CHAPTER 1

Let's Rock and Roll

Why I Like the Global Beat

Tokyo's lively tempo hits its first beat at 6:00 PM Central Time. Two hours later, traders in Hong Kong start dancing to the tune when the Hang Seng opens. It's only a few hours later when Germany's toe-tapping rhythm chimes in and trading begins on the Dax. By the time the buying hits the open outcry pits of the New York Stock Exchange (NYSE), I'm dancing—rocking around the clock to the markets' beat.

In 1955, Bill Haley and his Comets ignited the popular music scene with their rendition of "Rock Around the Clock." The recording was a tremendous success, and it soared to the top of the charts. The lively lyrics of the song transported listeners around the clock as the words jumped from hour to hour—rocking 'til broad daylight. When twelve o'clock struck, the rocking just started all over again. The tune was one of America's most popular hits for almost two months. Trading the global markets and jumping to their beat has been a hit with me for about two decades.

Not only was "Rock Around the Clock" a sensation in the United States, but its success echoed around the globe. The tune soon appeared at the top of music charts across the Pacific and the Atlantic. Twenty years after its release, moviegoers were still "rocking around the clock" with the tune in *American Graffiti*, and television audiences were enjoying the beat with each weekly episode of *Happy Days*. "Rock Around the Clock" has remained a global favorite, and some music aficionados claim that every minute of the day, somewhere in the world, it is possible to dance to that old Bill Haley classic.

I've always liked dancing, and I like "rocking around the clock," too. I just don't do it very often with my dancing shoes; I do it with my computer and my knowledge of the global financial markets. Virtually every hour of the day and night, a financial center somewhere on the globe is popping. The most active area for trading is the one where the sun is shining the brightest. Therefore, I rock with the markets and take advantage of their 24-hour beat.

LEARNING THE 24-HOUR ROCK MAKES LIFE EASIER

"Markets Crash: Dow Jones Loses More Than a Trillion Dollars of Asset Value." What if this was the headline tomorrow or next week? What would happen to your portfolio if some geopolitical or economic event sent prices on Wall Street into a tailspin?

Most traders forget that the markets never sleep. The financial markets operate 24 hours a day. During virtually every hour of the day and night, someone, somewhere is trading. Oblivious to that reality, most traders buy and hold large positions of equities and other financial products without thinking about protecting themselves against the potentially destructive forces that prowl in the darkness. Years ago, I asked a veteran trader, H. L. (Mac) McFarland, to help me decide if my overnight exposure was too great. At that time, Mac had been trading for almost 50 years, and he was both my friend and mentor. Mac taught me how to handle a trade and how to handle people. Mac responded, "Tom, if a trade interferes with your sleep, you are too exposed. Any risk that makes you toss and turn at night is just too great." In other words, if a market position is large enough to make you fret about it overnight, it needs to be pared down or the trade avoided. The way for global traders to get a good night's rest is to plan and prepare so as to be protected should a nightmare tiptoe into their portfolios while they are snoozing. And, part of that preparation involves learning to step to the global beat.

Are your overnight market risks too great?

If a trade interferes with your sleep, you are too exposed. Any risk that makes you toss and turn at night is too great.

I vividly remember a night in December 1996, when my knowledge of the 24-hour nature of the financial markets helped me greatly. I was sitting in my office trading the night markets on the Globex and watching television with a friend and fellow trader. My friend Bill is a really big guy who stands well above six feet tall and registers more than a few pounds on the scales. Bluntly, he dwarfs me. On this night we both had a nice size position in the S&P 500 futures; we were long and feeling very confident about our bullish positions.

Then we heard the news: Alan Greenspan, the chairman of the Federal Reserve, was delivering a speech in Washington, D.C., and referred to the markets as *irrationally exuberant*. To be exact, Greenspan asked his audience how one knows when irrational exuberance has unduly escalated asset values. Thanks to the power of the electronic media, my friend and I were among millions of viewers who quickly heard about the words Greenspan had chosen. As soon as the significance of the message hit my brain, I lunged across my big burly friend as though he weighed no more than a small rag doll. His arm rested on the back of a chair and blocked my path to the computer screen, but I flung it away with ease. My adrenaline was rushing—I knew that a statement that powerful from Alan Greenspan was taking the markets down. Remember, I was long a good-sized position. I grabbed the mouse and took our long contracts to the market. Then I reversed, going short. Soon my winnings from my shorts more than covered the losses we initially suffered before I was able to exit, shift gears, and jump on the new winning team.

At the time Greenspan spoke, the open outcry pits in New York and Chicago were closed, but live markets were trading in Asia. The stock market in Tokyo immediately responded and took a dive. In fact, following the Greenspan speech, the stock exchange in Tokyo saw its greatest loss of the year. Prices on exchanges in Hong Kong also fell; a 3 percent loss was recorded before the market closed. The scare that ignited selling in Asia traveled to Europe, where the exchanges in Frankfurt, Germany, and London, England, also experienced a sell-off.

I was able to take defensive action because I was trading the S&P 500 futures on an electronic trading system that operates virtually 24 hours a day. When the NYSE opened for business on Friday, December 6, 1996, traders rushed to sell their holdings and prices fell almost 150 points on the Dow in only half an hour. Glad I wasn't on the wrong side of that avalanche. Before the day ended, the Dow had recouped much of the loss, but it was a rough journey indeed for the bulls. While they were sleeping, an unsuspecting asset assassin (Mr. G. himself) had crept into the global markets. Figure 1.1 shows how this affected the S&P 500 futures. Figure 1.2 shows the market's recovery in the days following Greenspan's now-famous remarks. Admittedly, it was the short-term traders who really suf-

FIGURE 1.1 The price gap in the S&P futures following the Fed chairman's remarks. Luckily, the markets were able to recover quickly. (*Source*: Copyright 2006-DTN ProphetX)

fered from the drop. Those who were holding long positions that were margined found themselves in a squeeze. Many of them likely got a call from their brokers to meet margin calls. For them, it was time to pay the piper because they had been hit by a major sell-off while they were sleeping.

