TRAITS OF A SUCCESSFUL TRADER

EMOTIONS

Trading by itself does not mean profits although in the business sense it should convey a means for making money consistently. So may be the right way is to call it either a profitable trade or a losing trade.

FLIGHT OR FREEZE

Naturally one would like to be on the winning side always. The human emotions play a big role in deciding which way the dice will roll. In order to master our emotions it is not required to do masters in physcology. However it would be necessary to understand that in every human being lurks an animal behaviour bordering on flight or freeze when confronted with danger filtered through many generations of evolutionary survival instincts.

It is an established fact that the human brain has two sides , one the logical brain and the other the emotional brain. However we also have at the base of the skull that part of the brain which literally runs on auto and is responsible for all our bodily functions and which actually can make *turn off the* Logical brain and brings about base survival instincts which may not be always correct.

It is this illogical brain which a successful trader has to conquer. The paradox is that the very instrument of leverage in the markets which gives us an opportunity to trade with larger sum of money than we have actually becomes the reason for us to lose reasoning. This happens when the losses are magnified due to leverage , which our minds cannot comprehend and the flight and freeze mode takes over our brains.

Imagine you have taken a trade and utilized majority of your funds as margin. The usable amount then is finished with only small fluctuations.

Imagine a trader opens an account with 1000 dollars and places a trade on EUROUSD on a 1000 lot.
Now on every pip, the trader sees a fluctuation of ten cents a pip which ensures moderate losses if any. These losses the trader will be able to take in his stride as relatively the losses will not be high

CLEAR STRUCTURED PLAN FOR TRADING.
Have a clear structured plan for trading. If you are using moving averages or momentum indicators or wave analysis, do not change you view midway or just because the plan is not working at the moment. Have the four musts written down before you start the trade.

1. Entry point
2. Stop loss
3. Profit booking.
4. Rentry point

HOW MUCH TO INVEST.
After going through a huge data of investors gleaned with the help of broking firms , it has been well established that majority of successful traders are the well heeled ones who let their profits run rather than ones who move fast to cut their profits and then let their losses run in the hope of markets reviving.

The easiest way to understand a winners thinking is to understand a losers. You know you are on the losing side if you are praying for the markets to turn before sleeping.

Invest an amount , which if you lose , should not keep you awake. It has been proved statistically that one can live with losing twenty percent of your savings . However more than this panic will creep in.

The usable margin should be always large and constitute at least 90 percent of your total investment. This way your trades are not closed prematurely due to sudden moves.

ULTIMATE ANALYSIS
Ultimately it is all about consistency and perseverance. These two winning factors can only come about if one in a methodical way , treads on a well etched plan and does not deviate from his trading principals.

The concepts and basic tenets of Objective mass wave theory.

This theory was arrived at by studying huge amount of data and trying to make a system which is simple and easy to follow. There is no perfect system in defining where will the present wave end , as Fibonacci levels fail at times.

The very fact that the orthodox Elliot wave theory being highly subjective , could not fill in the need for an objective assessment of the markets. The theory by itself is a milestone but not complete in fulfilling the objective requirements.

We truly believe that any system which takes many years to master cannot be practical. The veracity of any system should unfold within minutes. Or if I can explain a system to someone in minutes and the person finds it practical then that system is correct even if it is deviating from the orthodox view.

We have tried to remove as many ifs and buts from the system and tried to make its definitions in simple every day language.

Our first lesson is free.
For more lessons contact masswaveindia.com or call directly 9711116546

LESSON 1.

Physiology of impulsive and corrective wave.

Imagine we have two roads. One road is full of potholes , speed breakers and the other is well paved and smooth. These two roads can be likened to the basic two types of waves in Objective mass wave theory.

These two basic types of waves can be termed corrective and impulsive. Corrective ones are those which are basically as the term implies, correcting. This can be likened to a road with lot of potholes. Or the moves are not convincing but seem to be halting at times.

On the other hand the impulsive waves are almost like moves without much friction, faster and sometimes literally glide in the direction of the trend.

We have basically 3 waves A B and C
A and C are similar.

Basic rules

1. C waves are never 3 waves
2. A waves can be 5 waves or 3 waves. C waves are only 5 waves.
3. C wave can only come after B wave and never after A wave.
4. B waves are always 3 waves.

Once these rules are well defined it becomes very easy to do the wave count by Objective mass wave theory.

LESSON 2

Practical application on real time charts of ABC waves

We are giving the example of these two different types of moves from real market graphs of the nifty.

First the

Wave A

This can be of two types

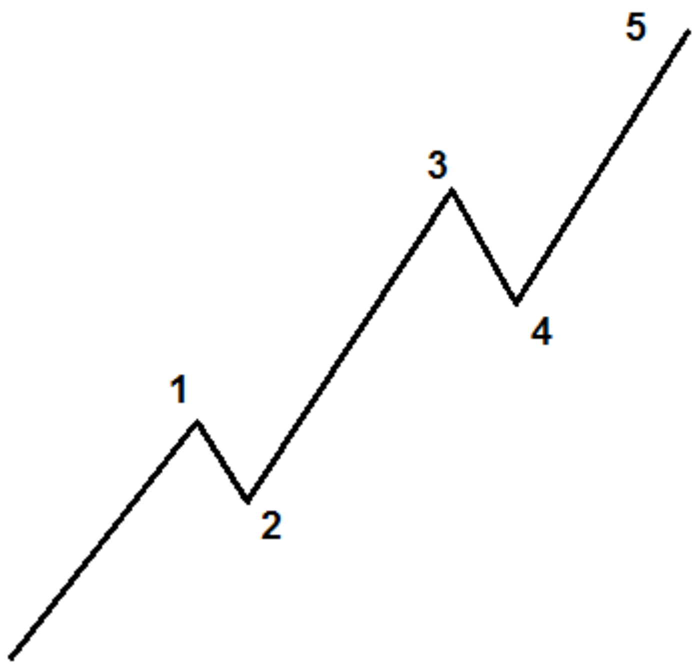
a. Regular 5 wave pattern.
b. 3 wave pattern but should be followed by another 3 wave pattern.

Wave B

Always 3 wave pattern

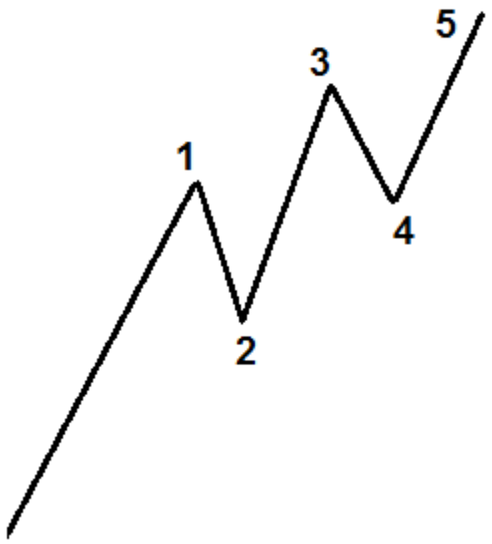
Wave C

Always 5 wave pattern

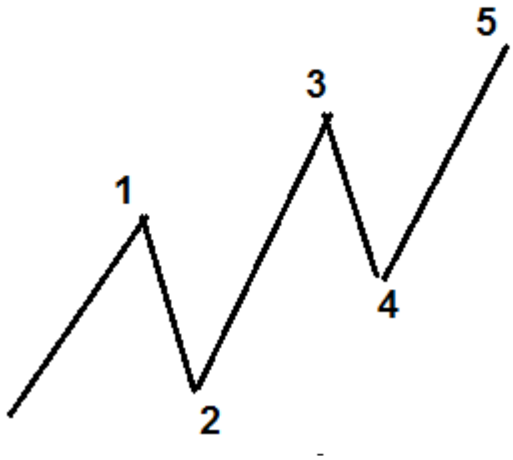


This is a typical 5 wave pattern. As wave A the waves can interlap and can have all possible ratios with each other.

