

Wiley Trading Advantage

THE
**UNIVERSAL
TACTICS**
OF
**SUCCESSFUL
TREND TRADING**

**FINDING OPPORTUNITY
IN UNCERTAINTY**

COMPANION TO THE UNIVERSAL PRINCIPLES OF SUCCESSFUL TRADING

BRENT PENFOLD

WILEY

Table of Contents

Cover

ACKNOWLEDGEMENTS

PREFACE

BUCKLE UP

THE FIRST AND MOST IMPORTANT FACT ABOUT
TREND TRADING

HOW TO MAKE MONEY TRADING

INTRODUCTION

A REALIST BOOK

A COMPANION BOOK

THE MISSING CHAPTER

MY OBJECTIVE

NOT ENOUGH TO BE SUCCESSFUL

THERE WILL BE DUPLICATION

READERS OF DIFFERENT EXPERIENCE

EVIDENCE, NOT OPINION OR MYTH

NOTHING NEW AND SHINY

SIMPLE IS BEST

NOT PERFECT

KEEPING IT REAL

SUCCESS WILL COME

MY BACKGROUND

THIS BOOK IS NOT ABOUT FUTURES TRADING

PATHWAY TO SUSTAINABLE TRADING

JUST MY OPINION

ALL ROADS LEAD TO ROME

REPETITION

QUESTION AND VERIFY EVERYTHING

LET'S GET STARTED

CHAPTER 1: The Paradox

NIRVANA AND DESPAIR

IT'S ALSO A CONFUSING TIME

HOW I CAN HELP YOU

HOW TO TRADE SUCCESSFULLY

SUMMARY

CHAPTER 2: Key Messages

KNOWLEDGE

RISK

APPLICATION

EXECUTION

SUMMARY

CHAPTER 3: The Appeal of Trend Trading

IT'S A PUNCH AND JUDY SHOW

WHAT IS TREND TRADING?

WHY ARE TRENDS SO IMPORTANT?

THE APPEAL OF TREND TRADING

APPEAL OF TREND TRADING—IT WORKS, JUST

LOOK AT THE SCIENCE BEHIND IT

THE APPEALS OF TREND TRADING

IT'S BEST PRACTICE

SUMMARY

CHAPTER 4: Why Do Trends Exist?

CONFUSION REIGNS

BEHAVIOURAL FINANCE

PATH DEPENDENCY
AND THE WINNER IS?

SUMMARY

CHAPTER 5: Why Do So Many Fail?

SCIENCE SAYS WE CAN'T LOSE
OVERVIEW OF TREND TRADING

WHY DO SO MANY FAIL AT IT?

VARIABILITY KILLS INDICATORS

POPULAR INDICATORS

RSI

STRATEGY ROBUST REVIEW

RTT

TRADERS ALWAYS CHANGE VARIABLE VALUES

UNIVERSE OF ALTERNATIVE EQUITY CURVES,
EXPECTANCIES AND ROR

BEST SET OF VARIABLE VALUES ALWAYS
CHANGE

KNOW YOUR STRATEGY'S UNIVERSE OF
ALTERNATIVE EQUITY CURVE'S UPPER AND
LOWER BANDS

STRATEGY ROBUSTNESS REVIEW

THE MORE VARIABLES, THE MORE
ALTERNATIVES, THE MORE RISK

VARIABLE AND SUBJECTIVE TOOLS

INDEPENDENT OBJECTIVE TOOLS

SO, WHAT TO DO?

