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GEORGE ANGELL KEYS IN ON VOLATILITY AND LIQUIDITY

Volatility and liquidity are the two elements independent trader George Angell looks for in a market to trade. Currently, Angell exclusively trades the S&P 500 futures, putting on intraday trades only, never holding positions overnight.

"Liquidity and volatility are the two things you have to have. You can't day-trade something like oats--it wouldn't work" Angell said.

Back in the early 1970s, Angell first became interested in the commodities markets. "I bought sugar and it went limit up ... then I bought copper and it went limit up, so I bought some more. Then it went limit down. I called my broker and told him to sell and he said to whom?" Angell said. "That's when I realized I had more to learn," Angell added.

In the early 1980s, Angell headed for the Chicago trading pits. He was a local trader at the MidAmerican Commodity Exchange, focusing primarily on gold. While Angell now trades for himself, off-floor, from a screen, he called trading on the floor "an invaluable experience."

"People on the floor are very short-term oriented" Angell said. "It taught me to get in, capture the trend, get your money and leave" he said.

Now, however, Angell prefers off-floor trading. "I'm alone in a room trading. When I'm on the floor there are thousands of people. It's a social event. People want to talk about their positions, they want to have coffee. You lose your concentration... you can't see the forest for the trees," Angell said.

Technology has revolutionized the capability of off-floor traders in the past 10 years, according to Angell. "The playing field has been leveled," Angell said, explaining that technology has decreased the advantage the floor trader was once seen as having over an off-floor trader. "The key beneficiary is the public trader. The public can't scalp, but they can day-trade," he explained.

Angell disregards fundamentals, relying on technicals "100%." He has developed two proprietary trading systems: LSS and Spyglass, which he utilizes in his day trading, along with "discretion and personal judgment."

"Everybody needs some sort of mechanical system. It enables you to take the difficult trades you wouldn't normally take on the seat of your pants" Angell noted.

Also, "every day I go in without an opinion ... and I let the market tell me where it wants to go ... opinions are what get you in trouble," Angell added.

While "a lot of people don't have the discipline to trade without stops," Angell said he doesn't use them. "The problem with stop trading is that you get out at the worst possible moment. Instead of stops, I use action points. That means when it hits that point I'll get out, but I'll wait for the bounce (if the market is going down)" Angell explained.

Angell has traded the bond market as well. He keys in on his two key elements of volatility and liquidity when judging markets. "Occasionally, markets die on you. For instance, in 1980 we had a big gold market. It had gone to \$850 per ounce...but volatility dried up and then liquidity dried up. At that point I went to the bonds," Angell said. When the S&P 500 contract was launched at the Chicago Mercantile Exchange, Angell started trading that market.

However, he noted after the stock market crash of 1987, liquidity dried up in the S&Ps, and Angell moved back to the bonds for a time.

"Big institutions are trading bonds and there are thousands to buy and sell at every tick. Nobody can play with that market. Nobody can manipulate it. That's why orange juice goes limit up all the time--because there is nobody to sell it," he said.

When asked about GLOBEX trading, Angell said, "I don't pay any attention to it, because there's not enough liquidity there. On Eurodollars," Angell noted, "there is huge liquidity but not enough volatility to make money."

On the differences between markets, Angell noted that "all the markets have different characteristics and you have to know your market very well. On the floor, a guy who trades lumber isn't going to trade the S&P. And traders trade the markets differently. People are known according to how they trade. This guy is a scalper. This guy trades back months. This guy is a spreader. This guy is a position day-trader. The novice trader needs to know he's got to be a specialist."

When asked why many futures traders don't succeed, Angell pointed to three main factors. "One, a lack of discipline. Two, they are underfinanced. Three, they don't know what it's all about. They don't know about paradoxical even" Angell said.

The dictionary definition of "paradox" is an apparent contradiction, which is nevertheless somehow true, Angell explained. One example of this in the markets is that "the whole game on the floor is to run the stops" he said.

"In the market, everyone thinks it's going up, but everyone won't make money," he added. Advice that Angell has for beginning traders? "Be well-enough financed with risk capital that you can afford to lose. Don't think about the money, drink about the market, and the money will take care of itself," Angell concluded.

JAKE BERNSTEIN: PSYCHOLOGIST TURNED TRADER

Jake Bernstein, one of the futures industry's best-known traders, started trading "by accident" he told FWN.

Bernstein was a psychologist who responded to an ad in the newspaper regarding "ag futures." A broker started calling him and Bernstein opened an account.

"I had quick success, which turned into quick failure," Bernstein said, acting at the time solely on his broker's recommendations.

Then Bernstein "regrouped, did research, and started trading on my own." An active trader now, he trades strictly according to technicals - off the floor from a screen.

"My work has always been technically oriented, using price patterns, seasonality, and cycles."

Bernstein initially "developed my own method and timing. I didn't have the money to trade it, so I sold advice." Eventually, he built up enough capital and began trading via his own method.

President of MBH Commodity Advisors, based in Winnetka, IL., Bernstein has authored more than 20 books. He is the publisher of the MBH Weekly Futures Trading Letter, which has been in continuous publication since 1972, and he leads workshops on specific trading topics. Bernstein is also a panelist on the "All Star Traders Hotline."

"I love the teaching. Every time I teach, I learn something new and it reinforces the belief I have in my own methods," Bernstein said. Also, "there is so much disinformation out there for traders, I feel good teaching something that I know works," he added.

Bernstein favors participation in the most active futures markets - energies, financials, and the S&P contract. However, "I trade anything that moves in any time frame," he said.

Very thin markets, such as palladium and orange juice futures, are markets Bernstein usually avoids. "I don't like the way the orders are executed there."

When asked if the value of technical analysis is eroded as more and more traders learn the same types of chart patterns, Bernstein said, "Chart patterns are as much art as science. I try to stay with things that are crystal clear. If 10 people look at a chart and all 10 of us come to the same conclusion - those are the types of things I am comfortable with. I like to be objective."

Bernstein pointed to Elliott wave analysis as a type of technical analysis that tends to be more "subjective," as the wave counts are open to individual interpretation.

The long-time trader has established his own home page on the World Wide Web and is fairly upbeat on the impact of the Web on the trading community.

"I think the Internet will allow for faster distribution of information and will allow more people throughout the world to take part in the markets. It will increase the opportunities for everyone."

On the future of the exchange trading floors, Bernstein doesn't believe electronic trading will replace open-outcry pit trading anytime soon. "So far, I'm not impressed," he said, regarding speculation on the eventual demise of pit trading. "I think there is still a place for the floor trader and the pit broker, and as long as the broker is being effective there will be a need for him."

Bernstein, however, has always been a "screen trader," suggesting he is "much too short" to be a floor trader as "people would take advantage of me down there," he said. On the current state of the futures markets, Bernstein believes a new inflationary era is on the horizon.

"I think we are in for one of the biggest inflation moves we've seen since the 1970s. We will see a big move in the precious metals. We are already seeing rises in the grain complete ... the energies are going crazy-and that suggests more inflation. We are going to see interest rates rise and a big bear market for interest rates," he predicted.

Advice Bernstein has for beginning traders: "Start with enough capital; diversify; trade for the bigger moves and manage risk."

TOM BIEROVIC USES DISCRETION ON TOP OF HIS RULES

Off floor trader Tom Bierovic, trades according to a set of rules he has developed over the years, but uses his own discretion on top of these rules. Bierovic believes he was lucky because he was introduced to the futures business at a very young age. His father was a trader at the MidAmerica Exchange and Tom would plot daily and weekly bar charts of the agricultural contracts for his allowance money.

"We didn't have computers ... I'd get the afternoon newspapers and get the closing prices every day," Bierovic explained.

Additionally, during the summertime, Bierovic worked on the trading floor for his father. "I would keep 15-minute intraday bar charts and I did a 10-period simple moving average of the 15-minute closes," he explained. "My dad would trade in the market scalping ... but the only difference is that he would only take trades in the direction of what I told him the 15-minute trend was," Bierovic added.

After plotting charts by hand for years and doing manual calculations for exponential moving averages, stochastics, RSIs, ADX and MACD, Bierovic said, "I don't do anything by hand anymore." But, he added "I think that it is very good for when you are learning."

Bierovic is strictly a technical trader. In fact he "makes a deliberate effort to not know anything about fundamentals" he said. "All the fundamentals are summarized perfectly in the current price of the market," Bierovic explained.