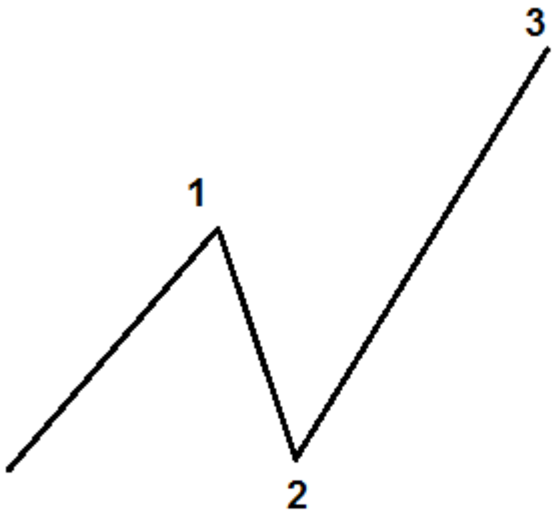
Some other forms of wave A



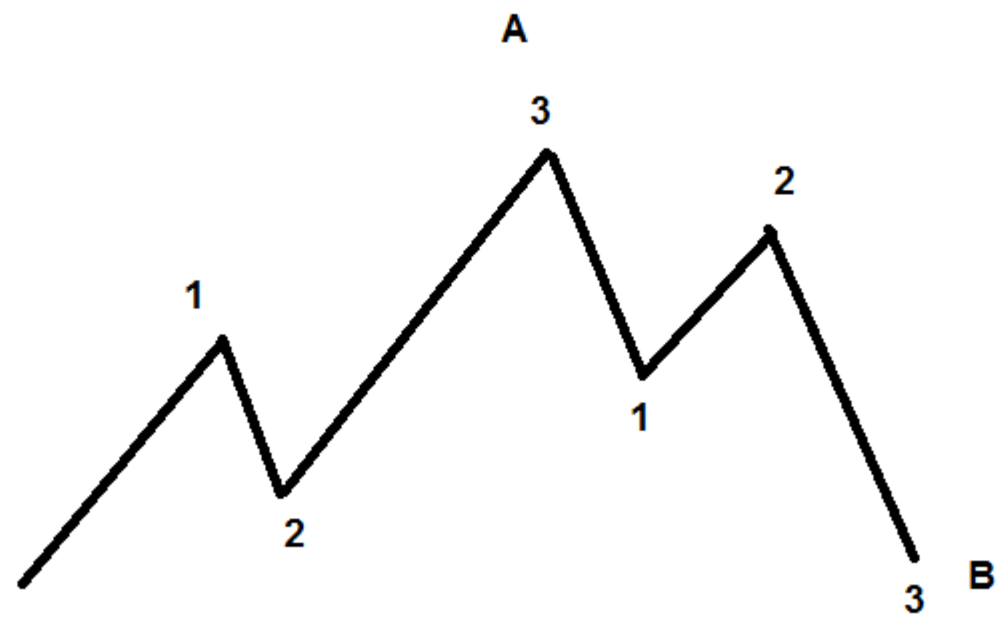
Above is an example of wave A. where the waves are overlapping each other . Here wave 1 is long and the 5 waves come at the end.



Another example of wave A where the 5 waves start overlapping at the start.

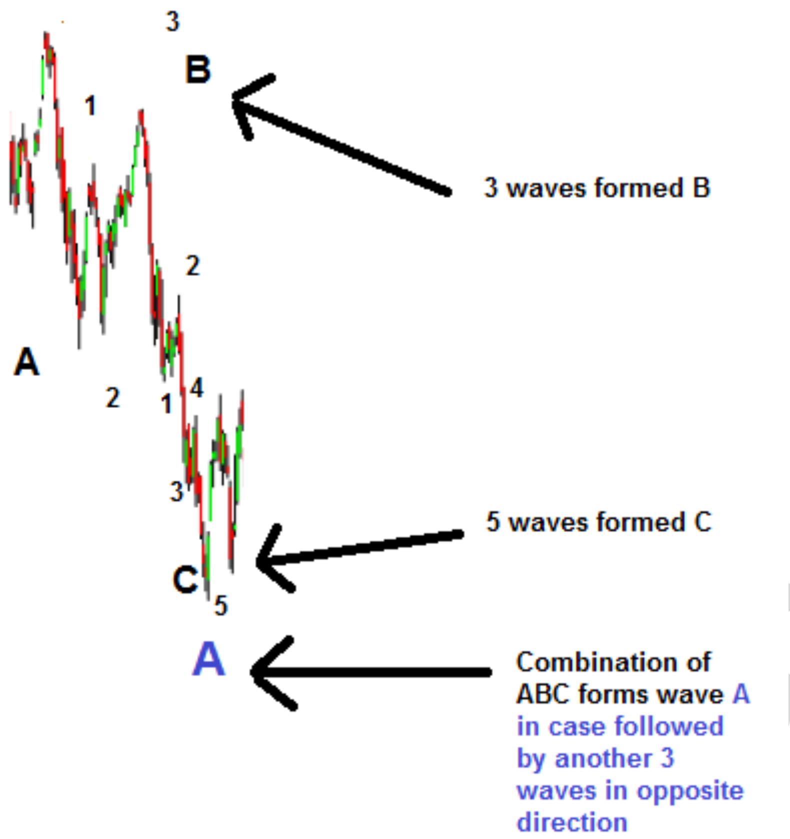


Above is a 3 wave combination. This is taken as wave A when it is followed by another 3 wave in the opposite direction. In this case the 3 wave combination in the opposite direction is taken as wave B



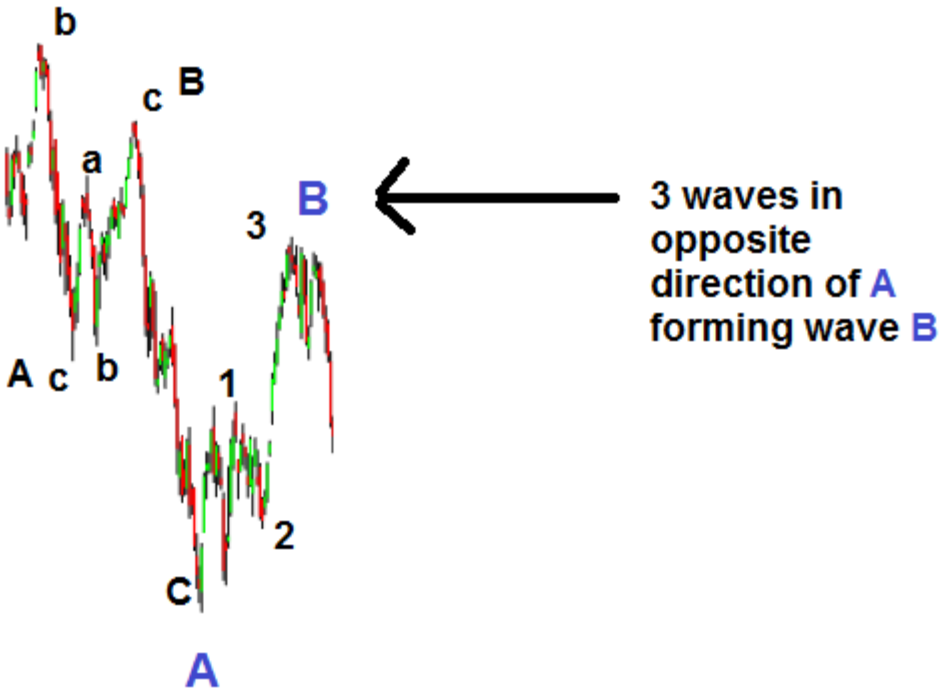
In the above figure both A and B are 3 waves. In case B is nearly same length as A , expect a side ways movement.

In case the B wave is followed by 5 waves , then only the last group is taken as C wave.



Real time example of ABC wave.

In the above example of nifty, there are 5 waves after the B wave. The whole combination of the ABC forms part of another A wave shown in blue.



After the wave A (in blue) as there are 3 waves in opposite direction, it forms wave B.

Now two ABC waves in the same direction form either

1. an impulsive wave, in case there is no overlapping between the two sets or
2. Just continuation of the ABC corrective waves.