SUMMARY

CHAPTER 6: Strategies

MARKETS

TRADING NAKED WITHOUT TECHNICAL ANALYSIS

TREND-TRADING STRATEGIES

MOMENTUM TREND TRADING

RELATIVE STRENGTH TREND TRADING

HYPOTHETICAL RESULTS

RELATIVE MOMENTUM TREND TRADING

ABSOLUTE MOMENTUM TREND TRADING

RETRACEMENT TREND TRADING

RETURN OF RANDOM TREND TRADER (2020)

SUMMARY

CHAPTER 7: Measuring Risk

HOW TO MEASURE STRATEGY PERFORMANCE

RISK-ADJUSTED RETURN MEASUREMENTS

STANDARD DEVIATION—PROXY FOR RISK

STANDARD DEVIATION—CALCULATION AND INTERPRETATION

STANDARD DEVIATION—ADVANTAGES

STANDARD DEVIATION—IS IT THE BEST PROXY?

STANDARD DEVIATION—DISADVANTAGE

THE ULCER INDEX—A SUPERIOR RISK PROXY

THE ULCER PERFORMANCE INDEX—A SUPERIOR RISK-ADJUSTED RETURN MEASUREMENT

THE UI—CALCULATION

UPI—A SUPERIOR RISK-ADJUSTED RETURN MEASUREMENT

UPI—CALCULATION

UPI—AN EXAMPLE

NOT ALL STRATEGIES ARE CREATED EQUAL
SUMMARY

CHAPTER 8: Moving Forward

THE TOOLKIT

PORTFOLIO CONSTRUCTION

DATA

SOFTWARE

ATTRIBUTES OF WINNING STRATEGIES

STRATEGY REVIEW

STRATEGY BENCHMARK—WHICH STRATEGY
WILL IT BE?

STRATEGY DEVELOPMENT

SUMMARY

CHAPTER 9: Back to the Future

STRATEGY DEVELOPMENT

FIND A METHODOLOGY

CODE THE METHODOLOGY

REVIEW THE METHODOLOGY

COMPARE THE METHODOLOGY

ADJUST THE METHODOLOGY

EQUITY CURVE STABILITY REVIEW

SENSIBLE TRADING DESTINATION

DRAWDOWN

CHARLES DOW (1851-1902)

BACK TO THE FUTURE TO MOVE FORWARD

EMBRACE DIVERSIFICATION

THANK YOU

APPENDIX A: Literature on Trend Trading Literature on
Trend Trading

COWLES AND JONES (1933).
LEVY (1967).
JEGADEESH AND TITMAN (1993).
ASNESS, LIEW AND STEVENS (1997).
ROUWENHORST AND GEERT (1998).
LEBARON (1999).
MOSKOWITZ AND GRINBLATT (1999).
ROUWENHORST (1999).
GRIFFIN, JI AND MARTIN (2003).
HWANG AND GEORGE (2004).
WILCOX AND CRITTENDEN (2005).
FABER (2006).
SZAKMARY, SHEN AND SHARMA (2010).
LIU, LIU AND MA (2010).
HURST, OOI AND PEDERSEN (2010).
MOSKOWITZ, OOI, HUA AND PEDERSEN (2011).
ANTONACCI (2012).
LUU AND YU (2012).
HURST, OOI AND PEDERSEN (2012).
LEMPÉRIÈRE, DEREMBLE, SEAGER, POTTERS
AND BOUCHARD (2014).
GREYSERMAN AND KAMINSKI (2014).
CLARE, SEATON, SMITH AND THOMAS (2014).
GLABADANIDIS (2016).
GEORGOPOULOU AND WANG (2016).
HAMILL, RATTRAY AND VAN HEMERT (2016).
D'SOUZA, SRICHANACHAICHOK, WANG AND YAO
(2016).
GECZY AND SAMONOV (2017).

