

Tips From Four Top Traders

What can you learn from four successful, self-directed, off-floor traders? *Active Trader e-Newsletter* selected independent traders, who employ distinct trading strategies: position, intraday, swing, and day trading. Then Mike Sincere, author of five books on trading, including *Understanding Options* (McGraw-Hill, 2006) and *Understanding Stocks* (McGraw-Hill, 2003), asked them to share their “tricks of the trade.” Read what independent trader Howard Kornstein; professional trader Linda Raschke; author and trader Toni Turner; and professional trader, author, and psychiatrist Dr. Alexander Elder; had to say.

Howard Kornstein: Swing Trading the Blue Chips

Howard Kornstein is a full-time independent trader with over 25 years experience trading stocks and options. He is also a former hedge fund manager.

Sincere: What would you say is the most common trading mistake?

Kornstein: It’s refusing to admit that you’re wrong. Then the trade runs away from you and you are further wrong. For example, everyone thought that Sirius satellite was going to be better than FM radio. The story was right but the stock has failed. In this case, you sell out and take the loss. In the stock market it’s better to assume you have a loser until it proves otherwise. It is also easier to exit the position if you think this way.

Sincere: What technical indicators do you use?

Kornstein: I have learned that the simpler the indicator, the better the chance for success. The 50-day moving average (MA) is my benchmark. I like a stock that has fallen below the 50-day MA, has stopped falling through the 50-day MA, and is now on its way back toward it.

How Fidelity can help -- **Technical Events From Recognia™**

Short-Term Outlook (2 to 6 weeks)

Event Date	Event	Event Class	Opportunity	Close at Event	Possible Target Price Range
07/16/2007	Short-term KST	Oscillator	Bullish	40.12	n/a
07/16/2007	Relative Strength Index (RSI)	Oscillator	Bearish	40.12	n/a
07/13/2007	Commodity Channel Index	Oscillator	Bullish	39.50	n/a
07/13/2007	MACD	Oscillator	Bullish	39.50	n/a
07/13/2007	Gap Up	Short Term Pattern	Other	39.50	n/a
07/12/2007	Price Crosses Moving Average	Indicator	Bullish	39.00	n/a
07/11/2007	Momentum	Oscillator	Bullish	38.20	n/a
07/10/2007	Short-term KST	Oscillator	Bearish	37.90	n/a
07/06/2007	Commodity Channel Index™	Oscillator	Bullish	38.48	n/a

All screen shots and stock symbols are for illustrative purpose only.

Sincere: Do you use fundamental analysis?

Kornstein: Yes. I always consider P/E (price/earnings) ratios. You must expect a stock with a low P/E ratio to have a longer holding period. On the other hand, the higher the stock's P/E ratio, the faster and more volatile the trade will be.

How Fidelity can help -- Stock fundamentals

Valuation Print			
Price/Earnings Ratios	Value	Industry Average	% in Industry
P/E, most recent Quarter	19.29	22.11	 57%
P/E, TTM	19.29	22.00	 47%
P/E, 5 Year Average	19.64	20.11	 42%
PEG Ratio	1.83	2.40	 70%
Price/Cash Ratios	Value	Industry Average	% in Industry
Price to Cash Flow, most recent Quarter	19.11	17.46	 94%
Price to Cash Flow, TTM	14.33	14.41	 74%
Others	Value	Industry Average	% in Industry
Price/Sales, most recent Quarter	2.52	2.18	 80%
Price/Sales, TTM	2.51	2.15	 87%
Price/Book, TTM	3.63	4.22	 63%

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Sincere: What are the most valuable lessons you've learned about the market?

Kornstein: I learned to be very cautious about news stories. Don't place a trade based on a rumor. Another lesson I learned is when shorting, try not to carry the stock for more than two or three days. If after that period of time it's still not in the profitable range, you should probably sell it.

Sincere: How long do you hold your stocks?

Kornstein: I give different time frames to different companies. For example, I expect the gains on a diverse company like General Electric (NYSE: GE) to be slow-upwards of one year to show a profit. For a NASDAQ technology company, I wouldn't hold it more than a few days.

Sincere: Where do you cut your losses?

Kornstein: It depends on the position. If going long on a blue-chip stock like General Electric, I would give 5%. On a NASDAQ stock, I would give 3% or less. If shorting, one half of one percent.

Sincere: Do you believe that trading is similar to gambling?

Kornstein: The trade becomes a gamble when you say you have a 50/50 chance of it being a winner. On the other hand, if a person says I have an 80% chance that this company might perform well in this quarter, that's not gambling. That's making an investment decision based on the knowledge the person might have.

Sincere: What do you think most people don't know about the stock market?

Kornstein: Most people don't realize that the value of the stock is the perceived value, not the actual value. For example, Apple (Nasdaq: AAPL) is perceived to be better than Qualcomm (NASDAQ: QCOM) so people are willing to pay a higher multiple. As a trader, I avoid companies that are popular and carry a premium. The cost of the stock is far greater than the amount of profit the company can possibly make.

Linda Raschke: Trading Stocks with Institutional Support

Linda Raschke is a professional trader for LBR Group and the co-author of a number of books including *ETF Trading Strategies Revealed* (Marketplace Books, 2006).

Sincere: How do you plan your first trade?

Raschke: I like to have an initial bias or plan before the market opens. I am looking for a certain play or setup, perhaps a breakout. I want to see where the market opens and where it is trading relative to the previous day's high or low. I also note if there is a trend off the opening price, and if it starts making new highs or new lows outside of the first hour's range.

Sincere: What do you look for in a stock?