"Technical analysis is applied social psychology. It's just crowd behavior-hope, fear and greed," he said.

Currently, Bierovic trades from his home in suburban Chicago and manages "a couple of million dollars" calling himself a "discretionary trader with a very specific methodology... I have all my rules written down exactly and carefully. So somebody else could trade my system. But, I deviate when I choose to."

However, he is not a CTA and abides by the restrictions of not soliciting funds and limiting the number of people that he trades for to under 15 in a 12-month period, he noted.

Bierovic has developed what he calls a "momentum retracement trading method" which "involves knowing the direction and the quality of the trend, knowing how to measure countertrend reactions and when the trend has reasserted itself and knowing what to risk and knowing how to risk it," he said. In terms of time frame, "I trade basically still off the daily charts, but I do watch the markets intraday and do trail my stops intraday," Bierovic said.

He focuses on trending markets and is not shy about taking profits. One example of the type of trade he might put on is "If I get in today, I'd get out tomorrow if the market returns to today's high," he said. "I won't take a trade unless the market has recently had a strong directional trend ... to go long I'm looking for a real rice upthrust in the market," Bierovic explained.

"I think it's important to take profits because markets take them away nine out of 10 times," he said. "I just try to be right on at least 40% of the time using a 2:1 reward/risk ratio. There is a very good living in that," he said.

"I take profits and look for an opportunity to re-enter," he noted, saying he is usually in his trades two to four days. This is one area where Bierovic said he sometimes uses discretion over his rules. "I deviate on exits. I say, 'Gee if I've made enough money. I just might take profits on the close.' To me, a good trade is when I doubled what I risk," Bierovic added.

As a chartist, Bierovic doesn't favor one market over another. "I really treat them all the same," he said. However, "My favorite market is the most recent market in which I had a winning trade and my least favorite market is the one in which I most recently lost in" he joked.

He does, however, focus on the more liquid markets. "The bigger the market, the better your fills are and the better technical analysis works" Bierovic said. "I stay in liquid markets. I don't trade lumber or pork bellies, palladium or the Australian dollar," he noted. "In a little market like pork bellies - it is not difficult to control the market - a big fish can move a little pond," he said explaining that "in a smaller market, technical analysis might not work as well" if the hopes, fears and greed of the masses aren't being reflected.

Specifically, Bierovic credits Chuck LeBeau—"he taught me to look at markets with a (minimum) average daily volume of 5,000 and total open interest of 20,000 or more ... but I can fudge on that a little bit."

Bierovic advises beginning traders to "develop a trading style compatible with your own psychological make up ... some people can day-trade the S&P and some people can't. A trading style has to be congruent with your own personality," he said.

"A beginning trader should concentrate on learning technical analysis and trading rather than the dollar gain or dollar loss... Keep losses small so you don't get knocked out of the game.

"Don't get overly excited about winning trades and don't get overly despondent about losing trades ... you shouldn't feel like a hero after one winning trade and you shouldn't feel like a bum after a losing trade. Just hang in there and keep trading."

"The whole battle is to have a trading method and to follow it," Bierovic concluded.

WALTER BRESSERT READS MARKET VIA CYCLES & OSCILLATORS

Walter Bressert earned a college degree in economics, which taught him "economists don't know much about the way the world works." An active trader for many years, Bressert relies on cycles and oscillators in his intraday futures trading, in which he primarily focuses on the S&P 500 contract.

However, Bressert does use all form of technical analysis, but he calls time cycles "the glue that holds everything together-it gives me a time frame that nothing else gives me" he explained. "By studying cycles, I became familiar with the rhythm and every market has its own rhythm," he said.

Back in the late 1980s, Bressert realized there was a dearth of written materials on cycles and oscillators. So, he decided to write his own book, entitled *Power of Oscillator Cycle Combination*.

"Cycles give you the time. But, by looking at a chart, you can't see if it's overbought or oversold. Oscillators pick up that type of energy. If it's over 80-90 it's a probable top or if its below 30 or 20 or 10, it's a probable bottom," Bressert explained. "But, you have to know the bigger picture-what is the trend?" For this, Bressert, looks back to cycles. For example, "the trend for the daily chart is determined by the weekly cycle."

Early in his career, when Bressert was trading on the floor "an old guy came up to me and said: 'Trading is really easy-when the trend is up, you buy dips, when the trend is down, you sell rallies.' Being young, I thought, 'What does he know?' But, about ten years later, I realized he had handed it all to me."

Bressert stressed the importance of trend. "Know the trend and trade with the trend or anticipate the trend reversal," he said.

Currently, Bressert is actively trading the S&P contract on an intraday basis and occasionally other markets. He favors the S&P contract because "it's liquid and can handle volume. It has sizable moves intraday and there are a lot of players-meaning the floor can't control the market," he explained. Bressert believes there are only three markets suitable for intraday trading: the S&P 500 contract, T-bond futures and the Swiss franc.

Using cycles and oscillators has allowed Bressert to develop a mechanical type of trading system, which helps remove the emotional element of trading for him. "The market is emotion. It pushes all your buttons of fear and greed ... it ferrets out all your weaknesses," he explained. "The emotional part is what I had to control. I found out I was not too temperamentally suited to be a star trader. The way I found to overcome that was to find mechanical entry and exit patterns."

Bressert doesn't ignore fundamentals. He uses fundamentals to "look at the big picture" and to see "if the market acted the way it should have on good news." Also, he doesn't hold positions heading into big reports. "To me, that's gambling. A big report takes away the odds-because the unexpected can happen."

Looking ahead in the markets, Bressert is extremely bullish on the grains complex. "We should see a spectacular rally...we could see moves similar to the '70s," he said. "Grains could continue to rally into the summer, with the possibility of an intermediate term top in April ... Beans should continue above \$8," he said. "There is very little grain available now," he explained.

Farther out, "We could take out \$13 in beans over the next two years and could see \$6-7 corn ... the drought cycle is due to hit," Bressert speculated.

Bressert thinks the bull market in stocks will continue. "We should go substantially higher into April and the summer," he noted.

In the precious metals arena, Bressert looks for gold to trade sideways to lower in April, "which will provide a buying opportunity in the second half of April."

In conclusion, Bressert's advice for beginning traders is "study, study, study to identify things that work before they ever put their money where their mouth is. 90% of the people who trade commodities lose money. It's because they didn't do their homework."

TOM DEMARK RELIES 100% ON MARKET TIMING

Trader and consultant Tom DeMark has invented dozens of proprietary technical indicators over the years and relies strictly on the technical principles of market timing for his research and trading.

In fact at one point in his career, DeMark went through the CFA program (certified financial analyst), but chose to never complete it. "Markets over the long term are controlled by fundamentals. But, my indicators measure psychology--that's what technical analysis does," DeMark explained.

DeMark's first step into the financial world came after graduate school in both business and law, when he joined National Investment Service, based in Milwaukee, Wisconsin, as a fundamental analyst in the early 1970s. The firm managed roughly \$300 million in pension and profit-sharing assets, investing in primarily fixed-income securities and equities.

National Investment Service's strength was market timing. But DeMark said of his first job, "I was a professional gofer .. I was low man in the company, but I ascended quickly because I was good at market timing."

"My goal was to be involved with a small group of people who were progressive," DeMark said. The firm "avoided the stock market crash in 1973 and 1974," and assets under management grew to \$6 billion.

"1974 was severe ... (The Dow Jones Industrial Average) went from over 1000 to 570 during the political crisis with Nixon. There was a 50% decline in the stock market," DeMark remembered. However, the firm avoided that debacle through market timing. "They just gave me a license to do whatever I wanted to do," he said.

"I went off on my own and traded commodities. My bosses didn't mind if I diversified for my own account," DeMark said. In general, DeMark believes "the commodity side (of the business) has the more creative people--because the leverage involved is so big."

In 1978, DeMark set up a financial markets consulting division within National Investment Service. "We had a Who's Who in the industry list of clients," DeMark noted. "I diversified, supplying stock and fixed-income commodity timing ... the profitability of the subsidiary was greater than the parent," DeMark said.

However, in 1982, DeMark broke away and continued his consulting. "I had \$120 billion in assets collectively following my bond calls," DeMark said.

Just ahead of the U.S. stock market crash in 1987, one of DeMark's indicators posted an equity sell signal. Shortly thereafter, he joined Paul Tudor Jones's firm for a stint as an executive vice president and continued his market research and systems development there.

