

TRADERS

TRADERS

Your Personal Trading Coach

Issue 04, June 2010 | www.traders-mag.com | www.tradersonline-mag.com



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Mike Baghdady rates among the leading experts on stock market price behaviour. He began his successful trading career 33 years ago. Since then he has developed unique trading techniques and applications which he provides for banks, trading offices, as well as institutional and private traders through his company Spyglass Trading Solutions (www.spyglasstrading.co.uk). In his interview with TRADERS', Baghdady talks, amongst other things, about his exciting path to becoming a trader and his profitable trading approach.

COVERSTORY **Coverstory****6 High Frequency Trading**

In high-frequency trading positions are opened and closed again within seconds. Thus, not only the trader but also the broker and the infrastructure (hardware, software, Internet connection) have to meet high requirements. Peter Soodt introduces you into the world of high-frequency trading and shows what you have to observe to be successful in the long term. Moreover, he presents one strategy for the long and one for the short side as well as one for sideways markets.

INSIGHTS **Insights****16 Why Don't More People Know About Spreads?**

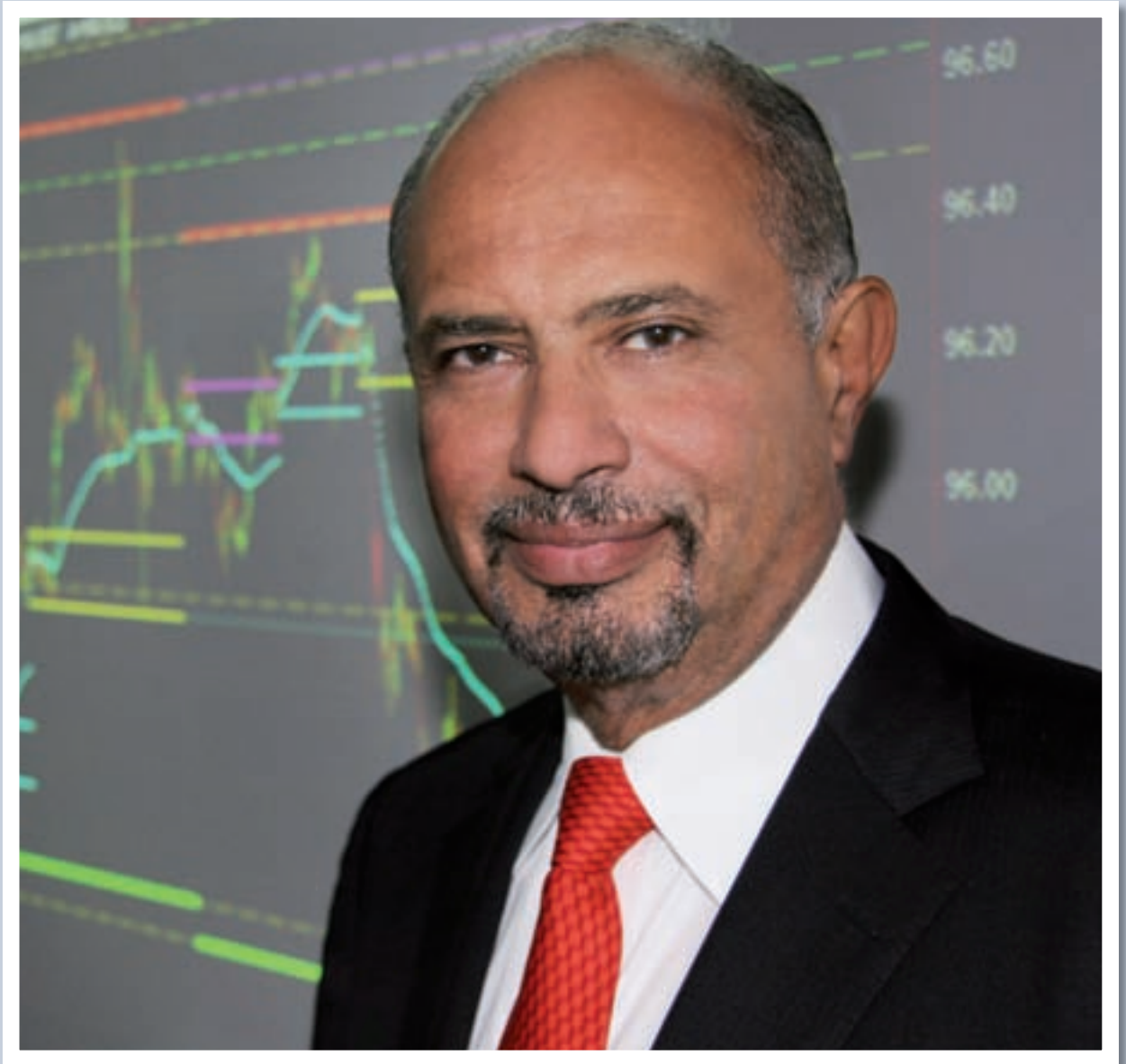
Trading spreads on futures contracts is mostly for people "in the know," but there are few who know much about spread trading. For this reason, Joe Ross explains how spread trading works so that you can profit from their many advantages and great chances of winning, too.

