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#### **NOTE**

Our books are actually **full-blown courses** for traders. Each is designed to deal with a different aspect of trading.

These are not books that try to teach you some magic indicator. They teach you how to trade the reality of the markets.

You're looking right over Joe Ross' shoulder at **real trades** made in real markets. You are told when, why, and where the trade was made. You are shown his thinking when the trade was made. You see how, when, and why he entered a trade and how, when, and why he exited the trade.

We get letters and calls all the time telling us that our courses are worth their weight in gold, and we offer a no questions asked, **money-back guarantee** on every book still in saleable condition.

**Trading Educators, Inc.** (formerly Ross Trading International, Inc.) was founded in 1988, and has thousands of satisfied customers who have used the Joe Ross methods to **produce significant positive results** in the markets. Trading Educators, Inc. is registered with the Commodity Futures Trading Commission (CFTC), and the National Futures Association (NFA).

Chapter 17

## SEARCH OUT THE BEST

One of the most important things that anyone who trades can learn to do is to identify the best trades.

These can differ from one person to another because we each tend to see trades differently. What looks like congestion to one looks more like volatility to another, and so forth.

But all can learn to recognize what happens in the market that results in successful trades.

Having identified the one or two methods and techniques that consistently work, it is imperative to refine the implementation of them so they result in the highest probability of winning possible within the individual's own frame of reference, his/her own mind-set, and his/her own comfort level.

Not everyone trades the same. That is why it is patently ridiculous to worry about how many people will buy and/or use this book. Stops will not be bunched because each has a different level of risk tolerance, different size margin accounts, and feels comfortable with differing numbers of contracts. Each will likely trade in different markets to a certain extent because individual perceptions of what is tradable will differ.

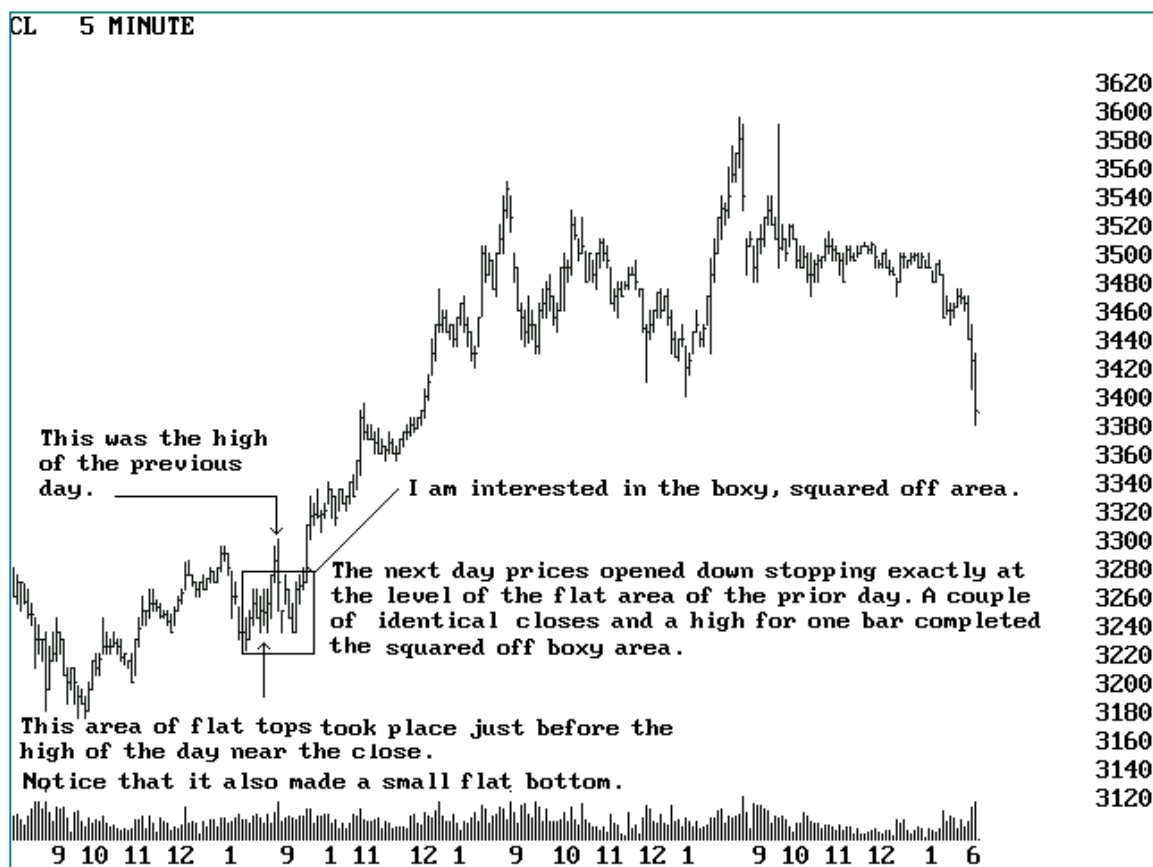
The best I can do for anyone is to show exactly what I am comfortable with, then let them adapt that to their own comfort level.

