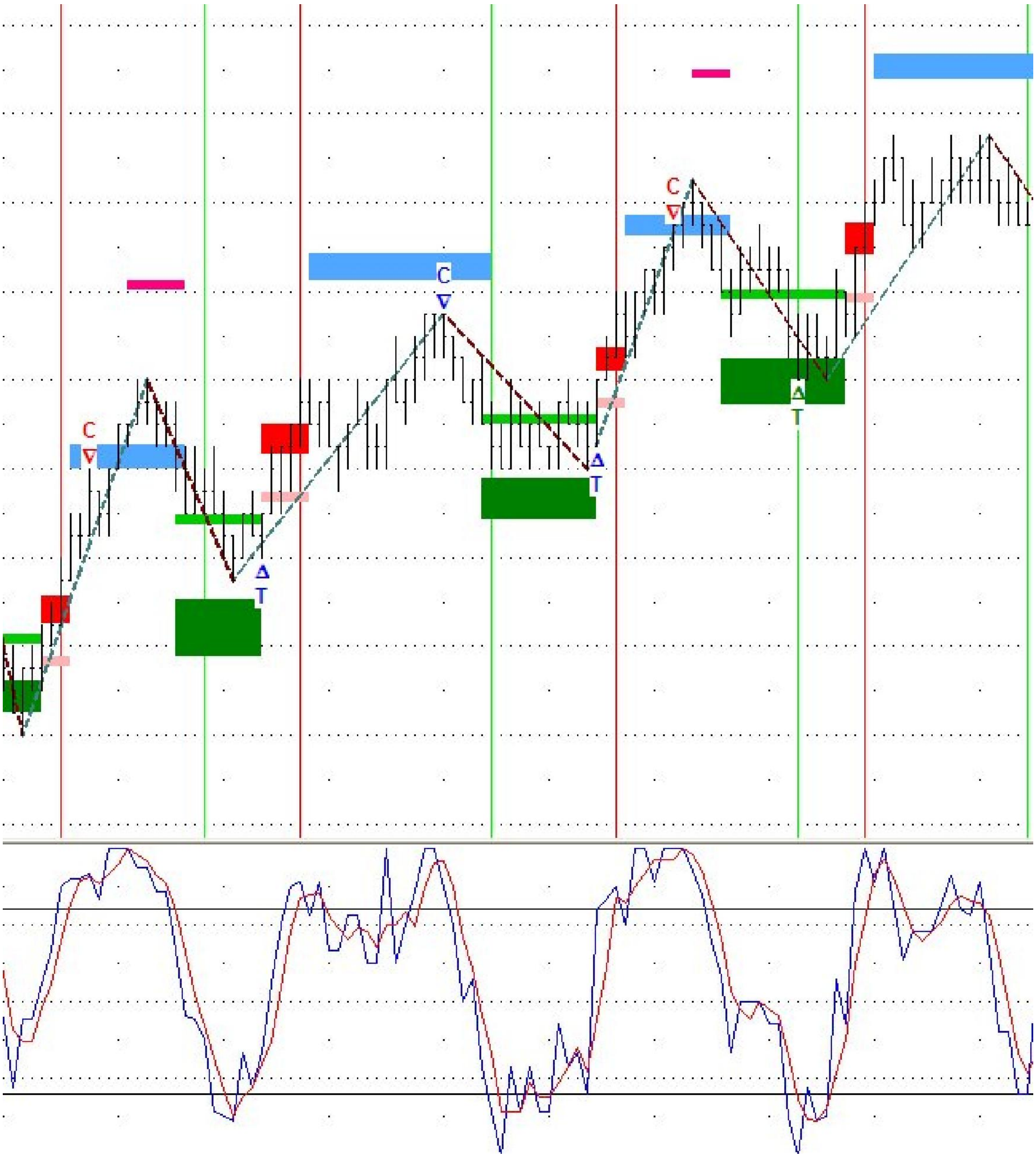
The ZoneTraderPro rules do not need other indicators such as stochastics, moving averages, or other indicators of this type. The reason is simple and it is solid. What do these indicators tell us? They tell us where price has been, perform some math on the numbers, and give the trader confirmation to take a trade. Why are these indicators necessary to confirm the trade? Does your real time profit or loss do the same thing? Price is now moving in the direction you expected it to, but the trader who uses these indicators to confirm a trade signal will see a significant amount of profit be lost waiting for a moving average to confirm an entry. Look at the ZoneTraderPro website statistics to gain confidence in the methods and trades. The website statistics are also based on the worst possible entry point, not the best.

There are two problems with standard stock charting indicators. The first problem is that they are backward looking, ZoneTraderPro is forward looking. How does an average of the last 10 closes on a 5 minute bar during lunchtime tell us where the price is going in the next 5 minutes? Look at the daily examples on the website. All of the trades are listed with the Maximum Favorable Excursion (aka Profit) and the Maximum Adverse Excursion. By waiting until an indicator average turns the corner, and confirms the trade, you have eaten up half of your profit. If you allow the indicator to tell you the exit, there is the other half of your profit.

Here is an example of a terrific bullish trend using ZoneTraderPro and a 3-10 moving average. Is it not easier to trade with entries and targets than averages that reflect where a stock has been, not where it is going.



Here is that same chart with stochastics. Notice were the stochastics indicators go into the oversold areas. They were just a bit too early.



The second problem with conventional standard indicators is that everybody is using the same thing. Successful traders need a tool that is both realtime and unconventional. It is estimated that 90% of traders lose money trying to trade the market. These are traders that use the same tools, receive poor education about the markets, and do not carefully manage risk.

ZoneTraderPro addresses all three of these issues. What other software product dynamically shows the trader where markets will trade to with any accuracy? ZoneTraderPro does not rely on indicators that are old and unreliable for everyday trading. ZoneTraderPro provides this book and daily free support to teach new traders the successful methods to trading this system. If you have a question about how to read a particular ZoneTraderPro chart you can email or call our toll free phone number. And finally ZoneTraderPro provides visual road map of the market so that traders recognize when mistakes have been made, or the market moves against them, and can keep losses low and reduce risk.

Looking at ZoneTraderPro historical data and using the ZoneTraderPro system develops the confidence needed to throw away these other indicators, ***unless they are real time indicators.***

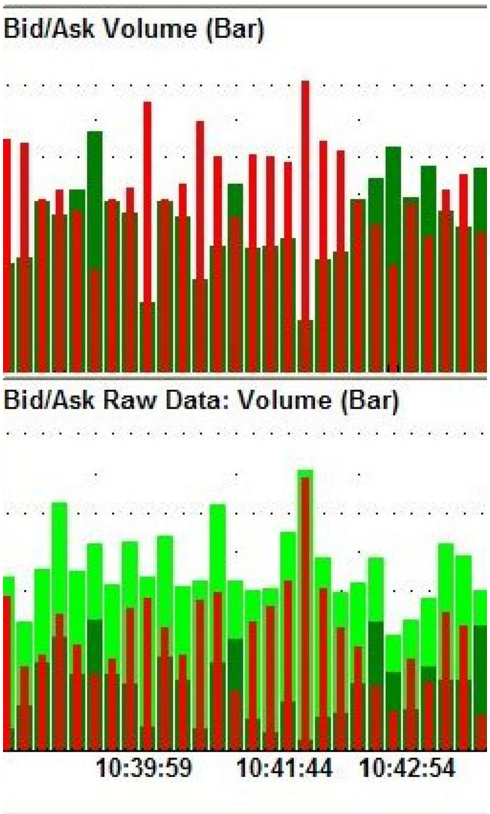
It is important to look at the historical data on the ZoneTraderPro website. Look at the ratio of winning to losing trades, and what the maximum adverse excursions were. When there were adverse excursions, look at how many of these trades at the very least broke even and did not turn into losers. In any trading system, the most important number psychologically to the trader is how many do you lose. But the most important question is the risk to reward appropriate for the system. Can the trader follow the system with confidence? There are very good systems that win less than 50% of the time, because the winners were all 2-3 times the losers.

The two keys to a successful trading system are risk and reward, and the ability of the trader to follow the system and not to let emotions dictate trading.

Additional Real Time Indicator

There are two additional tools also available from eSignal that are free and perform a similar idea. These indicators are called BidAskAnalysis.EFS and BidAskVolume.EFS. **These tools will only work in real time and will not work in tick playback mode.**

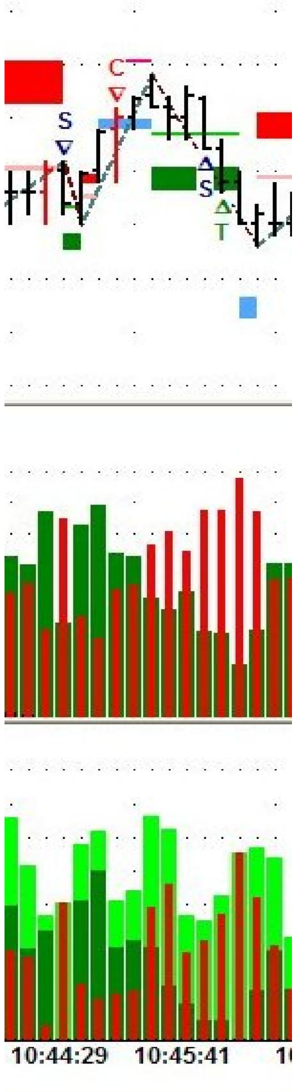
The BidAskVolume.EFS (top indicator) shows you on a bar graph the market orders for the buying and selling in the contract. The BidAskAnalysis.EFS (bottom indicator) is similar except that it allows you to place a filter to only look at the large trades. The red bars are sell market orders, the green bars are buy market orders. Hint: After you set the filter number in edit studies, set the value of DisplayTotal to off and it will eliminate the lime green bar which is the total.



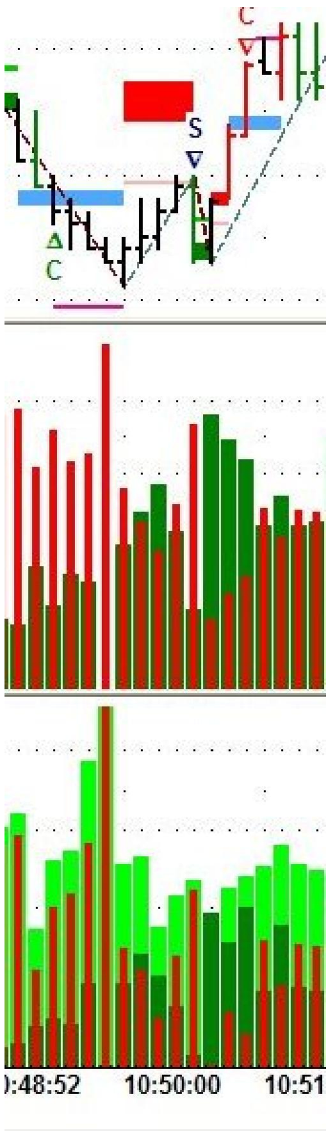
The reason for a real time indicator is to see strength or weakness as it happens. For example if you expect resistance at a certain zone, and you see nothing but buying, you avoid the trade.

These examples are from 8-17-07, the day the market gapped up 35 points on a fed announcement, sold off all of that gain, and then went up 35-40 points. These pictures were as the market was making the lows of the day.

In this 1st picture there are two items of interest. The 1st is the red up bar into the strong trend sell trade, there is no selling on this bar. This is a warning that the short trade may not work. The market trades down into a typical reversal, all you see is buying and the trade breaks even. The second thing to notice is again you have a red color bar into the counter trend short zone and all buying from the bid ask.



This next picture is even more interesting because there is a hidden meaning. First, notice the selling as the markets goes through the trend support area. No reason to buy there. Now here is the interesting part. Look at the huge red bar to the left of the eventual low of the day. There is almost the complete bar, all 2400 contracts being sold. But what does the bar do? It ends up down 1 tick. Then on the next bar, that is the low of the day, this again has a majority of sellers**, and it is an up bar**. What has happened? A very large buyer absorbed all the contracts being sold, because the market had found value and was headed up. Why is this important? It is only that you recognize you should not be selling, either the strong trend short or the countertrend short trade. In each case there was also color bar to warn you of a problem. The test of the low was an exhaustion trade long.



To summarize, this indicator is used to confirm what you expect to see happen as the market moves from support and resistance. If you see something that is unusual, either a color bar or an up bar that has all selling, as in the example above, avoiding the trade can save your trading account.

