TAG XVIII
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Classical Technical Analysis as a Powerful Trading Methodology

John Tirone's workshop will focus on several classical principles which he has refined and tested over time and uses in his own trading. John uses these principles to read and interpret bar charts for trading in both short and intermediate time frames. John's analysis techniques have been used by spot traders, as well as speculators, to reduce risks and to profit from the main trend of the markets.

John integrates his techniques into a trading approach that highlights the power of these classical and time-tested technical tools, while making the method easy to incorporate into your personal trading plan. This methodology has proven itself when used for trading futures, currencies, and the stock market.

In this workshop you will learn how to use bar charts in actual trading examples, starting with the monthly charts, then working your way down through the weekly, daily, and hourly charts all the way to the tick level. You will learn how to recognize a trend with confidence. You will learn how to use support and resistance levels to determine buy and sell signals. John will introduce you to some of the risk management techniques he uses and will show you ways to recognize when the market is going against you.

John's topics always rank high in real-world trading content for those wishing to capitalize on market movements with a structured trading plan.

John Tirone received a BS degree in finance from Seton Hall University and an MBA from Columbia University. Currently employed as Senior Technical Analyst for the Chase Manhattan Bank, John has been actively trading for thirty years. Prior to joining Chase Manhattan, he served as a Commodity Trading Advisor (CTA) for Commodities Corporation. At the same time, he was steadily and successfully trading for his own account. John is a superb technician who has spoken at a number of the early TAG conferences. His workshops were always a highlight. We welcome him back as a workshop leader.

John trades using classical charting and trend following techniques. The trading tactics he has developed from this classical foundation have been so successful that his charting service earned top ranking in both the Euromoney *magazine and* Corporate Finance *magazine surveys for the past three consecutive years.*■

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Why Have a Game Plan!

Why do so few traders think their occupation is unlike any other profession? Would Pat Riley, the former New York Knicks coach go without one? What is the one key ingredient the most successful traders all have in common? You may have guessed it- a trading plan.

But before we even analyze what a game plan for the markets is all about, we should think about the two key elements that distinguish the successful trader from the unfortunate majority- strategy and discipline. Experience (in Dollar terms) has proven that success follows the wise trader/investor who identifies an effective strategy, and has the discipline necessary to carry it out. These are at the root of why it is necessary to have a well thought out trading plan which most people take for granted.

When it comes to planning, many traders can be compared to the German Army during World War II in that the invasion of Britan was planned but never executed, while the Battle of Britain was executed but never planned. Many traders and investors go through their sometimes very short investing lives planning trades they never execute and executing trades they never plan. Would any successful business person enter a business without a well thought out plan of exactly what he was going to do to succeed and make a profit. This is where a written trading plan enters the picture. Every profitable trader (usually after several unprofitable trading periods) condenses specific information into a plan that will and should provide for any outcome in a trade, along with the important elements of money management.

Many traders take positions based on impulse, hunch, or what they read from a newsletter, instead of reason, and then wait to get lucky. They have not learned or probably even thought about the fact that even the very best traders consider themeselves fortunate to be right on most trades or even to make significant profits during most years. Losing traders know 1) they have more losses than profits, but 2) rarely know why or how they failed or 3) how to turn these dismal results into a winning situation.

If the trader will take the time to plan his trades properly, he can possibly have the odds on his side in the long run, which is something few gamblers could ever attempt to achieve. Over the long term, those traders/investors that are still operating in the markets, and who have followed a carefully thought out and well defined plan in a disciplined manner, expect to have favorable results. The gambler or seat of the pants trader may win in the short run, but in the long run, the odds prevail and most will lose not only money but their position or title as a trader. No reasonable person would expect good luck to prevail or expect skill to last forever.

If there is one element and consistency among successful traders, it is the disciplined use of a good plan which they have developed by themselves for their own use. We will discuss some of the basics of developing a plan and the elements it should contain, but do not think this article can make successful traders out of everyone. There is a considerable amount of art, and even luck, that affect trading results, so that no simple set of rules can ever guarantee successful trading profits. Furthermore, if every trader becomes successful (which we know will never happen), there would be no losers to provide the profits needed by the winners to keep them in business.

The Broad Plan

The basic elements of this plan should provide the reason for logically entering and exiting a position, whether or not it proves to be profitable. Once a position is entered, the prices can only take three paths: rise, fall, or remain unchanged. But ones trading plan must provide a reason for entering a trade and inaugurating a course of action to be taken by the trader for those three eventualities. The heart of a game plan must indicate, unequivocally, how the trader is to exit from a trade that he has entered. Likewise, this critical area consists of three parts, namely, accepting losses if a position shows adversity (which is where the traders money management implementation enters), a plan for accepting profits, and a plan for exiting a trade if the price over time is negligible or does not meet expectations. Exiting from a trade that shows a loss is perhaps best done with the use of a stop loss order that is placed by the trader at the same time the trade is originated. But within this plan, before this money mangement can be undertaken, the trader must first decide how much adversity or percentage risk he is willing to accept and implement a stop loss order at that particular area and adhere to it. Any exit plan that does not use stops that are adhered to in order to close out bad or negative positions will be a disaster from the start since controlling losses is one of, if not, the essential ingreadient of being a successful trader.

Should the trade show a profit (which in some cases could be a rarity), the rules become more difficult and may not appear to be as well defined since several probabilities exist. One procedure is to define a profit target for the trade before entry is elected. A trader does not have to believe in trend following to let profits run until an indicator , whether it is technical or fundamental, gives a "signal" for the exiting or reversing the position.

