



VectorVest®

# The Methodology, Money and Mindset for Swing Trading

June 24th,

2022

ONLINE

# VectorVest

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# Method, Money and Mindset

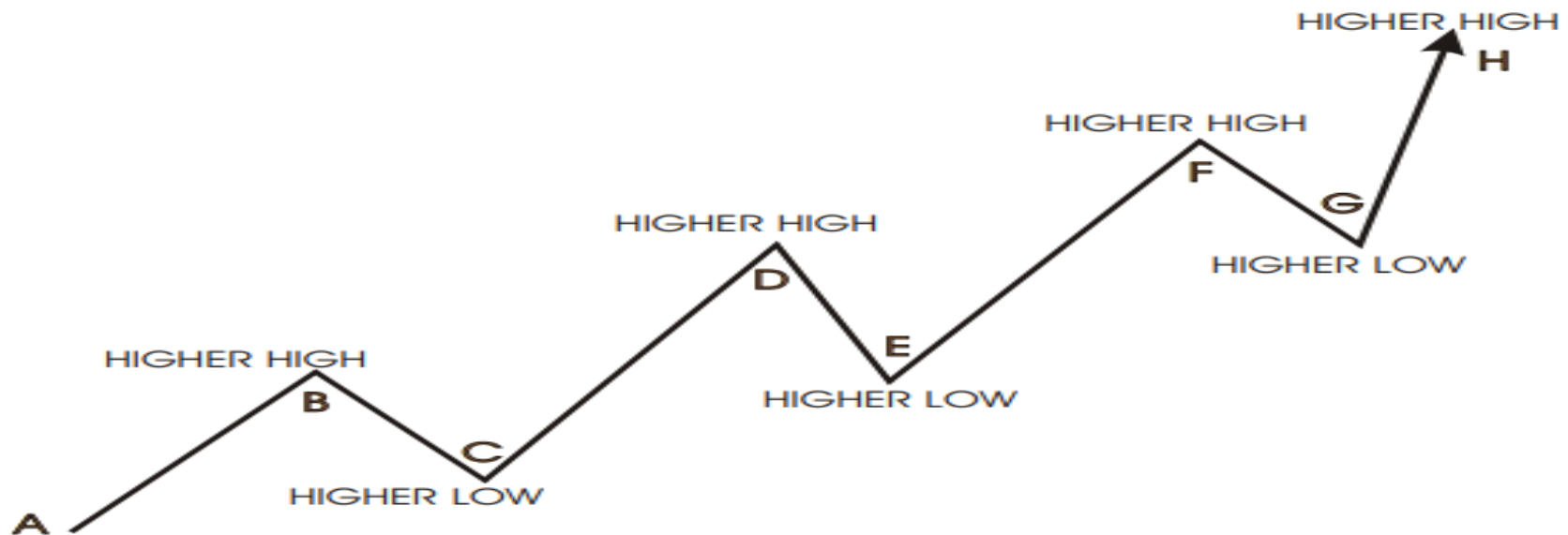
Why some people always make money in the  
stock market

# Method, Money and Mindset

## What I Do:

1. Intraday trading of mostly the SP500index (PM UK time)
2. Swing trades lasting 3-21 days in UK and USA stocks. This is today's subject.
3. Core trades in Stocks lasting 2-6 months
4. A pension stock portfolio focusing on yield

# Method, Money and Mindset



# Method, Money and Mindset

## What is Needed to Win?

To make cash in any timeframe we need three things

1. A Method...I will show my best money maker today.
2. Manage our Money...Risk Management...
3. Manage ourselves

## Method, Money and Mindset

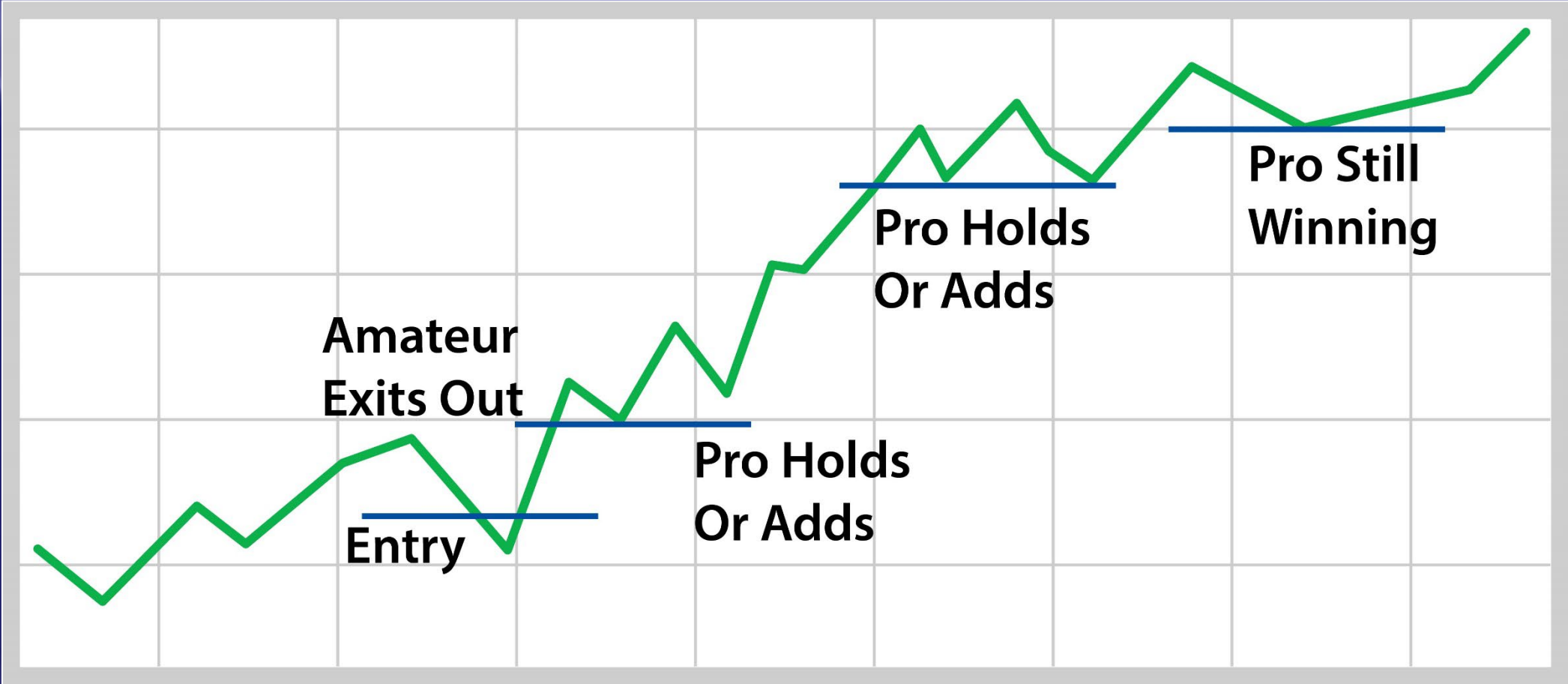
The BIG SECRET...Much to secret to put into PowerPoint. I will talk you through it.