The trick here is to identify success and then stick to it like glue. When it works, don't fix it. I don't experiment with something that is making money. I stay with the very best trades I can find. There is no need to chase a market. I am slow to get in and quick to get out.

If I'm not absolutely sure of a trade, I stay out. If it doesn't develop exactly to my liking, I stay out. I wait for those trades to come that exactly match my specifications. I let all others go by. I may not trade today, so what? The market may go on to make somebody a fortune – no big deal. I discipline myself to know my trade, and then take only those trades. I do not let greed get the best of me.

What does a good trade look like? Let me show what it looks like to me. It won't be exactly what someone else might like, but it will be similar.

## TRADING BY THE MINUTE



On the crude oil chart shown above, I am interested in taking a trade based upon a breakout of the congestion that occurred closest to the high of the day. Prices had congested there briefly prior to the high, and had then fallen back to the congestion area just before the close.

The next morning, prices opened lower, and by a cluster of closes at the same level as the group of flat highs from the day before, plus the high of one bar at that level, there is a definite squared off boxy shape to the prices as they congested in the same area.

According to my plan set forth in the earlier chapters, I want to trade a breakout of the congestion that took place closest to yesterday's high. I don't want to wait for the high itself to be taken out, if at all possible.

Why? I want to already be in the market when and if yesterday's high is taken out. Why do I want to already be in the market then? There are two reasons:

1. If the congestion is taken out to the upside, there is a high probability that prices will go up and test yesterday's high. I can make a small profit if that happens. It also will have given me a head start in case prices go on and take out yesterday's high and move even higher.

## TRADING BY THE MINUTE

2. If prices do take out yesterday's high, that is precisely where a whole bunch of buy orders will come into the market. There will be a lot of buy stops sitting in the market at that point. The momentum behind that buying will drive prices up even more, and so I have an excellent chance of cashing in on such an event.

A close look at the chart will show exactly what happened.

### staying in the water

The whole idea behind my trading is that I don't mind taking a small loss, or even just making expenses, if I can be in the market when it runs.

Usually, I will not be stopped out for a loss equal to my entire risk. When market prices take out congestion areas, they usually have enough momentum to insure I will at least make expenses. At that point, I will have pulled my stops to breakeven and will not be hurt if prices come back down. If the buying or selling that comes into the market at the actual breakout is sufficient to carry prices a bit higher, I will cash my second contract-set.

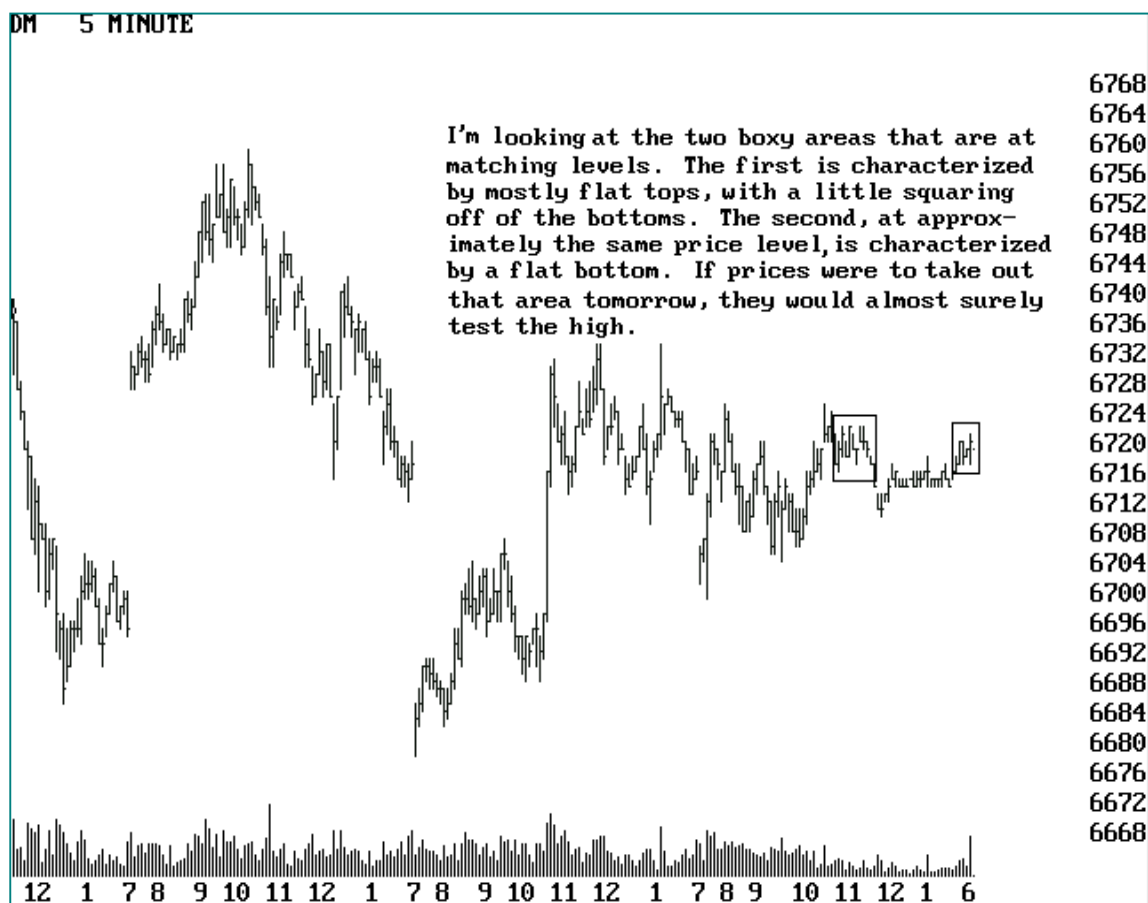
If prices have sufficient momentum for the market to run, my third contract-set will see me catching my portion of the run. Do I expect to make it all, right to the most profitable point of the day? No. All I want is a piece of the action.

