www.MasterMindTraders.com

Presents

Mastering the Markets

Your Path to Financial Freedom
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Also MasterMind Traders’ personnel are not subject to trading restrictions. Myself and any others at MasterMind Traders could have a position in a security or initiate a position in a security at any time.
TIME SENSITIVE INFORMATION

NEWS
EARNINGS
ECONOMIC NEWS
TODAY’S NEWS
MERGERS

POSITION OF STOCK
(Support or Resistance)

MasterMind Traders
In the Market, there are always two parties to every transaction:

**THE MARKET MAKER AND YOU**

**TYPES OF EXCHANGES**

<table>
<thead>
<tr>
<th>OPEN OUTCRY AUCTION MARKET</th>
<th>ELECTRONIC TRADING FLOOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Big Board”</td>
<td>“Automated Electronic Match”</td>
</tr>
<tr>
<td>NYSE (New York Stock Exchange)</td>
<td>NASDAQ (National Association of Securities Dealers Automated Quotations)</td>
</tr>
<tr>
<td>– almost 3000 stocks traded</td>
<td>– over 4000 stocks traded</td>
</tr>
<tr>
<td>AMEX (American Exchange)</td>
<td></td>
</tr>
<tr>
<td>– almost 2000 stocks traded</td>
<td></td>
</tr>
</tbody>
</table>

**OVER THE COUNTER BULLETIN BOARD**

OTCBB

– Includes Penny Stocks (Highly Speculative)

**PUMP AND DUMP**

• The Ticker Symbol
BASICS OF THE STOCK MARKET

STOCKS
• Sectors
• Industries
  or Sub Sectors

INDEXES
• DJIA
• S & P 500
• NASDAQ COMPOSITE
• S&P 100
• Russell 2000, etc.

EXCHANGE TRADED FUNDS (ETFs)
• Diamonds (DIA) 1/100th of DJIA
• Spiders (SPY) 1/10 of the S &P 500
• The Q’s (QQQ)
• Russell 2000 (IWM)
• Russell 5000 (IWN)
BID

4.17

Ask = Buy

ASK

4.20

Bid = Sell

SPREAD

3 CENTS

1/3 \times 0.03 = 1 \text{ CENT}

(In the spread)
BULLISH – When the market, or a stock in general is going up, it is called **BULLISH**.

BEARISH – When the market, or a stock in general is going down, it is called **BEARISH**.

OPEN A TRADE – When you enter into a position in a specific stock or option.

**BTO** (Buy to Open) or **STO** (Sell to Open)

CLOSE A TRADE – When you exit out of a position in a specific stock or option.

**STC** (Sell to Close) or **BTC** (Buy to Close)

FILLED – When the order to buy or sell you’ve placed actually goes through.

EXECUTED - The completion of a buy or sell order.

LONG – When you actually buy a stock or option, the position you are in is called **LONG**.

SHORT - When you borrow shares of stock from a broker-dealer and sell them in the market, the position you are in is called **SHORT**.
ORDER TYPES

DO NOT USE A MARKET ORDER TO ENTER THE TRADE

MARKET ORDER – A market order tells the broker to buy or sell a stock or option at the current quoted price. Using a market order is not recommended, because control is taken away from the trader and puts control totally in the hands of the broker, market maker, and floor trader. A market order is the default option and is likely to be executed immediately because it does not contain any restrictions on the buy/sell price or the timeframe in which the order can be executed. This order is sometimes used in a quickly moving market if an exit is necessary, but even then it has some risks involved.

LIMIT ORDER – A limit order tells the broker to buy or sell a set number of stocks or options at a specified price, or better. This allows the trader greater control of buy and sell orders. Limit orders also allow you to limit the length of time an order can be outstanding before being cancelled. For example: when you give your broker an order to buy 500 shares of PFA at $120 limit order, you have told him to pay $120 or less per share for PFA but not to exceed $120.