# Losers





# Winners



# Mindset...Douglas's 4 fears

**THERE ARE FOUR TRADING FEARS :**

- 1.fear of being wrong
- 2.fear of losing money
- 3.fear of missing out
- 4.fear of leaving money on the table.

# Mindset...The Journey...

## THE JOURNEY TOWARDS BECOMING A WINNING TRADER:

1. Executing without fear or hesitation (even after a cluster of losers). How to lose a trade without feeling like a loser.
2. Stopping out when wrong
3. Let winners run and position traders pushing winners.

# Mindset...Trading Discipline...

Can discipline be built or has one person got it and another not?

**OF COURSE, IT CAN BE BUILT**

When you've got discipline, you don't need discipline any more to complete a task.

I don't need to grit my teeth to go to the gym every day.

## Mindset...Trading Discipline

To build trading discipline I have used the following approach with new traders for the last five years. Providing the trader keeps it up it has worked every time. In my younger days in the training business, I used to sit with traders and supervise the process.

# Mindset...Trading Discipline

1. Decide upon a trading system which details mechanically entry, exit, position sizing and any pyramiding. It should be simple and straightforward as we are in a discipline building, rather than system building exercise.

There will be many trading plans discussed today.

## Mindset...Trading Discipline

2. Resolve to follow this system for a batch of trades without changing the rules. Thirty seems to be a good number.

This can be a very difficult exercise and probably the most difficult thing you have ever done. This is where the aggression between myself the trainer and the apprentice trader was found. After two bad trades I had in my many cases to force the newbie into taking the next trade. In one case this led to violence and thus my exit from the mentoring business.

## Mindset...Trading Discipline

It's a process very similar to the personal trainers we see in gyms these days. Personal trainers are in the discipline business not the exercise business.



# Mindset...Trading Discipline

The most amazing thing about the exercise discussed in the last slide is how the resistance goes away after somewhere between 10 and 15 trades.

You are 10 – 15 trades away from the trader that you want to be. Its that close.

After 10-15 trades all the resistance had melted away and each one that I have taught found it now easy to execute.

Its still a very difficult step to make and pretty much impossible without taking the time to study PRESENCE

## Mindset...Trading Discipline

The condition of fear( four trading fears) is divorced from any true and immediate danger.

You can always cope with the present moment but its very difficult to cope with the future

# Mindset...Trading Discipline

Realize that the present moment is all you have. Make the NOW the focus of your life.

Try and spend most of your time in the Now and only go to the past or future when its necessary for practical purposes.

Its impossible to feel fear in the present moment. I was taught this in the Royal Marines 45 years ago.

## Mindset...Trading Discipline

All winning traders are very present people. They are focusing on what's happening Now in relation to their trading rules.

Bringing presence into your trading is essential to completing the 30-trade exercise presented before.

The alternative is a several decade long search for perfection.

## Mindset...Trading Discipline

DON'T BELIEVE EVERYTHING YOU  
THINK.

Trade what you see.

# Method, Money and Mindset

## Risk Management

# Risk Management

Is the Apple chart going up or down tomorrow?

What do you think?

# Risk Management



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21°C



ENG

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6/21/2022



# Risk Management

The old wisdom is that the market may go up or down but not necessarily in that order.

In my pocket I have the perfect system the pound coin.

Heads APPL is going up, tails its going down.

Would you trade like that?

# Risk Management

Have you chosen yet?

Why are you frowning?

Would you consider trading like this?

After asking this question to roomfuls of traders over the years the answer is that most certainly would not.

# Risk Management

OK I would not like to trade with the coin as well.

LET'S CONSIDER A SPECIAL GAME

IF YOU CAN PREDICT THE OUTCOME OF TOSSING A COIN, I WILL PAY OUT TWICE AS MUCH AS YOU ARE PREPARED TO BET.

IF you bet \$1, I will pay you out \$2 if your prediction is successful.

Clearly if you are incorrect in your prediction, I will take the \$1.

# Risk Management

Would you play that game?

# Risk Management

**IT'S A GREAT GAME TO PLAY.**

IN 10 tosses of the coin the pay out is as follows:

- $(5 * 2)$  when you are right minus  $(5 * 1)$  when you are wrong assuming a \$1 bet size.
- This means that you make 50 cents every time that you toss the coin.
- If you can get someone to underwrite this game, then you can write yourself a check forever.

# Risk Management

In trading the number of times that you are right is known as the  
HIT RATE.

In trading the payoff is known as the risk to reward ratio.

THE MONEY THAT YOU MAKE IS A FUNCTION OF BOTH HIT  
RATE AND RISK TO REWARD.

# Risk Management

MOST TRADERS ONLY THINK ABOUT HIT RATE.

THE INTERNET IS FULL OF HIGH HIT RATE SYSTEMS BECAUSE MOST TRADERS WILL ONLY PURCHASE SUCH A METHOD

MOST OF THESE SYSTEMS IN FACT LOSE MORE WHEN THEY ARE WRONG THAN THEY MAKE WHEN THEY ARE RIGHT.

# Risk Management

John Henry owns the Red Socks and Liverpool football club

His systems hit rate is 35-40%



# Risk Management

System expectancy is a function of :

1. Hit rate
2. Risk to reward
3. Commissions and spreads

# Risk Management

HAVE I CONVINCED YOU THAT IT'S A GOOD GAME TO PLAY?

BUY Apple at \$218 with a stop at \$201 and a target of \$252

Risk is \$17 the target is \$34

If you can get this correct 50% of the time you've got it made in trading. The only thing remaining is **learning how to play the game.**

That's what this day is all about.

# Risk Management



# Risk Management

LET'S IMAGINE THAT WE HAVE 100 EQUAL COINS IN A VESSEL. THIS IS YOUR TRADING KITTY.

Every trade has two decisions associated with it :

1. Long or short
2. How much do I bet.

What percentage of my kitty do I risk on any one trade?

# Risk Management

THIS DECISION OF HOW MUCH IS THE MOST IMPORTANT QUESTION IN TRADING

THE BET SIZE IS THE DIFFERENCE IN \$ BETWEEN YOUR ENTRY POINT AND THE STOP LOSS WHICH IS APPROPRIATE

WE ARE PLAYING A 50/50 GAME WITH A 2:1 RISK TO REWARD RATIO GAME.

THE CONCEPT IS CALLED POSITION SIZING.

# Risk Management

PROBABILITY OF A BAD CALL =  $1/2$

Prob of a cluster of 2 in a row =  $1/2 * 1/2 = 1/4$

Prob of a cluster of 3 in a row =  $1/8$

THIS means that in a 50/100 system, if you bet one third of your coins on any one trade that you go broke every 8 trades.