Sometimes I will get more, sometimes less, but at least I'll get something. A whole bunch of those pieces earn me my livelihood.

There are many times I will be stopped out with little or nothing for the risk I have taken, only to see the market then run the way I had hoped for. Will I chase that market? No! If it doesn't happen my way, I forget that trade. The trade must be my trade. It must happen my way, according to my plan, or I don't want any part of it regardless of what subsequently happens. No "but ifs", no "if only's". My way or no way!

I'll show another trade now.

## TRADING BY THE MINUTE



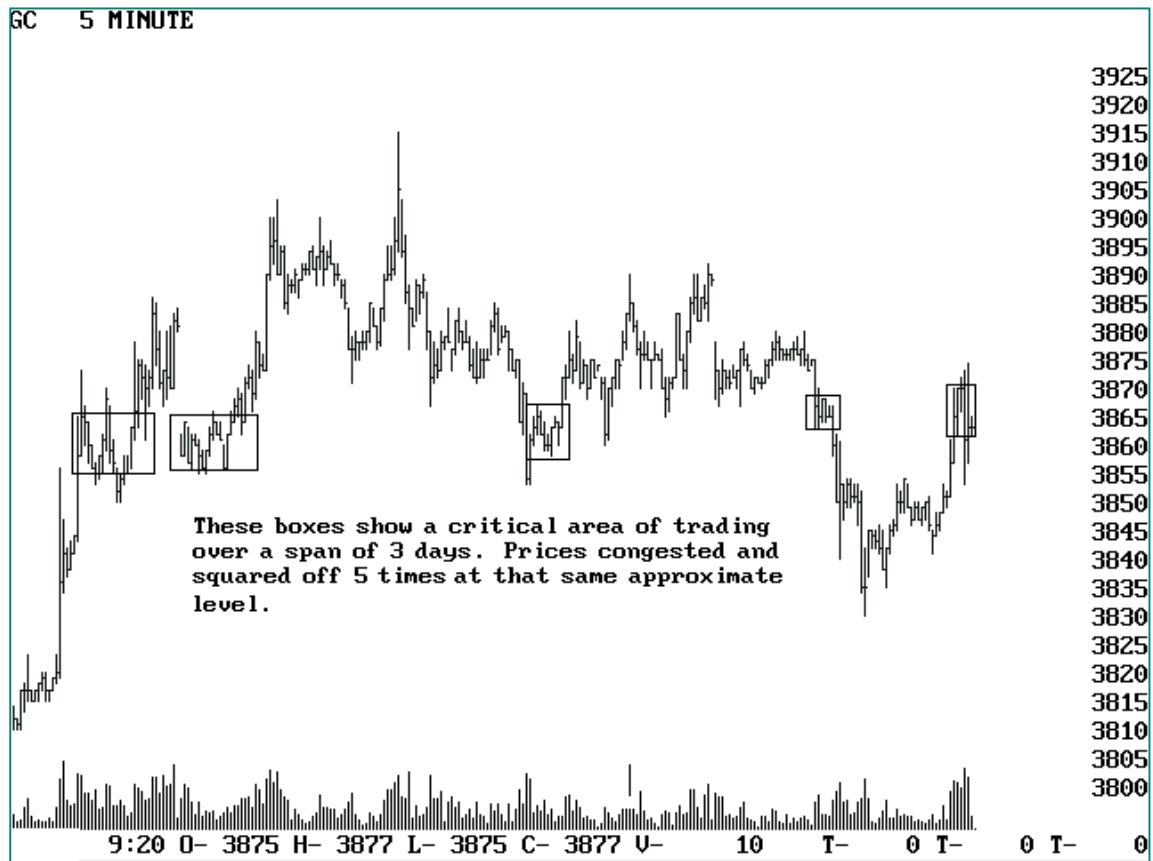
If prices take out the congestions to the upside in the area I have boxed off, there is a high probability that prices will test the high of the current day.

