

Sharpening Your Instincts in E-mini Stock Index Futures Trading

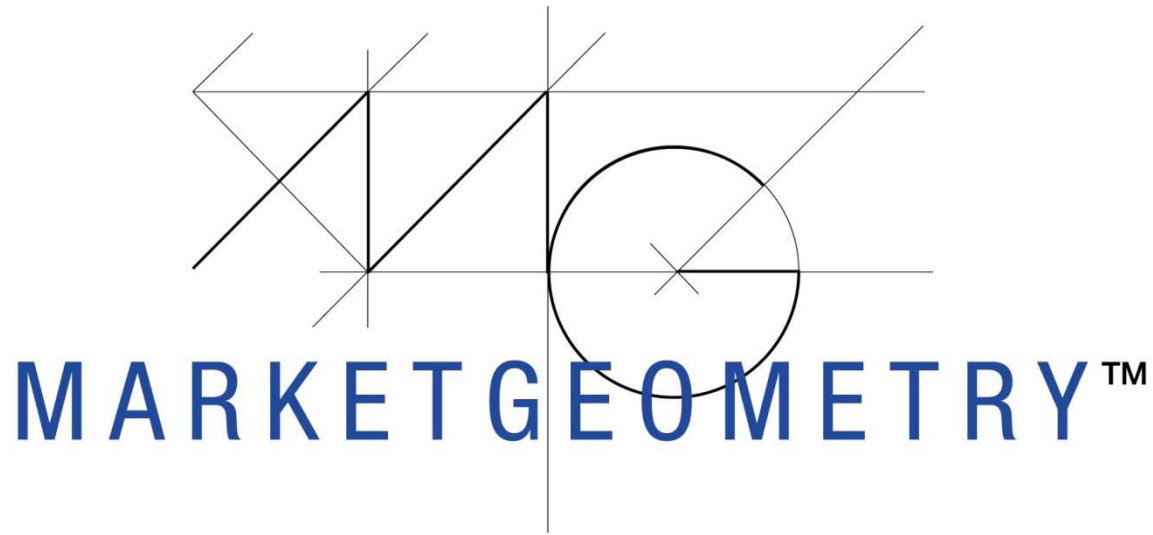


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Blackthorne Capital, Inc.

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www.marketgeometry.com

www.medianline.com



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Results

Past performance does not guarantee future results.

This is one person's experience, your experience may differ.

Results are not guaranteed, individual experiences may vary.

Market Volatility

In volatile market conditions, substantial losses may occur.

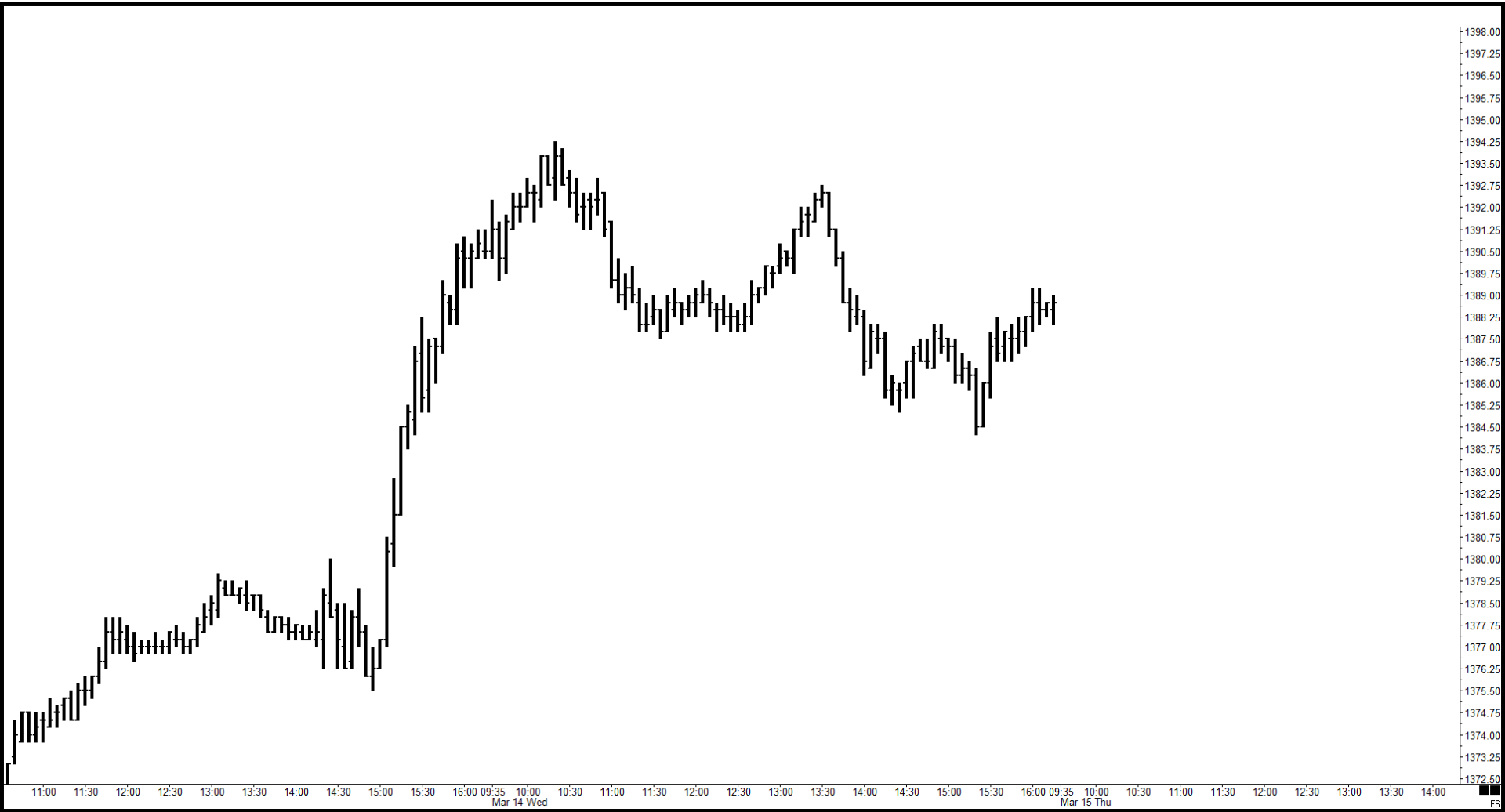
In volatile market conditions, orders may not be filled as placed.

Leverage

The leveraged nature of FX trading and Futures trading means that any market movement will have an equally proportional effect on your deposited funds. This may work against you as well as for you. The possibility exists that you could sustain a total loss of initial margin funds and be required to deposit additional funds to maintain your position. If you fail to meet any margin call within the time prescribed, your position will be liquidated and you will be responsible for any resulting losses.