Regarding the basis of his research, DeMark said, "market timing is 100%. It's anti-trend, it's contratrend, it's pattern recognition and price exhaustion." DeMark believes his technical indicators differ from others because "they are totally objective and mechanical and they are against the grain of most technicians."

One of DeMark's well-known technical indicators, which he has trademarked—Sequendal--"is a cyclical approach to market analysis, determinant on the market itself," DeMark explained. "People who work with cycles generally take slices of time and make them equal. I'm saying that some trading days in the market are irrelevant. I try to mark comparisons with price activity and activity of days ago," he added.

In a year-long series in *Futures* magazine, beginning in August 1995, DeMark authored articles outlining many of his technical indicators, which readers can refer to for more in-depth details. DeMark also authored a book entitled *The New Science of Technical Analysis*, published by John Wiley & Sons, Inc. in 1994.

DeMark is putting the finishing touches on a book called *New Market Timing Techniques: Innovative Studies on Market Rhythm and Price Exhaustion*, which he expects to be published in the spring of 1997 "I'll be releasing 20 new indicators. Four of them were some I traded while I was at Tudor-plus the ones I created with Larry Williams," DeMark said.

When asked if there are some markets DeMark prefers over others, DeMark responded in the negative. "Everything I've done has application to all markets," he explained.

"I try to address every aspect of technical analysis and leave some of the variables open so people can research on their own," DeMark said. Nonetheless, his indicators are "99% mechanical, objective and simplistic," he added. However, DeMark admits there is more to successful trading than just good indicators or system. "Money management and discipline are more important than the system," he said. In fact "good discipline, a knowledge of their (personal) limitations and good money management are more critical than the system or indicator," DeMark said.

Advice DeMark has for beginning traders? "Read a lot. Test a lot. Don't trade until you've done your homework. Make certain you've made your technique objective--it should be a definitive process," DeMark concluded.

GEORGE FONTANILLS INCORPORATES OPTIONS TO LOWER RISK

Trader George Fontanills first began utilizing options in order to go "delta neutral" on his futures positions, which would allow him to "still sleep well at night." Since he began using options in conjunction with his futures trading, Fontanills believes he has found a way to accelerate his profits while decreasing his risk.

Fontanills began his professional life as a certified public accountant, but "decided that being a CPA wasn't for me." After earning a degree at Harvard Business School, Fontanills got involved in the real estate market, but then "the real estate market died."

In 1988, with a few other partners, Fontanills decided to give the futures market a shot. "We hired a couple of guys. They happened to lose 10% of our money in 30 days and I thought 'Hey, I could do that,'" and Fontanills began to explore trading on his own.

In a systematic fashion, Fontanills studied the market. "I was probably one of the first users of Omega TradeStation and I started writing programs to try and figure out all the variables that were involved in a trade," he explained.

"The first thing I figured out was that volatility and movement in a market meant that everyone was confused," he said. To this day, Fontanills says he searches out markets with high volatility in order to place his trades.

Originally, Fontanills began as a day-trader, believing he could better control his risk in that fashion. However, he began to believe that he was missing a lot of the moves, which occurred overnight. At that point, Fontanills began to study options strategies. "I learned how to use options and how to become delta neutral so I could hedge myself in both directions and still sleep well at night and that's when I really started to accelerate my profitability," he said.

"Delta, by definition, is the rate of change of a price of an option to the rate of change to the price of the future," Fontanills noted. "It's how fast an option will change, relative to the speed of the futures."

"Delta neutral means whether the market goes up or down, I'm in a position to make money," Fontanills said.

For example, "I'm short wheat and long two wheat calls, at the money. If wheat goes down, I'm making money on my short wheat position and eventually the rate of change will allow me to make more money on that position."

While he notes that some traders tend to be scared away by the perceived complexity of options, Fontanills said "someone who can figure out how to make money with options can make money easier and safer than just using futures."

In terms of fundamental factors, Fontanills said, "I don't ignore fundamentals because I like to see what other people are thinking. Most of my money is made being a contrarian to what everyone else is thinking. The masses are usually wrong."

In searching out his current trades, Fontanills said, "I look at the momentum of what is happening. If volatility and momentum goes to a certain level of what is way out of line, I'm looking for a reaction in the other direction and then I put on a trade ... my greatest returns are made when something is really out of whack."

The main future markets Fontanills trades are gold, oil, agriculturals (soybeans and wheat), S&P 500, interest rate markets and currencies. "I'm looking for fast, volatile markets and the S&P and bonds are definitely up there," he said.

Typically, Fontanills said his trades last "thirty days, at most."

Advice he has for beginning futures traders: "Trade small--until you learn what you are doing."

"Everyone overtrades at the beginning. I probably lost 20% of my account on my first trade," Fontanills admitted.

"Learn how to use all the methods that are out there to trade ... learn how to use options, because every successful trader I know, knows how to use all instruments. Why reinvent the wheel? Follow the (methods) of people who have been successful," he said.

He does note, however, the importance of "whatever methodology you use, it has to fit your personality."

Finally, of course, "learn how to limit your risk ... if you can stay in the game long enough, you will learn how to become successful," Fontanills said.

LEE GETTESS FOCUSES ON CONTROLLING RISK

Trader Lee Gettess focuses on risk control as a major factor in determining his success in the commodity markets.

However, it wasn't always that way. Gettess received his introduction to the commodity futures markets via a telephone call from a broker. "He told me how Omar Sharif had made \$50 million in the sugar market, with a \$50,000 account," Gettess said. The broker said the same pattern that occurred in sugar and made Sharif that bundle was occurring again.

"So I gave him \$10,000 and three weeks later, he gave me \$3,000 back," Gettess said. "But I realized if I could lose the money that fast, I could make the money that fast," he added. He launched into a study of the futures markets.

At the time, Gettess had a computer background. "I tried to read everything I could get my hands on ... and the technical side was more appealing to me: I guess I'm more of a left-brain person," he explained.

He "dabbled" in trading in the mid-'80s, but didn't begin trading, from off the floor, full time until Oct. 12, 1987—just days before the stock market crashed. "The only thing I knew how to trade was the S&Ps," he said. However, Gettess escaped relatively unscathed from the crash. "I was on the wrong side of the market ... I lost \$1,500 ... But, you can take a loss and be absolutely wrong and can congratulate yourself for doing the right thing," he said referring to getting out of the trade at the right time and risk control. "I was able to take a \$1,500 loss—that was a good trade," he added.

"Back then everyone told me commodities were too risky and the ones to definitely stay away from were the S&Ps and pork bellies ... so that's what I decided to trade. You want to be where the action is ... you want to be where the profit potential is ... but a trader's job is to control risk," he explained.

Gettess has used his computer background to develop over a hundred systems over the years, including one about 10 years ago called the Volpat Trading System, which was picked by Futures Truth as "one of the top 10 trading systems of all times."

The acronym "Volpat" stands for volatility and pattern recognition. "Volatility—in that you need an active market. If a market isn't moving, you can't make any money," Gettess said.

The patterns are "short-term stuff .. that are objective enough that you can tell a computer to look for them ... you can test all kinds of combinations of things," he said. "One of the patterns—a big outside day, closing on the lows ... most market lore says this is very bearish. What I found is if the market starts up the next day you probably want to buy it. It was observational—this should be really ugly, but I'm looking at the market and it doesn't look so ugly," he explained as the thought process behind picking out par-term for computer testing.

Gettess typically puts on trades that last from one to three days and he favors markets with liquidity. "Lumber and orange juice don't interest me too much," he said referring to two thinly traded markets.

"My favorite market today is the bond market. It is so big and so liquid I can move any type of size with good execution," Gettess said. Also, "I can control risk better there than in the S&P pit," he added.

Everything comes back to risk for Gettess. "The only thing a trader can control is risk. If you go into a market and you say, 'I don't want to lose more than \$1,000 on a trade'...there may be overnight gaps and slippage, but you can be pretty sure you won't lose more than \$1,000 on a trade," he explained.

"I know how much I'm willing to risk, but I have no idea how much the market is willing to let me take out of it—if all the market is going to give you is \$500, you have to take it," Gettess added.

"My whole focus is that you've got to control the risk ... that's what all the top traders do," he concluded. However, while Gettess uses protective stops for his position, he doesn't always have a stop-loss on a trade. "I follow the markets during the course of a day and in front of a news report I won't put my stop in—because the markets can go nuts for a brief period of time after the news ... and after that I can decide if I still want to be in," he said.

