CHAPTER 1

My Path to Successful Trading

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My path to successful trading has been anything but smooth. Along the way there have been many twists, wrong turns, obstacles, and potholes. Looking back on my career, I can see that I learned from my mistakes just as much as from my successes—perhaps even more. What made a difference was my willingness to following my dream, to chart my own course, if you will. I knew what I wanted (at least most of the time), and one opportunity led me to the next.

Over the course of my trading career to date, I've been a stockbroker as well as a market analyst, specializing in technical analysis. Through careful study of the market, along with a good deal of diligence and persistence and maybe even a little luck, I have achieved some success—including national *Timer Digest* rankings for both the Standard & Poor's (S&P) 500 Index and in the gold market. I am the president, editor, and publisher of *The Ord Oracle*, my newsletter on the S&P, Nasdaq, and gold issues, which I established in 1990.

From the time I began in the market as a stockbroker in the 1980s through the present day, I have been a student of the market, learning from books, courses, other traders, and even from my customers. If you keep your eyes and your mind open, you'll be rewarded with many lessons and experiences. In trading, it is essential, and in life it certainly makes things interesting.

I grew up on a farm in a small town called Beatrice, Nebraska, population 12,130. Before my high school graduation in 1967, the school's career counselor called a meeting with my parents and me. I told him that my plans were to go to college. The counselor, however, advised my parents

that I would not last three months in college and told them not to waste the money. The military, he said, was a better option, and suggested the Army as a good choice and the infantry as the best division for me. Obviously displeased with my antics in high school, the counselor thought that I needed discipline, and the Army would teach me that.

However, I did go to college and I did last more than three months. As a matter of fact, I spent six years, graduating in 1973 from the University of Nebraska, with a teaching degree in mathematics. This choice of study would prove fortuitous later on as a technical analyst, although in the short term it had some drawbacks. At the time I went to college, there was a teacher shortage, so much so that the government gave financial incentives to students entering teaching programs in the 1960s. That financial incentive drew a lot of students to teaching, so that by the time I graduated from college there was a mass of new teachers, and the market was flooded. (Funny how government incentives work, isn't it?)

Unless you had a parent who was a principal somewhere who could get you a job, back then you were an unemployed teacher. I did find a job at the Nebraska State Prison as a prison counselor and worked there for nearly three years. (The prison job is an interesting story unto itself, but that will get me off the subject of my path to successful trading.) Suffice it to say that, while the prison job was interesting, I was seeking something more financially rewarding. One of my very good friends at the time had just gone to work for a brokerage firm, and he had a lot of good things to say about his new job. Hearing him talk, I kept telling myself, "I could do this. I know a lot about 'stocks.' I was raised on a farm and I was around cattle all my life, so I know stock!" (If you haven't caught on already, I was thinking of the livestock variety.)

Buoyed with confidence, I went out and interviewed with a different brokerage firm than where my friend worked and ended up in Omaha with a job at one of the major wire houses at that time. I was sent to San Francisco to receive my education and training and to pass the National Association of Securities Dealers (NASD) Series 7 examination to become a licensed stockbroker. I passed the exam and came back to Omaha to start my new job.

BECOMING A BROKER

I thought that clients would be lined up at my door and that orders would be flowing into my office. Not the case—not the case at all. As a new broker, I made cold calls—from the phonebook—all day. This was not what I had envisioned. However, I did make a decent living, and my lifestyle

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improved to the point that I owned a new three-bedroom condominium and I drove a fancy sports car. Life was good.

I became dissatisfied, however, not with the job itself but rather with the management. I didn't like the idea of someone watching every move I made: how many phone calls I made, how much time I spent on the phone with potential clients, whether my coffee break lasted 10 minutes or 20. . . . I wanted something where being managed was not an issue. I heard about being an independent contractor broker, which would mean paying my own expenses and sharing office space with other brokers. There was no management at all; independent brokers came and went as they pleased, as long as they paid their share of the expenses. Omaha did not offer this opportunity, but several brokerage firms in Colorado did. So I sold my condo, packed up my belongings, and moved to Colorado, where I got a job with a firm that had several offices throughout the country with about 200 independent brokers.

