ACTIVE TRADING COURSE

Market Tested Strategies for Day Traders, Swing Traders and Investors

PROMO MATERIAL

The StockTeacher Method™
Profit In Any Market Condition

Level 2 Tactics Inside
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From the Author

First of all, I would like to welcome you to the start of a most fascinating and interesting journey – that of becoming a successful trader in the stock market. For me, becoming a trader has been one of the most exciting journeys I have ever undertaken, and I hope it proves to be as rewarding and fulfilling for you.

I would like to start off by stating unequivocally that I am not a salesman. This manual was developed to maximize my personal trading profits. It really is quite amazing the new and innovative ideas you stumble upon while enduring such a project as writing a trading method manual. When writing, every detail must be under the microscope, this definitely makes you aware of your good trading skills as well as shining light on those that are not so good. It wasn’t long after I started out that I discovered most of the information being hotly promoted by traders and educators sounded great but didn’t work. As a result, I have devoted the past five years to developing some breakthrough innovations that I believe will benefit the trading world. I take considerable pride in this work and want as many people as possible learn from my experience.

So what is my experience? First, for as long as I can remember I have had a talent for buying things cheap and selling them at a higher price. Everything I touch makes money. I started making stock picks around 1995, when I was still in my teens. They were stocks that had been beaten up but I could see value in them. I listed my stock picks in a little blue book and decided the time to sell would be a year from then. One year later my stock picks were up over 650 percent.

After I mastered the ability to pick stocks that were undervalued and were going to go up, I began studying market fundamentals and technical analysis. Soon I became adept at picking stocks that were so overvalued their price would fall. That is when I started shorting in the bear market and averaging a 13 percent return every month or 156 percent a year. Not bad considering that 90 percent of mutual funds were having double-digit losses. I started to trade more actively and decided to work at Canada largest day trading firm. I went under a fair amount of education and hands on training before making an average of 450 trades every single day. My trading record was noticed and I started successfully trading from home a hedge fund over which I had total control. I also wisely invested 10 percent of my own money in the fund.
During those years I documented my trading methods and secrets. The result is the StockTeacher Method™ described in this manual. This method will help new traders surmount the steep learning curve and start earning money without making the many mistakes I made in my career. All the information you require to be a successful trader, including the strategies and tactics usually kept secret by professional traders, will be at your fingertips. You will no longer need to purchase hundreds of books or subscribe to expensive newsletters to learn the business.

So what are we waiting for? Let’s begin our journey to new riches and new challenges in an industry and a job that is never boring and where the adrenalin never ends. It’s time for you to make money!

Ryan T. Cooper
June 2003
What is Day Trading?

Day trading is a method of trading stock equities, options, or futures contracts from a computer terminal within a one-day period. A day trader’s workstation usually consists of two monitors and a high-speed internet connection directly linked to one or more stock exchanges. He uses trading software that receives real-time, tick-by-tick, bid-and-offer quotes in charts that form before his eyes in real time with various charting studies. This super-fast connection and real-time information allow the trader to buy and sell stock and receive confirmations in milliseconds.

Day traders use a very short time-frame when holding positions. They can hold a position for seconds, minutes, or even hours throughout the day. Many day traders feel that holding a position for more than thirty minutes is eternity. They rarely hold a position overnight because of the risks involved. Stocks do not always open at the previous day’s closing price. The stock could open the following morning dollars higher or lower. This could be very painful for the trader holding a large position if it moves in an undesired direction. Because day traders commonly trade 1,000-share lots, an overnight change of $2.00 in the stock price would make the trader richer or poorer by $2,000.

Swing trading is a style of trading with a lot of similarities to day trading. Many of the strategies outlined in this manual are also relevant to swing traders as well as longer-term investors. The key difference between day, swing, and investing traders is the length of time the trader plans to hold onto the securities. For example:

**Day Traders**
Hold positions throughout the trading day, but none at the closing bell.

**Swing Traders**
Hold positions for longer than one day. This could simply be because they buy near the close of the stock market and hold their position overnight to sell immediately the next morning. Normally, they hold their positions for three days to two weeks, but this period can be longer.

**Investors**
Usually hold positions for more than four months.

**Scalpers**
A different breed of trader. Normally, they hold a position for seconds, but it could be as long as minutes and as short as milliseconds.
So, you have read about the risks involved with day trading. You have studied charts and strategies and feel you have a handle on just what intraday trading is. You have finally decided to go ahead and open a day-trading account. Your next step is the difficult task of selecting a competent broker. There are so many out there to choose from that what you really need is to develop a set of criteria that will assist you in your selection process.