However, on the use of protective stops he cautioned, "Risk (control) doesn't mean using outrageously tight stops—a floor trader can sneeze and the market moves \$100. My research indicates that you want to give the market a fair amount of room for higher chance of success."

In terms of advice for beginning traders, Gettess warns, "Don't have unrealistic expectations."

"People ask me what's the best way to trade—that's an impossible question. I can't tell you what's going to suit you," Gettess said, implying that each trader needs to find a trading method that fits his or her particular personality.

"It's the ultimate job as far as I'm concerned. When I was working for General Motors, they had a great benefit plan, and everyone told me this was a great, secure company to work for. But, then one morning, I woke up and I didn't work for them anymore even though they liked me and gave me good reviews. It made me realize that security is based on self-reliance," Gettess finished.

CYNTHIA KASE RELIES ON PROPRIETARY TECHNICAL INDICATORS

Trader and consultant Cynthia Kase relies on a series of proprietary technical indicators that has developed for her trading signals. Kase makes her trading decisions strictly based on these technical indicators and doesn't rely on fundamental analysis at all.

Kase was first exposed to trading in August 1983, when her employer at the time-Standard Oil of California-transferred her to the trading department as part of a management development program. With a background in chemical engineering, Kase brought a new perspective to the trading room.

"Two things happened in 1983 that were interesting and important for oil trading," Kase noted. "In 1983, the crude oil contract was introduced and also the other thing that happened was that the PC finally made its way into the business," she added.

"I got them to put a computer in the trading room," Kase said. "For a trader (in the early 1980s), I was fairly computer literate because I had an engineering background," she explained.

Some of the early lessons Kase said she learned regarding trading were that "you have to be a bit of a loner if you are going to trade well. You can't listen to what everyone else thinks. I think it is important to stay focused, get enough sleep, remain calm and everything else will fall into place. You can't care too much."

While Kase calls herself strictly a technical trader now, "I didn't start to trade technically until 1985," she said. "Technical trading is a lot more complicated than it seems on face value," she added.

"It takes a lot of work-it's not like-take two days to read John Murphy's book and go trade," Kase said, referring to *Technical Analysis of the Futures Markets* by John J. Murphy, often considered the "bible" for market technicians.

Over the years, Kase began to develop her own technical indicators, which she now offers to her clients. Currently, Kase trades for herself, but also acts as a consultant to about three dozen corporate clients.

"I am a mainstream technician in that I use pattern, momentum and trend," Kase explained. However, "my indicators use statistics, as opposed to empirical observation," Kase noted.

Two of Kase's statistically based tools are the PeakOscillator, a momentum indicator that can be cross-compared between markets and Dev-Stop, a volatility-adjusted stop technique.

Kase authored a three-part series in the April, May and June 1996 issues of "Futures Magazine" that readers may refer to for more details on her technical indicators.

In terms of time frame, Kase said she does not trade intraday, but that her average trade lasts three to 10 days.

"My trading techniques are very focused on exit strategies, not entry points," Kase said.

"I take profits more quickly. I take a lot more winning trades, but the wins are smaller...I take partial profits on danger signals, such as reversal patterns and momentum divergences," Kase said.

"It is more important to be right than to make that big win," she added.

Kase currently only forecasts the energy markets, but notes that her technical indicators work in all markets. In her personal trading she prefers "to trade physical versus financial futures, as they are too influenced by random and political events," Kase explained.

On advice for beginning futures traders, Kase said, "the only way to learn how to trade is to trade."

However, Kase warns that potential traders "have to ask why? If it's because you want to make a lot of money, you'll never succeed," she said.

For a private trader, "I would never recommend that anyone trade without \$50,000 to throw away and two year's income set aside. Make sure money is not an issue," she said.

"If you can't afford to work for two years without making a cent, then you shouldn't be trading," Kase added.

"For young people, I'd recommend working for a broker, for a trading house. Personally, I think your odds of success are better," she said.

Kase concluded, "The three most important things are one: you can't listen to other people; two: there is no easy way. There is no Holy Grail. Hard work and application is what is going to make a good trader and three: it has to be fun."

GEORGE LANE STILL TRADING OFF STOCHASTICS AT AGE 75

George Lane completed his 47th year of trading in December 1996 and is still going strong. After many years of trading in the grain pits in downtown Chicago, Lane has shifted to screen trading during his "retirement" in a small community about 80 miles south of Chicago.

However, retirement means different things to different people, as Lane was up until 2 a.m. trading Italian bonds the night before he spoke with this reporter. Lane said, "I was having fun! ... it beats working for a living!"

Early in his life, Lane was set on becoming a physician-as his father had been. But, then "I was out roaming around Chicago one afternoon. I wandered into a building to buy a cigar and I heard a bunch of noise upstairs. I went up and saw these men standing around yelling," Lane said.

"All of a sudden, I was hooked and medicine dropped from the picture," Lane said.

While initially Lane worked as a broker, he said "that didn't work out very well ... because as a broker you want to give customers advice that is in their best interests. Sometimes what you think goes against what the firm thinks."

In the late 1950s, Lane purchased a membership on the Chicago Open Board of Trade for \$25 and started trading the grains. The Chicago Open Board of Trade, now known as the MidAmerica Commodity Exchange, was originally founded in 1868.

At first, Lane said, "I wasn't doing very well. An old timer came over to me one day after the dose and asked me how I was doing. Every night after trading, he and I went down to the local tavern and as long as I bought the whisky, he taught me everything he knew about the markets."

"He introduced me to the Taylor trading method, which is a three-day trading cycle" Lane explained.

Lane began to pick up trading and started to see some success in the pit. He eventually became the president of the Investment Educators Inc. "I'd trade all day and then we'd meet at night," Lane said. In that capacity, he invented 64 "stochastics," a widely used momentum indicator.

"Stochastics measures the momentum of price," Lane explained. "If you visualize a rocket going up in the air- before it can turn down, it must slow down. Momentum always changes direction before price ... It is a very sophisticated tool," he said.

According to John J. Murphy's book *Technical Analysis of the Futures Markets*, stochastics "is based on the observation that as prices increase, closing prices tend to be closer to the upper end of the price range. Conversely, in down-trends, the closing price tends to be near the lower end of the range. Two lines are used in the Stochastic Process-the %K line and the %D line. The %D line is the more important one and is the one that provides the major signals."

"We had %A and %B-we went through the whole alphabet twice, working on things. Then we discovered %K and then %D and the darn thing worked. So, we quit the research and went into the pit every day and started making a living," Lane said.

He calls himself a strictly technical trader. "I read the fundamentals, but the fundamentals are not the way to trade--the technical side is so much more lucrative."

But, "it is hard work if you are going to be a trader- you've got to be looking at your computer five to six hours a day," Lane said.

Currently, in his "retirement" Lane trades "about four to 12 times per day." His time frame is "45 minutes to 1 1/4 hours," with average gains of "\$150, \$350, \$750" per trade. "They all add up at the end of the day."

"You can make \$5,000 a day trading one-lots," Lane said. From his screen, Lane trades primarily off of three-minute, 15-minute and 30-minute charts, relying on "stochastics, volume and trendlines."

Recently, Lane has been trading the S&P 500 futures contract at the Chicago Mercantile Exchange. He sticks to liquid markets, avoiding thinly traded contracts such as pork belly futures or lumber.

Lane doesn't confine himself to U.S. markets, however, estimating that 20% of his trading extends to foreign futures markets. "German bonds and Italian bonds trade very actively," Lane noted.

However, Lane said he never trades without a stop-loss order protecting his position. "That's the secret to making money in commodities-control the size of your losses."

Lane recommends that beginning futures traders read "John Hill's three books on charting basics-if you are a good chartist-the charts talk to you."

"You can learn how to do it yourself," Lane said. "Brokers are salesman. Never take advice from a broker. Because, then you are admitting that you don't have enough smarts to make your own decisions."

Asked what was a key factor in success in commodity trading, Lane replied "greed."

"Trading is fear and greed and if you have enough desire to have a successful financial life-you can do it," He concluded.

GLENN NEELY BUCKS TRADITIONAL ELLIOTT ANALYSIS

Glenn Neely locks horns with traditional Elliott wave theoreticians and has developed his own approach to trading the markets, which he calls NEOWave™ Theory.