Within a couple of years I had become vice president and senior option principal for this firm. Life was good again. This time frame was the late 1970s and into the early 1980s, when the "Elliott Wave" technical analysis fad was becoming popular, along with W. D. Gann trading methods. Explained simply, Elliott Wave is a form of technical analysis theorized by Ralph Nelson Elliott, who believed that market action unfolds in specific wavelike patterns. W. D. Gann was a famous stock and commodity trader, who based his forecasts on time and price. Hearing about Elliott Wave and Gann got me very interested in technical analysis; although I was by no means good at it in the beginning, I was better than most at the time. Majoring in mathematics in college hadn't landed me a teaching job, but it was about to play a very important role in my future career.

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FIRST FORAY INTO TECHNICAL ANALYSIS

I did face one big drawback as I began my foray into technical analysis. Back then, computers were very expensive and you needed to be a programmer to run one. Needless to say, I did not have a computer at my disposal. Instead, like a lot of people in the markets in those days, I had to rely on printed charts of stocks and indexes that were sold by companies. The information would be updated through Friday's close and mailed over the weekend. Then, during the week, you had to update the charts by hand. Back then, I used simple moving averages and basic patterns such as "head and shoulders," "triangles," and such.

I also subscribed to several leading market letters, including Robert Prechter and Joe Granville. I wasn't so much interested in the trades they recommended, but rather how they came to the conclusions of what

was bearish or bullish. At this early time in my career, charts looked like a bunch of random lines and did not have a definite meaning. Trading felt to me like standing on a very high ledge with wind blowing in every direction, threatening to throw me off balance and cause me to lose my footing—in other words, stressful. I did have my trading winning streaks where it seemed I could do no wrong. However, I would blow myself up with losses that wiped out my profits and would have to regroup.

Several brokers in our offices had an interest in what I was doing and asked me to share my ideas on the markets. I remember talking to several of them in the reception area after the market close one day about how I would convey my ideas in a timely fashion and what to name this service. The most-liked name for this new service was "Timothy's Timely Tips," and it was decided I should provide access to my market messages through my answering machine. So at the end of each day, I put my market message on the answering machine, and the brokers would call the answering machine and instead of hearing, "You have reached the so-and-so residence," they would hear my market message. My answering machine had a one-minute message length, so my market message could not be longer than that.

By this time, I was considered to be the "guru" in this brokerage company, although I was still not up to par as far as my trading was concerned. Still, I did have my moments, all the while searching for the proverbial "Holy Grail" of technical analysis. Also during this time, I met the most beautiful woman. She was hired by the brokerage firm to help run the back office, which handled customer trade confirmations. My first encounter with her was not good, I'm afraid. I remember stepping up to the counter where she worked to ask her to make a wire transfer. She refused, saying, "I'm not your personal secretary." I told her that I was a vice president of the firm and requested again that she do the wire transfer. Once again, she refused, telling me that if I wanted her to do the wire transfer, then I had to get the president of the company to approve it. Finally, after I got the president's okay, the wire transfer was completed. After that less-than-cordial encounter, you could say that she and I both noticed each other in the halls and offices of the brokerage firm as the months went by. Eventually, we became very good friends, fell in love, and married a year or so later.

By this time, it was the mid-1980s. There was a takeover at our brokerage firm, which resulted in the firm's changing from its independent contractor status to employee status. There was also a management change, and I was out of a job. I was unemployed, and my new wife was now pregnant. No worries, I did what any caring, loving, and intelligent husband would do: I borrowed $5,000 from my in-laws and started trading—specifically the S&P. The confluence of factors in my personal and professional life helped me to get very motivated and focus intensely.

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A "STUDENT" OF THE MARKET

The book that started me on the right track of trading was *Technical Analysis of Stock Trends* by Robert D. Edwards and John Magee, which was first published in 1948. I practically memorized the book from cover to cover, and it gave me the foundation for a good understanding of how the market was supposed to work. I used the techniques in the book to trade commodities. I traded commodities for a whole year and managed *not* to lose the original $5,000 investment. This was quite an accomplishment in that I was still learning and somewhat a novice on this fast-track trading of commodities. This was the steepest learning curve in technical analysis I have encountered in my life to date and a crash course in trading survival. I was not working at this time, and my wife was carrying the load. Bills were running up and we had our baby daughter, Heather, to take care of. I went back to work as a stockbroker to help pay the bills.

