

STUDY GUIDE FOR COME INTO MY TRADING ROOM

Dr. Alexander Elder
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STUDY GUIDE

FOR

COME INTO MY TRADING ROOM

BOOKS BY DR. ALEXANDER ELDER

Trading for a Living

Study Guide for Trading for a Living

Rubles to Dollars:

Making Money on Russia's Exploding Financial Frontier

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This title is also available in print as ISBN 0-471-22540-1. Some content that appears in the print version of this book may not be available in this electronic edition.

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STUDY GUIDE FOR COME INTO MY TRADING ROOM

Think of the millions of people who throw money at stocks, options, and futures. Probably less than one percent of them ever pick up a trading book. Only a tiny fraction of those perform any learning exercises or take tests. If you can work through this *Study Guide*, grade your performance, then study and retake some of the tests if necessary, you will belong to a small sophisticated minority.

It is easy to sit at a lecture, sagely nod your head, and think you understand everything. What if someone asks you a question about that lecture a week or a month later? Will you be able to answer, or will you have forgotten by then?

It took me three years to write *Come into My Trading Room*, yet a person can read it in just a few days. Do you expect to get full value out of it after a quick read? Or will you return, reread, review, and underline key sections and paragraphs? I created this *Study Guide* to help you grasp the main ideas in my book, expose blind spots, and achieve a deeper degree of understanding.

Do not rush yourself through this workbook. Take the tests one chapter at a time and keep returning to the original source until you get that chapter right. Then move to the next one. There is nothing wrong with taking several weeks to work through this book. Quality is more important than speed.

HOW THIS BOOK IS ORGANIZED

The first section, Financial Trading for Babes in the Woods, quizzes you on the essential basics of trading. It asks about the efficient market theory, account size, and external barriers to winning, as well as market data and types of analysis. Rate your answers on the scales that are provided in each chapter. If you get a high grade, move on to the next chapter, but if your score is low, return to the main book and work through the basics before going any further.

Once you have covered the basics, it is time to move on to the three M's of successful trading, starting with the first—Mind. Questions in the second chapter deal with trading psychology, causes of losing, trading attitude, and, of course, discipline. Rate your answers on the scale. If your score is high, move on; otherwise, return to the main book. Many brilliant people fail in trading; no technical tools can help those whose minds are not in gear with the markets.

The second M—Method—is covered in several chapters. First, the chapter on basic charting quizzes you on classical technical analysis. The next chapter, on indicators, delves into moving averages, channels, MACD, Force Index, Elder-ray, and Stochastic. The next chapter, on trading, asks questions about system testing, timeframes, and Triple Screen. Feel free to skip the chapter on day-trading if you do not day-trade. Finally, there is a chapter that asks about new, revolutionary methods presented in the main book—the Impulse System and SafeZone stops.

Money management is the key skill that separates winners from losers. This chapter quizzes you about the 2% and the 6% Rules, mathematical expectation and position sizing. Make sure you answer each question right, and if not, return to the main book. Nothing less than a perfect score is acceptable in this chapter!

We conclude the *Study Guide* with a chapter called The Organized Trader. A person who is serious about his success has to organize his decision-making process and record-keeping. Questions in this chapter deal with trading records such as the equity curve, trading spreadsheet, and trader's diary. They cover time management, setting priorities, and rating your performance.

The charts in the *Study Guide* go beyond illustrating key analytic points. Each comes with questions about what you would do at the right edge. Signals tend to be clearly visible in the middle of the chart, but grow foggy as you get closer to the hard right edge. That's where you have to make trading decisions, in the atmosphere of uncertainty. This *Study Guide* is designed to train you to decide at that crucial barrier where people make or lose money.

Take your time as you go through the questions and exercises. Some questions may be hard, but hang on and work through them. A boot camp may feel overwhelming to a soldier, but it is designed to toughen him, so that he may survive the battle and come back alive and victorious.

P A R T
O N E

QUESTIONS

FINANCIAL TRADING FOR BABES IN THE WOODS

Trading is serious business, no less so than building a house or teaching calculus. Being smart and having good ideas is not enough for winning. You must understand the mechanics of the markets and the essential principles of analysis and risk control.

You need to learn the key facts and rules before entering your first trade. The first chapter of the *Study Guide* tests your knowledge of some of those concepts. Answer these eight questions and write down your answers. Go to the Answers section, check your responses, and then enter your grade for each answer in the first column of the spreadsheet. There are five columns to enable you to return at a later date, retake the test, compare your results, and measure your progress.

Questions	Trial 1	Trial 2	Trial 3	Trial 4	Trial 5
1					
2					
3					
4					
5					
6					
7					
8					
Total points					

Question 1—Decision Making

Match the statements on the decision-making process with the type of trader.

