SECRETS

OF A

STOCK EXCHANGE SPECIALIST

Insights, Wisdom, & Trading Strategies from the Floor

Steven Primo
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This book is dedicated to my father, Ralph Primo Sr. Though he did not teach me everything I know about trading, he saw something in me at a very early age that no one else saw. His gentle persuasion and guidance in that direction has made all the difference in my life, and for that I am eternally grateful.
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I began working on the floor of the Pacific Stock Exchange in the summer of 1977.

My first job on the Exchange was that of “runner” or “floor reporter”. A runner’s sole duty was to stand in front of the Stock Specialist’s post, wait for a trade to occur, write down on a slip of paper the transaction’s share amount and price, and then quickly “run” the information over to the teletype operator who in turn displayed it on the ticker tape.

Antiquated as it may seem, this was state-of-the-art for 1977.

So there I was, a 22-year old kid fresh out of college (with a degree in Music of all things) with no background whatsoever in finance or economics. I really had no idea of what was taking place, and yet I was actively involved in reporting millions of dollars worth of transactions on a daily basis.
The Exchange Floor environment was filled with hundreds of people yelling and screaming. Trading was communicated through weird hand-signals. Paper was scattered ankle-high all over the floor. The Stock Exchange was a madhouse. It was the greatest job in the world!

My tenure on the trading floor lasted a total of 16 years, nine of which I was employed as a Specialist for Donaldson, Luftkin and Jennrette. As a Specialist, I oversaw - or Specialized – in roughly 50 stocks. This meant that if anyone wanted to buy or sell these particular equities on the floor of the Pacific Stock Exchange, they had to go through me because I was the only one who made markets in those stocks.

In the years to follow, I traded through the great Bull Market of the 1980’s, the Crash of ’87, and the continuation of the tremendous Bull Market that ensued in the early 1990’s.

As a relative newcomer to the Exchange floor I saw and learned a great many things, but what I ultimately gained over the years was a unique understanding and insight into the trading world of a Specialist. I observed that there were common traits and disciplines that were akin to only a select few on the Exchange floor. And non-coincidentally, these select few were the same Specialists who consistently made profits trade after trade, day after day, and year after year. Clearly, they had an edge.

What was this special edge that only these few Specialists possessed? Were they seeing something that the rest of us couldn’t?

The goal of this book is to share with you those edges that only a rare number of Specialists were able to attain.
ACKNOWLEDGEMENT

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SECTION ONE

INSIGHTS

“It’s just like shooting fish in a barrel. Except the fish are now starting to shoot back”

- Exchange Specialist
CHAPTER 1

THE CRASH


I had just returned from a 2-week trip in England where I was attending the wedding of my brother. Though the celebratory events that led up to the wedding ceremony were memorable, I actually had a difficult time enjoying the occasion due to what was happening back in the U.S.

During those two weeks, all I saw or heard in the British media was “U.S. Stocks Tumble Again!” , "No End in Sight to Sell-Off!", and “DOW Headed for a Crash”. “I wish I were home.” I told my family on a daily basis. “I would be buying EVERYTHING!”
When I arrived back in the U.S. the first thing I did was contact the other traders and Specialists I worked with on the floor. I needed to know - first hand - how bad things really were. “Oh it’s bad.” they insisted. “The worst we’ve ever seen!” When I told them I thought it was a bit overdone, they warned “Steve, I know you always try to buck the trend (my nickname on the floor was The Great Contrarian because I never went with the crowd), but this is unlike anything we’ve ever seen before! For God’s sakes, don’t even think about going long until a bottom has been confirmed!”

That was all I needed to hear. I quickly decided that I was going to buy EVERYTHING on Monday.


The Exchange floor was like a morgue – everyone was expecting the worst and the news wasn’t helping. Data services were reporting such a large amount of pre-market selling pressure that many stocks were projected to open hours later than normal. Deluged with sell orders, the majority of Specialists looked as if they had just seen a ghost.
Once the market finally did open, the first hour of trading was comparable to playing a game of *hot-potato* – meaning the minute you bought something you quickly handed it off to another regional Exchange Specialist, hoping to sell the stock at roughly the same price you just bought it for. The main point was that nobody wanted to get stuck holding onto a stock, or the *hot potato*.

After an hour of this nonsense, roughly 7:30 am PST, I took a quick glance at the DJIA: down 150 points. The market was bad, but not bad enough. I didn’t sense that there was enough panic in the air to begin buying. I decided to hold off going long and continued to offset all of my positions by selling them to the New York Specialist.

**8:30 am PST.** It was 2 hours into the trading day and the majority of stocks were now open. Pandemonium had set onto the trading floor. Machines were spewing out non-stop “sell at market” tickets in literally every stock for every share amount. As a Specialist, you had no choice but to bite the bullet and automatically buy these shares. But at what price? Stocks were dropping so fast, your guess was as good as mine.

Paper was knee-high in some areas of the Exchange floor. Our clerks couldn’t keep up with the paper work – we knew we were long everything, we just didn’t know how much or at what price!
Most Specialists (including myself) were throwing their hands up into the air in total frustration. We had never seen anything like this before and it was getting more and more difficult to offset our long positions.

With the market now down over 11% or roughly 250 points (remember, this was over 20 years ago), I decided it was time to buck the trend. “Buy everything!” I defiantly announced to the other Specialists trading next to me in the quad. “Are you nuts?” they replied. “We’ll see, we’ll see.”

I instructed my assistant to quit playing *hot potato* with the NY Specialist which meant we were now going to hold onto all of our long positions. “But we can’t keep buying more. We’re already over our money!” she said. I could tell she was frightened. “That’s OK. Try to give me, as best as possible, a rough estimate as to how much stock we’re long.” “Whatever you say.” she replied. I could tell she thought I was nuts too.

**9:30 am PST.** To this day most traders are not aware of the sharp, nearly 200-point intraday rally that took place on the day of the ’87 crash. And guess who called it! The DJIA had bounced back from it’s lows and was now down only 75 points. “It looks like the *The Great Contrarian* picked the bottom again!” my fellow Specialists were saying. “How’d he know?”
Simple. I waited for the precise moment when I sensed fear and emotion to be at their highest. Through experience I had learned that it was at these extreme points that markets usually reversed. I instructed my assistant not to buy any more stock and to begin selling everything we had previously held onto. Moments later, we were reaping the rewards.

“Oh my God! If the computer screen is correct, we just made over $250,000!” she exclaimed. Not bad for a couple of hours work. I told her to go back to the old plan of immediately selling anything we now bought. The day was only half over and still as crazy as ever, but there was a surreal calm at Post 29. Why? Because while everyone else was losing money, we weren’t getting hurt at all.

Until…
**11:30 pm PST.** With an hour and a half remaining until the close, selling had once again resumed and the DJIA was now down over 300 points. What to do, what to do? If it had worked before it was sure to work again. Once more I instructed my assistant to stop playing *hot potato* but to instead hold onto all the shares we were now buying. “Oh, no. Here we go again.” She said with another nervous sigh.

