

MICHAEL PARNESS

THE ART OF
**TREND
TRADING**



**ANIMAL SPIRITS AND YOUR
PATH TO PROFITS**

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The Art of Trend Trading

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Foreword

Michael Di Gioia
CEO Affinity Trading
Partner—World Series of Trading
(www.worldseriesoftrading.com)

Michael Parness and I come from very different parts of the financial world, and though very different, we are complementary in many ways. I got started in trading in the late 1990s. I had just come back from a summer in Spain and a few different study-abroad programs. While studying (partying ;-)) in Europe, I had started to trade and monitor my accounts online. When I got back to New York and started graduate school, I also started a job as a head hunter in New York City. In 1998, it did not take me long to figure out where the best-paying jobs were in NYC—Wall Street. As a head hunter, I knew that there was one company that was hiring more people than any other firm. It was an Internet online trading company. So I sent myself out for an interview there, and sure enough, I got a job offer.

So my trading experience started more from the direction of being a person on a professional trading desk. Mind you, when I got started at Precision Edge Securities (later, edgetrade.com) in 1999, I was not a licensed broker. I had to cram to pass my series 7 in January 2000. Professional trading at that time was mainly a scalping style, widely known as SOES trading, because we used systems like SOES, Select Net, and Instinet to route our orders. I traded and helped run a trading desk where there was a mix of retail brokers trading for their clients (we at the trading desk executed their orders), retail trader SOES scalping, and momentum trading. For the retail brokers, I was more like a foot soldier. I worked and executed orders, and that was my focus. It was very short term, and I had no idea why the clients or the brokers were buying or selling. My performance was measured entirely by my execution price versus

VWAP (volume-weighted average price). As for the day traders, well, I was one of them when not trading a client order.

As a licensed professional trader, I had no idea what guys like Michael Parness were looking at or basing their trade ideas off of. I was more a cog in the proverbial wheel who knew a lot about execution and short-term trading technicals. Trends to me simply meant higher highs and higher lows.

When I went to my next firm, Terra Nova Trading, Michael Parness was one of their biggest and most active trader clients. His students were also many of our clients; it was there that I started to learn about his trend trading tactics. They were very different from the very short-term execution-based concepts that I was used to on a professional trading desk.

Needless to say watching him and his trader/students pull multidollar moves from stocks and options when I would high-five the guy next to me on the trade desk if I took a trade for a point (\$1), I really wanted to learn how he made such amazing picks. Fast forward a few years and Michael and I were having lunch at Broadway Joe's on 46th Street in New York City and he was telling me about his trading and a new idea, the World Series of Trading (Michael and I are now partners on the www.worldseriesoftrading.com).

Michael and I still did not get together officially for a few more years when we collaborated on “Ka-chingos in Paradise,” a live trading mentorship in the Bahamas. Sadly, I have a short attention span and require visuals to learn. When Michael and I did the seminar together in the Bahamas, I finally started to get what he was talking about. His trends were statistical and event driven. In all my years of technical trading, I always knew that news trumped technicals—the problem was that I just did not know how to interpret the news catalyst events. What Michael has done is package and simplify the tradable news catalyst events into his Trend Trading System. After that seminar in the Bahamas, we both knew we wanted to merge Michael and his Trend Trading System and Affinity Trading Institute's well-established multifaceted D+TPTSP (Discipline + Trend, Pattern, Trigger, Stop and Target). Our disciplines, while different, fit perfectly together. I would always say a good swing trade would turn into two to five days of great day trading for me. Now I had a great source of additional swing trades.

Once Michael and I got together, we came up with more awesome concepts like “Day Trading Stocks for Cents and Swing Trading

Options for Dollars.” In case you have not figured it out yet, I teach “Day Trading Stocks for Cents” and Michael teaches the “Swing Trading Options for Dollar-Plus Moves.” What this did for my own trading is that I day trade the first few hours of the day for income and swing trade for wealth-building trades using options. My approach has now become technical plus I have learned to make money using Michael’s New Catalyst Trend Trading to score larger core and swing moves.

Michael’s unique approach to trading the markets is not only revolutionary, it has made the markets accessible to the average Joe. The market should be many other businesses, where anyone can try to trade and not be at a distinct disadvantage. Michael’s system levels the playing field and allows people to, as he says, “Go for their own financial freedom.”

I’m proud to be Michael Parness’s partner with World Series of Trading (www.worldseriesoftrading.com) and Affinity Trading (www.affinitytrading.com) and to call him a great friend as well.

We both strive to help people achieve their financial goals. It’s hard to find great traders; it’s even harder to find great traders who are also great educators.

Michael Parness is one of the rare breed who can do both with great success.

CHAPTER 1

Wishing You a Slow Rise

At times, I feel like a victim of some of my own successes in relation to working with new, and sometimes long-term, clients. Most traders, even the most successful ones, trade in obscurity. They make and lose money every minute, hour, day, week, and year. They are successful or they lose on their own merit, using their own faculties. Trading is a very solitary endeavor, and in order to succeed you need a lot of things; one of the most important of those is the ability to be *alone*—and control your emotions.

