

## THE TRADER'S TRICK ENTRY

The purpose of the Trader's Trick entry (TTE) is to get us into a trade prior to entry by other traders.

Let's be realistic. Trading is a business in which the more knowledgeable have the advantage over the less knowledgeable. It's a shame that most traders end up spending countless hours and dollars searching for and acquiring the wrong kind of knowledge. Unfortunately, there is a ton of misinformation out there and it is heavily promoted. What we are trying to avoid here is the damage that can be done by a false breakout.

Typically, there will be many orders bunched just beyond the point of a Ross Hook. This is also true of the number two point of a 1-2-3 formation. The insiders are very much aware of the bunching of orders at those points, and if they can make it happen, they will move prices to where they see the orders bunched together, and then a little past that point in order to liquidate as much of their own position as possible. This action by the insiders is called "stop running."

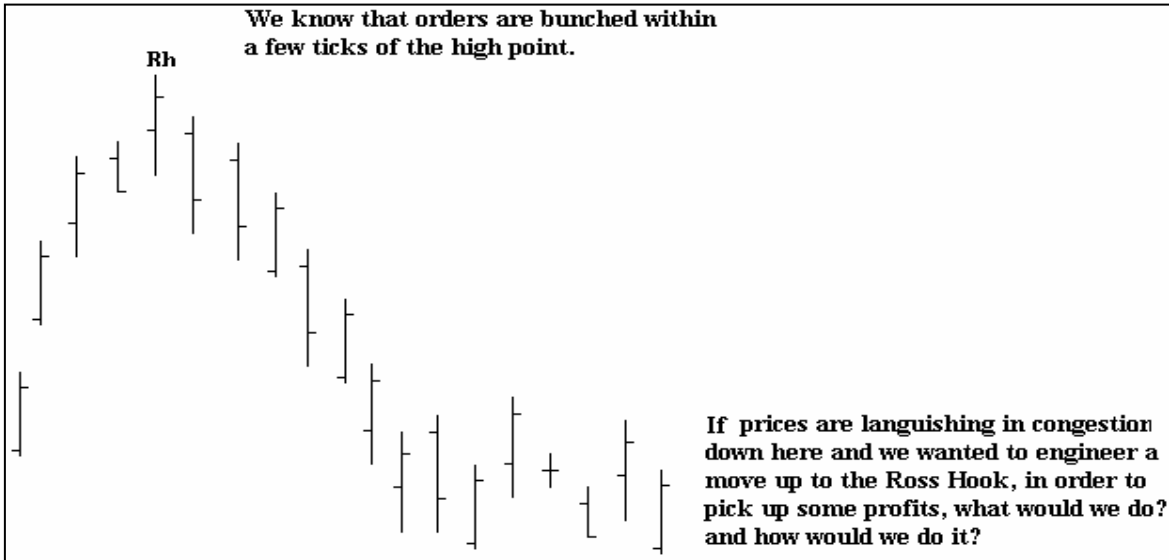
Unless the pressure from the outsiders (us) is sufficient to carry the market to a new level, the breakout will prove to be false.

The Trader's Trick is designed to beat the insiders at their own game, or at the very least to create a level playing field on which we can trade. **WHEN TRADING HOOKS, WE WANT TO GET IN AHEAD OF THE ACTUAL BREAKOUT OF THE POINT OF THE HOOK. IF THE BREAKOUT IS NOT FALSE, THE RESULT WILL BE SIGNIFICANT PROFITS. IF THE BREAKOUT IS FALSE, WE WILL HAVE AT LEAST COVERED OUR COSTS AND TAKEN SOME PROFIT FOR OUR EFFORT.**