Neely first encountered the Elliott wave theory back in the early 1980's while he was working off-shore in the oil industry. At that time, Neely became interested in the stock market and read many books on the subject, "but that wasn't quite exciting enough" he said, and he started exploring commodities. His first actual experience trading in commodities was via a trading system.

"I had paid a few thousand dollars for this magical Holy Grail trading system ... My first big lesson was that no matter how much you spend for a system, it doesn't guarantee success," Neely said.

Neely continued to study on his own. "For about a year, I had studied all sorts of stuff. I just came to realize that it was a lot more complicated than I had thought," Neely said. However, "it just clicked right away when I read the synopsis of Elliott wave," he said.

Traditional Elliott wave theory says that markets advance or decline with five waves-three up (or down) waves with two intervening corrections, according to *Technical Analysis of the Futures Market*, by John J. Murphy.

Neely immediately honed in on Elliott wave. "I started studying everything I could get my hands on ... but I realized there was a great deal missing," he noted.

"There are just too many ways to interpret this. It's not objective. It's not scientific ... I couldn't stand the flexibility of it. I've spent most of my career so far adding techniques to make it objective," Neely said, describing his initial frustration with traditional Elliott theory.

"My primary focus for most of my career has been perfecting a form of technical analysis that is logical, systemic and not open to interpretation," Neely said.

"Elliott wave is primarily based on Fibonacci relationships and price patterns-the visible appearance of price patterns. NEOWave adds on top of that a whole process of logic, with some connection to vector physics," Neely explained.

In order for Neely's NEOWave theory to work properly, "you have to pick markets that fit certain criteria," he noted. First, "you need a market that is a nonconsumable item-that has perpetual life. Corn-it's grown, it's eaten, it's gone," he said.

Other factors are that "current value builds on past, time does not automatically have a negative effect on value, affordable to thousands and prices readily available," Neely explained.

Additionally, Neely believes "for wave analysis to be accurate, you have to use cash data." Many traders and analysts use futures price data in their Elliott wave analysis, but "a great deal of the confusion related to Elliott wave is that they are using the wrong kind of data," Neely said.

In terms of time frames for this trading, Neely doesn't have any hard and fast rules. "The time frame I want to trade is the time frame that is the clearest to interpret," he said. "I let the market dictate the time frame. I don't want to force wave counts when they aren't justified," he added.

A key to successful trading is that "you need to be able to control your emotions".

"It took 10 years to comfortably manage emotions," he noted. "Which for me, can only be done by having a concrete understanding of how markets behave and knowing how much to risk."

GRANT NOBLE READS MASS MEDIA FOR CONTRARIAN SIGNALS

Futures trader and author Grant Noble looks to the mass news media in order to garner signals of major market bottoms or tops. Only, he looks to the media with a contrarian perspective.

Noble gained his first introduction to the futures industry when he worked as a retail commodity broker in the late 1970s. "I saw every which way people could lose money, and I thought not enough people were making money. I've spent the last 15 to 16 years trying to figure it out," Noble said.

Noble currently said he is not conducting any futures trading-"there are times when I relax from trading?" But he still has plenty of current market opinions. He authored the book *Traders Fdge*, published in late 1994.

His basic strategy is to act in a contrarian fashion to the messages of the major news media. "If the American media is screaming it's a horrible time to buy stock-I buy stocks," Noble said. "The media seem to unflinching know when there is a top or bottom-it is the best contrarian indicator," he added.

"My trading approach is that ... I think the markets are relatively easy to call over a three- to five-month period ... people have to find a system that will take advantage of long-term trends," Noble said.

"The *New York Times* came out at the end of April with a big front-page story on wheat. That was the topping day in wheat ... The media had turned very bullish on the grain markets at the end of April ... and the media was telling me that it was time to look for a top," Noble said.

"You want to see the USA Today that has a cover about coffee," Noble said, explaining the type of media story he looks for.

"In April 1994 there was a big article in *Newsweek* about high technology stocks ... so many media publications were saying how terrible the stock market is, and you've seen a 50% rise in a two-year time." Noble said.

"What I'm trying to do with the media is to pick tops and bottoms ... you can do this with a couple hours a day and you don't have to watch the screen," Noble said.

Currently, Noble has turned bullish on the U.S. bond market, which has tumbled sharply for most of 1996. "Bonds are starting a six-month rally," he said, "with a minimum objective of 117 even (in the bond futures contract) Basically, we've had a lot of thrashing of the bond market. There have been at least 10 to 15 negative stories in the past few weeks," Noble said, explaining his rationale.

On the U.S. equity market, Noble said, "we continue to have the *Wall Street Journal* talking about the stock market- there have been 30 to 40 stories talking about how overvalued stocks are ... short term, this is a good buy signal, and over the next two to three months we should see stocks move higher," Noble speculated.

Advice Noble has for beginning futures traders? "Save your money...forget the seminars, forget the expensive software and try to do a lot of reading. Education is the first thing. The second thing is to try to keep your expenses in trading as low as possible. Look for the longer-term trades. The smaller the money (trading capital) the less they should day-trade," Noble concluded.

LINDA BRADFORE RASCHKE FOCUSES ON TECHNICALS

After spending six years trading on the floor, first at the Pacific Coast Stock Exchange and then at the Philadelphia Stock Exchange, Linda Bradford Raschke shifted gears and moved to an off-floor office in 1987. After trading her own money for several years, she moved into the money management side of the business in early 1993. Raschke, along with her partner Rick Genett, manage about \$25 million.

Raschke calls herself strictly a technical trader. She doesn't even have a news service in her office. Nonetheless, she says 'it's a trader's responsibility to always be aware of background information. That may be a fundamental situation like shortages or seasonal tendencies or just general items like that. But, what actually makes me pull the trigger and enter a position is strictly technical.'

While Raschke has been trading now for roughly 15 years, she still searches out the same type of technical patterns to trade. "I think the markets are the same they've been for the last one hundred years. They are the same in that you are going to have an impulsive move in the direction of the trend and you are going to have pullbacks ... there are still going to be climax patterns and consolidation patterns," she said. "My decision making and the patterns haven't changed one bit," she added.

She studies roughly 20 different markets, but tends to limit her trading to five or six markets at a time. "You get sloppy if you have more than five or six opportunities." Raschke looks for opportunities in both trending markets and those that are moving sideways. "In trending markets you are finding conditions where an uptrending trade moves from the low to the high. The best buying opportunity will come, if not on the open, then in the first hour," she said.

The trade-off for a greater reward in a trading market situation is "that the risk points will be further way .. but you have momentum in your favor and have a greater likelihood for success. "In a choppy (sideways) market you are going to be more conscientious in looking for fake-outs and whipsaws," Raschke said, adding that one is able to use tighter stops in a sideways market.

Nonetheless, Raschke believes "you can always trade any kind of market-you just have to be clear on your approach."

She trades in several different time frames and lets the particular chart dictate the expected length of the trade. "If a pattern is there on the dailies, it might last anywhere from two to six days," she said as an example. However, "in the longer time frames (such as weeklies or monthlies) there is a bigger risk and a bigger reward," she added.

While some traders utilize specific risk reward ratios, ahead of trade implementation (risk one to gain three is common), Raschke doesn't like to limit herself to only three on the reward side.

"I don't believe in risking one to gain three, because you never know what the market is going to give you ... I've put on a particular trade and low and behold the market starts picking up momentum and I'm going to stay with it as long as I can. I'm not going to get out of it just because I hit my three-threshold level."

On getting out of losers, Raschke says "it's the trader's responsibility to manage a trade ... when I'm wrong I know it. The market tells you."

In terms of beginning traders, Raschke notes "if somebody is starting out trading--start out at a short-term time frame to control your risk better." In fact, even in her own trading, "if I'm going through a period that's not as good, I'll tighten up my time frame and build up capital," she said.

As an off-floor trader, Raschke said, "You can't be as concerned with trade locations. You are going to pay up to get in and out of positions." Now that she has money under management and is trading much larger size "slippage is a problem."

"Liquidity can be a problem. Getting out of bad trades, that's where you can get hung out to dry," she said. For shorter-term trades in "coffee, I wouldn't put on a full position... because if I was wrong it could cost me four points to get out."

On how Raschke feels that she has evolved as a trader, "I would say if anything, I'm more risk averse now and that might be because I'm trading larger size ... when you are young and in your 20s there will be a lot more volatility in your account."

Also, now "I watch myself a little more. In the process of evolving as a trader, you learn to watch yourself more ... a lot of times the mistakes you make in the markets come from reactions and emotions ... when you lose at this game you are beating yourself," she said.

