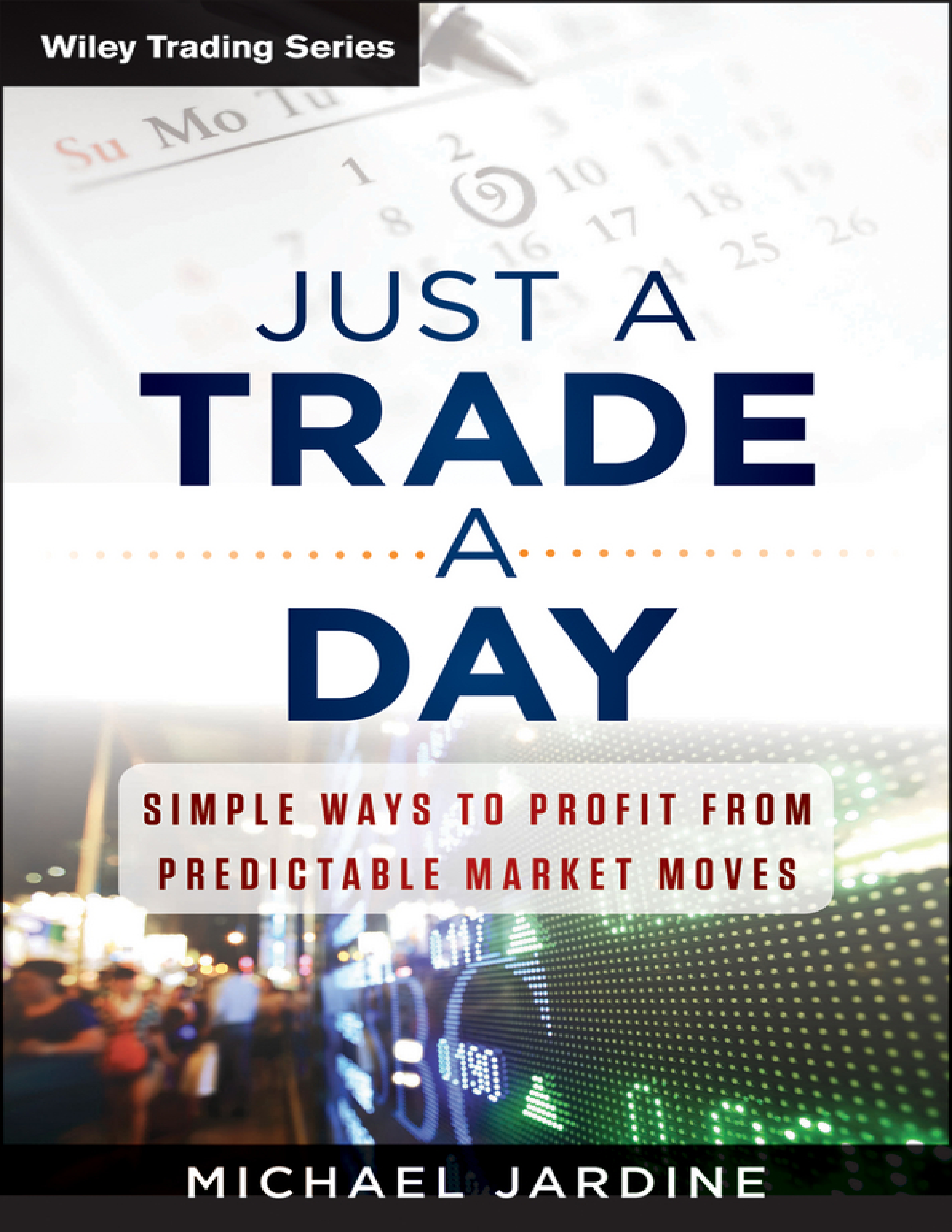
Wiley Trading Series
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JUST A
TRADE
A
DAY
SIMPLE WAYS TO PROFIT FROM
PREDICTABLE MARKET MOVES
MICHAEL JARDINE

Contents

Trading Resource Guide

Just a Trade A DAY

Simple Ways to Profit from
Predictable Market Moves

MICHAEL JARDINE

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Introduction

“How did you survive this technological adolescence without destroying yourself?”

