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TENSILE TRADING

THE 10 ESSENTIAL STAGES
OF STOCK MARKET MASTERY

GATIS N. ROZE
GRAYSON D. ROZE

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TENSILE TRADING

The 10 Essential Stages of Stock Market Mastery

Gatis N. Roze

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WILEY

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For Lydia.

What began in your memory comes to life in your honor.

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	PREFACE	
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Listen to what the market is saying about others, not what others are saying about the market.

—Richard Wyckoff

The legendary Warren Buffett once said, “You only have to do a few things right in your life so long as you don't do too many things wrong.” This simple bit of wisdom quite perfectly captures the essence of the book you have in your hands today. Our goal as the authors of *Tensile Trading* is to give you the knowledge and understanding necessary to do more of the right things and fewer of the wrong things as you engage the markets.

Our story is unique in that we are a father-son team sharing the secrets of the insider-structured investment methodology we both use to trade the financial markets. This book's candid details were forged from a father's desire to pass on to his son the skills and knowledge gleaned from 25 years of experience as a full-time trader-investor.

We built our message upon our real-world experiences as two independent investors, not institutional money managers. Instead of professionals advising clients or managing other people's assets, we are individuals who are dedicated to educating other investors. Our unfiltered, brutally honest guidance is structured as a comprehensive 10-stage roadmap that we ourselves have put to use every day (Figure P.1). This book addresses each stage in a separate chapter. This all-encompassing investment system is designed to increase your probabilities for consistently profitable investing. It is our belief and experience that only you will have the greatest level of *passion* for making your assets grow—it's something no adviser or money manager can match. In fact, as an individual investor, you have a surprising number of significant advantages over institutional money managers. We therefore encourage you not to be seduced by their familiar siren call. They will try to convince you that the game is too complex, too difficult, too time consuming.

With the Tensile Trading roadmap before you, their song becomes little more than deceitful persuasion. Trust us, you can do it, you will do it, and we will show you how. We have been amazed to see what people can achieve with discipline and focus, and without the distraction of clients.

