
Getting Started: Building a Sound Foundation for Your Trading Career



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INTRODUCTION

This pamphlet has been designed to be a companion piece for CME Group's three-part video series "Getting Started: building a sound foundation for your trading career".

The purpose of the video series is to provide new traders with a rational starting point from which they can build and expand over time, while it also offers the experienced trader valuable reminders to enhance their existing techniques. This series begins with a few key concepts and trade setups, followed by a presentation on developing your initial trading plan and then concludes with a method of practice that highlights the importance of trading on a simulator.

The series is presented by Jeff Quinto who has been involved in futures trading for over 37 years. Jeff has been a floor trader, a member of several exchanges, President of a clearing firm, principal of a proprietary trading firm as well as a coach and mentor to many.

"When I first discovered the futures markets, as a young man in the early seventies, I knew I had found my calling," says Jeff Quinto. "I cannot imagine a more rewarding, interesting and challenging lifetime pursuit than trading. However, as exciting as trading has been for me, it also contains a great deal of risk and potential for loss. For this reason, it is important for new traders to start their careers with a sound foundation, using the best practices available"

This pamphlet and the three associated videos are meant to provide you with the same foundational processes followed by many successful traders, allowing you to benefit from the experiences of others.

Why I Use Tick Charts

In the early days of electronic trading, all the screen-based traders I knew used either one-minute, five-minute or ten-minute charts. One day, a trader in our trading room realized that you did not have to trade using these common minute bars; you could use any number of minutes you wanted. He started using three-minute bars and it worked.

We all switched to three-minute bars thinking that we had made a great discovery. We vowed not to tell traders outside our trading room about our clever use of three-minute bars. It seems silly that we thought we had found some sort of secret in the three-minute bars, but we were a lot less sophisticated back then and, in fairness, the three-minute bars worked for us.

I used three-minute bars for several years until one December day when the market broke violently over a nine minute period. I looked at my three-minute bar chart and all it showed was three long down bars with no overlapping. It looked like the market fell like a stone with no chance to get in.

INTRODUCTION (CONT'D)

Then, I wondered how that same down move would look on a different chart, so I pulled up a 300 tick chart. In fact, the 300-tick chart for that nine minute period, showed great structure with the market falling and then retracing, again and again. Where the minute chart showed only the fall in price, the tick chart showed the market falling and retracing the whole way down. Where the three-minute chart produced three bars, the 300-tick chart produced fifteen or twenty bars. The tick chart showed the action, although at very fast speed, where the minute chart did not.

For me, tick bars are the most perceptive because they normalize my charts based on price movement, not time. A tick bar at 2:00AM will contain the same number of price changes as a tick bar at 2:00PM. Of course the 2:00AM bar may take thirty minutes to form and the bar at 2:00PM may take one minute; however, each tick bar contains the same number of price changes.

On Buying Low and Selling High

When I first started trading on the floor, an older, veteran trader asked me what I was doing. I cleverly told him I was buying low and selling high. He looked at me in amusement and said, “the real money in trading is buying high and selling higher”. It was much later that I understood what the veteran trader was revealing. Successful trading is not about buying the bottom and selling the top. It is about finding a high-probability point to enter a trade in the direction of the trend and, in so doing, make a reasonable profit. The goal of your trading should be to capture meaningful profits from the middle of the move.

Each trade is just a small probability

New traders often think that successful trading is all about accuracy. They think that as they become a better trader, they will become better at picking the right spot to enter trades and, in so doing, will have a higher and higher accuracy percentage. This places too much importance on the outcome for each trade. I tell traders in my Electronic Trader Mentoring Program that each trade is just a small probability. Some will work and some will not. The object is not to always be right. The object is to get out of trades that are not rewarding you and stay with trades that do reward you.

TRADE SET-UPS

On using Keltner Bands and Moving Averages

I use exponential moving averages and Keltner bands as reference points on the chart. I do not blindly trade in the direction of the trend every time the market retraces

to precisely the moving average as if the moving average is some magical point. Instead, I let the market come to me, often buying below the moving average in an uptrend or selling above the moving average in a downtrend.

