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Traits of a Successful Trader p.3

## KEY TAKEAWAYS

- ⇒ NASDAQ close to 3500 level for first time in nearly 13 years
- ⇒ Russell 2000 Index about to reach 1000 for the first time ever
- ⇒ Sell into strength to be prudent
- ⇒ Memorial Day weekend often means stocks weak at end of week
- ⇒ Use the A/D line as a tool to lock in profits or stay invested
- ⇒ Follow the steps used by successful traders

## KEY STATISTICS

Index	Close	2013
DJIA	15354	17.2%
S&P 500	1667	16.9%
NASDAQ	3499	15.9%
Russell 2K	996	17.3%

(figures are rounded)

## What the Smart Money Does

Everyone loves big round numbers. At the same time, they are fearful of big, round numbers. We have 2 big round numbers staring us in our collective faces right now. How we react to them could mean the difference between making money and losing money.

As of Friday's close, the NASDAQ Composite sits a hair shy of the 3500 mark. We have not seen it there in years. In fact, the last time it hit 3500 or higher was October 2000. Back then, it was on its way down from the 5132 high water mark in March of that year.

Truth be told, the NASDAQ Composite has been in the 3,000 or greater range each month but 3 since February 2012, so we are pretty comfortable with this figure/range. Should we be? Is this year's 3500 mark going to be the current version of March 2000 where no one seems to think the market will stop its run?

How about the Russell 2000 Index? It is literally a breath away from the 1000 mark, a figure we have not witnessed this figure since, well...never!

This week begins the first weekend of summer, Memorial Day weekend, and many traders and investors prefer not to be too terribly long over the holiday weekend. This is more of a custom or practice than the gospel truth.

Still, all signs are pointing to the NASDAQ and the Russell 2000 breaking into this new or long-forgotten territory early this week. What should you do? A better question is what would the smart money do?

The smart money always sells into strength, be it 10%, 20%, etc. of winning positions.

(cont'd)

## ***What the Smart Money Does (cont'd)***

You gotta take some profits when everyone else is buying. Moreover, for those stocks tied to these indices, there are always guys shorting the indices when these round numbers appear, just as they do with stocks. So even indirectly, stock you own could be indirectly affected.

This is not to say that the party is over. Generally speaking, the market still has legs as we outlined in last's week's edition of *The Goldman Guide*. Look, you will know when the big crash begins because it will begin with a big down day and it will continue and people will be scared and depressed and kicking themselves because they never took a single profit. Don't be that guy/gal.

Right now, people are generally feeling pretty good and ignoring or are ignorant of the issues around them. As long as that happens, stocks will go higher, touching the limits of reasonable valuations. That is why we are pleading with you to sell just some...just some of your stocks that have gains. You will thank us later.

I knew a broker who was in the business for many years. She caught hell because she was a woman in a man's world (her words not mine) but also due to the fact that she made so much money for her clients that she was one of the most successful brokers in her Firm. And it was a really big firm. Over a very expensive lunch (which I paid for) I asked her what he believed were the keys to her success in generating such fabulous returns for her clients.

She floored me when she responded by saying that the Advance/Decline Line saved her more often than not. Granted, this was back in the buy and hold days, but the same principle holds true today—perhaps to an even greater degree. For the uninitiated here is the Investopedia.com definition:

A technical indicator that plots changes in the value of the advance-decline index over a certain time period. Each point on the chart is calculated by taking the difference between the number of advancing/declining issues and adding the result to the previous period's value, as shown by the following formula:

$$A/D \text{ Line} = (\# \text{ of Advancing Stocks} - \# \text{ of Declining Stocks}) + \text{Previous Period's A/D Line Value}$$

This indicator is used by many traders to confirm the strength of a current trend and its likelihood of reversing. If the markets are up but the A/D line is sloping downwards, it's usually a sign that the markets are losing their breadth and may be setting up to head in the other direction. If the slope of the A/D line is up and the market is trending upward then the market is said to be healthy.

If you are on the fence about selling into strength, check the AD line. It can only help you save money.

## ***Traits of Today's Successful Trader***

Last week we wrote about traits of today's successful investor and we focused on what we call The 3 P's. IN this edition, we highlight traits of successful traders. For some of you, it may be basic or logical. For others, it surely will be new. Regardless, one should keep these things in mind when trading.

**Contempt for Greed:** Since one of the obvious themes of today's issue of The Goldman Guide, deals with selling, it is only correct for us to indicate how that affects traders. There is an old idiom that states: *Pigs get fat but hogs get slaughtered*. This saying is surely relevant here. The best traders know when they have a good thing and sell into strength. In fact, they recognize that in order for them to get optimal process, there has to be a real accumulation phase. They are in it to not lose money and make good money per trade, not a fortune.

**Do the Opposite:** It takes courage to buy a stock when it is being sold off, or selling into strength for that matter. By doing the opposite of what everyone else is doing, it is sometimes easier to make money than to follow the herd.

**Trade like a Pro:** Approach each trade as if it is your job to ensure profitability. For example, watch a stock for a while to get an idea of how it trades and who trades it, its trends, etc. Viewing activity via a Level 2 screen is a must to place proper orders and learn a stock's trading habits.

**Be Systematic:** While you can't necessarily trade each stock the same way, you can engage in similar habits. This includes how you approach staged buying and staged selling, and what you view as acceptable profits and acceptable losses. By sticking to your guns and your system, it is easier to achieve repeated success.

Oh and by the way, don't ever, ever pay attention to anything anyone says on any message board.

**Until next week...**



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