DUE TO BELOW OVERLAPPING THE WHOLE STRUCTURE IS CORRECTIVE
B in the 2nd set of abc is interlapping with wave A of the 1st set. So the whole pattern is corrective.
third set again overlapping the 2nd set A
A
B
C
A
B
A
B
C

LESSON 3

Methodology of Analysis

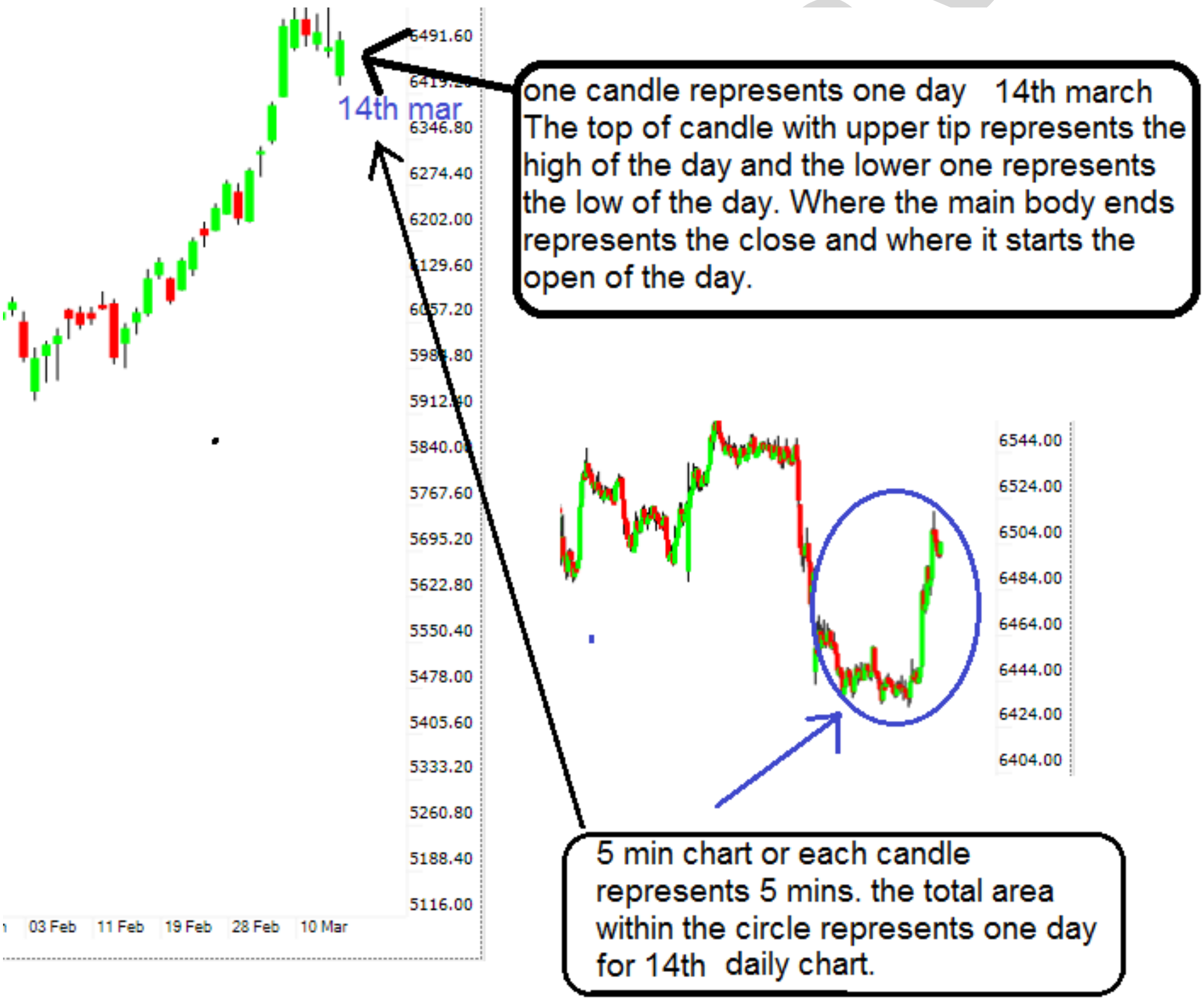
To analyse we must look at charts with different time periods. For example look at the chart with daily time period first. Label it as per our objective masswave theory.

Different period charts

Before we go deeper into our wave theory, it is necessary to understand different time period charts.

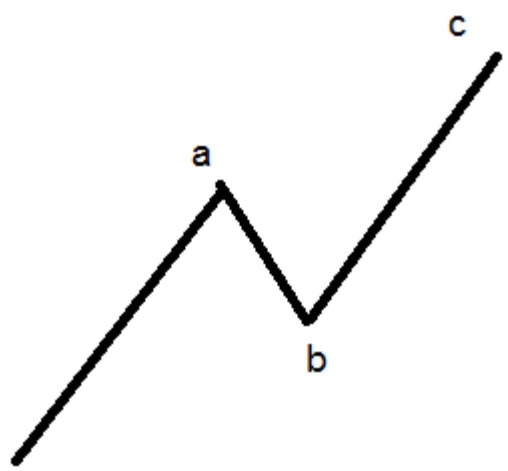
Daily charts

In this each candlestick is of one day duration as shown below



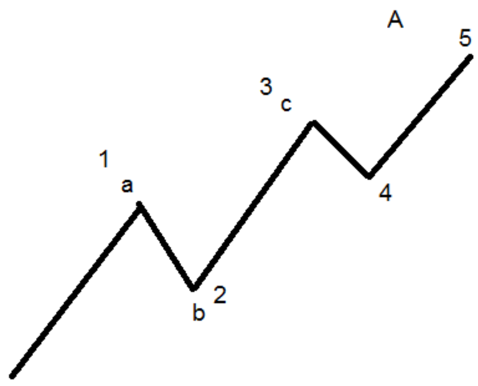
Now once we know the concept of different period of charts we can now pay attention on the analysis itself.

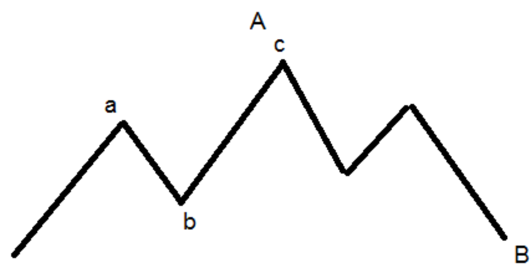
Let us start of with easy to understand line charts.



Above is a 3 wave chart. We have labelled it abc accordingly.

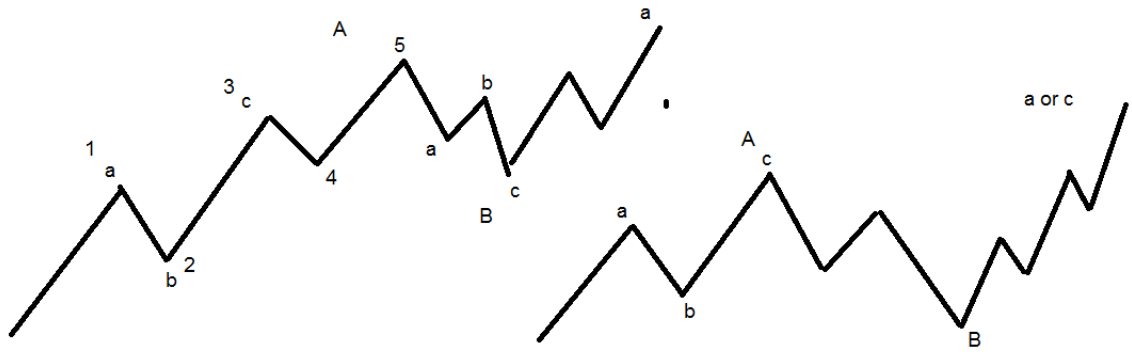
Now we have two variations from above





In the figure on the left above we have continuation of the waves which we number till 5 and mark it as wave A

On the right we have the price falling from wave c . If we have 3 waves we mark it as wave B



Now on the figure on the left we have 3 waves coming down or ab and c.
We mark this as wave B.

Now both the figures on the left and right have waves B marked as correction.

From waves B we can now either have wave 3 or wave 5 up.

In case we have a 3 wave move up , we mark the figure on the left as wave a

On the right we have 5 waves or it is wave a or wave c.

<u>Lesson 4</u>
<u>Physiology of bull and bear market</u>.

In our context we can define the bull market as going up and the bear market as going down substantially which can mean either timewise or quantity wise or both.

It does not really matter if the waves going up are corrective . If the markets move up substantially in a corrective fashion, we will still call it a bull market , although we will expect a downward move building up. It is like a spring being wound and once released will *spring* out .