[HURST, OOI AND PEDERSEN \(2017\).](#)

[Index](#)

[End User License Agreement](#)

List of Tables

Chapter 3

[TABLE 3.1 The frequency of dice throws shows the down moves generally cancel out ...](#)

[TABLE 3.2 The frequency numbers of gold's daily price changes, or returns, reveal...](#)

[TABLE 3.3 My universal portfolio contains 24 of the most liquid and diverse marke...](#)

[TABLE 3.4 The total number of daily up moves of my universal portfolio of 24 mark...](#)

[TABLE 3.5 The frequency of SP500's daily returns show the occurrence of moves equ...](#)

[TABLE 3.6 Trend trading has not only been far more profitable than buy-and-hold o...](#)

Chapter 6

[TABLE 6.1 To avoid data mining the trend-trading strategies I'll review will be r...](#)

[TABLE 6.2 These strategies provide a good representation of the different approac...](#)

Chapter 7

[TABLE 7.1 Armed with a spreadsheet it's straight forward to calculate the UI.](#)

[TABLE 7.2 The UI measures the average percentage drawdown.](#)

TABLE 7.3 UI is consistent across all periods.

TABLE 7.4 The UPI measures the amount of excess return per unit of average drawdo...

TABLE 7.5 The UPI offers a superior risk-adjusted return measurement.

Chapter 8

TABLE 8.1 Not one of Bollinger Band's alternative equity curves produced a ROR ca...

TABLE 8.2 Chapter 6's alternative trend trading strategies ranked by net profitab...

TABLE 8.3 Key evidence of robustness is out-of-sample performance, while key indi...

TABLE 8.4 Key indicators of good performance include metrics measuring survival, ...

TABLE 8.5 The top ten strategies all have good evidence and indications of robust...

TABLE 8.6 Most, but not all, of the top ten strategies have good performance metr...

TABLE 8.7 The top ten robustness metrics ranked by CAGR.

TABLE 8.8 The top ten performance metrics ranked by CAGR.

TABLE 8.9 Turtle Trading's universe of alternative equity curves are absent of an...

Chapter 9

TABLE 9.1 Key robustness metrics for the top ten strategies.

TABLE 9.2 Key performance metrics for the top ten strategies.

[TABLE 9.3 DDT's large historical drawdown makes it unsuitable for a private trade...](#)

[TABLE 9.4 While WDT's worst drawdown is an improvement on DDT, it's still not low...](#)

[TABLE 9.5 While MDT's worst drawdown is an improvement over both DDT and WDT, it'...](#)

[TABLE 9.6 Introduction of a loss filter has seen a significant improvement in DDT...](#)

[TABLE 9.7 Despite the loss filter lowering WDT's worst drawdown, it's not enough ...](#)

[TABLE 9.8 Despite the loss filter lowering MDT's worst drawdown, it's negative im...](#)

[TABLE 9.9 The loss filter has a greater impact on higher trade frequency models....](#)

[TABLE 9.10 Introducing an initial daily stop sees an almost universal improvement...](#)

[TABLE 9.11 Introduction of an initial daily stop has lowered WDT's worst drawdown...](#)

[TABLE 9.12 While the introduction of an initial daily stop has a positive impact ...](#)

[TABLE 9.13 The good news is that introducing a daily trailing swing stop lowers W...](#)

[TABLE 9.14 Despite producing the lowest drawdown, introducing a daily initial and...](#)

[TABLE 9.15 MWDT's performance is not reliant upon a handful of good performing ma...](#)

List of Illustrations

INTRODUCTION

[Figure I.1 This book alone is not enough to make you successful; you will al...](#)

Chapter 2

[FIGURE 2.1 The universal truth is that profitable trading is not about picki...](#)

[FIGURE 2.2 If you're undecided about whether or not you'd prefer to be a sys...](#)

[FIGURE 2.3 When you see the Four Horsemen of Strategy Apocalypses galloping ...](#)

[FIGURE 2.4 The longer a strategy idea has been known, the more out-of-sample...](#)

[FIGURE 2.5 Performance of Richard Donchian's 1960 Four-Week Rule strategy de...](#)

Chapter 3

[FIGURE 3.1 There is a vast array of techniques within the universe of trend ...](#)

[FIGURE 3.2 A key-stone assumption of many financial models is that changes i...](#)

[FIGURE 3.3 According to theory, the distribution of price changes follows a ...](#)