Even though the markets recouped rather quickly, for those who had to meet those margin calls, that fact was irrelevant. They deposited additional cash in their accounts or their positions were liquidated immediately. Brokerage houses do not give traders a chance for the markets to

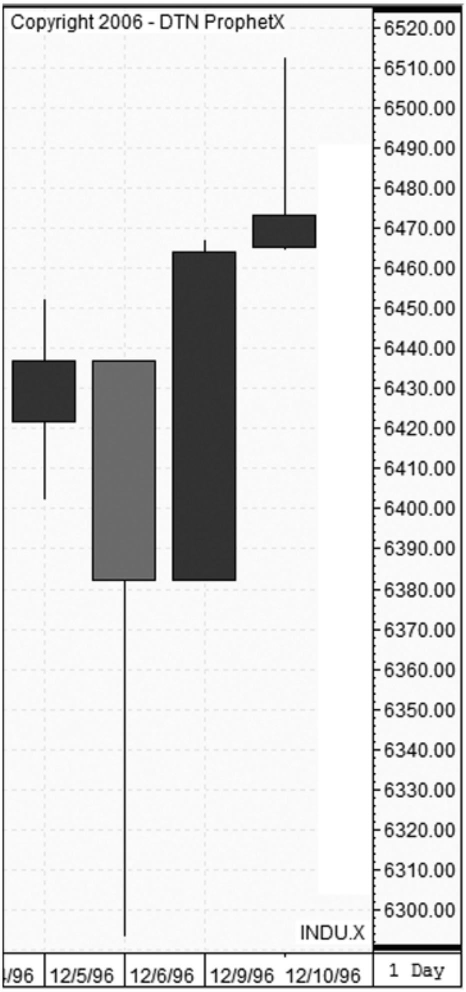

FIGURE 1.2 The market's recovery. A few days after the well-remembered speech, prices were moving up again. (*Source*: Copyright 2006-DTN ProphetX)

readjust. That is not the way the game is played. The remarks by the Fed chairman cost them dearly.

Also consider September 11, 2001. When traders slipped under the covers on the night of September 10, all seemed to be well and the markets were trading as usual. Suddenly, on the morning of September 11, investors turned on their televisions to see two huge airliners plowing into the Twin Towers. It was a horrifying event for all Americans. The safety of our nation and our sense of security was shattered forever.

I was teaching a class that day. I operate an educational trading facility, Day Trading Institute (DTI), in Mobile, Alabama. The students had come early and we had taken a long position in the S&P futures. Due to my trading method, we had exited part of our initial purchase and had done so profitably. We were still holding a small part of the original buy and were expecting prices to continue to rise. With a protective stop in place to preserve our assets, we were hoping to add a little more to our account balance. Suddenly, the market shifted and prices inexplicably dropped. Generally, when markets move in such an erratic manner during this time of day, the reason is news. Therefore, I asked Geof Smith, DTI's chief instructor, to go into my office and check the television for news. Had there been some negative economic report or other event that had taken the markets south? Within a minute or so we knew the story. After a quick check, Geof alerted us to the disaster, and we clicked on the set and turned the volume up to hear the shocking details. Because we had taken defensive steps to safeguard our money and limit our risk, we were removed from the market with only a small profit on our remaining position. However, many buy-and-hold traders and investors did not do so well.

Figure 1.3 tells the story. After the attack, the Chicago Mercantile Exchange (CME) stopped trading activities for a few minutes. Then the exchange opened for a very short time to allow traders to clear their positions or take whatever defensive measure could be taken. Following that few minutes of trading, the exchange and all other major U.S. exchanges closed for a week. The third bar from the left depicts the price action on September 11. The gap between the third and fourth bars represents the week when the exchange was closed. The bars that follow that gap show how prices fell during the days immediately following the attack.

Again, it was the short-term players and those who were highly margined who felt the greatest pain. Equities are often margined 50 percent and futures are margined much, much more than that. For a good faith payment as small as 2 to 3 percent of the total asset value, a trader has the ability to control some commodity futures. That means that when prices fall that far that fast, it causes dislocations in the market and many traders receive margin calls. For them, the downtrend may be short lived, but it is final. They must either put more money in their accounts or liquidate their positions. That reality means that those traders need to have the ability to immediately react to a crisis—even if that crisis should happen in the middle of the night, and often even if it is only short-term. It gives me great satisfaction to know that despite the devastation of September 11th, our method preserved our capital and helped us manage our money.

FIGURE 1.3 The high on September 11 is around 1100.00. By September 21, the market hit a low around 940.00—a drop of about 160 points. That represents a loss of approximately $8,000 for each S&P 500 futures mini-contract. I had a protective stop in place and I was removed from the market without a financial loss. (*Source*: Copyright 2006-DTN ProphetX)

Following September 11th, prices fell dramatically for five days or so. Then they began to recoup some of the losses. In November, prices on the S&P actually rose above their pre-attack highs and stayed buoyant for several months. Then, in March 2002, with geopolitical problems on the horizon, the bears gained the upper hand and prices started falling. They continued their fall for months. Figure 1.4 follows the action for a year and graphically explains how the S&P 500 futures traded from the beginning of September 2001 through September 2002. Prior to the terrorist attack, the financial markets had been going south. There was a brief rally from

FIGURE 1.4 With prices trading in the 1,100 range in early September 2001, they initially dropped significantly. Perhaps it was a patriotic rally, but prices recouped in November 2001 and stayed high for several months. Then in March 2002, prices again began falling and dropped dramatically for months. (*Source*: Copyright 2006-DTN ProphetX)

November 2001 until March 2002. Then a big downhill trend began and lasted for many months.