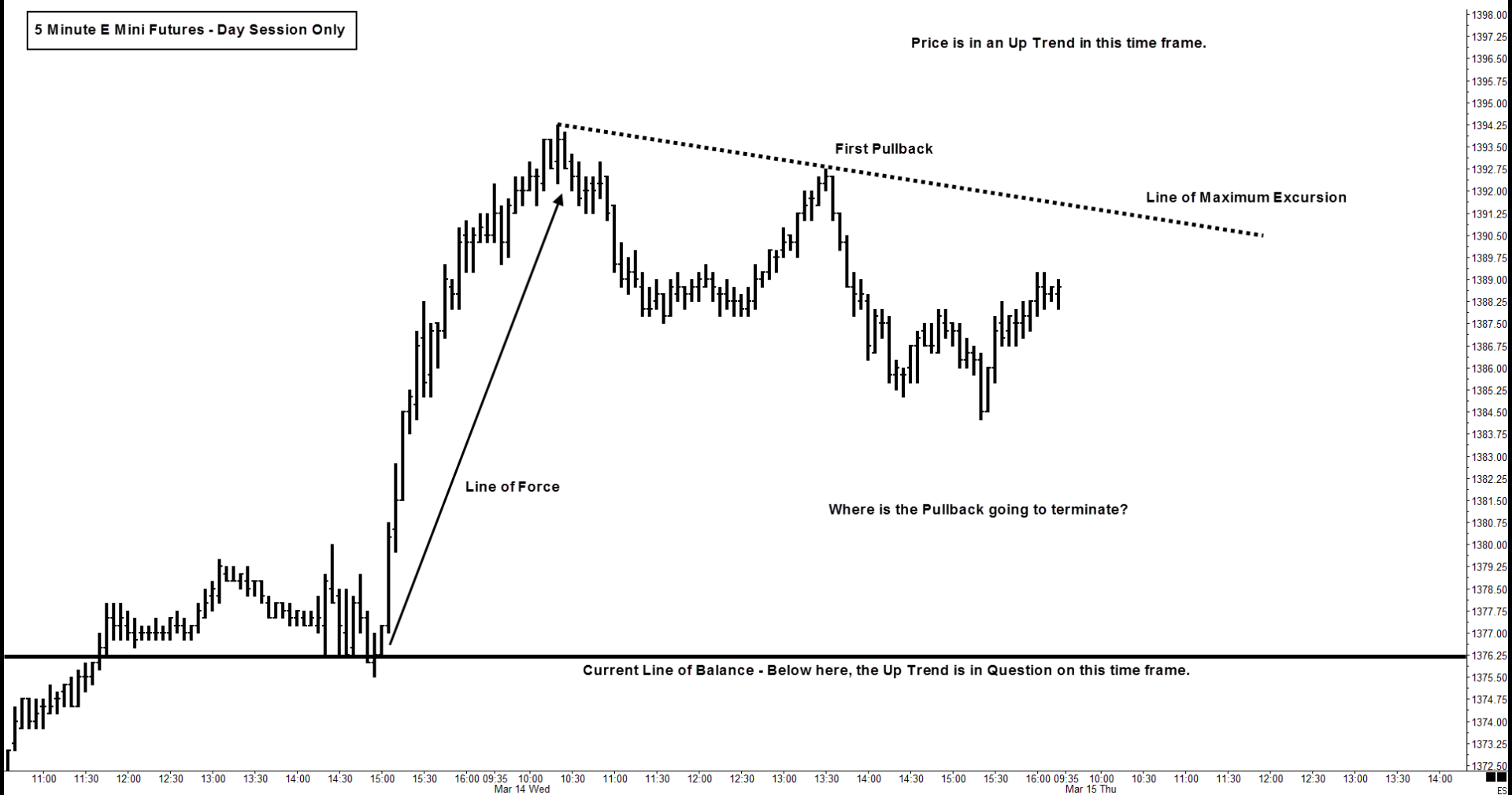
This webcast is dedicated to my two early mentors: Dr. Alan Andrews, a great market researcher that applied Newtonian Physics in the 1920's to develop the Median Line, one of the only true leading indicators available to traders; and Amos Hostetter, a master of risk reward and money management and in my opinion, the best 'Campaign Trader' in the last 300 years.

Let's Listen to the E Mini S&P futures and Let Them Talk to Us!



5 Minute E Mini Futures - Day Session Only

Price is in an Up Trend in this time frame.



Line of Force

First Pullback

Line of Maximum Excursion

Where is the Pullback going to terminate?

Current Line of Balance - Below here, the Up Trend is in Question on this time frame.

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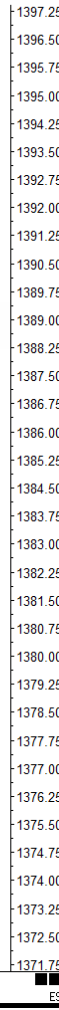
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Let's draw a down sloping Median Line and see if it helps us identify an area for a pullback termination.

Multi-Pivot Line

Price breaks above the Upper Parallel and Prior Swing Highs

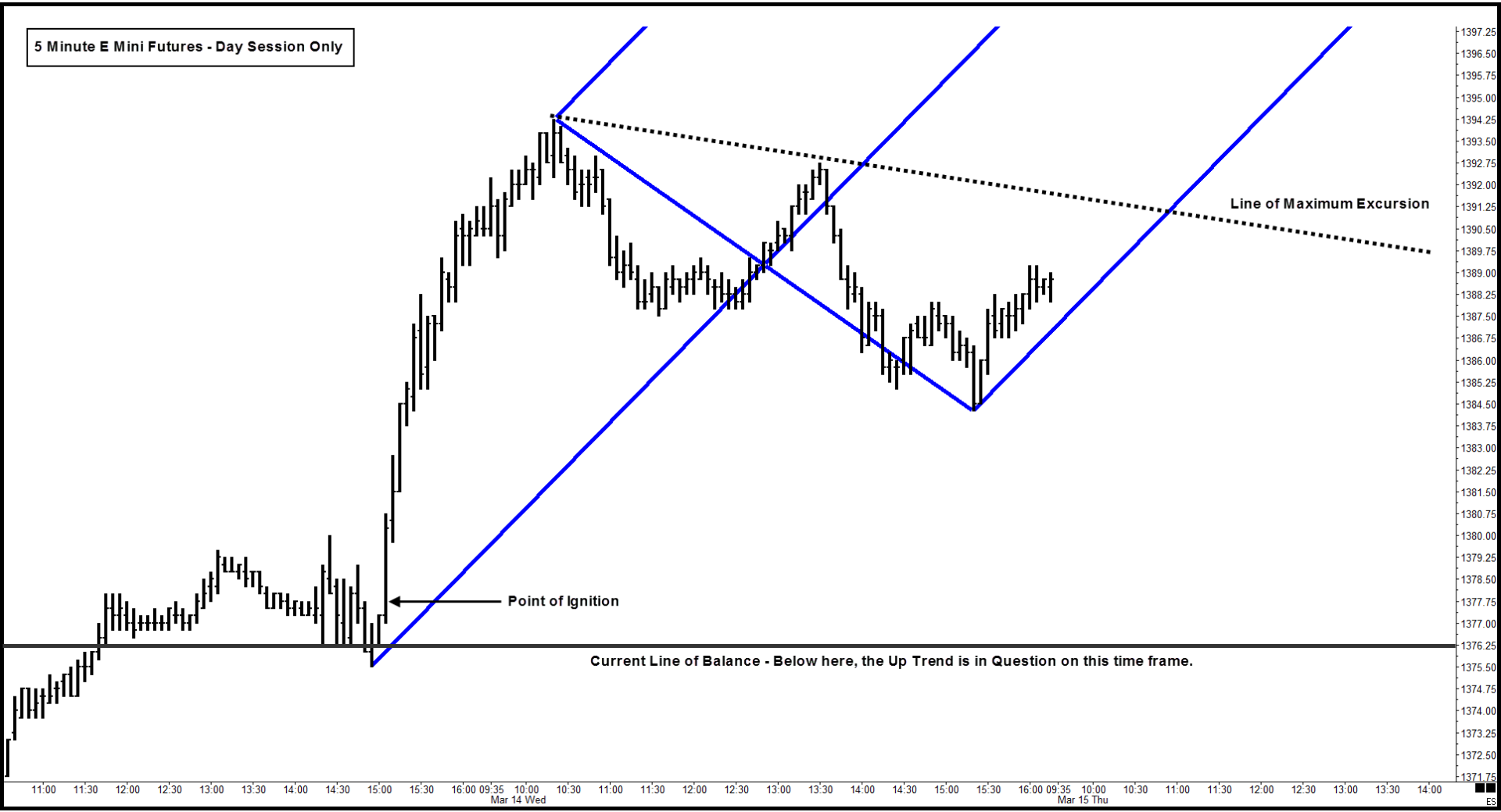
Current Line of Balance - Below here, the Up Trend is in Question on this time frame.



Let's summarize what we know:

- Price has met its minimum downside target: The Median Line.
- Price broke below the Multi-Pivot Line but has now broken back above the Multi-Pivot Line.
- Price has broken above some Prior Minor Swing Highs.
- Price has now broken above and closed the day above the down sloping Upper Parallel.
- Time to draw an up sloping Median Line to check the probable path of price?