[FIGURE 3.4 This simulated market, despite its strong looking trends, is fake...](#)

[FIGURE 3.5 This is another simulated market, where the changes in prices \(di...](#)

[FIGURE 3.6 The histogram of dice throws shows the changes in values follow a...](#)

[FIGURE 3.7 Over the last 22 years gold appears to have shown a number of sig...](#)

[FIGURE 3.8 A histogram of gold's daily price changes, or returns, over the l...](#)

[FIGURE 3.9 Despite the theory, gold's daily returns do not fit under a norma...](#)

[FIGURE 3.10 The existence of thin peaks and fat tails demonstrate gold's dai...](#)

[FIGURE 3.11 The daily price changes, or daily returns, of my universal portf...](#)

[FIGURE 3.12 A normal random 'bell curve' distribution placed over the histog...](#)

[FIGURE 3.13 The existence of thin peaks and fat tails within the distributio...](#)

[FIGURE 3.14 Distribution of P24's weekly price changes, or returns, do not f...](#)

[FIGURE 3.15 Distribution of P24's monthly price changes, or returns, do not ...](#)

[FIGURE 3.16 Distribution of P24's quarterly price changes, or returns, do no...](#)

[FIGURE 3.17 Distribution of P24's yearly price changes, or returns, do not f...](#)

[FIGURE 3.18 Distribution of SP500's daily price changes, or returns, between...](#)

[FIGURE 3.19 Trend trading simplifies the whole investment and trading proces...](#)

Chapter 4

[FIGURE 4.1 Unlike other theories behavioural finance at least attempts to ex...](#)

Chapter 5

FIGURE 5.1 It takes an abundance of small market movements to make up a bell...

FIGURE 5.2 ROR is a function of the number of units of money a trader trades...

FIGURE 5.3 Traders do not suffer from a lack of choice when it comes to indi...

FIGURE 5.4 The four most popular indicators used by Bloomberg traders betwee...

FIGURE 5.5 An equity curve stability review will determine whether or not a ...

FIGURE 5.6 RTT is a simple strategy that will wait for a retracement before ...

FIGURE 5.7 RTT is measurable and hypothetically profitable with a 0% ROR.

FIGURE 5.8 RTT's hypothetical performance with its original variable values....

FIGURE 5.9 RTT's hypothetical performance following a change in the RSI vari...

FIGURE 5.10 RTT's hypothetical performance following a change in the RSI var...

FIGURE 5.11 RTT's hypothetical performance following a change in the RSI var...

FIGURE 5.12 RTT's hypothetical performance following a change in the moving ...

FIGURE 5.13 RTT's hypothetical performance following a change in the moving ...

FIGURE 5.14 RTT's six alternative equity curves.

FIGURE 5.15 RTT's equity curves suffer large variability following only five...

[FIGURE 5.16 Changes in RTT's variable values had an adverse impact on ROR.](#)

[FIGURE 5.17 An equity curve stability review determines whether or not a str...](#)

[FIGURE 5.18 Exploring a strategy's universe of alternative equity curves is ...](#)

[FIGURE 5.19 Even simple strategies with few indicators can introduce complex...](#)

[FIGURE 5.20 Heavily laden indicator strategies generally experience greater ...](#)

Chapter 6

[FIGURE 6.1 Random Trend Trader uses a coin toss to generate buy and sell sig...](#)

[FIGURE 6.2 Random Trend Trader's histogram of individual trade results.](#)

[FIGURE 6.3 Random Trend Trader's performance after the introduction of a 1% ...](#)

[FIGURE 6.4 Introducing a 1% stop reduced Random Trend Trader's large losses....](#)

[FIGURE 6.5 Random Trend Trader's performance after the introducing a trailin...](#)

[FIGURE 6.6 Introducing a one-week trailing stop increased the number of Rand...](#)

[FIGURE 6.7 Random Trend Trader's performance on the Universal P24 Portfolio....](#)

[FIGURE 6.8 There are multiple approaches to trading with the trend.](#)

[FIGURE 6.9 The Hearne 1% Rule strategy will add positions at every 1% rally ...](#)

FIGURE 6.10 Gartley clearly illustrated his three and six week crossover str...