Let us take an analogy of a hill which has two modes of climbing up available. One is by foot and the other is by a motorised vehicle.
Now in a bull market there will be upward movement and in between a correction which will consist of up down moves within a certain ambit. So it will be going up by vehicle first for a particular distance, getting down on foot and moving down , up and down again in a zigzag manner and then climbing on the vehicle and moving up again.

If you noticed , in the corrective move we said going down , then up and down again. This up movement is also part of the corrective move and at times can be substantial. However , one should always be aware that it is part of the corrective move and one should stay alert to that fact.

So in a nutshell , in a corrective move, the markets can move up but the move will be laboured compared to an pure impulsive bullish move.

Lesson 4
Recognition of different waves.

In this we term all moves , whether up or down as ABC waves. However if the trend is up, one should trade along the general flow of the markets.

Before starting one should look at the daily chart.
If one is able to recognize the ‘a’ wave , it is easy to recognize the b wave. As soon as the b wave is recognized (3 waves), one should switch over to the 30 and the 5 mins chart. In the 5 mins chart as soon as you have the 1st abc wave

up, wait for correction and enter with stop loss as the base of wave a in the daily chart.

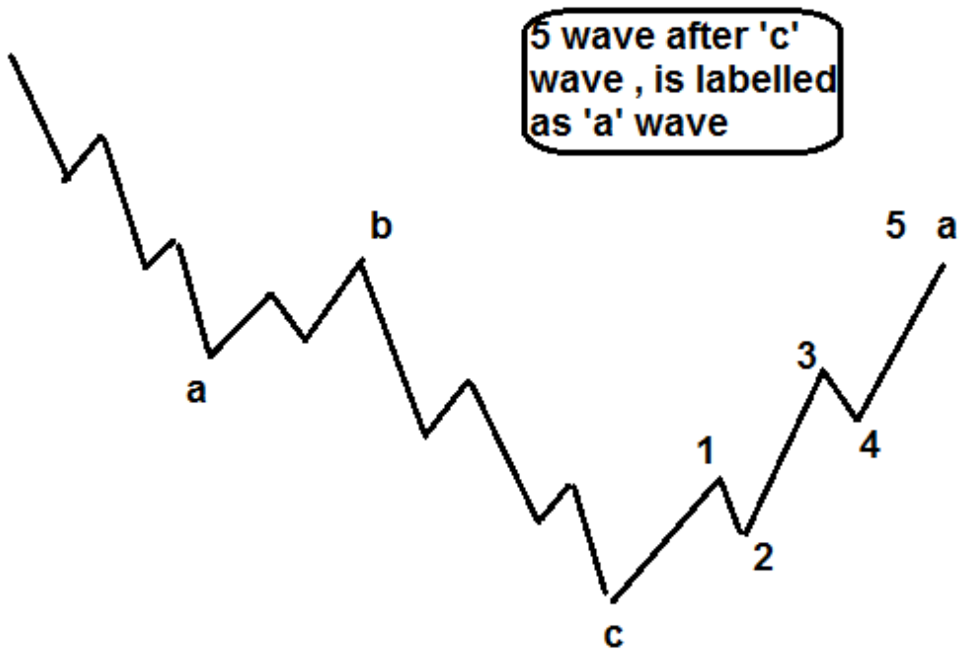
How to recognize the ‘a’ wave.

The most important thing in this is to distinguish between the ‘a’ and the ‘c’ wave.

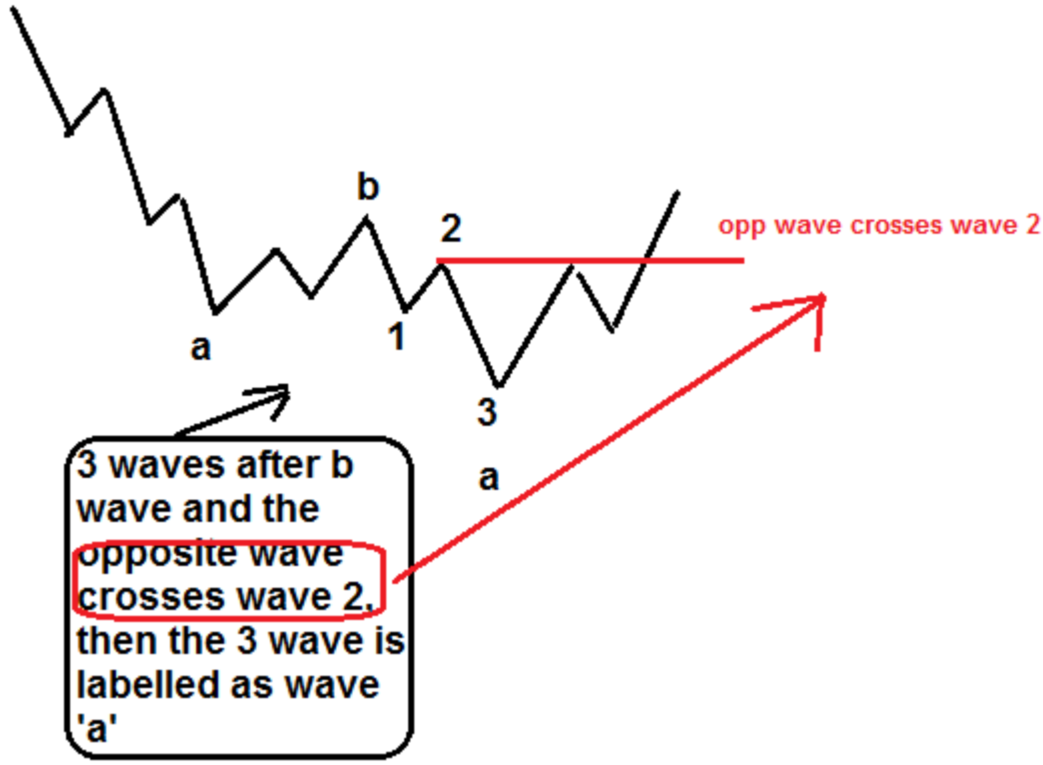
To begin with ‘a’ wave will always come either after c wave (5 wave) or ‘b’ wave. Following two things to be kept in mind-

1. In case after c wave there is a 5 wave , then label this segment as ‘a’ wave.
2. In case after ‘b’wave there is a 3 wave segment , then label the segment as ‘a’ wave.

Please look at the example below-

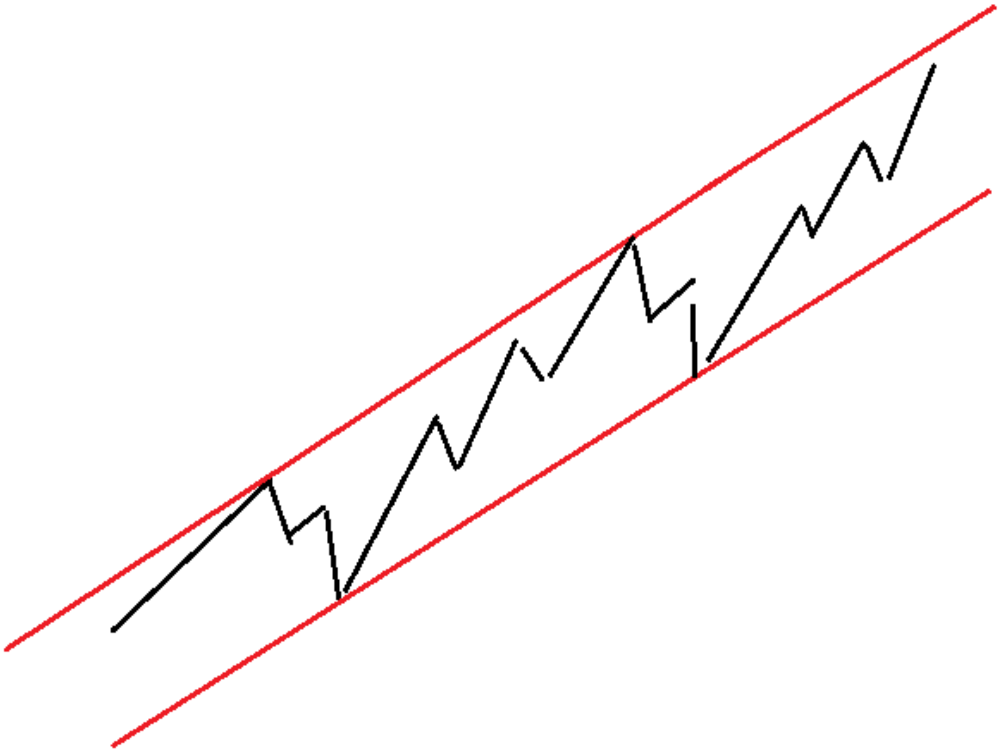


However after ‘b’ wave if there is a 3 wave then it is labelled as ‘a’ wave again.