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Point of Ignition

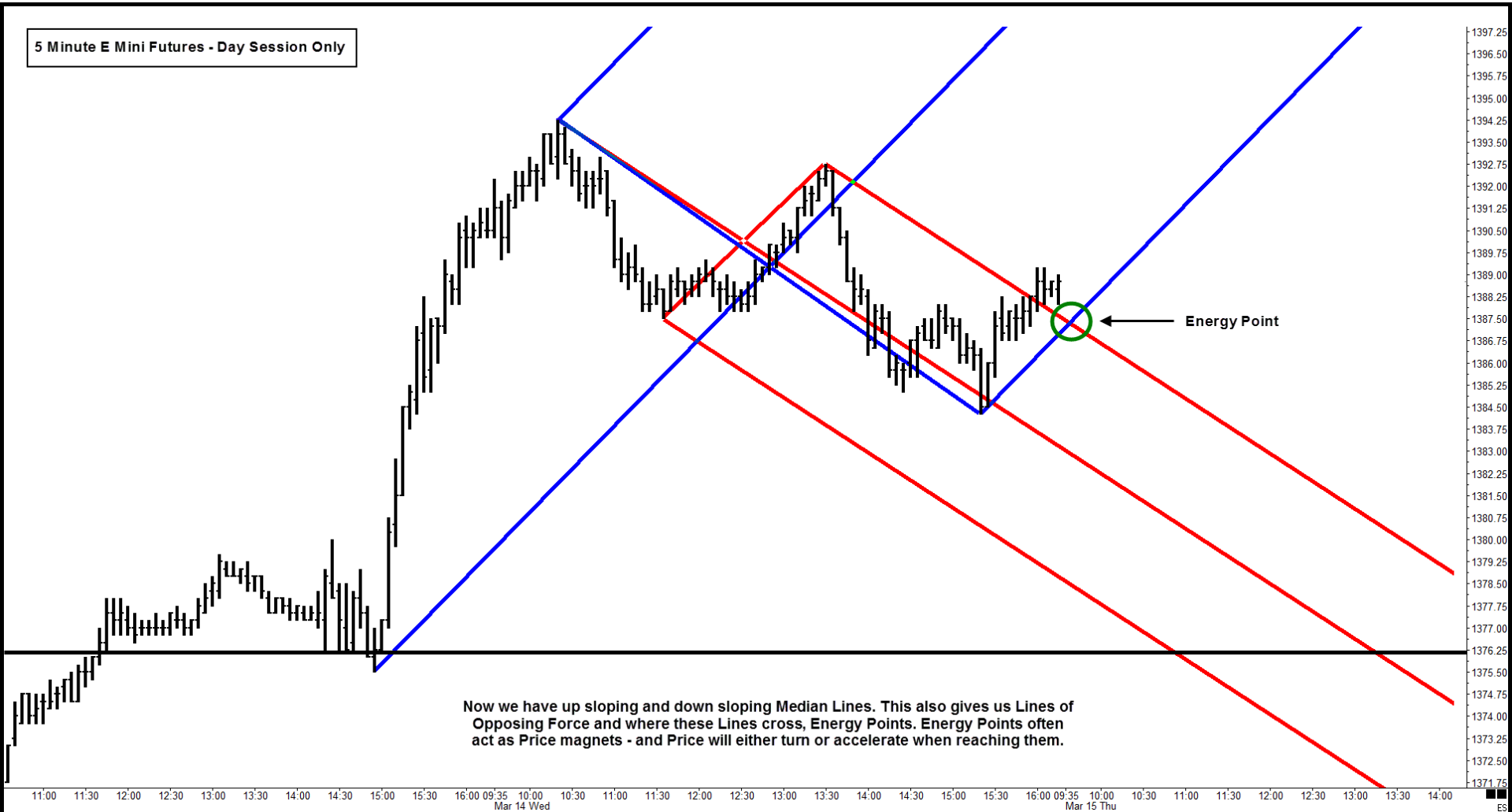
Line of Maximum Excursion

Current Line of Balance - Below here, the Up Trend is in Question on this time frame.

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5 Minute E Mini Futures - Day Session Only



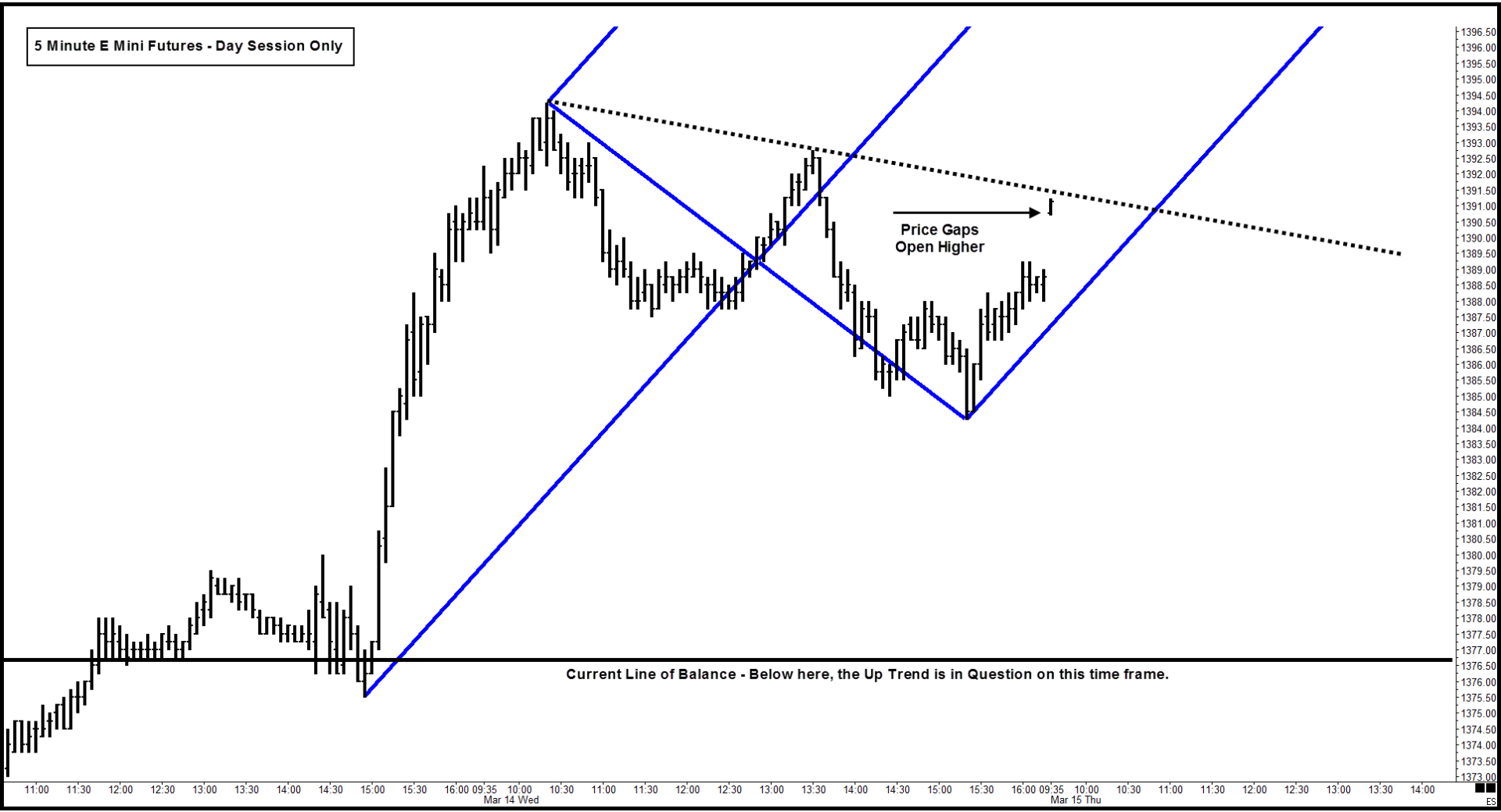
Now we have up sloping and down sloping Median Lines. This also gives us Lines of Opposing Force and where these Lines cross, Energy Points. Energy Points often act as Price magnets - and Price will either turn or accelerate when reaching them.

Let's summarize what we know:

- Price has met its minimum downside target: The Median Line.
- Price broke below the Multi-Pivot Line but has now broken back above the Multi-Pivot Line.
- Price has broken above some Prior Minor Swing Highs.
- Price has now broken above and closed the day above the down sloping Upper Parallel.
- The Up Sloping Median Line is showing us a continuing Up Sloping Probable Path of Price.

Time to learn what kind of trader you are!

5 Minute E Mini Futures - Day Session Only



Current Line of Balance - Below here, the Up Trend is in Question on this time frame.