What I would like to see on the next trading day would be an open that is a bit lower, followed by some more trading at the boxed level.

A breakout would have me in the market, with enough room between the breakout and the high to at least cover costs. If prices continue upward, I might make a profit, and if the market runs, I will make my take-home pay.

If it doesn't happen the way I anticipate, I will let the trade go by.

## TRADING BY THE MINUTE

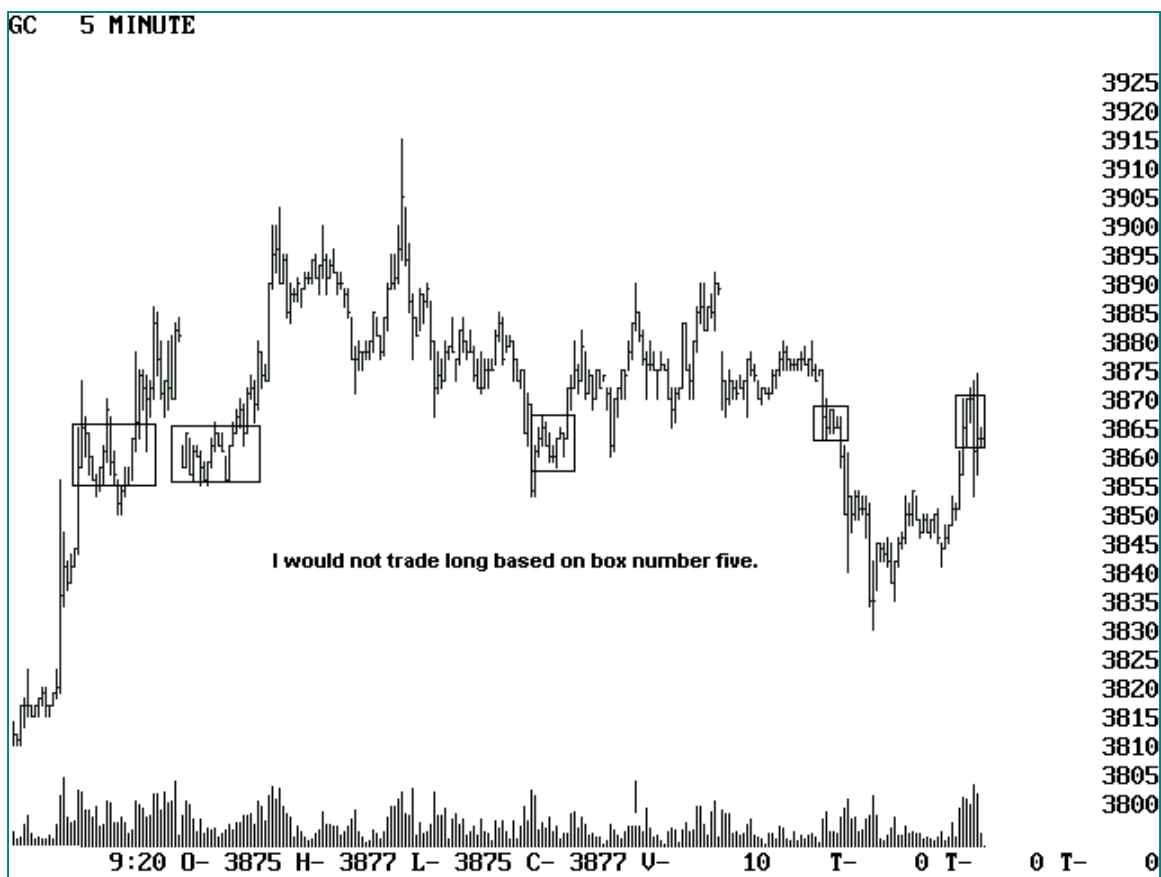


The boxes I've marked off demonstrate a critical area of congestion.

The first box shows that a great deal of trading took place at that price level actually causing a pennant shaped correction prior to the close.

The second box shows that on the following day, prices resumed at that congestion level right at the open. The trade was to enter long on a breakout of the congestion shown in the second box. I ignore the spike highs and/or lows. What I'm interested in is the fact that prices traded at the same level so often.

