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# Beating The Trend



**(A Comprehensive Guide To Short-Term Trading)**

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Congratulations!

The decision you've made to order this material may very well be one of your wisest investments of all. What you are about to discover is the result of literally thousands of hours of study and practical experience. It has also grown out of tens of thousands of dollars in online trading losses...or should I say tuition for learning to trade successfully? My outcome is for you to discover and use my simple method of identifying and trading short-term market tops and bottoms, while avoiding many of the pitfalls most people encounter while learning how to trade successfully. When developing this trading strategy, my primary question was, "How can I

make this simpler?" What you are about to read is designed to give you clear distinctions in easy-to-understand language. Use this trading guide as a reference as you begin to develop your own understanding of how well it works. By learning a clear process and developing a superior psychology, you will sidestep challenges that leave most traders broke before ever finding a system that works for them. You may find yourself making triple-digit annual returns after implementing this approach.

So let's get started!

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# The Foundation of Our Trading System

## Organizing Principles

There are seven organizing principles that are the foundation of this trading method. Just as when one wishes to construct a building, a successful trader must begin with a strong foundation...or a structure that appears to be strong, may utterly collapse when conditions change. The truth is that market conditions are constantly in the process of change. Interest rates, employment, politics, earnings reports, news stories, demographics and thousands of other variables (known and unknown) determine what the markets are doing at any given moment.

Knowing this the questions become:

What market conditions always exist?

How can I use them to make money?

The organizing principles below begin to address the answers to both questions. They are the structure upon which the details of successful trading will be built. It is critical that you understand these concepts before proceeding. They are:

1. 80% of success in anything is psychology and 20% is mechanics. If you can't manage your emotions, you'll

make poor decisions and likely give up before getting your outcome.

2. Everything in life moves in waves (patterns), including the market. Learn to want what the market wants.
3. Charts represent everything that has happened and is happening in the market.
4. The market does not move in a straight line. Trends tend to retrace back to their moving averages as they move up or down.
5. Bar charts tell more than is immediately apparent to most traders. Charts represent everything that has ever happened in the market.
6. There are many advance signals to suggest the beginnings and ends of trends. Most technical indicators are unreliable for predicting the future of any stock. Others are much more reliable.
7. Certain symbols give clearer advance signals than others. Each stock has its own unique personality which may help to predict future events.

While these principles may seem rather simplistic on the surface, they are fundamental and vital when making decisions about the market. By the end of this program you will understand how all seven principles work together to make this trading system work.

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## **Psychology (80 Percent of Success)**

This first principle is by far the most important (and neglected by most traders). The truth is that you can have an absolutely perfect trading strategy and still blow it...if you don't learn to manage your emotions. Fear and greed are the driving emotions in the marketplace. A truly successful trader knows that dwelling on either of them, equals ultimate financial failure. Understanding that fear and greed drive the emotions of others can give you an enormous tactical advantage. As a free bonus with this system, you have received a guide to managing your emotions. Be sure not to neglect it. The trading strategy itself is designed to keep your emotions out of it as much as possible, but the bonus program will give you the edge.

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## **Patterns...Waves...Patterns...Waves**

If you think about it, people who are successful in business are great at recognizing patterns. They have systems that are consistent with what tends to happen again and again. These people are also masters of their own patterns. They see something that happens routinely and then respond to it in a routine way. All of the patterns of individuals accumulate to become patterns of families, of cities, of nations...and of markets.

Earlier this year I moved from Michigan to beautiful Southern California. I've always loved warm climates and have been particularly drawn to the mystery and power of the ocean. I like to think of the stock market as a great ocean. In the middle of it you have periods of calm and periods of turmoil (volatility). While you know you will have both, you don't always know when each might occur. But along the shoreline, the fringe, waves tend to build quite often. In fact, the newspaper will tell you when you can expect the biggest waves to begin and end each day. Certain beaches are known for bigger waves than others. Because of this, these beaches tend to attract the most surfers. One key to trading this strategy successfully is to find those fringe areas...the places in the market where waves are most predictable. Once you find the waves, you can learn to surf on them.

