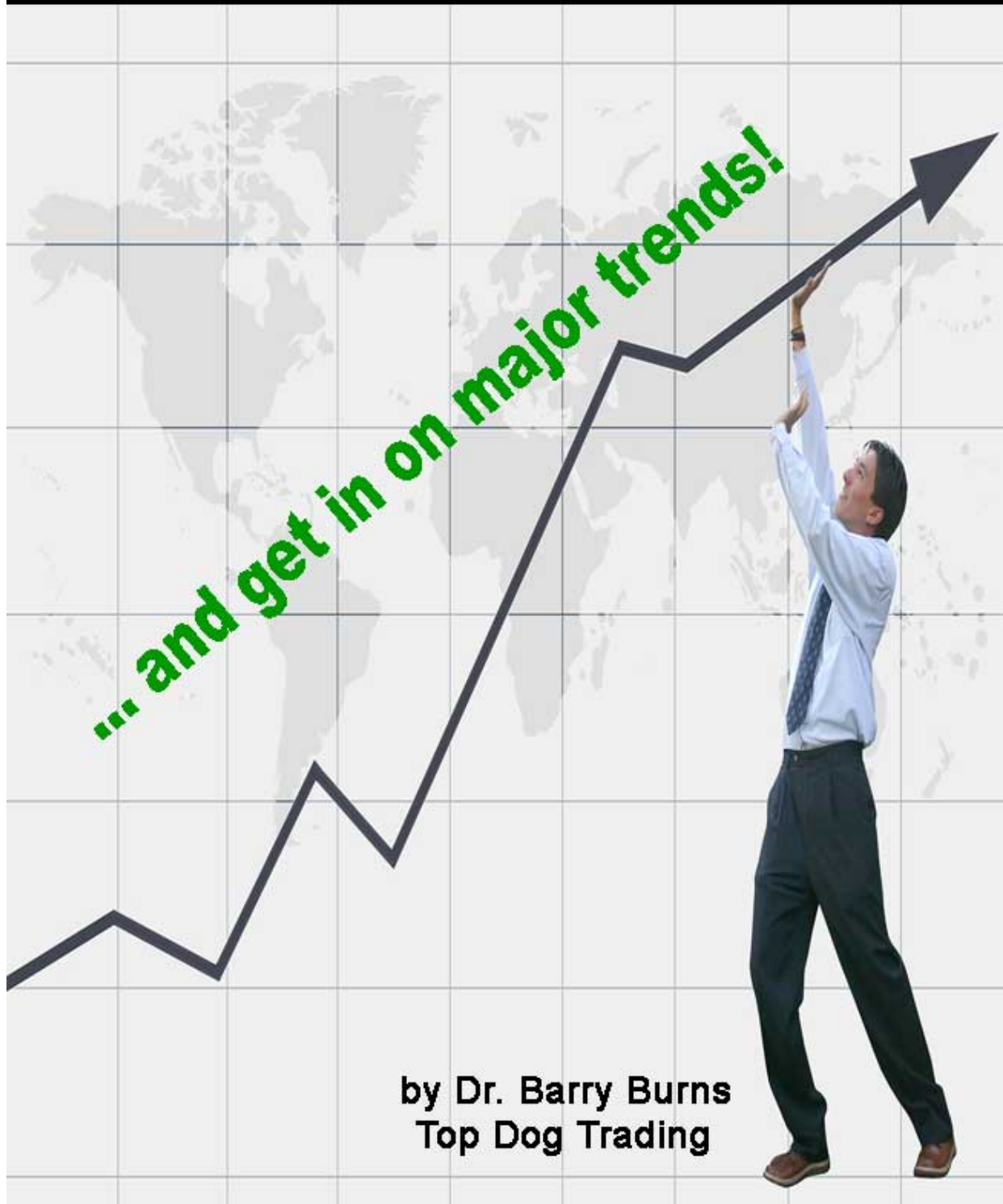


HOW TO AVOID CHOPPY MARKETS



by Dr. Barry Burns
Top Dog Trading

HOW TO AVOID CHOPPY MARKETS

Dr. Barry Burns
Copyright 2007
Top Dog Trading

IMPORTANT-READ CAREFULLY:

Reproduction, translation, or distribution in any form or by any means, or storage in a data base or retrieval system, of any part of this work beyond that permitted by Section 107 or 108 of the 1976 United States Copyright Act without the permission of the copyright holder is unlawful. Requests for permission or further information should be directed to:

Wealthstyles LP, dba Top Dog Trading
1534 N. Moorpark Rd, #222
Thousand Oaks, CA 91360-5129
(805) 491-3541

This publication is sold with the understanding that neither the publisher or author are engaged in rendering legal, accounting, investment or other professional services. Trading and investing involves substantial risk. Financial loss, even above the amount invested, is possible and common. Seek the services of a competent professional person before investing or trading with money.