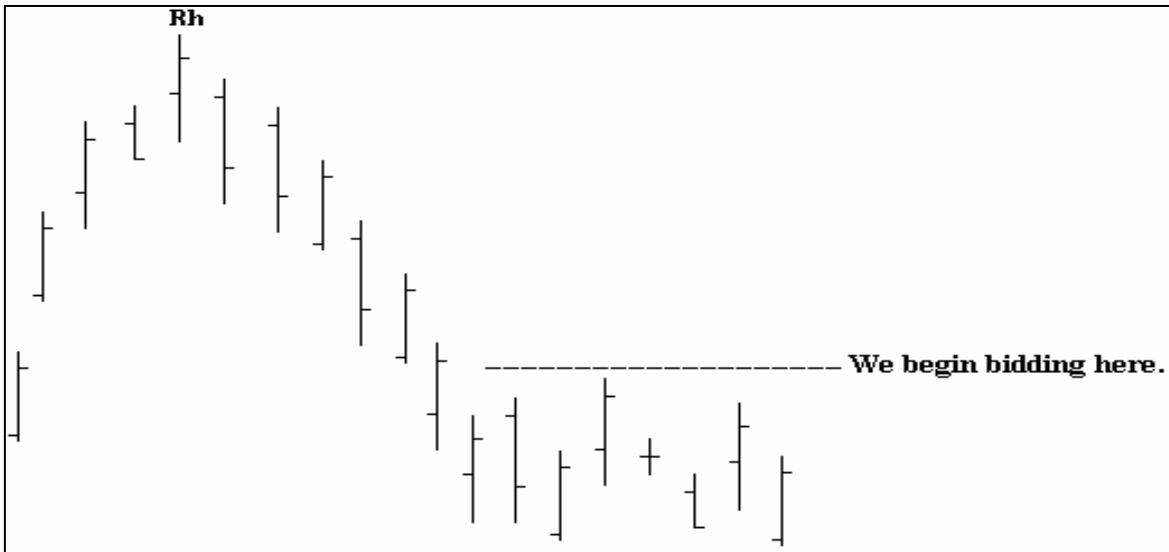
Insiders will often engineer moves aimed at precisely those points where they realize orders are bunched. It is exactly that kind of engineering that makes the Trader's Trick possible.

The best way to explain the engineering by the insiders is to give an example. Ask the following question: If we were large operators down on the floor, and we wanted to make the market move

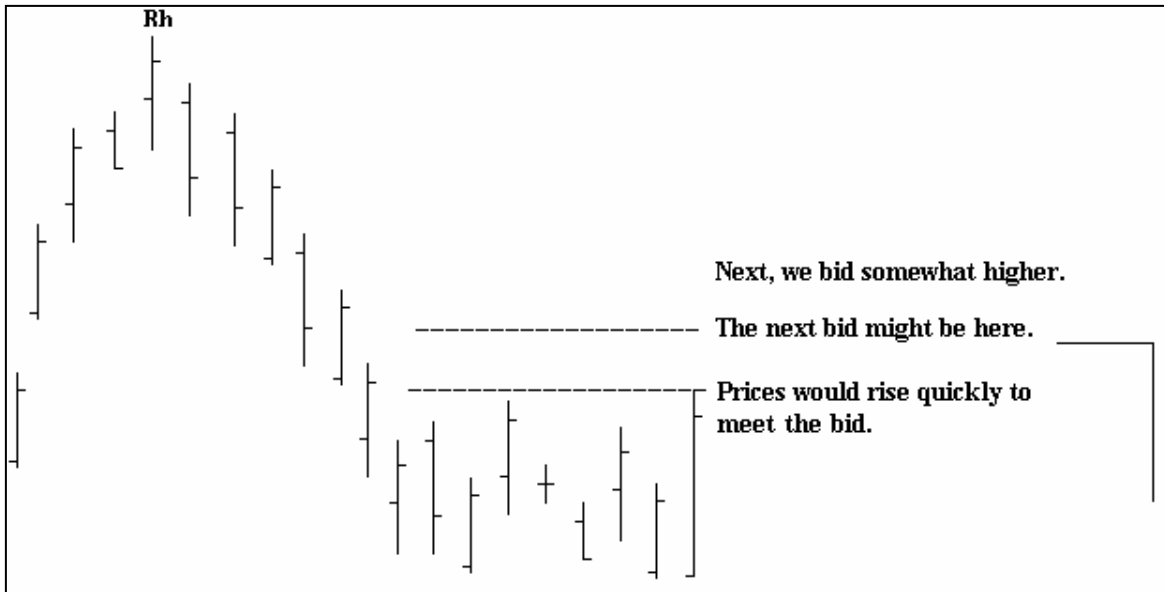
sufficiently for us to take a fat profit out of the market, and know that we could liquidate easily at a higher level than where the market now is because of the orders bunched there, how would we engineer such a move?