## TRADING BY THE MINUTE



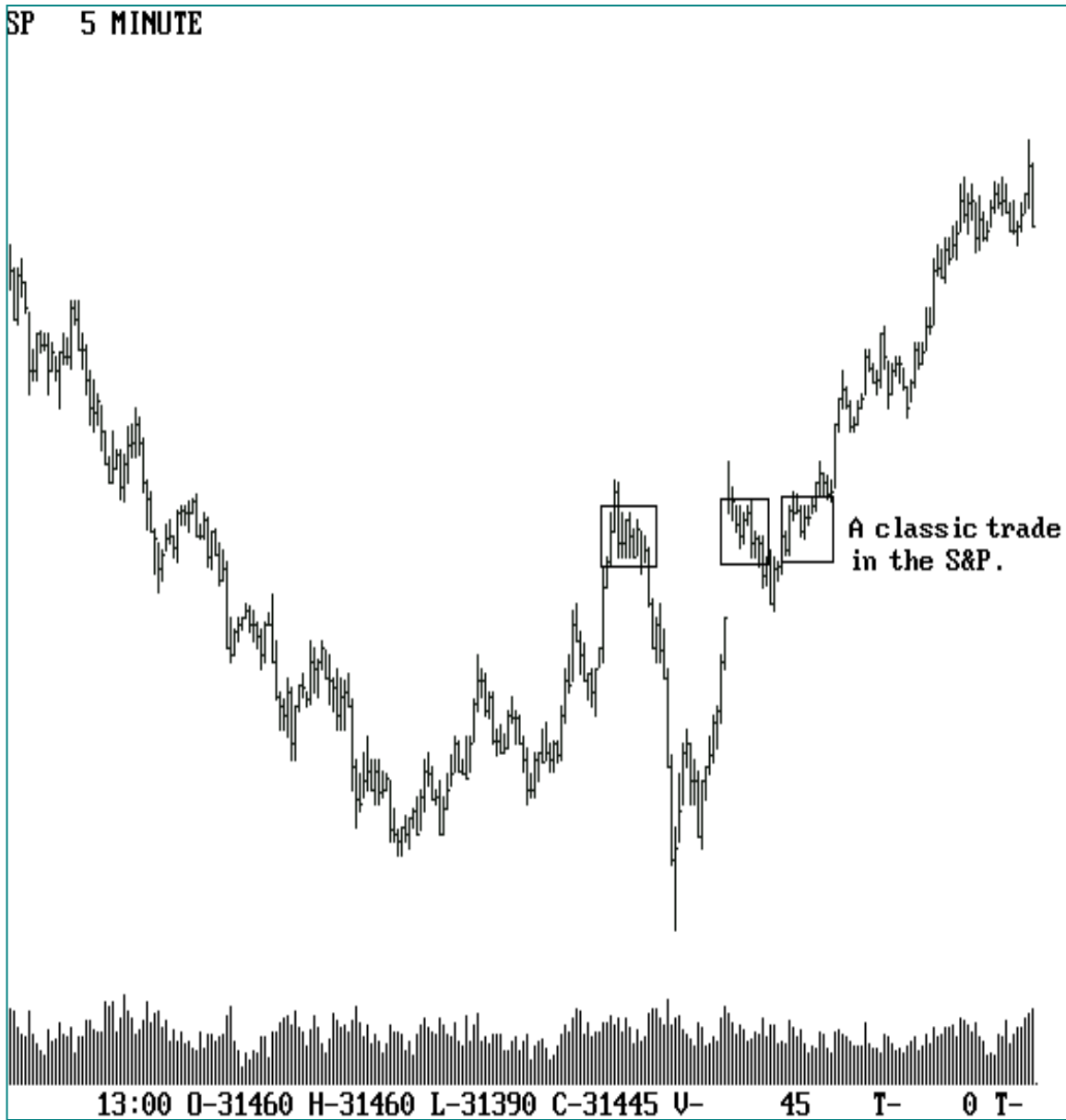
The third box shows that later that same day, prices traded there again, only this time after making the low of that day.

The lows of that fourth box are at just about the middle of the congestion shown in the third box. A short position was put on at the takeout of the congestion shown in the fourth box. As can be seen, prices made a nice move, and although gold didn't run, I was able to cash all three contract-sets.

The fifth box shows the congestion level at the end of the day that approximately matches the congestion area made earlier at box four. I would not trade long the following day based solely upon a breakout of the congestion in box five, because it is not the congestion closest to the high.