After all, you do not want to be paying someone to pressure you into overtrading to generate more commissions for the brokerage firm. You do not want to be dealing with a broker who fails you when it comes to customer service. And you certainly do not want to be paying someone who disappears the second his system crashes, especially when you desperately need to get out of a losing trade that is taking money out of your wallet faster than taxes in Canada.

Decide how important customer service is to you. When you are a new trader, it is vital that you sign up for an account with a broker that has great customer service. You will appreciate the assistance of a patient broker who is willing to help you by answering all the questions you will have about everything from setting up your new software to the rules governing margin accounts to order routing to a myriad of other details that will be unclear when you are starting out. Information saves you money in this business.

Another important consideration is your bottom line. Commission fees eat away at your profits. Software fees do, too. It is important to do your homework, especially if you are trading smaller-sized lots. Some brokers will waive their software fees if you make a minimum number of monthly trades. Do not be afraid to ask questions. Talk to other traders and investigate their recommendations. Ultimately, you are looking for a reputable broker with competitive rates and a proven record of excellent customer service.
Stock Exchanges

Securities, options, futures, and commodities are traded in marketplaces commonly referred to as stock markets and stock exchanges. There are many different exchanges located around the world, but this manual primarily focuses on the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotation System (NASDAQ).

The NYSE - The Turtle

The NYSE is the oldest and largest stock exchange in the United States. Located on Wall Street in New York City, this exchange has many responsibilities, including screening the companies that it lists on its “big board.” The NYSE has a reputation for listing only the most elite companies. The criteria it uses to list a company include:

- The company must have a net income of more than $2.5 million US (before federal income taxes) during the latest year and $2 million US in each of the preceding two years.
- It must pay a large initial listing fee.
- It must pay large annual fees to the NYSE.

The NYSE trading floor operates like an auction. Exchange members, who act on behalf of institutions and individual investors, manage the open bid and offers on the trading floor. Buy and sell orders for each listed security take place directly on the trading floor in assigned locations. Supply and demand determines the prices. Buy and sell orders for a particular stock are given to a specialist who executes the orders using a wide range of buyers and sellers.

The NYSE trades with tighter ranges and less volatility than other stock exchanges, particularly NASDAQ. This has led to the NYSE being called “the turtle.” For this reason, the opportunities that exist for day traders to capitalize on intraday price fluctuations are significantly fewer on this exchange than those found on NASDAQ.
NASDAQ - The Rabbit

NASDAQ is the world’s largest electronic stock market. Trading on this exchange occurs through a sophisticated computer and telecommunications network, which transmits real-time, bid-and-ask data to more than 1.3 million users in 83 countries around the world. This electronic marketplace eliminates geographical boundaries and the need to trade only large-share lots. The NASDAQ market offers traders increased liquidity, transparency, and direct electronic access. Day traders favour this exchange and they have duly called it “the rabbit.”

Like the NYSE, NASDAQ has its own set of criteria for listing a company’s stock, but these are generally below the standards of the NYSE in terms of net income. NASDAQ prides itself on its ability to help hundreds of younger companies make their successful transition to public ownership.

All firms trading NASDAQ stock must be certified with the Securities & Exchange Commission, register with NASDAQ, and meet the National Association of Securities Dealers’ regulations.

Major firms that trade NASDAQ stock include market makers that trade their own accounts and keep a personal inventory of stock (like specialists), day traders, Electronic Communication Networks such as Archipelago and Island, and order entry firms.

Market makers form the core group of financial firms. There are more than 500 market maker firms trading on NASDAQ and acting as distributors for NASDAQ-traded securities. Also called dealers, market makers are unique in that they commit their own capital to buy stocks, then turn around and redistribute the stock as needed. They are required to post their best bid-and-offer prices where all market participants can view them. By being willing to buy or sell stock using their own funds, market makers add liquidity to the market because they are always willing to buy, sell, and fill orders quickly and efficiently.
Auction versus Dealer Markets

There are significant differences between auction markets and dealer markets.

**Auction Market**
Specialists trade in this market. The specialist:

- Has an open book, unfair advantage
- Can maintain inventory
- Is not employed by the stock market, more like a family business
- Can make the spread
- Matches orders
- Is favoured.

**Dealer Market**
Market makers trade in this market. The market maker:

- Does not match orders
- Buys and sells from its own inventory
- Provides liquidity (priority 1)
- Fills customers order (priority 2)
- Makes profits by trading own account (priority 3).

**Market Indexes and Market Averages - Differences**

The NASDAQ 100 composite index is market capitalization-weighted. The Dow Jones Industrial Average is price-weighted.