FIGURE 6.11 Gartley incorporated moving average calculations way before they...

FIGURE 6.12 Richard Donchian's 5 and 20-Day strategy will stop and reverse p...

FIGURE 6.13 The Golden 50 and 200-day Crossover strategy will stop and rever...

FIGURE 6.14 The Monthly Close Model strategy will stop and reverse positions...

FIGURE 6.15 The Quarterly Close Model strategy will stop and reverse positio...

FIGURE 6.16 The Ricardo Rules strategy will follow the first daily bar break...

FIGURE 6.17 Dow Theory's peak-and-trough trend analysis is always in the mar...

FIGURE 6.18 The Livermore Reaction strategy will only initiate a trade follo...

FIGURE 6.19 Nicolas Darvas used a mental box to define a congestion of price...

FIGURE 6.20 The PPS strategy looks to trade breakouts off traditional conges...

FIGURE 6.21 Richard Donchian's Four-Week Rule strategy will stop and reverse...

FIGURE 6.22 Dreyfus's 52-Week Rule strategy will stop and reverse positions ...

FIGURE 6.23 The Turtle Trading strategy will enter positions on a four-week ...

FIGURE 6.24 The Bollinger Band strategy will initiate positions following an...

[FIGURE 6.25 The ATR Bands strategy will initiate positions following an expa...](#)

[FIGURE 6.26 Elder's TSTS will wait for a retracement against a higher timefr...](#)

[FIGURE 6.27 The mean reversion strategy will wait for a retracement against ...](#)

Chapter 7

[FIGURE 7.1 Traders need to know a strategy's return per unit of risk to gain...](#)

[FIGURE 7.2 Methodology B, on a risk-adjusted return basis, is superior to me...](#)

[FIGURE 7.3 The Sharpe ratio is the industry standard for risk-adjusted retur...](#)

[FIGURE 7.4 The Sortino ratio improves on the Sharpe ratio by only focusing o...](#)

[FIGURE 7.5 The UPI improves on the Sortino ratio and others by focusing on t...](#)

[FIGURE 7.6 Standard deviation measures the dispersion of returns from the av...](#)

[FIGURE 7.7 Standard deviation cannot distinguish riskiness between strategie...](#)

[FIGURE 7.8 Despite three very different looking equity curves, all three str...](#)

[FIGURE 7.9 The UI measures the depth and breadth of historical drawdowns as ...](#)

[FIGURE 7.10 The UI measures a strategy's average percentage drawdown.](#)

[FIGURE 7.11 The UPI measures the amount of excess returns per unit of averag...](#)

[FIGURE 7.12 When comparing UPI values it's important you are comparing simil...](#)

Chapter 8

[FIGURE 8.1 Creating portfolios based on independent and objective criterion ...](#)

[FIGURE 8.2 Winning strategies have common attributes that all traders should...](#)

[FIGURE 8.3 Good methodologies will have either or both evidence or indicatio...](#)

[FIGURE 8.4 Over the years I have learned to rely on a number of key performa...](#)

[FIGURE 8.5 In the final analysis I usually give more weight to robustness at...](#)

[FIGURE 8.6 An equity curve stability review requires the examination of a st...](#)

[FIGURE 8.7 If fragility exists an equity curve stability review will reveal ...](#)

[FIGURE 8.8 Turtle Trading's universe of alternative equity curves.](#)

[FIGURE 8.9 Turtle Trading's review confirms its equity curve is stable enoug...](#)

Chapter 9

[FIGURE 9.1 Dow Theory comprises seven key insights.](#)

[FIGURE 9.2 Dow's peak and trough trend analysis is a key component of Dow Th...](#)

[FIGURE 9.3 Dow Theory is a stop and reversal strategy where it's always in t...](#)

FIGURE 9.4 DDT changes position following a change in the daily Dow trend.