20 Getting to the Heart of Improving Trader Performance

Emotions are one of the most talked-about topic when it comes to the area of trader performance. A trader has to control or manage his emotions in order to be able to trade to his potential. Indeed, it is this impact of emotions on traders' decision-making that makes it such a key and important topic, also for Steve Ward.

26 In Running Trading and Strategies

In the third and last part about sports exchanges, Steve Taylor talks about the so-called "Trading in Running". This means you are able to both "back" and "lay" before an sports event and whilst it is taking place. It is one of the most exciting opportunities created by the exchanges and can generate huge rewards.



Mike Baghdady

TRADERS' Interview

Trade What You See

Mike Baghdady rates among the leading experts on stock market price behaviour. The Egyptian-born Baghdady began his extremely successful trading career 33 years ago. Since then he has developed unique trading techniques and trading applications which he provides for banks, trading offices, as well as institutional and private traders through his company Spyglass Trading Solutions (www.spyglasstrading.co.uk). Moreover, Baghdady is a key market analyst, syndicated columnist and financial TV commentator and he won the Frankfurt World Trading Championship last year. In this TRADERS' interview, Baghdady talks, amongst other things, about his exciting path to becoming a trader, his trading approach, and his risk and money management philosophies.

TRADERS': How did you become a professional trader?

Baghdady: I am from Cairo, by birth, and my family business is the manufacture and decoration of fine porcelain china. My father was one of the most famous sculptors in Egypt, and we used a lot of liquid gold to decorate our products. We needed to buy gold on a continuous basis, and I realised from a very young age that every month the price of gold would change. That was my first introduction to the market and I quickly learned pricing and the difference between the spot price and futures price.

The business of trading and the structure of the gold market fascinated me. I would go to college in the morning then work at our factory in the afternoon, travelling to Europe every month to buy gold. That is when I realised I wanted to become a trader, so after I graduated from the American University of Cairo, I did a grand tour of the global exchanges and networked with as many brokers as I could. Soon enough, I left the running of the family business to my younger brother and went into trading full-time.

I started a futures and physical grain business in Egypt and built it up to become one of the largest grain houses in the Middle East. I ran my firm for 15 years, scooping up prizes including Trader of the Year from the American Chamber of Commerce in Egypt, and in the late 80s, I moved to the US to train at the Wall Street investment bank Salomon Smith Barney - now part of Morgan Stanley.

TRADERS': How long did it take you to become successful?

Baghdady: It is an ongoing journey, a trader is only as good as his last trade, but I am persistent ... always analysing every trade to find out why it succeeded to reinforce my entry and exit rules or to find out why the trade did not succeed and make sure I learn the lesson. I did due diligence when I entered the field and invested a lot of time in studying and gathering advice from my mentors, leaving no stone unturned.

When I began trading there was no internet, so I relied on learning from the books I would buy on my foreign trips and applying what I learnt. I would buy gold from Johnson Matthey in London and from Degussa in Germany and visit the libraries there. I would return home with my suitcases full of literature! I would take most of the brokers I met out to dinner and milk them for their expertise.

TRADERS': Were there any specific stumbling blocks?

Baghdady: The time lag between the data being collected and it coming into the market was a problem back then. Even today, watching a live chart on my laptop still feels like a luxury!

There was a seven-hour time difference between Egypt and Chicago, so every morning I would pick up a long telex

paper off my office floor which listed all the previous day's market prices. I would sit for hours and plot them by hand on the chart, then analyse my decisions from the previous day. I would check where I went wrong, what I should have seen on the chart and why my decisions should have been different.