**2:30 pm PST.** “Just a rough estimate…I won’t hold you to it.” I was asking my assistant to give me one last update of our profit/loss for the day. The market had been closed for over an hour, with the DOW closing down more than 500 points, or –22.6% for the day. (A similar drop in today’s market would equal nearly 3,000 points.)

“Oh my gosh, its not that simple! Well, let’s see. Orders are still backed up and we can’t trust the computers because they’ve crashed…”

“Please, just give me a number!”

“Well, as best as I can tell…and this is just a guess,” she took a deep breath, “We’re **down** about half a million dollars.”

Half a million dollars. More money that I had ever lost in all my years on the trading floor – combined! Not only had I given back the $250,000 that I had made earlier in the day, but I had also lost an extra $500,000 in the last hour and a half of trading.
A negative swing of $750,000 for the day. This was the single worst trading day that I had ever experienced – the Crash of 1987.

But compared to most traders, I came out of the ’87 Crash relatively unscathed. A number of Specialists lost tens of millions of dollars on that day. In fact I knew of one Specialist who, after he was informed of his losses, was so despondent he walked the entire way home – an over 15 mile long hike!

In the end what everyone had feared had in fact come true – it literally was a bloodbath. Not one Specialist on the floor made money that day - there were only varying degrees of losses. Traders wondered if they would ever be able to make back their losses, let alone still have a job by the end of the month.

In the days to follow, a fellow Specialist confided in me that the Crash of ’87 was undoubtedly the lowest point of his life. “I went home that night, picked up and held my newborn son, and quietly sobbed for hours.” he shared.

I was so exhausted from the day’s madness, I fell asleep on my couch.

“We just might make it.” I assured my assistant. “If we’re lucky enough, we just may break even.” Tuesday morning before the opening, the day after Black Monday. Overnight, like magic, the Bulls had decided to come out of hiding. It was only pre-opening but there were already tons of buyers everywhere, in every stock and at much higher prices. What a difference a day had made.

On Monday the DOW had fallen out of bed over 500 points, but on Tuesday it staged a rebound of over 100 points! What goes down, must go back up. Everyone’s prayers had been answered because it appeared the selling was over and a bottom had been made in the market.
But more importantly, every trader on the floor breathed a sigh of relief that morning.

Why? Because most of the computer systems had been down since the day before, or Black Monday. Therefore few Specialists if any had the slightest idea of what their books were showing for Tuesday’s upcoming opening. It would have been a complete disaster - for all Specialists - if Tuesday would have turned out to be another down day.

But by mid-morning on Tuesday, with the market miraculously higher, the recording systems finally did come back up. Most Specialists were stunned to find out they had come into the trading day long millions of dollars worth of stock. Much more than their accounts allowed.

With capital restrictions a concern, all a Specialist was required to do was simply sell everything and claim your prize. It was like waking up on Christmas morning and receiving the best possible gift in the world! For every dollar a Specialist lost on Black Monday he had gained nearly two on Terrific Tuesday.

When the dust finally settled, my assistant and I learned that we had done much better than originally
hoped for, which was simply to break even. We had won the lottery.

At the end of Tuesday’s trading day I not only recovered my $500,000 loss but made a profit of over $500,000 as well. A positive one million dollar swing in 24 hours - and without doing a thing! A record loss followed by a record gain. It was now time to celebrate.

Everyone on the floor decided to congregate at the usual bar where Specialists chose to celebrate the day’s victories or lick their wounds. But this occasion was different from the rest because not only were we all winners – we were BIG winners. Everyone was patting themselves on the back for the tremendous job they had done - not only surviving Black Monday but coming out on top as well.

The room was jam-packed. Drinks were flowing, Specialist were putting their arms around each other and everyone had a unique and interesting war story to tell.

At one point a trader, who had obviously had too much to drink, stood up to give a toast.

“Attention, attention everyone, please!” He was feeling no pain. “I want you all to raise you glasses and join me in a toast.” Everyone quieted down just in time to hear him announce, “Here’s to THE BEST
FUCKIN’ TRADERS IN THE WHOLE GOD DAMNED WORLD! AND YOU CAN FUCK THE CRASH!”

The room went nuts. Everyone screamed and cheered and the entire bar seemed to vibrate as the decibel level grew even higher. With a drink in my left hand and my right fist pointed upward, I was right in the middle of the celebration, cheering as well.

As I celebrated, I slowly scanned the room which was full of drunks, trading groupies and hanger-on’s, until I came across a peculiar sight. There, quietly drinking and seated at a dim-lit corner table were three veteran Specialists. Amongst the three, two were watching the crowd with amused interest, but the remaining one was looking downward, shaking his head with a half smile on his face.

_Diablo._
On the floor of the Pacific Stock Exchange, I traded in a quad with 10 other Specialists. Though it was our responsibility to make markets in only the stocks assigned to our individual posts, the Exchange also permitted us to trade stocks outside of our post, should we so desire.

Therefore it wasn’t uncommon to see Specialists entering orders similar to the public – i.e. buying and selling stocks for their own personal trading accounts.

On this particular day, Bob, a friend of mine who was an assistant Specialist at the General Motors post, came walking up to me with a huge grin on his face.
“Well, he did it again!”
“No way!” I exclaimed.
“Yup” Bob answered. “He bought Motors a quarter of a point off the low yesterday, when no one would dare touch it, and then sold it today 10 cents off the high. A four point gain on 3000 shares in one day! I just delivered the ticket to him. How does he do it?”
We both shook our heads in disbelief.
“He’s gotta know something.” I said.
“Unbelievable!”

We were speaking about an enigma on the trading floor. For years we watched in amazement as this obscure individual made successful trade after successful trade. Had this been a one-time occurrence we would have written it off to luck, but we saw this happen on a daily basis - in different stocks, and at different prices.

This trader had the uncanny ability to consistently buy at the low and sell at the high. And these weren’t even the stocks he was making a market in! We could only imagine how well he was doing at his own Specialist post.

“Didn’t he do the same thing last week in CPQ?” I asked.
“Yea, and in IBM and WMX! He also made 5 points shorting MOB, and those are just the trades I know about. God knows what else he’s trading at other posts for his personal account.”
“This is insane.” I said. “There is no way humanly possible that anyone can trade that many stocks and be that right all the time.”

After a prolonged silence Bob jokingly replied - as if he were revealing a secret, “Unless he went to the crossroads.”

He was referring to a legend where a Mississippi blues man traveled to a remote area of the south in order to make a deal with the Devil. The legend states that the two met at a fictional crossroads in the country, where in exchange for fortune and fame, the blues man sold his soul to the Devil.

“That’s it!” I said with a laugh. “That’s it! He must have gone to the crossroads! We’ve finally figured it out.”