# Risk Management

50/100	66/100	80/100
1/2	1/3	1/5
1/4	1/9	1/25
1/8	1/27	1/125
1/16	1/81	1/625

The table summarizes the relationship between hit rate and the probability of a streak of poor luck.

# Risk Management

Many small and large traders go broke with a great system because a run of bad luck (which is a mathematical certainty) that takes them out before the good streak starts.



# Risk Management

## FIRST DECISION OF THE DAY

### HOW MUCH IS IN YOUR ACCOUNT?

Very few decide on this. They totally believe that the share is going up and they buy lots of it. It does not go up. Before they can trade again, they must top up their account.

# Risk Management

The only thing that effects the risk of a trade is the account size and the position sizing model used. It has got nothing to do with Apple or any share.

# Risk Management

If you don't know how much money is in your account,  
then you cannot size your position correctly.

If you do not size your position correctly then you are  
gambling and NOT trading.

# Risk Management

You cannot control market direction, but you can decide upon your risk.

This will keep you alive in a normal losing streak without too much drawdown and ready to profit from a winning streak around the corner.

The most important thing in trading is to have enough money to trade tomorrow.

# Risk Management

LET'S assume an account size of \$100,000

1% risk would equate to a risk on each trade of \$1,000.

If a sensible stop loss for your method is \$17 then you could buy  $1000/17=58$  shares in Apple from the previous chart.

If the trade falls apart, you will have lost \$1,000. NEXT.

# Risk Management

$N * \text{Risk/share (dollars)} = 1\% \text{Account size}$

Where N is the number of shares to be bought

Risk/share is the \$ amount by subtracting the entry point from the stop loss level

Account Size is agreed upon at the outset of the trading business

# Method, Money and Mindset

## Methodology

# My Trading Method

1. The overall market is on your side. You've determined that the market is trending in the same direction you want to swing trade.

VectorVest has totally objective market timing models. Review the Tampa 2022 notes and live stream for the detail.

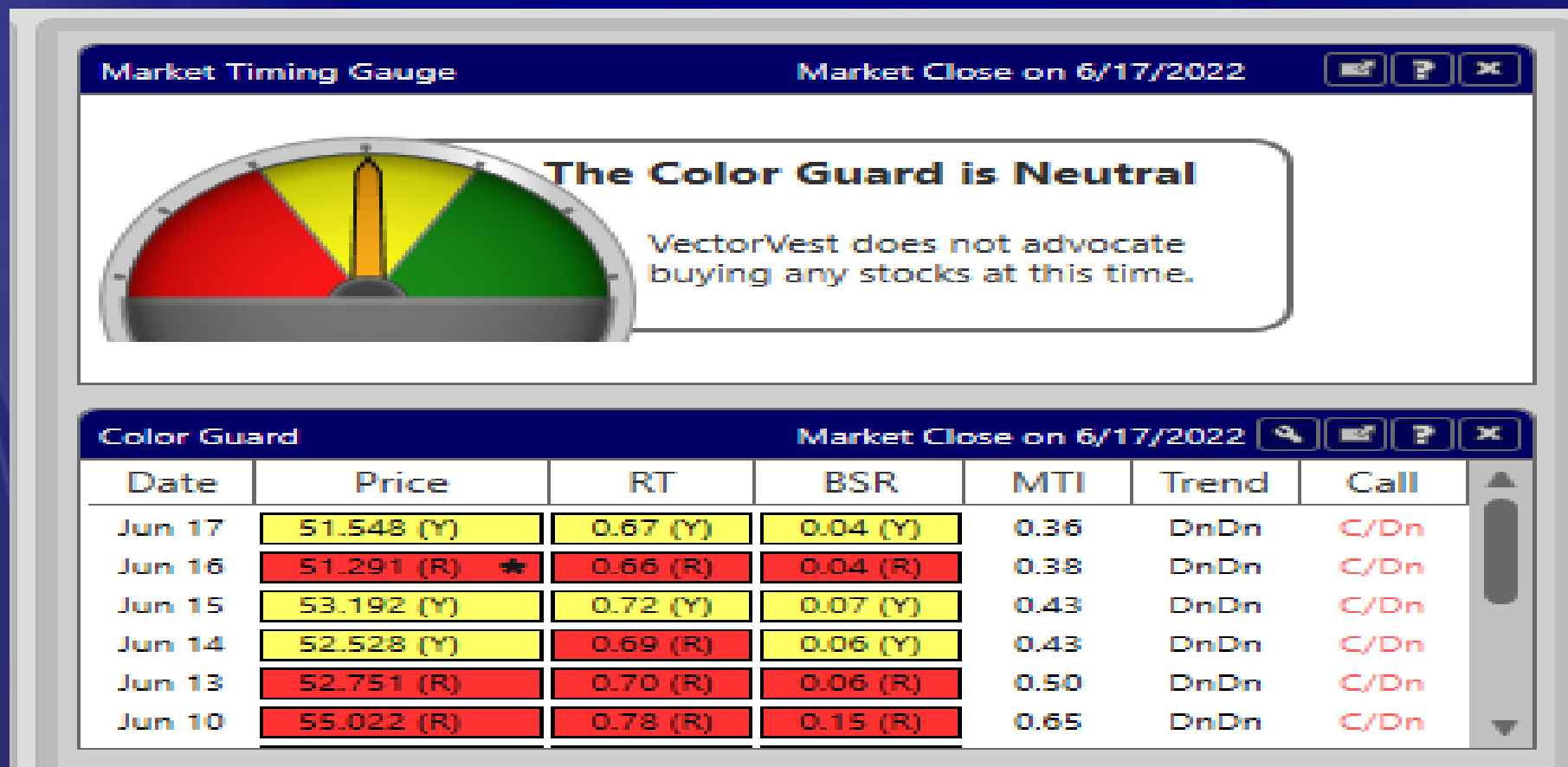


# My Trading Method

“The single most important thing to know is whether the market is going up or down. Everything follows from that.”\*

\* *Dr. Bart A. DiLiddo*

# My Trading Method



# My Trading Method...hard hats needed..



Type here to search

# My Trading Method

1. Primary Wave turns UP i.e., Up/Down
2. Green Light in the price column
3. Black Star in the Green Light
4. DEW turns Up
5. Underlying trend turns Up. Up/Up
6. Underlying trend confirmed C/Up

# My Trading Method

## Oversold

MTI  $\leq 0.65$

Buy/Sell ratio  $\leq 0.25$

As I write the B/S  $< 0.2$

## Overbought

MTI  $\geq 1.6$

Buy/Sell ratio  $\geq 4$

## My Trading Method

2. The industry group is on your side. Stocks tend to follow their industry groups up or down. If the security's industry group is trending strongly in the same direction you want to swing trade the probabilities of success increase. Simply listen to Glenn on a Thursday.
3. Trade in the very best shares. Shares that have excellent growth characteristics with fair safety of earnings.