This is 30 seconds after the opening of this five minute bar. 13

Let's talk about what you do now as a trader!

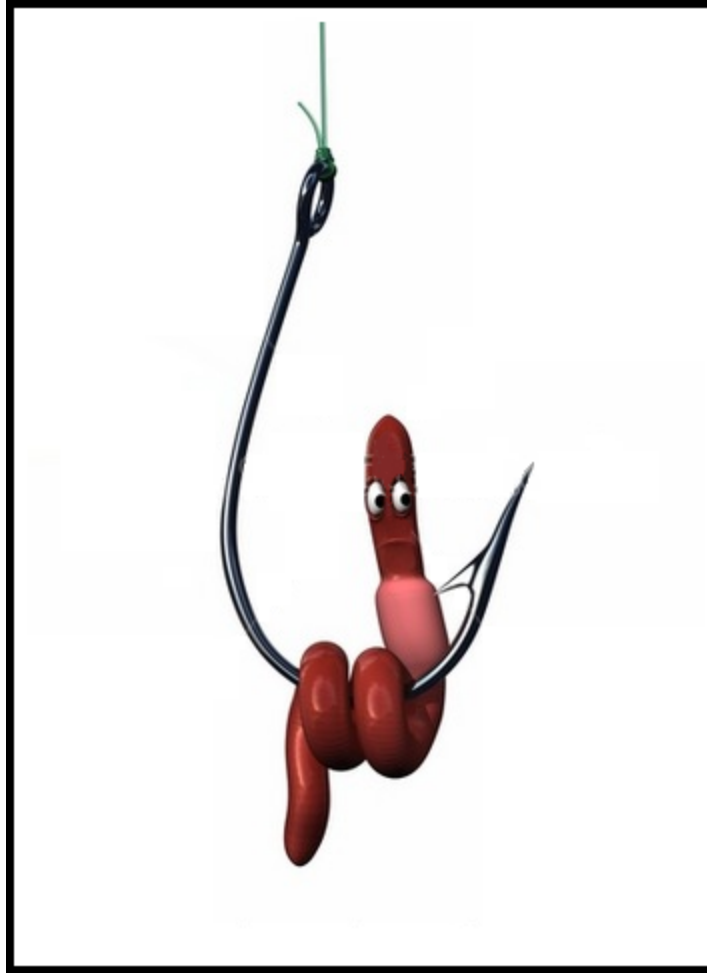
Most retail traders 'chase' price movement. They have been watching their screen diligently, waiting for the official opening. If price gaps open higher, it is a sign of strength, a continuation of the strength of the previous day's close. If they aren't long on the opening, they soon will be long. Their long term success depends on how they manage these urges, manage their intuition that the this market is going higher.

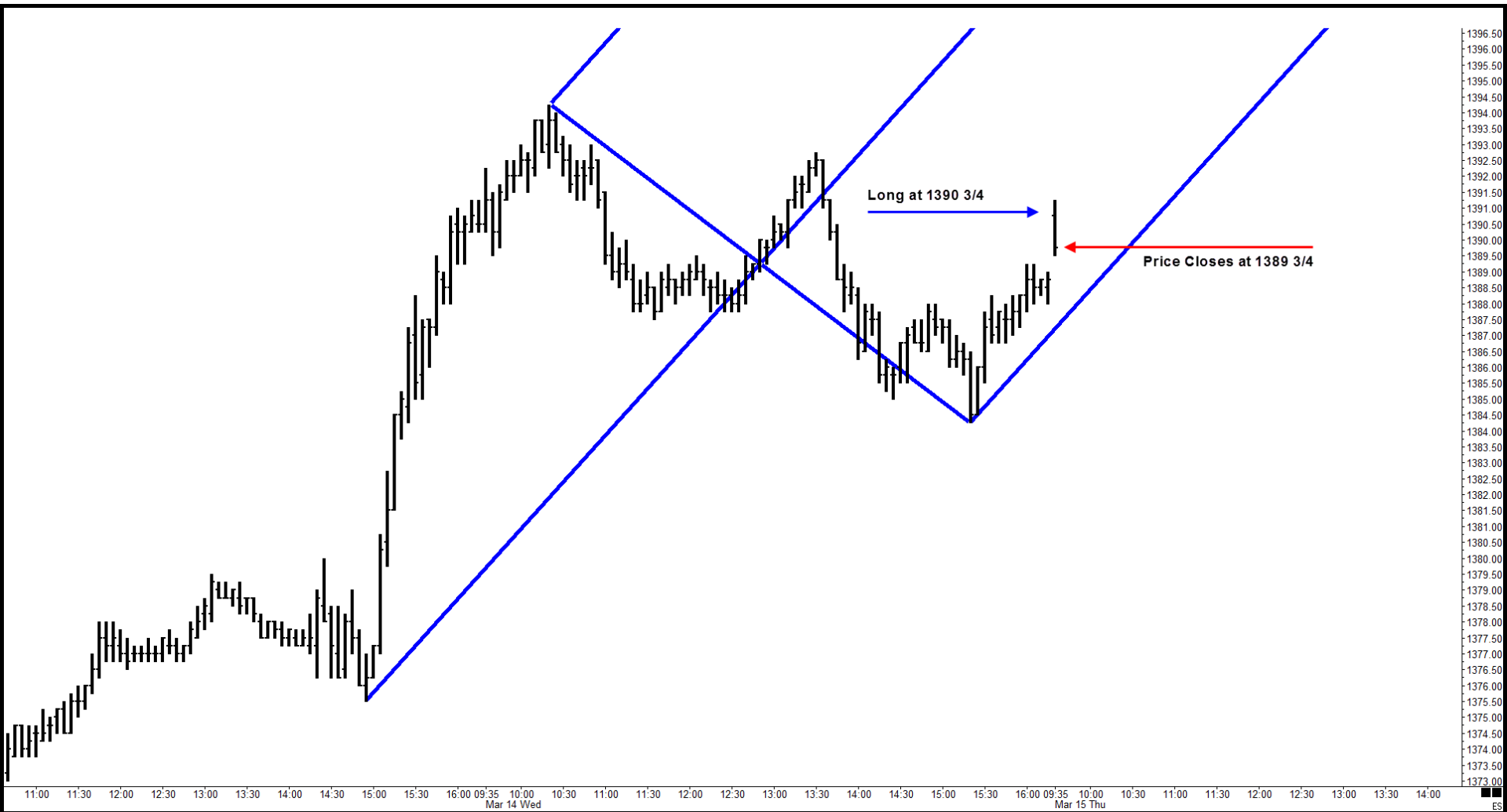
Larger professional traders, known as 'Whales' in the business, know that most retail traders are likely to buy this market if Price opens higher. It is in their interest for the market to gap open higher. They know that if the market gaps open higher, most retail traders will be unable to show any patience – their urge to get long will override any trading discipline they had.

This is when you find out if you are guppy food for the Whales or whether you have started to manage your self .

When Whales Gap Open a market like this, we call it the 'Twitching Worm.'

What are YOU doing 30 seconds after this opening? Swallowing the worm?





This is the close of this five minute bar.

Did you grab the Twitching Worm dangled by the Whales?