From that day forward we now had a name to explain the secret behind his success. And just like that, Diablo was born.
CHAPTER 4

METHOD TO HIS MADNESS

What was so extraordinary about Diablo was not his uncanny ability to make money trading stocks, but the way in which he did it. His post was in the same quad as mine so I had ample opportunity to witness and scrutinize the method to his madness.

What first stood out about him was that he was a very quiet, almost painfully shy man. In fact there were only a few traders on the floor who could honestly say they knew the man. Therefore he was rarely in close, personal contact with other traders or Specialists on the floor.
As I secretly spied over his shoulder to study him (his booth was directly behind my post on the floor), I noticed there were certain unchanging characteristics regarding his trading style.

To begin with, he never ever watched the tape, studied financial news or looked at a chart. He never asked anyone what they thought of the market - never. In fact I rarely saw him focus on anything other than simply reading the local newspaper all day long.

His routine consisted of periodically glancing up at his computer screen to check out a stock price. At this point he would write down a buy or sell order (usually for less that 1000 shares), and then slowly slide the ticket to a clerk seated at his left. This assistant in turn would walk over to the corresponding Specialist who traded the stock and enter the order in his book.

If his order were filled, the assistant Specialist in that stock would then walk back and return the ticket to Diablo and inform him of the stock’s current bid and ask. He never showed any concern or interest, let alone acknowledged the clerk’s presence. He would simply give the clerk another order ticket, which I assume was intended for exiting the trade.

And that was it! No yelling and screaming, no frantic buy/sell instructions shouted loudly over the phone for all to hear. No ticket transactions scattered frantically all over his desk. Just a quiet man who had
developed a mysterious strategy for accurately trading stocks.

In the months to come I uncovered probably the most valuable piece of information regarding Diablo’s trading plan. Through my contacts on the floor (namely other Specialists and their assistants who were spying for me), I learned that Diablo implemented a unique approach when going long or short a stock.

Whereas most traders simply bought or sold a stock at the market, Diablo always entered his trades by placing a stop order either above (to go long) or below (to go short) the current stock price. This meant that rather than pounce on the stock the moment it started to move, these orders waited to be triggered if and only after the stock price touched the stop price. He rarely if ever used conventional market orders in his trading plan.

This was the exact opposite manner in which most traders executed, for they almost always bought or sold stocks based on spur of the moment decisions. The motivation behind their conventional style of trading was to exploit quick moves in a stock based off of unexpected news or a major announcement.

But Diablo was using a different trading approach altogether. The core concept of his trading plan was
to patiently wait for the stock to go in the desired direction before committing to the trade. Only then would he jump on board.

It was obvious that Diablo had devised a well laid-out plan that he stuck to and never wavered from. Sure he had losses from time to time, but they were miniscule in comparison to the majority of his gains.

Still, there were a great many questions left unanswered. For instance, how did he choose the stocks to buy? How did he know which stocks to sell short? What criteria was he using in order to decide where to place his stop orders? Since he didn’t rely on the customary means of trading (charts, news, earnings), what strategy did he use to generate his buy and sell decisions?

The more I saw him rack up consistent winners, the more I needed to know.
A CHANCE MEETING

Months after Black Monday and the celebration that followed, the market continued to rise. Everyone on the floor considered themselves a financial genius, primarily because they were making lots of money. With increased volatility fueling the daily market swings, trading was as easy as throwing a dart at the Wall Street Journal and simply buying the stock it landed on.

Still, I kept obsessing about our Back Monday celebration at the bar. I couldn’t get the image of Diablo out of my head - that look of disdain on his face. It was as if he had said to all of us that day “You
have absolutely no idea of what it really means to be a trader.”

If I could only have a few minutes alone with him. I wanted to pick his brain and find out what he really meant. But most importantly I needed to talk to him about his trading strategy. How did he do it? What did he see? I got my chance one day after the market closed.

As I was making my way off the trading floor towards the Exchange elevator, I spotted Diablo walking about 30 feet ahead of me. Not even stopping to press the button, he passed by the elevator doors altogether and headed towards the stairwell which led to the lower parking levels. “So that’s how he escapes everyday.” I thought to myself. I quickly sped up to join him.

“Hello Sir. How’d your trading go today?” He turned around and gave me a look of surprise, as if he didn’t know who I was. “I’m sorry, I’m Steven Primo, and I’m a Specialist for DLJ. My post is directly behind yours.” “I know who you are.” He said matter-of-factly as he opened the stairwell door. I didn’t know whether to be flattered or scared. “I’ve just never seen you take the stairs before. What’s on your mind, young man?” he asked.
“Well sir, I just wanted to ask you a few questions about trading.”

“What sort of questions?”

We continued to walk down the empty stairwell. This was my only chance. “Well sir, mainly how you do it. I’ve watched you trade and I’ve seen how successful you are. Is there a particular trading system or strategy that you’re using?”

Without stopping he methodically replied, “Buy low, sell high.”

I causally laughed even though I thought he was being slightly pretentious. We continued to walk down the stairwell. “Well, that goes without saying.” I replied. “We all try to buy low and sell high.”

“No you don’t.” he stopped midway down the stairs and turned around to look at me. “I’ve seen you trade as well. You basically trade like everyone else. Your goal is to buy at the very low and sell at the very high. That’s quite different from what I said.”

He opened the door to parking level 5 and continued walking. Even though I was parked two floors lower, I followed him as he walked to his car.

“So you’re saying there’s a difference. Could you please explain?”

“There’s a huge difference. But I’m sorry, I don’t have time right now. I must be going.” With that he began
to fumble for his car keys and proceeded to open the door to his Jaguar sedan.

Not wanting to press my luck, I simply said “OK. Thanks for your help.” and began to make my way back towards the stairwell. “Buy low, Sell high” - how pretentious was that? I was as polite as one could possibly be and he came back at me with that? Never mind, I didn’t need to know his secret. My trading was doing just fine without him.

I walked down the stairs to where my car was parked. As I opened the stairwell door leading to parking level 3, I spotted a car coming down from the upper level ramp. A Jaguar sedan. Should I smile and politely wave or just ignore him? Before I had a chance to decide, Diablo came driving up next to me and rolled down his front passenger window. I cautiously leaned in.

“If you were swimming in a river, what would you rather do: swim upstream against the flow of the river or swim downstream with the current at your back?” “I’m sorry, what?” I asked confusedly. What was this, some sort of a test? “Just answer the question.” After a few seconds of pondering, I responded. “Well naturally with the current at my back.” I replied.

“Good. Rule #1: always trade with the trend.” he said.
“Now if you wanted to dive off of some rocks into the very same river, would you be inclined to do so when the river was jam-packed with people swimming and frolicking in front of you? Or would you be more inclined to dive in when the river was quiet and empty?”

Here we go again. I was still trying to make sense out of the first analogy. “Well it would be much easier and safer to dive in once everyone had left the water.” I wondered if I’d passed the test.