# My Trading Method



***“Good portfolio management starts with buying the right stocks.” –Dr. Bart DiLiddo***

## My Trading Method

4. The candidate stock should be in an existing uptrend that has pulled back in the short term.

The Comfort Index (CI) finds shares that are trending easily and quickly. Alternatively, a moving average cross system (50 and 150) finds trending stocks.



# My Trading Method

Comfort index looks at:

1. The trend of the share over the last 3 years
2. The volatility of the share price chart
3. The fundamentals

If the share is trending with little volatility and the fundamentals are improving, then that should offer us comfort.

# My Trading Method

Three Moving Averages...The Bow Tie...

1. 21 EMA
2. 55 EMA
3. 89 SMA

Where the cross is known on the “floor” as a Bow Tie.

# My Trading Method



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31°C 2:55 PM 6/17/2022

# My Trading Method

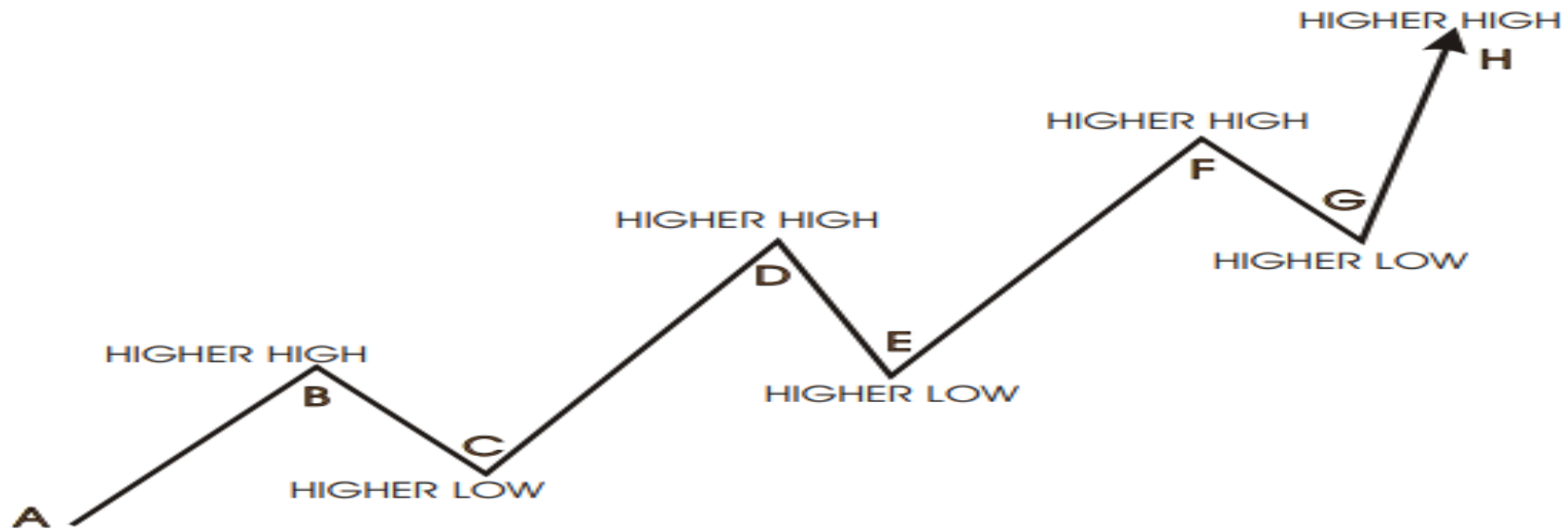
You get very lucky when your trades have.

1. The overall market behind them.
2. Great growth fundamentals (RV,GRT)
3. In sync with the Bow Tie.

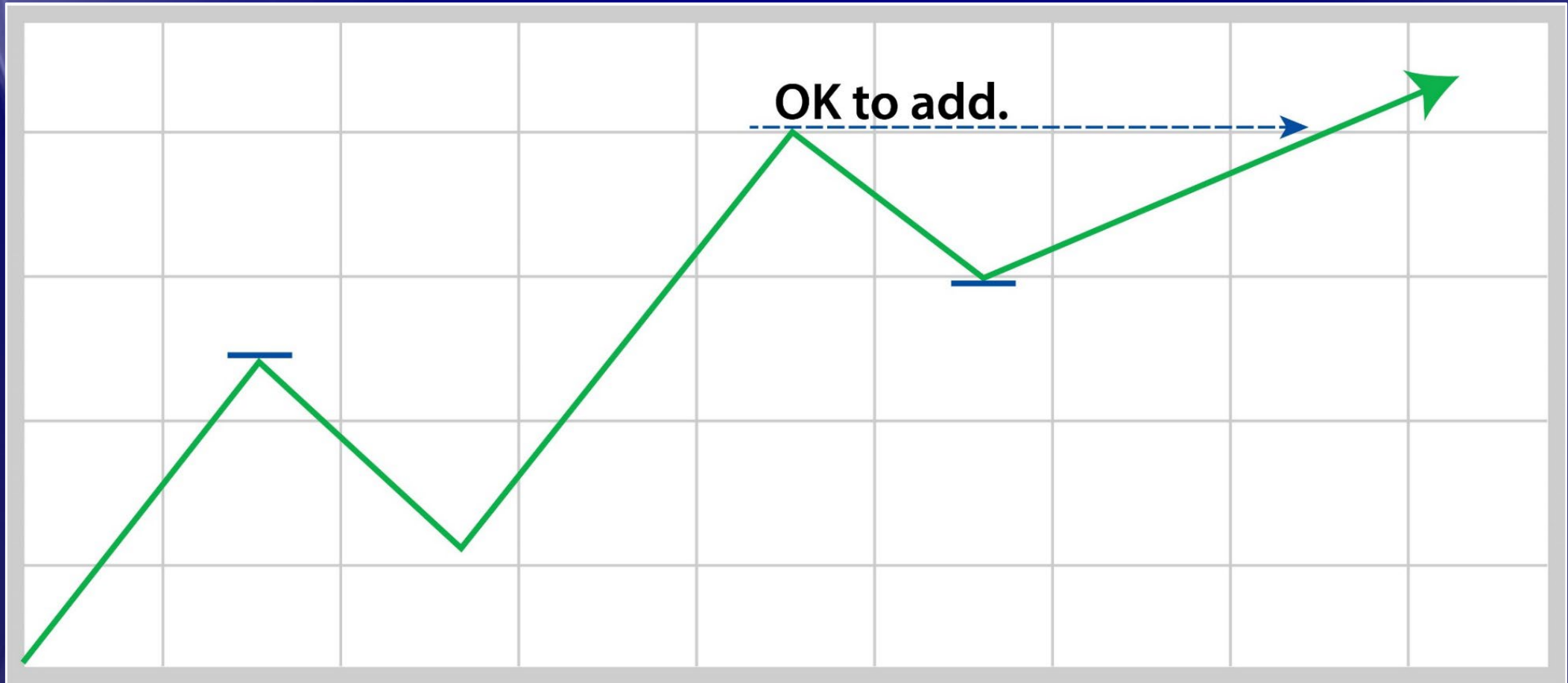
# My Trading Method

5. The share should pullback to the last old high most of the time. This pullback should occur on falling volume. Please refer to the Tampa live stream 2022 for a detailed discussion on volume as a leading indicator

