

P A R T
O N E

QUESTIONS

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ORGANIZATION

When a surgeon walks into his operating room, he knows that all the equipment has been set up to help him achieve success. The life-support instruments, the surgical supplies, and the systems for dealing with emergencies are all in place before he begins. Similarly, when you begin trading, you have to prepare your trading room before placing orders. You must choose your software and learn to use it, and you must allocate capital, money, and time. You need to develop a plan of action and emergency procedures, taking care of a host of important details.

This section will help you review what you need to do to prepare yourself to trade. A mere dozen questions cannot cover every step and procedure, but they can serve as a wake-up call. If you do well, you are more likely to succeed, but if you do poorly on these tests, you should stop and do some serious studying before putting a dollar at risk.

Questions	Max. Pts. Available	Trial 1	Trial 2	Trial 3	Trial 4
1	1				
2	1				
3	1				
4	1				
5	1				
6	1				
7	1				
8	1				
9	1				
10	1				
11	1				
12	1				
13	1				
Total points	13				

Question 1—Learning to Trade

How long should it take to become a successful trader?

- A. As long as it takes to learn to drive a car
- B. Double the length of time it takes to read ten trading books and master two software packages
- C. As long as it takes to get a college education
- D. It depends on the amount of time you can invest on a regular basis

Question 2—A Very Small Account

Starting to trade with a very small account presents several unique challenges. Trading-related expenses consume a larger percentage, and the margin of safety is reduced. Which two of the following recommendations are essential?

- A. Stay away from the market until you can fund a bigger amount.
- B. Trade aggressively to make a difference; suspend the 2% Rule.
- C. Find a broker who will allow you to trade 100 shares for \$1 commission.
- D. Trade options instead of stocks.
- E. Do not try to make a lot of money but build a steady track record.

Question 3—Time Management

Seeing how a trader manages time can tell you a great deal about his seriousness or lack of such. Please review the following descriptions and identify which apply to a professional trader, a serious amateur, or a gambler:

- A. Attaches an alarm to a five-minute chart to remind himself to look at the market every five minutes and not miss any signals
- B. Spends three hours reviewing the markets every weekend, half an hour every evening
- C. Makes notes of companies in the news and looks up their stocks in his charting program
- D. Avoids looking at his computer on the days when his positions are underwater
- E. Spends several hours each day in front of the screen and does not allow himself to have dinner before updating that day's entries and exits

Question 4—Paper-Trading

Paper-trading is to real trading what photo-hunting is to hunting with a rifle. You have to go into the wilderness and find your prey, only instead of shooting, you make a photographic record of it. Which of the following features make paper-trading a useful activity?

- A. It tests your ability to perform daily homework and track positions.
- B. It allows you to test new trading ideas without risking money.
- C. It prepares you for placing orders, including stops.
- D. It shows you exactly what to expect in real-money trading.

Choose the correct answer:

- 1. None of the above
- 2. A
- 3. A and B
- 4. A, B, and C
- 5. All are correct

Question 5—Choosing Hardware

Please select a configuration of hardware that can be used for trading for a living:

- A. A single laptop
- B. A fast computer with dual screens
- C. Two computers
- D. Two computers with dual screens, plus a mobile quote device

Choose the correct answer:

1. A
2. A and B
3. A, B, and C
4. All are correct

Question 6—Choosing Software

A professional trader can base his trading decisions on any single tool among the following, except for which two?

- A. Manual charting
- B. A free chart Web site with 20-minute delayed data
- C. A daily advisory with charts and specific recommendations
- D. A toolbox package with real-time datafeed
- E. A blackbox package delivering specific trading signals

Question 7—Using Excel

Many traders use Excel to maintain records and organize homework. Some perform extensive programming, while others do not use spreadsheets at all. Knowing which Excel functions is useful for serious traders?

- A. Designing a basic spreadsheet to hold data and perform automatic calculations across data columns
- B. Using formulas, including absolute and relative references
- C. Using conditional formatting and the Chart Wizard
- D. Knowing how to write Visual Basic code

Choose the correct answer:

1. None of the above
2. A
3. A and B
4. A, B, and C
5. All of the above

Question 8—A Black Box

A broker invites you to open an S&P trading account with his firm. He suggests you purchase a commercially available automatic system, and he will trade its signals for you. Which course of action makes sense?

- A. Make sure the system has been backtested.
- B. Ask to diversify into other markets, in addition to the S&P.
- C. Ask for reduced commissions.
- D. Ask for the system's performance record.
- E. Hang up on the broker.

Question 9—Allocating Time

After a year of part-time trading, a person reorganizes his business life to free up one day per week. Trading has become a serious hobby for him, and he decides to invest more time in it. Please review the following choices: Each line offers two, and you need to decide whether A (the first option) or B (the second option) is preferable.

1. Add group analysis to your study of the stock market or diversify into futures?

2. Develop more elaborate records or add two additional timeframes to weekly and daily charts?
3. Learn to use a more advanced charting package or become more proficient in Excel?
4. Dedicate your free day to day-trading or use it to backtest your system on a greater number of markets?

Question 10—Allocating money

A beginning trader with \$50,000 in his account learns about controlling expenses and decides to allocate \$2,000 a year to education. Please review the following choices: Each line offers two, and you need to decide whether A (the first option) or B (the second option) is preferable.

1. Buy a \$250 software package or a \$1,200 advanced version of that software?
2. Spend \$30 a month on data or look for free data on the Internet?
3. Spend \$300 on books or \$1,000 on private tutoring?
4. Spend \$500 to subscribe to an advisory service or to attend a conference?

Question 11—Networking with Traders

Some ways of networking with other traders can help you, while others can derail you. Which two of the following activities are likely to be useful?

- A. Have a trading buddy with whom you can review completed trades.
- B. Have a circle of friends who can vote on going long or short.
- C. Join as many Internet forums as possible.
- D. Make sure to contribute to a forum or a group on a regular basis.

Question 12—Creating a Trading Checklist

Aircraft pilots go through a preflight checklist to make sure their plane is ready for takeoff. Some serious traders follow their example and prepare a checklist. They apply it to every trade before placing an order. Please review the following statements and identify three correct ones:

- A. Even an incomplete checklist is better than no checklist at all.
- B. The more rules in the checklist, the more reliable it is.
- C. A checklist must ensure compliance with money management rules.
- D. A checklist must identify the source of the trade.
- E. A checklist must review the broad market.

Question 13—Organizing for a Better Outcome

Traders need to make many decisions on how to organize their trading. Some of these choices will have a greater impact on your outcome than even market analysis. Please review the following choices: Each line offers two, and you need to decide whether A (the first option) or B (the second option) is preferable.

- 1. Finding a stock to buy or planning an exit?
- 2. Risking \$100 in an attempt to make \$200 or risking \$500 in an attempt to make \$1,250?
- 3. Focus on the outcome of the current trade or that of an average trade?
- 4. Have six open trades, each risking 1% or three trades, each risking 2%?