By now it was 1988, the bills were paid, and, yes, I did pay back the loan to my loving in-laws. I was still hard at it, studying the markets. In the late 1980s, most indicators were hooked to price alone, such as moving average convergence/divergence (MACD), moving averages (MAs) of price, Elliott Wave or price wave analysis, relative strength index (RSI), stochastic oscillator, and so forth, all of which were price-based indicators. I studied all these methods in detail, but they did not give me a consistent, winning track record. In fact, I was using so many price-based indicators at one time that half would be saying one thing and the other half would be contradicting them.

This led me to a very important realization, which would become vital in the rest of my career as a trader and market analyst. I realized that price alone was not the only important factor in determining price direction. My first attempt to quantify price direction was with the New York Stock Exchange (NYSE) tick index, which compares the difference between the number of issues with the last trade higher (an uptick) from the previous price and the issues with the last trade lower (a downtick) from the previous price. This method was for short-term trading and worked well. By using the tick index method, in 1988 I placed fourth nationally in the United States Trading Championship in the option division.

Here's how the tick index method worked. Let's say exchange "Z" has 1,000 issues trading on an uptick and 500 issues trading on a downtick. The tick index would read "$+1000 - 500 = +500$." I used the tick index as an "exhaustion" indicator: When there were lots of high uptick index readings in a short time frame, then the NYSE was near a high; the opposite would occur when the market was near a low. What the tick index readings showed me was how hard the market was pushing in a direction at a particular time. When everyone was pushing

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through the door at the same time (high uptick reading), then the market was near a high. When everyone was trying to get out the door at the same time (high downtick readings), the market was near a low.

I measured extreme uptick readings from one high to another to look for lower uptick readings on the second high, indicating a negative divergence. This condition showed that the energy on the second high was less and that the market should reverse, which it usually did. Finding lows with the downtick readings worked the same way. I would look for high downtick readings from which the market would bounce, and then look for that low to be tested in the future. If the second downtick reading was less on the test of the previous low, then a bullish divergence would be created and the market should bounce. I became good at this trading method and started an option market letter called *The Ord Oracle* in 1990, using the tick index readings as my main indicator. (I also wrote three articles on the NYSE tick index for *Technical Analysis of Stocks & Commodities* magazine in 1991, 1992 and 1996.) The tick index readings gave me a good indication of where the market was on a short-term basis, but did not give me a good sense of the bigger trend.

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Changes were also happening in the Ord household. In 1989, we bought 25 acres outside of Lincoln, Nebraska, with the plan to build our home there someday in the future. When I started *The Ord Oracle* market letter in 1990, I was operating out of our apartment in Colorado, faxing the reports after the close of the market each day. I also had a 900 number for customers to call for updates intraday. This was before the widespread use of the Internet. The world of information dissemination had not yet gone through its online explosion, although it was closer than I could have ever imagined in those days.

My market analysis was also continuing to evolve. Steve Nison's book, *Japanese Candlestick Charting Techniques*, was published in 1991, which I totally absorbed. The book identifies one- and two-day bullish and bearish patterns. I began combining my tick methods with candlestick charting and saw my win ratio improve. For sell signals, I used the tick index negative divergence on the retest of the second high with a bearish candlestick pattern. For bottoms, I looked for a positive divergence on the tick index on the retest of the first low that coincided with a bullish candlestick pattern, generating a buy signal.

AN INCOMPLETE PICTURE

What I discovered at this time in my journey into technical analysis is that price is affected by other factors, and that price alone is not a determining gauge of where prices are heading. Through my subscribers to *The Ord*

Oracle report, I received much information on new trading ideas that they had read in books, as well as some of their own techniques—some good, and some not so good. The more I studied, the more I was convinced that something was missing in my technical analysis, but I didn't know what it was. I could identify the short-term picture fairly well but the bigger picture was still unclear. It was as if I didn't have the entire picture of the market to make a complete analysis.