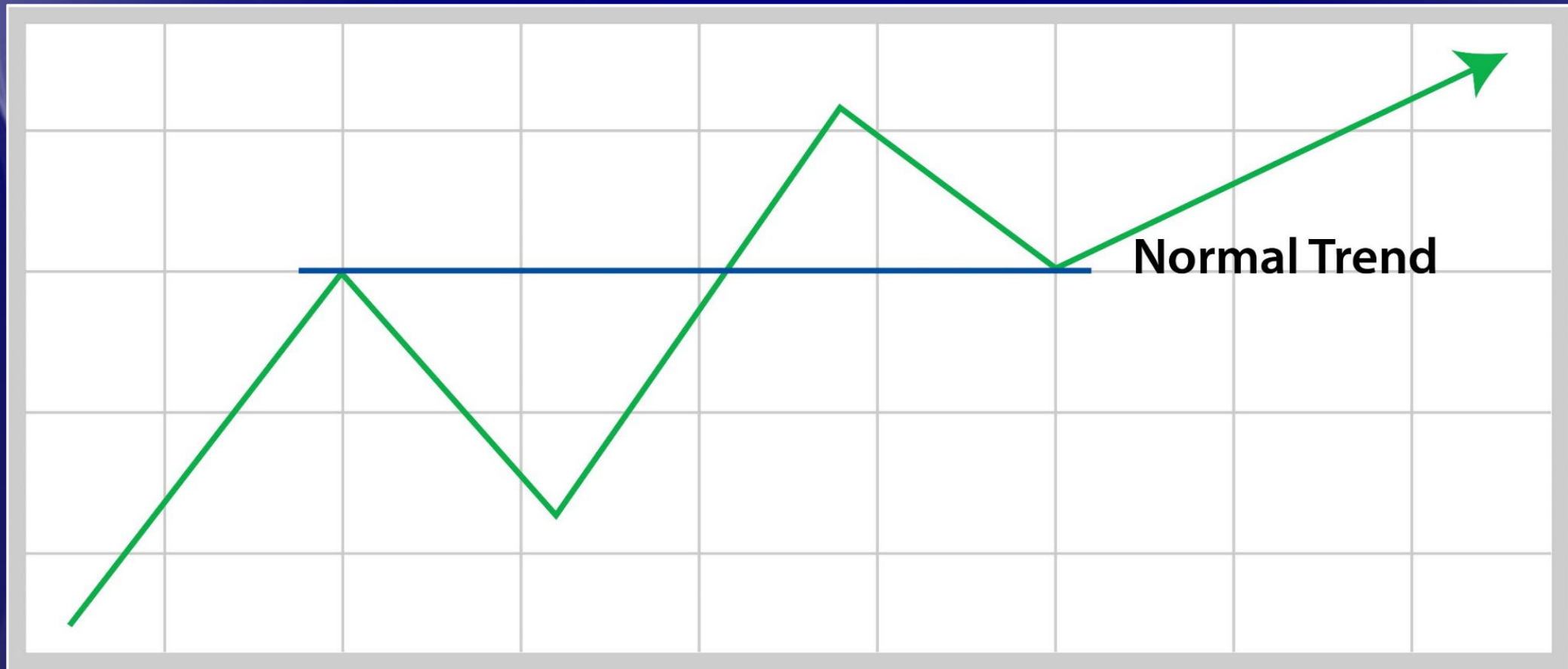
# My Trading Method



# My Trading Method...fast trend...

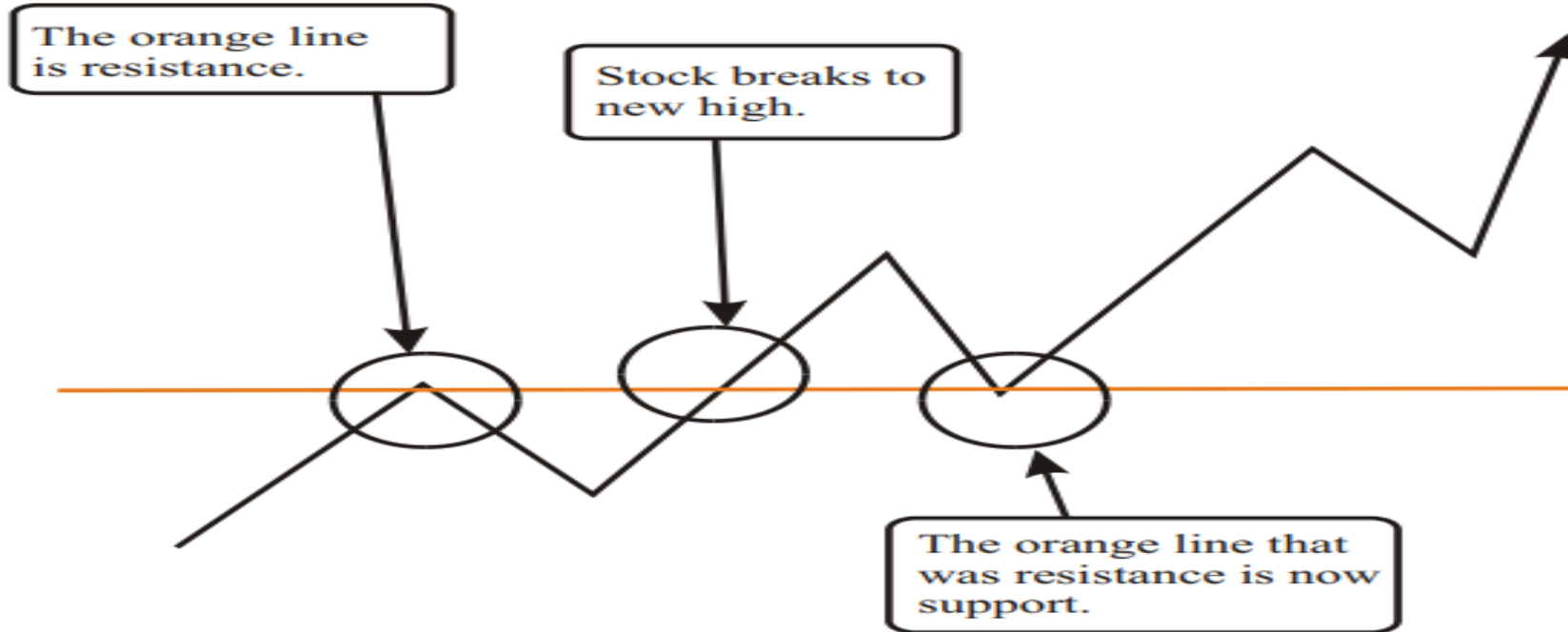


# My Trading Method...normal trend...

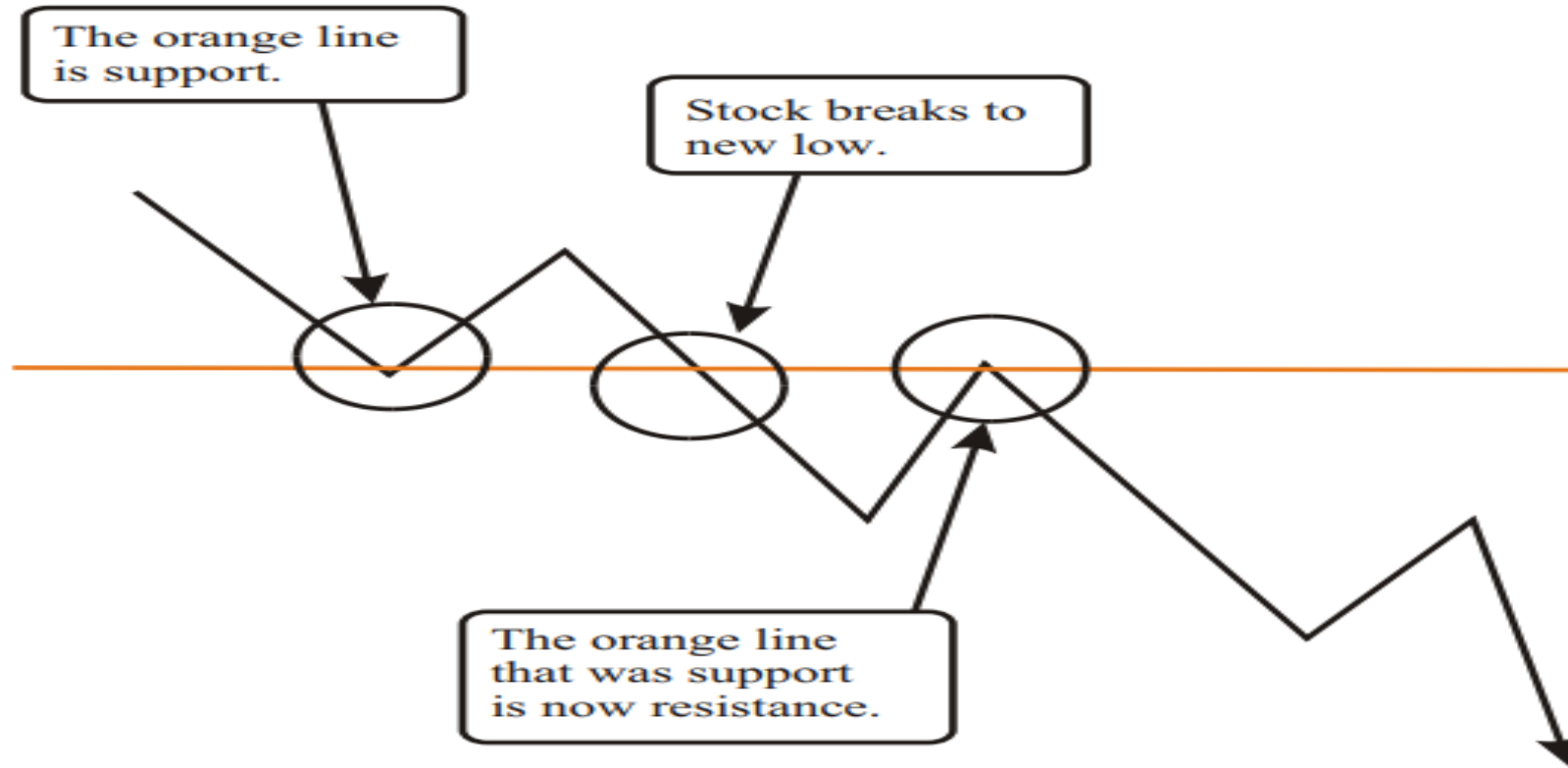




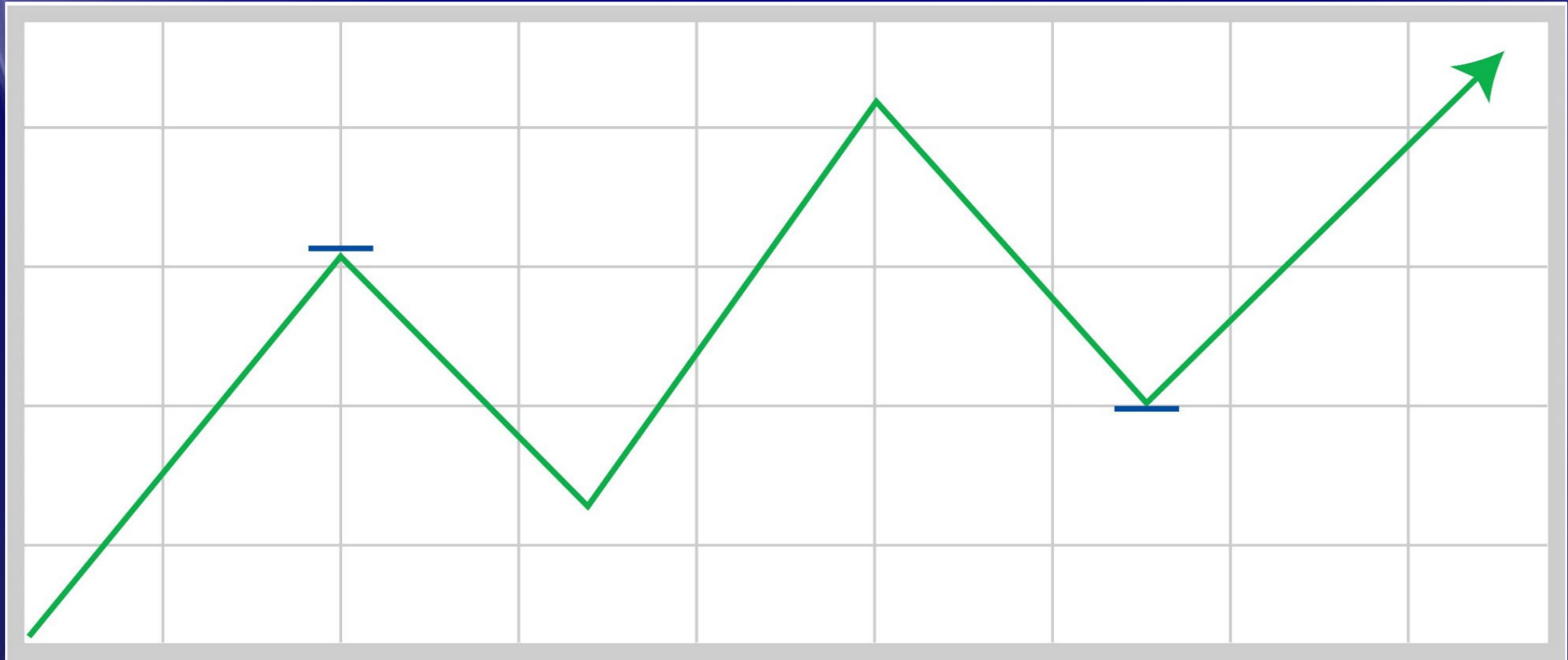
# My Trading Method



# My Trading Method



## My Trading Method...creeping trend...



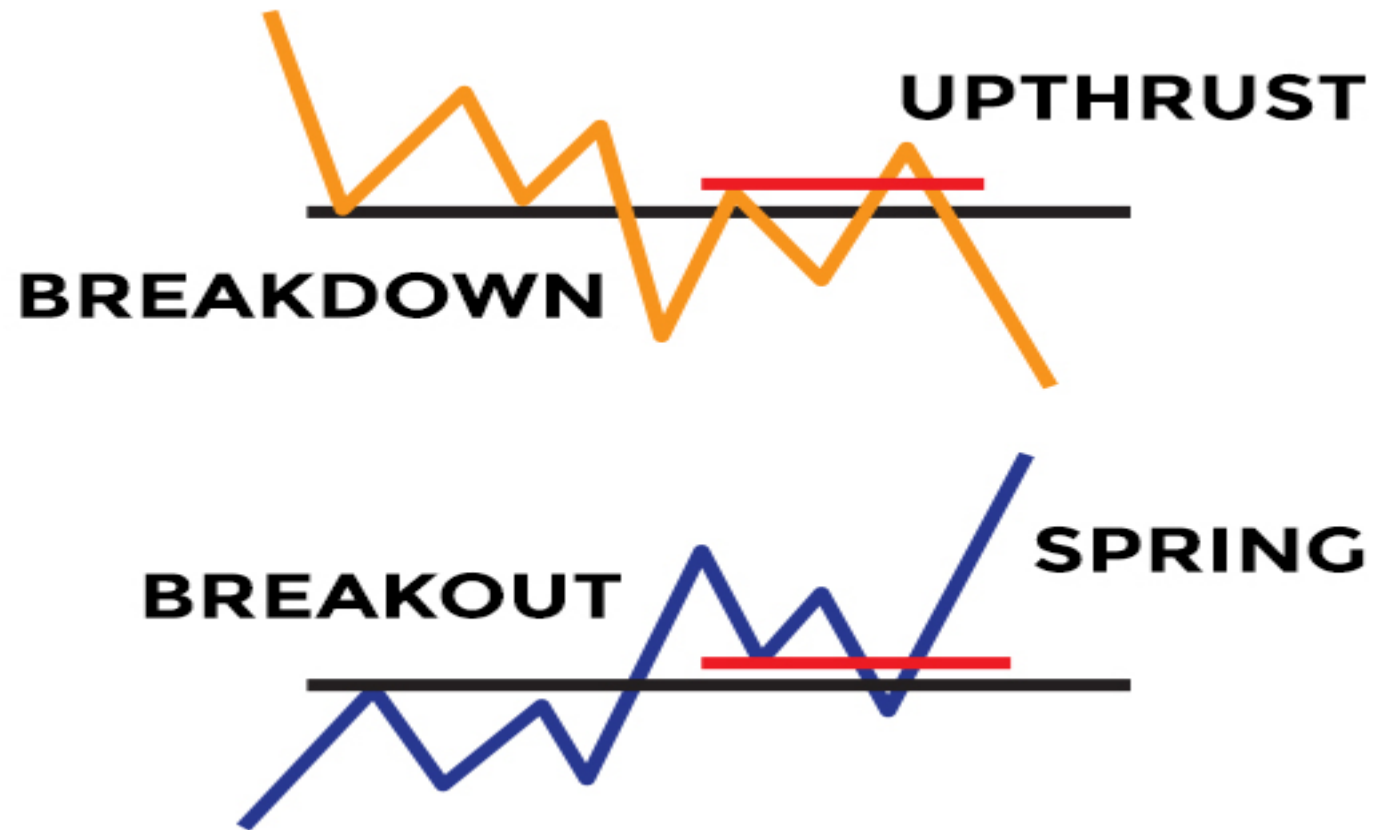
## My Trading Method

Volume is Vital to identify the trend with certainty.