The attack on the Twin Towers happened in the morning hours shortly before the major trading centers in the United States opened their trading sessions. After the destruction, the exchanges closed for a week. Only traders with knowledge of global markets were able to hedge any long positions by using exchanges operating off our shores. Those doing business exclusively in U.S. financial products that were traded on U.S. exchanges were effectively locked out of the markets. I was able to continue my business because I shifted my activities to a German product—the Dax. The Dax is a very powerful, large, and globally respected index. Just as with our S&P 500, Dow, and NASDAQ, there is both a cash index and a futures index. I trade the futures equity index. If necessary, I was able to hedge my positions and protect assets or make money on the short side because I understood that somewhere around the globe trading was active, and I sought and found one such market.

By using a 24-hour trading clock, you can see the immediate effects of an event on the markets. The tape expresses the world's view. For example, if Microsoft (MSFT) receives a sanction from the European Union, and news of that negative event is aired while Asian markets are still trading, prices in Tokyo for MSFT stock will fall. Traders in the United States may be stunned to wake up and find that their shares have lost value. Because they were asleep, they did not hedge their positions or take any protective action. Had they been watching, they would have known what was happening because the markets give instant feedback. The bad news would have been immediately expressed in Asian trading. No one can watch the markets 24 hours a day. Therefore, experienced traders use protective stops to remove them from the market if there is an unexpected market shift. They do not assume a heavy load of stock, bond, or futures positions and forget them. That is a sure way to lose money.

Assume that you are holding a large short position and good news breaks at 8:00 PM when U.S. exchanges are closed. Prices take off and losses mount in your bearish portfolio. You can twiddle your thumbs and wait for New York and Chicago to open for business the next morning to respond to the news and lose a princely sum. Or, you can trade the night markets. If possible, you can exit your shorts and possibly shift your position. If you are unable to liquidate your holdings after hours, you can hedge by buying futures contracts in the S&P 500, Dow, Nasdaq, or some foreign market. You can even hedge with a commodity like gold or oil. By using a global approach, you have a wide range of opportunities to limit your losses and maybe even make some good profits.

The biggest challenge for a trader is to maximize profits while limiting risk and protecting assets. Having knowledge of the global markets gives traders a better chance to achieve that goal. I know well the importance of limiting risk. Believe me, I learned that lesson in 1987. If you read my first book, *Winning the Day Trading Game*, you know that I was a victim of the '87 crash; at least, I made myself a victim because I was too exposed. I was foolishly overleveraged in the options market. When the right combination of economic forces united, a storm blew down Wall Street and I was in its path. I was wiped out. When calm returned, my finances were in shambles and my self-confidence destroyed. It took years for me to get back on my feet, but I finally made it. Now I am aware of those lurking dangers in the market and I work hard to protect myself against them. I still play the game, but I am a much more cautious player.

I am a trader and proud of it. When my older son, Winston, started college, I drove him to Auburn, Alabama, and attended the usual parent orientation sessions with him. I remember Winston telling me that I should not introduce myself as a trader. He thought other parents would not understand the term and they would be less than respectful of my occupation. I told him that in Chicago, traders were kings; nonetheless, in Auburn, Alabama, I would respect his wishes. Today, Winston, too, is a trader.

My favorite markets are equity index futures like the S&P 500, Dow, NASDAQ, and Dax. I have traded the S&P 500 futures since the very first day they traded. I especially like the mini contracts like the S&P e-mini. However, I trade or have traded just about everything. If I see an opportunity in the commodities arena, I trade it. In early 2006, gold and oil grabbed my attention. If a stock looks promising, I enter the equities market. I trade stocks both ways: long and short. It all depends on the play that is offered. I have traded more than a few options in my day, and the currency market is not a stranger to me. Although I do not consider it to be my strongest suit, I have made some money there.

Many traders believe that futures are too dangerous and risky. Admittedly, the futures markets have some unique and potentially deadly pitfalls. However, I see more danger in the traditional “buy it, hold it, and forget it” strategy of most traders. With futures, I generally enter and exit the market quickly. I may hold positions during most of a trading session, but as a rule I do not hold futures overnight. If I trade the night or Globex market, I exit my day’s positions and then reenter once the night session has opened. Then, I monitor the play and always use protective stops to help me look after my interests. In sharp contrast, the buy-and-hold traders put on positions and forget them. When the night assassin comes prowling around the markets, they just get slaughtered.

Because the financial markets are dynamic, they constantly change. A day in the life of a global trader is never the same. That is probably why I love trading so much. Every sunrise brings new challenges and new experiences. Some days are great for shorting everything in sight and making a lot of money. Other days are filled with the exuberance of good financial news and a buyer takes home the big paycheck. Then there are those days when prices bobble up and down—a seesaw syndrome that leaves even the most astute short-term trader scratching his head and looking for some divine sign to enlighten the path and lead to profits. When the markets are active and when they are dormant, when profits are big or little, when money is made or lost, I am still a trader. I constantly look for winning opportunities where profits can be made.

I am a professional trader, and I trade almost every day. When I see a bull, I grab it by the horns, and when I spot a bear, I get in the cave with it. The challenge is, of course, to identify the move and dive into the market on the right side of it. That may sound easy, but believe me, it is not. Using a 24-hour trading clock helps me get and stay on the winning team. My RoadMap™ software is designed to follow the 24-hour markets and track their paths while I am sleeping. It saves time and gives me an edge with my analysis.

HOW I MAKE MONEY USING GLOBAL KNOWLEDGE

Rewind to April 2000. Americans were caught in a dot-com frenzy; investors purchased every Internet stock in sight. Many market commentators warned that the "New Economy" was nothing more than a veil for overpriced equities that were breaking all of the rules. Dot-coms with no business plan, no earnings, and no track record were going public, and everyone seemed to be buying. Hopes and expectations were the real commodities being traded, as droves of investors rushed to put their money down for every Internet-associated IPO. Never mind that many of the high-tech investments were nothing more than castles in the sky, sprinkled with fairy dust and built on clouds of dreams. They lacked foundation, but no one cared.