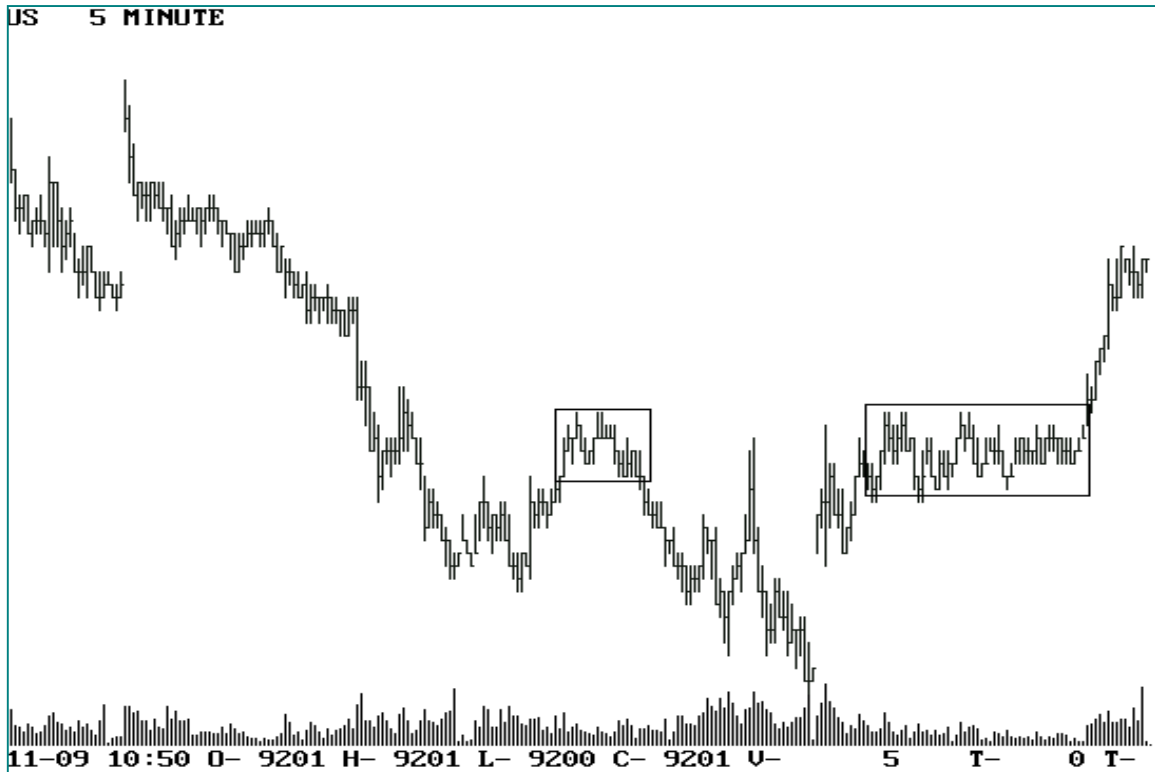
Instead, I would await further developments. I'd like to see it trade again at that level, and then take the most logical breakout of that area.

# TRADING BY THE MINUTE



This chart shows an almost perfect trade in the S&P 500. Prices congested right after making the high and just prior to the close. The next morning saw a gap up open, and then prices trading right back into the congestion area. Then prices played around for awhile and finally broke out. The S&P ran all the way to the end of the day.

## TRADING BY THE MINUTE



Although I do not trade bonds on the five minute chart, I just had to show this classic example of what I'm talking about. It just happens to be a day when there was enough activity in bonds for them to "form up" more than they normally do on the five minute chart.

### preferred patterns

I prefer boxy, flat, squared off congestions over any other kind.

Next, I prefer repetitive congestions in the same area, such as on the S&P 500 chart and the gold chart in the previous figures.

I prefer that the boxed off section not be too high from top to bottom. I ignore spike highs or lows, and prefer clusters of opens and closes, highs and lows all within a very narrow range on the individual five minute bars. I feel it is essential to have software that will enable viewing of at least three day's worth of trading at one time. This means being able to see 240 five minute price bars on the screen at one time. That way it's possible to see where the daily highs and lows were over the last three days. Alerts can then be set accordingly.

Chapter 19

## STRATEGY AND TACTICS

I've shown my plan. The plan represents my strategy in the markets. Strategy is the way I've planned and directed my trading operation. I've planned to take profits at certain levels. I've planned to cover my costs. I've planned to let my third contract-set run. I've planned how and where I will take continuation trades. I've directed my broker through the orders I've placed.

Tactics, on the other hand, is the way I have marshaled and maneuvered my trades in and around congestion areas. Tactics is placing myself in the best position in the markets to take advantage of price movement as seen through momentum.

Tactics are seen in the methods I used to enter my orders, place my stops, take my profits, etc.

The dictionary says that Strategy is the science of planning and directing, whereas Tactics is the science of arranging and maneuvering.

### continuation trading

I've shown how and when I will take a continuation trade on a five minute chart. I will take a breakout of the next congestion after the first breakout which constituted my initial entry. There must be at least an hour of trading left in order for me to do this. I will take a breakout of a subsequent congestion if there is sufficient time to do so. The sum of the matter is that I will enter a market no more than three times in a single day – in a single direction.