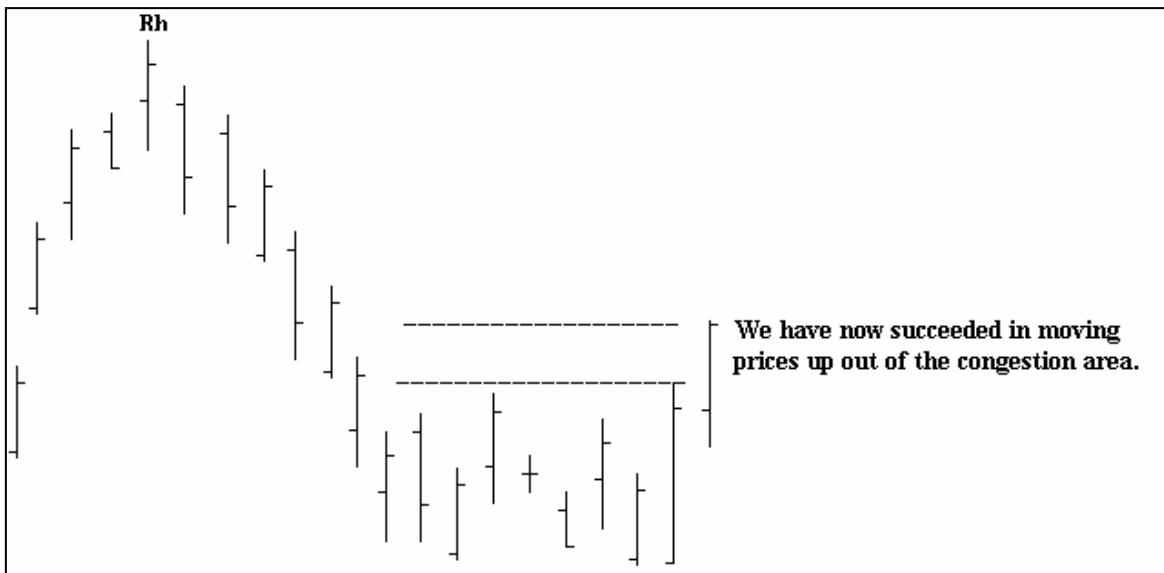
We would begin by bidding slightly above the market.



By bidding a large number of contracts above the market, prices would quickly move up to our price level.



Once again by bidding a large number of contracts at a higher level, prices would move up to that next level.



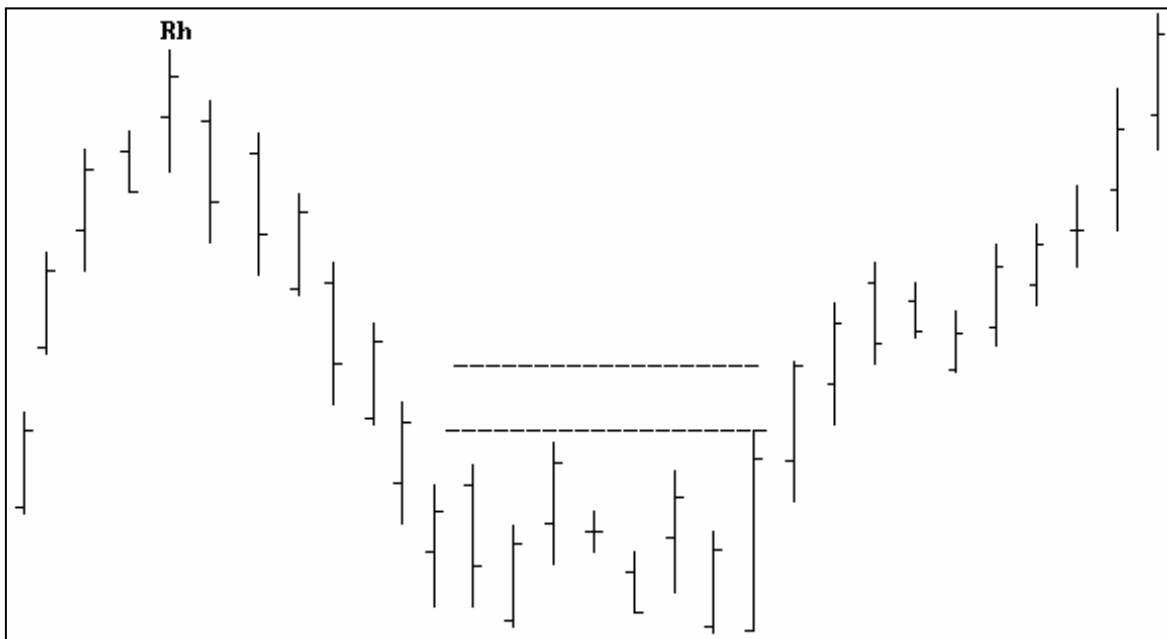
The sudden movement up by prices, to meet our large-order overpriced-bid, will cause others to take notice. The others are day traders trading from a screen, and even insiders.

Their buy orders will help in moving the market upward towards where the stops are bunched. It doesn't matter whether this is a daily chart or a five minute chart, the principle is the same.