Bar Color EFS

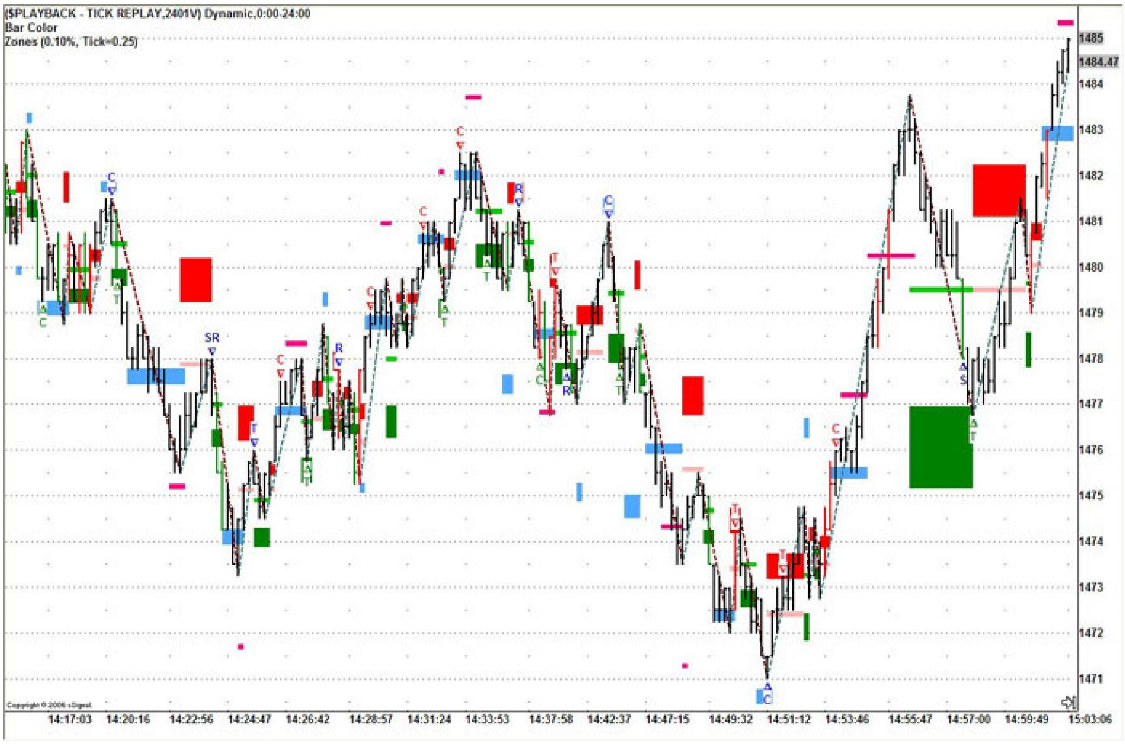
The purpose of the bar color EFS file is to show periods of illogical volatility or periods when all of the participants that make a market are not present. When all of the normal market participants are not present we will see volume bars that have a wide range. A normal 2401 volume bar is about 2-4 ticks wide. In a normal bar all of the buyers and sellers that normally make a market are present. What is very important to note here is it is not volatility that makes a market illogical, it is the lack of buyers and sellers that makes illogical volatility.

In the chart below you will see a "normal" looking chart. There are only 4 colored bars on the chart. This chart is final hour of trading on 7-24-07, a day that can easily be described as highly volatile. The S&P had a 35 point range, and was down about 30 at the close when this picture was taken. The trading is normal because all of the participants, buyers and sellers, trading desks, hedge funds, etc were in the market.

The setting for the chart below was to identify all bar that are 6 ticks or greater. The bars will paint red on an up bar and green for a down bar. The logic behind the idea is explained later in the chapter.

Now we will look at a chart from 7-26-07. There are two important things to notice about this chart. The first is the large number of red and green colored bars. The second is the huge swings in price that are occurring in this 45 minute period.

Here is the same chart with the ZoneTraderPro zones placed on it. This chart has some very good trades but also several losing trades. You will also notice that the trades and zones are very tightly bunched together leading to a very confusing chart. This is the concept of illogical volatility. Some of the trades were less than a minute or two in duration.



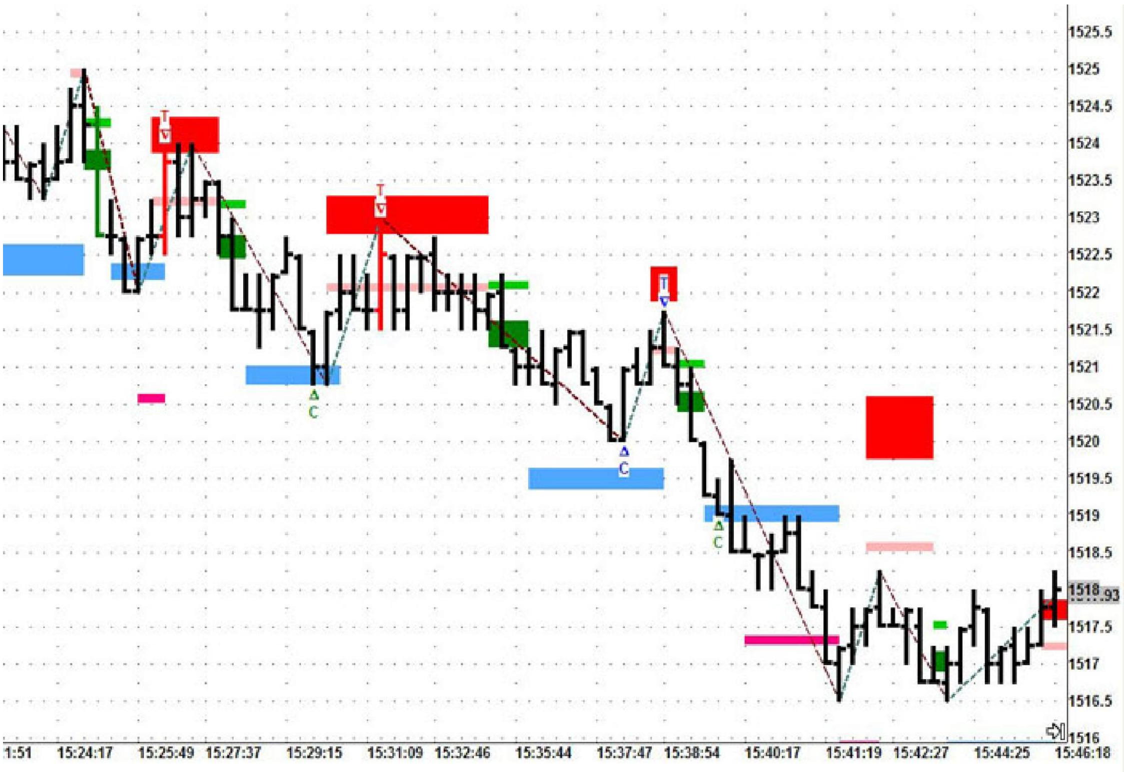
The purpose of the Bar Color EFS is to identify unusual trading activity.

During the volatility that followed the 7-24-07 sell off, the ZoneTraderPro system experienced had a significantly higher number of trades. The result was a lower quality of trades starting on 7-25-07 and increased risks. The reason behind the lower quality of trades was that the depth of market that the ES contract normally has was missing. The reason behind the sell off was sub-prime credit concerns, which led to a general tightening of all credit.

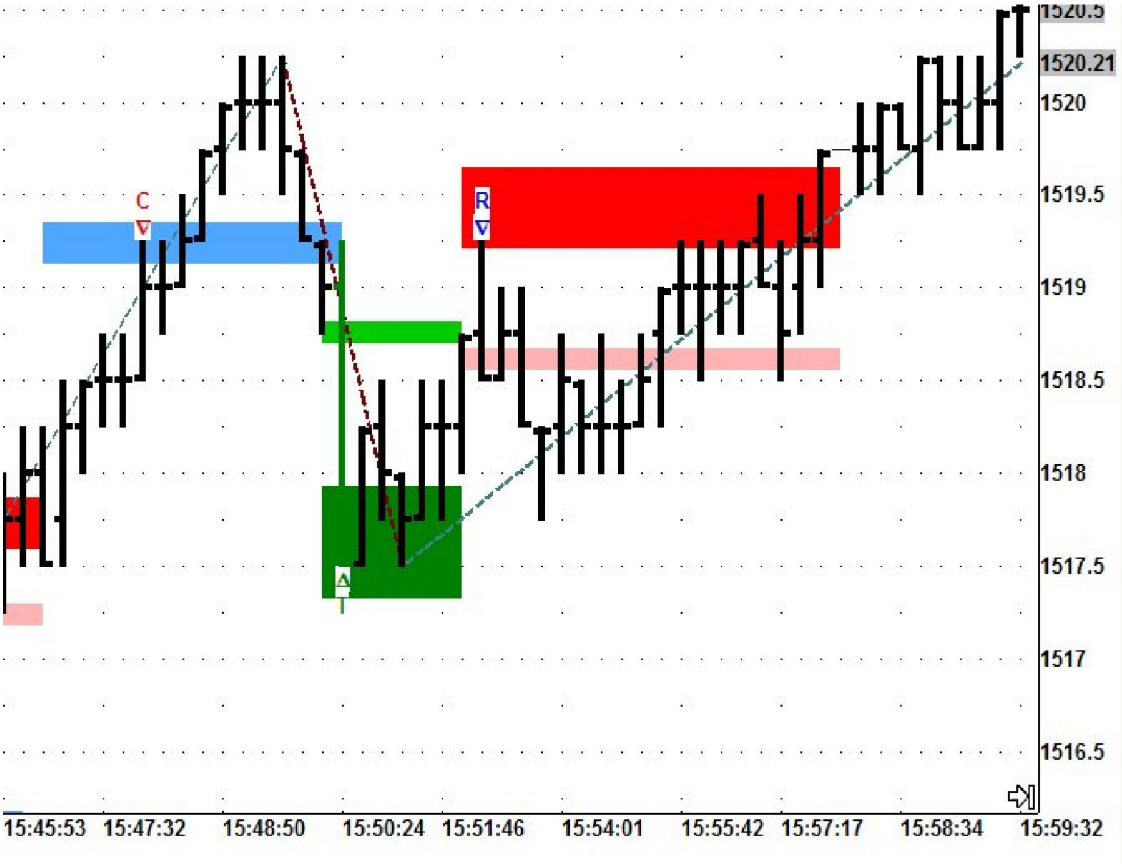
The main reason behind this lower quality of trade was that the normal players in the market were missing. These were the hedge funds and proprietary trading desks that depend on borrowed money to make their trades. Because these funds and trading desks depend on credit to trade, they no longer had the credit to trade as they had before. Starting on 7-25-07 the Yen carry trade also began to be unwound. If you place a chart of the Yen/Euro next to a chart of the ES contract, you will see that as the Yen weakens, the market rose. As the Yen strengthens (carry trade being unwound) the market weakens. In other words, there was less liquidity in the ES market as the Yen carry trade was unwound. On 7-24-07 the ZoneTraderPro system had a win/loss record of 35/4. This was because this was the 1st day of the sell off, and credit lines had not been tightened yet, and the Yen carry was just starting to unwind.

There are two situations the Bar Color EFS will identify, and they lead to exact opposite results.

We will look at the first type of situation where there is no demand or no supply. It is this reason why the bars are colored red on an up bar and green on a down bar. You can change these colors if you want. In a no demand scenario the sellers pull their offers, and due to a lack of sellers the market rises on very little buying volume. The following bar should be a down bar as the sellers now take control. Remember the average bar for a 2401 Volume bar has 2-4 ticks. When the bar reaches 6 ticks it will change color. Why are the sellers pulling their offers? Because they want buyers to see the increase in price and be try to pull to new buyers in before a sell off. In the below example from 7-24-07 you will see the market twice being taken into the intermediate resistance zone, followed by 3 successful trend short trades.