I did this every day for 15 years, and it gave me a profound sense of understanding about what the chart is and how my decisions could be refined. I went on to deal with the Big 5 grain trading houses of the world, which taught me the art of hedging and how to use futures against physical commodities. This, combined with the time I spent analysing the charts, gave me a new view of how the market was structured and when to buy and when and where to sell.

TRADERS': Why did you search for mentors?

Baghdady: The best way to become successful in trading is to learn from someone with more experience than you, and for that person to become your mentor. You train alongside them in a professional environment, preferably as part of a team of traders. Trading by yourself is extremely hard without a team of people to watch, question and bounce ideas off. When you are supporting each other and operating under the same set of rules, you are already half-way to becoming a successful trader.

"My trading day starts early in the morning"

When you are grouped in with traders who are all using their own untested rules, you are in a situation where the blind are leading the blind. You need an environment where everyone is following the same rules and everyone knows why they should buy and why they should sell as part of a concrete system.

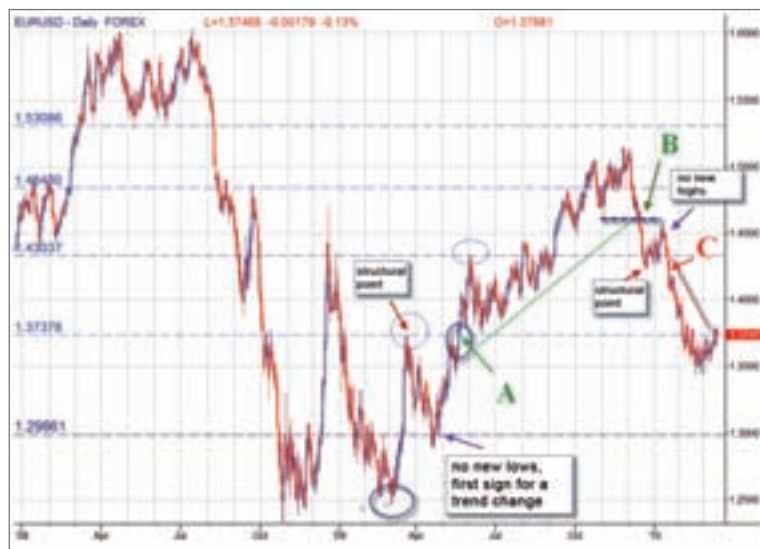
When I started working this way, I was part of a group based in New York who would support each other, and speak a common trading language. They called me the Mac Daddy, because of the trading calls I used to make!

TRADERS': Were there any mentors who helped you above all?

Baghdady: Yes definitely. My biggest mentor Alan Shaw — considered to be the father of modern Technical Analysis — taught me his methodology, which became the foundation of my trading from then on. I had been working in the markets for 20 years before this, trading hundreds of millions of dollars, but his advice changed my game.

Mentoring under an experienced trader also crucially teaches you the toughest part of trading; to take a trade

F1) Trend Reversal on Up and Down Side



You see the daily chart of EURUSD. In April 2009, the currency pair failed to break below the previous momentum low. Hence, the price behaviour provided the first signal for a possible trend reversal. The break above the structural point at 1.37378 (point A) finally confirms the trend reversal upwards and generates a buy signal. Then a rally follows until the end of the year. The position was closed at point B. In January 2010, the price failed to make a higher high at 1.45748 and finally falls below the structural point indicating a trend reversal upwards so that we enter the market short at point C.

Quelle: www.spyglatrading.co.uk

after a string of trades do not go your way. If we lose on a trade and take that loss personally, we might not be able to overcome the fear to take the next trade to recoup our losses. Sometimes you need someone else to pull you out of your rut and encourage you to take the next winning trade, according to the rules.

“Alan Shaw was my best mentor”

TRADERS': What strengths and weaknesses do you have as trader?

Baghdady: My greatest strength now in is my power of being able to read a chart, and apply my experience and understanding of the rules of price behaviour. That has really catapulted my success. I can look at any chart and trade it from the visuals, whether it is corn, coffee, soya, or the EURUSD. I know how to analyse it and pinpoint the optimum entry and exit point and I am able to close a losing position immediately and most importantly, let my profit run.

The beauty of operating in this way is that I know immediately whether my trades are working or if I should reverse my positions. Additionally, if I have to hand over my positions to any one of my traders, they can pick up where I left off with ease. They will know exactly why I bought or sold as I did. No-one on any other trading desk can say that, with our decision-making process being outlined so clearly.