“Good. Rule #2: Always enter on pullbacks within the trend, when everyone has gotten out of the water. That’s it.”

_Diablo_ causally said good bye, rolled up his window and drove off towards an exit. As I watched him drive away, I stood there in the middle of the parking lot and wondered what the hell had just happened.
SECTION TWO

WISDOM

“It’s amazing how many things there are, that aren’t.”

-Anonymous
Over the next 5 years I spoke with Diablo on numerous occasions concerning his trading style and philosophy. Though the core of his method centered on the same two principles first introduced to me in the parking lot, he also elaborated on a number of additional rules and guidelines as well.

The following Section of this book is devoted to going over each one of those trading principles in detail. After studying them, you’ll realize that most of his standards fly in the face of conventional trading wisdom.

As Diablo constantly reminded me, most people either trade with the herd or trade against the herd, with the latter being the style I once subscribed to. But in the end, both methods are ultimately opposite sides of the same coin since each style of trading is dependent upon what the crowd is doing. One should never concern themselves with what the crowd is or is not doing. In the long run, this type of trading will be unsuccessful.

True trading wisdom comes from the knowledge of what works and what doesn’t work, and having the courage to let go of so-called conventional methods can only derive this. In order to be successful one must devise a trading plan, not based off of what the herd is saying, but based off of what the market is saying, and then put that plan into action.
Never, ever try to pick a top or bottom. Trying to buy on the low and sell at the high is a recipe for disaster. There is a high probability of losing all of your capital with this style of trading. Why? Because it is extremely difficult.

Despite it’s degree of difficulty, the vast majority of traders still continue to trade this way. (In fact this is the very same way in which I used to trade years ago.) But as Diablo pointed out to me, whereas this type of trading may yield you 9 winners in a row, it’s the 10th trade that will ultimately wipe out all of your capital. Trading this way will eventually lead you down a losing path.
Trying to pick tops and bottoms will only produce a roller coaster ride in your trading; a series of profitable months followed by disastrous losses. The results will not only question your ability to trade but will wreck havoc on your nerves as well. A true Specialist knows that there is no such thing as Overbought or Oversold. It wasn’t until I met Diablo that I realized trading is not supposed to be like this.

Consider your last trade. What was your motivation for buying or selling? Prior to the trade, did you say to yourself “This stock is too high” or “This stock is definitely in oversold territory.” Now ask yourself, over the long run, can you honestly say you’ve been successful trading this way? Overtime, have you been able to hold onto the profits or have they all disappeared?

Remember, trying to pick a top or bottom is no different than standing in front of a speeding train and thinking it will stop just because you said so. In the long run, this type of trading will be unsuccessful. Never, ever try to pick a top or bottom.
CHAPTER 7

NEWS

If you are a trader, there is absolutely no reason for you to concern yourself with news. Any type of news. This includes everything from worldly events and earnings announcements to interest rates and fundamental stock reports. All news is subjective in the marketplace. It can be interpreted a million-and-one different ways. Besides, it’s ludicrous to think that the benefits of listening to the media could possibly outweigh the advantages of listening to the market itself.

When one relies on news to make their trading decisions one is basically projecting “I don’t know what to do. I need external information in order to make a decision” and these type of thoughts will lead to a victim mentality.
Traders often remark “I was doing great until the news came out, then I got killed” or “I didn’t want to trade because of the pending announcement. Once the news came out it was too late.” One should always know what to do and then follow through, regardless of what information is disseminated. A Specialist is never a victim.

A true market Specialist never looks at fundamental news or information. He knows that if one is truly a trader, it doesn’t matter. If you feel you cannot break free from relying on news, then a decision must be made before going any further. Diablo said that this would be the most important decision a trader would ever have to make.

The question one must first ask themselves is “Are you a trader or an investor?” There is a huge difference. Trading is geared for the short-term outlook whereas investing is geared towards the long-term. According to Diablo, the latter is the only style where news and fundamental information is applicable.

A long-term investing style may not reap the proposed benefits until years later, whereas trading can provide you with benefits in minutes. Therefore you must come to a decision as to who you are before beginning this journey – are you a trader or an investor?
There is no right or wrong answer here, just a clear realization as to who you really are. A certain amount of honesty on your part is required before we go any further. If you are an investor then you should put this book down right now because it is not going to help you. Pretending to be a trader but actually possessing an investor mentality will not only leave you out of synch with the market but will most likely result in putting an end to your trading career.

In the long run, this type of trading will not be successful. If you are truly a trader, there is absolutely no reason for you to concern yourself with news.
Scalping is a “trading strategy that attempts to make many profits on small price changes. Traders who implement this strategy will place anywhere from 10 to a couple hundred trades in a single day in the belief that small moves in stock price are easier to catch than large ones.”

Scalping is not considered true trading because it is fear based. It’s trading decisions are based on manipulation of the bid-ask spread as opposed to coming from a well thought out plan. Therefore, one should avoid this style of trading altogether.

The Stock Market is comparable to a huge ocean, full of enormously profitable trading opportunities just waiting to interact with you. Why then would you want
to simply get your feet wet when you could take full advantage of the ocean by jumping in?

Scalping stems from the insecurity of not having enough confidence in your own trading ability. If one doesn’t believe they can generate large profits by implementing a personal trading strategy, then one usually reverts to a lower level of trading that simply settles for the smallest of gains. This type of action is justified by taking an unusually large amount of trades. But in the end, after careful analysis, it’s just a manifestation of low self-esteem.

Scalping is the result of one’s lack of confidence in sustaining a winning trade or the ability to believe and trust in a personal trading methodology. Therefore, scalping is not considered true trading because it is fear based. One should avoid this style of trading altogether.
CHAPTER 9

RECORDS

You must keep a record of every trade you take. Within that record, a reference must be made as to the date, time, stock symbol, reason for trade, buy or sell, entry price, stop price, profit target, exit price, and lastly the realized dollar profit/loss amount. Finally, you must keep a cumulative record of the actual dollar profit/loss amounts for each trade.

This is not a trade diary or journal but an exact ledger of all you trades. The reason one must keep records is to obtain a visual reference of their trading progress. After a certain number of entries you will begin to see patterns and cycles connected to your trading. You’ll become aware of certain days, times, and environments where your strategy worked, and others where it didn’t. Your trading will become a real
and living thing which you’ll be able to direct and regulate.  
*Diablo* said trading without records is like educating your kids without seeing their report cards. It’s equally important to monitor their progress. Your trades come only from you, they are your children. You must take the initiative in making sure that they are not failing in their education but progressing. The only way to do that is through careful observation and awareness of their activity.

Therefore, you must keep a record of every trade you take.
A true Specialist knows when to trade and when not to trade. Waiting on the sidelines is just as critical as playing in the game. Therefore, if your methodology goes into a draw down phase, step to the sidelines until it gets back in synch with the market. Contrary to conventional wisdom, slumps are a natural part of trading and should be respected and not looked upon in disdain.