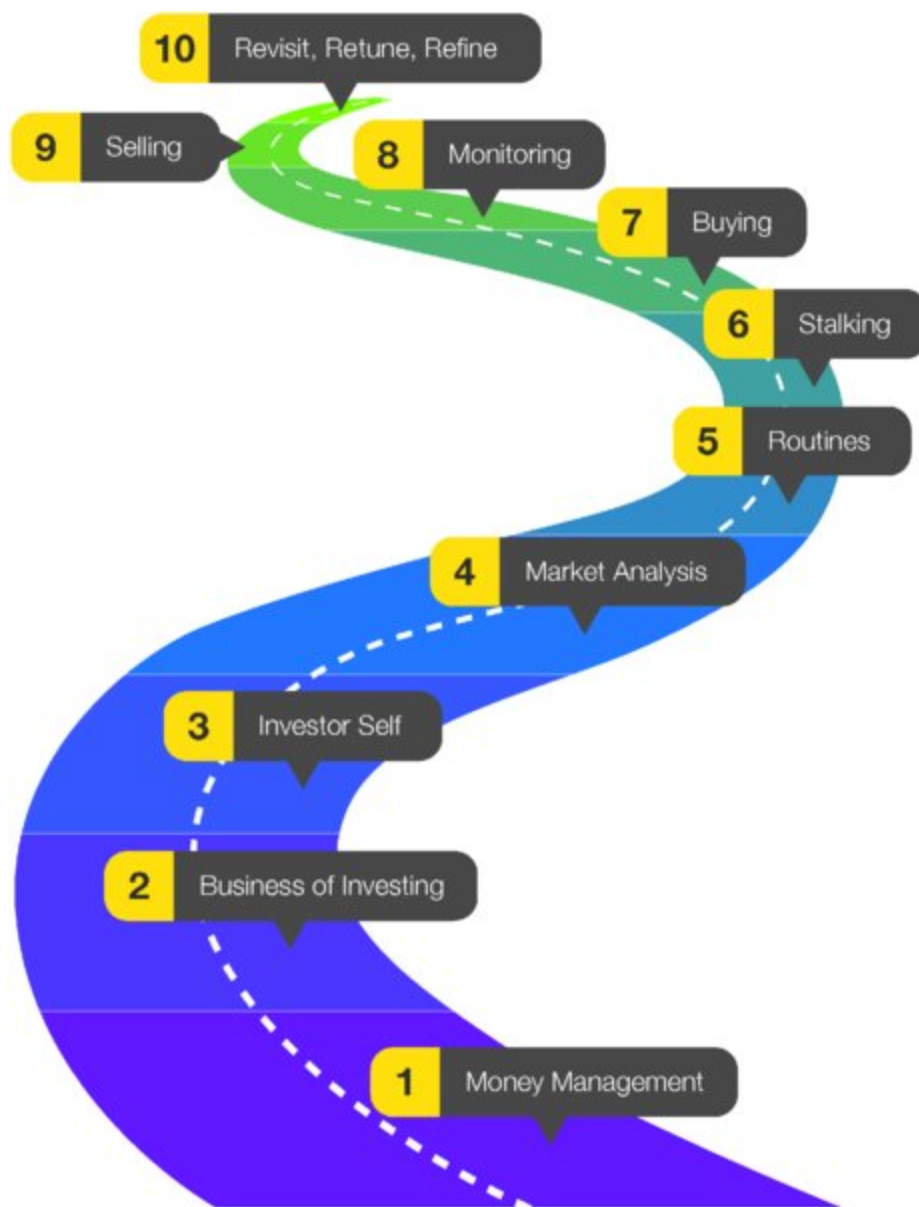


FIGURE P.1 Your Roadmap to Success

Novice investors may marvel at the lengthy preparation period needed to invest successfully—that is, the fact that Tensile Trading addresses six foundational stages before even arriving at the buying stage. More experienced investors, however, will

recognize the supreme importance of such preparation and the impact these foundational elements have during the later crucial stages of buying and selling equities. These sorts of high-leverage activities provide the building blocks for a profitable, long-term investment system and are invaluable pieces of your asset growth equation.

The road to successful investing is not an easy one. It has no shortcuts or back roads, despite what some may claim. It is paved with emotional hurdles and will challenge your commitment, but that is precisely why we are here with you. With the detailed direction we provide, the emotional control we encourage, and the disciplined focus we advocate, these obstacles will be little more than speed bumps preceding the freedom of the open road.

■ A Message from Gatis

I have been an active investor since age 16 and a full-time trader since 1989. I have taught investment classes at the postcollegiate level since 2000. One of the most persistent and recurring questions I receive from my circle of fellow traders is “Why do you spend your time teaching?” I was at an investment seminar one year where one of my former students—let's call him James—gave a presentation that unexpectedly provided an answer to this question. This particular student left a high-tech management job to trade the financial markets at just about the same time I began teaching investment courses part-time. As investors who traded only our own accounts, we had, in some sense, been riding the same bus together for quite a few years before this insightful evening.

James recapped the lessons he felt were key to his personal metamorphosis from experimental novice to consistently profitable investor. His presentation stressed the importance of managing emotions, developing a junk information filter, and other valuable bits of wisdom. As I listened to him speak, his words began to offer powerful insights into my motivations as an educator. I realized that I become inspired and energized in the presence of other eager investors like James. Interpersonal interaction pushes me to be a more well-rounded person, while teaching allows me to flex my irreverent attitude and exercise my independent trading personality. For me, the classroom setting turns trading into a team sport of sorts.

I realized during James's talk that I benefit from the variety of investors and students with whom I cross paths because I embrace change and am genetically programmed to be a lifelong learner. With years of classroom experiences to think back on, I am constantly surprised at the education I receive from teaching others. Perhaps not surprisingly, the same has held true during the writing of this book. As you will come to see, I emphasize the importance of review and reflection at every step of the way. In the stock market, looking back at where you have been allows you to see more clearly where you are headed. Writing a book that covers the details of my trading experiences has served this function to a strikingly potent degree. As a result, its words truly are my greatest hits of sorts, carefully refined and remastered.

What I believe makes this book unique is that its words stem from an unusual place in my heart. Approaching normal retirement age, my most significant objective has become to pass down to my son, Grayson, the hard-earned expertise I have accumulated throughout many years of experience trading the markets. This knowledge has become his intellectual inheritance, if you will. It makes me happy to think that my readers can benefit from the same intellectual inheritance that I am proud to pass on to him. This program inculcated in Grayson an understanding and passion for the market, as well as the discipline necessary to implement this investing methodology.

