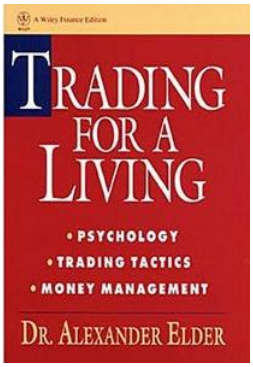
Trading for a Living
by Dr. Alexander Elder



Book Review and Recommendation

Trading for a Living is excellent and is a classic of trading literature. The book is divided into 10 sections with 48 chapters, which cover three main areas: psychology, technical analysis (classic charting and indicators), and management (trade systems and risk management).

The book is well written and concise, but at the same time detailed and thorough. The book provides an overview of the many different methods traders use to identify and manage trades, themselves and their equity. It makes no promises except that trading is a professional endeavor and takes significant study and practice. Dr. Elder comes across as honest, experienced, and humble.

I particularly enjoyed the very broad and succinct summary of classic chart patterns and indicators which make up the bulk of the book. A trader will recognize which methods and tools fit his personality and existing style and spend more time with that material (and go on to study more elsewhere) but also get to understand other methods. There are countless gems throughout that would make excellent post-it notes for a traders screen.

Trading for a Living needs no endorsement from me, but for what it is worth, I recommend it.

I learned about many trading methods and analyses which I do not currently use, and came to better understand some of the ones I do use. I plan to revisit the text in the future. A summary of major lessons learned and some quotes from the book are detailed below.

Audience – The book appeals to a wide audience – beginners and experienced traders. The book touches on so many different aspects of trading it would be difficult to digest it in one read or at one timeframe in a trader's career. I wondered if the 1992 publishing date would make some of the material seem dated, but it holds up very well, and it assumes everyone is using sophisticated charting programs.

Title – Based on the title (Trading for a Living), I thought the book was going to be more about living and working as a trader, short and long term trade planning, psychologically adapting to a trading lifestyle, the day-to-day, equity growth and withdrawls, etc, more literally Trading… and… Living. The book is a description of the numerous and different ways in which successful traders trade, so a more apt title in my opinion would have been "All the Tools in a Traders Toolbox" or "How Traders Trade". Dr Elder has another book which is called, "Come Into My Trading Room," which is more like what I was expecting from "Trading for a Living". I don't fault the author or

publisher, it was probably my own misinterpretation. The subtitle is more direct: "Psychology, Trading Tactics, Money Management".

Disclosure – nothing to disclose, I do not know Dr. Elder and have no affiliation with him nor Financial Trading Seminars, Inc. I bought the book myself on Amazon.co.uk. If you go the "Gift Shop" section of stoictrading.wordpress.com you can click through to Amazon.com or Amazon.co.uk to purchase it.

Lessons Learned or Reinforced in Trading for a Living

Trade Management:

- It pays to wait for trades that allow very close stops. Waiting for them reduces the excitement of trading but enhances profit. You choose which of the two you really want.
- A stop is not a perfect tool, but it is the best defensive tool we have.
- If you focus on handling losses, profits will take care of themselves.
- A position trader should try and stay with a trade until the weekly trend reverses.
- Most traders focus on prices but ignore time.
- As a rule, prices have to move away from your entry point by more than the average daily range before you move your stop to a break-even level.

Trade Identification:

- Follow strength during trends – buy in uptrends and sell short in downtrends. When prices are in a trading range, do the opposite – buy weakness and sell strength.
- Elder repeats many times that divergences (indicators going one direction and price going the other) are the strongest signals in technical analysis. He sites as key the divergences in the MACD-Histogram, oscillators, stochastics, RSI, etc.
- Elder also strongly believes in multi-time frame analysis, related by a factor of 5x.
- Price represents the consensus of value of all market participants at the moment of the transaction. Closing price reflects the most important consensus of the day because the settlement of traders' accounts depends on it.
- Trade only in the direction of the slope of the trendline.

Record Keeping:

- You have to find your weakness in order to change. Write down your reasons for entering and exiting every trade. Look for repetitive patters of success or failure. Those who do not learn from the past are condemned to repeat it. A trade does not end when you close out the position. You must analyze it and learn from it.
- Keep a "before and after" notebook. Entry screen on the left page, Exit screen on the right with brief rationale and management summary.

Psychology:

- Private traders have one main advantage over institutional traders – the ability to get into or stay out of the market at their discretion. Most private traders fritter away this advantage by overtrading.
- If you must lighten up, liquidate your worst position
- Taking a loss can be emotionally hard, but taking a profit can be harder.
- Being a trader is a lifelong challenge.

Quotes from Trading for a Living

P11. "Trading appears deceptively easy."

P17. "Every winner needs to master three essential components of trading: a sound individual psychology, a logical trading system, and a good money management plan."

P26. "You have to find your weakness in order to change. Keep a trading diary – write down your reasons for entering and exiting every trade. Look for repetitive patters of success or failure." P27. "Those who do not learn from the past are condemned to repeat it."