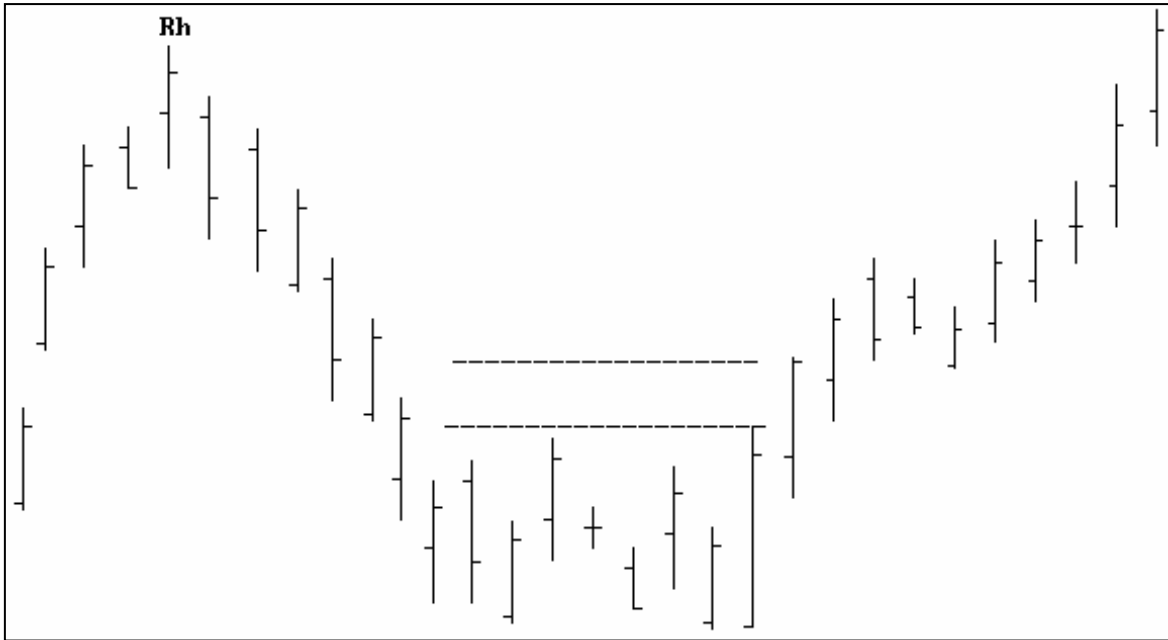
In order to maintain the momentum, we may have to place a few more buy orders above the market, but we don't mind. We know there are plenty of orders bunched above the high point. These buy orders will help us fill our liquidating sell orders when it's time for us to make a hasty exit.

Who has placed the buy orders above the market? The outsiders, of course. They are made up of two groups. One group are those who went short sometime after the high was made, and feel that above the high point is all they are willing to risk. The other group are those outsiders who feel that if the market takes out that high, they want to be long.

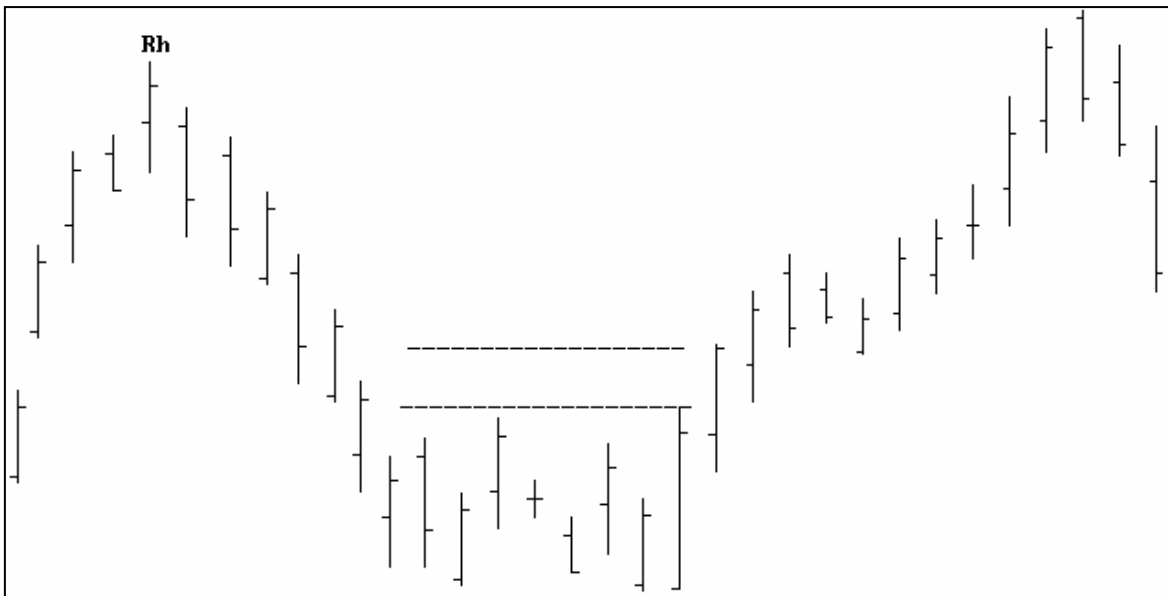
Because of the action of our above-the-market bidding, accompanied by the action of other inside traders and day traders, the market begins to make a strong move up. The move up attracts the attention of others, and the market begins to move up even more because of new buying coming into the market.