"The difficult thing for people is that you have so many choices-time frames, different markets, to trade the trend or the countertrend-you can't do it all. You have to sit down and say I'm going to do this one kind of trading. A lot of people initially are trying to do it all," she said.

Success in trading requires a lot of concentration, Raschke said. "You can get overwhelmed by the amount of information. I don't even have news in my office. There is so much noise out there-you have to filter out the noise."

Commitment is one of the main ingredients for success in trading, Raschke added. "You have to spend the time doing the necessary homework or preparation and don't let yourself get taken out of the game," she said.

She concludes, "you have to have a long term time horizon ... on the floor there are a lot of months you just grind it out and eke it out and then you'll have a few glorious months. You just have to have patience and trust that all the seeds you are planting will eventually bloom."

RICK REDMONT BASES TRADING ON WYCKOFF THEORIES

Off-floor trader Rick Redmont gained his first experience trading stocks as a college student during the bull market of 1961. "I had \$10,000, which turned into \$20,000. I followed the Chartcraft (Inc.) point and figure book-but it didn't really matter what you bought. The only thing that made you mad was if your friend's stock went up more than yours did."

"Then in 1962, I started losing. The reason I was losing was because the stock market wasn't going straight up anymore," Redmont explained. "I turned \$10,000 into \$20,000 and \$20,000 into \$2,000." Redmont jokes that his family members gave him books for Christmas that year with titles like *I was a teenage bankrupt*. However, Redmont was spurred on by his financial setback. "I decided anything that had the potential to double my money and lose it all was worth learning about," he said.

He launched into a study of "almost everything that has been written from 1900 to date" on trading and technical analysis. After graduate school, Redmont joined the brokerage business and remained a broker until several years ago, when he broke away to trade for his own account. One of the books Redmont read early on was the classic *Technical Analysis of Stock Trends*, by Edwards and Magee. However, Redmont thought "intellectually, if it's this easy-if all you have to do is look at head and shoulders, triangles and rectangles-everybody would be rich!"

Through his exhaustive reading of the materials available on financial markets and trading, Redmont happened upon a course offered by the Stock Market Institute that really hit home for him. "It is all based on the work of Richard D. Wyckoff. It teaches you how to use real point and figure charts and the origin was from floor traders back in the 1800s."

"It teaches you the relationship of volume and price and point and figures. From there, I really learned how to understand how the market operates," Redmont continued. Though he added, "I spent three years on this." Additionally, Redmont notes that he enrolled in an Elliott wave course offered by C. Ralph Dystant and learned about an indicator called %D. Now, Redmont calls himself strictly a technical trader. "I use Wyckoff, I use Elliott, and the indicator I use is fast %D."

Currently, Redmont trades "about 98% OEX options." Redmont trades on an intraday basis, though he does hold positions overnight-but overall, he tends to be a short-term trader. Throughout the day Redmont monitors five minute charts, 30-minute charts and 60-minute charts. "I look for divergences between the Dow, the OEX and the S&P (500)."

"I look at different time periods. I look at the premium. I look at the advance/decline line on a five minute basis and tick volume," Redmont added. While Redmont bases his trading primarily on Wyckoff's volume theories, he admits "there is no system. It's total discretion-it's as good as I am. I keep it simple. I buy calls and I buy puts. I don't spread them. I just want to know what direction it is going." Redmont champions Wyckoff's volume theories saying "it works because it is the market. You are analyzing the law of supply and demand," he explained.

To further explain a basic premise of Wyckoff's volume theory, Redmont gives a simple example. "You are looking at a stock. It trades 10,000 shares and goes up one point on the first day. The same thing happens on the second day. On the third day, it trades 20,000 shares and goes up 1 point. On the fourth day, it trades 40,000 shares and goes up half a point. On the fifth day, it trades 80,000 shares and is unchanged."

"On the third day, you had to exert twice as much effort to get the same result (as the first day)," Redmont noted. "The key to analyzing supply and demand is that the demand side burns itself out. There is no pressing reason, except being caught short, why someone should buy something. But, there are a million reasons to sell something."

"When the buying is through and satisfied-there is always supply there. That's why prices go down faster-because supply is always there and demand is not. All you have to do is withdraw people who want to buy and prices fall."

While Redmont primarily trades OEX options, he believes that Wyckoff's volume theories are just as applicable to the futures markets. "What difference does it make if you are analyzing the S&P or sugar or cotton or the Japanese yen-the analysis is the same," he said. In his trading, Redmont notes he does monitor the size of market's corrective retreats and rallies. "As (Fibonacci numbers) became more popular, the markets started connecting 61.8% and 38.2%. Today, very rarely do they correct 50%."

Based on work by Fibonacci, many technical analysts have speculated that financial markets tend to move in sequences that can be measured by these numbers-including 61.8% and 38.2%. However, Redmont said, "these things work in the markets because people use them-it's not because it's mystic, or in plant life, or in the pyramids." For example, in watching the markets, Redmont said, "if you have a move up and you have a correction, you want volume to drop off and you want that to fall into a 61.8%."

While Redmont notes that Wyckoff theory works for him, he suggests potential traders read two books-*Market Wizards* and *The New Market Wizards*, by Jack Schwager. "Read them with one purpose in mind-to understand that there are 40 people who were successful doing different things." When asked what some of the characteristics he believes are necessary to successful futures trading, Redmont answered, "dramatic concentration powers to understand the markets and to spend the time learning the niche of whatever it is they do."

ANGELO REYNOLDS SCALPS IN THE EURODOLLAR PIT

As a trader in the Eurodollar futures pit at the Chicago Mercantile Exchange, Angelo Reynolds cites mental toughness and courage as two of the necessary factors to successful pit trading. "I knew I always wanted to be involved in the markets," Reynolds said. After graduating from the University of Pennsylvania in 1984, Reynolds took a job as a runner at the Philadelphia Stock Exchange.

After paying his dues on the trading floor, Reynolds worked his way up into a brokering position and began filling foreign currency options. In 1987, a Chicago trading firm approached Reynolds regarding the possibility of a move to the Chicago Board of Trade bond pit. However, at that time, Reynolds said, "the market was good in Philadelphia and I wasn't really ready to move."

However, a few years later, the currency options market began to slow in Philadelphia. "As the market got slow, I began to think about a move to Chicago," Reynolds explained. In June 1991, Reynolds made the move to the Midwest and began filling paper in the Eurodollar futures pit for Quantum.

After successfully filling orders in the Eurodollar pit for three years, Reynolds began to consider shifting to the trading side. "I had been a broker for about eight years and there is more of a challenge and more financial opportunity in trading." In June 1994, Reynolds took the leap and joined Deerpark Derivatives as a trader in the Eurodollar pit.

"It was kind of scary the first couple of months," Reynolds admitted. However, he sticks to a couple of "basic rules that everyone knows" that has allowed him to achieve success.

"In my type of trading-scalping-you have to cut your losers and let your winners ride." Every day Reynolds squeezes into the Eurodollar pit, with roughly 1,000 other people, and looks to take advantage of short-term inefficiencies in the market.

Another basic rule Reynolds trades by is trading within your means. "You can't trade outside your capital, you can only trade 5% of your capital." As a "scalper," Reynolds' average time frame for trades is minutes. "Right after a number, it could be a split second (that I hold a trade) or it could be two to three hours ... the average is five to 10 minutes."

On the transition from broker to trader, Reynolds said "you have to be more sophisticated to be a trader than a broker because you have to understand the underlying reason the market is moving."

When he began trading, Reynolds studied a book on fundamentals in order to gauge the importance of various economic releases throughout the month. "I study (the figures) a lot. You have to if you are going to be an effective scalper. When the 7:30 a.m. government economic reports flash on the board, Reynolds said, "I look at the numbers to see if they are inflationary."

For example, if the monthly release of the Producer Price Index came in 0.2% above expectations, "you start looking (to hit) bids-because that means it's inflationary and the bonds are going to go down."

As Eurodollar futures often trade in tandem with T-bond futures at the Chicago Board of Trade, Reynolds notes that he watches cash Treasury bond prices closely throughout the day as well. "If we see cash bonds turn around (to the upside) the locals will come in and just start buying Euros," Reynolds said.

In recent weeks, Eurodollar futures have been trading within extremely narrow ranges-a four- to five-tick range is not uncommon for the March Eurodollar contract lately. The major factor confining Eurodollar prices is that most analysts believe Federal Reserve will keep monetary policy steady between now and year-end.