As a pseudo-“celebrity” trader, my wins and losses are out there in the open a lot of the time. I turned a relatively small amount of money into over \$4 million back in 1999/2000. I turned roughly \$13,000 into over \$3.8 million in 2008/2009. These are *headlines*, they are part of my resume, yes, but they are part of any marketing campaign I’ve done as well, and that’s what initially grabs someone’s attention, just like “four out of five dentists surveyed recommend Trident gum” is a headline. Wow, four out of five dentists, that’s awesome, I’m chewing Trident, baby! Well, in my case, my monetary gains are my calling card. Of course, in between those gains there have been other major gains and some very painful major losses as well. One of the realities of trading is that for every million a good trader makes, he probably lost three or four or even six or seven million to get there. You can’t net a million dollars as a full or part time trader without suffering the pain of losing your share to get there. I tell clients all the time that if you can’t handle losing, you’ll ultimately lose it all. I mean it.

Yet, when most newbies meet me online in our Legends of Wall Street chat room at Affinity Trading, they are stuck on the headlines,

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the gains. They picture themselves using the stock market as their own personal money tree. I can't tell you how many thousands of people who start mentoring programs with me will say, and it's almost verbatim—"Waxie, I want to be like you, I want to turn my \$5,000—or \$10,000, or whatever—into millions ... that's my goal!"

That's a great goal, right? *Wrong-oooooooo!* It's not a great goal, it's a horrible one. It's one that in my experience inevitably will lead to most anyone blowing up their account and turning whatever amount of money they are trading with into *nothing*. Hey, man, as I said I've suffered my share of losses and that includes blowing my own account up on more than one occasion. And, typically, the reason why traders blow themselves to smithereens, whether they are stone-cold newbies, or longtime veteran traders, is because they got caught with their hands in the cookie jar far too often. They took too many "shots." They decided that Wall Street was renamed Vegas Street and that their accounts were actually gambling adjuncts where they closed their eyes and—*let it ride!*

Well, we all know how that ends more than 90 percent of the time—the ride is over and the car don't start no more cause you can't afford any more gas.

Nearly every year since I started teaching traders in 1999, we've done at least one live seminar in Las Vegas, and at each and every one of those seminars I ask the question that I already know the answer to: How many of you have gambled? Almost everyone who comes to a trading seminar in Las Vegas is also going to spend some time in the casino, or playing poker, or betting horses, or doing things that need to stay in Vegas. The follow-up question is another no-brainer: How many of you have *won* gambling? Typically, about 5 percent of my clients say they made money, but I've done seminars where it was more like 2 or 3 percent at best. And, the thing is, that's perfectly fine. Most things in moderation are fine to do, even enjoying yourself gambling knowing you are likely to lose.

And, as the saying goes: What happens in Vegas stays in Vegas ... *including your money!*

Setting Goals

What I suggest is that you set *realistic goals*, not pie-in-the-sky get-rich-quick goals. So then, the question is—what is a realistic goal?

There's no magic formula, no one-size-fits-all answer to that. It depends on many variables, but I'll try to break down what I would consider realistic:

Account Value	Daily Goal
\$5,000	\$100 to \$200
\$10,000 to \$20,000	\$200 to \$300
\$25,000 to \$50,000	\$300 to \$500
\$50,000 to \$100,000	\$500 to \$1,000+
\$100,000 to \$500,000	\$1,000 to \$5,000
\$500,000 to \$1 million+	\$1,000 to \$10,000+

Clearly you can see by this list that there's no quantifiable statistically accurate way to say—*this* is what you should be shooting for! If we get grossly general, I tell clients a realistic goal is 2 percent of whatever your portfolio is, but obviously in this case the larger your portfolio that may or may not hold true. If you have a \$10 million portfolio, I would probably say making \$200,000 is tough to shoot for. But, you can see by the above list that with many size portfolios that may actually be doable and realistic.

Ultimately, it's really going to depend on a number of factors. Trading is one of those endeavors where everyone has their own "thumbprint" that is unique, even if it's minutely. There's no straight line in trading; it's very much like life itself. There are ebbs and flows, and sometimes there are tsunamis or grand slams, but the one goal that is consistent is to work within yourself and what your comfort level is. If you want to make \$500 a day and you have a \$10,000 to \$25,000 portfolio, that's doable, *but*, and it's a big *but*, you'll likely have to trade options, which we'll talk about later in the book, since there are Securities and Exchange Commission (SEC) day trader restrictions that come into play with any portfolio under \$25,000.