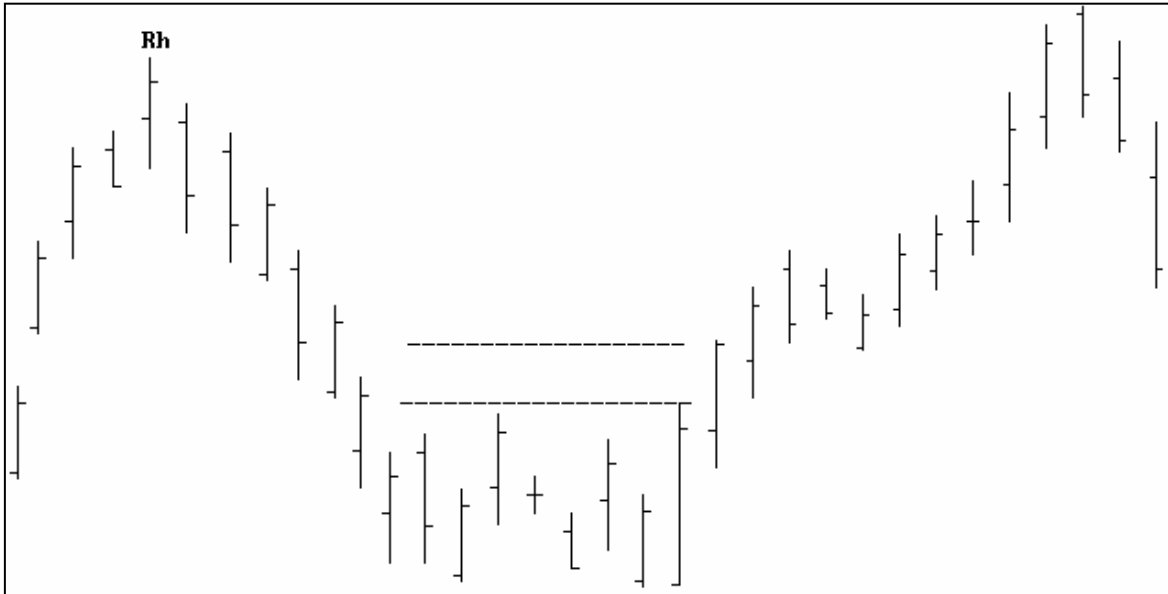
This kind of move has nothing whatsoever to do with supply and demand. It is purely contrived and engineered.



Once the market nears the high, practically everyone wants in on this “miraculous” move in the market. Unless there is strong buying by the outsiders, the market will fail at or shortly after reaching the high. This is known as a buying climax.



What will cause this failure? Selling. By whom? By us as big operators, and all the other insiders who are anxious to take profits. At the very least, the market will make some sort of intraday hesitation shortly after the high is reached.



If there is enough buying to overcome all the selling, the market will continue up. If not, the insiders will have a wonderful time selling the market short, especially those who know this was an engineered move. **NOTE: DON'T THINK FOR ONE MOMENT THAT THERE IS NOT COLLUSION BY INSIDERS TO MANIPULATE PRICES.**

What will happen is that not only will selling be done for purposes of liquidation, but also for purposes of reversing position and going short. This means the selling at the buying climax may be close to triple the amount it would normally be if there were only profit taking.

Why triple? Because if prices were engineered upward by a large operator whose real intention is to sell, he will need to sell one set of contracts to liquidate all of his buying, and perhaps double that number in order to get short the amount of contracts he originally intended to sell.