In 1993, we moved to Lincoln, Nebraska, and lived in a two-bedroom apartment for several months while our house was being built. We set up one bedroom as my office with one chair and a desk, and the other bedroom was our daughter's room with just her bed. Dawn and I slept on a mattress on the floor in the living room, where we also had a small, 13-inch television set. We had only sparse furnishings because we didn't want to move everything in and then have to move it all out again in a few months. It worked well for all of us. We hadn't made friends yet in our new town, so we had to rely on each other. My mother lived in a town 50 miles away, and we became close to her again.

The Ord Oracle report was going forward and we could see where life was heading, and we were excited about it. Then, in late 1993, we moved into our new home—with chairs and tables and real silverware and plates. Our new home was built in the middle of a field on 25 acres. Nothing else was around: no trees, not even bushes—nothing but land. I marked off about five acres that would become our lawn and rented the rest to a farmer. Over the next couple of years, I planted nearly 300 trees for a windbreak and put in a lawn and added a barn. We are still adding to this landscape, which has become a hobby of mine. When we built this home, we put in an eight-foot satellite receiver for stock quotes. In the mid-1990s, the Internet was starting to come on strong. My office probably had just as much market information as any brokerage office. I was still a broker at that time, although *The Ord Oracle* report was taking more time and producing higher earnings than the business of being a broker, but I kept both going into the mid-1990s.

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UNDERSTANDING MARKET TIME FRAMES

At this time, I really started to understand the time frames of the market. I began to see that the bigger time frames ruled the smaller time frames, and that in order to have successful short-term trades, the larger time frame has to be in your favor. As I understood why the bigger picture of the market was so important, I also figured out why my trading method worked well in the first half of the year and not the second half, or vice versa. Simply put, when the market was going with my trading method,

I had good success, and when the market was going against my trading method, I did not do so well. As any trader will tell you, when the market beats you over the head with losses, you tend to learn from your mistakes. My big lesson: Before taking a trade, I had to make sure I was trading in the direction of the market. (This technique will be covered in detail in subsequent chapters.)

In the late 1990s, I continued to use and hone the tick index methods and was doing quite well with them. In 1998, I identified the October bottom by using the tick index method and recommended calls options on the market at that time to my subscribers to *The Ord Oracle* report. Some of these options appreciated over 400 percent in a couple of months. People started to take notice of my technical analysis abilities, and *The Ord Oracle* report circulation grew. In 1999, I was ranked third nationally by *Timer Digest* in trading the S&P 500. Since then, I have been frequently in the top 10 for trading the S&P 500 and the gold market to date.

"DISCOVERING" WYCKOFF

For any trader, lifelong learning is a must. No matter how well one does in the market, there is still much to learn and room to improve. In the late 1990s, one of my older subscribers to *The Ord Oracle* introduced me to a 1930s trading method developed by Richard Wyckoff, who was known for his studies of price and volume. This customer had a real handle on the market, more so than I did in those days. He told me that I had a very good and sound approach to the market, but in order to reach financial independence I needed to know how to use volume in my technical analysis. He explained that I could use Wyckoff's price and volume methods as the centerpiece, and then apply my technical analysis around that.

On his recommendation, I took a course in Wyckoff's methods. It took me more than a year to learn what Wyckoff was trying to convey in his market studies and to learn the methods that had made him famous and successful as a trader and investor back in the 1930s. After I understood how price and volume affect each other, a whole new view of the market came to light. It was 2001: a critical time in the market, with the bursting of the Nasdaq bubble and the market in a deep correction. With my understanding of price and volume, how the market functioned began to really make sense to me.

PRICE AND VOLUME RELATIONSHIPS

Before I understood price and volume relationships, I had endured many emotional days and sleepless nights, worrying about the positions I had in play and not being sure if they were correctly aligned. Although I was

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usually correct in my market calls, I felt my confidence was lacking in my signals sometimes. Price and volume analysis gave me extra concrete evidence and, therefore, more confidence in my signals. An extra plus was that price and volume analysis could be applied to any time frame—even one-minute charts. The rules did not change from one time frame to the next.