My greatest weakness is that I have emotions, which is every trader's weakness. But having the reference points and

following the rules keeps me on the right side of the market.

TRADERS': Can you explain to us your trading system in detail?

Baghdady: Price behaviour, or the way price moves, is a function of human behaviour. The way buyers and sellers perceive a price will move the market and when this collective perception changes, the market changes direction. Human behaviour has been the one constant element in the markets for the last 5000 years. That is why utilising price behaviour rules really works, and will continue to work, because it is based on market movements that result from the constant and repeated behaviour that is rooted in each and every person.

There are times as a trader when you realise you are in an unfortunate situation and you want to get out of it. You want out in a hurry because the longer you stay in it, the more you are losing. Price behaviour, as the foundation of our rule-based system, identifies reference points on the charts showing other traders' failure points, where they realised they made an error in judgement and wanted out.

Successful traders know that other people's errors in judgement are great money-making opportunities and look for how and where these errors manifest themselves in price action.

For example, when gold jumps \$100 per ounce in two days, that is an irrational move, so we should take advantage of it. Conversely, the euro recently capitulated and our system identified a structural point, so we took the short because our price behaviour rules told us to.

It is all about sticking to a rigid framework and not abandoning this framework when we get emotional, or letting our hopes or fears interfere.

TRADERS': Can you formulate your price behavior rules?

Baghdady: I have 21 price behavior rules. We have these coded into our software and we train traders to apply them each and every day. The key to success is to identify “The market condition”, which is synonymous with identifying the trader's state of mind. We need to identify his mindset so he can trade successfully. For example, some traders say “Buy support, sell resistance”, but if the market is in a trending mode, and traders are being aggressive buyers, then buying support or selling resistance could be tantamount to financial suicide. Rather, we should be doing the opposite and actually “Buying resistance, selling support”.

TRADERS': What kind of trader are you?

Baghdady: I consider myself a position, long-term trader because of my age. I am more relaxed now but when I was younger, I was more short-term. I still day trade every day, alongside the traders I mentor.

TRADERS': Which instruments do you trade?

Baghdady: I trade everything that has been traded except electricity, so: currency, commodities, bonds, fixed income.

TRADERS': How many setups do you use?

Baghdady: We have about 21 set ups. When one appears, then that is the trade we take. There is a hierarchy for each of our trading setups, allowing me to identify which ones are performing or not performing as expected, and that allows me to identify a possible change in market direction and use this information to my advantage.

TRADERS': What does this hierarchy look like?

Baghdady: Not all trades are created equal, and again, my management of them goes back to price behaviour trading rules. What we are looking for is trader participation; the more traders who are willing to buy, the stronger the buy signal. The more traders that realise they have made a mistake and need to exit quickly, the bigger the move in the opposite direction.

These decision-making price points manifest themselves in price action and on the charts, so we identify them and create a trading plan accordingly. These significant points are money-making opportunities; the key is identifying them and ordering them according to importance. That is how the real money is made.

TRADERS': How do you recognise and organise these points?

Baghdady: To become a technical trader, you must first truly understand the tenants of Technical Analysis theory and apply them at the appropriate time. One of the tenants is that "people will do the same thing over and over again".

The main reason they take the same action is that they remember the outcome. Each 'tick' on the chart tells the tale of two traders, one who is making money and one who is losing it. The winning trader would like to repeat that experience, hoping for a similar outcome. And the losing trader will try not to take the trade, to avoid the pain.

He may also decide that he learnt from his previous experience and do the opposite of what he did before, thus magnifying his ensuing move. Our job is to identify these significant price points on the chart and see which of these two traders is on the right side of the market based on the prior price behavior at this point. Armed with that information, we can estimate the outcome and thus organise these points into a hierarchy from which to trade.

TRADERS': Which time frames do you use?

Baghdady: Right now, primarily the daily chart and for short-term trading I use the 200 tick.

TRADERS': Can you show us some of your trading examples now?

Baghdady: Of course. One of the classic trades last year was in the EURUSD (Figure 1). In April 2009, this pair failed to break below the prior momentum low and thus created the first sign of a possible trend change and as per the rules of price behaviour. The breakout of the structural point at 1.29861 would be the confirmation of the change in trend and thus indicate a buy.