Raschke: I look for patterns. I take it one step, one day, and one swing at a time. If you aim for too big of an objective, you won't make it. It's how you manage the trade or the risk once you are in the market. That's the only thing you can control. If you make an execution error or you do the wrong size, you should correct it immediately. You have to take your hit and get out of it right away.

Sincere: What about time frames?

Raschke: I believe it is very important to study at least two time frames—the weekly and daily. For short-term trades, I use the hourly and 5-minute charts.

Sincere: How do you manage risk?

Raschke: If the market moves in my favor, I tighten the stops. I look for spots where I can take profits. I don't think I will get 10 points when it will only give me 2 points. Everyone buys a stock and thinks it's going to go up 10 points, but it might sit there for months.

Sincere: Do you always use stops?

Raschke: I can't imagine putting on a trade and walking away from it without a stop. It's like doing heart surgery with the lights out. If you are a home-based trader, you have a responsibility to have a stop in place. You also must know why you made that trade and what time frame you are playing for.

Sincere: What do you think drives market volatility?

Raschke: I think that people would be surprised that 40% of the S&P volume comes from automated "black box" algorithms playing for short term, two-second ticks. Everyone thinks the market is manipulated by this big master Wizard of Oz.

Sincere: So should a trader follow what the institutions are buying?

Raschke: Yes and no. When something is hot, it's hot, and when it's not, it's not. When the Dow and S&P are testing their highs, you don't buy a stock that hasn't moved. It won't be a dog forever, but go where the money flow and action is. Once a trend is in place, it can stay in place for a while.

Toni Turner: Using Technical and Fundamental Analysis

Toni Turner is a trader with over 16 years experience and the bestselling author of a number of books including *A Beginner's Guide to Day Trading Online* (Adams Media Corp, 2007) and *Short-Term Trading in the New*

Stock Market (St. Martin's Griffins, 2006).

Sincere: How do you find stocks to trade?

Turner: I maintain a comprehensive watch list of sectors and industry groups. I evaluate economic conditions and which sectors and groups are most likely to benefit from those conditions. Then I analyze daily and weekly charts of those groups. I choose strong stocks with the potential to move higher in bullish environments, and weak stocks that are likely to move lower in bearish environments.

How Fidelity can help -- **Market & Sectors Overview**



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Sincere: So you focus on specific stocks and sectors?

Turner: Exactly. It's detrimental to scatter yourself over a whole bunch of stocks that you don't have expertise on. I used to know a trader who used to trade only one stock: GE. He went long, short, and bought and sold options. He knew exactly how that stock was going to act in any given circumstance.

Sincere: What technical indicators do you look at?

Turner: On the long side I keep it simple. I like the 20-day MA, the 35-day MA, the 50-day MA, and the 200-day MA. I keep the RSI (Relative Strength Indicator) and OBV (On-Balance Volume) on my charts. I also like stochastics to tell me if there will be a bullish divergence (the price of the stock drops to a new low while the indicator climbs higher). And of course volume is key-especially volume spikes.

Sincere: Where do you put your stops?

Turner: I usually place my initial stops under the low of the entry day. When the stock breaks out and trades for an hour, or so, I may raise my stop to a point just below a consolidation area on an hourly chart. That helps to minimize risk.

Sincere: Are the charts ever wrong?

Turner: Like the song says: Don't believe your lying eyes. It's not the chart that is wrong, it's my lying eyes. Once we get a pattern in our head, the hardest thing you can do is to admit that pattern isn't playing out the way you thought it would or the way it played out before.

Sincere: So how do you prepare for market uncertainty?

Turner: In the markets it means being nimble and open-minded and recognizing that perhaps this is the end of an uptrend and the beginning of a downtrend. Something out of the ordinary is always going to happen, so expect the unexpected. I'm always surprised when Mother Market is in a nastier mood than I thought possible, so don't jump in too quickly.

Dr. Alexander Elder: A Trading Diary is the Key to Success

Dr. Elder is a psychiatrist, professional trader, and the author of several bestselling books including *Trading for a Living* (Wiley, 1993) and *Entries & Exits: Visits to Sixteen Trading Rooms* (Wiley, 2006).

Sincere: How did you get started as a trader?

Elder: I knew there was a game happening in front of my face and some people were making real money and I knew that I would stick to it until I was one of them. I worked to build my capital, which was tiny in those days, and eventually I figured it out.

Sincere: What kind of trader do you consider yourself?

Elder: A very cautious one. Most of my trades are from a few days to a few weeks. Occasionally I will put in a day trade. I have a number of positions that I have held for more than a year which can be profitable, although it's not easy.

Sincere: What should traders do to be successful?

Elder: Keep good records. As long as you keep good records, you can learn from your mistakes. I don't allow myself to have breakfast until my diary is updated. Keeping and reviewing your diary is how you become your own teacher.

Sincere: What have you learned about money management?

Elder: The most important rule of money management is my 2% rule. You cannot risk more than 2% of your account. I risk even less than 2% because I trade a fairly large account.

Sincere: What kinds of trades do you like the most and why?

Elder: Everyone told me I should follow the trend. I finally said, 'I'm not a trend trader, I'm a reversal trader.' It's a dangerous way to trade, but I love trading reversals. I have certain tools and techniques that identify when a certain trend is weak. When it's weak, I start trading it. I have eight methods or rules for identifying when a trend is starting to weaken.

Sincere: Where do you place your stops?

Elder: I put fairly wide stops in the area where I don't expect prices to go. There's a lot of back and forth in the market so having a tight stop is asking for trouble. I look at the chart and I put the stop at the point where I am proven wrong.

Sincere: At what point do you take profits?

Elder: I have technical indicators that determine when the move is becoming internally weak. It's also important not to get too greedy. No one knows where the top is. If the market is acting strange, take the profits.

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