Continuation patterns.

1. **Using channels**



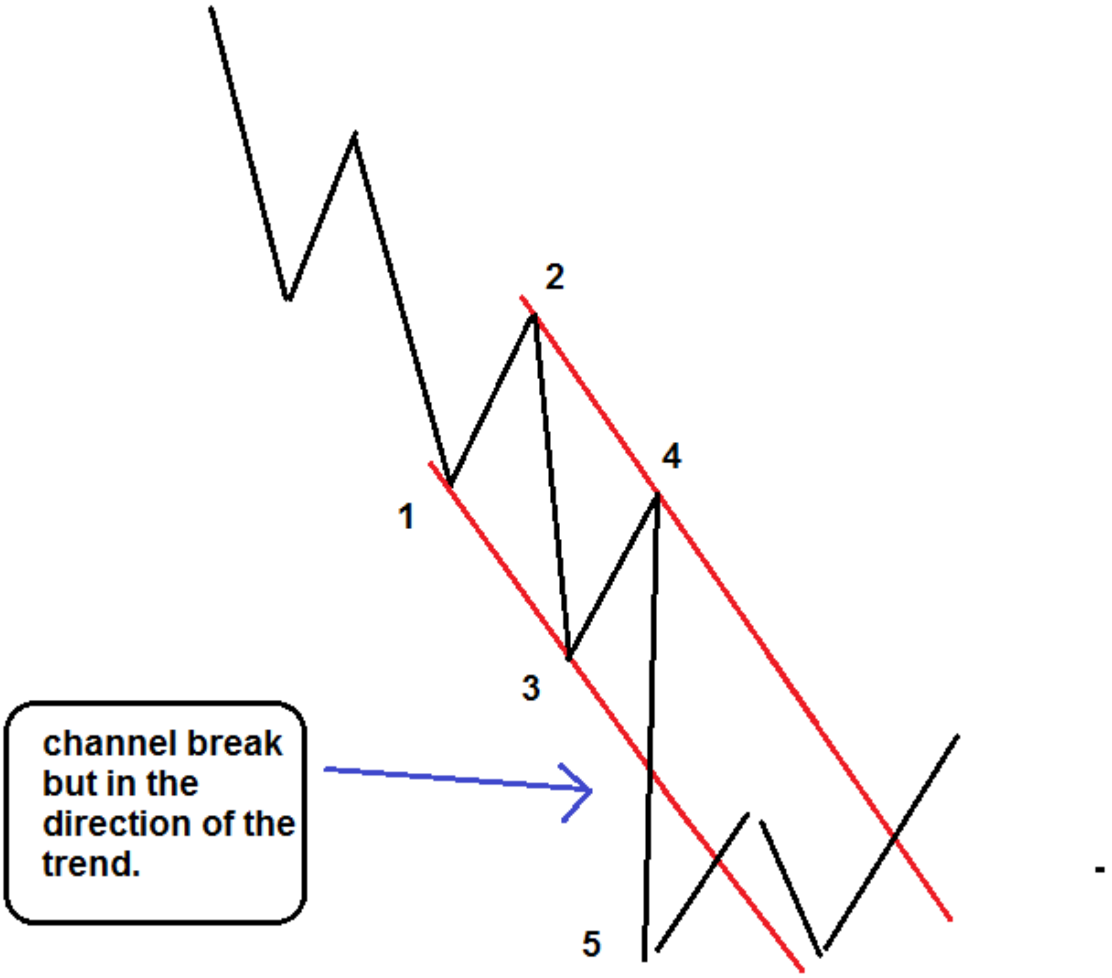
Above is a simple channelized up swing. As long as the markets remain in the channel (drawn red), we can safely say that the bullish pattern is continueing.

Channel break in the direction of the trend

Above is shown a channelized swing downwards. As soon as the markets move out of the channel, continuity is considered to be finished and the markets should be expected to move out of the channel.

However a channel can be used only for deciphering trend completion , as by the time a channel is made, we are already at wave 3 as shown above.

Channel break in the direction of the trend



In this the markets break the channel but in the same direction as the trend. If this happens, one can be very sure that the markets will change direction in the opposite direction soon enough.

Below is the actual graph of nifty showing similar pattern.

Clarity of patterns

Patterns will always differ as far as their clarity is concerned. Some patterns are more clear than others and can be quickly interpreted. Some are more difficult and one has to wait for some sort of conformance.

Below we are giving a pattern which is easy to decipher as after a straight run up we have a sideways movement biased downwards.

The bias downwards can be safely taken as a corrective move down within a larger move up.

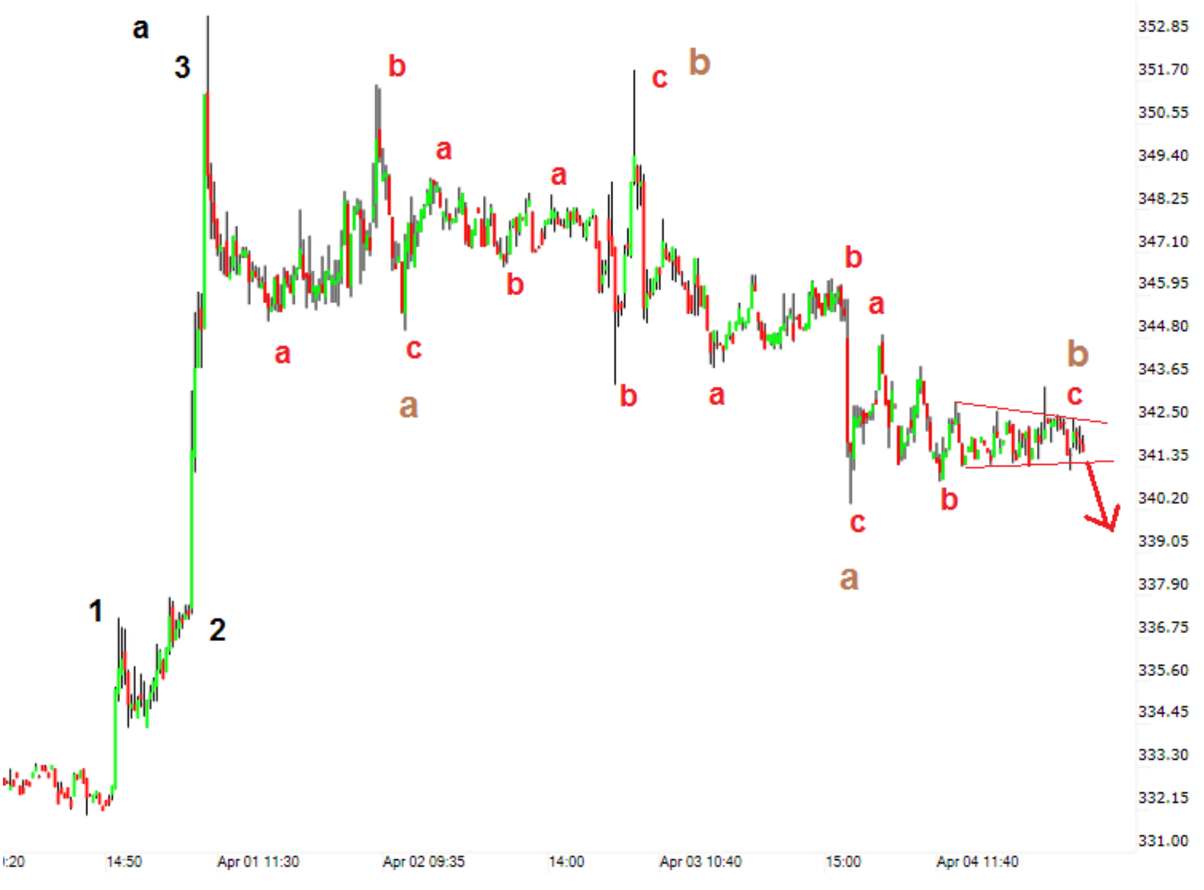
Now we can start labelling the graph stepwise.