Retracement to a Moving Average

Using a 377 tick chart, Keltner Channels and a 21 period Moving Average

1) Keltner Setup



- a) The market has established an uptrend by piercing the Upper Keltner Band.
- b) Look for a retracement back to the moving average (MA). (The same basic methodology can be applied to a down trend)

TRADE SET-UPS (CONT'D)

2) Keltner Stop Placement



- a) Place an order to Buy 1 E-mini S&P as close to the Moving Average as possible. With the MA at 814.70 we will use a sample fill of 815.00.
- b) When filled, place a protective sell stop 8 ticks below the entry price at 813.00.

TRADE SET-UPS (CONT'D)

3) Keltner Exit



- a) Modify your stop as the market moves in your favor trailing it 8 ticks below the high price of the move.
- b) Eventually our stop order was resting at 819.00 and the sample trade was stopped out at that price.

TRADE SET-UPS (CONT'D)

Why I Like Flags

Traders talk about the market as if it goes straight up and straight down. In fact, it moves in waves; it ebbs and flows. When the market moves strongly in one direction it is like a rubber band in that it stretches as far as it can and, then, it comes back (retraces) a little to temporarily

relieve the pressure and then usually continues on its original path. When the market retraces after a strong run it often produces a very common retracement pattern, the flag. It does it nearly every day in every market. The challenge in trading flags is finding where the flag is fully formed and ready to continue the original trend.

Bear Flag

Using a 377 tick chart

1) Flag Setup



- a) The market has created a bear flag as it pulls back from a longer term downward trend. Bear flags are characterized by a series of higher highs and higher lows similar to a channel.
- b) Look for a continuation of the previous down trend if the market trades below the lower boundary of the bear flag. (The opposite would apply in a Bull Flag)

TRADE SET-UPS (CONT'D)

Why I Like Flags

2) Flag Stop Placement



- Place an order to Sell 1 ES if the market falls below the previous low of 860.25. A realistic fill would be to sell 1 E-mini S&P at 860.00.
- When filled, place a protective sell stop, 8 ticks above your entry price, in this case at 862.00.

TRADE SET-UPS (CONT'D)

Why I Like Flags

3) Flag Exit



- a) If the market moves in your favor, modify your stop to be 8 ticks above the low price of the move
- b) In this case the sample trade was stopped out at 855.50

TRADE SET-UPS (CONT'D)

What is a Channel and How Do I Use Them

A channel is formed as the market moves in a direction and repeatedly retraces back a portion of the move it made and, then, moves forward again only to retrace a portion of the move, once again. A channel pattern does

not continue indefinitely. Therefore, you need to be wary of the market breaking out of the channel as it either accelerates its move in the trend direction, it retraces outside the channel or it changes direction. A channel allows you to see a trend as well as the trend's natural retracements so you can judge where to enter the market in the direction of the trend on a retracement.

Bull Channel

Using a 377 tick chart

1) Channel Setup



- a) The market has established an upward trend channel.
- b) Look for an opportunity to buy at the lower end of the upward trend Channel. (The opposite would apply for a Bear Channel).

TRADE SET-UPS (CONT'D)

What is a Channel and How Do I Use Them

2) Channel Stop Placement



- a) Place an order to buy 1 ES as close to the bottom of the trend as possible.
Sample fill at 848.00
- b) Place a initial stop 8 ticks below your fill price 846.00

TRADE SET-UPS (CONT'D)

What is a Channel and How Do I Use Them

3) Channel Exit



- a) Modify your stop as market moves in your favor trailing it 8 ticks below the high price of the move
- b) We exited our long position when we were stopped out at 851.00

REPORTING FOR FUN AND PROFIT

1. Decide what is important to you – First, decide what is important to record and record only those things that are likely to help you. Be sure to record the outcome for each trade by setup, by the time in each trade, by the percentage of winners versus total trades, by the average ticks per winner and by ticks per loser. Note trades that you did that were not in your plan (you will be surprised how much these undisciplined trades cost).
2. Be easy on yourself – Take advantage of what is readily available to you in your trading software and automate your record keeping as much as possible. If your record keeping is overly complicated and burdensome, you will not continue it for long.
3. Regularly analyze your records – Periodically analyze your records to determine (a) whether you are doing what you had planned; and (b) whether you are getting the outcome you expected from your trades. Try to learn from your records what can be learned, but do not overanalyze your results. The most insightful lessons to be learned from this exercise will be obvious to you if your records include only what is important.

