# Chapter 1

# Becoming a Market Timer

### In This Chapter

- Understanding market timing
- Getting a handle on timing's jargon
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- Finding the whys of market timing
- Getting ready and diving in
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An old market cliché says "there's always a bull market." In other words, if you look hard enough you can find a market that is trending, up or down, and that you use to make money.

Because there's always a bull market, market timing may be the trading method of the 21st century, given the potential for volatility in the world and the markets, and the change that's likely to follow as humanity progresses toward its next stage of development.

Although the topic may seem daunting, you have plenty of reasons to consider adding it to your investing arsenal, given what may lie ahead. For one thing, the world is moving from a North American and Eurocentric focus to one that includes Asia and the emerging economies of South America, specifically, China, India, and Brazil. Resource-rich nations such as Russia and Venezuela are also participating in the mainstream markets.

That change alone — the spreading of power and influence to more places around the globe — is enough to create opportunity for market timers, who now operate in a world where money travels at the speed of light and the 24-hour news cycle has created a world where information is available at any time to anyone who has access to a computer and an Internet connection.

The bottom line is that buy-and-hold investing, the more traditional method for everyday folks to increase their wealth, is losing its appeal as the ability to move faster in and out of trading positions, and to trade markets that are rising or falling profitably, is increasingly important to long-term investors. The net effect is that investors who can adapt to this new world are the ones who will have the best chance of success.

But don't let all that stuff about change get you down. With this book, you can find out how to profit from the market's perception of and reaction to events by timing the markets. In this chapter, I introduce you to the world of market timing and show you how you can be in control of your investment results.

# Defining Market Timing

Market timing is the act of entering and exiting trades (buying and selling at the most opportune time) in any market, whether, stocks, bonds, futures, or options. When timing the markets your goals are to

- **Decrease your exposure to risk.** As a market timer you want to stay with the dominant trend, whether up or down; you want to swim with the tide by buying stocks in a rising market, and selling or selling short in a falling market.
- **Maximize your profit potential.** If you can make money when the market goes up and when the market goes down, you have twice the opportunity to make money, and you decrease your chances of losing money when the trend goes against you.
- **Increase the consistency of your results.** Non-timers confuse consistency with frequency of trading. Market timing isn't day trading. It's about recognizing opportunities early, moving into positions using well-planned strategies, and monitoring the process on a daily or more frequent basis. It's about doing your homework, being prepared, and setting exit strategies before entering any position. And it's about recognizing when you've made a mistake early so that you can exit a position with as much capital as possible so that you can trade again.
- **Avoid heartburn and feelings of misery.** Anyone who's ever sat through a three-year bear market, such as the 2000–2003 implosion of the dot-com boom, knows that holding on to your favorite stocks during such a period is a sure recipe for heartburn and high blood pressure. If you had followed sound market timing techniques during that time, your losses would almost certainly have been less than if you held your positions during that period.

- **Make responsible investment decisions.** Some investors watch every single tick of a trade and sweat the details constantly, compounding their mistakes and increasing their suffering as their trade turns against them and the losses mount. Finally, when they can't stand it any more, they sell in a panic and remain miserable for months after their experience when they have no one to blame but themselves.

  Timing is about seeing the intermediate-term trend, which lasts for weeks or months, and staying with a position as long as it meets the criteria that you've set forth in your trading plan. It's also about getting out of your position when your goals are met or when your exit strategy is triggered.

- **Diversify your opportunities.** What makes timing one of the most useful trading methods is that you can use the techniques to time stocks, bonds, mutual funds, futures, options, and exchange-traded funds, which means that there is one or more timing vehicles for every possible personality, level of expertise, or risk profile in the investment universe.

REMEMBER

Timing is as much a state of mind as a combination of trading methods, and it requires knowledge of fundamentals and technical analysis, the latter being as much as 80 percent of what will help you pull the trigger consistently and become successful.

# Terms of Engagement for Timing

I use a lot of terms in this book that sound jargony (and *man,* do *For Dummies* editors hate that). These terms are at the heart of market timing, though, so you might as well get used to them. You encounter more terms (defined wherever they first appear) throughout the book, but this small list of critical lingo gets you started:

- **Going long:** Buying assets, be they stocks, bonds, or futures, in hopes that they will rise in price.

- **Selling short:** Borrowing stocks (usually from a broker's stocks) in hope that the stocks will fall in price, at which time the short seller buys the stock back and returns the stock to the lender. The short seller pockets the profits gained from the stock having fallen in price. In turn, the lender receives dividends accrued by the stock during the time the stock is being sold short.

  WARNING!

  Short selling is very risky: Any time the stock rises, the short seller loses money. And stocks can fall only to zero, but they can theoretically rise forever.

- **Bull markets:** Markets that are rising.
- **Bear markets:** The opposites of bull markets; the tendency of prices during these periods is for markets to fall.
- **Leverage:** The practice used by traders in which less than the full amounts of money let them participate in the full price action of the underlying contract. Leverage is similar to credit. And like credit, it can be very detrimental when it goes against you.
- **Margin:** In the stock market, margin is like a down payment on buying stocks. In futures, it's more like a good-faith deposit. In all cases, margin is a form of leverage that lets traders buy larger positions without putting up the entire price.
- **Futures contracts:** Contracts between buyers and sellers that specify how much of an underlying asset will be delivered to the buyer at a certain time in the future.
- **Options:** Contracts that give those who possess them the option to buy or sell an asset at a certain time in the future. I don't go into great detail about futures and options in this book, but I do mention them when the time is right. You can get *Trading Futures For Dummies* (by yours truly) and George A. Fontanills's book *Trading Options For Dummies* for the full details.
- **Market sectors:** A specific area of the market, such as technology or health care. Market timing of individual sectors of the market is essential in both bull and bear markets and can be very profitable. See Part IV for more details on sector investing.
- **Trends:** Time periods in the markets where prices head primarily in one direction for a period of time. The **dominant trend** refers to the one direction in which the market heads over a very long time, even though it includes periods where it heads in the opposite direction. See Chapter 4 for more about trends and how to time them.
- **Sell stops:** Price limits that you specify to your broker when you buy a stock. You use sell stops to decrease losses by selling your shares when they hit the price that you specified as the stop. Sell stops are an important part of market timing, and I discuss them throughout the book.
- **Buy stops:** Price limits used to limit losses when you're selling stocks short. Sell stops are limits placed below the price of the stock you own. Buy stops instruct your broker to buy back the stock you sold short at a price above the price of the stock. You should adjust your buy and sell stops as the trade develops.

# Timing Technique: The Secret of Success

The secret of all experts, although few will tell you this outright, is their technique. Their better-than-average results aren't the result of magic or of experience alone. Even talent isn't enough. Success is based on their long hours of practice, review of that practice, and constant attention to detail that leads to the slow and steady adjustment of technique until it becomes nearly flawless. And when your technique is flawless your chances of success rise significantly. Notice how I said *chances* of success. There are no guarantees in this business, especially when you're up against other people who have perfected their own trading techniques. But in timing, as well as in life, all you can do is the best that you can. Everything else is up to the vagaries of chaos and the universe.

I had a guitar teacher once who was kind enough to teach me about technique when I was in my early 40s. (Old dogs *can* learn new tricks.) I had been playing guitar since I was 14 and had even played semi-professionally in college and high school, making a nice tidy sum, not to mention compiling an interesting chunk of experiences over a couple of summers.

My teacher, Jim, saw me struggling with a scale during a lesson, and he asked me how I practiced. I showed him how I would place my hand on the guitar and started to play. He looked at me and started to shake his head as he told me an interesting story.

He had spent some time in Spain during his early 20s, attending seminars and classes with some of the best Flamenco guitarists of the time. One day in Spain, Jim was walking down the street heading for a class when he heard a guitar playing from a second-floor window. But this was no ordinary guitar. It was the guitar of Paco de Lucia, a Flamenco master and internationally recognized guitarist and performer.

Jim stopped to listen. But he didn't hear Flamenco notes pouring off of the guitar at the speed of light. Instead he heard the single tones of a guitar string being struck in time with a slowly ticking metronome.

Paco de Lucia was playing a C-major scale — the simplest of scales — over and over again at a very slow speed, following the metronome. As he listened carefully, he told me, it was as if he had been hit by lightning. Every note was perfect, every time the finger struck the string. Over and over again, slowly moving, perfect single notes, up and down the fingerboard. My teacher stood under the window for some time and heard no variation in the playing.

What de Lucia was doing and what all masters do to perfect their technique is to slowly repeat the movements required to hit the perfect note every time. By doing this slowly, thousands of times per day, the muscles in the hands learn to recognize the amount of pressure required to hit that perfect note, and the brain remembers it. The ears recognize what a perfect note sounds like and can tell when something is not right. And the master's ability, over time, continues to improve.

Jim began to incorporate the practice modality into his own routine, and over several weeks he began to notice improvement. I incorporated the exercise into my own routine and also started to notice improvement. More important, I began to enjoy my playing more, as my fingers were able to play notes and chords that were impossible a few weeks earlier. To this day, I start my own practice sessions by playing slow C-major scales. And even though I don't play as often as I used to, my playing now is better than it was several years ago when I used to play more often.

Why? Because I have better technique than I used to. This is the secret method of the masters. Slow and steady repetition of the perfect movements, over and over again over years, will lead to improvement. It works for musicians, athletes, dancers, and so on. More to the point, it works for market timers.

Here's what you can do to improve your technique and to start your quest for the perfect trade:

- **Look at market charts every single day.** You can't ever look at enough charts. Even when you've looked at millions of them, as I probably have, you can always discover something new, a new nuance with an oscillator, or a new wrinkle on something that you thought you knew.
- **Watch CNBC and other business channels and listen to what the experts are saying.** Then compare what they're saying to the reality of the moment. This will do two things: First, you'll eventually figure out which of those folks who are on TV all the time really know what they're talking about. Sometimes they say something that's worth checking out, and if you don't know whether they're trustworthy or not you may miss something important. And second, listening to them will give you ideas as to what to look for and how to go about doing your own work.
- **Read as many books as you can on trading and investing.** Some are good; others are terrible. Either way, reading them is time well spent because it helps you develop your own trading sense.
- **Find good sources of information and spend the money to become a subscriber.** Think of a subscription to *The Wall Street Journal* and *Investor's Business Daily* as part of the cost of doing business. Spend some money on a good charting Web site. There is no substitute for real-time charts when you're a timer. Chapter 22 lists some of my favorite information sources.

- **Never stop learning and adjusting.** This is the key to developing and improving your technique. If you stop looking for ways to improve your skills, you eventually see your results decline.

## Running Down Reasons to Market Time

The only reason to become a market timer is to save yourself heartache and anguish while saving your portfolio significant losses. You can do this by using the methods that I provide in this book and studying the markets on a daily basis with the goal of anticipating significant changes in the overall trend of the markets and then acting upon them decisively before they advance to the point where you've missed a significant opportunity to make money.

Before you become a market timer, you need to understand trading, which is what market timing is all about. It may help you to think of trading as investing for different time frames.

For example, if you're a traditional buy-and-hold investor, you have been conditioned to think of your portfolio as something to hold on to forever. You may be an asset allocator, an investor who always has some of his portfolio invested in several areas of the market, with some of your holdings in bonds, others in stocks, and others in cash.

You may hold individual stocks, mutual funds, exchange-traded funds, or mixtures of all three. Yet, as a "long term" investor, you aren't very likely to change either the allocation or the components of the portfolio. If you're lucky, that may work out in the long haul. But in a world where conflict and competition for resources is the underlying fundamental, your mix of assets and your lack of flexibility are likely to cost you money in the short and perhaps in the long haul as well.

REMEMBER

As a trader, you don't want to be lucky. Instead, you want to do everything you can so that your money grows, and to ensure that it's there when you need it. In other words, the difference between trading and investing is twofold: First, traders are more likely to make periodic changes to their portfolios and second, different times call for different trading methods and asset allocation.

For example, you may run into times when your portfolio should have zero stocks and bonds, or periods when gold, oil, or foreign currencies should be the major holdings. More important, at certain times you should be selling some of the markets short, or betting that prices will fall.

As a traditional stock investor who only reviews quarterly statements and forgets about them until the next batch arrives, you're very likely to miss, or fail to anticipate, key turning points in the markets. By the time a financial market story makes the cover of *USA Today* or the Drudge Report, the trend is well on its way, and you may have missed a significant opportunity to profit or to protect your money, resulting in significant losses.

Successful market timing depends on the following:

- **Commitment:** Make a conscious decision to become a market timer and to give up buy-and-hold investing. Just because you become a timer doesn't mean you'll become a day trader. It just means that you make a conscious effort to optimize your entry and exit points from your positions and that you take responsibility for watching your money and making the necessary changes to its composition whenever the market environment calls for it.
- **Discipline:** Your trading plan is useless if you aren't disciplined enough to follow it. Trading often isn't likely to net you any better results than the trader who trades once or twice a year. Successful timing isn't about quantity; it's truly about quality.
- **Patience:** Give timing an opportunity to work for you. Some markets are impossible to time and are better skipped altogether, with your money earning interest as you wait for the next opportunity. I always tell inexperienced investors that 2 percent in your pocket is better than 10 percent of your money in someone else's pockets.
- **Follow the rules:** Execute the trade every time your system gives you a buy signal. Sure, you're going to be wrong some of the time. Sometimes you're going to be wrong for a while, and you'll start to worry about your trading ability. But anyone who follows baseball or any sport knows that slumps are part of the game. When what you normally do isn't working, it means that you may have to fine-tune or retool your system. But if you only take some of your buy signals and avoid others, you run the risk of missing big profits or never knowing how good your system really is.

  The game is the same on the sell side. You may get away with ignoring your sell signals some of the time, but one day you'll be sorry that you ignored them. It's better to miss that last 5 percent on the up side than to lose a big chunk of what's already in your pocket.
- **Manage your money:** This is the hardest of all concepts to pass on to a budding timer, and it has three parts.
  - First, know yourself. If you don't handle risks well, don't risk all of your stake on any one trade, and don't put your entire nest egg into your timing strategy.

    - Second, be diligent about limiting your risks. You do this by using sell stops and by being diligent in adjusting them as the market changes.
    - Third, keep adding money to your trading stake. The more money you have available, the more opportunities that you have to trade larger positions as well as to get back any losses by earning interest. Never stop adding to your trading stake.

- **Diversify:** Consider timing different markets at the same time, and consider *going long* (betting that something will rise) while *going short* (betting that something will be falling in price) at the same time in another market. Doing so is a good way to hedge against risk.

Your success depends more than anything else on how you prepare yourself financially, intellectually, technologically, and personally through the development of a detailed and easy-to-implement trading plan.

# The Nuts and Bolts of Market Timing

I'm a top-down analyst, which means that before I do any trading I get my bearings as to where the market's major trend is and what are the general conditions that could affect the odds of my making money.

I have a ritual that over the years has served me well and that I describe to you in detail in the section "Setting your timing ritual." I'm not telling you that this is what you need to do for your own trading, although I recommend that you develop some kind of routine that gets you in the groove, and that you follow this routine when you've got money in the markets. A timing routine is an important part of your success and the faster you start developing one, the better off you'll be.

## Financing your possibilities

Before you get started with timing you need several things, the most important of which is money. And the inevitable question is, how much? Timing the stock market is not the same as trading futures, where your trading stake is highly leveraged and you need to be very well bankrolled. That doesn't mean that you should start timing with $100 and expect to become as wealthy as Warren Buffet in a few months.

You can have a modest start and still be successful if you apply yourself and keep adding money to your account. For example, I started my timing career with just a little over $1,000 dollars when I was 25 years old and through timing and saving, my stake has grown significantly over the years.

TIP

Large accounts don't guarantee large profits but can lead to large losses if you're not careful. Successful timing is more dependent on trading technique and your ability to establish positions early in a trend and remain in them for as long as possible to let time work for you.

Here are some key steps toward building your trading stake:

- **Live within your means:** The less you spend, the more you have to save and invest. Living on your credit cards and paying interest is a constant drain on your resources and on your trading stake.
- **Minimize your debt and be creative:** Use cash as much as possible or pay your card balances every month if you can. I use one credit card for over 90 percent of all my expenses and pay it off every month. It's also a reward card which means that at the end of the year I have something nice coming, like maybe a few free nights at a hotel or a free pair of plane tickets to somewhere worth going to.
- **Set aside a minimum amount every month for timing:** Put as much away as you can and make your tax deferred account, IRA, 401(k), or 403(b) the first priority. If you're self-employed you have the opportunity to put larger amounts away for retirement in your SEP-IRA. As a rule I try to maximize the amount that I put in my SEP-IRA every year. I've even borrowed money to do it a few times, and it's paid off nicely as the account has grown.
- **Adapt the size and change the types of positions as your account grows:** When I started timing, I limited my activity to mutual funds. But over the years as my account grew I moved on to individual stocks and more recently expanded to exchange-traded mutual funds (ETFs). I traded futures for a period of time but could never work my lifestyle to the point where I could give those markets the constant attention that they deserve.
- **Avoid leverage at all costs:** Margin traders, those who use borrowed money to trade, tend to take bigger risks than they should and often pay the price for it when the market turns against them. As a general rule, use only the amount of money that you have in your account to trade. A nice general rule is that you should always leave some money in the account. For example, I find that when I have over 60 to 70 percent of my stake in the market at any one time, I have a hard time managing the number of open positions.

REMEMBER

The one exception to the no leverage rule is when you're using an ETF that has leverage as part of its design. For example, some stock index funds, such as the Ultra Series, are designed to move at a 200 percent clip to the underlying asset. I use those kinds of funds frequently in order to maximize the return on the trade for short periods of time. That's not something I recommend for you at the start of your timing career, but it is worthwhile as you gain experience. Check out my book *Trading Futures For Dummies* (Wiley) for a good overview of leveraged ETFs and how to use them for timing. Parts 3 and 4 of this book also give you more detail on using ETFs for timing individual sectors of the market.

## Analyzing the markets

Most of timing has to do with preparation, research, and analysis, which can be summed up in one word: planning. The rest of it is execution of the plan and then management of the trade.

In order to analyze the markets you have to have a good grasp of some of the general principles of macro analysis and chart analysis. See Chapters 4 and 5 for more on charts and analysis. Here are some general principles:

- **Get comfortable with technical analysis.** Technical analysis has gained wide acceptance over the past few years with the advent of trading software and the improvement in trading results that can be yours if you learn to spot key characteristics in chart patterns.

  See Chapter 4 for a complete overview of the basics of this important aspect of market timing. The bottom line is that you can't time the markets without using charts, as indeed a picture is worth 1,000 words.
- **Sort out which reports and fundamental indicators are important and which to ignore.** You find numerous reports of economic data whose release is usually a market-moving event. I describe them in detail in Chapter 5. I recommend that you become familiar with each of these reports and that you clearly understand the kind of effect that they may have on the market.
- **Familiarize yourself the way sectors of the stock market tend to move when the stock market is at each particular stage of its cycle — bullish, bearish, or in a transition stage.** I suggest that you do the same with any commodity market that you're going to enter, as seasonal variations can govern these. I cover seasonality in Chapter 6.
- **Identify the dominant trend of each market or sector that you time.** There is no substitute for swimming with the tide in any form of investing. But

trading with the trend is imperative in your timing endeavors, as is the ability to spot any time that the dominant trend is in danger of reversing.

- **Get a feel for market sentiment.** Market sentiment is a pretty esoteric thing, yet it's quite useful, and I cover it in detail in Chapter 8. Market sentiment has to do with having your fingers on the pulse of the market. Money moves from one extreme to the other — from greed to fear. When you sense that you are at one extreme or the other, you can be almost certain that the trend is about to change.

  Greed is what you see at market tops, and fear is what often marks a market's bottom. That's when you start looking at your positions very carefully, and you start checking your charts looking for the signs of impending danger or a future opportunity to make money.

- **Be diverse in your ability to time the markets.** Don't limit yourself to any one market, and don't be afraid to sell the market short if the dominant trend is down. By the same token, you need to be proficient in one aspect of trading or individual market before moving on to the next.

## Setting your timing ritual

After you have enough money to trade and a good grasp of technical and fundamental analysis, it's time to put all of that knowledge to work.

Like most professionals, in sports or any line of work that requires discipline, I've developed a ritual. No, it doesn't involve any scratching or spitting, but it does involve doing the same thing in just about the same order every day. Otherwise, I'd miss something, and in this business, if you miss something, there's a good chance that you'll pay for it later.

I start every day in a similar fashion, waking up at 4:30 a.m. and canvassing the landscape. As my computer boots up, I check CNBC World, and Bloomberg on the T.V. in my office. I then hit the Internet and start scanning a handful of important Web sites that have great amounts of information.

In about twenty minutes I check the headlines at *The Wall Street Journal* (`www.wsj.com`), *Investor's Business Daily* (`www.investors.com`) if I haven't checked it the night before, and Marketwatch.com (`www.marketwatch.com`) along with The Drudge Report (`www.drudgereport.com`). On occasion I also visit Stratfor.com (`www.stratfor.com`) if there is a geopolitical story that's affecting the markets, and during the election season I visit the Rasmussen Reports (`www.rasmussenreports.com`) to see what the latest political trends and opinion polls show.

Once or twice a week I also look at the *New York Times* (`www.nytimes.com`), the Washington Post (`www.washingtonpost.com`), and *The Washington Times* (`www.washingtontimes.com`). I work the *Los Angeles Times* (`www.latimes.com`) into the mix on occasion.

I do all this site-checking for two reasons. One is that I write a daily analysis column, Market IQ, for my Web site, Joe-Duarte.com. The other reason, which is equally important, is that aside from the recommendations that I make on the Web site, I also usually have thousands, if not hundreds of thousands, of my own dollars in the markets at any one time, so it's my business to know what's going on.

If things look attractive, I begin to look at different areas of all the markets. I canvass stocks, bonds, and commodities in general. I look at what happened in overnight markets. And I look to see what the stock index futures are predicting for the open on Wall Street.

I look at the trading calendar and see what the economic reports of the day will be, and whether any significant companies are due to report earnings, as well as what happened in after-hours trading the day before when important companies reported their earnings.

I then check all of my open positions and decide whether any of them require significant action, such as modifying sell stops, or whether I should consider closing out any positions.

After I've done that bookkeeping I look at the stocks that made my list the night before when I checked *Investor's Business Daily's* "Stocks in the News" section for charts that looked attractive. If conditions are right and I find anything worth risking, I put in orders to buy, to sell, or to sell short.

Then, I sit back and watch what happens, knowing that I've got a trading plan that works, and that I've done all that I can to give myself the best chance of making money.

# Setting Realistic Expectations

REMEMBER

If you think that just because you make the commitment to timing you're going to be rich tomorrow, you're going down the wrong road. If you're *very good* at timing, you'll make big profits anywhere from 30 to 50 percent of the time. In fact, what you'll see most of the time is what the pros call *scratch trades,* or trades that lose a little or make a little. And that's why most people give up on the market. What you'll see over time, though, is that once in a while, you'll get everything right and end up with a very nice trade or group of trades that more than make up for your break-even, lose a little, or gain a little trade.

## You can't predict the future

No matter how much hype newsletter and *black box trading system* (secret trading systems pushed by tricky salesmen) types put out, no one can predict the future. So don't waste your time trying to do it, and don't beat yourself up when you make a bad trade.

Your best bet is to watch the market on a daily basis and to have good tools available that help you spot significant changes as early as possible, and then you have to be able to make the right trading decisions by always executing your trade based on what the indicators are telling you. If you're wrong, you should accept that as yet another scratch trade, and move on to the next trade after carefully analyzing what didn't go right with your last trade.

## You can't win every time

If you and I made money every time we traded, you wouldn't have to read books like this, and I wouldn't have to write them; we'd both be in Tahiti soaking up rays and living large. In fact, very few people ever reach that kind of trading result. And even those who do often end up losing much of what they gain, as they fail to realize that a good portion of the gains had to do with good fortune.

I'm not saying that market timing is about getting lucky. What I'm saying is that you get only a handful of opportunities in your trading life to make huge gains. But if you don't take every opportunity that presents itself, you'll never be in a position for those few shots at making huge gains.

Do yourself a favor: Get well grounded, get a thick skin, and realize that market timing will be hard work but that you can be successful if you apply yourself and make it a long-term project.

## Measure your success reasonably

As a market timer you will have periods of very rough going. You may even get some big losses because you forgot to put in your sell stops, or because the market opened way above or below where you had set your stops.

You can beat yourself up pretty handily if you don't get a proper view of how your fortunes ebb and flow as early as possible in your career as a timer. Think about this before you start the self-flagellation that can undo your trading. Look for the reason that you lost money and figure out whether it's because of something you did or because of something someone else did. That distinction is hugely important and could make the difference between staying in the game or giving it up altogether.

TIP

Here are some good points for keeping your trading practice in perspective:

- **Measure your results reasonably:** Making money in the markets every day is difficult. But if you measure your success every week, month, and then every 12 months, you're more likely to get a better picture of how well you're doing.
- **Don't try to beat the market:** The media and Wall Street are fascinated with *beating the markets* — having your portfolio gain more than the major indexes, such as the Dow Jones Industrial Average, at any given time. But doing so on a regular basis is difficult. Instead, concentrate on making good trades consistently. If the market goes up 15 percent and you made only 10 percent, you're doing quite well. Rather than obsessing over beating the market, work on trading with the trend and being consistent.

  If the market is going up and you're making money, that's success. If the market is going down and you're not losing money that's success. If the market is going down and you're making money as a short seller, that's outstanding success.
- **Dollars versus percentages:** Measure your gains or loses with the right perspective. Percentages work better for small accounts. A $2,000 change in a $20,000 account is a big deal. But, if you have a big account, measuring your success or failure in terms of dollars and cents is better. For example, if you have a $500,000 portfolio, and you make $2,000 in a few days, you've done well, even if your gain is only 0.4 percent. You made $2,000 in a short period of time. Don't beat yourself up because you could have made more or because you made only a few percentage points.

## Enjoying the Process and the Fruits of Your Labor

This chapter gives you an excellent overview of market timing. More than anything, market timing is a process, and one that, at least for me, has developed into a lifetime commitment. Timing is part of what I do every day, and it's something that my friends and family have come to expect of me.

And I enjoy the hell out of it. Even if I'm not making money, timing offers me a challenge on a daily basis. Sometimes I win, and I celebrate. Sometimes I lose and I try to figure out where I made my mistakes, so that I don't get caught with my pants down the next time something similar happens.

But no matter what, I look forward to analyzing the markets, writing my daily columns, and trading my own account. If you get into this vocation and find that you don't enjoy it, it's either because you're not doing it right, or because you're not meant to do it.

TIP

Don't give up if you're not successful right away. Take your time and set realistic goals. Practice your timing trades on paper before you put real money to work. And don't let what others say influence you without checking their advice out for yourself first.

When you have a good day, celebrate a little. Have that glass of wine, or treat yourself to an extra delicious desert. Life is short and worth enjoying. If you've had a bad day, let it go. You can review your mistakes the next day. The important thing is to learn to leave the trading at the office, or at your trading station at home.

Remember, if Flamenco master Paco de Lucia can play one note at a time very slowly, you too can look at one chart at a time and savor every single tick on that chart, glean every single ounce of knowledge from it, and put it to good use.