FIGURE 9.5 DDT's positive out-of-sample performance underlines the robustnes...

FIGURE 9.6 WDT changes positions following a change in the weekly Dow trend....

FIGURE 9.7 WDT's positive out-of-sample performance on a higher weekly timef...

FIGURE 9.8 MDT changes position following a change in the monthly Dow trend....

FIGURE 9.9 MDT's positive out-of-sample performance on a higher monthly time...

FIGURE 9.10 DDT will only trade a change in the daily Dow trend if the previ...

FIGURE 9.11 Waiting for a losing signal has a positive impact on DDT's perfo...

FIGURE 9.12 WDT will only trade a change in the weekly Dow trend if the prev...

FIGURE 9.13 Waiting for a losing signal has a positive impact on WDT's perfo...

FIGURE 9.14 MDT will only trade a change in the monthly Dow trend if the pre...

FIGURE 9.15 Waiting for a losing signal has a positive impact on MDT's worst...

FIGURE 9.16 Introducing an initial daily stop allows DDT to exit losing trad...

FIGURE 9.17 Introduction of an initial daily stop has a positive impact on D...

FIGURE 9.18 Introducing an initial daily stop allows WDT to exit losing trad...

[FIGURE 9.19 Introducing an initial daily stop has a positive impact on WDT's...](#)

[FIGURE 9.20 Introducing an initial daily stop allows MDT to exit losing trad...](#)

[FIGURE 9.21 Introducing an initial daily stop has a positive impact on MDT....](#)

[FIGURE 9.22 Introducing a trailing daily swing stop switches WDT into a dual...](#)

[FIGURE 9.23 Introducing a trailing daily swing stop reduces WDT worst drawdo...](#)

[FIGURE 9.24 Introducing a trailing daily swing stop switches MDT into a dual...](#)

[FIGURE 9.25 Introducing a trailing daily swing stop doesn't appear to have a...](#)

[FIGURE 9.26 A review shows MWDT, with loss filter, initial daily stop and we...](#)

[FIGURE 9.27 MWDT demonstrates consistent performance across all portfolios....](#)

The Universal Tactics of Successful Trend Trading

Finding Opportunity in Uncertainty

By
BRENT PENFOLD

WILEY

This edition first published 2021

© 2021 John Wiley & Sons, Ltd

Registered office

John Wiley & Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex
PO19 8SQ, United Kingdom

For details of our global editorial offices, for customer services and for information about how to apply for permission to reuse the copyright material in this book please see our website at www.wiley.com.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, except as permitted by the UK Copyright, Designs and Patents Act 1988, without the prior permission of the publisher.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

Designations used by companies to distinguish their products are often claimed as trademarks. All brand names and product names used in this book are trade names, service marks, trademarks or registered trademarks of their respective owners. The publisher is not associated with any product or vendor mentioned in this book.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. It is sold on the understanding that the publisher is not engaged in rendering professional services and neither the publisher nor the author shall be liable for damages arising here from. If professional advice or other expert assistance is required, the services of a competent professional should be sought.

Library of Congress Cataloging-in-Publication Data is available:

Names: Penfold, Brent, 1962- author. | John Wiley & Sons, Ltd., publisher.

Title: The universal tactics of successful trend trading : finding opportunity in uncertainty / Brent Norman Lindsay Penfold.

Description: [Hoboken] : [Wiley], [2020] | Includes index.

Identifiers: LCCN 2020020364 (print) | LCCN 2020020365 (ebook)|

ISBN 9781119734512 (hardback) | ISBN 9781119734550 (adobe pdf) |

ISBN 9781119734499 (epub)

Subjects: LCSH: Portfolio management. | Stock price forecasting. | Investments.