The beauty of the charts and the proper application of price behaviour rules is what works on the downside or when

F2) Failure Trade 1



In the 200 tick chart of the EURUSD, the market is falling after a steep up trend. After falling below the momentum low for the second time, new short traders enter the market (point A). But after a short down movement to a new momentum low, suddenly the market is turning and rising above the previous momentum low but it cannot stay above momentum low 1. At point B the market does not make new lows anymore. If the market rises above momentum low 1 again, we will go long. The dotted light-blue line is the indicator "Marketside" we developed by ourselves. It shows the main movement direction for the current trading day.

Quelle: www.spyglasstrading.co.uk

the prices are trending down works equally well on the way up as you can see in Figure 1. After having failed to make a higher high at 1.45748 in January 2010, the price broke below 1.43337 indicating a trend change to the downside. So we entered the market short at 1.43337.

My other favourite setup is what I call the "Failure Trade" (Figure 2). The market is really falling down after a steep up trend. After falling below the momentum low the second time, new short traders enter the market. But after a short down movement to a new momentum low, suddenly the market is turning and rising above the previous momentum low. I can see at this point in the chart where traders are going to bail out of their losing position and will pay up in order to exit quickly.

You see another example for a Failure Trade in Figure 3. Here the market is trending down, following the rules of the trend, continuously making lower lows and then after making the last lower lows (momentum low 3), it stops going down and trades back above the prior momentum lows (momentum low 1), which was a place where new shorts entered the market.

At this stage, traders realise the market is not going their way and will begin to consider covering their shorts. The more they buy to cover, the more they will convince other traders of the potential change in direction, adding more fuel to the short-covering fire.

TRADERS': What does your typical trading day look like?

Baghdady: I start early. I like to view the overnight session to see how the market is behaving and I do my portfolio selection, choosing what pairs I am going to trade that day

(one of the strongest features of our software is crucial in my portfolio selection because not all instruments trade every day). I only want to trade the ones that are showing signs of strong movement and our software has been extremely beneficial in this respect. I will place the pairs I am going to trade in a special workspace where I have my auto executions to buy or sell as soon as I have a signal, to ensure the best possible entry and also the best possible exit to maximise my profit.

I am usually done trading after two hours from the start of the session and once I close my trades and make my money I stop trading and just observe the different markets. I am very selective with my trades.

TRADERS': How does your software filter the pairs with the strongest moves on the day?

Baghdady: We have coded the software to identify the various market conditions and to pinpoint to the trader the

TRADERS': How does your stop strategy work?

Baghdady: It is quite simple for me because I have specific entry rules and clear expectations. I stay in my trades as long as my reasons to get into the trades are intact and if the market changes direction or behaves contrary to my expectations, I am out!

TRADERS': How important are risk and money management in your trading?

Baghdady: Risk is the most important aspect of trading. We buy and sell risk all day long. The mark of a professional trader is his level of understanding of risk and how he handles it.

TRADERS': And how do you handle your risk?

Baghdady: We are in the business of risk, so it is extremely important to know how to handle it, above all else. The tools I use to handle and cope with risk are:

- 1) I always pinpoint my exit point before I enter the trade, and in so doing, I am able to quantify my risk in points and dollar terms. If do not have a clear exit, I do not take the trade.
- 2) I trade in abstract terms. Money for me means point value, so I make 100 points or lose 100 points rather than making \$1,000 or losing \$1,000 – it makes it much easier to handle and trade without emotions.

TRADERS': What were your worst drawdown and your biggest winner?

Baghdady: Oh, I will never forget that day! It was Friday October 17 1997, the 10th anniversary of the 1987 crash, and I had a complex position of futures and options. The market took a nose dive, the circuit breakers were triggered twice and even though I had stops in place and my size was normalised to my account, there was not enough liquidity, especially in the options, to get out at a reasonable price. It was over a million dollars swing in one day, but what saved me was that I was controlling my risk and my position and was not over-leveraged or over-extended.

As for winning trades, I really do not have a vivid memory of any one, particularly. All I can say is it is been a long, sweet journey.

TRADERS': Are you a systematic or a discretionary trader?

Baghdady: Both, I have a well-defined methodology which has always given me a statistical edge in my trading and once my system gives me a signal based on my rules, I take the trade.

Today, it is extremely hard, if not impossible, to consistently trade without having an automatic, tailor-made system based on your rules that has given you an edge and made you money over the long run. It is easier to take the signal and trade according to your system, even in the times of losses. This approach is always going to be better than relying on your judgment.