Nonetheless, Reynolds said, "even in a one- or two-tick range you can still make money .. there will be 1,500 (contracts) on the bid and 2,000 on the offer."

Eurodollar futures are known for having great liquidity. "There's always 2,000 (contracts) at every price," Reynolds said. Total open interest for Eurodollar futures currently stands near 2,398,012.

So even if the Eurodollars fluctuate within narrow ranges, "when the Euros move, there could be a 1,000 lot you can hit, so it makes it worth the wait," Reynolds said. "I'll do 700, 800 or 900 contracts because I know there will be 500 at the next price. I know I'll be able to get out."

While some traders leave early in the morning if they've had a good trade, Reynolds said, "I'm the type of guy to stay all day. I love to trade." However, he added, "I'll cut my losses and go home" if he's having a bad day. "It's usually 1,000 ticks either way," Reynolds said for his cut-off point for leaving. One tick in the Eurodollar contract is worth \$25.

When asked what are some of the qualities that make a successful pit trader, Reynolds answered, "Number one is confidence. Number two is mental toughness. Number three is interpersonal skills. Number four is a basic understanding of the markets and number five-have enough capital-not necessarily in that order."

"You have to have mental toughness because if you are wrong you have to be able to take defeat and not lose your courage."

For beginning traders, Reynolds recommends the path he took-beginning as a runner. It is important "to take your time to build your foundation of understanding of the industry otherwise you won't last long. I just take it one day at a time and try to build on what I've done and hope I can continue to be successful in the future," Reynolds concluded.

PERSISTENCE PAYS OFF FOR JOE STOWELL

According to independent trader Joe Stowell, persistence and courage are two key characteristics necessary for success in trading. Persistence certainly has paid off for Stowell, who traded part time off and on for 20 years, before leaving his job as a school teacher to trade full time.

Stowell first became intrigued with the futures market when, as a young man, he worked in a potato packing shed. The farmers around him were trading the Maine potato futures contract, either hedging or speculating. "I started to follow the price quotations in the newspaper," he said.

In college, Stowell attempted to learn more about the futures markets, but in the early 1960s there were few books available on the subject. He was able to locate a book in the library called *Commodity Speculation- With Profits In Mind* by L. Dee Belveal. At the time, Stowell had opened a trading account with a broker in Rochester, New York, where he was in graduate school, and "they would send me these reports on technical and fundamental factors and I had no idea what they were talking about," Stowell said.

But then, Belveal wrote a second book entitled "Charting Commodity Price Behavior" and Stowell bought it. "I soon started hand charting. I attempted to trade off and on for a 20-year period, whenever I would accumulate enough money to trade," he said.

But it wasn't until 1984 that Stowell devised his "cups and caps" patterns—a three-bar technical chart formation that signals short-term trades. "I thought I had finally found something that I could trade the market and be profitable with," Stowell said.

Stowell began trading his cups and caps technique, which is a purely technical approach, with a \$5,000 account in 1985. "Just a little over two years later I had \$100,000. All I ever did was take money out of the account, I never put money in," he said.

"In 1987 after making \$100,000 I finally thought I could do this, and that's when I decided to try it full time," Stowell said.

He took a two-year leave of absence from his teaching position to trade. "When it came time to go back, my heart and soul was in trading and the markets ... so I resigned my position," Stowell said. Since then, his trading and investing has expanded to include individual stocks and gold mutual funds, but Stowell calls the cups and caps pattern his "bread and butter."

Stowell limits his futures involvement to the Treasury bond market. He likes the bond market, and they fit his short-term trading technique because they have "good volatility, and it doesn't take a big move to make a nice return on a two- to three-day basis," Stowell said.

Stowell shies away from the S&P 500 contract because "you are getting into large margin requirements, and you are at the mercy of the trading programs. The overnight session in the bonds doesn't really pose any problems, but that's not really so in the currencies," Stowell added. The often large moves in currency prices overnight don't make these futures a suitable match for Stowell's trading style.

"I've learned that if I stick with the one (futures) market and apply my energies and talents that I do much better. I've broadened out my trading and investing life by going out into stocks and gold mutual funds," Stowell said.

The basics of his cups and caps pattern "follows the concept that markets go up and markets go down," Stowell explained. "Once the market has gone up, I look for a cup pattern, made up of at least three bars. I look at the three closing prices, or the lows. In a cup, the first bar would have a higher close (or low), the middle bar has a lower close (or low) and the third bar has a higher close (or low)," Stowell added.

"It is a reversal formation. Once the market has rallied and has stalled, if you get a daily close below all three lows of the cup formation, it will trigger a selling point," he said. The cap formation is essentially the opposite of this. "The market has got to sell off first and then the next move in the market will be up," Stowell explained.

On taking profits, Stowell generally looks for "two profitable doses ... and stops are set to the extreme of the formation." He doesn't leave his stop-loss orders in place during economic reports, though, as that is "inviting the market to pick your stop off and you get huge slippage," Stowell said.

Overall, "when I start a trade, I know the risk I'm taking, but the reward is open ended," he added. "I just look to take a chunk out of the middle (of a move). I don't try to pick a top or a bottom," he said.

While Stowell developed this and other technical chart pattern trading techniques after studying his hand charts for over 20 years, he says that success in trading also comes down to 'a lot of discipline, courage and persistence.' "If a person has persistence---that's very, very important and you have to have courage. You've got to be willing to step up when its time to pull the trigger when your signals are there," he said.

He cautions that traders "need to find their own comfort level. If you have too much exposure to the market, then you get away from things you want to do, and then the market forces you to pull out," Stowell said. However, all beginning traders will "have to pay their dues," Stowell believes. "They have to learn about the excitement of trading and the fear, and you have to make mistakes. They have to go through a learning process," Stowell said.

"Every day is a new day. It's always new. You have to continually work at your skills. You keep having to apply yourself," Stowell ended.

GARY WAGNER USES CANDLESTICKS TO MEASURE SENTIMENT

Japanese candlesticks offer a "mathematical expression of psychological market sentiment" to trader Gary Wagner, who utilizes these Eastern technical indicators in conjunction with Western tools to actively trade for himself.

It took Wagner several years into the commodity business before he began utilizing Japanese candlesticks in his interpretation of the markets. After college, he entered the industry as a broker and around "1989-1990, FutureSource began displaying price movements over time with candlesticks. It looked interesting, but I didn't know much about what they meant. I started doing a lot of research," Wagner said.

Wagner stumbled upon a book entitled *The Japanese Chart of Charts*, by Seiki Shimizu, which he calls the "Rosetta Stone of every candlestick technician in the U.S ... I read it and it was like these light bulbs started going off in my head," Wagner explained.

"After it clicked in, my trading vastly improved. I started making money and my clients started making money," Wagner said.

Japanese candlesticks are constructed differently from a traditional Western bar chart. A traditional daily bar chart reveals a vertical bar, representing each day's action. The bar chart reveals the session's high, low and closing price; the latter is seen by a tic to the right of the bar.

However, Japanese candlestick charts are comprised of a rectangular section and two thin lines above or below the section. According to *Trading Applications of Japanese Candlesticks*, by Gary Wagner and Brad Matheny, "The candle or pole line is defined as one complete cycle with an open, low, high and close. The thick part of the candle is known as the real body. The thin lines above and below the real body are the shadows and represent the high and low for that cycle ... A white candle (empty) is created when the closing price is just above the opening price for the cycle. Black candles (full) are just the opposite—the opening price must be above the closing price for the cycle." However, Wagner utilizes Japanese candlestick charts in conjunction with traditional Western technical analysis.

"Utilizing candlesticks is a win-win situation for the Western technician. We use moving averages, stochastics, trendlines. But, one can usually obtain more information looking at a candlestick chart. The reason for that is that the Western technician puts his emphasis on the close to the close," Wagner noted.

But candlesticks reveal "the relationship between the open and the close of that day. Dynamically, there is a battle going on each day—the candle reveals its outcome," he explained.

The most important lesson Wagner he says he has learned as a trader is that the "market runs independently of whether you want it to go up or down ... you can't marry yourself to a position."

"One has to have a systematic methodology that removes as much emotional content from the trade as possible," Wagner continued. Additionally, traders "must predefine risk and reward," he stressed.

Wagner has done this for himself via computer software he has developed called the Candlestick Forecaster. "I took all the trading techniques that I use and mimicked them with a computer," he said.