As the upmove is a clear 3 wave move up we label it as a wave.

The remaining has to be corrective wave b as it is segmented and overlapping.

How to label corrective waves

Start with the lowest point and the 1st lowest point label it as wave ‘a’. From there start labelling all the high and lows as shown below.

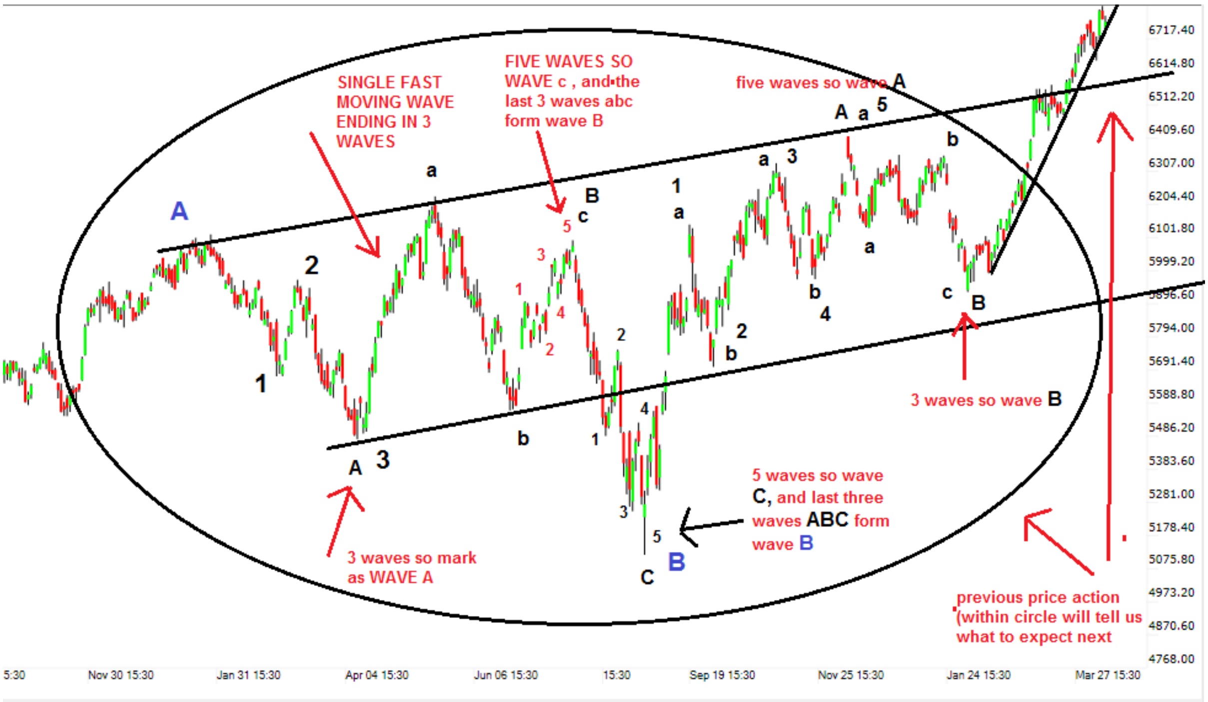


Trading the waves

The 1st step is see the larger scenario of previous one two months on the daily charts. Label the waves as per our ABC wave rules.

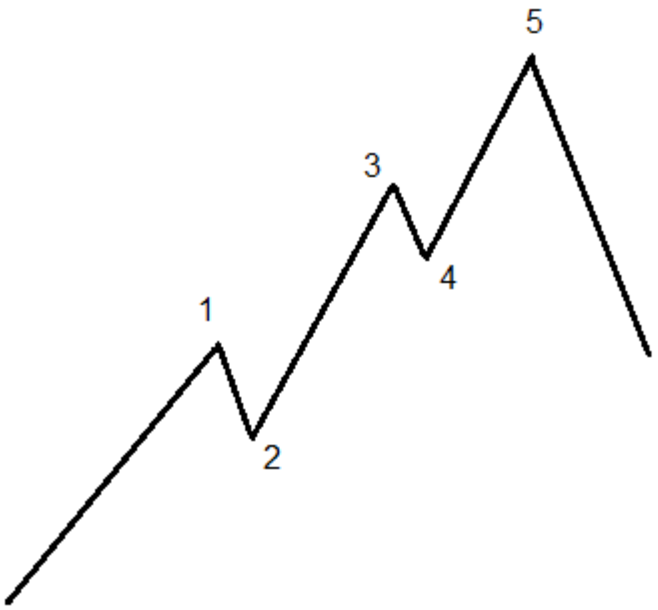
Once finished see where we are at present, wave a , wave b or wave c.

See the chart below of NIFTY . This is a daily chart marked with ABC pattern and the current scenario is a wave a which may be ending in a five wave triangle or correcting in a expanded triangle.

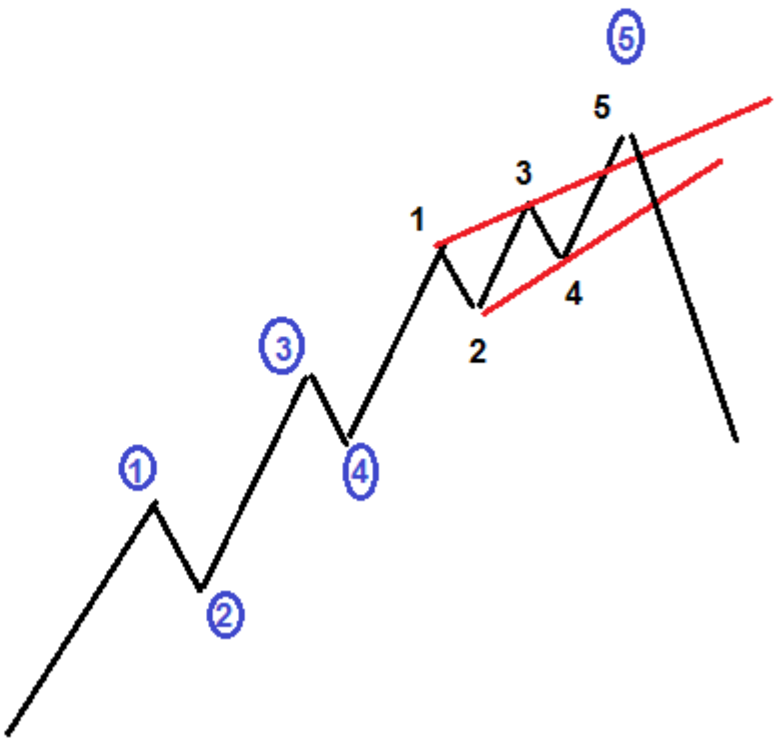


Once we have seen the present wave as wave ‘a’ we have only two alternatives.
Either the wave a will end in 5 waves (5th wave can always extend) or we will have an expanded triangle.

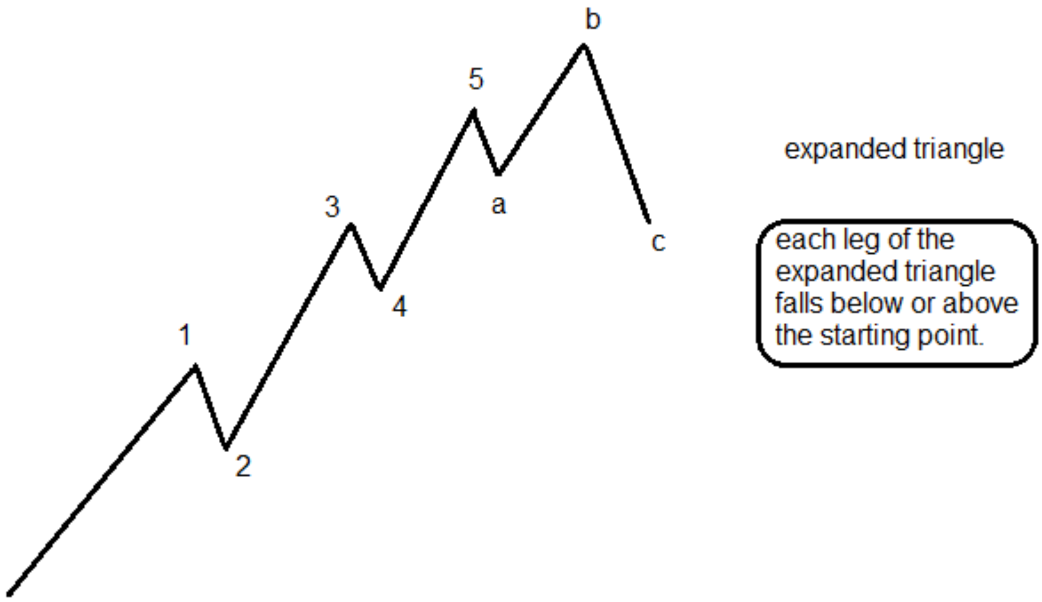
Below we are giving a simple diagrammatical sketch of what to expect in a 5 wave and an expanded triangle.