Trying to trade your way out of a slump will only result in a series of losses that will eventually destroy your trading account. Most traders will then revert to a “gambler’s mentality” whereas they will begin to double down and alter their strategy’s rules in order to recoup their losses. True trading couldn’t be further from gambling.
Gamblers and Specialists have absolutely nothing in common. If you trade for a rush, if you live for the action, then you are not a trader, you are a gambler. If on the other hand you wait patiently for the next trade, without any concern or anxiety towards the outcome, then you are trading like a Specialist.

A Specialist never trades for a thrill. He will never trade if the odds are not in his favor. He will simply wait on the sidelines for a high probability trade. A true Specialist knows when to trade and when not to trade.
It is not necessary to clutter your trading with useless materials. This will not bring you any closer to becoming a successful trader just as buying the finest pair of running shoes will not transform you into a world class sprinter. Keep things as simple as possible, including your trading method, and you will increase your odds for success enormously.

Trading like a Specialist is a mindset, not something that can be found in high-tech computers, state of the art indicators, or expensive trading systems. It’s a process that is rooted in simplicity and clarity, and not one that relies on complex technology.
Diablo says “It’s the easiest thing in the world to complicate your trading. It’s the most difficult thing in the world to simplify it.” Therefore, there is absolutely no need to clutter your trading environment with 4-5 monitors, numerous phones, televisions, and methodologies that trade 10 different markets.

Learn to let go of the things that don’t matter and watch your success unfold. It is not necessary to clutter your trading with useless materials.
CHAPTER 12

CONFIRMATION

Confirmation is the verification that the pullback has concluded and that the trend has once again resumed. A Specialist always waits for his trade to be confirmed before entry. To borrow from Diablo’s parking lot analogy, confirmation begins when the buyers have decided to “jump back in the water.” Therefore, we can dive in as well since the water is still relatively empty, i.e. the public has not yet entered.

If one trades without using confirmation, they are simply guessing where to place their buy or sell orders. This guesswork is relative to picking tops and bottoms and will ultimately yield negative results.
A buy confirmation consists of when a stock, in an uptrend, has sold off to a satisfactory pullback level, and then reverses and trades higher than the previous bar’s high. It does not matter whether one is trading Intra day, Daily, or Weekly bars. The concept transfers easily onto all timeframes. This confirmation is our buy entry point.
A sell confirmation consists of when a stock, in a downtrend, has rallied to a satisfactory pullback level, and then reverses and trades lower than the previous bar’s low. It does not matter whether one is trading Intra day, Daily, or Weekly bars. The concept transfers easily onto all timeframes. This confirmation is our sell entry point.
The purpose of waiting for confirmation is not only to get us **IN** at the beginning of a trend, but to keep us **OUT** of bad trades as well.
Just because a trade has been confirmed does not guarantee that it will become profitable. By waiting for confirmation we have simply increased the odds in our favor.

Confirmation is the verification that the pullback has concluded and that the trend has once again resumed. A Specialist always waits for his trade to be confirmed before entry.
One should never simply trade “long call” or “long put” stock options. Option trading is only permissible if one is well versed in straddle, spread, strangle, or one of the many other option strategies available. Buying a call option because you feel the stock is going up or a put option because you feel the stock is going down will eventually lead to losses, because trading options this way requires you to be right twice. Firstly you have to accurately predict the direction the stock will travel, and secondly you have to correctly decide the amount of time in which it will take to do this. You’re guessing as to what you think the stock will do. This is similar to betting on a horse race. You don’t actually own the horse, you’re simply wagering on it. It is better to own the horse - buy the stock. One should never simply trade “long call” or “long put” stock options.
CHAPTER 14

RESPONSIBILITY

A Specialist is never concerned with the failure of progress of another trader. If asked he will help in any way possible, but ultimately a Specialist is only responsible for his own trading. Allowing another trader’s success or failure to affect your thoughts and actions will ultimately poison your own trading. Many traders revert to jealously and envy when they learn that another trader is doing well. Or they will belittle or “root against” other traders if they know they are doing poorly. These are not the actions of a true, mature trader. A true Specialist is happy for another’s success, but responsible for his own. Any deviation from that concept is just an excuse to not take responsibility for your own trading.
How you view the markets and your trading is exactly what will be given back to you. Your attitude is a direct mirror of your trading experience. If you think the market is something you must struggle against, something you have to do battle with on a daily basis, then that is exactly what will be given back to you – a series of battles. The only trouble with battles is that often times you lose. The market is not meant to be your rival.

On the other hand, if you view the market as a vast ocean, waiting for you to jump in and enjoy all it has to offer, then that is exactly what you will be given back to you – a pleasurable and enjoyable experience.

It’s entirely up to you. The two cannot be separated.
“Diablo once asked me to open up the Wall Street Journal, pick any page, and read the headlines. He then asked me to read the advertisements. I was amazed by what I found.

“Interest Rates get Hammered”
“Fund Traders Killed in After Hours Trading”
“Major Brokerage Houses Destroyed by News”
“Bulls Slaughter Bears”
“Market Annihilator – the best trading system available!”
“Trade like a Ninja!”
“Subscribe to our Daily Battle Plan newsletter!”

“Traders are doing the greatest injustice to themselves by viewing the market as an enemy.” he said. “The market is every trader’s best friend. The market is my best friend. It’s always given me opportunities to make more money and to be more successful. Why would I picture it any other way? Why would anyone want to do battle with a true friend?”

Take a look at your trading office. Is it a comfortable, pleasant environment or are your walls filled with pictures of battles, fighting and aggressive behavior? Is this what trading means to you?
The next time you trade, listen to the words you’re using to describe the experience. If you have a successful trade, will you say something to the effect of “It was a tough battle, but I beat the market today and wound up on top.” Or if you have a losing trade, will you say to yourself “The bear ate me. I got killed today!” Trading is not meant to be full of tension and stress.

There are no battles, there are no generals, and no wars – only if you choose to be in your mind. How you view the markets and your trading is exactly what will be given back to you. Your attitude is a direct mirror of your trading experience.
SECTION THREE

STRATEGIES

“Buy low, Sell high”

-Diablo
As Diablo pointed out in Section One, the secret to his trading prowess involved a two-step process: 1) One must be in synch with the trend at all times, and 2) One must trade the pull backs within the trend. These 2 concepts are at the core of his success.

The following 3 strategies are based on implementing these 2 concepts. Each method has it’s own means for determining trend, and each comes with its own rules for pinpointing the most favorable pullback entries.

The strategies are highly flexible. They can be used for going long as well as short, in any time frame, and with any market (stocks, futures, forex, etc.)