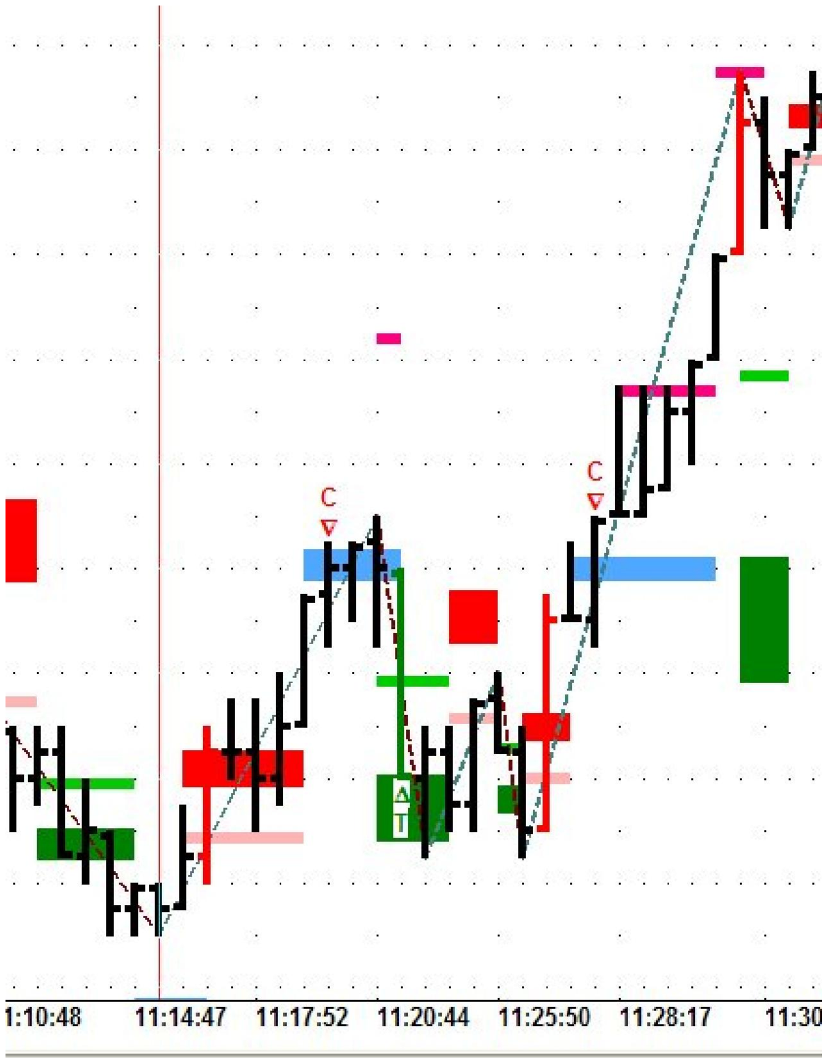


The opposite of no demand is no supply. That would be defined as the buyers pulling their bids and allowing the market to swiftly fall before resuming a bullish trend. The following bar should be an up bar as buyers take control. In the below example, also from 7-24-07 the market drops into the trend buy area.



That is the reason the bars are colored the way they way are. In a no supply scenario (down bar) the bar is green because it will be bullish. In a no demand scenario (up bar) the color will be red because it is bearish. There is also an opposite reason for this to occur.

There can be alternative reason that we could see a wide range bar on a volume chart. As the market makes a top or bottom the buyers and sellers see the size of the program trade and simply pull their bids and offers. The following bar should also be in the same direction of the color bar. The difference between this scenario and the no demand/no supply scenario is that you would expect to see this bar at a top or bottom, and the no supply/no demand bar at a trend support/resistance or a typical reversal zone. The below example is from 8-21-07. Notice that the green bar taking us down into the trend buy at 1120 hours is 8 ticks wide. The red bar coming off the bottom at 1125 hours is 9 ticks wide. The following bar also trades up, closes at the open, and will be a warning sign that a countertrend trade will fail. This would be a valid reason not to take either the trend or counter trend trade.



In this second example from 8-20-07 we see a 6 tick wide red bar at 1537 hours coming off the low made at 1447.25 and taking us into a trend sell trade. The next bar continues up warning you a strong buy program is in progress. This trend short trade will fail and the bar color identified that this could be a riskier trade. Then at 1548 hours we have a no demand red bar that trades into a typical reversal. The green bar that follows is the buyers pulling their bids in front of the program sell trade.

Remember the purpose of the Bar Color EFS is to identify unusual trading activity and to avoid riskier trades.

The Yen Carry Trade

The importance of the Yen Carry trade to the ZoneTraderPro system can not be illustrated any better than by looking at the charts from 1-23-08. The S&P futures had a range of nearly 85 points on the day, opening on the lows, trading 50 points higher, 40 points lower, and then making a 75 point rally, starting at 1245 hours and closing at the highs of the day. The reason for the rally was news about the financial sector.

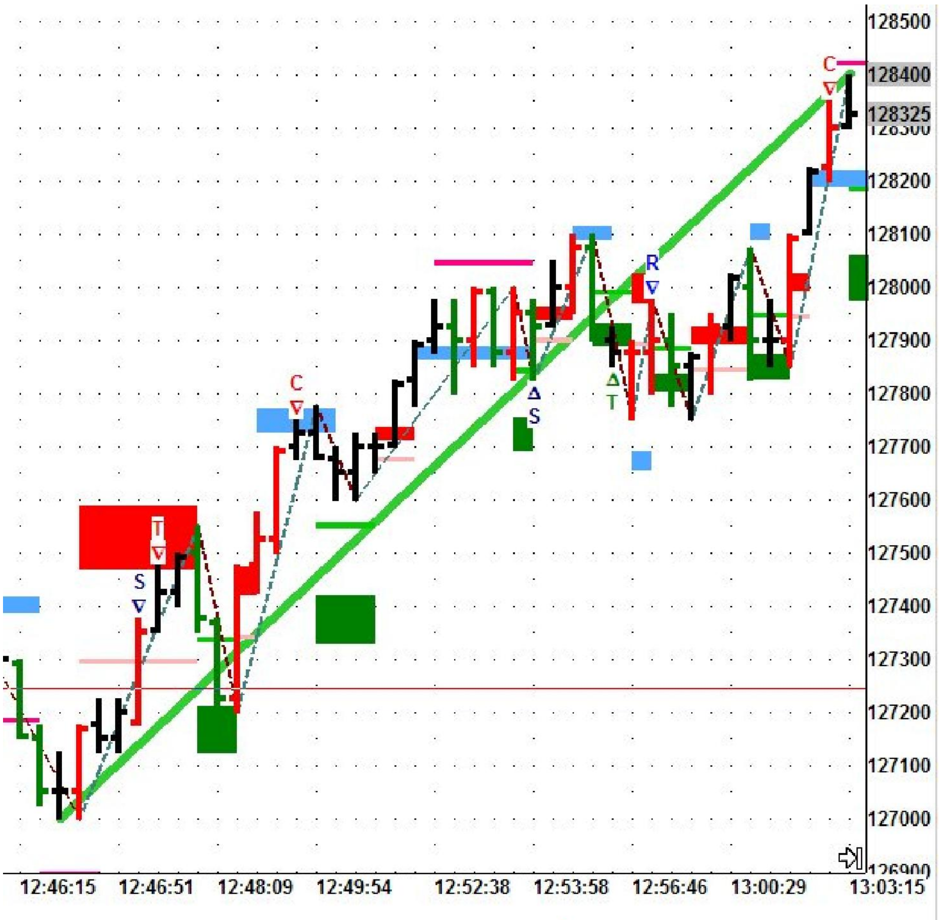
The Yen Carry trade is the borrowing of Yen and receiving those proceeds in Euros. Those borrowed funds are then risked in the stock market.

There are 3 scenarios that can occur.

1. The Yen is moving .10-.25 on a 15 minute chart in either direction. When this occurs, both types of trades, trend and counter trend can be taken.
2. The Yen significantly weakening. When you see a .30 or more move on the 15 minute bar, or if you have 2-3 bars that are up .75 to 1 big handle, the likelihood of a short trade working is very small.
3. The Yen significantly strengthening. When you see .30 or more move on the 15 minute bar, or if you have 2-3 bars that are down .75 or more, the likelihood of a long trade working is very small. After the initial move down, you then need to be worried about illiquidity volatility. The traders that were providing the support and resistance in the Super Dom are now gone, and illiquidity volatility will follow.

We will start looking at the carry trade at 1245 on 1-23-08. Here is the 15 minute chart of the afternoon. Notice on the 1245 hour bar, the market tested the lows and closed on the highs, a very bullish candlestick bar.

Now let's look at the ES chart for that same period. The 5 minute YenEuro chart is the chart on the right. The first thing to notice is the short trend trade trading into a typical reversal after 2.75 points of profit, and reversing the short trend. That makes sense because the Yen made a low, then closed on a high. At 1249 hours, the counter trend trade goes 5 ticks in the direction of the trade, and reverses. Two buy signals are then given as the Yen continues to rise. What is also very important to note is the illiquidity volatility as noted by the large number of color bars. Remember, the Yen has been strengthening all morning, and the professional traders that participate in the Yen carry trade are missing. The last important point is the amount the yen has weakened, about .50 in 20 minutes, which is significant.



128500
128400
128325
128200
128100
128000
127900
127800
127700
127600
127500
127400
127300
127200
127100
127000
12:46:15
12:46:51
12:48:09
12:49:54
12:52:38
12:53:58
12:56:46
13:00:29
13:03:15

153.500
153.000
152.500
1245-1305 H
13:00

The next 10 minutes saw a strengthening of the Yen, and a weakening of the ES. The short trend trade is successful. The second short trend trade is unsuccessful. Again the Yen has made a low, and come off the lows. Additionally, this was a high risk trade because of the red color bar into intermediate resistance.

The next significant move takes place from 1315 hours to 1430 hours, and the S&P moves about 39 points higher. During this period, two short trend trades and 2 short counter trend trades failed. Only 1 countertrend long trade failed. The bars leading into the 1450 bars have all been strong up bars. This time period was filled with color bars, indicating illiquidity volatility was still present and not all market participants were present.

Here is the 5 minute Yen carry trade chart for that same period. By 1350 hours the yen has strengthened almost 1 big number and by 1450 it is up over 1.5 big numbers from the low.

Here is the 15 minute chart. This chart shows the significant strengthening indicating only long trades should have been considered.

From 1430 to 1455 the Yen strengthened, and the ES sold off. The two counter trend long trades fail.

Here is the 5 minute Yen chart. Remember the 15 minute chart is the more important trend chart. But this 5 minute chart is important because of the 1500 hours bar, and the reversal it shows us.

The final 70 minutes of the day will have the S&P rally over 47 points. During this period there was 4 losing short trend trades, one counter trend short trade, and 2 counter trend long trades. Five of the seven losing trades occurred against the trend of the Yen carry trade. Also, there were still color bars present indicating a lack of some market participants. This would explain the higher number of losing trades, but if you filtered out the short trades, there would have been only 2 losing trades, and at least 10 winning long trades.

Here is the 5 minute Yen chart. The Yen moves almost 2 big handles in the last hour. Refer to the 15 minute chart on page 2 and you will notice that there are only large up candles.

If you use eSignal to create these charts, you will be charged a monthly fee for the Forex information. There are several websites where you can get forex information for free.

Tick Trade Filter

Using the $TICK as a trade filter is an excellent way to filter out trades that will not work. The $TICK is the number of NYSE issues that have traded up or traded down on their last tick. The time setup for a chart is 6S (6 seconds) because eSignal only refreshes $TICK every 6 seconds. Starting with version 10.4, eSignal has an area chart as an option, which is what is used in the examples.

The rules are very simple.