I am thankful for my teaching career because it has provided me with the opportunity to educate and involve Grayson and others in the world of investing that I love so deeply. Where other investors and traders with my track record would not divulge 100 percent of their secrets, I have no such reluctance. Where my own best interests once stood, I now have my son's and students' in their place.

As you read this book, rest assured that I have not simply put together an investment program that I can market to stroke my ego. Instead, I have detailed my comprehensive strategic roadmap and feel proud to share it with you, just as I am proud to teach it to my son. My motivation behind this program's success is largely to create a program that will provide both him and you with the strongest foundation possible for all future investing endeavors.

My son has now graduated from college and developed his own love of the markets, and our work together on this book has evolved into a wonderful collaborative project between us. The teacher has become the student, as he has begun to provide me with his lessons and perceptions gleaned from his own investing experiences. I

have an unbending faith in the Tensile Trading program, not only because of my own validation of its principles and my decades of experience from which it is derived, but also because of the amazing metamorphosis that I have witnessed firsthand as my son has enthusiastically and profitably embraced the lessons I have taught him. Based on my own trading results as well as the growth I have seen among the thousands of students I have educated, I am confident that this book and the program it covers will yield similarly satisfying results in your own investing efforts. Good luck, and remember: trade well; trade with discipline!

■ **A Message from Grayson**

My first encounter with the stock market came at the young age of 10, when my father printed out a series of price charts and taught me the meaning of trend. With a thick pink highlighter and a basic knowledge of rudimentary price movements, I accompanied him to a number of his investment courses, where I demonstrated my newfound understanding to his students by drawing trend lines on the various charts they would challenge me with. As my participation in these courses became a more regular occurrence, my appreciation for the meaning of these charts, lines, and numbers quickly grew.

By the time I started high school, I was managing a diverse portfolio of stocks, mutual funds, and exchange-traded funds (ETFs) alongside my father. Even at this young age and with a relatively basic level of experience, I was able to trade successfully, thanks to a simple yet effective methodology and an established set of specific routines. These core foundations have been an invaluable element of my investing approach and remain the basis of my trading process today. It is rare to find a teenager who is willing to listen to the advice and tutoring of his father, and I was certainly no exception to that trend. But when it came to the stock market, it was impossible for me to deny the value in his teachings. My belief in this book stems from the impact that the Tensile Trading program has had on my own financial management. I have lived its words and put them to use, and for that reason, I have nothing but confidence in it.

ACKNOWLEDGMENTS

As we've written in these pages, an individual investor never succeeds as a lone wolf. The same certainly can be said of authors in the publishing arena. No successful book is ever written in a vacuum without the collaboration of many key people. There is a long list of colleagues, family, and friends who have participated in the creation of this book. To those who have sustained us throughout this process and guided us in more ways than we can describe, we sincerely thank you from the bottom of our hearts.

Up front, we want to thank the many people at John Wiley & Sons who have worked tirelessly to make it all happen. In particular, we are grateful to Evan Burton for his faith in us and his vision of the project from day one; to Tula Batanchiev for shepherding us through the publishing process and making it a smooth and enjoyable experience; and to Christina Verigan for her unceasing guidance along the way and her superb technical skills bringing this book together at all stages.

Along with our champions at Wiley, we owe special thanks to three other people who were instrumental in the publishing of this book. First, we are grateful to our agent, Ted Bonanno, for his skill and expertise in representing two first-time authors and guiding them with grace and patience. Second, we salute Louisa Diodato, our hometown hero of an editor, who applied such extraordinary copyediting talents to these pages. And, finally, we want to thank Loren O'Laughlin, our graphic designer, for working his creative magic on this book, both inside and out.

Our indebtedness does not end there, however. We owe heartfelt gratitude to Chip Anderson and the entire StockCharts.com team for their truly unending encouragement and inspiration. They are the often unheralded patrons of successful individual investors everywhere, and they deserve much applause. Our hats are off to the two people in our closest family circle who deserve special recognition. First, to our mentor and friend, "Uncle" Harvey Baraban, who has been there every step of the way encouraging us to share our experiences and our message with a wider audience. And our deepest thanks to Jolie Roze, the world's greatest wife and

mother, for the many years of unbending love and unconditional support that it took to see this project through from its very earliest gestation.