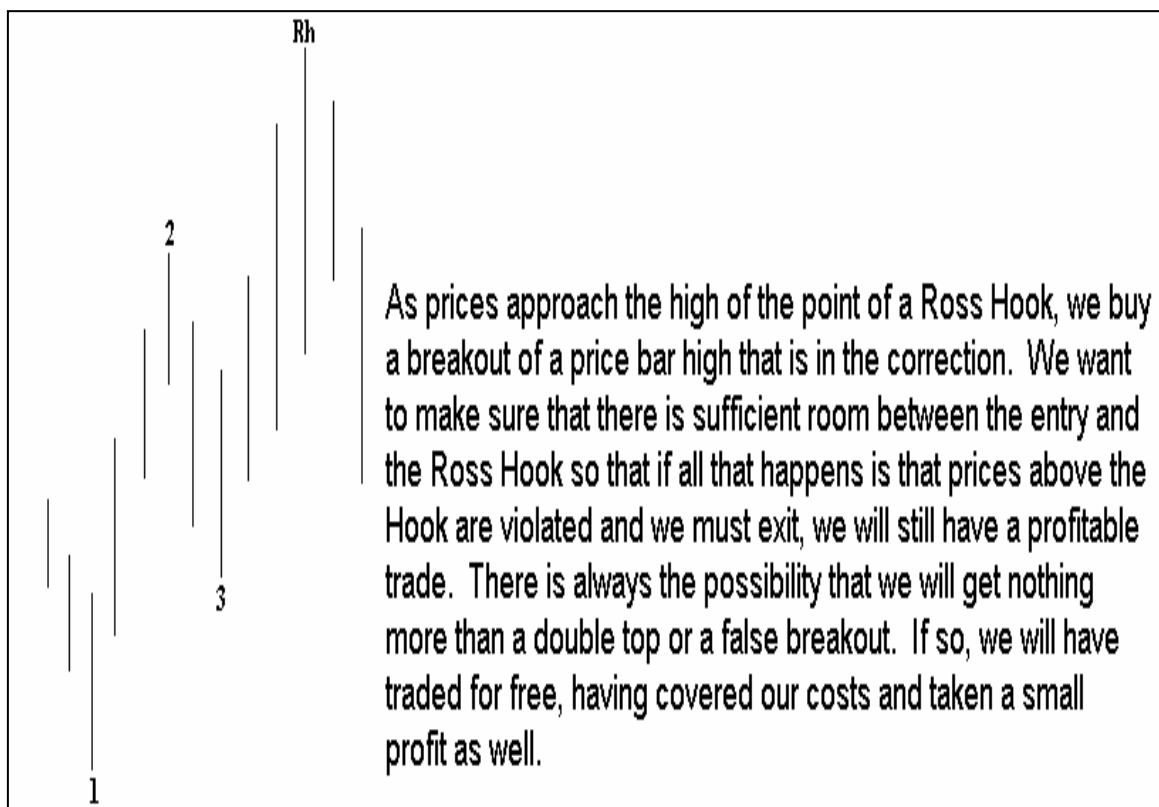
The buying from the outsiders will have to overcome that additional selling.

Because of that fact, the charts will attest to a false breakout. Of course, the reverse scenario is true of a downside engineered move resulting in a false breakout to the downside.

**WARNING: MOVING THE MARKET AS SHOWN IN THE PREVIOUS EXAMPLE IS NOT SOMETHING THE AVERAGE TRADER SHOULD ATTEMPT!**

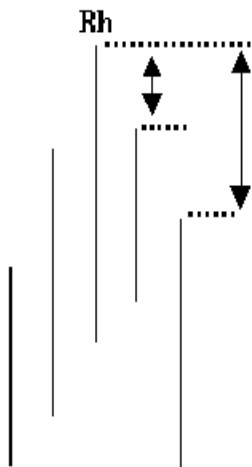
It is very important to realize what may be happening when a market approaches a Ross Hook after having been in a congestion area for awhile. The prior pages have illustrated this concept.

With the preceding information in mind, let's see how to accomplish the Trader's Trick.



On the chart above the Rh is the high. There were two price bars following the high: one is the bar whose failure to move higher created the Hook, and the other is one that simply furthered the depth of the correction.

Let's look at that again by breaking it down in detail in an example.



Following the high is a bar that fails to have a higher high. This failure creates the Ross Hook, and is the first bar of correction. If there is sufficient room to cover costs and take a small profit in the distance between the high of the correcting bar and the point of the Hook, we attempt to buy a breakout of the high of the bar that created the Hook, i.e., the first bar of correction. If the high of the first bar of correction is not taken out, i.e., violated, we wait for a second bar of correction.