P48. "When you analyze a market, you are analyzing crowd behavior." P65. "Technical analysis is the study of mass psychology."

P53. "Most individuals do not have the discipline to stop trading when they get on a losing streak, but institutions impose discipline on traders. A trader is given two limits – how much he may risk on a single trade and the maximum amount he may lose in a month. […] The Achilles heel of most institutional traders is that they often have to trade, while an individual trader is free to trade or stay out of the market. […] Most private traders fritter away this advantage by overtrading. […] Remember, your goal is to trade well, not to trade often."

P59. "Many traders are puzzled why markets always seem to reverse immediately after they dump their losing positions. This happens because crowd members are gripped by the same fear – and everybody dumps at the same time."

P63. "Bearish divergences mark the best shorting opportunities." P64. "Bullish divergences identify the best buying opportunities."

P69. "Most traders use charts as a giant Rorschach test. They project their hopes, fears, and fantasies onto the charts."

P72. "Professionals as a group usually trade against the amateurs."

P79. "A trend reveals its health by how it acts when it hits support or resistance. […] If a trend bounces away from support or resistance, it reveals its weakness. […] If the weekly trend is sailing through a clear zone, the fact that the daily trend is hitting resistance is less important."

P80. "You have to follow strength during trends – buy in uptrends and sell short in downtrends. When prices are in a trading range, you have to do the opposite – buy weakness and sell strength."

P83. "Many chart patterns and indicator signals contradict one another at the right edge of the chart. You have to base your decisions on probabilities in an atmosphere of uncertainty."

P88. “Most chartists draw a trendline through extreme high and how points, but it is better to draw it through the edges of congestion areas. Those edges show where the majority of traders have reversed direction. […] Poll takers want to track opinions of masses, not a few extremists.”

P91. “You have to be careful not to anticipate trading signals – most traders lose money when they jump the gun.”

P93. “Trade in the direction of the slope of the trendline.”

P101. “There are two main groups of [chart] patterns: continuation and reversal. Continuation patters include flags and pennants. They suggest the direction of the current trend. Reversal patterns include head and shoulders, and double tops and bottoms. Some patterns can serve as either continuation or reversal formations. Triangles and rectangles are notorious for that double duty.”

P105. “When the market refuses to bark in response to a perfectly good signal, it gives you the Hounds of Baskervilles signal. This shows that something is fundamentally changing below the surface.”

P109. “To find out whether an upside or downside breakout is more likely, analyze the market in a longer timeframe than the one you are trading […] because a breakout is more likely to go in its direction.”

P112. “A triangle is like a fight between two tired boxers who keep leaning on each other. An early breakout shows that one of the fighters is stronger. If prices stay within a triangle all the way into the apex, that shows that both boxers are exhausted and no trend is likely to emerge.”

P132. “When prices go one way but MACD-Histogram moves the other way, it shows that the dominant crowd is losing its enthusiasm and the trend is weaker than it appears.”

P152. “A rule of thumb with all oscillators – when in doubt, make them shorter. This is the opposite of trend-following indicators – when in doubt, make them longer.”

P164. “Price represents the consensus of value of all market participants at the moment of the transaction. Closing price reflects the most important consensus of the day because the settlement of traders’ accounts depends on it.”

P169. “If a sudden price change hits traders, they jump from pain and liquidate losing positions. The same losers can be very patient if their losses increase gradually.”

P171. “As a rule of thumb, if today’s volume is higher than yesterday’s volume, then today’s trend is likely to continue.”

P193. “The proper way to analyze any market is to analyze it in at least two time-frames. They should be related by a factor of 5.”

P236. “A trader can always find a group of indicators telling him what he wants to hear.”

P243. “A position trader should try and stay with a trade until the weekly trend reverses.”

P244. “Most traders focus on prices but ignore time.”

P253. “Some traders use channels whose upper line is a moving average of the highs and whose lower line is a moving average of the lows.”

P258. “The first goal of money management is to ensure survival. You need to avoid risks that can put you out of business. The second goal is to earn a steady rate of return, and the third goal is to earn high returns – but survival comes first.”

P259. “If you focus on handling losses, profits will take care of themselves.”

P260. “It pays to wait for trades that allow very close stops. Waiting for them reduces the excitement of trading but enhances profit. You choose which of the two you really want.”

P262. “If you must lighten up, liquidate your worst position.”

P263. “Taking a loss can be emotionally hard, but taking a profit can be harder.”

P264. “The goal of a successful trader is to make the best trades. Money is secondary. If this surprises you, think how good professionals in any field operate. Good teachers, doctors, lawyers, farmers, and others make money – but they do not count it while they work. If they do, the quality of their work suffers.”

P266. “Stops should be moved only one way – in the direction of the trade. […] A stop is not a perfect tool, but it is the best defensive tool we have.”

P267. “The first few days in a trade are the hardest.”

P267. “As a rule, prices have to move away from your entry point by more than the average daily range before you move your stop to a break-even level.”

P268. “A trade does not end when you close out the position. You must analyze it and learn from it.”

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