-Ellie Arroway, in the film *Contact*

I’m not a Jodie Foster fan, but that is one of my favorite quotes, because I believe it sums up our experiences with technology not only in the years leading up to 1997 when the film was made, but even more so in the dozen years since. I also believe that we are beginning to see the first signs of disenchantment with technology, or at least a realization that it’s not a panacea. We can see these rumblings all over the place, from the slow food movement to the slow money movement. Sure, some of the erstwhile Wall Street investment firms-turned-bankers have pulled themselves out of the worst market depression since the Great Depression with the aid of sophisticated computers and so-called high frequency trading, but I don’t see their return on equity approaching anywhere near 50 percent. Yet that is what mere mortals like you and I can achieve by making just a trade a day. All you need is a basic understanding of how the markets work, and an objective method to convert that understanding into a tradable system. I do not claim that everyone can do it. I do not claim that it is sustainable. And I am not sure whether it is scalable. But a 500-day record of trade signals[1], posted to my blog each day *in advance* of each trade, suggests that a 50 percent ROE is entirely achievable using knowledge of the Jardine Range, Fibonacci, and a few plain vanilla indicators.

My first book, *New Frontiers in Fibonacci Trading*, is an essential field guide of charting techniques and trading strategies focused on and derived from Fibonacci. Everyone has different sensitivities; different methods work for different people. In *New Frontiers*, my objective was three-fold. First, to lay the groundwork for intraday trading by introducing the basics of the market structure and explaining how a simple arithmetical number sequence—the same one used in *The Da Vinci Code*—applies not only to growth patterns in nature, but to the marketplace as well. Second, I introduced a number of useful charting techniques, mostly built upon that simple logic of Fibonacci. Finally, I explained, in general terms, how to take these techniques and strategies and build a trading system for yourself—a system that includes not just theory, but practice—applied entry and exit methods, stops, and techniques for optimizing the system by making sense of the “chaos” of what is going on around you, live and in real-time, in the electronic marketplace.

If *New Frontiers* is a field guide, then *Just a Trade a Day* is the owner’s manual. It is a concise manual to the most objective and consistent trading system that I have ever come across. I know because I used the tools that I introduced in *New Frontiers* to create the system, and I have used it consistently and successfully for the past six years since *New Frontiers* was published.

To create a system, it is important to have objectives. Some people like the excitement of trading all day long. Some enjoy high risk for high reward—Las Vegas is a good place for people like that. My objectives are a bit more realistic, at least to my own sensitivities: I want to minimize my trading to the one or two clear, easily measurable points in each day when a successful trade is most likely. I am not interested in catching a giant fish. I am not interested in netting hundreds of minnows. I want to sit by the bank of the river, enjoy the gurgling sound of rushing water, enjoy my book, then—when the time is right—drop the line in the water, catch a fish, and go home, each day. I do not want to waste my time chatting with other traders who will confuse me with their methods and their fish tales. I do not want to be tempted each time the market jumps up or down, or moves sideways. And I couldn't care less about missing "the big trade" when the market takes off in a particular direction. I just want my one trade a day.

So I used the techniques in *New Frontiers in Fibonacci Trading* to create a logical system for trading, what I call the **Jardine Range**. It may work for you straight out of the box. It may complement a method or system that you are already using. Either way, I hope that *Just a Trade a Day* will deliver consistency and objectivity to your trading, while removing stress and endless hours in front of the screen, so that you can spend your valuable time on what is truly important to you. Like fishing. Or just listening to the sounds of a gurgling stream.

[1] The 500-day record of trades, taken from my blog, is summarized in Appendix C.

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In a Nutshell

WHAT I'M GOING TO TELL YOU

I learned this in junior high school: "Tell them what you are going to say, then say it, then tell them what you said." Many years and a MBA later, I learned that no matter how long the document, if you can't distill the "tell them" part into one or two pages—the so-called "Executive Summary"—then anything else you write will simply not be read. So here is what *Just a Trade a Day* is about.

Each day, the market starts fresh. I trade the S&P Futures E-mini contract, known as the "**ES**," which is one of the most liquid financial products in the world. Liquid is good. The more liquid, the less open it is to manipulation. Each day when the market opens, I have absolutely no idea whether it will go up or down. Actually, I am reasonably sure it will do both. I just don't know which direction it will head in first, and I don't know where it will end. None of that matters, as long as I know what the likely range is for that day.

I developed an indicator called the **Jardine Range**, discussed in Chapter 4. It is not a crystal ball that says prices will go to the high or to the low of that range. But it is a very useful tool that tells me what to do *if* prices reach the top of that range (go short), and what to do *if* prices reach the bottom of that range (go long). Usually, the market touches only one end of the range each day, hence, the title of this book. Occasionally, it touches both ends of the range, in which case, I have a frenetic two trades in one day. Sometimes, it touches neither end of the range, in which case, I am content to relax, read a book, or work on my other projects without any interest in what the market is doing. Rarely, it extends beyond that range. Those are the options.