**Example of Index-Weighted**
Microsoft (MSFT) Goes down $1.00
Apple Computers (AAPL) Goes up $1.00

The index is negative because Microsoft has a larger market capitalization than Apple Computers.

**Example of Price-Weighted**
International Business Machines (IBM) Goes up $1.00
Home Depot (HD) Goes down $1.00

The Average will stay the same because it is price-weighted.
Japanese Candlestick Charts

**BULLS IN CONTROL**

- Stock trades as high as
- Stock closes here
- Stock opens here
- Stock trades as low as

**BEARS IN CONTROL**

- Stock trades as high as
- Stock opens here
- Stock closes here
- Stock trades as low as

The following are examples of Big Wave Bars (BWB). Note that the stock’s opening and closing prices are not much different price wise, but that the intraday movement is significant. This shows that the bears and the bulls are in a very close fight.

**BWB where the bulls barely won the battle.**

**BWB where the bears barely won the battle.**

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**StockTeacher Method**

**Introduction to Charts / 27**

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The hangingman pattern is only found at the top of a bullish advance. When this same candle is found at the bottom of a decline (See Fig. 4.4b), it has a different implication. The hangingman candle is a bearish pattern because the bulls were unable to close the candle above the opening price, suggesting that the stock is running out of steam and the momentum may reverse.

These bullish hammer candles show that the decline is losing momentum. Notice how the bulls rush in to buy the stock near the lower ranges of the day. Even though the bulls may not be able to close above the opening price (Fig. 4.4b), a change in power from the bears to the bulls can be identified.
Bullish Candlestick Patterns

HAMMER

INVERTED HAMMER

HARAMI

ENGULFING

BELT HOLD

PIERCING LINE

LOST DOJI

HARAMI CROSS

TRI DOJI STAR

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The Trend is Your Friend / 51
All your charts should include the:

10-Period Simple Moving Average - Coloured in **BLACK**
20-Period Simple Moving Average - Coloured in **BLUE**
50-Period Simple Moving Average - Coloured in **GREEN**
200-Period Simple Moving Average - Coloured in **MAROON**
In good market conditions, the 50-period moving average (MA) acts as a support in up-trending stocks. Note that every single time the stock pulled back to the 50 MA, buyers stepped in to buy the stock, driving the prices even higher. The 50 MA has a more steady rise, unlike the explosive 10 MA, which can have faster, unpredictable pullbacks. A stock that is trending upward should not have volatile moves, but more predictable, steady gains.
When the moving averages merge together like they do here, it creates a super-strong area of resistance where the stock's price trades below the moving averages. There are many failed attempts to break above this area of mega resistance. Note how the stock trades much lower after touching the merged group of moving averages.
The following shows how the pattern plays out.

Once the stock breaks below the neck line, it confirms that the head and shoulders pattern is valid. A target to cover should be near the beginning of where the pattern first started its move, or at least the same distance below the neck line as the distance between the neck line and the top of the head. Note the circle where the stock’s price first breaks below the neck line. The stock should then bounce back to the neck line and reverse lower for a second confirmation of the pattern.
Once the TICK breaks below its upwards trend line, the trend line becomes resistance. The TICK has a very difficult time regaining the upward momentum and short positions become favourable.

Once the TICK indicator in the above chart broke its trend line, the QQQ (NASDAQ 100) began a new downtrend. The TICK can help identify very profitable opportunities.

The trader can exit the short position when the new downtrend line is broken.
Here the NASDAQ futures are acting relatively strong compared to the S&P futures below. The NASDAQ futures are testing their 50-period moving average (green line) and they are also trading above their opening price (red line).

If you were looking to be long, you would be well advised to place your bets on the NASDAQ futures turning higher.

The S&P futures are relatively weak compared to the NASDAQ futures above. The S&P futures are trading below both their opening price (red line) and their 50-period moving average (green line). They are also testing their 200-period moving average (maroon line).

If you were looking to be short, you would be well advised to place your bets on the S&P futures turning lower.
Typically, in this market everything is not a science. All of the bars in a five-plus-bar bearish PSC™ set-up do not need to be green before the actual power shift candle. What you are really looking for is a significant certain upward move. Note that each of the candles opens near the previous candle’s close.

This pattern is an upward move, but the candle circled in orange is not considered a bearish PSC™ because the upward move is not significant and the upward move is not certain.

Not a steady certain upward move.

Not a bearish PSC™.