USE A DAY LIMIT ORDER TO ENTER THE TRADE

DAY ORDER – An order to buy or sell a stock or option that will automatically expire if not executed on the day it was placed. The order will be canceled and will not be filled if the price was not met during that day’s trading session.
GOOD ‘TIL CANCELLED (GTC) – An order for the broker to buy or sell a stock or option at a set price at any time, that stays active until the trader either cancels the order or the order is executed. Each brokerage firm has it’s own policies, but generally the GTC order stays on with the broker for 60 – 90 days, and then if not filled, it will automatically cancel. It is ultimately the trader’s responsibility to monitor any outstanding orders.

STOP LOSS – A protective order that automatically closes out a trade when the trade has gone against you a pre-determined amount. Stops are highly recommended since they save you time and help to protect against large potential losses on your trades. Stop Loss orders do not protect your trades from “gaps.” If a stock or option jumps past your stop price and opens lower, your trade will be filled at the lower price.

STOP LIMIT – Also a protective order that helps to protect you from extended losses. A “Stop Limit” differs from a “Stop Loss,” in that a Stop Limit order will only sell at the limit price and not at a lower price.

DON’ T USE
CONTINGENCY ORDER – An order that is only executed when certain conditions have been met. The order will not be filled until and if an event you have specified occurs.

For example: "Buy 15 PFA 70 calls at the market if PFA stock trades above 65.”

CONDITIONAL ORDER – An order that allows the trader to place both a GTC (profit target) and a Stop Loss in the broker’s system at the same time. The orders are not sent to the market until the target prices are reached, therefore, the market maker cannot see the order.

For example: The trader enters a limit order to buy 15 shares of PFA at $45, but only once the shares have first reached $50. The limit order at $45 per share will only be submitted to the broker once the shares have reached the $50 price.

TRAILING STOP LOSS – Allows the trader to set a price at a defined distance away from a stock’s current market price. It is like raising or lowering a ladder to the next floor as a stock moves in that direction, ratcheting up as the stock/option price climbs. A trailing stop for a long position would be set below the stock’s current market price; for a short position, it would be set above the stock’s current price. A trailing stop is designed to protect gains by enabling a trade to remain open and continue to profit as long as the price is moving in the right direction, but closing the trade if the price changes direction by a specified percentage.

STOP ALARM – A Stop Alarm is set by the broker. If the stock triggers an alarm, the broker is directed to call the trader to ask for instructions, or an alert may be sent to your cell phone, computer, or email.
Your Rate of Return  =  How Hard Your Money Works

\[
\frac{\text{Profit}}{\text{Investment}} = \text{Return on Investment}
\]

\[
\frac{\$1000}{\$2000} = 50\% \text{ ROI} \quad (\text{Return on Investment})
\]
**FUNDAMENTAL ANALYSIS** - A method that the trader can use to evaluate a company’s related financial information to help determine the strength or weakness of the stock. There are several basic fundamental indicators to consider when evaluating a stock to purchase.

**AVERAGE DAILY TRADE VOLUME** – The first element to consider is a stock’s average daily trade volume. Do not buy the stock if it is not trading at least 300,000 shares a day. And if a stock is not trading at least 1 million shares a day, it is very rare that you would ever trade options on that stock.

**52 WEEK HIGH AND LOW** – Looking back over the last year to identify a stock’s 52 week trading range and seeing where it is currently trading gives us a great deal of valuable information.

- If we see the stock is now trading near its 52 week high, we’ll study its underlying technicals to determine whether it may be ready for a pullback, or if it is going to move higher.
- If we see the stock is now trading near its 52 week low, we need to consider whether the stock is ready for a rebound or if it is going to drop further in price.
- If we see the stock is now trading between the 52 week high and low, we need to look for the well established price targets that gives us an indication of how much the stock can potentially move.
MARKET CAPITALIZATION - The total dollar market value of all of a company's outstanding shares. To determine market capitalization, we multiplying a company's outstanding shares by the current market price of one share.