Other tools or methods may adhere to holding a position for a certain amount of time and accepting the outcome whether profitable or not. The successful trader should always be aware of the reason he is closing out his trade and entering that reason in his trade plan. Most of the time a trader can learn more from his loosing trades than his winning ones.

The problem caused by a trade that does nothing after entry is important but not so serious since this situation can be dealt with by using a predetermined time period to close out a position if there has been little if any open profit since entry.

The trader with a well conceived exit plan has completed a large but very critical part of his total trading plan and will find that in the heat of actual trading, he may have more peace of mind since “he knows where he is wrong” so to speak. Knowing exactly where and why to exit a trade is often the best medicine for maintaining ones wits in the battle with the markets. The alternative to this type of planning usually causes a trader to make his greatest mistake, namely "watching the market on his monitor" and making trading decisions based on impulsive and sometimes very delayed reactions to random price moves or whispers one thinks he hears or sees. The danger of just *watching a market* are too numerous to go into now, but include the often overwhelming temptations to cut profits quickly, ride losses, or overstay sideways positions which tend to tie up capital, waste energy, and confuse and demoralize the trader. This part of the plan may find the trader implementing or incorporating a mechanical trading model or approach. Although too lengthy to discuss in this article, mechanical trading systems help you make decisions when your original indicators are giving ambiguous, unclear signals or when you have to decide how long to hold a position or when you want to determine the level at which to buy or sell a currency.

The Key Elements of the Plan

One of the first decisions to be made is the amount of capital one is to risk in his trading. This can vary per trader and per institution and depends on many considerations such as risk tolerance of the institution and previous trading experiences and track record.
Secondly, the trader is faced with a major question of the types of technical and/or fundamental data on which to base his trade selections on. Thirdly, no person would even contemplate trading without a method of selecting profitable trades. This trade selection process can vary from technical systems bought through advertisements to simple moving average systems. The important factor here is that the method should be studied and tested to see if the results it provides are indeed profitable or not. Why fool yourself into using something that does not have a profitable track record over a long period of time. Still others may rely on their own feeling which may be designated a "judgment, touch, or a hunch" depending on how much dignity the trader wishes to lend to this usually very fatalistic approach. The type of research for this trade selection process will assist a trader in determining if he is going to be short term or long term (very important), or if the trader prefers the long side or short side of the market (some only prefer being long for reason only they will reveal). This also might include the use of fundamental analysis that deals with longer term factors that might, for example, influence the relationship of the Dollar against the other European currencies. The fundamental and technical methods are often independent means of analyzing markets. The method one chooses to follow could be purchased or a developed from ones own observations, but in either case, a track record and the rules of the method must be strictly adhered to if the hope of a profitable operation are to be realized. The trader must not fool himself (easy to say but hard to do when it comes to a traders ego), but in order to avoid self deceit the trader must be as conservative as possible in validating his method since the paper results are usually never as good as the actual trading (take it from someone who has actual experience). Whatever method is chosen, the trader must have enough confidence in the method and be comfortable enough with it to build it into his trading plan. But once it is built into the plan, it should not be changed or substituted while trades are being executed.

THE PLAN IN ACTION

'lans may be mental or written, but written plans are by a wide margin preferable for most traders, because they are more likely to be completed (by the trader, of course) and to be followed by him if he is the one that developed the trading plan. It must complement his own style of trading. The elements most traders wish to consider for each trade must be devised by the trader into his own form tha. he finds most useful and easy to follow. (see example) The time and energy spent in thinking through a plan is doubtless worth the money saved throng trading haphazardly.

A f explanation of the trade sheet should include the currency, and the positions should lo. or short, risk exposure per trade and total portfolio loss (not win) if wrong- considering each trade on its own merits may result in having a number of positions all long or short a: the risk exposure being heavily skewed in one direction (even if it may be the correct direction), the amount of total capital exposed per trade and its relation to the total capital (this is one way of forcing the trader to thin! f the dollar value of such a trade before it is entered), commissions, reason for entry into the sition which is critical since you have to know why you n this particular market at this time, the price of entry and does it coincide with the inte: . entry price since the difference between planned entries and actual entries are sometimes great and materially could effect trading results, the stop loss price level and the liqui ation plan once the market is entere he minimum profit ctive and does it correspond with the risk involved with t ade, the monitoring the trade to cover any eventuality- this way the trader avoids the demoralizin experience of riding losses or taking profits (if there is any) impulsively, and finally, the "actual liquidation" of the trade and the profit or loss on the position he trader should check his record of closed profits and losses to ensure that results generally parallel the plans expectations as to profits and losses. The final section of the plan is the "trade evaluation" which is a commentary and control of the trader's discipline. It is like a diary the trader should keep for a very long period of time to compile his trading statistics. In essence, this is what a successful traders do and the results of the plan should be in accordance with his objective and risks parameters. The trader should have a p form that is complete for every trade and a strong enough discipline so that there is seldom a signif nt v riation within hi control between the actual and possible results.

Final otes from a Trader

The most important aspect o. this planning is to have a plan (which as you can imagine is the first step). The sec nd point is to follow your plan and not someone else's ideas or strategies. This plan should probably be used only by the one who devised it since trading is difficult enough without having other traders looking over your shoulder and critiquing, especially, when things start to go wrong. After all, the plan is specifically for only one person. There are always reasons for trying to take more profits, or not taking a loss, or moving your stop loss order (but none that we want hear about or use in our plan). If the trader should lack