Is this a pullback or a trend change?

Review Tampa 2022.

# My Trading Method...Wyckoff...



## Method...Wyckoff Upthrusts and Springs

You can make a living trading Springs and Upthrusts.” Trading these setups represents the essence of the Wyckoff method. It involves establishing trades at the danger point where the risk is least and profit potential the greatest”.

# My Trading Method...Wyckoff...

1. Most of my trades use the Wyckoff Spring on all time frames from 5-minute charts to weekly charts.
2. Most as in sync with the Bow Tie
3. All have good growth fundamentals.
4. At least the Primary Wave is Up.

# My Trading Method...Wyckoff...

Please note that the fastest momentum trades occur after most of the retail swing traders have been stopped.

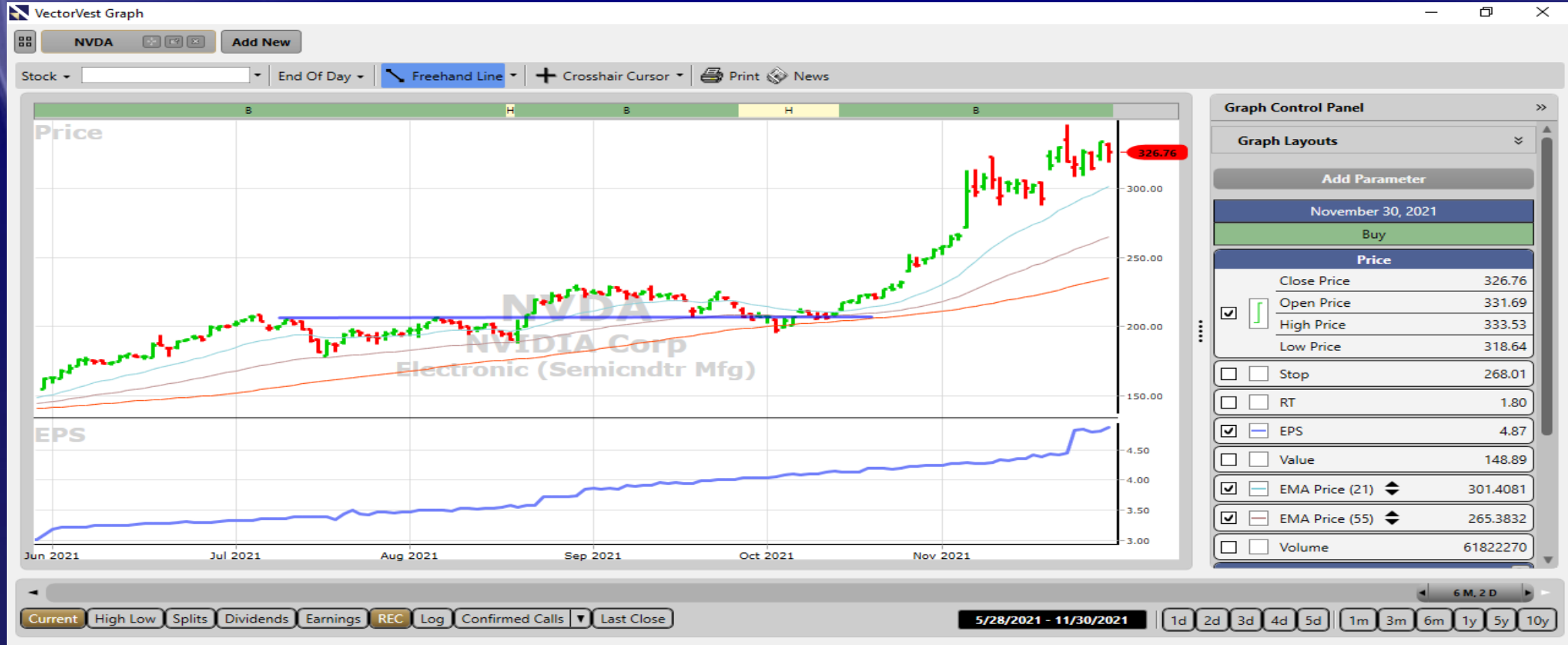
The good trade is always the hard trade.