- **Large Cap Company** – 5 billion or Greater
- **Mid Cap Company** – 500 million to 5 billion
- **Small Cap Company** – 150 million to 500 million
- **Micro Cap Company** – 150 million or less

**BETA** – A measure of the volatility, or systematic risk, of a stock in comparison to the market as a whole. Its an indicator of the tendency of a stock’s price to respond to swings in the market.

- A beta of less than 1 means that the stock’s price will be less volatile than the market.
- A beta of greater than 1 means that the stock’s price will be more volatile than the market.

For example: If a stock’s beta is 1.2, it’s theoretically 20% more volatile than the market.
• A Cell Phone
• A Computer with Internet Access
• Charts
• A Good Broker – we recommend a TradeMonster Account via our link on MasterMindTraders.com for Real Time Streaming Quotes, Trading Platform, Alerts and Intraday Charts
We’ll Start with the Basics by:

• Learning how to determine Support and Resistance as well as how to draw our lines.

• Determining trend lines and how they are drawn.
= Close of the Period. The Period could be Daily, Weekly, or in minutes (1, 5, 10, etc.)
CANDLESTICK CHARTS

THE FULL BODY

THE SHADOW

WICK

CANDLESTICK

THE SHADOW

WICK
WITH A BULLISH CANDLESTICK
THE FULL BODY IS OPEN

OPEN

HIGH

CLOSE

LOW
BEARISH CANDLESTICK

HIGH

OPEN

CLOSE

LOW

WITH A BEARISH CANDLESTICK
THE FULL BODY IS FILLED IN
HOMEWORK!

Practice by Charting Your Own Watch List as well as any other good stocks you find.

*Here is an EXAMPLE LIST of stocks we’ve traded in the last year or so:*

<table>
<thead>
<tr>
<th>AAPL</th>
<th>GOOG</th>
<th>AMZN</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAT</td>
<td>NFLX</td>
<td>GS</td>
</tr>
<tr>
<td>LVS</td>
<td>SHLD</td>
<td>MA</td>
</tr>
<tr>
<td>V</td>
<td>CF</td>
<td>ANF</td>
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<td>VZ</td>
<td>FFIV</td>
<td>CLF</td>
</tr>
<tr>
<td>FCX</td>
<td>ISRG</td>
<td>GLD</td>
</tr>
<tr>
<td>CME</td>
<td>BIDU</td>
<td>PCLN</td>
</tr>
</tbody>
</table>
Chart Patterns
Pictures we see in the charts as to trade from.

Candlestick Patterns
Patterns giving us signals of possible signs of reversal or continuation.
CANDLESTICK PATTERNS

ONE REVERSAL DAY PATTERNS

These candlesticks send messages of indecision. Appearing at a critical point (Support or Resistance), means the stock may reverse directions. 

**Most importantly, whatever happens next is SIGNIFICANT.**

- **Doji**
  - Open equals close or prices are very close.

- **Star Body**
  - Small body with wicks that don’t exceed the size of the body, usually half the size.

- **Spinning Top**
  - Small body with wicks two to three times the size of the body, but no smaller and no bigger.

(\) Small bodies can either be bullish or bearish. The body color has no influence on bullishness or bearishness.
Small body colors have very little significance. They can be either bullish or bearish, no matter where they appear.
CANDLESTICK REVERSAL PATTERNS

TWO DAY REVERSAL PATTERNS

DARK CLOUD COVER
PIERCING DARK CLOUD COVER
BEARISH ENGULFING

THRUSTRING PATTERN
PIERCING LINE
BULLISH ENGULFING

Colors have to be as diagrammed. With reversal patterns, most importantly, whatever happens next is significant.
CANDLESTICK REVERSAL PATTERNS

TWO DAY REVERSAL PATTERNS

BEARISH HARAMI

BEARISH HARAMI

BEARISH HARAMI CROSS

R

BULLISH HARAMI

BULLISH HARAMI

BULLISH HARAMI CROSS

S

Mast3rM1nd Traders
TWEEZERS TOP

Two candlesticks that have the same highs.

There can be one, maybe even two candlesticks between the candles with the matching highs but there will be a better reversal with no center candlesticks.
TWEEZERS BOTTOM

Two candlesticks that have the same lows.