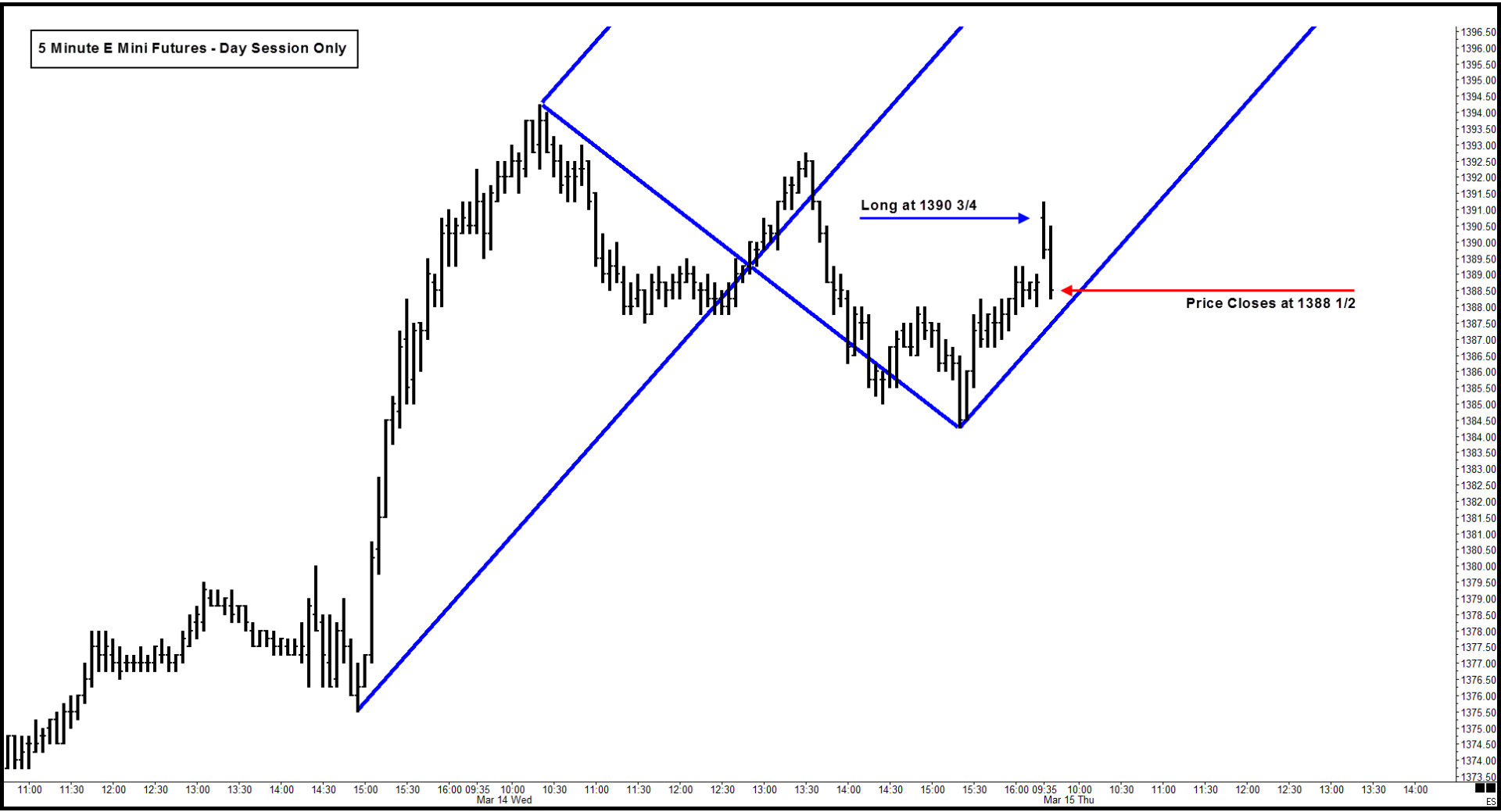
If you chased price on the opening or during those first thirty seconds of frenzied ticks, you are already sitting on a one point loss.

The trend hasn't changed. That may have been a good place to buy. But did you plan your trade or reach out and grab the twitching worm because you could not hold your instincts in check?

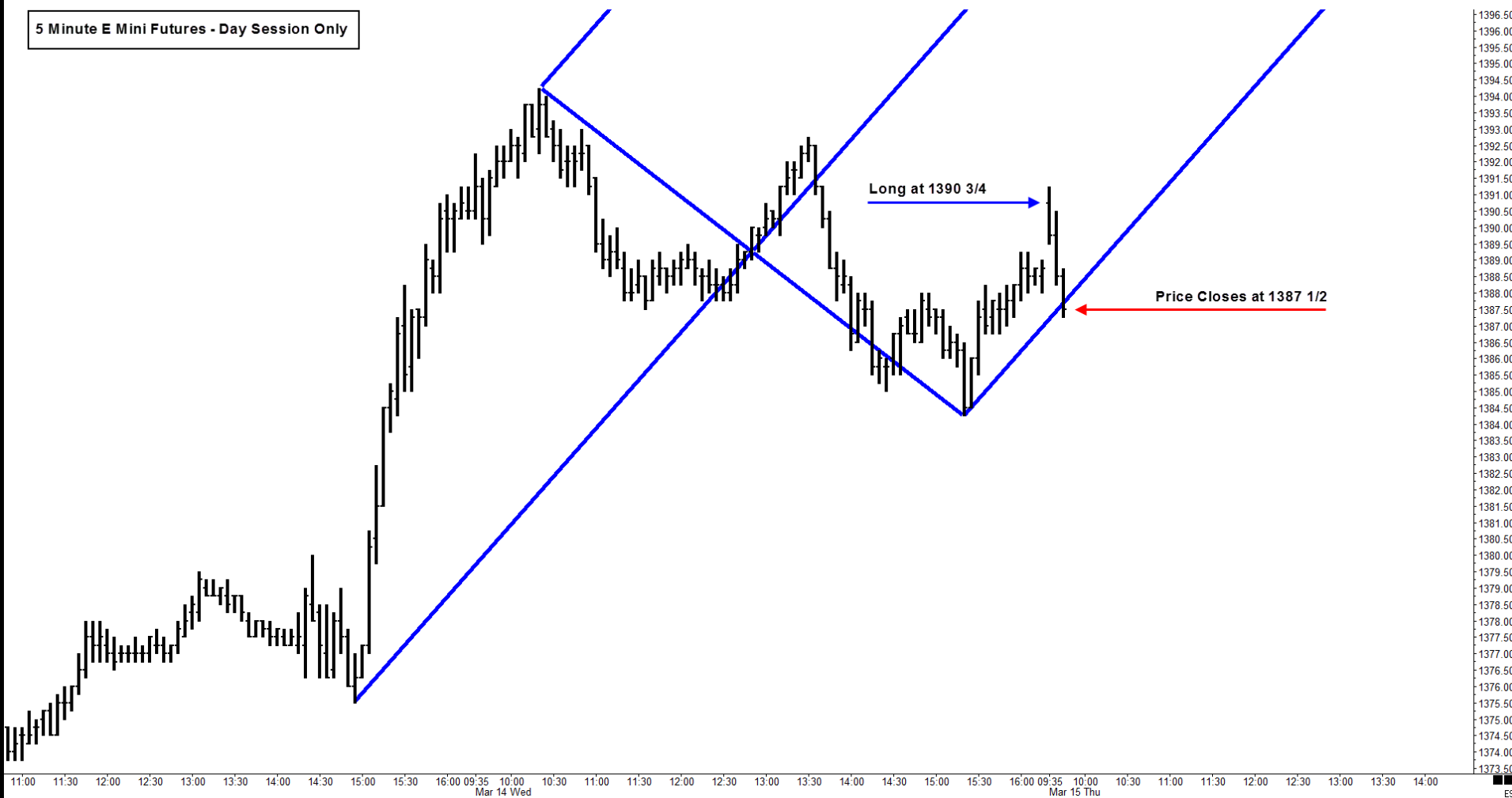
What is your maximum stop loss on a five minute E Mini S&P futures trade? You should have a maximum amount written down. You should never enter a trade without entering a protective stop loss order at the same time – which is pretty difficult to do when you enter 'at the market'. Your entries, stop loss orders, profit targets, your risk reward calculated and the type of trade you are expecting this to turn into should all be planned and written down before any orders are placed into the market.

Let's see how 'chasing the twitching worm' played out in this market.