1. A person hears a tip at a party and buys that stock in the morning.
2. A person hears a tip at a party and spends the next morning researching that stock and the industry group.
3. A person hears several people gossiping about a stock at a party and pulls it up on his computer with a view to selling it short.
4. A person sees a TV show about a famous investor and buys the stocks that he mentions.
5. A person reads a news release regarding disappointing earnings from a high-tech company and pulls up its chart the next day to see how it reacts to the report.
6. A person buys a stock after receiving a call from a relative working for a penny stock company who tells him of that firm’s technological breakthrough that has not yet been disclosed to the public.

- A. Investor
- B. Trader
- C. Gambler

Question 2—Efficient Market Theory

Which of the following statements regarding the efficient market theory are true and which are false?

1. All traders focus on maximizing profits and minimizing losses.
2. The outcome of any single trade is largely a matter of luck.
3. A trader whose account has increased after a year of active trading is very lucky.
4. Trading in a room with a group of people leads to more objective decisions.
5. Markets become more efficient when they become less volatile.

Question 3—Trading Choices

Match the following statements with the trading terms:

1. Finding these points is the hardest aspect of trading.
 2. Buy when a rally accelerates, and sell when it starts losing speed.
 3. These must be planned in advance; do not chase the markets.
 4. This is the most often ignored aspect of trading.
 5. Buy when a downside breakout starts pulling back up into the range, and liquidate within the range.
-
- A. Countertrend trading
 - B. Entries
 - C. Money management
 - D. Momentum trading
 - E. Exits

Question 4—Stocks, Options, and Futures

Match the following statements with one or more of the trading vehicles.

1. The buyer must be right on the vehicle, price, and time.
2. This is a certificate of business ownership.
3. Money management skills are essential for success.
4. This is a contract for future delivery.
5. It's OK to buy cheap, but not OK to buy down.

- A. Stocks
- B. Futures
- C. Options

Question 5—Barriers to Winning

Match each statement with one or more of the external barriers to winning.

1. They impact your account more than market trends.
2. They must be monitored so as not to exceed a small percentage of your account.
3. This is the distance between the price at which you place a market order and at which it is executed.
4. This is a meaningless percentage of your account.
5. This is an inevitable cost of entering markets.

- A. Commissions
- B. Slippage
- C. Expenses
- D. None

Question 6—Account Size

Five traders with similar levels of skill and all using stops enter the stock market. Which is likely to generate the highest percentage return?

1. \$50,000 account; \$5,000 maximum stop on any trade
2. \$15,000 account; \$1,500 maximum stop on any trade
3. \$250,000 account; \$50,000 maximum stop on any trade
4. \$50,000 account; \$1,000 maximum stop on any trade
5. \$250,000 account; \$5,000 maximum stop on any trade

Question 7—Market Data

Which of the following statements are true?

1. Real-time data is essential for timing entries and exits.
 2. The more markets you follow, the more money you will make trading.
 3. You must keep abreast of earnings reports for the stocks you follow.
 4. Futures can sell for less than the cost of production.
 5. Having 12 months' worth of daily charts makes weekly charts unnecessary.
 6. Good software makes up for traders' inexperience.
-
- A. 1 and 2
 - B. 2 and 3
 - C. 3 and 4
 - D. 4 and 5
 - E. 5 and 6

Question 8—Types of Analysis

Match each phrase with the types of analysis.

1. Studies economic supply and demand
2. Forecasts future prices
3. Studies crowd behavior
4. Can be fully automated
5. Serves as a basis of trading decisions

- A. Fundamental analysis
- B. Technical analysis
- C. Both
- D. Neither

MIND— THE DISCIPLINED TRADER

Your personality is the key component of your trading success. Your thoughts, feelings, and attitudes have an immediate and direct impact on what happens to your account and whether it rises or falls. No level of computer power and no amount of technical expertise will do a trader any good if his mind is unsettled.

One day, if you get the chance, rent *Solaris*, a film by the late, great director Andrei Tarkovski. In this sci-fi film, a planet that has been bombarded by the scientists responds by reaching into their minds, extracting their most painful memories, and recreating those experiences for them. They must come to terms with those memories and resolve their old conflicts before becoming capable of getting in touch with the planet. Markets act like that planet in the sense that they reach deep into our minds, find our weaknesses, and hit us in our weak spots.

Greed, fear, carelessness, sloth, and other sins of omission or commission make successful trading difficult or impossible for most people. You have to look into the mirror, record your actions, recognize what you are doing wrong, and then correct your attitudes. Becoming a successful trader means becoming a more balanced and mature human being.