SAMPLE TRADING PLAN

Jeff Quinto's Trading Plan

TRADING:

The contracts I intend to trade: *e-mini S&Ps (ES) on the simulator*

The hours I will trade: *10:05 am to 12:30 am EST
and 2:15 pm - 3:30 pm EST*

The set-ups I will take:

- 1. Retracements in the direction of the energy as they approach the 21-period EMA with outer Keltner bands 1.5 times the 21-period Average True Range on a 377-tick candlestick chart: I will enter trades using limits and exit trades using market orders.*
- 2. Flags in the direction of the energy at the bottom of the deepest retracements of a flag on a 377-tick candlestick chart: I will enter trades using limits and exit trades using market orders.*
- 3. Channels in the direction of the energy along the retracement trend line of the channel on a 377-tick*

SAMPLE TRADING PLAN

Jeff Quinto's Trading Plan

RISK:

My loss limit in ticks per trade and in total dollar loss per day: *8 ticks per trade and 30 ticks per day*

What I will do after x number of losses in a row: *3 losses in a row = take a meaningful break (turn off monitors, take a walk outside the trading room)*

My strategy for increasing and decreasing my trading size: *I will trade two contracts on each trade whenever the P&L is greater than 40 ticks; I will reduce from 2 contracts if the P&L goes below 40 ticks; I will stop trading should a winning day over 30 ticks retreat 1/3 (i.e. if I am up 30 ticks, I will stop trading for the day, should my P&L decrease to 20 ticks)*

SAMPLE TRADING PLAN

Jeff Quinto's Trading Plan

GOALS:

How many ticks am I trying to make today: *I am working to beat the market, each day; my initial P&L goal is being positive on the simulator*

How many trades do I plan to make per day: *10-15 rational trades*

How long do I plan to hold winners and losers? *Hold winners until they stall; hold scratches and losers no longer than 5 minutes*

SAMPLE TRADING PLAN

Jeff Quinto's Trading Plan

REPORTING:

My plan for writing a brief narrative of the day's trading: *I will write a narrative of the day and what I learned and observed on the daily chart that I prepare for myself and send to Jeff as a .jpeg file; I will save all of these daily files for future reference*

My plan to keep statistics of my trades (hold times, results, et cetera): *On the daily chart, saved as a .jpeg file, I will note my total trades, I will calculate my number of winners and losers, average hold times for winners and for losers, I will make a table of the number of ticks for all trades (i.e. 2 @ -1 ticks, 3 @ 0 ticks, 4 @ +2 ticks)*

How I will mark my trades on the same charts I use to trade: *I will mark each trade on a 377-tick chart showing where I got into the trade, where I exited the trade, an indication of whether it was long or short, ticks made or lost, and time in each trade*

SAMPLE TRADING PLAN

Jeff Quinto's Trading Plan

CONTINGENCIES:

What number do I call to get out of trades should my system crashes: *Call the Control Center at 1-312-555-2062 to get out of positions, cancel open orders and get information on the status of the market and my system*

Who can I contact to troubleshoot or repair my computer?

Call Bill Smith 312-555-2025

Who do I call to get my Internet connection checked and fixed if needed?

Call Charter Communications (888) 438-2427

BLANK TRADING PLAN

TRADING:

The contracts I intend to trade:

The hours I will trade:

The set-ups I will take:

SAMPLE TRADING PLAN (CONT'D)

RISK:

My loss limit in ticks per trade and in total dollar loss per day:

What I will do after x number of losses in a row:

My strategy for increasing and decreasing my trading size:

SAMPLE TRADING PLAN (CONT'D)

GOALS:

How many ticks am I trying to make today:

How many trades do I plan to make per day:

How long do I plan to hold winners and losers?

SAMPLE TRADING PLAN (CONT'D)

REPORTING:

My plan for writing a brief narrative of the day's trading:

My plan to keep statistics of my trades (hold times, results, et cetera):

How I will mark my trades on the same charts I use to trade:

SAMPLE TRADING PLAN (CONT'D)

CONTINGENCIES:

What number do I call to get out of trades should my system crashes:

Who can I contact to troubleshoot or repair my computer?

Who do I call to get my Internet connection checked and fixed if needed?

Getting Started: Building a Strong Foundation for Your Trading Career was written by Jeff Quinto, President of Electronic Futures Trader, Inc.

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