Once the second bar of correction is in place, we attempt to buy a violation of its high, again provided that there is sufficient room to cover costs and take a profit based on the distance prices have to travel between our entry point and the point of the Hook.

If the high of the second bar of correction is not violated, we will attempt to buy a violation the high of a third bar of correction provided there is sufficient room to cover costs and take a profit based on the distance prices have to move between our entry point and the point of the Hook. Beyond three bars in the correction, we will cease in our attempt to buy a breakout of the correction highs.



What if the fourth bar did as pictured on the left? As long as prices are moving back up in the direction of the trend that created the Ross Hook, and as long as there is sufficient room for us to cover costs and take a profit, we will buy a breakout of the high of any of the three previous correction bars. In the example, if we were able to enter before prices violated the high of the second bar of correction, we would enter on a violation of the high of the second correcting price bar. If not, and there is still room to cover and profit from a violation of the first correcting price

bar, we would enter there. Additionally, we could choose to enter on a takeout of the high of the latest price bar as shown by the double arrow, even if it gaps past one of the correction bar highs.

**REMINDER: ONCE THERE ARE MORE THAN THREE BARS OF CORRECTION, WE NO LONGER ATTEMPT TO ENTER A TRADE. THE MARKET MUST BEGIN TO MOVE TOWARD THE HOOK AT THE TIME OF OR BEFORE A FOURTH BAR IS MADE.**

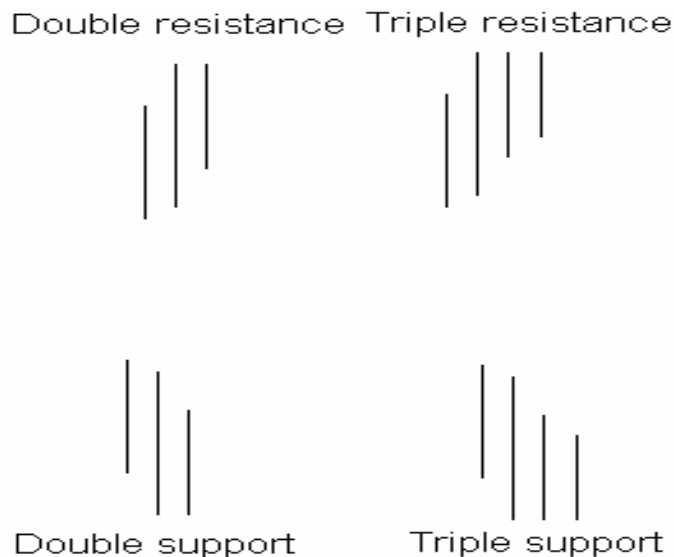
*Although not shown, the exact same concept applies to Ross Hooks formed at the end of a down move.*