■ A Special Note from Gatis Roze

At its essence, this book is the result of a number of life passages that occurred for me, starting in the early 1990s as I transitioned from a Silicon Valley career to becoming my own full-time money manager. The initial catalyst for what turned out to be a very successful journey is due in equal parts to the late Paul Ferwerda and Dr. Henry “Hank” Pruden. In 1990, I had the sheer good fortune of hiring Paul Ferwerda to help me open a family money management office in Burlingame, California. He had just retired from Wall Street and was happy to help me get organized. Paul was the founder and first president of the Technical Securities Analysts Association (TSAA), the nation's oldest society devoted to the study and development of stocks and commodities. Paul Ferwerda introduced me to Hank Pruden, a distinguished professor at Gold Gate University, who had also served as the TSAA president and was an early advocate of behavioral finance. It was Dr. Pruden's courses on the Wyckoff investment methods that then launched a serious passion in me for all things relating to the stock market and investing—a passion that is still burning brightly today. I've continued to pass the Pruden-Ferwerda torch to many future generations of investors, including my own son.

I am also grateful to Bruce Fraser, who taught these Wyckoff courses alongside Hank Pruden. It was a unique time and place that attracted a truly extraordinary cadre of investors to their classes at GGU in San Francisco. Fortuitously, I was one of a troupe of stock market technicians who banded together to study for the early Chartered Market Technicians (CMT) certification. I was lucky to have had their enthusiasm and fellowship as we worked to achieve that degree, and I salute each and every one of those early Wyckoffians. A piece of their shared wisdom and inspiration resides within this book.

During my early years as a full-time investor, I was especially blessed to befriend Harvey Baraban, who to this day happily serves as my mentor and devil's advocate in all things concerning life, love, and the markets. When I first met Harvey, he had just retired from Baraban Securities, where he had trained over 30,000 individuals for certification as stockbrokers. With our shared zeal for the markets, we developed a deep and abiding friendship that has spanned the years, no matter what

the distance. I owe him a profound debt for challenging me to share my stock market experiences and investment knowledge with others. This book is a direct result of my efforts to meet Harvey's challenge and undertake the teaching of postcollege investment courses.

Teaching investment courses has been an integral part of my own journey as an investor, and I owe a significant debt of gratitude to the circle of students and stock market enthusiasts who have taken my courses over the past 15 years and listened to me preach the trading tenets included in this book. With their spirited dedication, they have made me refine my methodologies and sharpen my communication skills, all the while helping me become a more consistently profitable investor in the process. I am incalculably thankful for their support and their friendship.

Finally, there are two other key individuals who have been instrumental in this personal journey. First, I owe profound thanks to Chip Anderson, the president of StockCharts. I fondly recall sitting in my office with Chip soon after he had started StockCharts.com and talking about his vision for the cloud-based charting website. Being an educator at heart, Chip's passion was not only contagious but was pivotal in my own decision to begin teaching investments. Over the 15 years since that day, Chip has been a valued resource for ideas and a staunch supporter of my own efforts to help individuals become successful investors.

Finally, it might seem somewhat unusual for one coauthor to salute the other coauthor, but it is apropos in this instance. In looking back over my personal investing sojourn, I owe my very deepest thanks to my son and coauthor, Grayson Roze. It was his idea to start this project based on my class syllabus. More important, it was his boundless energy, passion for investing, and writing prowess that produced this book. I am indebted to Grayson for making it happen. I look at him with both wonder and appreciation—thankful that he took such a deep-seated interest in his father's life work from such an unusually early age. His dedication to our partnership in writing this book has been an extraordinary gift from a son to his proud father.

ABOUT THE AUTHORS

Gatis N. Roze is a veteran full-time stock market investor who has traded his own account since 1989 unburdened by the distraction of clients. He holds an MBA from the Stanford Graduate School of Business, is a Chartered Market Technician (CMT), and is a past president of the Technical Securities Analysts Association (TSAA). After several successful entrepreneurial ventures, he retired in his early 40s to focus on investing in the financial markets. With consistent success as a stock market trader, he began teaching investments at the postcollege level in 2000 and continues to do so today. A renowned communicator, he has taught thousands of investors in sold-out seminars for the American Association of Individual Investors (AAII), the Market Technicians Association (MTA), Bellevue College, and StockCharts University. He also writes the popular blog the *Traders Journal*, which has a global following and appears weekly at StockCharts.com.