There can be one, maybe even two candlesticks between the candles with the matching lows but there will be a better reversal with no center candlesticks.
The middle candlestick (the Star) should be a message of indecision, most likely a Spinning Top, Shooting Star, Star Body or a Doji. The smaller the body (such as a Doji) the stronger chance of reversal.

Star body color has no significance.
The middle candlestick (the star) should be a message of indecision, most likely a Spinning Top, Hammer, Star Body or a Doji. The smaller the body (such as a Doji) the stronger chance of reversal.

Star body color has no significance.
CONTINUATION PATTERNS

RISING THREE METHOD

BULLISH MAT HOLD

Small candle body color has little or no significance.
CONTINUATION PATTERNS

FALLING THREE METHOD

BEARISH MAT HOLD

Small candle body color has little or no significance.
CHART PATTERNS

REVERSAL PATTERNS

DOUBLE TOP

DOUBLE BOTTOM
CHART PATTERNS

REVERSAL PATTERNS

HEAD AND SHOULDERS TOP

HEAD AND SHOULDERS BOTTOM
A channeling stock is a stock that is moving in a predictable and repeatable pattern between two specific prices over a short time frame.

**Resistance @ $5**

**Support @ $3**

**Buy Point @ $3.25 (Limit Order)**

**Sell Point @ $4.75 (GTC Order)**

**Protective Stop Loss @ $2.75**
MASTERMIND RULES FOR CHANNELING STOCKS

• Where to find your candidates: **CHART FILTERS**

• Conditions to be met:
   Priced Below $15
   Channeling once or twice already.
   Average daily stock volume of greater than **300,000** shares per day.
   Moving up off of **SUPPORT**.

• Chart the stock. Draw the **SUPPORT** & **RESISTANCE** lines.

• Check the Stochastics. They should be moving up through the **20%** line to signal a buy.

• Buy **ENOUGH** shares of stock.

• Set your **GTC** and your **STOP** exits.

• Wait for the trade to complete and do it all over again.
• PRICES MOVE IN __3__ DIRECTIONS:
  1) ____UP____  2) ____DOWN____  3) ____SIDEWAYS____

• CHANNELING STOCK:

--- Breakout  _________________

--- Breakdown  _________________

--- MasterMind Traders ---
Trending up is a **BULLISH** Trend

Trending down is a **BEARISH** Trend
WHAT IS MARGIN?

Basically, MARGIN is the amount of your own money that you are required to have in a trade. Your broker determines the margin amount that must exist in your account before you can begin “buying on margin.” When you “buy on margin,” you are borrowing money from your broker in order to be able to increase your purchasing power. The broker may agree to loan you anywhere from 1% - 50% of the amount of your trade. The broker will charge you interest if you choose to “buy on margin,” typically 1% per month or less.

FOR EXAMPLE: You have a portfolio value of $15,000. The maintenance margin is 50% or $7,500 (the amount you must maintain as cash in your account) and your equity (cash value) dips just a dollar below $7,500, the broker can initiate a “margin call.” This means you must deposit additional money to bring the balance back to the margin level ($7,500) or the broker has the right to sell anything existing in your portfolio to recover his investment.

Buying on margin can create the potential for greater returns. But it can be very risky as well, because it also creates the potential for greater losses. For example: You buy 1000 shares of PFA, currently trading at $14 a share. Instead of buying the stock with $14,000 of your own money, you only put up one half, or $7,000, while your broker puts up the other half, or $7,000. One month later, when the stock reaches $16, you sell your 1000 shares for $16,000. What has the use of margin done for your profits? You earned $2,000 profit on $7,000 instead of putting in $14,000 of your own money. This significantly increases your profit. You earned a 28.5% rate of return in only one month, and you only had to pay your broker 1% in interest ($70) for the margin amount (the additional $7,000).