# My Trading Method...Wyckoff...



# My Trading Method...Wyckoff...



# My Trading Method...Wyckoff...



# My Trading Method...Wyckoff...



## My Trading Method...Wyckoff...

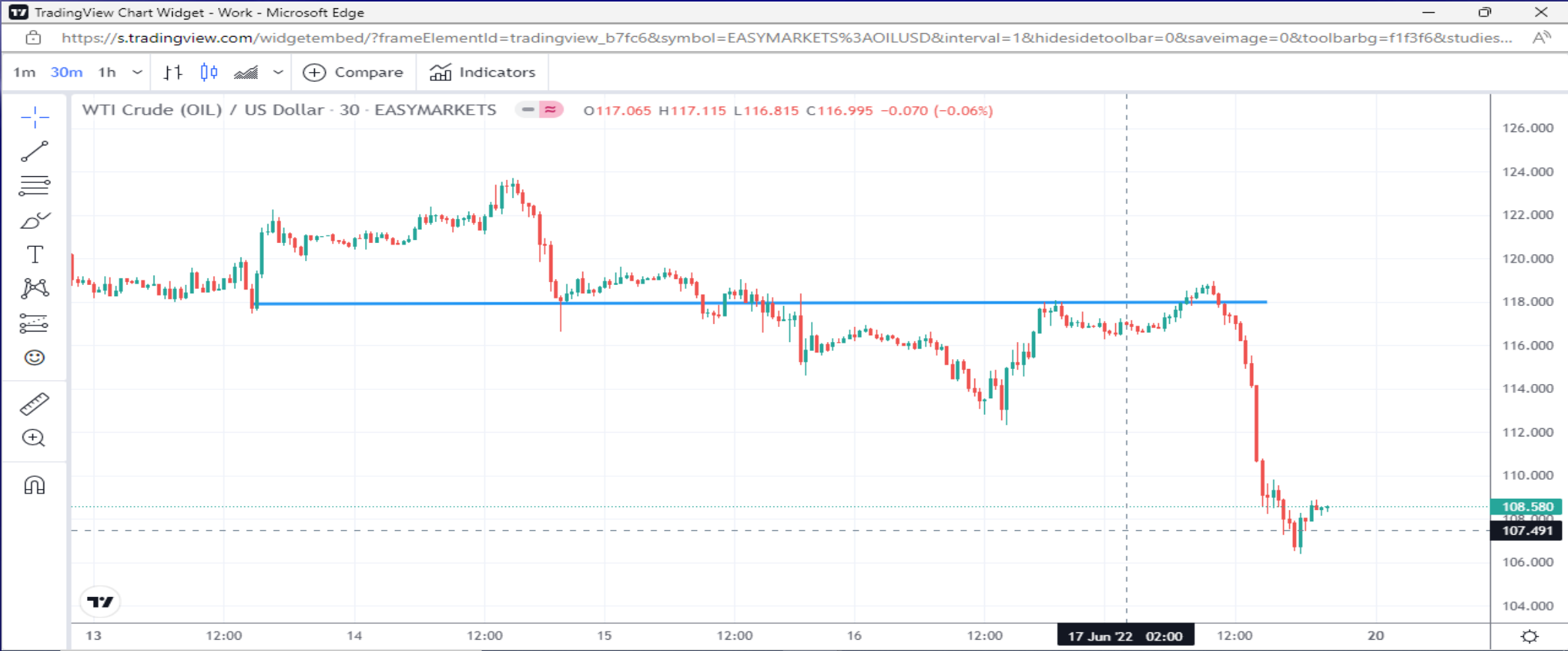
They are not called “Springs” for nothing.

# My Trading Method...Wyckoff Upthrust...



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# Oil Friday 17<sup>th</sup> June 2022



# My Trading Method...Wyckoff Upthrust...





# My Trading Method...Wyckoff Upthrust...



# Method, Money and Mindset

1. Strong fundamentals ( $RV \geq 1$ ) ( $GRT \geq 15$ ) (forecast EPS rising)
2. The overall market is at least showing a Green Light.
3. 21,55 and 89 positive (the area between the 21 and 55 is known as the Zone)...HIGH CI\*RT...
4. Stochastic  $< 20$
5. Price pulls back into or close to the Zone and an old high point (Normal Trend)...The best entries are on a 2<sup>nd</sup> test (spring). These are 90% of my trades.
6. Stochastic showing reverse divergence with price. (price is making a higher low but the stochastic is making a lower low)

## Method, Money and Mindset

7. A breakout of the down sloping trendline can define a great entry point.
8. Place a Buy Stop above the high of the breakout bar and a stop loss at the previous low. The VectorVest stop will be wider and help with spikes which occur only too often. Size the position so as if it fails no more than 1% of the capital is lost.

## Method, Money and Mindset

9. A candle pattern can be a good entry. I use three or 4 only. Morning star, Outside bar. Inside bar and a Hammer.
10. I recommend taking partial profits as the trade moves your way. Exit  $\frac{1}{2}$  when you have made as much as you have risked or at the last high which ever come first. Stop to entry.
11. Let the remaining run and use the VV stop as a trailing stop

# A Complete Approach to Swing Trading

“Everyone's got a plan until they get a punch  
in the mouth”.

- Mike Tyson

# A Complete Approach to Swing Trading

“Are you working the bag or is the bag working you?”

- Clint Eastwood to Hilary Swank in the film “Millionaire Dollar Baby”.

# VectorVest

## Important Numbers

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