Classification: LCC HG4529.5 .P444 2020 (print) | LCC HG4529.5 (ebook) |

DDC 332.64---dc23

LC record available at <https://lcn.loc.gov/2020020364>

LC ebook record available at <https://lcn.loc.gov/2020020365>

Cover Design: Wiley

Cover Image: © champc/Getty Images

Set in 10/12pt, SabonLTStd by SPi Global, Chennai, India.

*To my beautiful family,
Katia, Beau and Boston,
the three best trades I've ever made.*

ACKNOWLEDGEMENTS

The only acknowledgement I'd like to make is to everyone who bought my earlier book *The Universal Principles of Successful Trading (UPST)* (Wiley, 2010).

If that is you, then a big, big thank you.

If it's not you, then a big thank you anyway for picking up this book!

This book has come about only because of the success of *UPST*.

Since its publication in 2010 *UPST* has become an international best seller having been translated into Polish, German, Korean, Japanese and simplified and orthodox Chinese.

If it wasn't for its success this companion book would never have been written.

So, a big thank you to all the traders out there who helped *UPST* become the success it is today.

PREFACE

BUCKLE UP

This book is about practical trend trading.

But wait. Before you decide to attempt trend trading, or continue trend trading, you will first need to do a little ‘speed’ review and ‘speed’ self-analysis to determine whether you're suitable for it. It would really be pointless continuing with this book if deep down you weren't suited to trading with the trend. Hence this little ‘heads up’ before you start.

Now, if after your speed review you decide trend trading is not for you then no worries. Well done on being truthful to yourself, your risk capital and your family.

If you do decide you're up for it, and if you persist, then well done—you will be rewarded. However, the key word is ‘persist’. Although simple, trading is not easy, particularly trend trading. You will need to learn to endure its unpleasantness. It won't be a smooth ride without its bumps. But if you persist and are sensible, you will be rewarded. So why not buckle up and let me give you a little speed introduction to the world of professional trend trading.

THE FIRST AND MOST IMPORTANT FACT ABOUT TREND TRADING

Let me start with the unpleasantness. Trend trading is undeniably miserable. Yep, I said it. Miserable. Miserable with a capital ‘M’.

It's a miserable existence where you can expect to suffer 67% losses on all your trades. You'll be spending more time losing than winning. A lot more time losing. If you're still with me then you'll need to be aware of the following:

- You won't be trading to make immediate profit. No.
- You won't be trading to prove your market analysis correct. No.
- You won't be trading for the action, or thrill of being in the market. Don't be stupid.
- You'll only be trading in what you believe is the general direction of the market's trend, which quite often will be wrong. Get used to it.
- You'll only be trading for the opportunity to earn expectancy, not profit. That's right.
- Expectancy comes from both your winning and losing trades. Yes, it does.
- Expectancy can only accrue over a long period of time covering many losses and a few wins. Did I say it was miserable?

Know and accept this and you'll be prepared.

I'm not saying this to be a kill joy. I'm saying it to be realistic and to tell you how it is. I don't want you to develop a satisfactory trend-trading methodology only to see you throw it away following a dreadful losing streak of 10, 20 or 30 losing trades. It will happen. Don't think it won't. The market's Mr Maximum Adversity will ensure it does.

Remember, life as a trend trader is miserable. You'll always be losing. It's repetitive and boring. You'll be placing the same orders and entering the same trades over the same portfolio of markets time and again. It's a constant wash

cycle of rinse and repeat. It's repetitive, it's boring and it's painful. You'll constantly suffer drawdowns. Some quite deeply. It's more mind numbing than mind stimulating.

However, despite its challenges, it is also profitable, and at times, very profitable.

But only if you stick with it during the turbulent times. Survive the turbulent times and you'll be around to enjoy the good times.