5 Minute E Mini Futures - Day Session Only



5 Minute E Mini Futures - Day Session Only



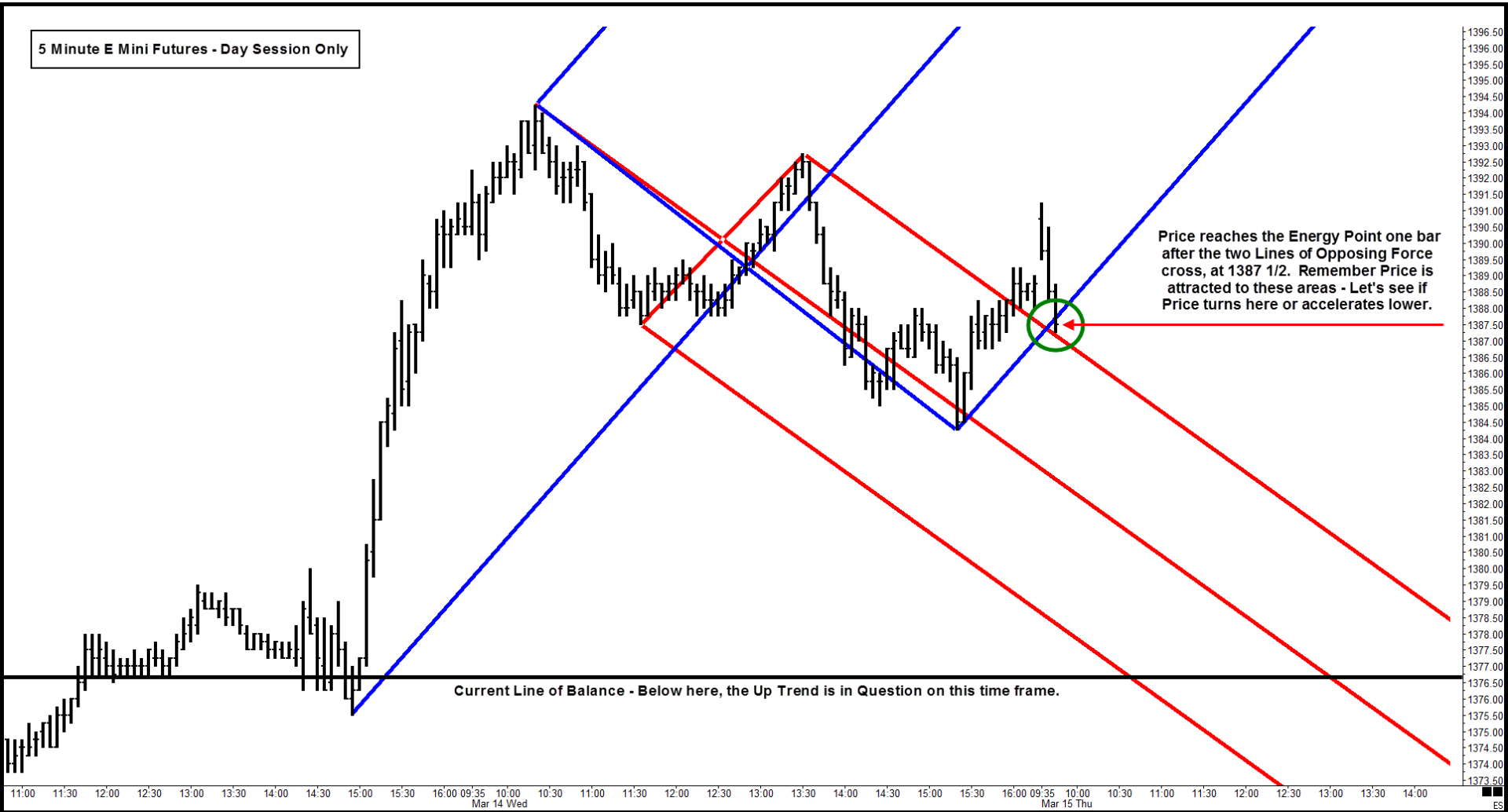
Did you grab the Twitching Worm dangled by the Whales?

If you chased price on the opening or during those first thirty seconds of frenzied ticks, you are now either stopped out or are sitting on a three and $\frac{1}{4}$ point loss.

The trend hasn't changed. But that wasn't a good place to buy on a five minute E Mini S&P chart. Did you plan your trade or reach out and grab the twitching worm because you could not hold your instincts in check?

Didn't we have a way to measure the likely pullback in this up trending market? In fact, didn't we have an area identified by Lines of Opposing Force? How is that working?

5 Minute E Mini Futures - Day Session Only

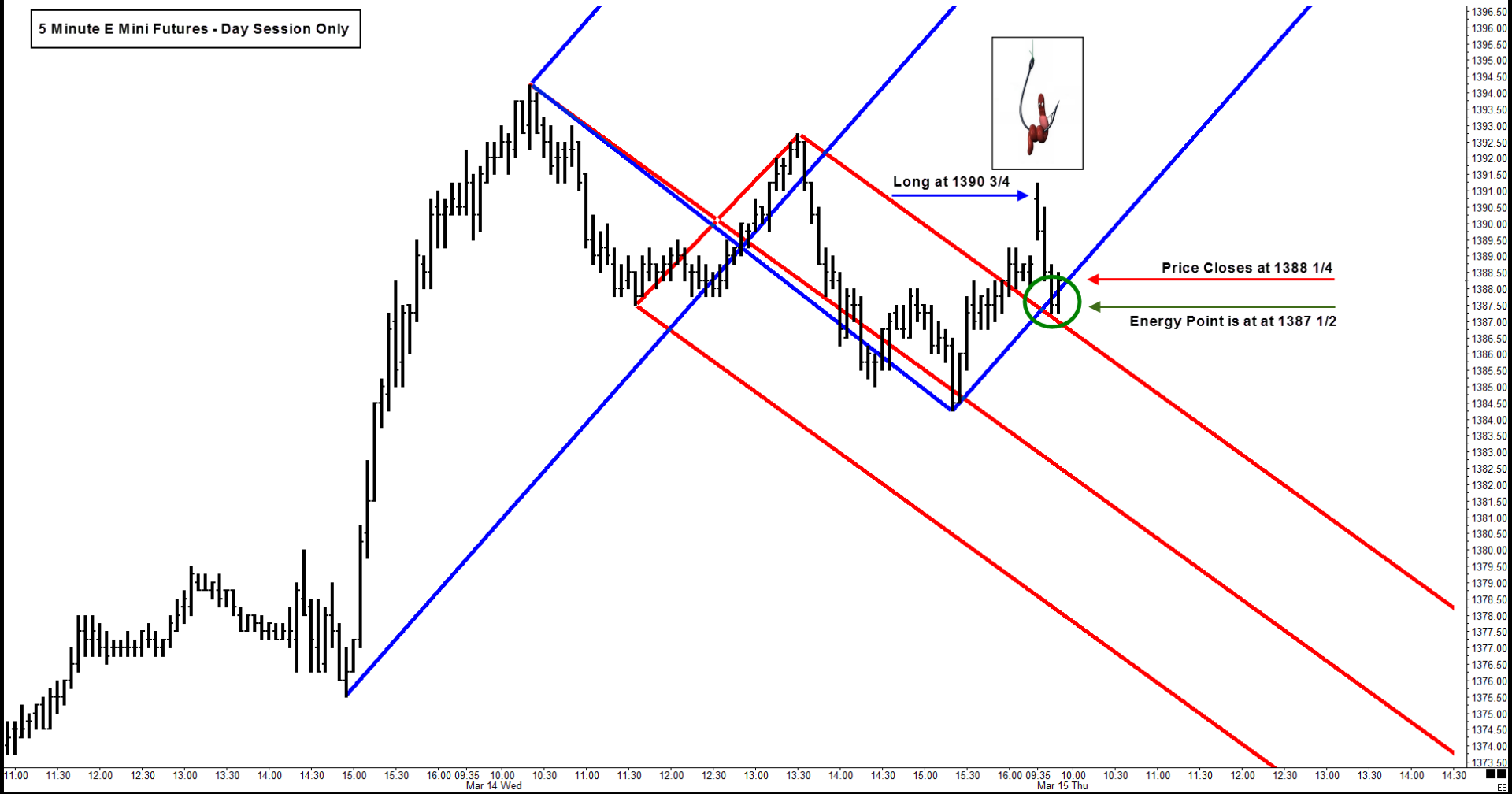


Before we go any further, do you think it is wise to grab the twitching worm or take the time to plan out your trade?