We have only green candles in this uptrend. This is not a valid bearish PSC™ set-up because each of the candles does not open near the previous candle’s close. This shows uncertainty in the trend and the change in sentiment is not as accurate. The uptrend is not steady and the odds of a successful trade rapidly decrease.
Because market conditions are strong, you buy the stock at point A for $86.60. If you waited to buy at point B, you would pay $86.80 or 20 cents more. Because market conditions are strong, you sell at point D for $87.60. If you sold at point C, you would receive $87.30 or 30 cents less. By using the advanced stochastic method, you pulled out an extra 50 cents. On 1,000 shares, that is an extra $500.
A stock with high potential for a late-day breakout should be trading above its opening price. It should also be trading above its 50 and 200-period moving averages. Once the doldrums begin, the stock should consolidate in a sideways trend. When the doldrums end at 2:15 p.m., any new high of day should be bought. The stop-loss can be below the 50 MA or a break below the bottom base (purple line).
## Senseless Market Action?

### QUARTERLY FINANCIALS Boots and Coots (WEL) - Balance Sheet Fiscal Year-End 12/31

All data in millions except per share amounts.

<table>
<thead>
<tr>
<th></th>
<th>Q3-2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>127,000.00</td>
</tr>
<tr>
<td>Receivables</td>
<td>2.80</td>
</tr>
<tr>
<td>Raw Materials</td>
<td>-</td>
</tr>
<tr>
<td>Work In Progress</td>
<td>-</td>
</tr>
<tr>
<td>Finished Goods</td>
<td>-</td>
</tr>
<tr>
<td>Notes Receivable</td>
<td>-</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>1.20</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>4.13</strong></td>
</tr>
<tr>
<td>Notes Payable</td>
<td>14.52</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>2.47</td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>1.49</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>1.43</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>19.90</strong></td>
</tr>
<tr>
<td>Capital Surplus</td>
<td>59.07</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>(-71.05)</td>
</tr>
<tr>
<td>Treasury Stock</td>
<td>-</td>
</tr>
<tr>
<td>Other Equity</td>
<td>-</td>
</tr>
<tr>
<td>Total Shareholder Equity</td>
<td>(-11.98)</td>
</tr>
<tr>
<td><strong>Total Liabilities Equity</strong></td>
<td><strong>7.93</strong></td>
</tr>
</tbody>
</table>

"Assets" is the cash value of what the company owns. It includes cash it has in its bank accounts, money customers owe it, and items it owns such as property and equipment.

"Liabilities" is basically the company's debt. Liabilities include any money it has borrowed, such as bills for equipment and the costs of doing business.

"Retained Earnings" is one of the most important lines to look at on a balance sheet. Note that the company is bleeding money, as the retained earnings total is negative.

There is often the perception that actions taken by the stock market do not make sense. This is not true. When you understand how the stock market works, there is an underlying logic to its activities. The following example proves this point.

The company profiled above is Boots and Coots Intl. Well Control, Inc. Its principal activity is to provide oil and gas services. The company responds to and controls oil and gas well emergencies, including blowouts and well fires. It operates in three segments: response, restoration, and prevention. As you can see, Boots and Coots has one very ugly balance sheet. The company is burning cash and it is in serious financial trouble. Recently, it announced that it may claim Chapter 11 (bankruptcy).

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StockTeacher Method
Above is a daily chart of WEL (Boots and Coots) after war broke out in Iraq. The company’s stock price jumped more than 1,000 percent on the rumour that Iraqis would start burning their own oil fields. At this point, no oil fields in Iraq were burning and Boots and Coots had not received word it will obtain the contract to put out any fires if Iraqis do set fire to their oil fields. So why did this stock’s price jump up?

Have you heard the saying, “Buy on rumour, sell on fact?” The above illustrates that the “buy on rumour” part of the equation works. Even though the government did not say that WEL would win the contract if oil fires occurred, the rumour on Wall Street was that it would. People started buying, driving the price higher and higher. But the question for those who bought the rumour is: when do they sell? The quote states that you sell on fact. Turn to the next page to see what happens.
Today’s markets are more fast and furious than ever before. Market players do not hold stocks for an average of four years. Times have changed and traders are more active, holding positions for an average of 4 months. Soon it will be four days, or even four hours. The Stock Teacher Method™ will show traders how to profit whether they are holding positions for years, weeks, days, or seconds.

Ryan Cooper, the 6th best trader in North America*, the Founder and CEO of StockTeacher.com brings his extensive background and unleashes all his trading secrets in this must have book for active traders. “There are old traders and there are bold traders, but there are no old bold traders”, Mr Cooper continues ”The Stock Teacher Method is battle-tested to provide you with consistent income in bull, bear or sideways market conditions”.

*According to Santest Investment Challenge 2002