So I created a system to trade the Jardine Range. It's very simple. I sit and wait until the market moves to either end of the range. I then trade a reversal from that end. For example, if the market moves up to the top end of the range, I go short. If it moves to the bottom of the range, I go long. I then use a combination of indicators—including Fibonacci—to help maximize the exit of the trade. Then, I am done.

THE MARKET PROFILE

The **Market Profile**™ is an indicator trademarked by the CBOT, but it is also known as a Price Histogram. Basically it shows, in histogram format, how much time (or volume) the market spends at each price point. Imagine a pennant with prices going up the pole (or axis) of the pennant. The shape of the pennant is determined entirely by the price action during the market. If the market covered a large range and did not spend much time at any particular price point, the pennant would be long and blunt. If the market covered a small range and spent a long time at a given price point, then the pennant would be wide and sharp.

THE POINT OF CONTROL

This is the “point” of a pennant—the one place where the market spent the most amount of time on any given day. Sometimes a pennant can have two or more points, but typically it has only one. The point can be sharp or blunt. This is a useful piece of information because it represents the point—or price zone—where the market was most “comfortable” trading during a given day.

Human nature being what it is, we tend to like to return to areas of comfort. If you went to a restaurant and enjoyed the food there, chances are you would go back. And chances are that if you were driving by it and happened to be hungry, you would stop. Traders do the same thing with the **Point of Control (POC)**. The closer the market moves to a previously comfortable price point, the more certain you can be that it will actually go there. Very few animals approach the watering hole without taking a drink—unless, of course—they get scared away! So, what happens when the market moves to a POC? Exactly the same as when an animal moves to the watering hole. It takes a pause—or a drink—then it heads back.

THE VIRGIN POINT OF CONTROL

The **Virgin POC**, or **VPC**, is a term that I came up with to define a Point of Control that is untouched, that is, that the market has not yet re-visited. It’s like a new watering hole that no animal has drunk from. The logic is that people, unlike animals, tend to be drawn to known areas of comfort that nobody else has been back to yet. It’s why skiers flock to their favorite slopes after a fresh snowfall. They know the area, and they know that the snow there will be fresh and virgin. The strength of a VPC is much greater than a normal POC and, as such, it is more dependable as an indicator.

THE JARDINE RANGE

The **Jardine Range** simply takes the closest VPC above and the closest VPC below the opening price of the market. Those are the two strongest “gravitational pulls” that will influence the trade day. At some point during the day, there is a 95 percent chance that prices will touch either of those two points. If prices touch one of those two points, there is a high probability that it will bounce back. That’s the Jardine Range—the two places where you are most likely to catch your fish for the day.

THE UNIVERSAL CHART

Once prices rise to a VPC from below, you can expect a rebound. That is a good place to go short. Once prices drop to a VPC from above, you can expect a rebound. That is a good place to go long. The Jardine Range tells you that these are the most likely places for reversals, as large or small as those reversals may be. You may then use the technical indicator or method of your choosing to enter your long or short trade. I developed the **Universal Chart** because it can be applied to any instrument—stock, future, or option—on any time frame. It’s completely fractal. It is made up of two indicators, each of which is commonly available on most charting programs. The first is a stochastic. Actually, you can use any oscillator; the stochastic is just one of many. I use two different stochastic indicators, one representing a short time frame and the other representing a longer time frame. I like to make sure that the two are giving me the same signal. These are used for entering the trade once a VPC is touched. To exit the trade, I use a moving average of the most recent range. There are several indicators that can do this for you; I prefer Keltner Channels. After entering the trade, I then exit half of my contracts when prices touch the opposing Keltner. This tells me that the initial rebound has reached an average height based on the current trading volatility, and that I should look to exit here. If the trade then continues in my favor, there are several ways to optimize that as well. The lessons on Fibonacci come in handy here.

WHAT I TOLD YOU

Use the Market Profile to determine the POCs from previous days. Look only at the Virgin POCs—those that have not been touched by prices on subsequent days. Each day when the market opens, mark the nearest VPC above and below the opening price. That is the Jardine Range. Use your favorite oscillator to help you enter a trade at either end of the Jardine Range. I prefer not just one, but two stochastic indicators from two different time frames. Use an average band to tell you the optimum place to exit the trade, at least for the first half of the contracts or shares you are trading. These are all found on the Universal Chart. Use your knowledge of Fibonacci to further optimize your exits.

That’s it. If this makes perfect sense to you, there’s no need to read further. If you want to understand more clearly, understand the reasoning, go into more depth, view examples, consider alternatives, and observe how the system works in practice, read on.