TRADERS': How do you handle emotions?

“When I was younger, I was more short-term”

instruments that represent a low risk and a high probability to be followed by a strong move. It identifies the setups that would give the trader a statistical edge for selecting a high probability trade that should lead to a profitable outcome. The trader then reviews these instruments and, with his experience, can confirm these choices and act upon them.

F3) Failure Trade 2



As you can see, the scenario of Figure 2 has not occurred since momentum low 1 was not exceeded. The market makes a new momentum low (number 3, point B). But after that it ends its down trend, rises above, and finally quotes above the previous momentum low 1 (point C), at which new short traders had entered the market a short while before (point A). But now they realise that the market is not going their way and will begin to consider covering their shorts. We buy when point C is exceeded. Now the trend reversal is executed and the market rises continuously. We close the position at point D.

Quelle: www.spyglasstrading.co.uk

Baghdady: Like everyone, my emotions play a big role and represent my greatest challenge. By contrast, other traders' emotions offer me my greatest opportunities.

I have trained myself to follow my rules and pinpoint entry and exit signals and never to judge a trade by its financial outcome. I always judge my trades by how I followed the rules, irrespective of the money I make or lose because this is beyond my control. What is always under my control is how I follow the rules and if my rules are followed, it is easier for me to close the trade without emotions becoming a decisive factor.

Over many years, I came to the realisation that trading is a teachable skill best executed with the removal of emotions. I have since trained hundreds of professional traders worldwide, throughout most of the financial institutions. It is not something one can learn from a three-day course or by reading a book. This skill can only be perfected by practicing and doing, much like anything else.

In as much as our rules and the skills to trade can be taught, our school is never going to be about just selling a course and sending our clients away at the end of it, with our software, to figure it all out. True value comes from professional and ongoing mentorship, support to our new traders and trading as a team, which is our unique selling point at Spyglass Trading.

We discipline our traders with our own unique tried-and-tested rule-based system for successful trading, to eliminate the threat of their emotional judgment interfering.

We also provide a live physical and online trading desk, both loaded with our software, which is open for business during all three trading sessions. We hold our traders' hands, support them, lead them by example and trade alongside them throughout.

TRADERS': What advice do you have for trading novices and pros, alike?

Baghdady: After getting your head around risk management, gaining a clear understanding of your trading rules is paramount because after taking the trade you should know immediately if the market is behaving as per your expectations. If it is not, you get out quickly with a small loss and take the trade in the other direction, as if you just paid the market for information as to which direction it will go in.

TRADERS': How do you estimate the current and future development of the markets?

Baghdady: The number of traders worldwide is increasing geometrically, with the majority of newcomers lacking experience and making a lot of mistakes. On top of this, algorithmic trading is making it more difficult for traders using technical indicators, because the same indicators are the main tools the trading computers are programmed to use against you, and they are faster!

TRADERS': What plans do you have for the future?

Baghdady: We are about to start our fully-fledged apprenticeship program in-house, hand-picking new traders each month, and expanding the program through

the year, influenced by the Turtle Trading program that the great trader Richard Dennis started in the 1980s.

We are also expanding our software training team, and boosting our R&D after the power of our price behaviour

"It was over a million dollars swing in one day"

program was recognised by Bloomberg. Our live trading desk is being boosted by more professional trader moderators, to provide even greater mentorship to our clients. And this summer, we will launch our brand new trading academy, Training Traders (www.trainingtraders.com), to provide unparalleled expert tuition in person and online to both novice and expert traders alike, from our trading rooms in the City, London and in New York City.



Trade With CONFIDENCE And Win More Often

**Winning Signals Day After Day
Futures/Forex/Stocks: All Time Frames**

ONE SIMPLE SECRET WE TEACH WILL CHANGE YOUR TRADING LIFE!

- *See WHY After 14 Years Our Students Continue To Say "Best Method I've Ever Seen" – It's The Complete Ultimate Course*
- *See & Hear Their Success Stories On our Website*
- *Simple Approach/Keeps Working/ Lifetime Support*
- *All New Course Materials and Studio Produced Video Trade With Us. Learn with Live Actual Trading*
- *Easy to Learn - A lifetime of Winning Trades Your Best Chance of Fairly Succeeding Is Here. Don't Wait!*



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