There are a couple of additional criteria I use for continuation trades:

Normally, I will take a continuation trade only when my third contract-set is in the black and has not been taken out by a fifty percent retracement.

The best continuation trades come from pointy Ross hooks. If a hook is made which tends to have a flat top, then do not expect the continuation to go as far as it will if the Ross hook has a sharp point to it as it forms.

### reversal trading

Is there a time to reverse direction? Yes, there is. Sometimes a market will make an outside day. It might take out yesterday's high, and then turn right around and take out yesterday's low. The outside day may be so large from top to bottom as to take out the highs and lows of several days. I watch for this when there is feverish activity in the markets.

## TRADING BY THE MINUTE

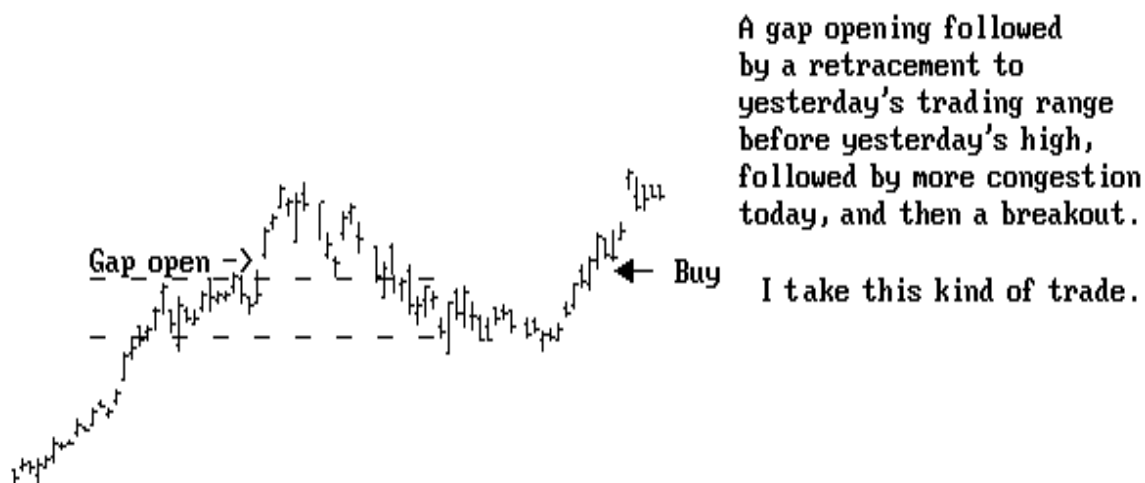
The rules for changing direction are identical with the rules for trading one way: I take a breakout of the longest, tightest, and/or best congestion that occurred prior to the extreme.

I might be long early in the day, and then sometime later I might find myself short. I may even have time to enter the market three additional times in the opposite direction from my original trade.

I'm not talking about reversing a bad trade here, that will come later. What I'm talking about is flexibility in my planning. What I'm getting at is having a mind-set that realizes that such things can occur, and a plan that allows for such eventualities. When there is an outside day, I will not change my tactics. I still enter and exit as before, but my strategy has laid out for me what to do in such a situation.

### gaps

How do I handle gaps? If prices gap past my entry congestion, I let my trade go by. BUT IF prices trade back into my congestion, then I take a breakout the same as I originally planned. Here's what I look for:

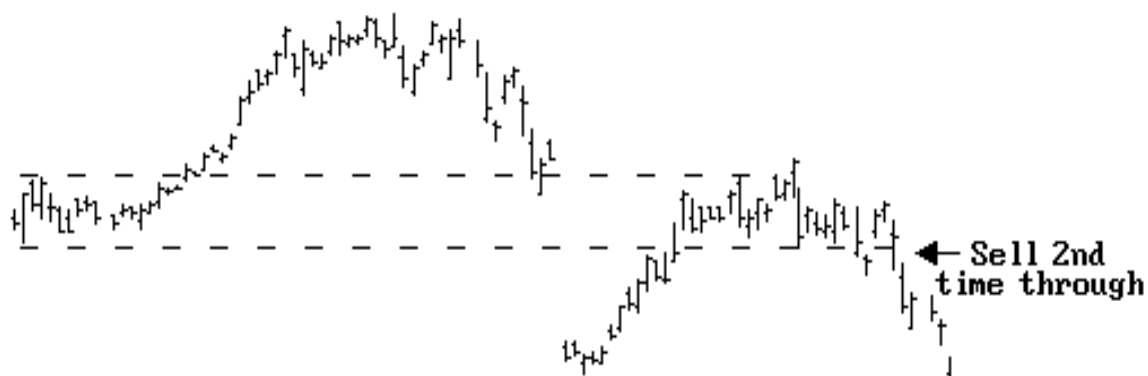


Note that prices must again congest at or about the same level as they did on a previous day. The previous matching congestion could have taken place up to three days ago.