But please remember, trading is more than just a winning strategy. It also requires a conscious effort in implementing the wisdom and guidelines as presented in Section Two. And as always, past performance in not indicative of future results.
CHAPTER 16

STRATEGY #1

Indicator(s)

• 14-period Donchian Channels
STRATEGY #1 RULES

Trend:
Uptrend: All 3 Donchian Channels must be headed in upward direction.
Downtrend: All 3 Donchian Channels must be headed in downward direction.

Pullback:
Buys: Must only be in uptrend mode. Look to buy when price bar (Intra-day, Daily, Weekly) declines to and touches mid-line of rising Donchian Channel. Enter long position on first confirmation above previous bar’s high.
Sells: Must only be in downtrend mode. Look to sell when price bar (Intra-day, Daily, Weekly) rises to and touches mid-line of declining Donchian Channel. Enter short position on first confirmation below previous bar’s low.
Stop: Place protective stop below lowest low of pullback (reverse for sells).
Exit: Sell when price touches highest Donchian Channel (reverse for sells).
A: All 3 Donchian Channels are headed in upward direction.
B: Price declines and bar touches mid-line of Donchian Channels.
C: Buy on first confirmation of price rising above previous day’s high.
D: Once long, place stop below lowest low of pullback.
E: Exit when price touches highest Donchian Channel.
A: All 3 Donchian Channels are headed in downward direction.
B: Price rises and bar touches mid-line of Donchian Channels.
C: Sell on first confirmation of price declining below previous day’s low.
D: Once short, place stop above highest high of pullback.
E: Exit when price touches lowest Donchian Channel.
Though one may be stopped out from time to time, a Specialist never worries because he knows that other Strategy #1 trades will always appear.
Intraday charts provide many opportunities to trade Strategy #1 from the upside…
...as well as the down-side.
Strategy #1 transfers just as easily onto Weekly charts.
CHAPTER 17

STRATEGY #2

Indicator(s)

• 50-period Simple Moving Average

• 5-period RSI (edit 14-period default setting to read 5-period)
STRATEGY #2 RULES

Trend:
Uptrend: Price is trading above the 50-period simple moving average (SMA).
Downtrend: Price is trading below the 50-period simple moving average (SMA).

Pullback:
Buys: Price must be above 50 sma. Look to buy when both, 1) price bar declines to and touches 50 sma and, 2) the 5-period RSI is below 30. Enter long position on first confirmation above previous bar’s high. If price bar closes below 50 sma twice, without confirmation entry, then negate trade.
Sells: Price must be below 50 sma. Look to sell short when both, 1) price bar rises to and touches 50 sma and, 2) the 5-period RSI is above 70. Enter short position on first confirmation below previous bar’s low. If price bar closes above 50 sma twice, without confirmation entry, then negate trade.
Stop: Place protective stop below lowest low of pullback (reverse for sells).
Exit: Sell when 5-period RSI closes above 60. Cover short on close below 40.
A: Price is above 50-period sma
B: Price declines and bar touches 50-period sma
C: 5-period RSI is below 30.
D: Buy on first confirmation of price rising above previous day’s high.
E: Place stop below lowest low of pullback.
F: Exit when 5-period RSI closes above 60.
A: Price is below 50-period sma
B: Price rises and bar touches 50-period sma
C: 5-period RSI is above 70.
D: Sell on first confirmation of price declining below previous day’s low.
E: Place stop above highest high of pullback.
F: Exit when 5-period RSI closes below 40.
In order to have a proper Strategy #2 BUY set-up (in ALL time frames), two things must occur at the SAME time: the price bar must decline and touch the 50-period sma (A), and the 5-period RSI must be below 30 (B). Exit once the 5-period RSI closes above 60 (C).
In order to have a proper Strategy #2 SELL set-up (in ALL time frames), two things must occur at the SAME time: the price bar must rise and touch the 50-period sma (A), and the 5-period RSI must be above 70 (B). Exit once the 5-period RSI closes below 40 (C).
This is a textbook example of a Strategy #2 Buy trade. Strategy #2 transfers easily onto other markets, including the Forex. As always, trades must be protected with a stop placed below the low of the pullback.
CHAPTER 18

STRATEGY #3

Indicator(s)

• 20-period Bollinger Bands (edit default standard deviation to read: top band .382 / lower band -.382)

• 5-period RSI (edit 14-period default setting to read 5-period)
STRATEGY #3 RULES

Trend:
Uptrend: All 3 Bollinger Bands (BB) must be headed in upward direction.
Downtrend: All 3 Bollinger Bands (BB) must be headed in downward direction.

Pullback:
Buys: Must only be in uptrend mode. Look to buy when 1) an ENTIRE price bar closes below the lowest BB. This is the “Island Bar” circled in blue. 2) Enter long position on first confirmation above Island Bar’s high. If mode changes to downtrend without confirmation entry, negate trade.
Sells: Must only be in downtrend mode. Look to sell short when 1) an ENTIRE price bar closes above the highest BB. This is the “Island Bar.” 2) Enter short position on first confirmation below Island Bar’s low. Negate if mode changes.
Stop: Place protective stop below lowest low of pullback (reverse for sells).
Exit: Sell long when close is above highest BB or 5-period RSI closes above 70. Cover short when close is below lowest BB or 5-period RSI closes below 30.
A: All 3 Bollinger Bands (BB) are headed in same upward direction.
B: Entire price bar (Island Bar) is completely below the lowest BB.
C: Buy on first confirmation of price rising above Island Bar’s high.
D: Place stop below lowest low of pullback.
E: Exit when close is above highest BB or 5-period RSI closes above 70.
**A:** All 3 Bollinger Bands (BB) are headed in same downward direction.

**B:** Entire price bar (Island Bar) is completely above the highest BB.

**C:** Sell on first confirmation of price declining below Island Bar’s low.

**D:** Place stop above highest high of pullback.

**E:** Exit when close is below lowest BB or 5-period RSI closes below 30.
The beauty of Strategy #3 is that it’s designed to get you in at the most opportune point of a DEEP pullback. In the above example, one could have easily purchased APOL two points higher, thinking it was too “oversold”. But Strategy #3 kept you out of the trade until the very lows of the pullback.
To determine if a trend is present, Strategy #3 only requires that all three BB be headed in the same direction. In the above scenario all three Bands are headed lower (A) so in order to be in synch with the trend we must only look for a Sell set-up. The Island Bar (B) signals our entry to Sell Short. We exit with a quick 2-day profit when the price bar closes below the lowest BB (C).
This is my favorite strategy to day trade the e-mini S&P, although it works in other markets just as well. As always and especially with futures, trades must be protected with a stop placed below the low of the pullback.
Strategy #3 comes with two Exit choices – whichever comes first. Often times both Exits will fire at the same time…
And other times you will only get one signal. Remember, all that is required to properly Exit the Strategy is one signal.
As with Strategies #1 and #2, Strategy #3 works well in all times and in all markets. As long as one continues to implement the two basic principles of DETERMINING TREND and then trading PULLBACKS within the trend, then one will be on the path of trading like a Specialist.
SECTION FOUR

CONCLUSION

“...a state of mind”

-Diablo
A friend of mine with whom I had worked with on the trading floor (he was also a Specialist), recently called to chat about old times. We hadn’t spoken in years. Our talk naturally centered around the old Exchange, which had long since closed its doors, and the people we used to work and trade with. Story after story came up in our conversation that afternoon and it felt good to reminisce about the glory days.