On March 10, 2000, the Nasdaq reached an all-time high as prices traded around the 5,132 mark (see Figure 1.5). Many decided the naysayers were wrong. Perhaps traditional thinkers did not understand the significance of the Web and its future money-making potential. Wall Street was conducting business differently, and most traders believed there was no problem. Investors who bought technology and the dot-coms were like King Midas; their holdings turned to gold. Apparently, there was no reason to worry—at least not on March 10, 2000. Markets were strong, and the bulls were stampeding to higher prices. However, Freddy Krueger crept into the markets in April, and the Nasdaq took a dive.

Toby Keith, one of my favorite country-music entertainers, has an album titled *Dream Walking*. In one of the songs, Toby talks about knowing when the dream ends. In April 2000, the dream was coming to a close for the high-tech traders, but few realized it. My first clue came from across the Pacific. Around 4:00 AM Central Time. I do not remember the exact day, but it was in mid-April—the 14th or 15th, as I recall. I learned that the Nikkei and the Hang Seng had suffered major losses during their trading

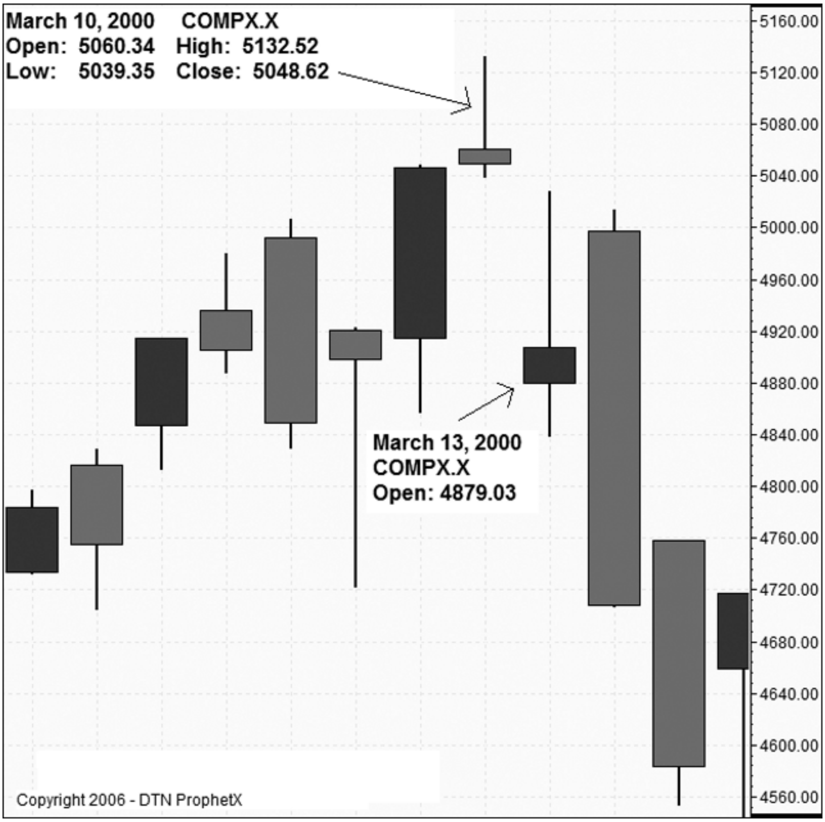

FIGURE 1.5 The high-techs were soaring in the early part of March 2000. But, the picture soon changed. (*Source*: Copyright 2006-DTN ProphetX)

sessions. The Nikkei is an index located in Tokyo; Hong Kong is home to the Hang Seng. Both the Tokyo and the Hong Kong indexes ended their sessions with extraordinary declines. The sell-offs in Asia piqued my interest; perhaps a global move was in the making. Asian markets were being hit by some severe winds; would those winds die down before traveling to western shores, or would they intensify? Would Europe have the strength to buck the Asian trend or follow it? I dressed and headed for the office.

I worked out of a couple of small rooms a few miles from my home. My trading school was in its infancy, and I used the rented space as my personal trading headquarters. At the office, I had several monitors and I easily viewed the action on the futures markets. For a number of reasons, I like trading and following the index futures like the S&P 500 futures, the Nasdaq, and the Dow futures. Futures are, after all, predictors of the cash markets. Futures forecast the prices that the cash index expects, at least in theory.

One of the reasons that I am drawn to this market is the high degree of leverage that is available. A futures account must be a margined account. At the time of this writing, an e-mini S&P 500 contract can be traded for only a few thousand dollars per contract (some brokerage houses require an even smaller margin). Currently, the e-mini is trading around 1,400. That means that the value of one contract is about $70,000. Translation: For just a few thousand dollars a trader has the ability to control approximately $70,000 of market value. That is a great deal for me because the high degree of margin allows me to leverage my skills. With margin, one with experience and expertise is able to get the most bang for his buck. However, the uneducated and inexperienced lose their hides. Because I have traded the S&P futures since they first began in 1982; I believe that I have more than a little experience in this field. Therefore, on this day my focus was on the index futures.

Once in the office, I concentrated on Europe. To my delight, the weakness exhibited in Asia repeated itself in Europe; London, Paris, Frankfurt—everywhere the skies were gray and getting grayer. Not only was the sell-off moving across the Pacific westward, but the downward spiral was accelerating. Europe's percentage of loss was greater than Asia's. The storm winds were moving faster and gaining strength by the minute. I was delighted, because I was seeing a potentially trending market. Because I trade futures, I make money in a market that goes up or down, and in a trending market I make a lot of money. Therefore, I began paying very close attention.