You will need to employ appropriate money management. You'll need to trade small relative to your risk capital. You will need to ensure your risk-of-ruin (ROR) is at 0%. You will need to ensure you're a good loser, both in never moving your stops and never letting the losses get you angry. You will need to suffer the bad times. You will need to learn to endure the darkness that will inhibit your world from time to time. Do all that and you will come out the other end with a surprising result.

I hope that if you embark on this trend-trading journey that you will remember these few words.

I hope you will remember them when you're in a deep dark place that all trend traders inhabit. When it appears to be the darkest, I hope you will remember that successful trend trading is all about survival, avoiding risk of ruin, being a good loser and following a good trade plan. I hope you'll remember you're only trading for the opportunity to earn expectancy, not immediate profit. That expectancy can only accrue over a long period of time executing many, many trades. It may take a whole year. It may take a couple of years. This is because you don't know which market or markets will decide to trend or when they'll decide to trend. But if you can learn to ride and stay on the bumpy equity curve you will be rewarded when a new equity high is reached.

Are you still up for trend trading?

No? No worries and well done on being decisive, and honest.

Yes? Well done and welcome to my painful world of trend trading. I hope you enjoy the ideas I'm going to share with you.

HOW TO MAKE MONEY TRADING

Now that I've got you quickly briefed and soberly onboard (and remember to keep that buckle tight), let's cut to the chase. You're reading this book for one reason only, and it's the same reason why I'm writing this book. You want to know how to make money trend trading.

Well I'm going to show you how.

But you'll need to stick with me as I progress through the book. When you finish, you'll need to independently verify and validate everything I say. It's no good me telling you what works and what doesn't. It's up to you to tell yourself by doing the work. Defy human nature and put the effort in. Do that, execute correctly and you'll be rewarded.

Good luck.

Brent Penfold
Sydney, Australia

INTRODUCTION

This book has a dual objective.

A REALIST BOOK

Firstly, I hope it will become a popular book based on its own merits. I hope in time it will become seen as a realistic and honest voice on trend trading. And just like trend trading, one that will stand the test of time.

A COMPANION BOOK

Secondly, I also hope this book will be seen as a necessary and deserving companion to my previous book, *UPST*. A natural extension and compliment to the universal principles of successful trading that I extensively wrote about in *UPST*.

THE MISSING CHAPTER

With *UPST* I took a holistic approach to discussing the process of trading that follows a number of immutable core principles. Principles that are applicable to all traders regardless of the market, instrument and timeframe, technique or analysis they follow. Following a good process of trading is primary to the secondary issues of markets, instruments, timeframes, techniques and analysis.

Being a holistic-type book I spent little time on the most interesting part of trading—the analysis and development of trading strategies. I spent little to no time on dissecting market structure, identifying appropriate setups and applying sensible trading plans.

As a side-bar it still amazes me that *UPST*, a trading book that basically doesn't discuss in detail market structure, analysis, setup criterion, entry, stop and exit techniques was so popular. In a nut shell, it doesn't dwell on the interesting side of trading—the analysis, investigation, development, reviewing and finalization of trading strategies. No. The book concentrates on the dry aspects of trading, the universal principles of successful trading. Material that I personally cherish above all else, but material nevertheless I know not to be particularly exciting. From a material perspective, this book will be far more interesting, not more important, but far more interesting compared to *UPST*.

Now back to point.

UPST is a more holistic, theoretical type book. This book will be a more practical, how-to guidebook on trend trading. It will be a natural extension and complement to *UPST*, where I will attempt to take the principles I shared regarding methodology and apply them in a practical manner to investigate, review and develop a robust trend-trading methodology.

Although I wrote extensively about 'methodology' in *UPST*, I did not provide a practical turn-key strategy example to demonstrate my ideas. This book will provide the practical turn-key strategy example to do just that, to demonstrate what I was saying. To give you an example of what I discussed in *UPST*.

I suppose you could view this book as the missing 'practical' chapter of *UPST* that will provide an example of an objective and independent trading methodology.

MY OBJECTIVE

As I've mentioned, my objective is to make this book: