

CHAPTER 1

A Philosophy of Trading

What is trading after all? How can it best be understood? What are its possibilities, limitations, and goals? Is it subject to moral and ethical constraints? Can there be an underlying philosophy of trading? These are some of the questions that are considered in this initial chapter.

ANALOGIES

Stock market trading can be both highly rewarding and extremely dangerous to your financial health. It is a kind of perpetual warfare with many enriching spoils and hidden hazards. It is like climbing in steep, rocky terrain with the simultaneous reward of new vistas and the peril of falling. It often reminds me of the passage in Psalm 18 where David recounts that God “makes my feet like hind’s feet, and sets me on my high places.” If you have ever watched a mountain goat run up a steep mountain precipice, you get the picture. It takes special feet there to avoid catastrophic falls. Whether those “trading feet” need be a created endowment or an acquired trait is an open question. What is clear is that not every person should get involved in stock trading, and no one should rush into it without thorough preparation. There is a saying that “To fail to prepare is to prepare to fail,” and nowhere is this more certain than in the domain of equities trading.

Trading is analogous to farming, where the farmer must carefully choose the crop to be planted and the appropriate location of the fields for planting that particular crop. It is then necessary to prepare the soil

2

THE VALUE AND MOMENTUM TRADER

thoroughly, plant the seeds at the best time, monitor growth, care for the plants, and then to harvest the product at the right time and deliver it to the right market at the right price. It is hard, sacrificial work, and there are always factors outside of one's control. It is a tribute to Providence and to human stamina that the farmer is ever even able to make a living. There are, however, many types of crops favorable for different soils, climates, and seasons that make success something within the realm of possibility. In the end, however, much of the farmer's success may be attributed to his network of family and friends that provide him or her with information and behavior modeling that extend necessary skills from generation to generation.

Trading is also analogous to fishing. There are many kinds of fishing, just as there are many approaches to trading. There is deep-sea bottom fishing, mountain-stream fly fishing, lakeside bobber fishing, winter ice fishing, and commercial net fishing, to name just a few kinds. In each approach, other factors such as seasonality, types of lures, time on task, and so on also come into play. It is possible to catch fish by any of those methods, just as it is possible to be successful using a variety of approaches to trading stocks. What methods one ultimately adopts depends on available resources, proximity to particular kinds of fish, and many personality and temperamental preferences. It is probably a good thing that styles of fishing differ, as do styles of trading. Otherwise the fish and profits would soon disappear in certain overfished areas.

Yet another analogy for stock trading is that of designing race cars. Every possible consideration is given to competitive advantage, whether through engine modifications, use of superior tires, or aerodynamic improvements. As important as tire tread may be, if one focuses exclusively on tires and neglects other considerations, the race will be lost. In the same way with stock trading, if one considers only technical charting or earnings per share or book value to the exclusion of other concerns, success will prove elusive. One must take into consideration a variety of factors simultaneously. And even if you manage to develop the perfect race car that is far superior to the competition, skill at driving and the skill of the repair crew in the pit may well decide the outcome. So it is that, even if you develop the ultimate stock selection system, skill at executing individual trades or at portfolio management may finally determine success or failure. To carry the race car analogy one step further, there are always factors outside of one's control, such as an oil slick on the track or a collision with another race car, that can take you out of the race altogether. It is crucial to manage these risks in order to survive to compete in yet another race.

One more analogy for trading is provided by the hunter. Near my home in the mountains stands a tree with a folding chair tied high up on its trunk. The chair has now rusted and fallen into disuse. But at one time it was affixed to the tree by a hunter in avid search of prey. I can imagine him

seated there for hours at a time waiting for some unsuspecting turkey or deer. The chair stands as a stark reminder of the trader's need for proper positioning, skill with appropriate weaponry, and enduring patience. Even before those assets, the hunter needs a mindset that tells him there will be a reward for his trouble. It is this confidence that helps him scope out his position and endure discomfort for many hours and days at a time. For the trader there is a similar need for confidence that hard work will pay off. Even though it is highly unlikely that sitting in that chair will now produce the same level of satisfaction after years of encroachment by development, the principles are still valid. And in the same way, the trader cannot expect to hold his positions forever with the same assurance of reward.

The game of chess provides another analogy for stock trading. In chess, as in trading, it is critical to have a firm grasp on an appropriate opening strategy that includes a memorized set of contingency plans. Every move, whether it is passive or aggressive, involves some level of risk, so the player must continually assess potential threats. The chess player, like the stock trader, is constantly seeking advantage through exchanges, whether the advantage is asset-related or merely positional. In both chess playing and stock trading, one must not let intense emotion cloud clear thinking. In both pursuits, when positions are extremely complicated, one must be guided by a set of dependable principles.

One final analogy for trading that comes to mind is one that can be borrowed from the field of linguistics. Trading has its own vocabulary and syntax. It is important to know the meanings of the words and the rules for their usage. But in actual communication there is a kind of Chomskyan distinction between competence and performance. The rules of successful trading competence can be described with a certain degree of specificity just like the syntax of a language, but the execution of those rules in actual performance will vary in ways that are much more difficult to describe and may have situational nuances that defy description and prescription. Just as a person will frequently generate creative new sentences never used before and never to be used again, and yet those sentences may be in full conformity to the rules of syntax, semantics, morphology, and phonology—so it is with trading. Having a well-defined trading system does not pre-empt the possibility of creative moves that may never be repeated in the same way, and yet those moves may be perfectly appropriate to any particular trading situation that presents itself and may comply completely with purposeful guidelines.

PRAGMATISM

The ultimate test of a trading system is how it works for the person using it. Seen from this perspective, trading is one of the most pragmatic

activities imaginable. Here I am reminded of Thomas Edison and his invention of the incandescent light bulb. He tried many substances as conductors before he found that tungsten filament would produce light under the proper conditions. Edison never learned the precise molecular qualities of tungsten that caused it to produce light where other elements had failed; understanding and proposing a theory of molecular luminescence were not his goals. He merely wanted to find a better way to produce light. Once he found his answer, he abandoned the search for other conducting elements. His task then was merely to refine the implementation of the discovery he had made. Similarly, the stock trader wants to adopt a trading system that has a high monetary yield. The goal is not to understand and promulgate a better theory of microeconomics. He may never fully comprehend why his trading system actually works for him, while other trading systems do not work so well. Pragmatism can lead to appropriate solutions without the distractions of rigorous theoretical accommodation.

Inherent in most expressions of pragmatism is a common-sense belief that natural phenomena tend to follow established rules and predictable patterns. This view is not compatible with extreme versions of random walk theory that would maintain that market behavior is chaotic and not susceptible to description, prediction, or harnessing in any scientific sense. If I believed that market phenomena were totally random and did not conform to predictable patterns, I would have abandoned trading long ago and put my money in a mattress and walked away. The reality is that mathematicians have no single satisfying definition of randomness. If randomness is defined as “equiprobability of outcomes,” then you cannot know if phenomena are random unless you can specify all possible outcomes and can test all possible occurrences to verify that they are equally distributed. If randomness is defined as “unpredictability of outcomes,” then you cannot know if randomness occurs unless all possible attempts at prediction by all possible methods have been exhausted. If randomness is defined as “lacking identifiable pattern,” then you cannot know if it exists unless all possible occurrences can be examined for the presence of any possible pattern. Chaos could not possibly even be recognized unless there existed some orderly field against which to evaluate it. This is not to say that stock market phenomena are simple, uncomplicated, and easily understood. Someone has said that trying to understand stock market phenomena by most common scientific means is like trying to understand moving water by catching it in a bucket. This may be why pragmatism is so appealing. It allows us to stop our searching whenever we find that our methods are working for the intended purpose.

At the same time, some varieties of pragmatism can have their own dangers. Have you ever watched a baseball game and seen the batters walking up to home plate? Some batters have an elaborate routine that they

follow religiously. Perhaps they will rub their hands in the dust and then pick up three bats. After two swings with three bats, they discard one bat and swing twice with two bats. Then they discard one more bat and approach the batter's box confidently holding the ultimate bat for the ultimate encounter. Why do they have such an elaborate routine? Perhaps they saw a great hitter use that routine. Perhaps they once hit a home run following the implementation of the routine. Does the routine have any positive correlation with success at batting? Probably not. Similarly, with stock trading it is possible to carry out ineffectual routines mindlessly because others do or because it once appeared to produce desired results. There must be a commitment to test whether any given routine or trading system leads to successful results under appropriate conditions, and to abandon or refine unsuccessful systems.

GOAL-ORIENTED BEHAVIOR

Although an elaborate theory may not be necessary, appropriate measurable goals are always in order. One needs to specify parameters of success in order to know whether or not one is succeeding. The goal of trading is not just to make money, but to make more money than one could expect by other legal means. For example, it is possible to invest all of one's available capital in a good stock index fund. In this way one could reasonably expect to match overall market appreciation over a period of years. Because U.S. equity markets have historically yielded about 7 percent per year on average, one could hope that this level of return would continue. Unfortunately, annualized inflation has also averaged around 2 percent to 4 percent, with some upward variation. This means that we could expect our index-fund investments to give us back somewhat less than a 3 percent annualized yield in real purchasing power at the end of our investment period. Bank certificates of deposit may not even keep pace with inflation. For me, this level of yield is not acceptable. One needs appropriate measurable goals to attain threshold levels of success and to know when they have been attained at stock trading as with any other endeavor.

Trading, like farming, fishing, and designing race cars, is time-consuming and stressful, albeit enjoyable, labor. It is reasonable to expect to profit from that labor over and above the profits attainable through a bank CD or an index fund, where no labor is expended. Based on reading and prior experience, I have come to set earnings goals from the activity of trading at 10 percent of traded capital per month. Some months earnings will be less than 10 percent, and some months they will exceed that goal, so this is an expectation of 10 percent per month on average. If, for any

6

THE VALUE AND MOMENTUM TRADER

reason, earnings should fall short of that goal consistently, then it is time to back off and examine the trading system to see if adjustments are needed, or to see if it is time to adopt a new system. I have found in my own trading experience, for example, that market trends can dictate whether stock selection should be weighted more heavily towards momentum and growth or towards value and earnings. This in turn can dictate what kind of trading system will be most effective.

TIMING

Timing is always a critical issue in trading—when to buy, when to sell, how long to hold, and when to be out of the market altogether. It is as the writer of Ecclesiastes has said, “To everything there is a season, a time for every purpose under heaven: . . . a time to gain, and a time to lose; a time to keep and a time to throw away.” The trading window is a defining concern for stock trading. There are day traders who may hold positions for only a few seconds or a few hours, but who always close all positions before the close of trading each day. There are swing traders who tend to hold positions from one or two days to about one or two months. And there are investors who tend to hold the same positions from several months to many years. The first two categories of traders are often called speculators instead of investors. I find myself to be clearly in the middle category because I tend to hold positions from about three days to three months, depending on market conditions and individual stock price fluctuations.

My choice of such a short-term window is related to the concept of fractals that are involved in all natural measurements. To illustrate this point I might ask you the length of the State of California from the northern border of Mexico to the southern boundary of Oregon. If you consulted an atlas, you might reply that it is approximately 850 statute miles. But if you were to measure the coastal distance using fractals, you might conclude that it was a much greater distance—perhaps even rivaling the distance from the earth to the moon. I cannot be sure of the exact distance because no one has ever attempted such a measurement. To do so, one would need a flexible measuring tape or string of great length. One would need to hold all of the waves and tides constant long enough to trace the waterline for the entire length of the coast. One would need to go in and around San Francisco Bay, and all other inlets. One would need some decision rule to consider all rivers and other coastal tributaries. Although the presumed prevailing direction of measurement would be from south to north, many times the actual measurement would proceed from east to west or from west to east—or even from north to south. The point is that the true fractal distance would be many times greater than 850 statute miles.

The situation is very similar with the price movement of stocks. Consider for example a stock that has moved upward in price from 10 dollars to 15 dollars a share over the course of one year. An investor may be pleased with this 50 percent gain. However, a speculator like me might look at the chart and say, "Wait a minute! This stock actually went from 10 dollars to 8 dollars to 12 dollars to 11 dollars to 17 dollars to 14 dollars to 15 dollars." We can see that its actual price movement was much greater than the 5 dollar gain realized by the investor. What if he had bought at 8, sold at 12, bought again at 11, sold at 17, and bought again at 14? His gain would then be 11 dollars or 137.5 percent instead of 50 percent. This illustration may be oversimplified, but it explains why my own trading window is so narrow, and why I may frequently repurchase stocks without apology that I have sold only a few short weeks earlier.

Another related concern about timing is the observation that there are periods when it is advantageous to be fully invested in stocks, and there are times when it is best to be out of the market altogether. This opinion is brought home convincingly in Figure 10.1 of Chapter 10. There we can see that equity markets go through predictable cycles reflected in periods that are clearly advantageous or clearly disadvantageous for investing. I did not always believe that it was necessary or even possible to time the markets, but you will see later in this book why my views on this matter have changed dramatically.

STOCKS VERSUS COMMODITIES, OPTIONS, MUTUAL FUNDS, AND BONDS

Early on I traded in nearly every market to which I had access where I thought gains were available. I remember buying heating oil futures in the fall, thinking that prices had to go up in winter—only to discover that the reality was much more complex. Similarly, I bought orange juice futures when Florida experienced a hard freeze, not considering imports from Brazil. I bought precious metal futures as a hedge against inflation, only to see them retreat when worker productivity climbed. This pattern persisted for me in a variety of different commodities until one day I came across a web site where the profits of all major commodities trading firms were reported. I was astounded to discover that the best of the firms were averaging monthly returns of only about 1 percent and this in spite of all of their resources, professional research, and trading experience. That was when I gave up on commodities; although I still do trade exchange-traded funds and stocks that deal in a variety of commodities and other financial instruments.

8

THE VALUE AND MOMENTUM TRADER

Next, I discovered that options trading had one great advantage over stock trading; namely, options were much less expensive than their underlying stocks, so that when the price moved up, the percentage gain from options was potentially much greater than with stocks. Eventually, I traded OEX Index options to take advantage of the greater trading volume and liquidity than was available with most individual stocks. Certainly option trading is not a boring pursuit. I can remember the exhilaration of riding a call to its peak, exchanging it for the associated put option, and reaping the benefit as the underlying equity value declined. But then I made two disconcerting discoveries. The first was that options expire after a specified period, and if they are not exercised before expiration, the owner is left with nothing. I learned also that the majority of options did actually expire unexercised, so that most options traders were losing the battle. It was no great consolation that options were cheaper than stocks when the prospect of losing one's entire investment was ever present. The second discovery that was even more disconcerting was that options values do not always move in tandem with the underlying stock or index. Because options pricing is determined by supply and demand, it happened too often that the underlying stock or index would move up, but the option price would be unaffected. Eventually, these two considerations led me to abandon options as viable investments for me personally. I realized that I could alternatively choose to sell options on my stock holdings, effectively "renting out" my stocks in order to benefit from the premiums and the expiration phenomenon, but the potential returns from that activity appeared to be less than my avowed goals.

My next foray was into the arena of mutual funds trading. This was at a time when I was working at a full-time job as a university professor, and I did not have time to monitor my holdings throughout each trading day. It was also at a time when equities were in a long-term bull market and the Fidelity Funds imposed no penalty on short-term trading of their sector funds. These circumstances changed, and so did my attitude towards the trading of mutual funds. It concerned me that mutual funds were usually available for trading only once each day at the close of trading—meaning that there was not sufficient liquidity to deal with intraday news developments. It also troubled me that I had no control over the individual stock holdings in my funds, and the reported holdings were often six months or more outdated. Also, I had a growing conviction that I could pick stocks better than most of the mutual fund managers, so my only logical recourse was to select my own individual stocks. In addition, after I read the valuable book by Gary Smith on mutual funds trading that is referenced in Table 2.2, I realized that success in mutual funds trading depends a lot on one's skill as a market timer. Lacking that skill, I decided to stick with individual stocks. I have subsequently learned the hard lesson, however, that

even when the focus is on the trading of individual stocks, a successful trader will learn the rudiments of market timing. William O'Neil (1995) was right when he asserted that general market trends are important concerns for those who trade individual stocks.

Bonds were never a great temptation for me. Bonds lacked the level of annualized return I sought. They seemed to be attractive only in bear markets, which fortunately are less frequent than bull markets. Also, with all due respect, bond traders appear to me to be the morticians of the market. They get excited only when there is some major calamity in the world and investors flee to bonds for safety. Of course, it is helpful that such a refuge exists, if only to preserve capital for reinvestment in stocks when the storms pass. I do recognize that there are many profitable trading arenas, and bond trading can be one of them, but just as fishermen seem predisposed to particular methods of fishing, I find the trading of stocks to be far more satisfying. Recently, a variety of exchange-traded funds (ETFs) have been created that deal in bonds and other financial instruments. Thus, the safety of bonds can be available while at the same time it is possible to maintain the liquidity of stocks, and in this way the distinctions among bonds and stocks and commodities have become blurred. That is probably the only way in which I personally ever invest in bonds.

SHORT TRADING

A word is in order about short trading. In every market trend, whether positive or negative, there are always individual stocks that are rising in price and those that are falling in price. Even during the negative time of the September 11, 2001 terrorist attacks, airport security stocks had a big run. Similarly, during the strongest of bull markets there are companies that fall into scandal and go bankrupt. Therefore, it appears that maximum earnings potential is found in those portfolios that hold both long and short positions simultaneously, and there is some research evidence to support that view. However, fortunately, equities markets have an upward bias over time.

If, as some advocate, the Fibonacci ratio, 0.618, holds in market trends as it does in other natural events, then the overall odds of success with random long positions compared to random short positions would be approximately 5 to 3. Thus, over time it is more difficult to succeed with short positions than with long positions, and a trader who exclusively trades short is swimming upstream. Furthermore, just as intensive long-position acquisition tends to drive share prices higher, intensive short-position acquisition tends to work in reverse and causes companies to lose capitalization.

Although it can be argued that short trading enhances liquidity for some stocks, it can also be shown that short trading of individual stocks may require additional capital—usually \$25,000—in one’s account that is essentially tied up to ensure against risk, and thus it can limit trading reach. However, my chief personal objection to shorting individual stocks is that seeking to benefit from the losses of others has little socially redeeming value. It distresses me that some hedge fund managers have been permitted to buy naked shorts with little collateral and thereby to play havoc with our equity markets. Unless serious controls are imposed on shorting activity, such as enforcement of the uptick rule or suspension of margin availability, massive hedge fund shorting can seriously destabilize equity markets—to say nothing of the potential that shorting has to destroy individual companies wrongfully. Shorting also provides motivation for dishonorable individuals to spread false rumors about companies in order to drive their share prices down. This to me is like shouting “Fire!” in a crowded theater.

All things considered, my own philosophy of trading has been to trade long almost exclusively. So far, this has worked for me to such an extent that I see no need to change and go short individual stocks. For me to succeed over the long haul, I must believe that what I do is noble and beneficial for humanity. When I short individual companies and cause them to lose capitalization, I lose that very confidence that gives me a competitive advantage. It is worth mentioning, however, that the function of hedging positions through shorting stocks can also be achieved through the purchase of index put options and leveraged bear funds, if anyone is so inclined. In addition, as I note in Chapters 10 and 11 of this book, with appropriate use of market-timing indicators, we can identify periods when the overall equity market can be expected to turn down and enter a bearish trend. During such negative periods it may be appropriate to own shares in an exchange-traded inverse index fund such as any one of dozens of such funds that have been created in the past decade.

USE OF MARGIN

Brokerages will usually lend money against your current account holdings to permit you to leverage additional purchases. The limitations are such that IRA accounts are ineligible, stocks priced under \$4 or \$5 are usually ineligible, and no more than 50 percent leveraging is permitted. Thus, for a \$10,000 account of the right kind, you might be allowed to leverage and purchase up to \$20,000 of acceptable stocks in return for whatever margin interest rate your brokerage might assess. The good news here is that, if you are fully margined and your stock holdings rise in value 10 percent,

you have then earned a 20 percent gain on your original investment, minus the margin interest fees.

This sounds terrific. But wait! The bad news is that, if your stock holdings fall in value 10 percent, you have then lost 20 percent on your original investment, plus the cost of the margin interest. If, in this way, the capital remaining in your account drops below 35 percent of your holdings, you will receive a dreaded margin call. This will require you either to deposit more funds to restore 50 percent capitalization, or to liquidate sufficient stock at the rate of two for one in order to satisfy the call. And this does not take into consideration the cost of commissions and losses due to spread at the time of the transaction, i.e., the distance between the bid and ask price, which are also leveraged. If market conditions are strongly biased in your favor, and if the particular equity holdings in your account are nearly guaranteed to rise in value quickly, then you stand a chance of success. Otherwise, it is best to avoid the temptation to trade on margin. In my personal experience, my best success with margin was in trading mutual funds in a bull market. Interestingly, for some brokerages, their greatest earnings come from margin interest charges.

TRADING AND GAMBLING

For many years I was unwilling to attempt to trade for a living. My reluctance was due to my belief that stock trading was a form of gambling, which is contrary to my values system. The more I reflected on this problem, however, the more I realized that trading is no more gambling than farming is. When a farmer plants his crops, he has no guarantee of a harvest, much less of a market for his harvest. Yet he is taking on huge risk by investing in seeds and cultivation. Nevertheless, farming is considered a noble pursuit because it feeds the masses by relying on a combination of hard work, learned skill, and trust in Providence. However, to the extent that the farmer does not accompany obvious risk with hard work, appropriate learning, and trust in Providence, his efforts may indeed amount to a form of gambling, just as can be the case with many other pursuits. Through appropriate learning he can manage risk in such a way that the odds of success are greatly in his favor. Through appropriate planning he can distribute risk in such a way that one year of drought will not necessarily destroy his enterprise. Through hard work he can enhance his productivity.

The trading of equities is very similar. It can supply needed capital to promising new businesses and thereby provide jobs and goods and services. Through appropriate learning, you can manage risk so that the odds

of success are ultimately in your favor. Through hard work, you can locate and capitalize on the most appropriate investments at any given time. Thus, trading need not be gambling. The decision to become a stock trader may not even be motivated by the desire to get rich, although it often is. This decision may come about as a logical consideration of the best alternative for appropriate stewardship of resources already accumulated. In other words, at some point it may be cost effective to take time off other work to manage your stock portfolio rather than to leave this responsibility to others while you work another job. You may find that it is more productive to make your own trading decisions than it is to let some fund manager make those decisions for you.

Recently I have had occasion to reflect on the fact that writing books on stock trading might also be considered a form of gambling because such books can represent an enormous investment of time, at the same time that there is no guarantee that anyone will buy them or read them. Fortunately the value of articulating one's beliefs and procedures in this area includes inherent compensation that mitigates risk.

People of conscience have never condoned gambling. Perhaps this is because gambling losses are wasteful, and gambling gains come at the expense of others. But trading in long positions is an entirely different category of behavior that can be as noble as farming or fishing or book writing because it does not produce zero-sum gains. To be strictly consistent, one could argue that stock trading is a vastly more noble pursuit than safely putting money in the bank to draw interest, because the Bible is a guide to moral conduct in many places (for example, Psalm 15:5; Proverbs 28:8; Ezekiel 18:8) speaks critically of the receiving of interest on some kinds of investments, at the same time that it speaks of rewards given for successful trading (Luke 19:15–17). In this connection, I welcomed the comments of Warren Buffett during a recent severe market downturn. He said that “cash is trash” and everyone should buy stock in order to help the economy.

BOLD PASSION

It is a matter of supreme importance that stock traders have a passion for trading. Trading should be an exercise of sheer delight, and not one of painful drudgery. Here I am mindful of the words of a championship college basketball coach who repeatedly told his players that he wanted them to have fun every time they were on the court, no matter who their opponents were and no matter what the consequences of the game might be. Of course, it is always more fun when you are winning. However, there is still the competitive thrill that comes from pushing oneself to the limit of one's

endurance and exercising all of the reserve of one's hitherto undiscovered talent in the great rhythmic dance. It is a supreme learning opportunity where one can both learn how to play better and can reach new limits of self discovery. It would make no sense to tell athletes that that they would not be allowed to participate in a sport unless and until they were guaranteed that they would be number one in that sport. Imagine telling people that they would not be allowed to play golf unless their name was Tiger Woods.

Nevertheless, without the necessary passion, the trader will not only fail to face the opposition and overcome temporary defeats, but will also avoid bold new moves that spark success. In this motivational struggle, I am often reminded of the words of Jesus, "Actively trade until I come" (Luke 19:13, original Greek). This implies a need to be active and aggressive, and a need to persevere. Without a bold passion for trading, no trader can actively persevere in the face of those setbacks that will certainly come.

SUMMARY

In summary, the process of trading stocks may be best understood through the consideration of various analogies. The particular philosophical approach to trading advocated in this book is pragmatic. Such an approach works to produce desired results even if the underlying theoretical explanation of outcomes is not fully understood. If this approach consistently fails to produce earnings of 10 percent per month, then it is time to pause, reexamine, adjust, or replace the trading system.

There will be a lot of time and effort involved in implementation of a successful trading system, but the rewards should more than compensate for this. Many different approaches to stock trading can lead to successful outcomes. The trading systems advanced here do not usually involve taking short positions in equities, nor do they lead to long term buy-and-hold strategies, nor can they be labeled day trading. It is acknowledged from the outset that trading is a dangerous endeavor that is not for the faint of heart, but it can and should become a passionately enjoyable activity. Also, maintaining the necessary passion for trading is helped by maintaining a posture that does not bring harm to others. And it must ultimately be acknowledged that many of the variables at play in stock trading will always be beyond one's personal control.