At 8:30 AM Central Time, when the U.S. day markets opened, prices immediately headed south. There were no buyers—everyone was a seller. There was no premium in the futures markets. I watched and waited; I sat in front of my computer screen reading the tape and watching the indicators get weaker and weaker. Generally, I consider the first five minutes of the day's trading session to be very important. During this time I determine if the bulls or the bears are in charge. In that first few minutes, the line is drawn in the sand, and each side dares the other to cross it. Today, I wanted to know if the bulls could exert enough strength to pull the markets back up to their opening prices. But, there were not enough buyers for prices to rebound. After five minutes of trading, none of the index futures—the S&P 500, Dow, or Nasdaq—were able to rise. Not even one of them bothered to put up an effort to challenge the day's preliminary prices. The index futures knew only one direction, and that was down.

Get short. Sell something. That was my immediate reaction. I knew the bears were in control, and the profit takers from this move were the shorts. I started selling and selling hard. I identified the weakest market. Which one was selling off the fastest? That was where I wanted to put my money down. I identified my play and sold, and then I watched the profits start rolling in. As the minutes passed, I knew I was watching an unusual event because weakness was evident across the board and things appeared to be getting worse by the minute. I looked at the S&P 500 futures; a support level was hit and I expected some attempt by the bulls to regain control. I knew that if the market was responding normally, buyers should be stepping in at this level. But, that was not happening on this day.

Generally, in a healthy market, when support is touched, there is an attempt to rally or retrace. The rally may not be successful, but there is a valiant effort. For example, the number 37 tends to be a key number in the S&P futures. It does not matter if trading is at 1,037, 1,137, or 1,237. That 37-price point is going to serve as a key number. When that price is hit in a falling market, one expects it to prop prices up. In other words, at that point one generally expects buyers to step in and pull prices skyward.

Not that day, though—when the S&P or the Nasdaq hit key numbers, prices just sat and churned away for a short time. Then, the support level broke and the markets tumbled to the next support level (see Figure 1.6). That important 37 on the S&P yielded quickly and prices collapsed to the next key number of 35 and quickly fell to 32. At the new point, the process repeated itself, until the market again dropped to the next level of support.

Hour after hour, I kept shorting the futures, loading the boat with more and more contracts and making more and more money. At one point, I had about $50,000,000 in asset value riding on the bears. But, the play kept paying me. The buy-and-hold traders were suffering more by the minute while I was making thousands. As the session continued, the debacle kept unfolding and my money continued pouring in.

At midday, I prepared for a possible turnaround. I know that generally, during the middle of the day, there is a reversal or retracement. At least there is an attempt made to flip the coin. In anticipation, I lightened my load, watched, and waited. No reversal. No attempted rally. The bears were conquerors, and the bulls were in hiding. A meltdown was in progress.

Because I recognized the signs early and I knew the significance of the Asian and European sell-offs, and because I was always ready to make money, it was a great day for me. Air was leaking from the dot-com bubble. I, like many traders, had been waiting for it, and my knowledge and skill allowed me to take advantage of it. By the time the market closed in the afternoon, I had made a lot of money. The numbers told me what the next day's financial news would report. A storm had hit Wall Street.

During those fateful days in April 2000, the Nasdaq lost more than $2 trillion of market value. In one week it dropped over 25 percent from its highest prices. In March, prices were nearing the 5,050 price on the Nasdaq, and by the end of the first week in October, they sat at 1,114. April 14 was

FIGURE 1.6 Daily price action on the Nasdaq. Look at prices on April 10, 2000. Note how they fall on April 14 and 15. My 24-hour trading clock gave me a good tip as to the expected market direction. (*Source*: Copyright 2006-DTN ProphetX)

one of the days in that timeframe that saw a hefty price drop. I know that many traders around the country and across the world were in a state of panic on April 15, 2000, and throughout that entire time period (see Figure 1.7), because I remember all too vividly the panic I felt following October 19, 1987. I am glad to report that this time I was on the winning team. Unlike scads of investors, I had not been taken by surprise, because I saw and properly interpreted the storm warnings. A storm on Wall Street is not always a bad thing. If the winds are blowing your way, you can enjoy the breeze.

FIGURE 1.7 The Nasdaq fell from April 2000 until the end of the year. Prices continued to go down day after day. Remember, my first big hint that the day of reckoning was at hand came from across the Pacific and Atlantic. When I saw prices falling dramatically in Asia and Europe, I knew the U.S. markets were in for a rough ride. (*Source*: Copyright 2006-DTN ProphetX)

THE WINNER GETS THE CASH

The winner gets a toy: A shiny red Corvette convertible was my trophy for the day's work. In celebration of my winnings, I was able to get a new ride with a big price tag and no guilt attached. I selected red in honor of the shorts. The bulls had paid me big. In the aftermath of the initial Nasdaq fall, there was a lot of talk about the big winners and the big losers in the dot-com fiasco. It seems that some of the greatest minds in their respective fields were like lambs strolling to the slaughter. Bill Gates, Charles Schwab, and Michael Dell were multibillion dollar losers during the week of April 15, 2000. Warren Buffet, by contrast, was a big winner. His net worth was reputed to have increased by more than $500 million. I certainly made nowhere near the money Buffet made and the news media was not pounding down my door to get an interview, but I was definitely in the winner's circle. I enjoyed earning enough for my Corvette and having money left over to put in the bank. It was a great trading day!

The bull market did not end in a day. Unlike the strong winds of a hurricane that blow through in a few hours, the doldrums of the market continued for months. I shorted the Nasdaq futures and other index futures many times between April and October and reaped the rewards. Bad weather on Wall Street can destroy those who are unprepared, but those who see the storm clouds coming can earn their keep.

Rocking Around the Clock Brings Home the Bacon

Few days are like those profit-making sessions in April 2000. Most days one has to work hard to bring home a little bacon. Take this example of a random day in the markets.

"Dad, everything's up. Talk to you later."

It is a few minutes past 4:00 AM Central Time, and Morgan, my younger son, is reporting on the action in Asia and Europe. When Morgan, was in high school and college, he checked the index futures around the world each trading day. If financial markets across both the Pacific and the Atlantic were trading in the same direction, he called me.