When I asked my friend what he was currently doing he told me that he had moved to another state and was now in the restaurant business. In fact, of all the people we used to work with, the hundreds of traders on the floor, he said that only three or four of them - other than myself – were still actively involved in trading. Everyone else had either changed careers or, unfortunately, lost everything to trading. “What happened to us?” he asked. “I wonder why we didn’t survive. Maybe we never really knew what we were doing?” His questions brought up old memories. “Were we really traders?” he wondered aloud. I couldn’t help but think about our celebrations at the bar – all of us absolutely certain we would never lose.

It’s been estimated that over 80% of all traders will eventually fail. This does not mean that their trading will go into a temporary slump, but rather that they will ultimately lose ALL of their trading capital or quit altogether – whichever comes first. And these statistics do not just apply to beginner or intermediate traders. They apply to all traders.
Unfortunately, even with years of experience and hundreds of thousands of dollars in capital to support them, less than 5% of the traders on the Pacific Stock Exchange Floor were able to survive on their own.

The goal of this book has been to make you realize that, in the long run, the continued use of worn out habits and beliefs concerning trading styles, news, and attitude will not sustain you, regardless of how much experience or money you have. In fact, it is these very same things that will eventually bring about losses.

My intention has been to make you aware of what it truly takes to succeed in trading. I’ve as best possible supplied you with the necessary tools and information needed in order to implement this process.

To reiterate, at the core of the book’s philosophy is a mandatory 2-step process: 1) being in synch with the trend, and 2) trading pullbacks within the trend. I cannot emphasize how important it is to instill this approach into your trading.

If you don’t believe in the validity or importance of these two concepts then please consider this - have you now or ever suffered a series of losses in your trading? Are you currently experiencing a severe draw down?
If you were to go back and research your losing trades I can almost guarantee that you were either out-of-synch with the trend or trying to pick tops and bottoms.

Though you may have experienced minor profits, trading this way over a continuous period of time will eventually be unsuccessful. As simple and basic as it may appear, when you incorporate Diablo’s two concepts within your trading plan you are increasing the odds in your favor.

In the end, trading like a Specialist is more than just applying concepts and strategies. Nor is it required for one to be on a trading floor or working for a firm’s trading desk. The secret to trading like a Specialist is simply a state-of mind.

*Diablo* once told me that one should be able to sit alone in a room - void of any periodicals, TV, news, or other traders – and make a living by simply trading in front of a standard computer and monitor.

Never worrying about the outcome of trades or asking others “Which way do you think the market is going?” or “What do you think?” Once one was able to successfully trade this way, then they would be considered a true trader…a Specialist.
In closing, I hope that what I’ve shared with you in this book, from my experiences on the Exchange Floor to Strategies #1, #2, and #3, will change the way you trade forever. The same way my trading changed.

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Before ending our phone conversation and saying good-bye to my old friend, I had one more question to ask.

“So, do you know whatever happened to Diablo?” I was hoping he knew the answer. “I wonder what he’s doing now. Is he still trading?”

“Last I heard he was trading out his home office, somewhere up in Malibu.” my friend said. “And he’s still making millions, just the way he always did.”

A smile came to my face. Good for him, I thought. Good for him.
ABOUT THE AUTHOR

Steven Primo is the founder of SpecialistTrading.com and continues to be actively involved in trading the markets as he has for the past 32-plus years. Mr. Primo was previously a nine-year Specialist on the floor of the Pacific Stock Exchange for Donaldson, Lufkin, and Jenrette, one of the premier investment firms on Wall Street. In addition to being an Exchange Specialist, Mr. Primo was also a former General Partner and Head Trader for a private investment partnership in California. Steven Primo currently resides in Los Angeles, California where he continues to trade and teach.
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GLOSSARY

**Advancing**: A market stage of a stock that is characterized by an uptrend with subsequently higher highs and lows.

**Ask**: Also known as the “offer”, the price that the market maker guarantees to fill a market order. A buy order placed at the market will usually be filled at the current asking (offer) price. The ask price is usually greater than the **bid** price.

**Bear**: A person who believes prices will decline and might be described as having a “bearish” outlook.

**Bear Market**: A long period of time when prices in the market are generally declining. It is often measured by a percentage decline of more than 20%.

**Bid**: The price at which the market maker guarantees to fill a sell order. A sell order placed at the market will usually be filled at the current bid price. The bid price is usually less than the **ask** price.

**Black Monday**: The title given to one of the most notorious days in recent financial history. On October 19, 1987, the Dow Jones Industrial Average (DJIA) lost almost 22% in a single day. That event marked the beginning of a global stock market decline. By the end of the month, most of the major exchanges had dropped more than 20%.

**Bollinger Bands**: An indicator that allows users to compare volatility and relative price levels over a period of time. It consists of 3 bands designed to encompass the majority of a security’s price action.
GLOSSARY

**Book**: A record of all the positions that a trader is holding. This record shows the total amount of long and short position that the trader has undertaken.

**Bull**: A person who believes prices will advance and might be described as having a “bullish” outlook.

**Bull Market**: A long period of time when prices in the market are generally increasing.

**Buy Signal**: A condition that indicates a good time to buy a stock

**Buy Stop**: A buy order usually placed above the current price, ensuring that a security would have to trade at the set level before the buy order would be activated.

**Channel**: When prices trend between 2 or 3 parallel trendlines, this is referred to a channel.

**Chart**: A style of chart used by some technical analysts, on which, the top of the vertical line indicates the highest price a security traded at during the day, and the bottom represents the lowest price. The closing price is displayed on the right side of the bar, and the opening price is shown on the left side of the bar. A single bar represents one day of trading.

**Confirmation**: A subsequent signal that validates a position stance.

**Contrarian**: An investment style that goes against prevailing market trends by buying assets that are performing poorly and then selling when they perform well.
GLOSSARY

Crash: A major decline in a financial market.

Day Trading: A style of trading where all positions are cleared before the end of the trading day.

Dow Jones Industrial Average (DJIA): A price weighted average of 30 blue chip stocks. Stocks with the highest prices will have the most influence and those with the lowest, the least influence.

Donchian Channels: A moving average indicator developed by Richard Donchian. It plots the highest high and lowest low over the last period time intervals.

Drawdown: The peak-to-trough decline during a specific record period of an investment, fund or commodity. A drawdown is usually quoted as the percentage between the peak and the trough.