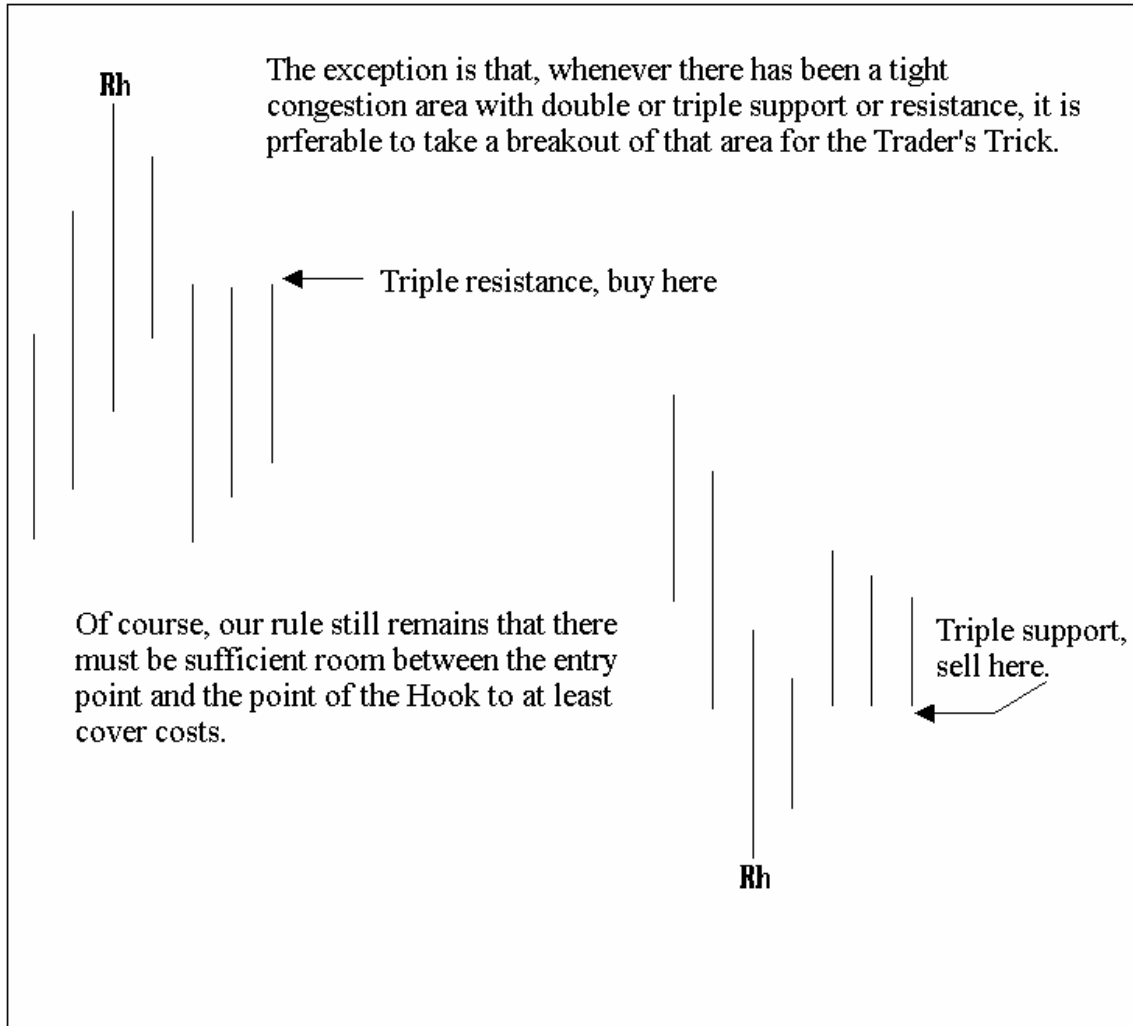
Risk management is based upon the expectation that prices will go up to at least test the point of the Hook. At that time, we will take, or already have taken some profit and have covered costs.

We are now prepared to exit at breakeven, at the very worst, on the remaining contracts. Barring any horrible slippage, the worst we can do is having to exit the trade with some sort of profit for our efforts.

We usually limit the Trader's Trick to no more than three bars of correction following the high of the bar that is the point of the Hook. However, there is an important exception to this rule. The next chart shows the use of double or triple support and resistance areas for implementing the Trader's Trick.

Please realize that “support” and “resistance” on an intraday chart does not have the usual meaning of those terms when applied to the overall supply and demand in the market place. What is referred to here is given in the following four examples:





Any time a business can consistently make profits, that business is going to prosper. Add to that profit the huge amount of money made on the trades that take off and never look back, and it's readily apparent that enormous profits are available from trading.

The management method we use shows why it is so important to be properly capitalized. Size in trading helps enormously.

The method also shows why, if we are undercapitalized (most traders are), we must be patient and gradually build our account by taking profits quickly when they are there.

If you are not able to tend to your own orders intraday electronically or on the Internet, it may be well worth your while to negotiate with a broker who will execute your trading plan for you. There are brokers who will do this, and you may be surprised to find that there are some who will perform such service at reasonable prices if you trade regularly.

When we are trading using the Trader's Trick, we don't want to be filled on a gap opening beyond our desired entry price unless there is sufficient room for us to still cover costs and take a profit. Can you grasp the logic of that? The reason is that we have no way of knowing whether a move toward a breakout is real or not. If it is engineered, the market will move forward to the point of taking out the order accumulations and perhaps a few ticks more. Then the market will reverse with no follow through in the direction of the breakout. As long as we have left enough room between our entry point and the point where orders are accumulated to take care of costs and a profit, we will do no worse than breakeven. Usually, we will also have a profit to show for any remaining contracts, however small.

If the move proves to be real (not engineered), then the market will give us a huge reward relative to our risk and costs. Remember, commission and time are our only real investment in the trade if it goes our way.

The important understanding that we need to have about the Trader's Trick is that by taking entry into a market at the correct point, we can neutralize the action by the insiders. We can be right and earn something for our efforts should the breakout prove to be false.

Some breakouts will be real. The fundamentals of the market ensure that. When those breakouts happen, we will be happy, richer traders.

With proper money management, we can earn something for our efforts *even if* the breakout proves to be false.