On this day, his call is my cue to get to my computer and check out the situation for myself. I'm not the only one getting a call. In fact, a lot of folks received phone calls because at that time Morgan had been operating his little "fee-for-notification" service for some time. He had built up quite a clientele. His message tells me that Tokyo and Hong Kong closed their sessions up; and London, Paris, Germany, and Switzerland are also all trading up. However, it does not matter what the direction of the move is; the significant thing is that all of these futures markets in major financial centers around the world are following the same track. This day, their direction happens to be up. I slip out of bed and head downstairs. I have several monitors in my home office and can easily survey the landscape. With a few clicks of my mouse I get a panoramic view.

The Dax, a powerful German index, has been moving up since its open at 2:00 AM Central Time (since May 2006, the Dax opens at 1:00 AM Central). It is nearing a key resistance level of 6,350. Therefore, I pick 6,351 as a likely place to buy some contracts. I want to see resistance broken before I join the fray, and 6,351 is just across the line. Then I turn my attention to the S&P, Dow, and Nasdaq futures. Like the Dax, the charts are all moving up. Quickly, I identify the next level of resistance on the S&P. Again, I want resistance to be broken before I make a purchase. The market moves up to my entry points, and now I dive in. I take some Dax contracts and some S&Ps. Within a minute or so, I am taking down profits and lightening my load. Trading the Dax increases my accuracy with the S&P; it takes only a trained eye to see the connection between the two indexes and gain the benefit of using both for guidance.

I plan to hold some futures contracts in both indexes and try to catch the momentum of a bullish move and, I hope, a trending day. If the bulls are really strong, this could be one of those days when prices keep going up and up as the minutes and hours pass. The possibility excites me. I put in my protective stops and head back to bed. I need more rest before going to work.

At 6:00 AM, I check the markets again. Things are still looking good and the markets are strong. Both my S&P and my Dax contracts are making me money. The 6:00 AM Central Time price on the Dax futures is one that I consider to be important. Some years back, one of my students, Ron McDow, spent a great deal of time studying the Dax. Ron pointed out to me the importance of the 6:00 AM price. I began watching and analyzing it. I realized that the 6:00 price-point is very important. I rely on that price as a major pivot. I often determine my entry price based on it and I use it for 24 hours. (My rationale for honoring this particular price point is that I consider it to be a benchmark for afternoon trading in Germany. Traders are returning from lunch and reevaluating the day's move.) Within seconds, the Dax is trading above the pivot and I jump in again, adding to my positions. A couple of minutes pass and again I am able to lighten my load and exit some of my contracts with a small monetary gain from each contract. I am still long the S&P and the Dax and I tighten my protective stops, dress and head to the office.

Some big economic news is being released at 9:00 AM Central. I know the markets might react violently to the numbers. Therefore, I plan to monitor my trade carefully. However, by 7:30 AM, the markets' upward momentum appears to be sputtering. Things start moving down, and my stops are hit on both the Dax and the S&P. I am taken out of the markets.

At 9:00 AM, the data are released and the numbers are not as good as predicted. Suddenly, there is a sell-off in progress. No worry for me, because my protective stop has already taken me out of the action. The sunny blue skies of early-morning trading are now mixed with scattered clouds, so I go to the sidelines to analyze and consider my course of action. What appeared to be a major gust from across the Pacific and the Atlantic has died down. Faced with some economic reality from our shores, this storm has fizzled with no great move. The upward surge stalled and the market moved down. I made some money early in the day, but midday marked the end of profits for the session.

The above scenario is no particular day; it is many days. A trend appears to be developing across the oceans, but other factors or events stop the move and the market stalls. What appeared to be shaping up to be a bullish explosion is nothing but a dud. Every day is not like that fateful April day in 2000, when I correctly identified a major global market trend and was able to ride the wave of the storm to reap some pretty big profits.

On days like these, I generally make a little money but it's not enough to brag about. These times remind me more of a Ford Taurus than a shiny red Corvette. I play the game and struggle with the bipolar tendencies of the financial markets. With a little luck, I take home a few bucks. I'd like to make more, but I know that a lot of days filled with consistent small profits may result in a Corvette buy. Being consistent on these average days is the name of the game. Using a global clock helps me stay consistent. Figure 1.8 shows how this worked on July 12, 2006.

Using a 24-hour trading clock minimizes risk, provides a market edge, and helps me achieve greater consistency.

FIGURE 1.8 Prices on the S&P futures on July 12, 2006. Each bar represents 30 minutes of trading. The bar on the far left reflects the price action when New York and Chicago opened. Prices trend consistently downward until noon. Notice how sluggish the market gets at midday. My trading opportunities were basically over. The morning was my time to make a little money. Many days are like this day. You have to find trading opportunities and take them when you can.

TRADING IS NOT EASY

Trading is hard! Like any job, some days are more interesting than others; the market does not always put on a spectacular show. I am a trader. It is my profession, and I take great pride and pleasure in it. Every day I speak with people who want to make their living by trading. With hard work and perseverance, some of them will make it, but many of them will not. Over the years I have succeed at my quest. However, every day is not filled with bells and whistles. Some days are like those great shorting days in April of 2000, when the profits just kept rolling into the bank. But on other days—in fact, most days—one has to look for opportunities and make the most of them when they are spotted. Then there are other times when the markets do absolutely nothing; at least nothing that I can trade. So, I just sit, analyze, and wait. Like a sniper waiting to get his target in his sites, I focus and keep my powder dry.

One of the hardest things to do is to sit and wait. But as the years have passed, I have become better at it. Trading is all about identifying market moves and maximizing the money-making opportunities in them. And it is also about staying out of the market when there is no opportunity and always limiting one's risk and protecting oneself against a variety of potential nightmares on Wall Street. In the trading game, it is critical to manage your money so that when opportunity comes knocking, you can take advantage of it. If the best move of the year appears, you cannot play unless you have money in your account. Therefore, money management is critical, and I have devoted Chapter 11, *Managing Risk in Global Markets* to that topic. Financial markets continuously change. Sometimes there is a great deal of volume, other times very little. Events or economic data may spur prices upward or lagging indicators may pull things down. Markets are dynamic. For example, from the spring of 2005 until May 2006, the S&P futures had an average true range (ATR) of approximately 10 points. That is, on most days, prices moved only 10 points up or down from their highest point to their lowest. However, by early June the picture had changed and the ATR was 17 points, representing a 700 percent increase in volatility. Therefore, successful traders must adapt to the changes.