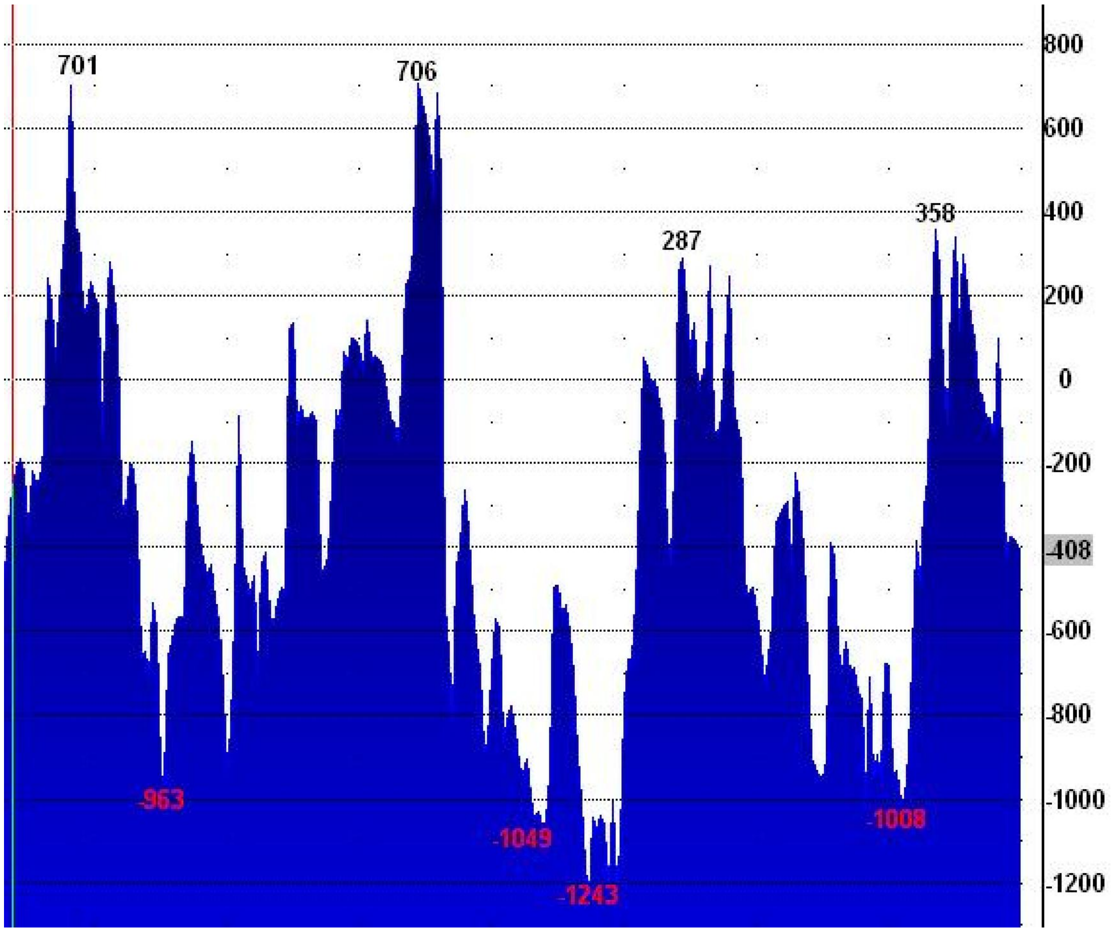
1. Find the high $TICK value on the prior bullish move into a Zone.
2. Find the lowest $TICK value on the previous bearish move into a zone.
3. If the current moves $TICK value does not exceed the previous move by more than 100, this is a trade that should be considered.

It does not matter if the high $TICK value occurs as the ES price reaches its' apex**. Normally the high or low value will occur as the move is starting, not as it is reaching a Zone.** In this way you can filter out a bad trade before the market reaches a Zone where you have to make a decision.

In the following example the 1st two reference $TICK values are +701 and a -963. The position of the number on the chart is the bar where the $TICK reached its apex. The apex of the $TICK was reached in every move before the apex in the ES, except the long trend trade that fails. In this trade the difference was a -86 when you had to make a decision to trade.

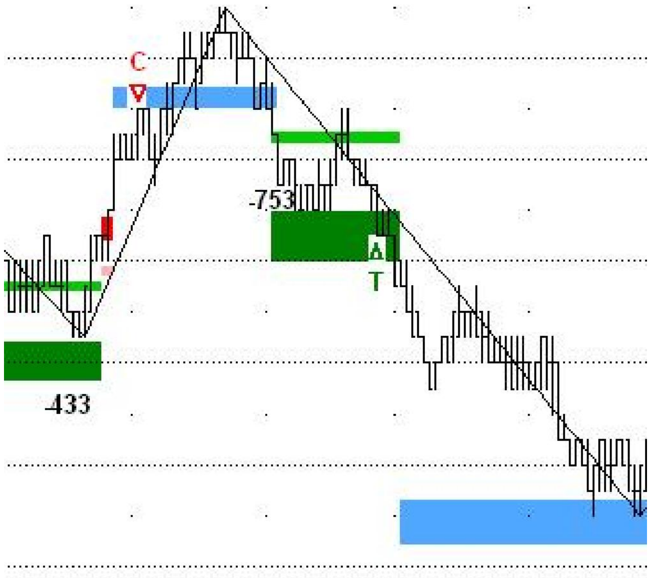
In the last two short trend trades, the $TICK had actually been negative as the futures price reaches the intermediate resistance zone. In other words, there was significant selling as the market reached the trading zone.

Here is the $TICK chart.

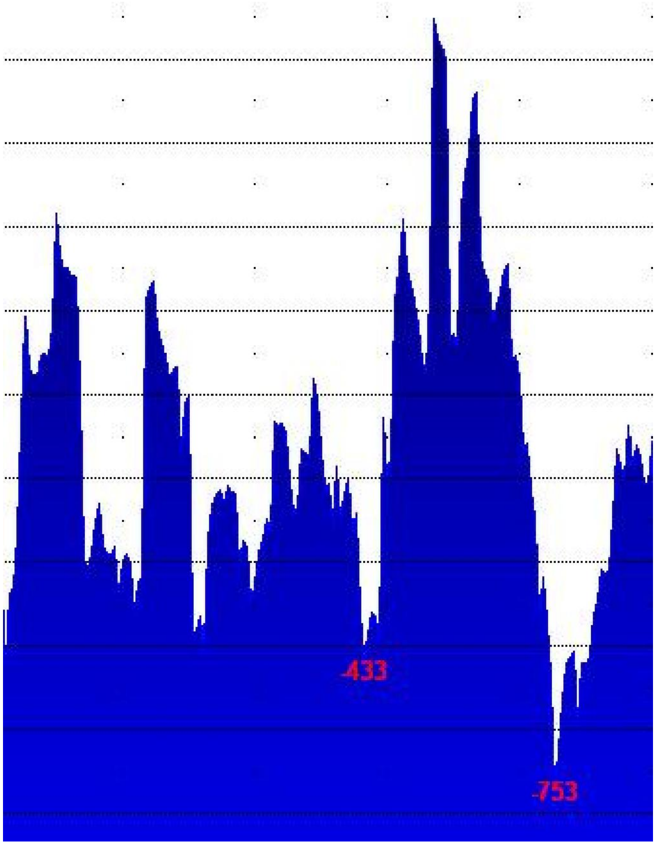


You must have ZoneTraderPro to determine where the previous relevant values were, and where your trading pattern entries and exits exist at.

The following is a great example of avoiding a losing trade. The previous $TICK low was -433. Leading into the trade, the market appeared strong, with the $TICK making a much higher high, and the ES trading 4 ticks through trend resistance.



However, as the market was 1 tick above intermediate support, $TICK was at -753, 320 more than the previous low. Without using the $TICK this would certainly resulted in a full loss trade. Also note that 4 ticks of buying did occur as the market touched intermediate support. The traders that bought here got left holding the bag.



The easiest way to tell the high and low values is to use the Cursor Data Window.

This method is simply the best method ZoneTraderPro has found to filter out losing trades in over 4 years of actual trading.

Futures rollover

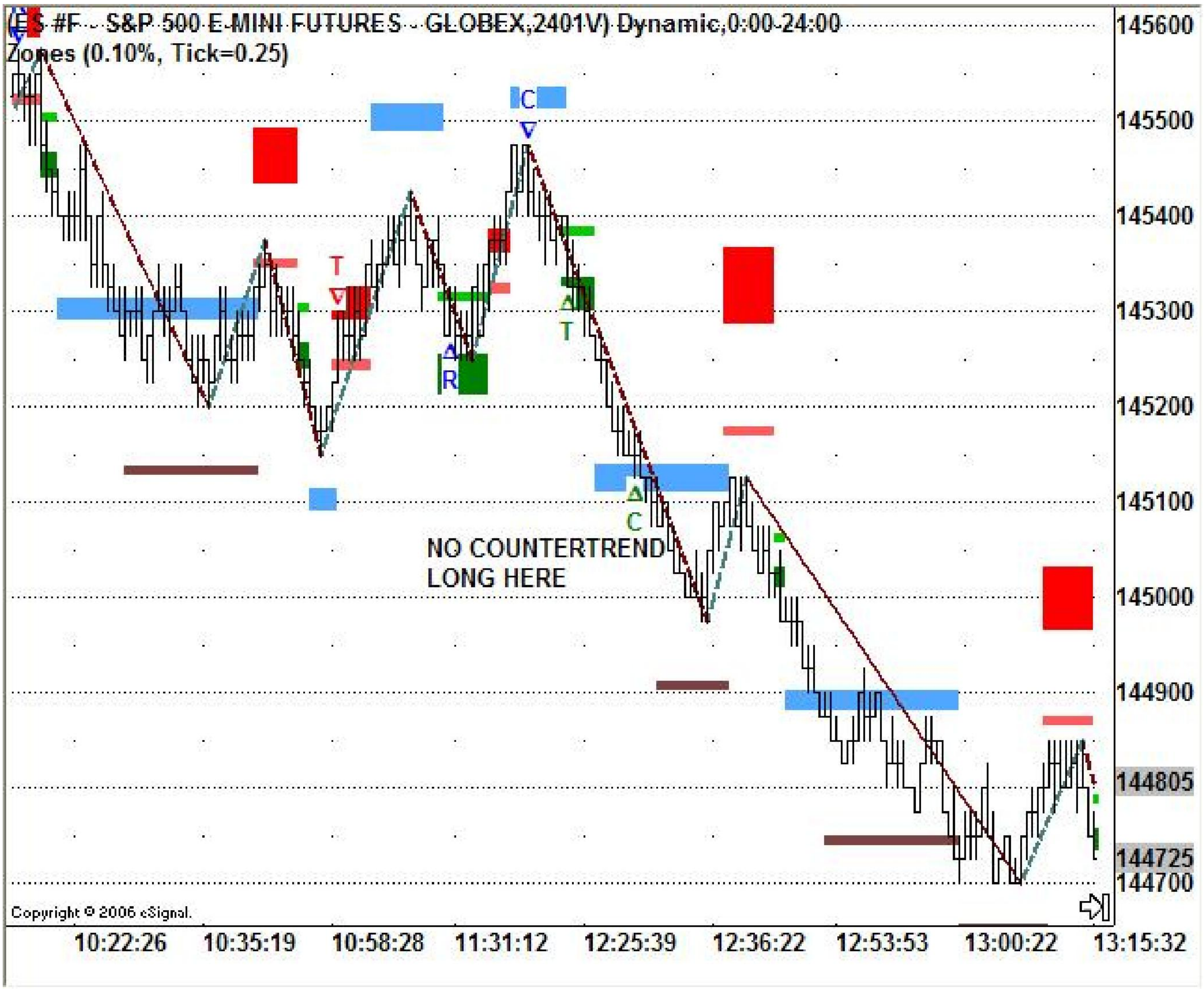
Every three months the futures contract rolls over and you will trade a different contract expiration month. When you use the ES #F you will not need to change the symbol, but you will see a large spike in the price in the ES #F. This price spike is based on the computation of interest and dividends earned for the next three months.

The rollover has no lasting effect on ZoneTraderPro. However the morning of the rollover, there will have to be at least 3 zone movements during the overnight Globex session, before ZoneTraderPro will give accurate zones. Generally there will be sufficient moves on a 100 tick chart so that this will not matter. ***However if there is any doubt wait until the trading picture is accurate again before placing any trades.***

Below is the rollover that occurred on 12-7-06 from a 2401 volume chart. The first legitimate trade signal did not occur until 0951 which was the 3rd swing after the adjustment.

Trade Example

We will look at two examples from 2-9-07 which represented a great ZoneTraderPro day. On 2-9-07 the range for the S&P was 20 points. The sell off started at approximately 1152 EST and at about 1226 EST the market reached the intermediate support zone and ZoneTraderPro signaled a buy. The market traded 3.25 points below the support zone before you had a small reversal back to minor resistance. This long trade would have resulted in loss, however by reversing to a short trade; the maximum favorable excursion of the next trade was 4.25 points on the short. This short was followed by 6 more successful short trades after that. The 1st 3 of these 6 trades all hit the strong trend support zones.



The market told you it was extremely weak because

1. The market failed to reach the trend resistance zone.
2. Failed to make a higher high at the 1456.00 level.
3. Made a strong trend reversal.
4. Traded 5 ticks through the trend support zone.