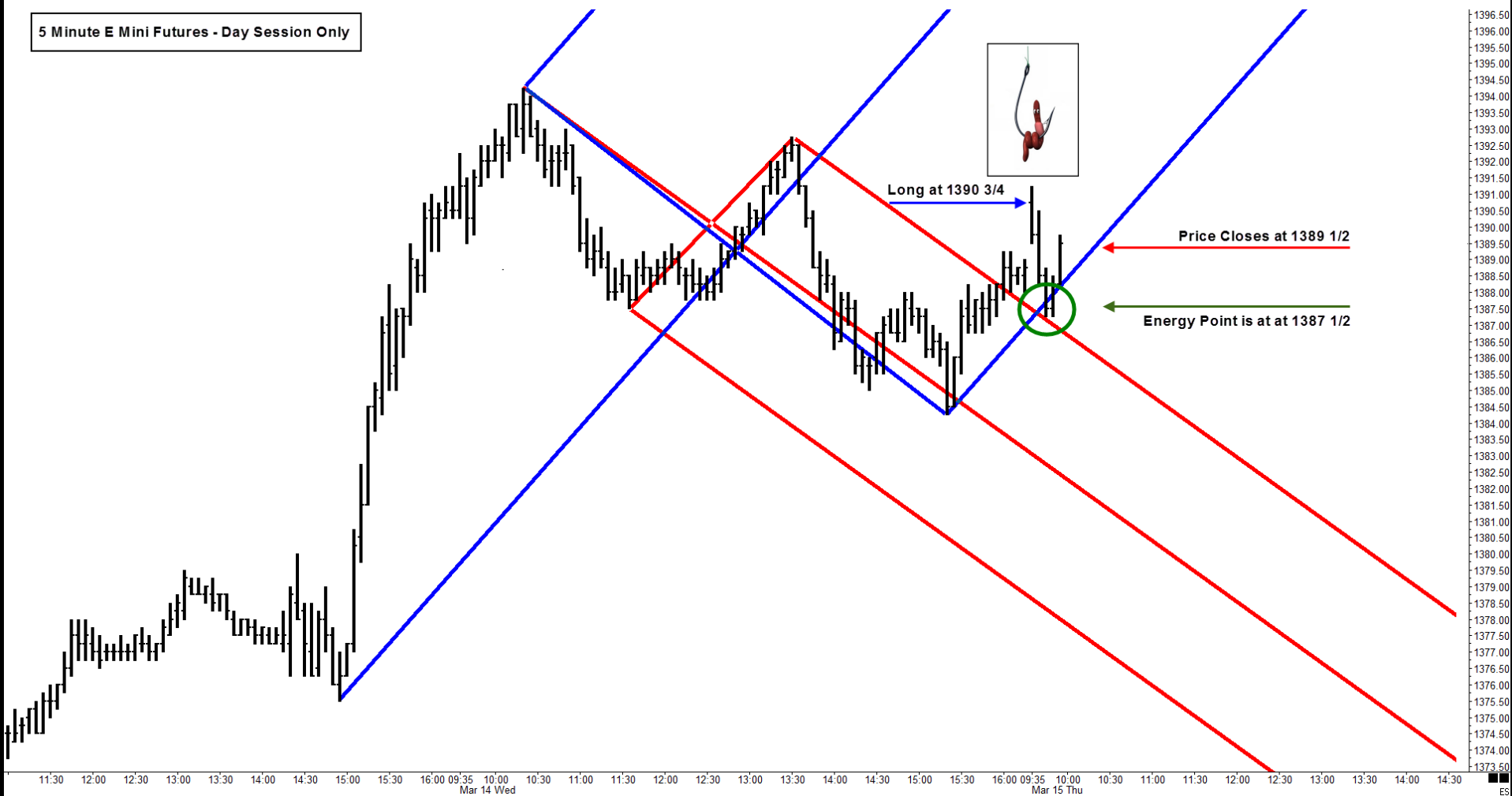
If you were using any type of consistent money management and using decent risk reward ratios and grabbed at the twitching worm on the opening, you were stopped out for a loss on an opening likely set up by Large Professional Traders [Whales] that used YOUR intuitions [emotions] against you for a two to three and $\frac{1}{4}$ point loss.

Let's watch how price played out and IF planning a trade at areas where you could expect Price to pull back to would have worked better.

5 Minute E Mini Futures - Day Session Only



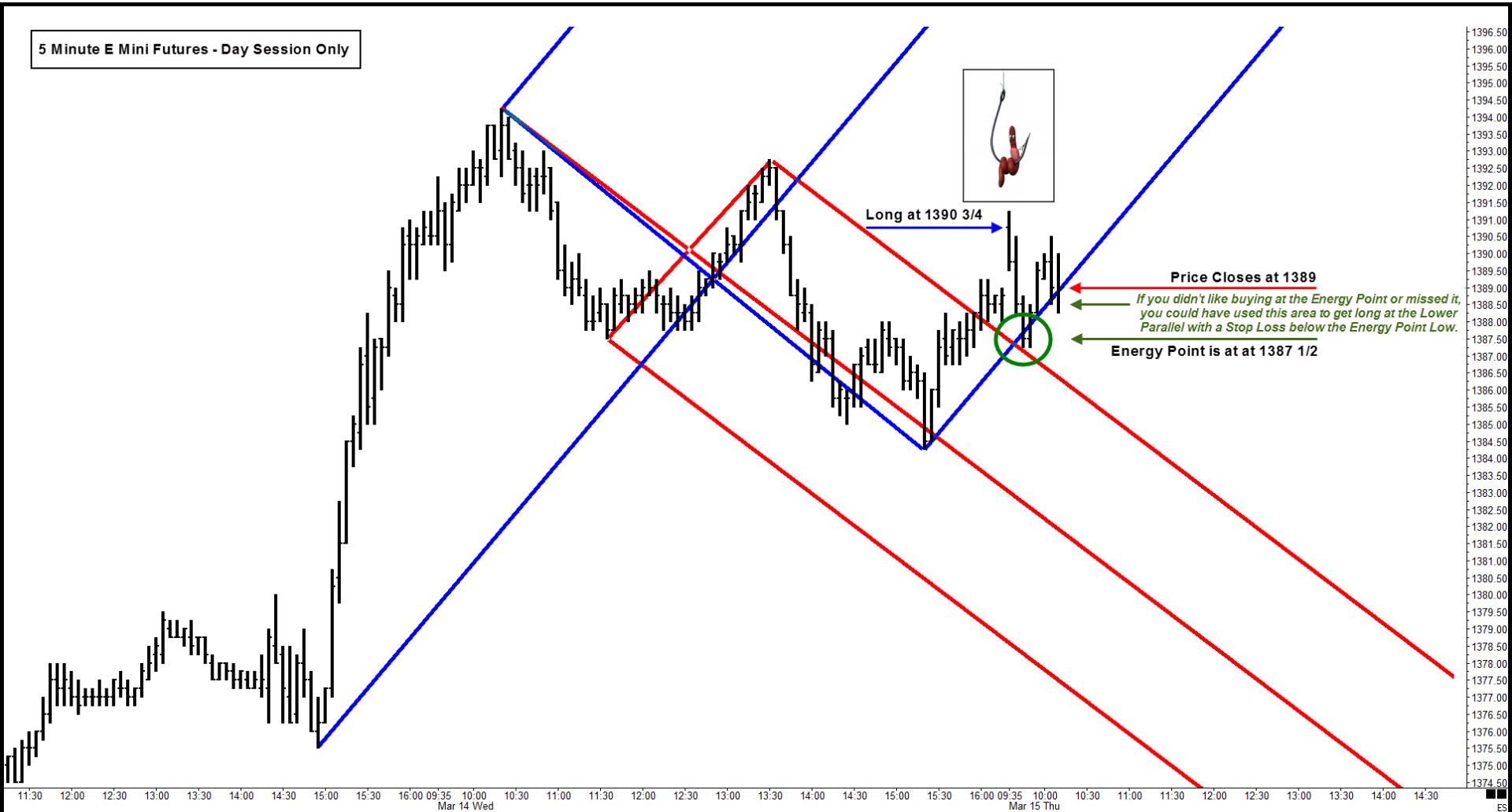
5 Minute E Mini Futures - Day Session Only