The market is different every day, but my routine is not. I trade during the same times and I follow the same strategy day in and day out. I believe that certain timeframes during the day are best for me, and that is when I will be sitting at my computer screen. At other times, I will be teaching my classes and running my school. I will not sit in front of my monitor all day and be lured into a mesmerizing unprofitable market.

MY TRADING ROUTINE ROCKS AROUND THE CLOCK

Market action follows the sun. Somewhere right now—day or night—the financial markets are active. Savvy traders use that action to make money. My trading routine incorporates the 24-hour trading clock and takes advantage of it to maximize my profits and expand my universe.

In order to become a consistent trader, one must follow a routine and a strategy, and I do both. Unless I receive one of those morning wake-up calls from Morgan, my trading day generally begins about 6:00 AM Central Time. I believe Benjamin Franklin had it right when he said, "Early to bed, early to rise, makes a man healthy, wealthy, and wise." Therefore, one of the first things I always do is step to the office down the hall and catch a quick look at the markets. Maggie, our English bulldog, seems to await my rising, and she follows me on her short little legs to my trading station. She is my only early-morning companion.

By 6:00 AM Central, a lot of information is available—remember that it is already lunchtime in Europe and the Asian markets have completed their trading day. I check to determine their direction. Asia ends trading around 3:30 AM Central (4:00 AM during Daylight Saving Time). Generally, my only concern is whether or not the East traded up or down, and if the move was significant. If Asia was very strong or very weak, I will look to Europe to see if the sentiment is contagious.

Germany, France, Switzerland, and London all begin trading around 2:00 AM Central Time. Sometimes, if I am anticipating a significant move, I may get up and make a very early morning trade. But, the older I get, the less interested I am in losing my sleep. Therefore, around 6:00 AM, when I am checking out Asia, I also review the European action. Are the major markets in Europe in agreement as to a direction? If so, I identify the direction and check to see if it is in sync with Asia. Then I look at the U.S. markets; I particularly want to check on the S&P futures, the Nasdaq futures, and the Dow futures. Are they agreeing with the rest of the world? Is a trend developing? Generally, at this time of day I consider trading two indexes— the S&P futures and the Dax futures. After placing my trades, I dress and head for the office. When I say that I placed my trades, understand that I have also placed protective stops. That is, if my order is elected and I am in the market, I also have a stop in place to take me out if I have made a mistake and the trade goes against me.

Once I get in the car, I phone the office and ask the early morning crew to fire up my machines. As soon as I step into my workspace, I glance at my trade. If things are going my way, I may leave the trade working until 7:00 AM or so. However, I will probably not make any other trades until after the

U.S. markets open. I use this time to gather key numbers. I look at yesterday's trading, as well as historical data. I consider yearly opening prices, monthly opening prices, and weekly opening prices, and I visualize today's action and place it in the bigger context of the market.

Gathering these numbers helps me identify points of support and resistance in the market. With that data, I plan some potential plays. At what point will I consider buying the Dax, the S&P, the Dow, the Nasdaq, or equities? At what point would I consider selling? If one of my hypothetical buying or selling points is hit, it may signal a breakout move and I am ready to take advantage of it. Once I am prepared, let the games begin.

When the Chicago Mercantile Exchange, or CME, opens for business, I return to my computer and watch. If I am able to identify an early move, I place a trade. Otherwise, I sit on the sidelines and check the indicators. Let me repeat, it is far better to stay out of the market unless you have a clear sense of where it is going.

I consider the 9:00 AM, 9:30 AM, and 10:00 AM Central Time price points to be important. Therefore, at these times I get far more serious about trading. If I see a trade, I take it. Otherwise, I wait. If I have not traded by 10:15 AM, I probably will not trade until after lunch. I busy myself with other things. I will not sit and stare at a computer screen or try to make a trade when there is none. Believe me, I used to do that. I traded like crazy all day and expended all of my emotional energy watching the market go nowhere. Now, I do not do it. I only trade when there are opportunities to make money. Due to the reduced volume in the market, I consider the time between 10:15 AM and 12:30 PM to be a difficult time to trade and I stay out. Generally, during this time I handle business issues.

At 12:30 PM, I return to my computer screen and get another look at the tape. At 12:30 PM the market tends to reset, and the afternoon action may be quite different from the morning moves. I like to observe from 12:30 to 1:00, and I often do not trade until 1:00 PM. Then, if I see a trade, I take it. However, unless the trade is going my way and I feel very good about it, I exit with my profits sometime before 1:30 PM Central. Between 1:30 and 2:00 PM Central, the market can be extremely volatile and dangerous—too volatile and unpredictable for my taste. Bonds are nearing their daily close, and experience has taught me that trading during these 30 minutes can be very risky. Therefore, I get away from the market and back to the rest of my life.

As seasoned traders know, the last minutes of a trading session may also be a good time for trading. Often, the volume picks up at the close because many traders realize that they are on the wrong side of the market and are forced to exit their positions. Therefore, there may be a lot of rapid price movement; if properly identified, the rewards can be worthwhile. If I see a move, I may trade again during this time.

The NYSE closes at 3:00 PM Central Time and the CME (the S&P and Nasdaq futures) closes at 3:15 PM Central. That is when most traders call it a day. They close their trading platforms and forget all about business until New York and Chicago come to life the next morning. That, however, is not my game plan. I know that the CME begins after hours, or Globex, trading at 3:30 PM, and the Chicago Board of Trade (CBOT) opens for trading at 6:00 PM Central. I want to know the opening price of the S&P during the Globex session, and I am interested in the first 30 minutes of Globex trading. That early-evening action may give me a hint as to what to expect during the evening session. Generally, I do not trade at this time, but I take note of how the market is acting and I store the information away to help me later.