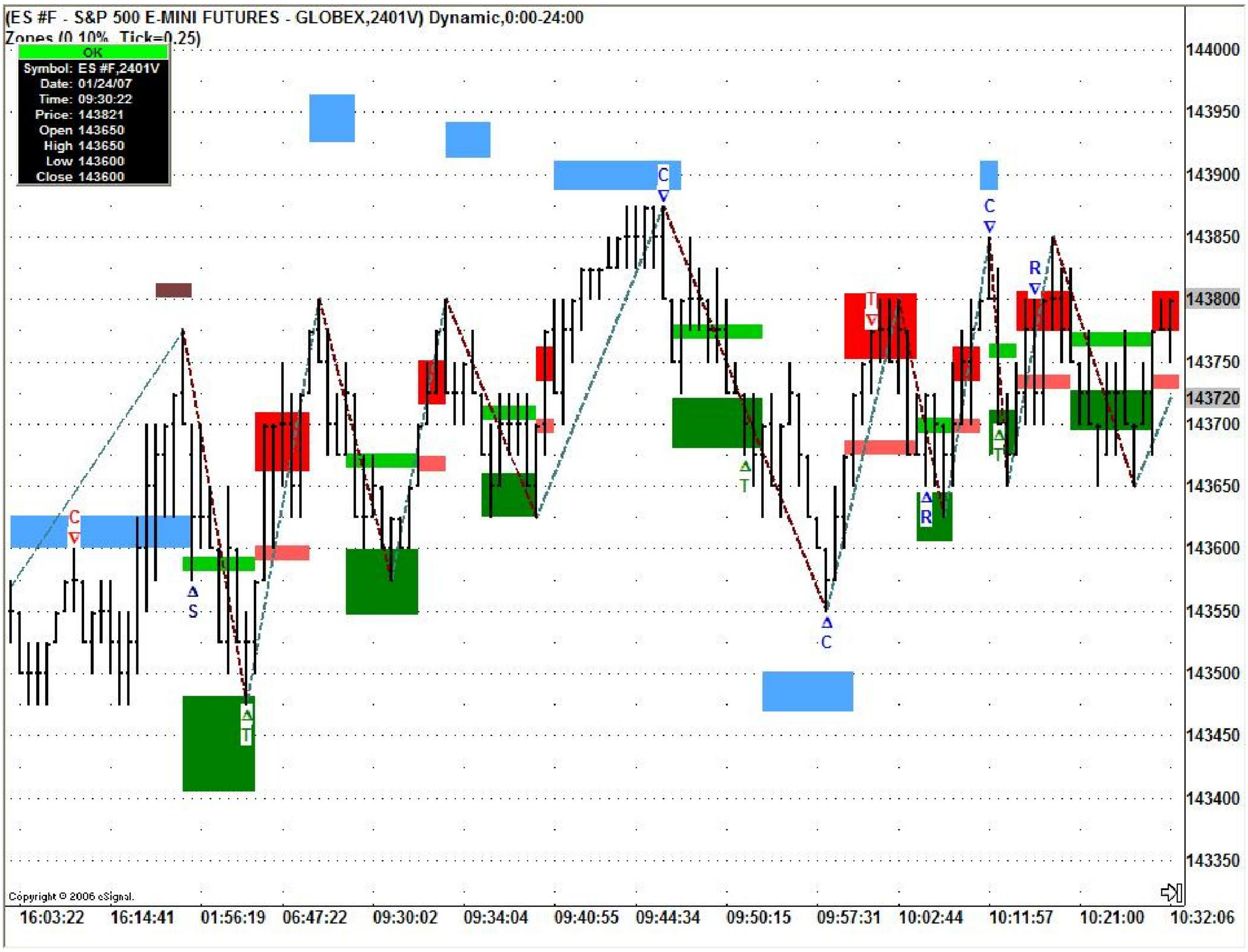
Because of all of the above negative factors, it was not surprising the market did not reach the minor resistance level.

After 7 successful short trades and an 18 point loss from 1152 EST, it was probably not surprising that some short covering would then take place. In this second chart from 2-9-07, you will see a strong trend reversal to the upside. Note the 3 successful exhaustion trades, including the one that marks the bottom.

The market would rally 7 points off of the lows. During this rally also notice how there were 2 successful long trend trades going into the close. But the point here is that you must regard the strong trend reversal as a sign of strength, cover the short trend trade, and not short the trend resistance zones. Also, ask yourself what other tool could you have used successfully traded this day? The profits from the 10 successful trades (there was a successful long trade leading into the sell off) far exceeded the 2 strong trend reversals losses. What was truly unusual about this day is that 2 strong trend reversals occurred, but so long as you recognized the strong trend reversals, and accepted the losses, the winners far exceeded the losers. Chart note: The above charts reflect an older version of the ZoneTraderPro logic that did not have the trading logic for the Strong Trend Reversal. Esignal will only provide 10 days of data when using a volume chart and the data was not available when the formula was finished.

Chart Exercise

The next chart is from the morning of 1-24-07. Look at the chart and write down what is bullish and what is bearish about the chart. This is a very important exercise in learning what the market is telling you.



Bearish indications

1.

2.

3.

4.

Bullish indications

1.

2.

3.

4.

5.

6.

Compare your answers to the below described indications. Hopefully you were able to get most of the answers. But there was a bigger purpose to the exercise. The bigger purpose was to make the argument for either a bullish case scenario, or a bearish case scenario. You do not care if the market is bullish or bearish; you just want to be on the right side of the move. If you can make an equal argument for either case, then at 1032 hours, when the market does breakout, why would you be long or short? You have taken two trend trades, both of which have been exited for small profits.

The third trend trade at 1011 hours did not take out the lows at 1021 hours. The reversal arrow is a warning that the market has reversed at a zone where it typically would if it was to be a reversal. The user must decide to take the trade off, or see if it will test the lows and reverse. Again, if the trade is not clear do not take the risk. If you do take the risk, you know that the market should not take out the previous low by more than 1 tick, so that is where you should be thinking about the stop placement. This is the strongest argument for either a bullish or bearish scenario.

The biggest problem is that you must analyze these facts while money is at risk, and you can only look at the side of the trade that you are predisposed to, and because of that you will ignore the other facts, or not recognize those facts until it is too late. It is always a good idea to analyze all trades, but especially the losing trades. Analyzing for mistakes after the fact will help you recognize similar circumstances in the future. You do not need to deeply analyze the trend trades that worked to perfection for 4 points with zero adverse excursion, as in the above chart from 1-23-07 at 1230 hours. But did you lose money because you entered countertrend trades? Did you lose money because you didn't recognize the reversals of trend trades?

Bearish indications

1. Market does not reverse at the intermediate support zone at 0944 hours. Any trend trade would be exited at the trend sell area for a small profit.
2. At 0957 the market trades down into a trend support zone.
3. After the reversal at 1002 hours the market trades into a trend resistance zone at about 1011 hours. But it makes two attempts to make a higher high at 1438.75, and fails each time.
4. Market trades into intermediate resistance at 1015 hours and reverses.

Bullish indications

1. Market trades into trend resistance at 0940 hours.
2. Lower highs were made after 0957 hours.
3. Higher highs after 0957 hours.
4. The reversal at 1002 hours does not take out the lows.
5. The last trend trade was bullish at 1011 hours. It would be acceptable to be long from 1011 hours, so long as the low at 1436.50 was not taken out. This is the strongest argument for either side.

6. Market was bullish in the overnight session, with higher highs and higher lows.

There is one piece of information that was not included. The $TRIN at the time the 1st chart ends was 1.36 and rising steadily. The $TRIN is a measure of volume of stocks that are trading to the upside or downside. Values over 1 are bearish, between .8 and 1 bullish to neutral, and below .8 are bullish. So a 1.36 was a very bearish signal. If you were looking at this $TRIN, how could you be anything but short? Would you be predisposed to only a logic that indicated a short trade was in order? Would you reevaluate the bullish scenario if you knew the value of the $TRIN? Is the $TRIN value another reason to stand aside? Did the $TRIN matter? Did any other standard indicator matter?

Go back and look at the historical charts from the website and look at days that have a wide range, but not necessarily strong trend days. Then pull up the $TRIN values on your charting software. Then add in stochastics, RSI, CCI, moving averages, and any other indicator out there. Did any of these indicators give any useful information, or did ZoneTraderPro show you where the trends reversed, and showed you where to enter new trend trades?

Here is the rest of the chart into the end of the day. ZoneTraderPro gives you a trend trade long signal at 1039 hours just after where the 1st chart ends. There is another long trend trade around noon. The market will trade up 10 points.

There are a couple of very important chart lessons on the second chart below. The market was very strong as it traded through trend resistance at 1100 hours. It is common that when the market is strong, the market will reverse before reaching intermediate support. That is the reason for the blue arrows.

At about 1218 the market moves into intermediate resistance and reverses. This is cause for concern about the long trade. The important point here is that the market did not make it to the area where the intermediate support zone had printed at 1439.00. What the market did was a stop run. Those positions that had been entered at the breakout or that had been bought after 1059 hours, where all under water, making those positions the weak hands. Also, the $TRIN was still 1.10, which is more bullish than 1.36, but still adding to the fear that the trade was weak. If you bought when

ZoneTraderPro gave the signal, yours would have been a strong hand. And if you were looking at $TRIN and saw it at a bearish 1.10 would you have avoided going long?

Is the lower low at 1439.25 a reason to get out? Lower lows are normally bad for a bullish position. However, the market took out that low to run the stops and washout even more weak hands. Every book or guru out there teaches that you need to place your stop one tick below the last low, so where do all the traders place their stops? One tick below the previous low. The big contract players were more than happy to buy up those contracts being sold. There will be additional comment about stop placement later in the manual.

And at one tick below the previous low, you still have not reached the intermediate support zone area. This is very important in a strong trend.

When the market suddenly trades into a strong trend, there are buyers that want to jump on the 1st pullback of just a few ticks. This may be low enough that ZoneTraderPro sees this as a pullback, but it may not even reach minor support. These are weak hands and the market is going to try and wash them out. As a ZoneTraderPro user you will wait until it trades back into a zone. But it is common that after a big move, these late buyers will push the market back up and ZoneTraderPro will mark this as a new move upward. The market will then sell off, wash out the weak hands, and continue the strong trend move.

Develop a written trading plan

One of the keys to being a successful trader is having a written trading plan. A written trading plan will prevent mistakes because the trader will know what to do in usual and unusual circumstances. These trading rules will also detail when not to trade. Here are a few of the questions that you will have to deal with. This is not a complete list, but just an attempt to get you thinking about the problems you will deal with trading. You will have to answer some of these questions differently for different types of trades you may enter. For example, you may have different exit rules if you enter a strong trend trade versus a countertrend trade.

1. Where do you enter a trade?
2. Where do you exit a trade?
3. Where will you place stops?
4. Will you take countertrend trades?
5. Will you trade strong trend and strong reversals?
6. How will you handle typical trend reversals and strong trend reversals?
7. Will you reverse position to the opposite trend?
8. If so, will you average into a trade? For example, if you would normally trade 2 contracts, do you trade 1 contract at minor zone when the blue arrow appears and the second contract if the market reaches the intermediate zone?
9. Some of the strongest market moves occurs when the Federal Reserve is meeting or talking. Do you avoid trading when the comments are being made? These strong market moves occur not only when the Chairman is talking, but also when other voting members are giving

speeches. Knowing when these speeches occur will eliminate losses from these strong initial market moves.

10. Do you trade just prior to news releases?
11. On 2-27-07 there was a very large market correction. The website has a detailed section on the events of the day and how ZoneTraderPro handled the day. There was nothing really unusual about the day until the NYSE computer meltdown at 1500 hours. Watching the contracts trade in realtime was an amazing realization about how fast and hard the markets can move. How would you trade after the market falls 20 S&P points in 7 minutes, and then trades up 20 points in the next 10-15 minutes? Would you have placed short trades before or after the start of the sell off? Would you have shorted (against the ZoneTraderPro arrows) as the market was regaining the 20 points? Would you have traded the next day (knowing the Federal Reserve Chairman Bernanke was speaking to congress at 1000 hours)?
12. Will you trade multiple contracts and have multiple profit targets in a trade? Look very carefully at the overall statistics page of the website. There is a chart that lists the Maximum Favorable Excursion for all trades. As of data compiled through 10-7-07, 77.3% of all trades had a favorable excursion of 4 or greater. 64.4% had a MFE of 6 or greater. The number drops to 35.6% at 10 ticks or greater. Losing trades were only11.4%, so the risk to reward is still quite good if you were to hold out for 10 ticks.