"The best traders I've witnessed ... are successful because they maximize upside potential when they are right and they get out quickly if they are wrong," Wagner revealed.

Wagner admits that "fundamentals rule the market, but you can distill that in a mathematical way," he says referring to candlesticks. "By removing myself from information overload of the fundamentals, I was able to glean a much more pristine view," he explained.

Currently, Wagner looks to trade markets with "good liquidity and good open interest." These will be "viable markets to trade using the (candlestick) technique," he said. "I shy away from coffee and cotton ... logistically you can get a huge amount of slippage ... you have to have more caution with illiquid markets," he explained.

While Wagner started out as a day-trader, that changed about three to four years ago and now he has become a position trader. Wagner credits the change in his trading style to an actual change in the nature of the markets themselves, which coincided with the emergence of large fund players and large institutional players in the futures arena.

"When the large institutional traders came in, they had such a voracious way of moving the markets because of the mass of orders," Wagner explained. "I found it difficult from a computer to win because the risk reward changed. My stops didn't hold." Now, Wagner believes the "most profitable way to trade is with the trend."

Advice for the beginning futures trader: "Invest in education," Wagner suggests. He says the new trader is "jumping into a shark-infested pool. In order to survive ... you need good protection ... and very large teeth. Staying power or stamina," is important in order to succeed.

BEN WARWICK'S "EVENT TRADING" KEYS IN ON NEWS

While many traders focus either on technicals or fundamentals as they develop their trading strategies, trader Ben Warwick focuses on a market's reaction to news.

Warwick has developed his own method of trading, which he calls it "event trading."

Warwick first gained exposure to the financial markets during his days as a student at the University of North Carolina, where he earned an M.B.A.

In the course of his studies, he learned about the "earnings surprise studies" done back in the 1970s regarding the stock market.

The basic thrust behind these studies is that "when a stock's earnings came out and it was much greater than anticipated, the stock had a tendency to trend for 60 days," Warwick explained.

"There are still fund managers today who trade on earnings surprises," Warwick noted. "I wanted to take that idea and see if you could do this with the futures markets," he said. Over the past six years, Warwick has been refining his "event trading" method and recently published a book under that title.

While this may sound like a discretionary type of trading, Warwick has distilled his method into a system. "I try to make it as systematic as possible and take away as much emotion as possible."

Event trading is "nonlinear-it is not a trend-following system," Warwick said. "It only looks at the speed with which a market responds to information ... I look at the way a market reacts to news," he explained.

An example of event trading would be the monthly employment release by the Labor department and its impact on the bond market. "If the market rallies on the number and by the end of the day it closes in the upper 20% of its range, I take that as a buy signal," Warwick said. However, the settlement price is crucial. "Getting in immediately after the number is a 50-50 game," he said.

For example, "you may get a bearish reaction to a number that you think may be bullish and you still might get a sell signal ... I concentrate on how the market reacts to that bit of information," he said. A fundamentally bullish employment report that pops prices higher intraday, but then sees a settlement in the lower 20% of the range would be viewed as a sell signal for Warwick.

In terms of time frame, Warwick doesn't conduct any intraday trading. On average, he trades last from one to five days.

Through his research, Warwick has honed in on the most effective and influential reports in certain markets for his event trading. In the current "late-stage expansion" of the economy, Warwick points to the durable goods orders data and the employment report as the two most effective reports via event trading for the bond market.

However, Warwick tends to favor the agricultural complex-the grains and the livestock markets. "I've had a lot of good success in the agriculturals," Warwick noted.

Based on his studies of the livestock markets and their reactions to the monthly Cattle-on-Feed report, Warwick said, "If you are in a strong uptrend in the cattle market and if you have a bearish Cattle on Feed report, it is much better to buy on a retracement dip," he said. "It takes three, four or five bearish Cattle on Feed reports to turn a bull (cattle) trend around," Warwick noted.

"It takes awhile for the cattle market to absorb information," Warwick added.

When asked what it takes for a futures trader to succeed, Warwick replied, "You've got to do your homework and you've got to do your statistics and make sure you've identified an inefficiency."

"In order to make money consistently, you have to have an edge and you have to find a way to find inefficiencies that you can make money off of--that's the key," Warwick concluded.

LARRY WILLIAMS: TRAINING KEY FOR TRADING, RUNNING

Trader and marathon runner Larry Williams sees parallels between successful trading and successful marathon running. Williams, who recently completed his sixteenth marathon run, pointed to "pain and agony" as being two of the obvious similarities between trading and long-distance running.

"Anyone can run a marathon, if they train-it is the same in commodity trading-if you put in the training, you can be successful," Williams said.

"There is always a point in every run where you feel like hell ... but you just have to keep moving forward and keep putting one foot ahead of the other. It is the same thing in trading. You have to keep putting your trades on," Williams said. "There is a point in every race when I feel sick, so I just slow down a little. It is the same with trading--when I'm losing in the market I pull back a little and catch my wind," Williams said.

Williams began trading stocks in the early 1960s. However, about ten years later a friend suggested he look into the commodities markets because Williams could receive "a lot more bang for the buck there," his friend explained. And more bang for the buck he did find. In 1987, Williams parlayed \$10,000 into \$1,100,000 in the 12-month Robins World Cup Trading Championship, a feat no other trader has yet to match.

Williams calls himself a "contextual trader" utilizing a blend of technicals and fundamentals. Currently, he trades for himself-primarily focusing on Treasury bond futures, S&P 500 futures and currency futures, in a one-to three-day time frame.

When asked about the health of currency futures markets, Williams responded, "I don't think currencies are dying, markets go through stages. What has upset the funds is that their trend-following programs don't work (because the currencies have been more stable recently)," he explained.

Williams is the innovator of the %R momentum indicator. "I had been impressed with work that another guy did with stochastics," he said. "I liked the idea but thought (stochastics) was confusing and difficult to follow," Williams added. The %R indicator "is based on a similar concept (to stochastics) of measuring the latest close in relation to its price range over a given number of days. Today's close is subtracted from the price high of the range for a given number of days and that difference is divided by the total range for the same period," according to *Technical Analysis of the Futures Markets*, by John J. Murphy.

"A close near the highs, within a range, meant that a huge amount of buying had come in," Williams explained. "Markets top by closing on their highs and markets bottom by closing on their bottoms. Markets top because the market runs out of buyers-%R enables you to see that," he added. However, "that tool needs to be placed within the overall conjunction of the market," Williams said.

Technicals "are not the 'be all and end all' that technicians think they are," Williams said.

Another indicator Williams likes to use in his trading is the "Commitments of Traders" data, released by the CFTC every other Friday. This report reveals the open interest statistics of large hedgers (commercials), large speculators and small traders. "When commercials go from net long to net short-that is usually a good buy signal," Williams noted.

"Commercials don't try to pick tops and bottoms-they accumulate and distribute," Williams explained.

In current market conditions, Williams said "I think bonds are coming close to a low. Commercials are moving close to being net long-that's pretty bullish. Also, currencies are seeing heavy accumulation by commercials. But it will take a while for them to move up," he added.

On the stock market- "I'm a short term trader in the S&P market. But, the smartest guys I know have been short this market a long time" he noted.

What are some of Williams's reflections on the business of trading? "The thing I like about this business is thinking ahead of time. Most people live in the present. But traders have to think will it rain six months from now? Will there be a war 12 months from now? Will there be a famine two years from now? It's a neat place to live-we are living in the future," he said.

However, trading can take its emotional toll, he notes. "We do have huge swings in these markets, which can cause huge emotional swings," he said. "It can cause traders to become manic-depressive. You get into a lifestyle of patterns. After 34 years, my life is full of big ups and downs. Most every commodity trader I know can get really happy fast and can get really turned off of something really fast," he said. How does he deal with this? "Run," he said.

Also, realize "that it is still a serious thing we do, but it is still a game ... that's not all there is in life," Williams added.

What advice does Williams have for beginning traders? "Start slow. Spend a lot of time and money on education. Because education is cheap compared to experience in this business ... The people who have learned the most are the most successful in these markets."

Also, "learn a lot about money management" Williams said. "By and large, having targets doesn't work. Because you miss the one big move you need ... Cut your losses and let your profits run," he said, repeating an old market adage.

"Over the years, it's been a difficult lifestyle. It's been a lot of pressure, but I wouldn't trade it," Williams concluded.