Above is a simple 5 wave move

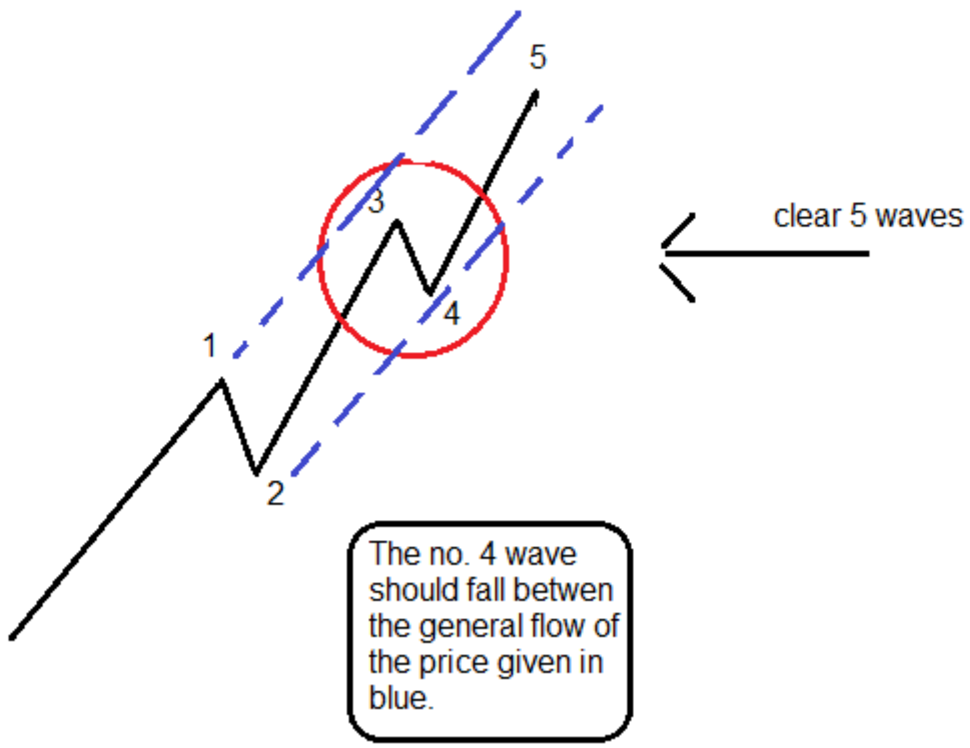


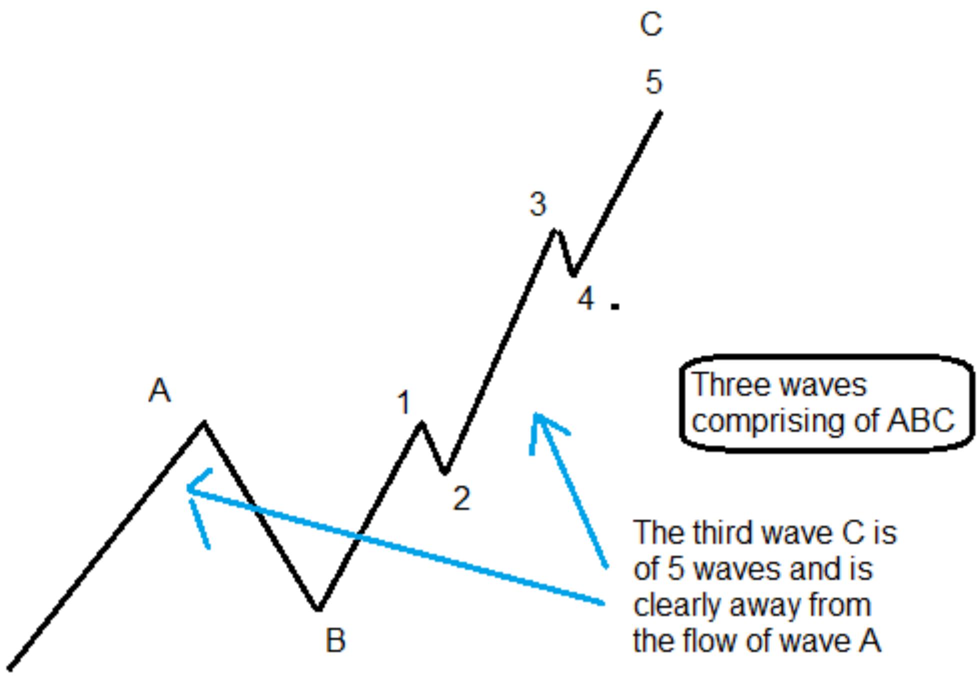
Above is a 5 wave move ending in a 5 wave triangle.



Above is an example of an expanded triangle.

Difference between clear 5 waves and abc wave


5
3
4
1
2
clear 5 waves
The no. 4 wave should fall betwen the general flow of the price given in blue.


C
5
3
4
A
1
2
B
Three waves comprising of ABC
The third wave C is of 5 waves and is clearly away from the flow of wave A

Practical application of our ABC method on analysis

Let us take some real charts of few stocks and apply our methodology on them.

SESA STERLITE

This stock has fallen to its low and rising now. We must of course 1st start with the weekly chart first , then the daily and finally the 30 mins or the 5 mins chart.

The weekly chart first

In the weekly chart of Sesa Sterlite you will notice that the last wave marked is wave b in red.

This shows a clear movement up. This movement up should be now seen as a bullish move until proves otherwise.

CONTINUATION OF TREND

<u>Trend on a 5 minute chart is just a blip on a weekly chart.</u>

It has to be understood , on a smaller scale chart , for example a 5 minute or a 30 minute chart, a trend up or down will appear to be a sideways movement on a weekly chart.

On a weekly chart let us say the market moves up by let us say 150 points. This will translate to a trend on a 5 minute chart spread over 7 days. However on the weekly chart it will show as just one candle.

Whether the markets will continue on a trend is one of the biggest questions one needs to answer. Numerous methods have been propagated by technical analysists , but there is not one which can give hundred percent results.

However combination of two methods can take out all the creases from the system.

ADX INDICATOR

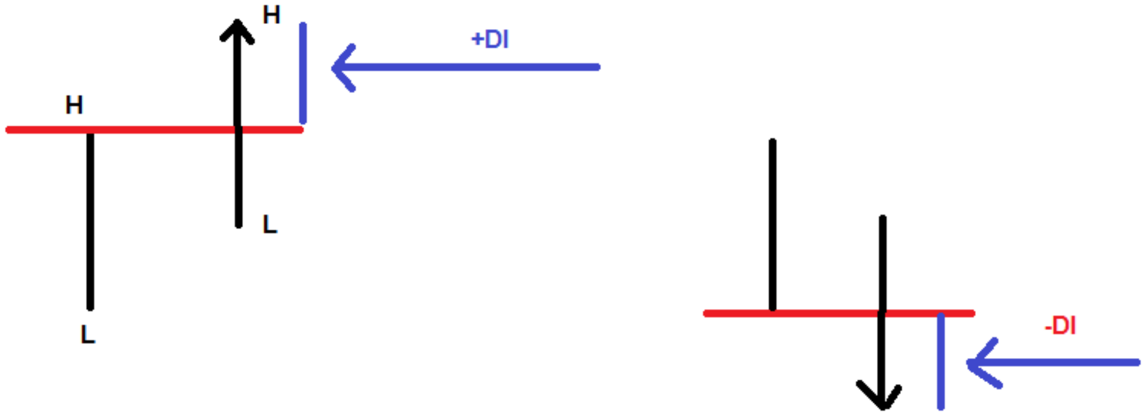
Average Directional Movement Index or ADX is a direct derivative of +DI and –DI. It was developed by Welles Wilder

A word about indicators
Indicators are as the name suggests , are there to indicate. Or they send a message which has to be interpreted correctly. However since it is a matter of interpretation, one can always find indicators coming correct in retrospect. Since analysis is a matter of interpretation, needless to say that combing two three different methods , will rule out possibilities of wrong interpretation.