TOTAL TRADES	MFE >= 4	MFE >= 6	MFE >= 8
4172 TREND	3251 / 77.9%	2748 / 65.8%	2141 / 51.3%
2936 COUNTERTREND	2250 / 76.6%	1833 / 62.4%	1305 / 44.4%
7108 TOTAL	5501 / 77.3%	4581 / 64.4%	3446 / 48.4%

These are just some of the questions you will have to know the answer to in advance. In order to trade successfully, you must have studied the materials available from ZoneTraderPro, and not just know the answers to the above questions. Trading with ZoneTraderPro will give you a unique perspective because you are not trading based on common indicators or your gut feeling. You have memorized 5 unique patterns that the market repeats every day. Your trading will be based on your recognition of these 5 simple patterns.

Stop placement

The stop placement used to create the website data is 12 ticks. The historical statistics on the website are based on a 12 tick stop with a trade that is entered at the worst possible entry point. The reason 12 ticks was developed was because that would place the stop just above the next zone. Individual traders will need to review the statistical records to develop a plan as to where they feel comfortable with their stop.

Traders would also want to consider moving stops to breakeven, or breakeven + or -1, once the trade has moved 4-5 ticks favorably in the direction of the trend. If a typical trend reversal would occur, it would occur normally after a 6-8 tick move.

A plan for stop placement would also have to be developed for trades are entered from minor support/resistance levels on strong trend or strong trend reversal trades. Trades taken from this level have a higher statistical risk of adverse aversion. These trades also have a higher reward potential which is why ZoneTraderPro identifies them, but identifies them as a blue arrow.

The key here is to develop a plan for each type of trade you may enter. Advanced traders will also need to develop stop placement plans if they take countertrend trades or reverse trades based on identified reversals.

On the website there are 2 Excel worksheets available for download. It was from these worksheets that all of the statistical data was generated for the website. One worksheet is for trend trades, and the other is for countertrend trades. On the trend worksheet there is a column that analyzes the difference between an 8 tick stop and a 12 tick stop. The numbers in that column represent what you would have saved or lost by having an 8 tick stop. For example, if the MAE was between 8-11 ticks, and the trade came back to breakeven, the number 8 is in the box, because you saved yourself 8 ticks. If the trade was a loss of 2 ticks, the number would be a 6. If the trade was a full loss of 12 ticks the number was a -4. Because the worksheets are constantly being updated, you will need to download the worksheet and determine where you should place you stops in your trading plan.

Based on the data contained in the worksheets a pattern developed that a number of losing trades occurred after a favorable excursion of 4-5 ticks. These were not previously considered breakeven trades because a new minor retracement zone had not been created by the 4 tick movement. On all trades after 5-11-07, if the market moves a minimum of 4 ticks, the stop will be moved from 12 ticks to breakeven. The established trade record will not be changed and you can decide based on the data, whether or not you will move the stop in your trading plan.

From the beginning of the data, July 10, 2006 to May 24 2007, there were 200 trend trades that an adverse excursion between 8 and 11 and were exited at a loss less than 8 to breakeven. The total ticks saved were 1346.

During this same period there was 137 full loss trades of 12 ticks, and 4 losing trades between 10-11 ticks.. These trades total 557 ticks.

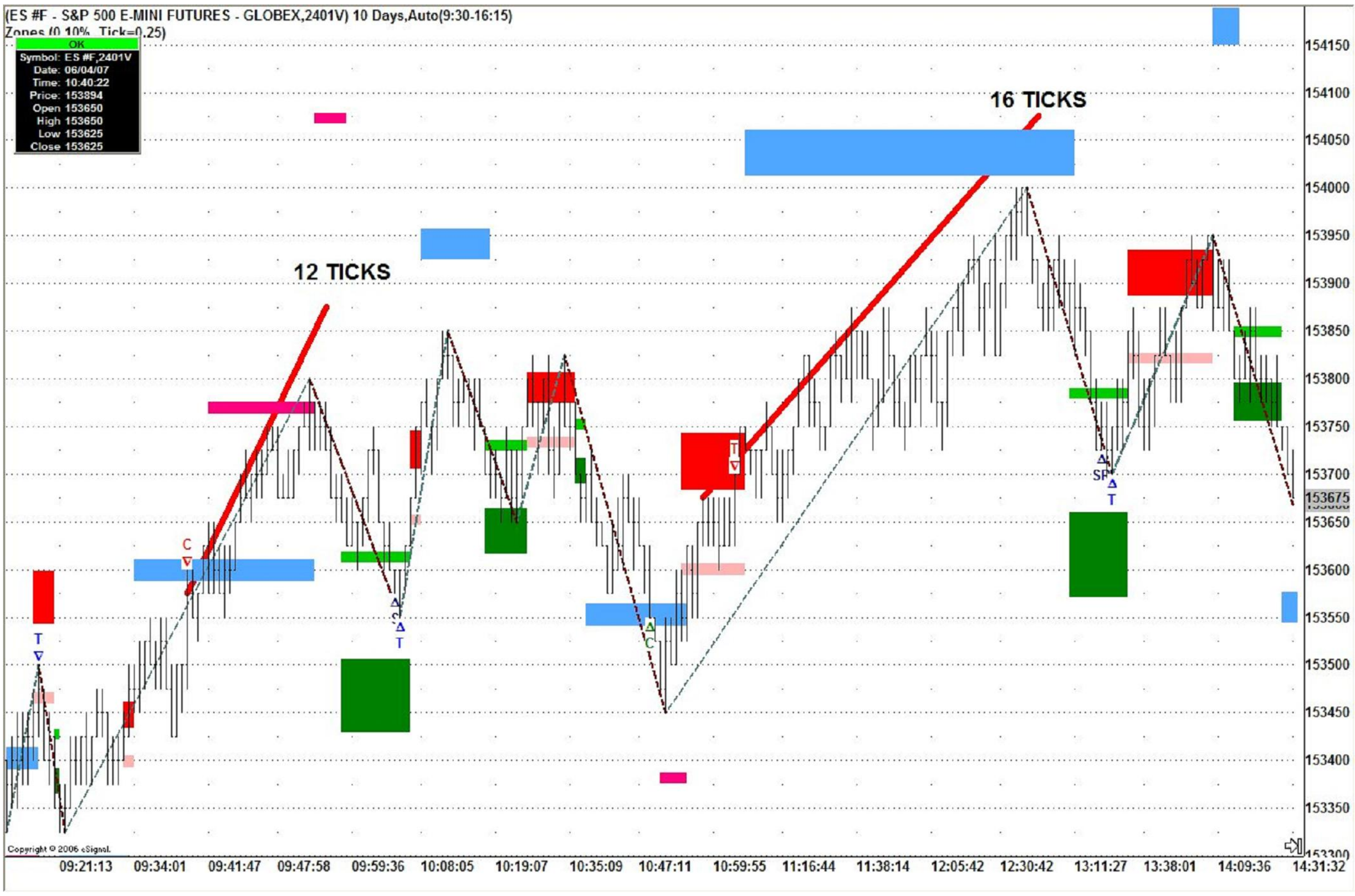
The difference between those two numbers is 789 ticks over the 10 month period, which is a substantial number. 789 ticks is over $9,800.

In addition there were 13 winning trades that had an adverse excursion of 8 or greater. The amount of the win was not added to the “I” column. Only the fact that you saved 8 ticks of loss was in the column.

There may be a statistically better number, but when you are deciding where to place a stop, this is a factor you may consider.

The statistics from the website are no longer updated. They take a minimum of 2-4 hours per day and there is simply not enough time in the day to continue trading and doing statistics. The purpose of the statistics was to create a trading plan and this has been accomplished.

The reason 12 ticks was chosen it that usually is just a bit above the next zone, as in this example on the left of the chart. If a counter trend trade had been entered, it could have been exited at breakeven. This is a general rule and it is very possible to have a zone that sits at > 12 ticks, as you see in the example on the right of the chart. In the example on the right there were 13 ticks of adverse excursion as the market reached the trend resistance area. You will need to consider in your trading plan if moving the stop to 16 ticks, above the trend resistance is the proper way to handle this situation. The theory to use 12 was that if the next zone holds, you will be given a chance to exit the trade at a better price. In the second example the trend resistance did hold and the market traded back to within one tick of the entry point. This is recorded as a full loss on the statistical data however when the trade reached 12 ticks of adverse excursion.


(ES #F - S&P 500 E-MINI FUTURES - GLOBEX,2401V) 10 Days,Auto(9:30-16:15)
Zones (0.10%, Tick=0.25)
OK
Symbol: ES #F,2401V
Date: 06/04/07
Time: 10:40:22
Price: 153894
Open 153650
High 153650
Low 153625
Close 153625
12 TICKS
16 TICKS
154150
154100
154050
154000
153950
153900
153850
153800
153750
153700
153675
153650
153600
153550
153500
153450
153400
153350
09:21:13
09:34:01
09:41:47
09:47:58
09:59:36
10:08:05
10:19:07
10:35:09
10:47:11
10:59:55
11:16:44
11:38:14
12:05:42
12:30:42
13:11:27
13:38:01
14:09:36
14:31:32
Copyright © 2006 eSignal.

Developing a trading plan for the Exhaustion trade

The exhaustion trade presents a special challenge. When ZoneTraderPro was developed, the high risk trend trade was easily identified. The basic logic of the pattern is that when you have a reversal from minor support/resistance you should expect a strong trend.

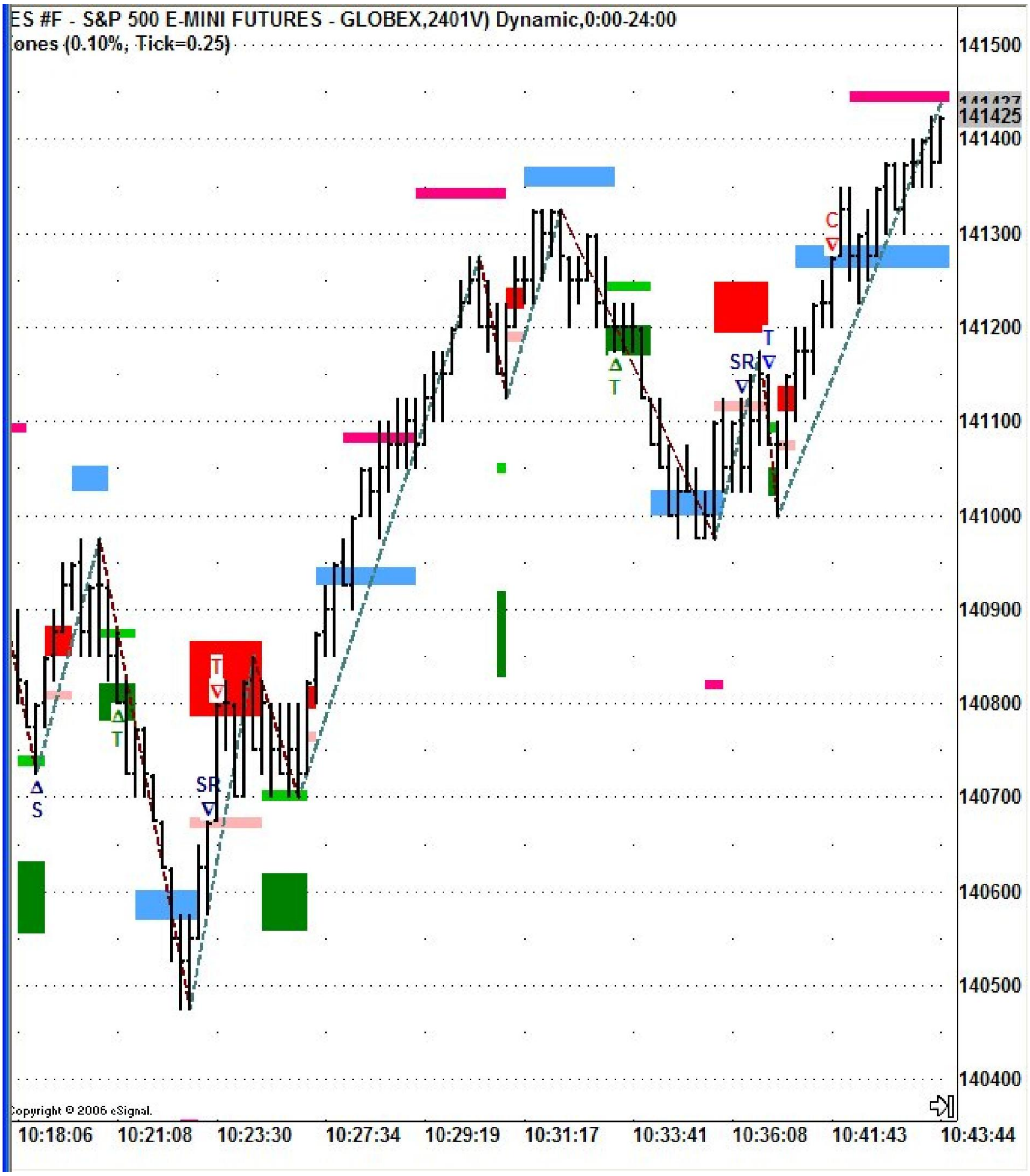
However while this is the pattern that you can expect in a strong trend, the reality is that the exhaustion trade results in many more wins than losses. This is why the high risk trend trade is so dangerous.

