Most traders have this preconceived idea that price is what counts, that price is what matters. The ***price*** at which you buy, the ***price*** at which you sell, where is ***price*** going? etc etc. etc. In my experience, as a trader that is not the case. Sure, if you are an investor looking for returns over the long run, then yes; the price then indeed is of utmost importance. ROI, dividend yield, yield to maturity and the list goes on. Best returns are all contingent on best prices. That I get.
But as short term traders, does any of that matter? Does any of that come into play for the few moments or hours we're actually in the market? Of course not.

So then, how do we make money?

We make money by betting on the ***direction*** of price movement and nothing more.
For us to profit, we must have a pretty good idea which way the market is moving, or most likely going to move, regardless of the current price.

And this is where I believe most traders drop the ball. This, in my opinion, is why most traders blow up their accounts at an alarming rate. They are focused almost entirely on the price itself. I hear statements like these all the time from traders:

"Wow, look how high prices are, it can't go any higher! I'm selling short!"

" Prices just can't go any lower, no way; what a deal! I'm buying right now!"

or my personal favorite:

"It's made a pretty big move, where do you ***think*** it might stop? Where should I get in?

The truth is nobody knows. And I don't ***think***.

An upward surge in prices will end when the very last buyer has bought and a downward plunge will stop the exact moment the last seller sells. Yes, it is that simple. So for us traders, that's where we make our money, by playing the area between where the last seller sells, and the last buyer buys.

So how do we do that?

By studying, reading and mastering ***trends.*** Every industry on earth must do this to survive. They hire analysts by the battalion to figure out the next trend in fashion, or colours to paint your walls, or which movie genre will be the next blockbuster.
Insurance companies hire weather people to study weather patterns and trends so they can assess risk and charge premiums accordingly. The list goes on and on.

4 Simple Steps To Trading Bliss

I call this *Basic Strategy* (the name aptly inspired by the rules of Black Jack)

Step 1 Lose ‘em or Lose It

Get rid of all those indicators you have below your actual price chart.
They are for the most part useless garbage and usually cause more harm than good.
You don’t need them.

Step 2 Your New Best Friend

Create a “fast” chart. I’m a day trader so I use a 5 minute chart for this. If you are a swing trader, try a 30 minute or 1 hour; your choice. This chart will now become your indicator!
On this chart, all you want on it is a *simple moving average* - sma. Not a weighted, exponentional, or vwap. Just a simple moving average.
Personally, I prefer this chart to be a line chart - no candles or bars here to cloud judgement or get me all excited.

Now on this chart, plot a 20 period moving average. Remember, an sma.

Like the ocean tides, market prices, and in turn their averages, eb and flow. But don’t fixate on the price. Focus instead on the relatively smooth movement of the average. Yes, I know it can get erratic and go sideway at times - akin to storms at sea, but over time and with practice, you will find reading it becomes ‘routine and almost predictable’. Watch for the times when the average, after rising for a period of time, slowly rolls over and begins heading down. The spot where after a downward run it begins to flatten out and hook upwards. I call these spots transition zones. I have zero interest in trading a market that is not in transition. I wait patiently and watch.

Step 3 What’s My Downside?

Now we must assess our risk.
For this I use the price ‘swing’ itself at the transition point to guide me.
If prices have been trending upwards and the average has begun its transition from bullish to bearish, at some point price will dip down below the average.
With prices now below the average, and the average itself now has a negative slope (it’s heading down) your stop loss should be a few ticks (or pips) above the last swing high made before prices dropped below the average.
Of course the exact opposite is true in a market that is transitioning from bearish to bullish.
Once price is above the now positive sloping average, stops should be placed just below the prior swing low put in just before prices moved above the average.

Step 4 It's Go Time

Now it's time to trade. There are as many entry techniques out there as there are traders. Over time, if you haven't already, you will evolve as your own trader and come up with something that suits your style and your temperment.
But for the sake of this exercise, lets keep it super simple.

After a bullish transition, and we have our stop loss figured out, (previous swing low before price crossed the average and became bullish) simply place a limit order to buy directly at the current price of the moving average.

After a bearish transition, place your limit order to sell on the downward sloping moving average with your stop just above the last swing high before prices went bearish. (crossed below the sma)

It really can be that easy! People make things complicated. Much more complicated than things really need to be!

Try it out on a simulator. Play with it abit. Perhaps tweek the average a little to better suit the timeframe you are working with, or the market(s) you like to trade. But don't deviate from the basic strategy and whatever you do, **DO NOT** try to make the stop tighter! If the stop is too big for your account to handle, then you pass on the trade and wait for the next one! If you try and make it smaller, I can almost guarantee you will get stopped out!

In Closing

I do hope this little 'Cheat Sheet' provided you with some useful information and a little insight into how I view and trade the markets. I thank you for taking the time to read through it and and firmly believe that if you stick to the basics, your trading account will be greatly rewarded. Your best trades lie ahead!

Rob Tovell

http://robtovell.com