Grayson D. Roze has worked in the financial services industry for StockCharts.com since 2012. He now serves as a business manager at the company. Grayson holds a bachelor's degree from Swarthmore College, where he studied economics and psychology. At a young age, he began pursuing his interest in the financial markets by attending investment classes and starting to trade under the guidance of his father. At the age of 18, Grayson began investing his own account and has since become an accomplished trader in his own right. *Tensile Trading* was his vision as a vehicle to lay out his father's investment wisdom and convey it to a wider audience.

Money Management

Think of your future in the market as a road trip. Your journey does not start 50 miles down the street; rather, it begins at home when you choose your destination, spread out the map on the kitchen table, and carefully plan the route for your upcoming adventure, keeping the big picture in mind. Proper money management is the mapping stage of your road trip. Before you pull onto the investing highway, you must thoroughly determine your personal financial position, truthfully establish your investment goals and motivations, and develop a deep understanding of how to advance from where you are today. So what exactly is *money management*? Frustrated with the absence of one agreed-upon definition within the financial world, I polled more than 80 investors throughout my classes—a combination of continuing education classes, daylong seminars, and multiweek sessions—to see what we could come up with. Collectively, we created the following comprehensive definition, which encompasses all that is necessary for a proper and effective money management plan:

First and foremost, money management is an ongoing process. More descriptively, it is a documented, personally appropriate financial framework that describes the types of investments and strategies you feel will align best with your personal goals, objectives, and priorities. These guidelines describe the rules and tools you deem appropriate in managing your wealth. They acknowledge your risk tolerance and the risk management techniques you employ to protect your assets. Finally, they provide an ever-changing, lifelong timeline and roadmap recording the methodologies and resources you use to ensure disciplined stewardship of your assets as you attempt to maximize the return on your investments.

As an educator, my objective is to equip you with the tools and skills necessary for you to become profitable as an investor and consistently replicate that profitability.

Ultimately, these should be your goals, too. Your aim as an investor should be to make the right preparations and the wisest decisions to move the probabilities in your favor and become consistently profitable, and creating a detailed money management plan is the first step toward this goal. It is all about:

1. Knowing what you have,
2. Knowing how to protect it,
3. Knowing how to grow it, and
4. Writing it out in a personalized investment plan.

Too frequently, novice investors display a harmful overeagerness by choosing to jump in head first to step 3—growing your assets—while ignoring steps 1, 2, and 4. Buying a stock may be the most flashy and exciting of our four elements, but to pursue this item first is to kill your odds of success and lower your probability of making money on a consistent basis. Only after you've completed the first three steps (Figure 1.1) and written it out into a clear, actionable plan are you ready to actually jump into the market.



FIGURE 1.1 Three Steps: Asset Creation, Asset Protection, Asset growth

The first task—in reaching any goal—is to lay a solid foundation. You must start with the basics and work your way up. At the most fundamental level, this means you must learn to speak the language of the market. Every profession—from medicine to engineering to accounting to law—has its own unique vocabulary, and the stock market is certainly no exception. For example, knowing the difference between a market order and limit order could be the difference between a profitable trade and a losing trade. There is an extensive collection of glossaries and resources

online that help explain the investment language. Find the one that works for you, and refer back to it frequently.

In addition, you must take the time to learn the structure of the market. For example, Dow Jones, Standard & Poor's (S&P), and the Frank Russell Company all create unique indexes or groupings of equities. They are then paid a licensing fee by users of their indexes. Understand that while these indexes may appear different, all three companies are slicing and dicing the exact same total market made up of the exact same stocks ([Figure 1.2](#)). Because the equities that constitute them are all the same, this means that the Dow Jones Industrial Average is a subset of the S&P 500 index, which in turn is a subset of the Russell 3000. Taking the time to properly educate yourself will prevent you from being confused by all this slicing and dicing and will serve you tremendously as you move forward through your investing career. Think of education as a prerequisite and a critical part of building your foundation because choosing to learn on the fly can quickly become a very expensive decision.