However, as I stated earlier in the chapter, the longer time frames rule over the shorter time frames. Thus, in order to trade successfully, you need to be sure that your trades are aligned with the longer-term trend in the market—even for a short-term trade. This will increase your chance of trading profitably.

I modified, simplified, and, in some cases, created new volume methods, and also updated some of the rules that Wyckoff put forth in his study materials that dated back to the 1930s. Some of the new volume rules I developed have never been revealed before, but once you see how they work on stocks, indexes, or anything that has volume, I believe you will trade with new confidence as you will know that you are trading in the direction of strength.

The tick index methods I developed to trade the markets in the late 1980s really jump-started my career in technical analysis and helped me become a successful short-term trader. The price and volume methods of Wyckoff established me as a successful trader and investor. To me, it really did not make sense to have all the technical tools set up with price only; it seemed too risky. Once I understood how price and volume worked together, then the function of price could be viewed through the forces of supply and demand. The reason a stock was trading at a certain level was that supply-and-demand pressures put it there. Think of it this way: *Supply* is another word for sellers—meaning, people sell their shares, which creates volume. *Demand* is another word for buyers, and when people buy shares, it also means volume. It is fundamental economics at work. If there is more demand than supply, the price is pushed higher, and if there is more supply than demand, then price is pushed lower. Supply and demand pressures push prices. The NYSE tick readings I had been using earlier had similar characteristics to volume, so for me it was an easy transition from tick analysis to volume analysis. Although there are many books out there on technical analysis, few emphasize the importance of volume analysis, so a lot of traders and investors don't know how to use volume correctly.

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MY TRADING METHODOLOGY

The methods I discuss in this book use price and volume methodology, which are common in trading. There are no magic formulas or secret techniques. What makes this highly effective for me and of interest to

other traders is that I have developed them to the point of precision. In this book, I will give examples of the software I have developed that show visually which way volume is pushing and, in turn, indicate where a stock is likely heading.

In the chapters to come, I will explain how I use volume analysis in ways that I have found to work very well. For example, I found that the "top-down" approach to investing works well for me. Using the top-down approach, first you determine the direction of the market (whether NYSE, Nasdaq, or S&P 500), and trade that direction in the issues that you select. If the market is in a bullish trend, then take only long positions; and in a bearish trend, take only short positions.

Second, if the market is in a bullish trend, then you must also be in one of the most bullish sectors. (Again, the opposite works for a bearish trend.) Third, you attempt to buy the most bullish stocks in the most bullish sectors. Picking the direction of the market and choosing the best sector to be in and the best stocks in the best sector will be covered in the coming chapters.

Although it might seem to be a daunting task to pick the direction of the market, I have discovered several techniques to help you, which I will explain in the book. I also have a technique for picking the best sectors that has worked well over the years. Now think about how this approach will help your profitability. If you have the market right and you have the sector right, it would be hard to lose money in a stock if both the market and sector are pulling up your stock. By following the top-down approach, you are not in the market all the time if you are trading only the long side. You trade the long side only when the market is in a bullish trend and the sector is in a bullish trend. If markets are in a downtrend, then you are waiting on the sideline until the market turns bullish. You are trading only when the odds are in your favor, and that is when the market and the sector are in your favor.

My earlier years in trading and my technical analysis journey were downright frightening at times. I stumbled and fell, got up, and persevered. There was a whole array of factors that I discovered in real-time trading that came from the hard knocks I took along the way. For me, that was the only way I could have learned. If my journey had been easier, I probably would have not become the disciplined technical analysis trader that I am today.

My road to trading successfully was filled with potholes. If that's been your experience, too, then don't despair. Twenty-five years later, I can tell you that the journey has been well worth it. My journey helped me to discover and explore what worked for me, which I will share in detail. And as the saying goes, it is not the destination, but the journey in life that is so rewarding. My journey continues in my technical analysis study, looking for more concrete ways to determine and confirm market direction. Thank you for sharing this leg of the journey with me.

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