Because the trade was developed as a pattern in 2009, there is no data or statistics to develop profit target or stops. There is generally going to be about 8 ticks between the trend and strong support/resistance zones. You should consider that if the trade goes halfway between the entry point and the strong trend zone, it is likely going to the next zone. At this point the $TICK should also have violated the 100 rule.

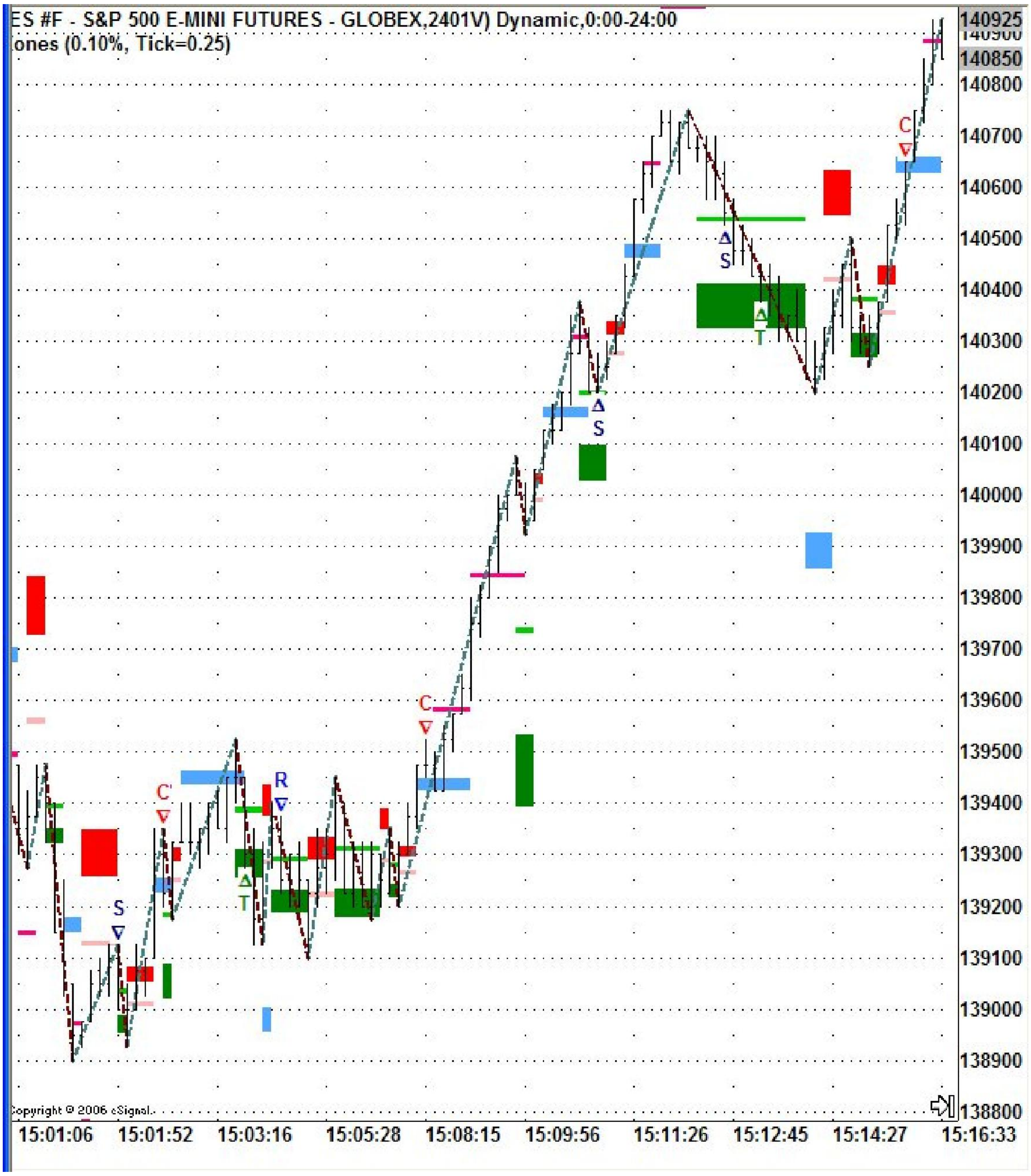
When not to Trade

Knowing when not to trade will help a trader become profitable. On 2-27-07 the S&P lost 50 points. The day is examined in detail as a case study on the website. However the following day on 2-28-07 was an even more difficult to trade. There was fear and uncertainty that large positions had to be unwound or that a hedge fund or two may have blown up the day before. Add to the mix that the Federal Reserve Chairman was speaking to congress. There were no less than 45 identified trend trades, 10 Strong Trend Reversals, 7 Typical Reversal and 3 reversals that reversed at minor zones. That meant there was potential for 13 or more losing trades that day. At the end of the day the win loss record for trend trades was 26-7-12 and countertrend trades were 14-3-5. Did that the show the ZoneTraderPro system was broke because there were 10 losing trades in a day? No, it showed there were some very powerful forces at work and the wise and prudent trader watched from the sidelines. But if you did trade, ZoneTraderPro still identified 40 winning trades.

The below chart from 2-28-07 shows several strong trend reversals, a reversal from minor support and a major trend zone being hit, and this was in less than 30 minutes.



Those sidelines were also the appropriate place to be at 1500 hours on 2-27-07 when there was uncertainty in the market. The retail traders that were selling the market from 1501 to 1511 hours as the market rose nearly 20 points all ended up with losing trades and a market that rose incredibly fast. There were only 3 strong trend reversals on 2-27-07 that occurred. Also note that due to a lack of liquidity on both the sell and buy side there was wide swings from zone to zone for about 4 minutes before the market started its' move.



Losing Trades

Losing trades will occur in any system. However, how much damage a losing trade can cause to a trading account will depend on the trader.

Three of the main problems that a trader can have that will blow up a trading account are;

1. Trading without a stop. ZoneTraderPro has a section of the manual devoted to determining where to place a stop.
2. Using leverage. Your brokerage will give you a large amount of leverage for a small of margin cash, sometimes as low as $250 per contract. A large trading loss will occur when maximum leverage is used, and a trader refuses to exit a losing trade, hoping that the trade will come back in his favor. A large loss can also occur when a trader doubles and triples the position in a losing trade, hoping to break even if the market retraces. In each case stops were ignored and moved. To remedy this situation, you can ask your broker to set a maximum amount of contracts you are allowed to trade. This way you can not allow leverage to create a huge loss.
3. Trading without a trading plan. The purpose of the manual and this section is to encourage a trading plan. If you have a plan developed in advance of the trade, you do not have to improvise and guess at what to do when you are under pressure.

ZoneTraderPro also has a proprietary trading filter to help with the trading decisions. Please contact ZoneTraderPro if you have purchased the system to learn how to setup the filter.

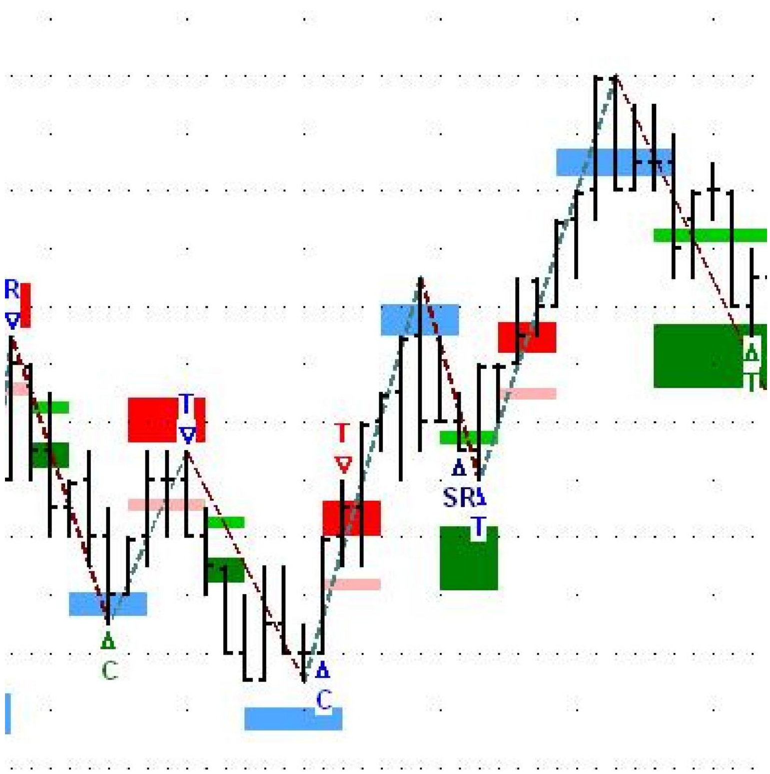
In the next section we will look at each type of losing trade. There are six types of losing trades. Five of the six types of losing trades can be managed by the trader. The types of losing trades are;

1. Typical strong trend reversal. This is the one type of trade that can not be avoided, but only managed by the trader.
2. Taking a trade prior to a news event. During the 15 minutes leading up to a news release and during that news release, you will see losses. **ZoneTraderPro can not predict the news.**
3. During periods of illiquidity volatility. An entire manual section is devoted to recognizing this concept and why the BarColor.EFS file is important.
4. High risk trend trade. In a high risk trend trade, the market has not responded on the previous move as expected. A significant number of losing trend trades occurs as a result of a high risk trend trade. As noted in the section above on high risk trend trades, you can easily identify them because they have no counter trend trade in front of them.
5. Typical reversals where a stop has not been moved to breakeven. In this situation a trade has moved favorably 4 or more ticks in the direction of the trade, then the market reverses and the trade is not exited for breakeven or a small loss.
6. Trades where the adverse excursion becomes greater than 4-5. Instead of trying to break even, a trader will keep the original profit target instead of realizing the market was showing its' hand, and indicating a reversal.

The following sections will detail each trade.

Typical Strong Trend Reversal

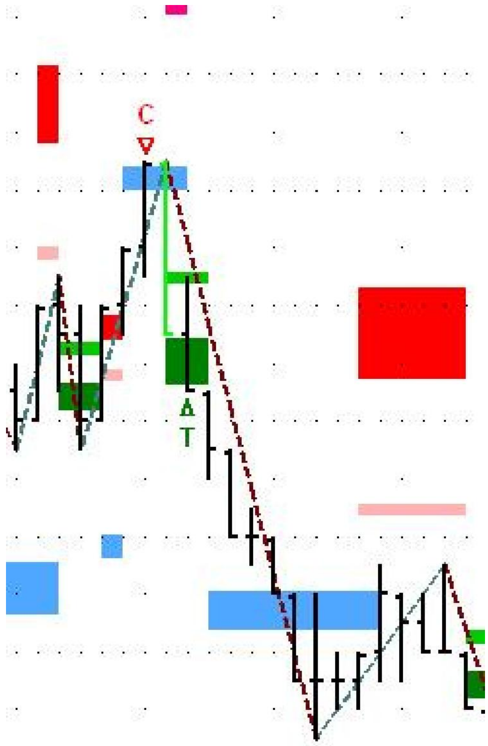
In the following typical strong trend reversal there are no warning signs that the trade will lose. There was not a color bar leading into the trade and it was not a high risk trend trade. The market simply reversed and behaved exactly as it was supposed to in a typical strong trend reversal.