Combining ADX with Elliot wave count
One of the most potent methods for analysis and trading in the markets is combining ADX with Elliot wave analysis.

ADX is the measure of the trend strength and is nondirectional.

To understand this first we need to get a good idea of what +DI and –DI are.
To explain the fundamental definitions we are taking as an example the price action for two days in both cases or +DI and –DI, In the price action we have marked as H the high of the day and L as low of the day.
Now the present high (H) goes above the previous high (H), we have a +DI.
Similarly it is shown for –DI with price action shown on the right.



In other words if the markets are trending up, +DI will rise and if the markets are trending down –DI will rise and +DI will fall.
In very simple words , it is similar to higher highs in case of +DI and lower lows in case of –DI.

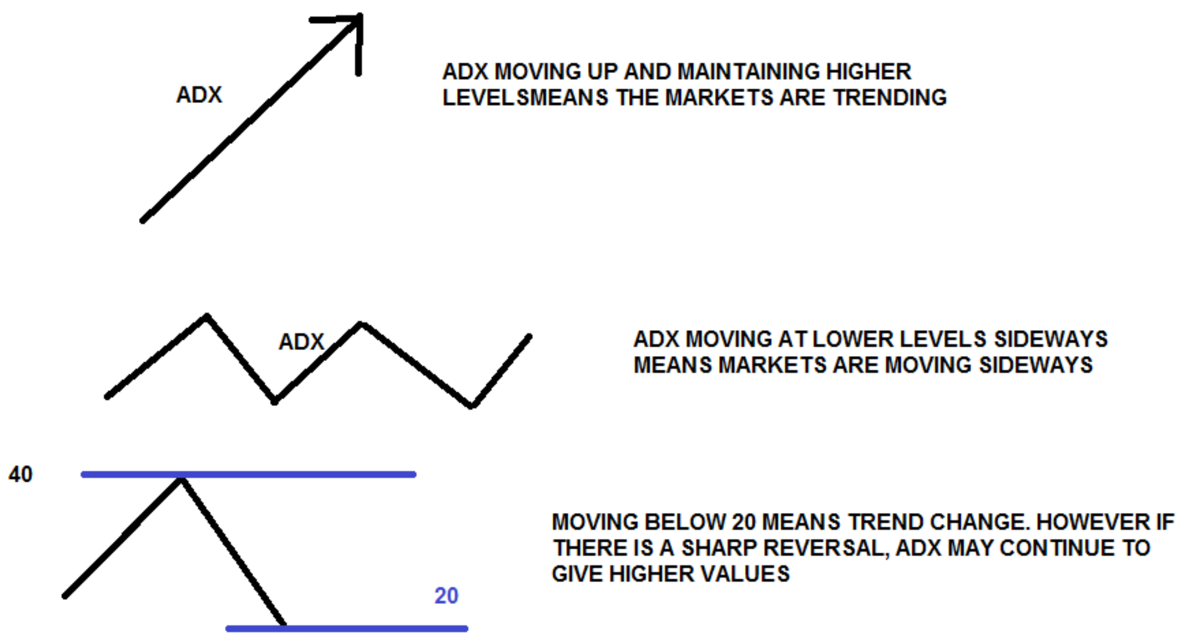
So if the markets continue to trend up, +DI will be above –DI .
Vica Versa is also true. If the markets continue to trend down –DI will be above +DI.

ADX is the difference between the +DI and –DI and therefore only shows WHEN the markets are trending.
It is non directional, or ADX will not show the direction of the markets but only show if the trend is strong or not.
ADX therefore only will signify the trend strength and not the direction.

INTERPRETING ADX +DI and –DI

First the basic rules

1. If ADX moves above 25 (coinciding with +DI moving over –DI), an upmove is expected .
2. If ADX moves above 25 (coinciding with +DI moving over –DI) a downmove is expected.
3. If ADX moves to 40 or above and then comes down below 20 coinciding with +DI moving below – DI, or vica versa, STRONG POSSIBILITY OF TREND CHANGE.



Below is a live example showing buying and sqaring up with ADX

However before you check out the live example a word about counting waves at the end for confirmation.

Using wave counts for confirmation of trend ending.
We can use Elliot wave analysis in its simplest form. That is every trend mostly ends with three waves counted at the peaks.

So during any instance you see ADX coming below the level of 20 from 40 and DI crossing, and you see three waves or peaks at the end as shown, you can be sure that we are at the end of the present trend.

A word about the sideways markets

If you have to trade

In the sideways market , use graphs of lesser time scale with same results. For example above is a daily chart. From nov 2013 to feb end 2014 , the above graph is showing a sideways movement. As ADX has values less than 20 on this timescale, use graphs of lesser time scale , for example 30 mins , 5 mins etc to get same results.

OPTIONS

<u>Options are contracts</u>

Options are of two kinds call options and put options. Options are contracts . So when you buy an option for let us say Reliance industries , you are actually buying a contract but not the actually reliance share. Like any contract , options have a period after which they expire. This period can be one month to three months.

<u>Contracts to do what?</u>

Options are contracts to basically buy or sell a particular stock at a later date at the current price or a predetermined price.(called the strike price)
So if a particular stock is trading at let us say Rs 1000 presently , one can use options(call or put) to buy or sell the share at a later date.

<u>Option contracts are not free</u>

So if the options give me the option to buy or sell the share at a later date, naturally one will have to pay a premium.

<u>Example</u>

<u>Buying call option</u>

Let us take an example.
Let us say a share is trading at Rs. 1000.
I buy a call option at strike price of 1000 . For this I pay a premium of Rs. 10.
The option contract is valid for one month.

This means that I can use my call option contract to buy the share within a month at the price of Rs1000.

<u>If stock goes up</u>

So if the stock goes up by let us say Rs. 30, or to 1030
We can buy the stock at Rs. 1000 using our call option, and sell at Rs. 1030.

Our profit will be Rs. 30 minus the premium of Rs. 10 or Rs. 20

<u>If stock goes down</u>

Now consider the same stock going down.
In this case , as the stock is less than the strike price of Rs. 1000, the buyer of the call option will lose his premium of Rs. 10. However the loss is limited to Rs. 10.

So let us put all above in a tabular form for more clarity

BUYING CALL OPTION

For stock going up

Present price of stock	Buy call option for premium of Rs. 10 at strike price of Rs 1000	After one month price of stock A	After one month difference in price of stock	Net profit Ttl rise minus the premium paid
1000	10	1030	30	30-10=20

For stock going down

Present price of stock	Buy call option for premium of Rs. 10 at strike price of Rs 1000	After one month price of stock A	After one month difference in price of stock	Net loss The premium paid
1000	10	970	Minus 30	10

PUT OPTION IS JUST THE OPPOSITE OF CALL OPTION.

Put option is just the **opposite** of call option. In this one should be able to **SELL** Stock at current price at a later date. For this one pays the premium just like buying a call option.

BUYING PUT OPTION

For stock going down (net profit)

Present price of stock	Buy put option for premium of Rs. 10 at strike price of Rs 1000	After one month price of stock A	After one month difference in price of stock	Net profit Ttl fall difference the premium paid
1000	10	970	-30	30-10=20

For stock going up (net loss)

Present price of stock	sell put option for premium of Rs. 10 at strike price of Rs 1000	After one month price of stock A	After one month difference in price of stock	Net loss The premium paid
1000	10	1030	30	10

Recapitulation

When you buy a call or put option, your loss if any is limited to only the premium paid

1. **When you buy a call option , you gain when the underlying stock goes up. (if it goes down your loss is limited to only the premium paid)**
2. **When you buy a put option, you gain when the underlying stock goes down. (if it goes up your loss is limited to only the premium paid)**