By accepting this trading course you agree that use of the information of this course is entirely at your own risk. Neither the author nor the publisher is a registered investment advisor or a broker dealer. You understand and acknowledge that there is a very high degree of risk involved in trading options, futures and securities. Past results of any individual trader are not indicative of future returns by that trader, and are not indicative of future returns which may be realized by you. Neither the author nor publisher assume responsibility or liability for your trading and investment results. This course is provided for informational and educational purposes only and should not be construed as investment advice. The author and/or publisher may hold positions in the stocks, futures or industries discussed here. You should not rely solely on this information in making any investment. The information in this course should only be used as a starting point for doing additional independent research in order to allow you to form your own opinion regarding investments and trading strategies.

It should not be assumed that the information in this manual will result in you being a profitable trader or that it will not result in losses. Past results are not necessarily indicative of future results. You should never trade with money you cannot afford to lose.

The information in this product is for educational purposes only and in no way a solicitation of any order to buy or sell. The author and publisher assume no responsibility for your trading results. There is an extremely high risk in trading.

This course is sold "AS IS," without any implied or express warranty as to its performance or to the results that may be obtained by using the information.

Factual statements in this course are made as of the date the course was created and are subject to change without notice.

HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, SINCE THE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS MAY HAVE UNDER- OR OVER-COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN.

INTRODUCTION

“The Trend is Your Friend” is a well-known axiom in trading. It sounds so easy, but those who have tried to trade trends know how difficult it is.

Yes, being in a trending market (getting into it early, and holding on for the entire ride) is extremely profitable. But there are several problems:

1. The market only trends approximately 20% of the time.
2. By the time a trend is clear, it has already been well underway and you're getting in late to the party.
3. It's not clear that the trend has ended until the market has gone into consolidation or actually reversed.

All of these problems lead to losses!

What if you could know, or at least have a great indication of when the market was in, or going into a consolidation period BEFORE everyone else knew?

HERE'S THE BOTTOM LINE:

Most trading methods do make money when trading in perfect trending conditions, but then give back those same profits during periods of consolidation. So if you could learn to avoid consolidating markets, you could profitably trade many sound trading methodologies.

This Special Report from Top Dog Trading is designed to help you avoid choppy markets.

Although most traders spend years seeking new price patterns and indicators to help them know when to get into the market, professional traders spend most of their time working on filters to keep them out of the market!

I'm sure you don't need me to convince you of that fact and give you a lot of background, statistics and paper-filler, so let's jump right into the practical stuff.

There are 5 things I'm always watching that help me determine the “condition” of the market. Some apply only to day trading and others apply to swing trading and investing as well.

CONSOLIDATION SIGNAL #1: FLAT 50 SIMPLE MOVING AVERAGE

The teacher of my very first Futures course taught me this. He said as simple as it is, it would be the best thing anyone ever taught me.

Many years and many courses later I can say ... he was right! This one simple filter has kept me from giving back hard-won profits time after time. And when I ignored this rule, I did it to my peril (and loss of profits).

Most of the best techniques in trading are deceptively simple, and this is one of them.

When the 50 simple moving average is FLAT, that means the market is flat, and that means your position should be flat!

“If it’s flat, be flat, it’s as simple as that!”

Below is a 2 minute chart of the S&P emini. You can see that when the 50 MA (the red line) goes flat, it’s a clear indication that there is no trend in the market.



Chart created with NeoTicker © 1998-2006 TickQuest Inc.

However, let's be careful of one thing. The "filter" we're using requires that the 50 MA has really flattened out. Therefore you must see that the moving average has gone flat for at least one entire cycle of the market.

When the market turns, or reverses, the 50 MA will go flat very temporarily as it changes direction, but that is not the same as "flattening out."



See the next page for what happened after this ...



The 50 MA will have to be flat for a few bars when the trend is changing. Therefore this rule only applies when it has been flat for an entire cycle (use your favorite oscillator for measuring cycles).

CONSOLIDATION SIGNAL #2: USE TICK CHARTS

Most people use time charts, meaning that each new bar is created after a certain period of time: 2 minutes, 5 minutes, 1 day, etc.

“Tick” charts are charts that create a new bar after a certain number of TRADES are executed. A 100 tick chart starts a new bar whenever 100 trades go through and the 101st trade comes in.

In this way tick charts incorporate volume into the price pattern.

But they also do something else very important that helps minimize the damage to your trading account during times of consolidation.

During consolidation, volume tends to drop. Minute charts will continue to form new bars every minute, thus giving you long periods of consolidation on your chart and creating price patterns and indicator patterns you may be tempted to trade.