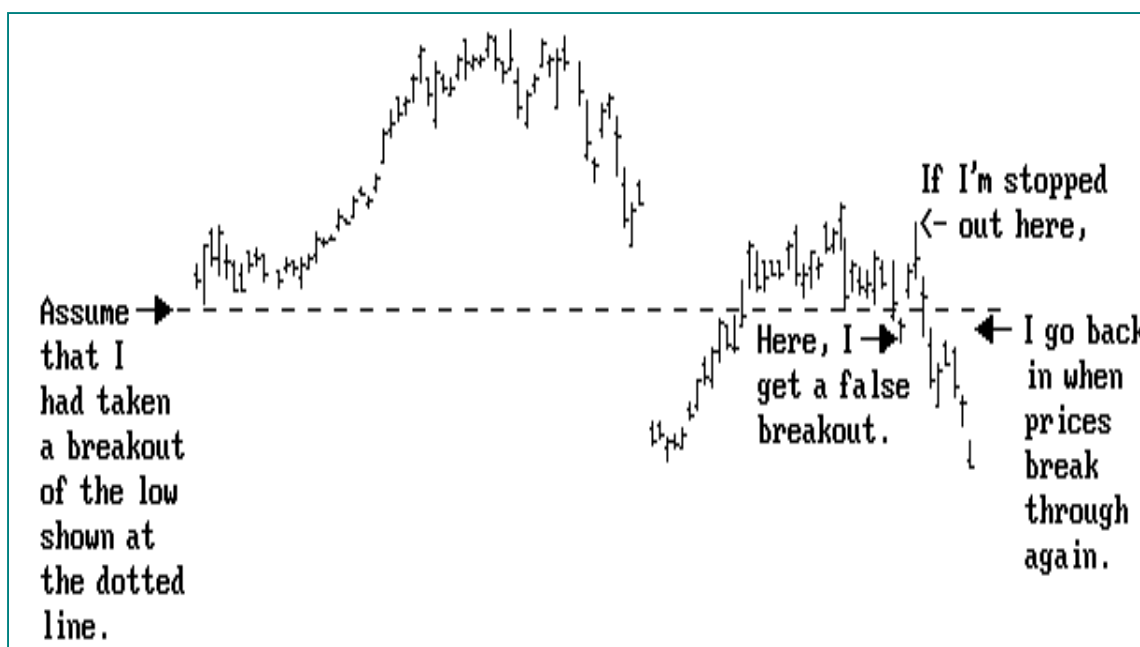
## TRADING BY THE MINUTE

There is one other way I will trade after a gap open. It is if prices gap open, then retrace through a prior trading range, and then breakout in the direction of the open.

Now, what do I do about false breakouts? I'll show that last chart again.



**A gap opening, a rally back through prior congestion, then a breakout of that congestion in the direction of the open.**



### first break versus second break

The second attempt at entry shown above brings up another point I need to bring out about my trading. What I'm about to show is a matter of choice.

## TRADING BY THE MINUTE

There is a more conservative way to trade these breakouts of congestion that take place prior to the actual breakout which is based upon the entry signal. I'd better make that more clear.

I may be about to take a trade that is based upon a breakout of the congestion I anticipate will be a breakout that will fulfill the requirements of one of my entry signals. For instance, a market may be just about ready to take out the high of a trading range. I am looking for a congestion just prior to such a breakout. Up until now I've shown my technique as being that I take the FIRST breakout of the congestion prior to the actual breakout of an intermediate or major entry signal.

However, a more conservative approach, and one I now favor the most, is to take a second breakout of the congestion. By doing so, a lot of good trades will be missed. But also, a lot of shorter term fall-backs will be missed. I'll illustrate what I'm talking about



on the next page. In part it is a matter of perception.

Notice, the second time through has to take out the low of the first time through.

On the foreshortened (I removed some of the price bars in the middle) crude oil chart I've shown, prices congested around the low of the previous day at point A, and then congested there again after the open on the day shown at point B. When prices broke through the congestion lows at 3260, a short position would have made costs on the first contract-set, and another ten points or so for the second contract-set. Then a rally back would have taken out the break-even stop at 3260 and the trade would have been over. That is what actually happened the way I traded it.

## TRADING BY THE MINUTE

However, had I waited for the second breakout shown at point C, the results would have been more spectacular for the third contract-set, even though the entry would have been at a lower point, around 3240. Sometimes there is no rally back and the trade is entirely missed. But when there is a rally back, and then a second penetration of the congestion area, the chances are higher for making profits. Trading the second breakout is part and parcel of my minor entry signal, and so the last example was a perfect lead in for the next topic.