I consider myself a global trader because I use international markets to help me trade. Sometimes I also trade foreign indexes. For example, I often trade the Dax futures. The Dax is located in Frankfurt, Germany, and it is a powerful index that may set the pace for trading throughout Europe. The Nikkei opens in Tokyo around 6:00 PM and the Hang Seng session begins in Hong Kong at 8:00 PM. Generally, I have no interest in these particular opening prices. My concern is with the close. I want to know if trading on these exchanges ended up or down. It is not necessary for me to watch them minute by minute. When I wake up at 5:00 or 6:00 AM Central, I check the prices. Then I determine whether I want to trade on the basis of them. If so, I do so—and if not, I walk away and wait for a better opportunity.

That, in a nutshell, is my trading schedule. It is relaxed and easy. I do not work at a frantic pace, and I do not trade continuously. I pick my trades carefully, and I trade during times when the odds are greatest that I can make money. I always know the risk of a trade, and I always take steps to protect my interests. Some days I am profitable, and other days I am not. The secret of trading is to win more often than not and to maximize profits and minimize loses. It is not easy. The markets are often unpredictable, and reading the indicators and joining the winning team is difficult. But, with persistence and hard work, the game can be mastered.

My Trading Day

4:00 AM	If Asia and Europe are trending in the same direction, I identify a market entry price and place a trade. If there is no trend emerging, I go back to bed and get more rest. (Morgan's service is a real sleep saver on these days.)
6:00 AM	Note the 6:00 AM Dax futures price. Watch the Dax trade around this price. Is the Dax in sync with Asia and the United States? If so, I will probably trade the Dax.

(continued)

My Trading Day ***(continued)***

7:30 AM	Many times scheduled economic news is released at this time. If I am in the market from an earlier trade, I tighten my stop and watch carefully. I do not want a storm to blow through and destroy my resources.
8:30 AM	New York and Chicago open their sessions and the beat gets faster. I am very interested in the opening prices and the first five minutes or so of trading. I want to know whether the bulls or the bears are the strongest. That may give me a clue as to what to expect from the day's trading.
10:15 AM	Get away from the computer screen. This tends to be a difficult time to trade. Volume generally leaves the market and the probability of success is diminished.
12:30 PM	The index futures often reset and reverse or accelerate a morning move. If I am able to identify a play before 1:15 PM, I trade. Otherwise, I wait.
1:30 PM	I try to stay clear of the markets for 30 minutes. I refer to this time as the Grim Reaper because prices often jump erratically.
2:30 PM	The day sessions are ending. The open outcry pits of the NYSE close at 3:00 and in Chicago the S&P pits close at 3:15. If I see a late-day play, I trade. Otherwise, I wait for another opportunity.
3:30 PM	The Globex session opens and the S&P futures and the Nasdaq futures are open for electronic trading.
4:00 PM	The Dow futures close at the CBOT.
6:00 PM	The Nikkei opens in Tokyo.*
6:15 PM	Dow futures, bond futures, and gold and silver futures may be traded on the ECBOT.
8:00 PM	The Hang Seng opens in Hong Kong.*
2:00 AM	Many European indexes open. For years the Dax futures in Germany opened at 2:00 AM, but recently began opening at 1:00 AM.*

(continued)

My Trading Day ***(continued)***

8:30 AM The outcry pits open and the day trading session begins again.

*Because I am located in south Alabama, I use Central Time. All times on this schedule are Central.

Note: Asia does not use Daylight Saving Time. Therefore, hours of operation shift when we have Daylight Saving hours. Also, Germany has Daylight Saving time changes, but those dates differ slightly from those in the United States. Therefore, always check for exact hours of operation when trading these markets.

Trade Secret #1: Your trading day did not begin today; it started yesterday afternoon. When you learn that fact and use that information, your trading will become more consistent.

REVIEW

Wall Street may be open for business eight hours a day, but the global markets operate virtually 24 hours a day. Active trading follows the path of the sun as it moves from east to west. While Americans are eating their dinner on Monday evening, it is Tuesday in Tokyo and the financial markets are trading. When U.S. traders are snug in their beds and sleeping soundly, brokerage houses in France, Germany, and London are busy and the financial markets are alive with a flurry of activity. That simple bit of information helps me avoid risk, expand my trading horizons, and increase my profits.

Because I know that markets are trading 24 hours a day, I also know that bad things can happen to my portfolio while I am sleeping. Scary things frequently happen to global traders who are not prepared. A terrorist attack or a Fed chairman delivering a prepared speech during a dinner in Washington, D.C., may send financial markets crashing down. Therefore, global traders must know how to protect themselves in a 24-hour marketplace.

If you have a chance to make money from 8:00 to 5:00, think of how much more money you can make from 8:00 in the morning until 8:00 the following morning. Trading opportunities are greatly expanded. And, if there are money-making chances in the U.S., think how many more trading possibilities exist if you open up Asia and Europe. Having knowledge of global markets expands the playing field.

Finally, using a 24-hour trading clock may give you a heads up or a hint as to the course the U.S. financial markets may take during their trading session. It is true that sometimes Asia and Europe will trade in one direction and the United States will not follow. But, there are times when having knowledge of the action across the Atlantic and Pacific keeps you on track and steers you in the right direction. And, there are other times when knowledge of global market action keeps you from falling for a false play. Knowledge of the worldwide picture helps you reduce losses and stay more profitable.

Trading is a 24-hour game, and those who understand that fact will be in a better position to limit risk, increase their trading opportunities, stay on the right side of the action, and be more consistent and profitable.

MARKET INSIGHT

- Financial markets operate 24 hours a day. Take advantage of that reality.