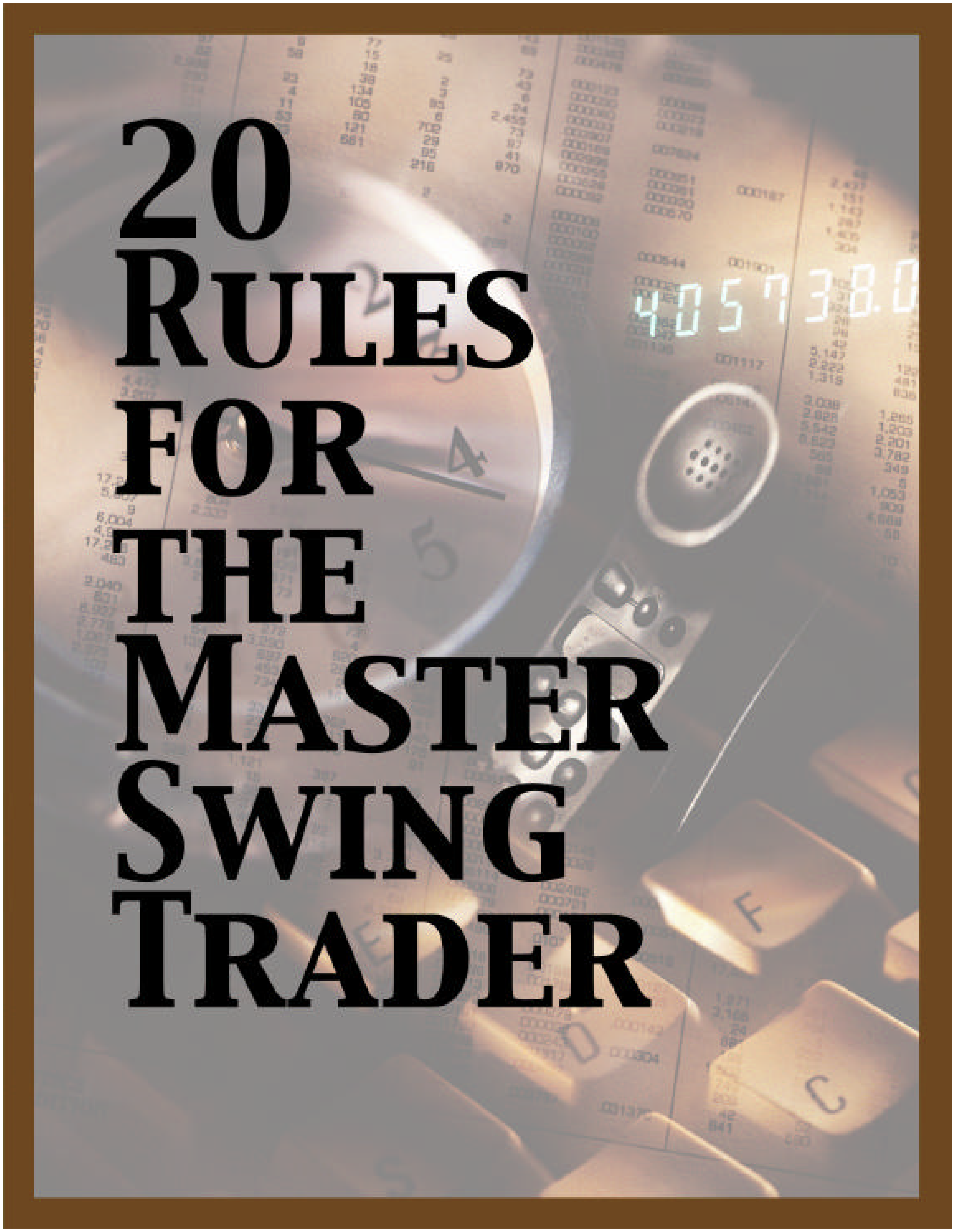

20 Rules for the Master Swing Trader

20 RULES FOR THE MASTER SWING TRADER

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Swing trading can be a great way to profit from market upswings and downswings, but as I've always said, it's not easy. Mastering the swing-trading techniques takes time and effort. To help get you started, I am giving you 20 Rules to think about as you begin – and ultimately master – swing trading.