Earnings: The amount of profits that a company produces during a specific period, which is usually defined as a quarter (three calendar months) or a year.

ETF – Exchange Traded Fund: Collections of stocks that are bought and sold as a package on an exchange.

Fundamental Analysis: Analysis that relies on economic supply and demand information.

Futures: Futures contracts are forward contracts, meaning they represent a pledge to make a certain transaction at a future date.

Indicator: A value, usually derived from a stock’s price or volume, which a trader can use to try to anticipate future price movements.
Intraday: Another way of saying "within the day". Intraday price movements are particularly important to short-term traders looking to make many trades over the course of a single trading session. The term intraday is occasionally used to describe securities that trade on the markets during regular business hours, such as stocks and ETFs.

Investor: someone who commits capital in order to gain financial returns. In addition, investors frequently purchase assets with the expectation of holding them for a longer period of time than speculators.

Limit Order: An order to buy or sell a security at a specific price. As opposed to a market order, limit orders might not be filled immediately if the market moves away from the specified price.

Long Position: The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value.

Long Term: Holding an asset for an extended period of time. Depending on the type of security, a long-term asset can be held for as little as one year or for as long as 30 years or more.

Market Maker: A broker-dealer firm that accepts the risk of holding a certain number of shares of a particular security in order to facilitate trading in that security. Each market maker competes for customer order flow by displaying buy and sell quotations for a guaranteed number of shares. Once an order is received, the market maker immediately sells from its own inventory or seeks an offsetting order. This process takes place in mere seconds.
GLOSSARY

**Market Order**: An order to buy or sell a security at the prevailing market price. Sometimes referred to “at the market”, these orders are usually filled immediately by the market maker. A sell order placed at the market will most likely be filled at the bid price and a buy order will be filled at the ask price.

**Moving Average**: An average of date for a certain number of times periods.

**Overbought**: A technical condition that occurs when prices are considered too high and susceptible to a decline. The term infers that the stock has risen too far too fast and might be due for a pullback

**Oversold**: A technical condition that occurs when prices are considered too low and ripe for a rally. The term infers that the stock has fallen too far too fast and might be due for a reaction rally.

**Pacific Stock Exchange**: A regional Stock Exchange located outside a country's main financial center. For example, in the U.S., New York is the main financial hub. Therefore, a market such as the Pacific Exchange is considered a regional exchange.

**P&L**: The P&L statement is also known as a "statement of profit and loss", an “income statement" or an "income and expense statement". The bottom line (literally and figuratively) is net income (profit).

**Position Trading**: A style of trading characterized by holding open positions for an extended period of time.
GLOSSARY

Post: An area assigned to a Specialist on the floor of the Stock Exchange where transactions for buying and selling securities occur.

Profit Target: A price that, if achieved, would result in a trader recognizing the best possible outcome for his or her investment. This is the price at which the trader would like to exit his or her existing position so that he or she can realize the most reward.

Pullback: A falling back of a price from its peak. This type of price movement might be seen as a brief reversal of the prevailing upward trend, signaling a slight pause in upward momentum before it resumes.

Relative Strength Index (RSI): A popular oscillator developed by Wells Wilder, Jr. The RSI is plotted on a vertical scale from 0 to 100. In standard usage, values above 70 are considered overbought and values below 30, oversold.

Retracement: A decline that retraces a portion of a previous advance, or an advance that retraces a portion of a previous decline.

Reversal Pattern: A chart pattern that occurs before an existing trend reverses direction.

Risk/Reward Ratio: A calculation equal to the potential reward divided by the potential risk of a position.
GLOSSARY

**Runner**: An Exchange employee responsible for the recording and delivering of transactions on the trading floor for processing. As exchanges have slowly shifted from a floor-based trading environment to electronic platforms, the need for runners has decreased as orders are processed electronically.

**Scalping**: A strategy whose main goal is to buy (or sell) a number of shares at the bid (or ask) price and then quickly sell them a few cents higher (or lower) for a profit.

**Sell Signal**: A condition that indicates a good time to sell a stock. The exact circumstances of the signal will be determined by the indicator that a trader is using.

**Short Position**: The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value.

**Short Selling**: The process of selling a stock with the hope of buying it back at a lower price. Short sellers are bearish and believe the price will decline.

**Short Term**: In general, holding an asset for short period of time.

**Simple Moving Average**: A moving average that gives equal weight to each day’s price data.
Specialist: A member of an exchange who acts as the market maker to facilitate the trading of a given stock. The specialist holds an inventory of the stock, posts the bid and ask prices, manages limit orders and executes trades. Specialists are also responsible for managing large movements by trading out of their own inventory. If there is a large shift in demand on the buy or sell side, the specialist will step in and sell out of their inventory to meet the demand until the gap has been narrowed.

Spread: The difference between the bid and the ask.

Standard Deviation (volatility): A statistical term that provides a good indication of volatility. It measures how widely values are dispersed from the average. The larger the difference between the closing prices and the average price, the higher the standard deviation will be and the higher the volatility. The closer the closing prices are to the average price, the lower the standard deviation and the lower the volatility.

Stop Loss Order: An instruction to the broker to buy or sell stock when it trades beyond a specified price. They serve to either protect your profits or limit your losses.

Strategy: A plan, method, or series of maneuvers or stratagems for obtaining a specific trading goal or result.

System: An organized and coordinated method; a procedure for trading stocks.
GLOSSARY

Technical Analysis: The study of market action, usually with price charts. Also called chart analysis, market analysis, and more recently, visual analysis.

Ticker Tape: A computerized device that relays financial information to investors around the world, including the stock symbol, the latest price and the volume on securities as they are traded.

Trader: An individual who engages in the transfer of financial assets in any financial market, either for themselves, or on behalf of someone else. The main difference between a trader and an investor is the duration for which the person holds the asset. Investors tend to have a longer term time horizon, whereas traders tend to hold assets for shorter periods of time in order to capitalize on short-term trends.

Trading Floor: The floor where trading activities are conducted. Trading floors are found in the buildings of various exchanges, such as the New York Stock Exchange and the Chicago Board of Trade. These floors represent the area where traders complete the buying or selling of an asset. The trading floor is also referred to as "the pit" of an exchange, due to the hectic nature of the area. However, with the advent of electronic trading platforms, many of the trading floors that once dominated market exchanges have started to disappear as trading has become more electronically based.

Trend: Refers to a consistent direction of prices.
GLOSSARY

**Volatility**: A measurement in change of price over a given period. It is usually expressed as a percentage and computed as the annualized standard deviation of the percentage change in daily price.

**Volume**: The number of trades in a security over a period of time.

**Volatility**: A measurement in change of price over a given period. It is usually expressed as a percentage and computed as the annualized standard deviation of the percentage change in daily price.

**Wall St. Journal**: The *Journal* newspaper primarily covers U.S. and international business and financial news and issues—the paper's name comes from Wall Street, the street in New York City which is the heart of the financial district.