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# A Picture is Worth a Thousand Dollars

There is only one way to identify the wave patterns of the stock market...charts. Price charts represent everything that has ever happened to any individual stock, commodity or index. They are visual records of every trading decision ever made. The charts represent all the fundamental data about the company. They represent all news stories. They show you the response of every trader and investor, whether they are an individual, a fund, or a corporation. A chart is a picture of the mass psychology...of all the greed and fear being acted upon. Most importantly, it shows you the waves that you can ride. One of the best things about trading charts is that you don't have to spend your time reading annual reports or studying P/E ratios. You don't have to read The Wall Street Journal or Investors Business Daily. Who cares about all that? The charts tell you all you need to know (if you know what to look for). Imagine making money again and again, rarely even knowing the name of the company you are trading. I can tell you from experience...It is a BLAST! Learn to love charts. As we proceed, you will quickly begin to see things in charts that few people ever notice. By recognizing these patterns, you will begin to make money.

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## Surfing The Wave

Another thing to understand about the ocean is that waves do not move in straight lines. They are "wavy." Surfers move in and out from the base of the wave that is moving toward the shore. The surf goes in at different angles and at different speeds, depending on many conditions. This is also true of the market. It never goes in a straight line. Even if the market is moving in a particular direction, it will always adjust itself as the mass psychology and conditions of the world affect it. One thing that you can always count on is that the market will never move in a straight line. There are always pullbacks. The pullbacks tend to retrace back to the moving averages before surging further in the direction of the overall trend. Notice all the pullbacks below. Many of them are marked by colored arrows.

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## **More About Charts**

Less than 10 percent of all traders ever look at a price chart before making a trading decision. Of those who do, almost none know what they are really looking at. Technical analysis has become such a huge business, that traders and investors are being overwhelmed by more and more market indicators. There are literally thousands of different ways to analyze the prices on a chart. The challenge is finding the indicators that are reliable...and in line with your personal trading style. Bar charts are by far the most useful type of charts. Looking within a single bar can tell you a great deal about what occurred during that particular time period. The strategy you are learning here will be focusing on daily bar charts...bars that represent the prices for one trading day.

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## Signals...Beginnings and Ends of Trends

When I began trading I thought the best way to learn was to do it full-time...so I decided to learn to day trade. I took a \$5000 cash advance from my last credit card and figured I could buy the biggest percentage losers for the day and get a quick 5-10 percent return on the bounce. On my first trade something terrible happened...I made money! Within just a few minutes I had a \$200 profit. I thought, "YES, I've got this figured out!" The first challenge was my greed. "How can I make even more money," I thought. Very soon, I became superstitious about my methods. I would have a winning play and notice, for instance, that on that play the stock seemed to go up a lot in the first 30 minutes of the day and then come back down. So on my next trade I bought immediately at the open and the stock went straight down. Being down so fast, I sold it to avoid greater losses...only to have it rebound upward at the same time the previous play had gone the other way.

One thing that I eventually learned from this is for most of us day trading is not the answer. I also learned it is totally unnecessary in order to successfully make a great deal of money. My primary purpose for trading was to have the freedom to do whatever I wanted, whenever I wanted. For the first 18 months of learning to succeed, I was spending 12 to 15 hours a day looking at charts. Eventually I began to realize I didn't have the freedom I desired.

The point of my story is to emphasize the importance of psychology and the fact that all patterns are not reliable. Some patterns can last for six months and others can last for six years. Other patterns are not patterns at all. They are illusions. They are things we "hope" are patterns. In designing a successful trading strategy, I realized that I needed to identify some indicators that would be reliable no matter when I was trading. I needed something I knew would always exist in the market...no matter what the economy or any other variable was doing. I also knew I had to develop a psychology that would keep me from becoming superstitious...a consistent way for me to manage my emotion.

The fact is, there are plenty of advance signals in the market that suggest that a trend may be about to begin or end. There are three primary signals on which we will focus here.

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# Nuts & Bolts

## (The 3 Pillars of Success)

There are three primary triggers that we will be looking for:

**Reversal Bars (RB's)**

**Spring Bars**

**Moving Averages**

Before explaining the significance of these triggers, let me describe the overall mechanics of the strategy itself. While we know that trends never move in straight lines, we can also notice that trends will generally pull back down on their way up (or back up on their way down). The reality is that they will usually pull back to the moving averages before going higher (or lower). **Unlike most traders and investors, our purpose is to beat the trend by trading against it.** We are only interested in the short-term pullbacks in the market. Below you can see one strong downward trend. But within the trend, you can see many pullbacks. These pullbacks may allow us to trade many times...getting in and out quickly with significant profits. Our basic trading time horizon is generally just a few trading days.

The three primary triggers (Reversal Bars, Springs and Moving Averages) are the tools we use to identify when a short-term pullback is about to occur...and how big it is likely to be. Let's begin with Reversal Bars.

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