Rule 1: If you have to look, it isn't there.

Forget your college degree and trust your instincts. The best trades jump out of nowhere and create a sense of urgency. Take a deep breath, then act quickly before the opportunity disappears.

Rule 2: Trends depend on their time frame.

Make sure your trade fits the clock. Price movement aligns to specific time cycles. Success depends on trading the right ones.

Rule 3: Price has memory.

What happened the last time a stock hit a certain level? Chances are it will happen again. Watch trades closely when price returns to a battleground. The prior action can predict the future.

Rule 4: Profit and discomfort stand side by side.

Find the setup that scares you the most. That's the one you need to trade. Don't expect it to feel good until you take your profit. If it did, everyone else would be trading it. Wisdom from the East: What at first brings pleasure in the end gives only pain, but what at first causes pain ends up in great pleasure.

Rule 5: Stand apart from the crowd at all times.

Trade ahead, behind or contrary to the crowd. Be the first in and out of the profit door. Your job is to take their money before they take yours. Be ready to pounce on ill-advised decisions, poor judgment and bad timing. Your success depends on the misfortune of others.

<u>Rule 6</u>: Buy the first pullback from a new high. Sell the first pullback from a new low.

Trends often test the last support/resistance before taking off. Trade with the crowd that missed the boat the first time around.

<u>Rule 7</u>: Buy at support. Sell at resistance.

Trend has only two choices upon reaching a barrier: Continue forward or reverse. Get it right and start counting your money.

<u>Rule 8</u>: Short rallies, not selloffs.

Shorts profit when markets drop, so they start to cover. This makes it a terrible time to enter new short sales. Wait until they get squeezed and shaken out, then jump in while no one is watching.

<u>Rule 9</u>: Manage time as efficiently as price.

Time is money in the markets. Profit relates to the amount of time set aside for analysis. Know your holding period for every trade. And watch the clock to become a market survivor.

<u>Rule 10</u>: Avoid the open.

They see you coming, sucker.

<u>Rule 11</u>: Trades that work in hot markets destroy accounts in cool ones.

Stocks trend only 15% to 20% of the time. Price ranges cause grief to momentum traders the rest of the time.

<u>Rule 12</u>: The best trades show major convergence.

Watch for the bull's eye. Look for a single point in price and time that points repeatedly to a trade entry. The market is trying to tell you something.

<u>Rule 13</u>: Don't confuse execution with opportunity.

Save Donkey Kong for the weekend. Pretty colors and fast fingers don't make successful careers. Understanding price behavior and market mechanics does. Learn what a good trade looks like before falling in love with the software.

Rule 14: Control risk before seeking reward.

Wear your market chastity belt at all times. Attention to profit is a sign of immaturity, while attention to loss is a sign of experience. The markets have no intention of offering money to those who do not earn it.

Rule 15: Big losses rarely come without warning.

You have no one to blame but yourself. The chart told you to leave, the news told you to leave and your mother told you to leave. Learn to visualize trouble and head for safety with only a few bars of information.

Rule 16: Bulls live above the 200-day moving average, bears live below.

Are you flying with the birds or swimming with the fishes? The 200-day moving average divides the investing world in two. Bulls and greed live above the 200-day, while bears and fear live below. Sellers eat up rallies below this line and buyers come to the rescue above it.

Rule 17: Enter in mild times, exit in wild times.

The big move hides beyond the extremes of price congestion. Don't count on the agitated crowd for your trading signals. It's usually way too late by the time they act.

Rule 18: Perfect patterns carry the greatest risk for failure.

Demand warts and bruises on your trade setups. Market mechanics work to defeat the majority when everyone sees the same thing at the same time. When perfection appears, look for the failure signal.

Rule 19: Trends rarely turn on a dime.

Reversals build slowly. Investors are as stubborn as mules and take a lot of pain before they admit defeat.

Rule 20: See the exit door before the trade.

Assume the market will reverse the minute you get filled. You're in very big trouble when it's a long way to the door. Never toss a coin in the fountain and hope your dreams will come true.