There are several very important points to make however when looking at this chart. The first point is that the trade only went 9 ticks against the entry point of the position, so it was not initially stopped out. The trend resistance held and the market returned to minor support. Second, and most important, is that the market returned to minor support, and ZoneTraderPro indicated a strong trend reversal buy. The loss at this point was only 3 ticks. If you moved your stop to breakeven, this would not have been filled, because the market reversed exactly where it was supposed to. If you did exit and reverse, you could have made 3 points on that trade. **Your trading plan must address where the market should initiate the new trend from, and not where you entered the trade.**

Strong Trend Reversal with Warning

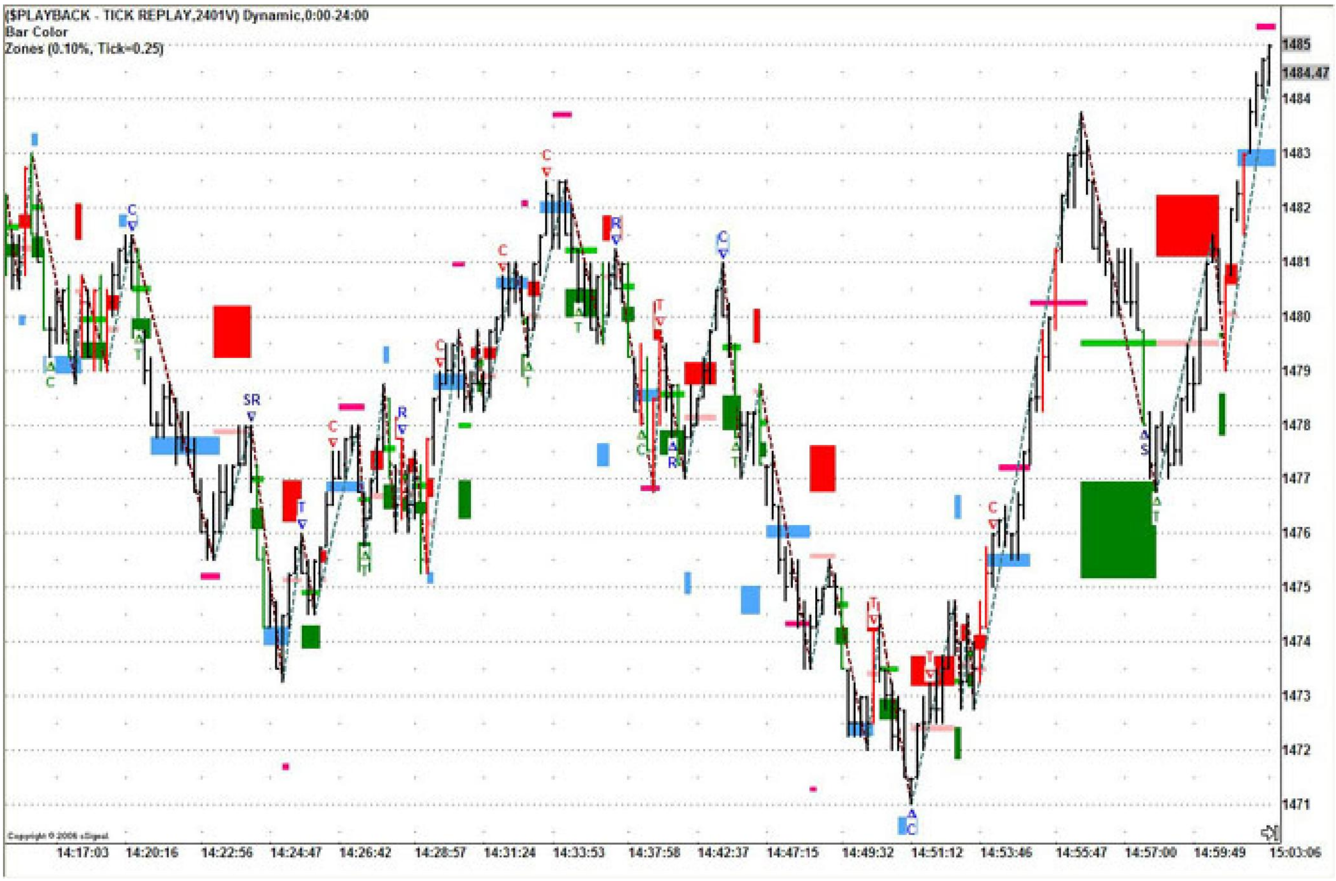
In the following trade you see a BarColor.EFS warning that the trade is high risk. This is a losing trade that can be avoided.



Illiquidity Volatility

An entire section of the manual and the website is devoted to this issue. When numerous color bars are appearing on the chart, and the volume of the bid and ask on the SuperDom have fallen below 500-600 for all of the tick levels, you are trading during illiquidity, and the probabilities of a losing trade have significantly increased.

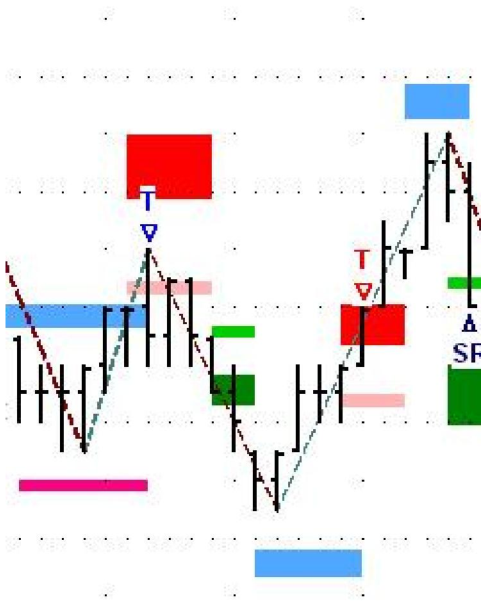
This chart is a mess. It is caused because the smart money traders have removed liquidity from the market and now smaller traders can move a market. This will be caused by a negative news event and may last several weeks. At the end of the chart there is a 14 point range in less than 10 minutes.



Trading in this environment can be avoided.

High Risk Trend Trade

Below is a pattern of a typical high risk trend trade.

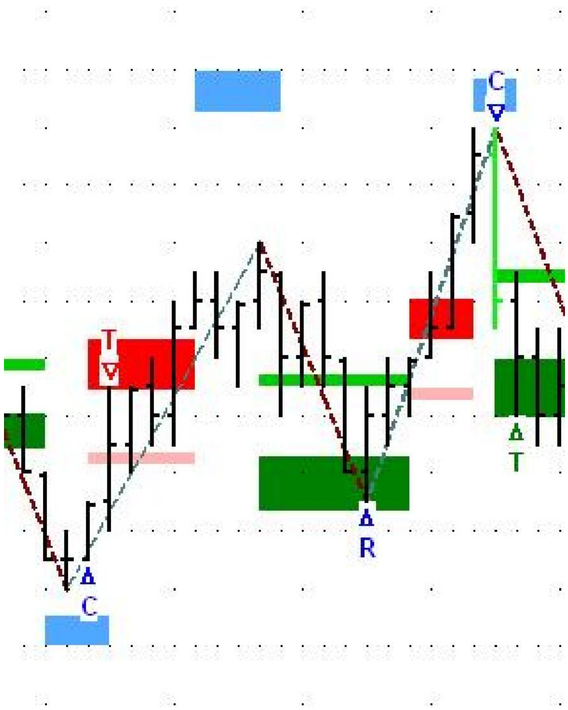


First we see a trend short trade that reverses from minor resistance. The market is starting the trend trade from minor resistance. If the market was behaving normally, a strong trend support zone should be hit. The market actually stops 1-2 ticks short of trend support, a bullish sign. ***There is no counter trend trade signaled.*** Again, if you have a trading plan that addresses this trade, if it was taken, it will result in a small 1-2 tick loss if exited at minor support.

This trade accounts for a large number of trend trade losses and can be avoided. However the exhaustion long trade from the low results in a several point profit.

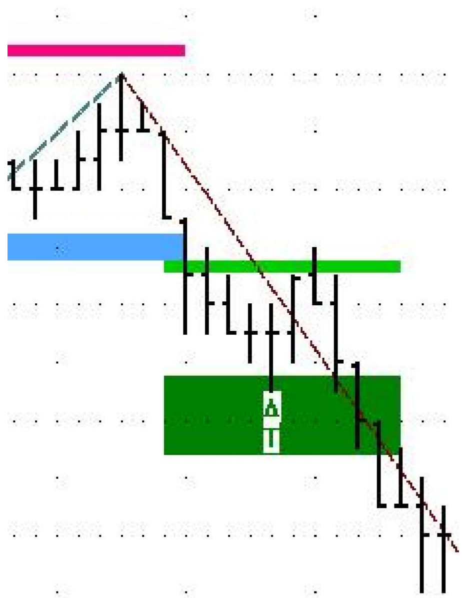
Typical reversals where the stop has not been moved

There are two types of these trades. The first of this type is where the market is telling you it wants to reverse. This scenario is very typical. In the trend short trade there is no indication that there could be a problem. However the trade moves 5 ticks against the entry point. Based on the historical trading record, there is less than a 9% chance of the trade succeeding. The market then moves into intermediate support and the market reverses up. ZoneTraderPro indicates a blue “R” for a typical reversal.



If your trading plan did not exit the trade at breakeven or reverse based on the $TICK readings when given the chance, you are now dealing with a losing trade instead of a profit.

This second type of reversal is not as typical but is must be addressed. In this trade you should already have a warning it will fail. As you can see the market trades to strong trend resistance. There was no reaction at minor support where the market should have responded. The market then touches intermediate support, and trades up 4 ticks. After trading up 4 ticks, the market takes out the previous low, and drops. It is very important to note what the market does at the point when it first reaches the zone.



This is a similar situation in the counter trend trade. Four ticks of favorable excursion followed by the lows being taken out.

In this counter trend trade, the market makes 2 additional tests of the low established on the test into the trend support zone. Each time the market trades up 5 ticks and comes back to the low. If your trading plan had a stop just below the first low, your trade would have been successful. If you did not move your stop there would have been additional risk of a losing trade.

Trades with adverse excursion greater than 4

Once a trade has an adverse excursion of 4-5 there is less than a 9% chance of a winning trade based on the historical trading record. If the adverse excursion goes to 6 ticks, the number is less than 4% of having a successful trade. In this trade example the market trades 5 ticks against the entry point of the trade. If you had moved your stop to breakeven, the market returns to minor support giving you a chance to exit. This is exactly where it should if the market is in a strong trend reversal.

This example is of a long counter trend trade that is not stopped out and returns exactly to minor resistance before the trend resumes. ZoneTraderPro then indicates a strong trend trade, followed by a successful long exhaustion trade.

The purpose of this section is to get the trader thinking about what to do if a pattern is recognized that can lead to a loss. Not every trade will be a winner, or a loss.

Once the logic that you had to enter the trade is broken, you can usually exit the trade at breakeven or a very small loss, and wait for the next setup.

If you have a stop in place and the trade is a loss, you will preserve your trading account.

DISCLAIMER: The risk of loss in trading futures contracts can be substantial. You should carefully consider whether such trading is suitable for you. No representation is being made that any account will or is likely to achieve profits or losses. Past performance is not necessarily indicative of future results. The maximum favorable excursion of winning trades could never be achieved in real trading. The total loss is an absolute minimum. Both the MFE and loss are based on examination of the charts, after the trade has completed. Market conditions and trader experience may affect profits and losses. MFE and loss do not account for slippage and commissions. Please refer to the Statistical FAQ page for complete details. A breakeven trade is defined as when the market price on the exit trades at the entry price of the trade. It does not account for any commissions or if a limit order would have been filled at that price. The statistical data in this document is based on ZoneTraderPro trades between 7-10-06 and 10-7-07.

Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under-or-over compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight.

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

Information herein has been obtained and prepared from sources believed to be reliable; however no guarantee to its accuracy is made. Comments contained in these materials are not intended to be a solicitation to buy or sell any of the commodities mentioned. Past performance is not indicative of future performance results. Opinions expressed herein are the options of the author only and not the opinion of any firm the author may be affiliated or associated with.