Tick charts, however, print fewer bars during periods of low volume consolidation because they only print new bars when the designated number of trades are executed through the exchange. Therefore you don't see as much consolidation on your chart, thus removing some false signals and some temptation!

On the next page is a comparison of the exact same 2 hour period as it looks on a 2 minute chart and a 500 tick chart of the eminis.

Many times I'm asked what the tick chart equivalent of a 2 minute chart would be.

There is no equivalent since each bar on a tick chart will vary dramatically in their duration. However a tick chart of the ES like the one below can have bars that last for less than a minute during fast market conditions, to over 5 minutes in slow market conditions.



CONSOLIDATION SIGNAL #3: FLAT ADVANCE/DECLINE LINE

One of the indicators you should always be watching, in my never-to-be-humble opinion, is the Advance/Decline line.

This is the difference between the Advancing and Declining issues. There's one measurement for the NYSE and another for the NASDAQ.

Use whichever one (or both) that relates to the market(s) you trade.

The bottom line on this indicator is simple. Much like the 50 MA, when it goes flat, keep your account flat. It's an indication that there is no clear direction in the market.

It really means there is no clear directional COMMITMENT on behalf of traders.

So the market may be trending, but if the Adv/Dec is flat, your "trending" market could change direction or simply go flat at any moment.

For day trading I use a 2 minute chart of the Advance/Decline line.

When I say "flat," that is a relative term, as it is with the 50 MA. With the 50 MA I'm looking at the angle of the line, but with Adv/Dec I'm plotting price bars and looking for a clear trend of higher highs/ and higher lows.

Some traders like to apply a moving average to Adv/Dec, but I prefer to simply look for trending bar patterns. When it's trending, it's pretty obvious. If you're not sure, then it isn't trending!



When the Advance/Decline line is meandering like it is above, it's considered "flat." Why take any trades when there's no clear direction in the overall market? That would not be trading with the wind at your back. Too risky. This would not be a "low risk" time to trade in either direction.

Choppy markets occur during times like this!



Many traders don't even look at this indicator. They're just looking at the charts they trade. You can have an edge over them. Let the amateurs try to buy the bottom over and over and over again!

When you see the Advance/Decline line clearly trending down like this, you know which direction the wind is blowing. So why take any long trades? This can save you many losses and keep you on the right side of the market.

CONSOLIDATION SIGNAL #4: FLAT UP/DOWN VOLUME

Here's another one of my favorites, and I don't know many people who use this.

Hint: that's called an "edge" for you and me!

It's the up/down volume. It measures the difference between the up **volume** and the down **volume**, as opposed to the difference between the number of **issues** up versus down. Again, it's available for both the NYSE and the NASDAQ.

Every day this indicator (more properly it's a "statistic") begins at "0" because each day starts with no volume.

The key is to watch the relationship of the bars to the zero line (I draw it in as a horizontal line on my chart).

If the bars simply hover around the zero line, that's an indication that there isn't any strong commitment of traders in either direction today, and therefore you may have a choppy, trendless market or a trend that is in place is less likely to continue following through.

Sometimes the Advance/Decline line will be trending, but if the Up/Down Volume is not trending, then be careful! There may be more issues going up than down, but there isn't volume to support the move!



There's no commitment of volume in either direction this morning. This indicates "choppy weather conditions" on the sea of trading.



Chart created with NeoTicker © 1998-2006 TickQuest Inc.

To twist a quote out of context: You don't have to be a 'rocket surgeon' to figure out what the low-risk trading direction is during this volume activity!

CONSOLIDATION SIGNAL #5: INTER-MARKET BIFURCATION

The final sign of a potentially choppy market is when the major indices get out of alignment.

If you're trading the DOW, or a DOW stock, and it's trending up nicely, but the NASDAQ is negative for the day, the NASDAQ may have a negative pull on the DOW and hinder its ability to continue trending.

You want to watch to see if the markets are splitting any of the following levels:

1. Yesterday's Close.
2. 50 MA
3. Central Pivot

"Splitting" any of these 3 levels, means that one of the four markets is above and another is below.

For example, if the S&P is above its close from yesterday, but the NASDAQ is below its close from yesterday, then the overall market condition would be considered "bifurcated."

Another example: If the DOW is above its Central Pivot, but the S&P is below its Central Pivot, then the overall market condition is considered "bifurcated."

Although one market will always be stronger than another market, the strongest trending days usually occur when all 4 of these markets are clearly bullish or bearish. When the markets all move together, they move more freely and tend to follow-through more ... sometimes trending in one direction for the entire day.

To measure this I recommend using 2, 3 or 5 minute charts of these 4 markets. You don't need any indicators other than the 50 MA, and a horizontal line for yesterday's close and the Central Pivot. Simply having these 3 things on those 4 charts makes it very clear when the markets are all committed to the same direction, and when there is a laggard that can be a spoiler for the other markets.