1 Percent a Day Keeps the Ka-Chingos Comin'!

Sometimes I tell clients that I want them to shoot for 1 to 2 percent and I get weird looks, as though that's *soooo* little! I'm not a mathematician, but suffice to say if you compound \$100 a day every day for a year, which is roughly 200 trading days, and you started with \$5,000, that would be well over \$25,000, or a 500 percent return on

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your money in a year. Who wouldn't be happy making 500 percent a year? I certainly would, and anyone who is setting those realistic goals would be. So, slow and steady is the best way to attain wealth, in spite of it perhaps not being as exciting as you might envision going into trading. Just keep in mind that while the goal in general might be 1 to 2 percent a day, you will have your share of losing days unless you have found some sort of Nirvana of trading. Suffice to say, we'll need to get you prepared to lose in order to have a significant overall *gain!*

Don't Be in Such a Rush to Lose Your Money

Finally, for those of you who are in a rush to make a lot of money, my message couldn't be clearer: It was nice knowing you for the very brief period of time you read this book, because you have a better chance of wrestling a great white shark with blood in the water and surviving than you do getting rich quick as a trader. I've seen it countless times; I had one client who was a subscriber to my option trader service, and he said he was going to make a million dollars, starting with \$20,000. So, he took one of my option ideas and he went all-in, buying \$20,000 worth of call options according to his own account. And, because I am pretty good at what I do, if I recall, he doubled his money, making more than \$20,000!

Great, right? Yup, it would have been if he then showed restraint and used some of what we cover in the next chapter—money management. Instead, as you probably guessed by now, he let it all ride on my next idea!

And, even though I'm good at what I do and I'd stack my option play ideas against anyone out there, I am wrong sometimes. And, this time I was wrong. So, Mr. All-In went from being up 100 percent to losing all his gains *plus* his original \$20,000.

And, that's what is likely to happen to you if you try to get rich quick.

Don't be in such a rush to lose your money! With that, I wish you a *slow* and *steady* trading career.

CHAPTER 2

Bear with Me

Traders and investors are very familiar with *bears*. The market is seen as a constant battle between *bulls* and *bears*. Ironically, in the kingdom of animal spirits, the *bear* represents the forces that ground us. It's strength incarnate. The bear in all of us allows us to have courage, to overcome adversity, and for those of us who face our demons in life, it supports our healing, both physically and—perhaps more important to our life as a trader—emotionally.

One of the first things I do with *any* trader, whether the individual is a total stone-cold newbie or has been trading for over 20 years, is discuss the person's *weaknesses*.

Why's that? Because good traders know why they make money, but what they may not be aware of is why they don't make *more* money. As humans, we often have limited awareness of our Achilles' heels.

Many of us know the story of Achilles. In Greek mythology, when Achilles was a baby, it was foretold that he would die young. To prevent his death, his mother Thetis took Achilles to the River Styx, which was supposed to offer powers of invulnerability, and dipped his body into the water. But as Thetis held Achilles by the heel, his heel was not washed over by the water of the magical river. Achilles grew up to be a man of war who survived many great battles. But one day, a poisonous arrow shot at him was lodged in his heel, killing him shortly after. Hence, the term Achilles' heel!

I myself have experienced this in my trading life, and even in other aspects of my life. I'm really good at finding trends, and mapping out plans, but sometimes I take other trades that don't have the same "hit rate" or quantifiable winning percentage that the trends

I've followed and trusted for 15 years do. I will therefore put myself in a position where my best trends are being traded as a "gut" trade, or some less reliable technical pattern. Like many traders, I am ADHD to the max, and patience is not a virtue I have found a lot of time for in my life.

I thus put myself in a position where my best trades work and I *should* make money, but I have given back profits—sometimes partially and sometimes fully—and if I get really silly, I lose and am too frustrated to take a trade that I have a proven track record making money on!

I can't possibly relay to you the vast amount of times I've had clients who, despite me being on a really long roll of winners, will tell me how they lost. Why? Because their Achilles' heel(s) were causing them to fear taking a trade at the right time, or worse, causing them to seek another trade that doesn't have nearly the track record. They guess, hoping to be right, or they enter the trade sorry they missed the correct entry, hoping they can make it up and still cash in. No matter how many times I bang the drum that you shouldn't chase a play, every trader I've ever met will do so at some—or many—points. While they are buying, we're selling them the shares, having reaped a nice profit oftentimes.

The Achilles Have It

There are as many potential Achilles' heels as there are traders! I could spend an entire book writing about all the flaws of traders I've experienced over the last 15 years, but that would bore me and I'm sure you as well. Hell, it might bore you enough to make a foolish trade trying to escape the boredom ... and we definitely don't want that!

What I am much more interested in is how we use our bear spiritual guide, which some of us will align with more than others, to help us *heal* our Achilles so when we go into battle no poison darts can kill us. We may get wounded, we may sometimes be on trader life support, but we remain in battle and continue to patch up whatever flaws we have until we are much better traders.

Identifying Your Achilles' Heel

Step 1 is identifying your Achilles' heel(s). If you can't do this, then you are likely to fall prey to it/them over and over again until you are