

## Investing advice: technical trader secrets

Review the basics of technical trading, and significantly improve your chances of success by following the proven secrets of short-term traders.

### Sponsored Links

In those golden years before the dot com bust, everyone you knew got rich on paper by throwing darts at the stock quotes. The trend was up, up, up, the markets were flying, and all was right with the world—until it wasn't—and the entire house of cards came crashing down. After a major portion of their wealth evaporated, many former investors took matters into their own hands.

Sadly, this entire scenario could have been avoided if investors had understood a few basic principles of technical trading. After the dot com bubble, many investors traded in their stock brokers, financial planners, and their SureToMakeYouRich, Inc. stock. They became traders, self-directing their investments and their future. They turned to technical trading.

Technical trading has its roots in the late 1800's when Charles Dow formulated his Dow Theory. Simply put, the Dow Theory predicts future price movement based on traders' behavior, which can be plotted and analyzed by viewing historical patterns.

Technical analysis, the toolkit of the technical trader, is all that matters to the short-term investor. Technical traders pay no attention to company fundamentals. Everything there is to know is in the charts. Under the right conditions, even a bankrupt company can net spectacular gains!

#### Basic Ground Rules:

Before exploring the secrets of technical trading, it's important to understand that technical trading, even fast-paced day trading, bears no resemblance to gambling. It requires extreme discipline, and it's not for everyone. Las Vegas provides entertainment; trading provides a means to accumulate wealth.

Technical traders watch the same charts and use the same set of technical indicators. Interpretations may vary, but technical analysis breeds a herd mentality. Everyone knows a support and resistance line and most trade them similarly.

Even if you don't know a Head and Shoulders formation from a Stochastic or a Fibonacci line from a French curve, you can still trade stocks based on technical analysis. If you can draw a straight line, if you can look at a chart and see which way is up and which way is down, if you can exercise extreme discipline, then you can successfully navigate the stock market. It's not how much you know, but how well you apply what you do know that determines your success.

#### Secrets of successful technical traders:

-The trend is your friend. Check the trend for the entire market, your stock pick's sector, and your individual stock. If any of these trends is down, pass for now. Cash is a position in the market, and often it is the winning position. Live to trade another day.

-Buy at support; sell at resistance. Stock prices have a memory. Resistance is the last major price area where the stock failed to continue climbing and began to fall back. Support is the last major price area where the decline stopped and the buyers stepped in, raising the price. Sometimes, round numbers serve as natural resistance and support. Some short-term investors trade only a few stocks over and over again. They buy at support and sell at resistance. If the chart shows the stock traveling the same channel between support and resistance over and over again, this is a good stock to buy at the bottom of the channel and sell at the top. Rinse, lather, and repeat as often as desired until the stock breaks out of the channel.

-Don't try to pick the absolute top and the absolute bottom. Aim for the middle 60%.

-Volume is even more important than price movement. Heavy volume creates momentum and confirms that a stock will probably continue to move in the same direction.

-Never chase a stock. Let it come to you. You might have just missed the big one, but another one will come along. As a general rule, use Limit orders rather than Market orders, unless you're trading a high-volume stock. You can buy instantly or you can buy at your preferred price, but rarely can you buy instantly at your price. Along the same lines, avoid an overbought stock.

-Bottoms take longer to form than tops. Patience is a virtue.

-Never buy a hot stock tip. If it's so hot, why is someone sharing the information? Someone big is probably trying to sell into strength. This is the oldest trick in the book when major investors are trying to unload. Stock tips come from everywhere: through word-of-mouth, from brokers, in spam emails, via unsolicited faxes, and through the major media. Buy a hyped stock at your own peril.

-Select a few indicators that work for you. At a minimum, keep an eye on the Moving Averages, RSI and MACD. Watch the 20, 50, and 200 Day Moving Averages to get a quick historical perspective on the stock's price movement, and watch for the price to cross above or below one of the Moving Averages. Watch the Relative Strength Indicator (RSI) to determine oversold and overbought conditions. Watch the Moving Average Convergence Divergence (MACD) to confirm a change in trend. It is not necessary to watch 20 indicators. Watching too many indicators gives conflicting signals. Find the indicators that work best for you, and be sure to include at least one leading indicator as an early warning system and one lagging indicator, to confirm what you think you see.

-Cut your losses, and let your winners ride. The number one mistake that traders make is selling a winning stock too quickly while hanging on to a loser far too long. Think about that for a minute. People actually run from pleasure and cling to pain. What kind of sense

does that make? Determine your pain tolerance ahead of time. Daytraders and other short-term traders never let a stock drop more than 5-10% before selling, while intermediate-term traders might allow a stock to fall as much as 25% before selling. Whatever your limit, know it, honor it, and resist the urge to let it ride just one more day or one more dime. If you follow this strategy, you'll have more losing trades than winning trades—just like the professional traders. The object is to cut your losses as quickly and painlessly as possible. If you just cannot stand success, and your winners are still in a nice uptrend, sell your holding incrementally, one-quarter of your position at a time.

-Planning your exit strategy is even more important than planning when to buy a stock.

-Set stop limits if you cannot watch your stocks.

-The first hour of the trading day is called amateur hour. Overnight Market orders have stacked up, and stocks are most volatile during that first hour. Avoid trading during amateur hour. The last hour of the day, often referred to as the power hour, is when the pros trade. Daily dips often occur right after amateur hour, but seasoned traders wait for the stock to begin moving up again before buying.

-Allocate no more than 10% of your holdings to any one investment.

-Forget trying to score homeruns. Little wins add up to homeruns over time. Never try to make up a loss on the next trade.

-Pigs get fat, and hogs get slaughtered! This is the trader's credo. Don't get greedy. When you've made a killing off a position, sell a portion and lock in your profits. It's always best to play against Mr. Market with house money.

The wheel was invented over a century ago. It's been refined along the way by the smartest traders of all times. Learn from them, borrow their techniques, and claim them as your own. There is great satisfaction in creating your own wealth.

Written by *MJ Plaster* - © 2002 Pagewise

### Tell us what topic you want to read about.

Request a new article

Submit

You are here: [Essortment Home](#) >> [Money & Finances](#) >> [Finance: Investing](#) >> [Investing advice: technical trader secrets](#)

<< [What is value investing?](#)

[College investment: the basics of education iras](#) >>

**DISCLAIMER: PLEASE READ** - By printing, downloading, or using you agree to our full terms. Review the full terms at the following URL: <http://www.pagewise.com/disclaimer.htm>. Below is a summary of some of the terms. If you do not agree to the full terms, do not use the information. We are only publishers of this material, not authors. Information may have errors or be outdated. Some information is from historical sources or represents opinions of the author. It is for research purposes only. The information is "AS IS", "WITH ALL FAULTS". User assumes all risk of use, damage, or injury. You agree that we have no liability for any damages. We are not liable for any consequential, incidental, indirect, or special damages. You indemnify us for claims caused by you.

FAQs: This site is published by [PageWise](#), Inc. Would you like to [link](#) to this page? Reprint this article on your [website](#)? Reprint this article on [paper](#)? Want to [reference](#) this article in a paper, report, or presentation? Is there an [error](#) in this page? Do you have a follow-up [question](#) about this topic? Want to read our [Privacy Policy](#)? Read our legal/medical [disclaimer](#)?