I also like to have a quote screen with the following markets at the top:

- ✓ S&P
- ✓ Russell
- ✓ DOW
- ✓ NASDAQ
- ✓ NDX
- ✓ ES
- ✓ ER2 (or AB)
- ✓ YM
- ✓ NQ

Notice I'm watching both the Cash and Futures markets.

On the quote screen I include a column for "Net Change" from yesterday's close. This allows me to see in an instant if the markets are aligned with yesterday's close.

- ✓ If they're all red, then they're all below yesterday's close.
- ✓ If they're all green, then they're all above yesterday's close.
- ✓ If some are red and some are green, then the markets are bifurcated.

Again, it's important to have all 4 major markets represented by both the cash and futures markets because sometimes you'll see that the cash and futures markets are splitting yesterday's close ... which is also a type of bifurcation!

In the quote window below, all the markets are aligned to the downside, with all of them below their respective "yesterday's lows" for both Cash and Futures.

Symbol	Last	Net
▶ \$SPX	1438.06	-10.25
\$RUT	807.11	-9.28
\$NDX	1785.53	-25.01
\$COMPQ	2459.82	-28.85
\$INDU	12580.83	-56.80
AB H7	811.40	-7.90
YM H7	12614.00	-58.00
NQ H7	1792.50	-29.25
ES H7	1443.00	-11.00
*		

RESOURCES

I hope you've enjoyed this Special Report. This information has been tremendously helpful for me and if you learn to use it properly, it has the power to improve your trading dramatically.

Learning when to stay out of the market is just as important as learning when to get into the market.

HOW TO FIND THESE INDICATORS ON YOUR CHARTING PLATFORM:

Depending on whether you're a day trading, swing trader or investor, and depending on your charting platform, you may be only able to use 2 or 3 of these 5 techniques. Use the ones you can, because even just **one** of these techniques, applied consistently over time, can save you a lot of money.

If you're not familiar with the "Central Pivot," it's a simple mathematical calculation:

$$(\text{Yesterday's High} + \text{Low} + \text{Close})/3.$$

There are other pivot levels as well: 2 to 3 drawn above and below the Central Pivot. There are various calculations used for these.

Many charting platforms have the "pivots" built in so you can simply click a button or select a menu item to have them applied to any chart.

Pivot levels are not just for day traders!

Pivot levels can be used for swing traders and investors as well by applying Weekly and Monthly Pivots to a Daily Chart.

If your charting platform doesn't supply these, you can get the pivot levels for free from:
<http://www.mypivots.com/dailynotes/dailynotes.aspx>

When it comes to the Advance/Decline line and the Up/Down Volume index, please note the following:

- ✓ Not all charting platforms make all market statistics available to their users.
- ✓ In addition, symbols vary from one data vendor to another.
- ✓ Therefore you will have to contact your charting provider and ask them if they provide these statistics and if so, obtain the symbols from them.

What to ask for:

"Advancing Issues minus Declining Issues" for NYSE and for NASDAQ (there are separate symbols for each market). Vendors have different names for these. Some may call it the "Advance/Decline" or "Market Breadth."

"Up Volume minus Down Volume" for NYSE and for NASDAQ (there are separate symbols for each market).

For those of you who use eSignal, finding these indicators is real easy:

:

- ✓ The symbol for the Advance/Decline line is **\$ADD** for NYSE and **\$ADDQ** for NASDAQ
- ✓ The symbol for Up/Down Volume is **\$VOLD** for NYSE and **\$VOLDQ** for NASDAQ
- ✓ To draw the pivot levels on your chart:
 - Right click on a chart
 - Select "Formulas"
 - Select "Pivots"
 - Select "PivotPointAll.efs"

CONCLUSION

In a brief Special Report like this I don't have the space to go into all the details of how I personally trade these principles. However you have enough here to apply to whatever trading methodology you may currently be using. Adding just ONE of these tricks to your trading can increase your trading profits tremendously.

If you'd like to learn my personal trading method, including the exact trading rules I use, **you're entitled to a DISCOUNT because you purchased this Special Report.**

I have many, many happy traders as you can see by the GLOWING testimonials of people making money at:

http://www.topdogtrading.com/Student_Results.html

My courses are some of the **lowest priced** in the industry because I want to help traders make money, not spend money.

They also come with email support and a **90 day, no-questions-asked, 100% money-back guarantee**, because:

If I can't help you make money, I don't want your money!

For the current discounts available for you, go to:

http://www.topdogtrading.com/discounts_all.html

Happy Trading,

Barry Burns

barry@topdogtrading.com

http://www.topdogtrading.com/discounts_all.html