And what happens if the stock goes down in price? If your portfolio goes down in value below the maintenance margin amount, you will get the dreaded “margin call.” Your broker does not care how much you lose, but they do care about how much they could lose, so they have the right to “call in” their portion of the trade. If you do not have the money in your account to pay back what you owe, your broker has the right to sell any other stock that you may have in your account to satisfy the margin requirement. A good rule to follow is to not borrow money if you do not have the ability to pay it back!
GLOSSARY OF TRADING TERMS

ASK PRICE - The price a seller is willing to accept for a stock or option.

AT THE MONEY – When the option’s strike price is identical to the price of the underlying security.

BETA - A means of measuring the volatility of a stock in comparison to the market as a whole. A beta of 1 means the price will move with the market. A beta >1 means the price will be more volatile than the market. A beta <1 means that it will be less volatile than the market.

BID – ASK SPREAD - The amount that the ask price exceeds the bid price.

BID PRICE – The price a buyer is willing to pay for a stock or option.

CALL OPTION - An option contract giving the owner the right, but not the obligation, to buy a specified amount of an underlying security at a specified price within a specified time.

CANDLESTICK CHART - A price chart that displays the market’s high, low, open and close for each day over a specified period of time.

CONSUMER PRICE INDEX (CPI) – A measure of price changes in consumer goods and services such as gasoline, food, and automobiles. Also referred to as "headline inflation.”
DAY ORDER – An order to buy or sell a security that automatically expires if not executed on the day the order was placed. A day order is good for that day only.

DELTA - The ratio of change in the price of a the underlying asset to the price of a derivative.

FLOAT - The total number of shares available for trading. Float is calculated by subtracting closely-held shares from the total number of outstanding shares.

GOOD TIL CANCELLED (GTC) - An order to buy or sell a security at a set price that remains open until you cancel it or the order is filled.

IN THE MONEY - For a call option - an option's strike price is below the market price of the underlying stock. For a put option – the option’s strike price is above the market price.

LONG-TERM EQUITY ANTICIPATION SECURITIES (LEAPS) – A type of option contract that expires longer out than 9 months, and sometimes up to 2 years. Standard options generally expire within nine months.

LIMIT ORDER - A limit order gives your broker a specified price (or better) at which you are willing to buy or sell your stock or option.
MARKET ORDER - A type of order that tells your broker to buy or sell your stock or option at whatever the current quoted price is when your trade reaches the trading floor.

OPTION - A contract sold by one party to another that gives the buyer the right, but not the obligation, to buy or sell a security at an agreed price during a certain time frame or specific date.

OPTIONS CONTRACT - Options are sold in a certain measure, called a contract. 1 contract consists of 100 shares. The price of an option is quoted per share, not per contract.

OPTIONS EXPIRATION DAY - Options expire on the third Friday of their expiration month.

OPTION GREEKS – How incremental changes in factors affecting an option price are measured. These help to understand the risk and reward potential of option positions.

OUT OF THE MONEY - For a call option - an option's strike price is above the market price of the underlying stock. For a put option – the option’s strike price is below the market price.

PREMIUM - The income received by an option seller from the option purchaser.

PRODUCER PRICE INDEX (PPI) – A group of indexes measuring the average change in selling prices received by domestic producers of goods/services over time.
**PUT-CALL RATIO** - A ratio of the trading volume of put options to call options. An indicator of investor sentiment in the market. A high volume of puts compared to calls indicates a bearish sentiment.

**PUT OPTION** - An option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time.

**STOP ALARM** - A Stop Alarm is set by the broker. If the stock price triggers an alarm, the broker is directed to call the trader to ask for instructions, or an alert may be sent to your cell phone, computer, or email.

**STOP LIMIT ORDER** – A type of order that tells your broker to buy or sell at a specified price (or better) after a given stop price has been reached.

**STOP LOSS ORDER** - A protective order that closes out a trade when it has gone against you a pre-determined amount. You enter an order that will “stop” you out of the trade automatically, if the stock or option trades at or below a specified price.

**STRIKE PRICE** - The specific price per share for which underlying stock may be purchased (a Call) or sold (a Put) by the option holder up to the expiration date of the contract.
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