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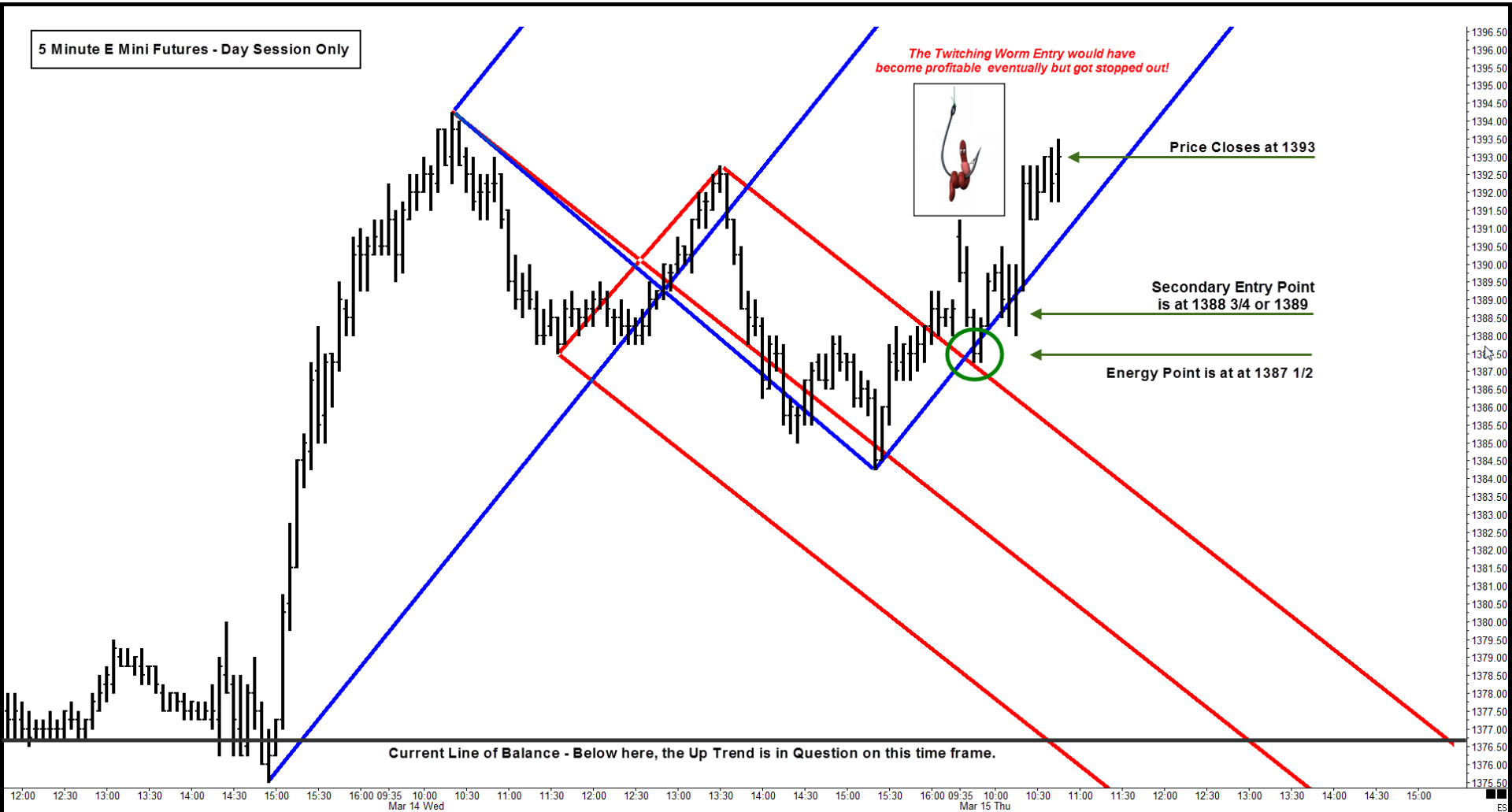
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5 Minute E Mini Futures - Day Session Only



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Looking back, was it wise to grab the twitching worm or take the time to plan out your trade?

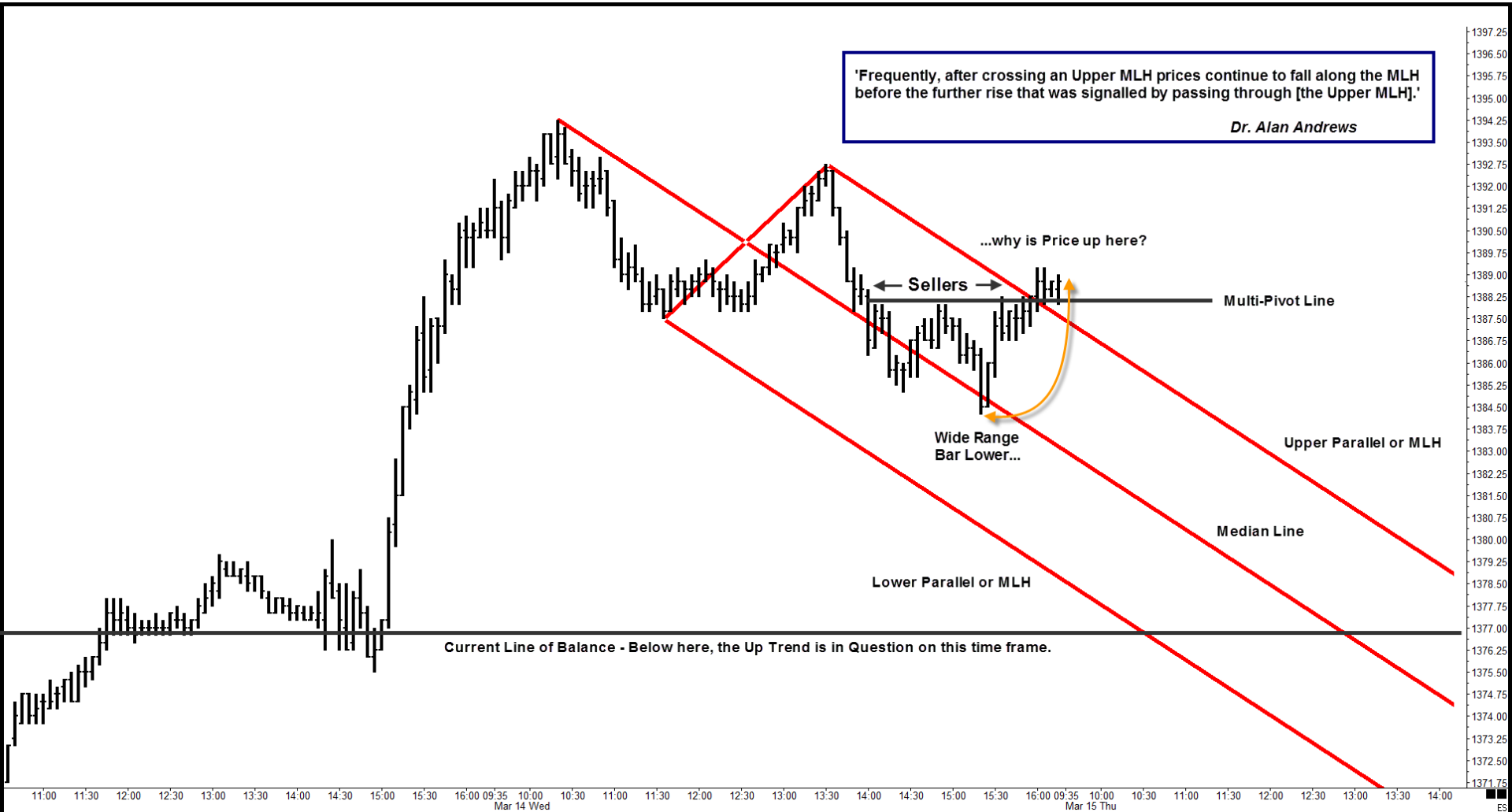
We're going to take another at this trade, using slightly different techniques. And you'll get to see how it played out through the end of the day. If you grabbed the twitching worm on the opening, you were stopped out for a loss on an opening likely set up by Large Professional Traders [Whales] that used YOUR intuitions [emotions] against you for a two to three and $\frac{1}{4}$ point loss. Professional Traders took advantage of Price imbalances – and that's what caused the Higher Opening Gap in this market: Too Many traders were bullish and wanted to get long at the opening.

But with a little planning, using simple tools that are actual leading indicators, as opposed to lagging indicators, and managing your emotions, it would have been very easy to get long at 1387 $\frac{1}{2}$ or 1389 with a very manageable stop [In fact, this was a trade my partner, Shane, took live and we discussed his trade live in the session the following day].

I know many of you cannot resist grabbing the Twitching Worm – but if you want to become more consistently profitable, you will have to learn to manage your urges.

Let's look at this same trade, using insight from Dr. Andrews' original course, and see if we can shed further light. Maybe approaching this same trade with this additional knowledge will make it easier to see why chasing Price is generally a losing proposition.





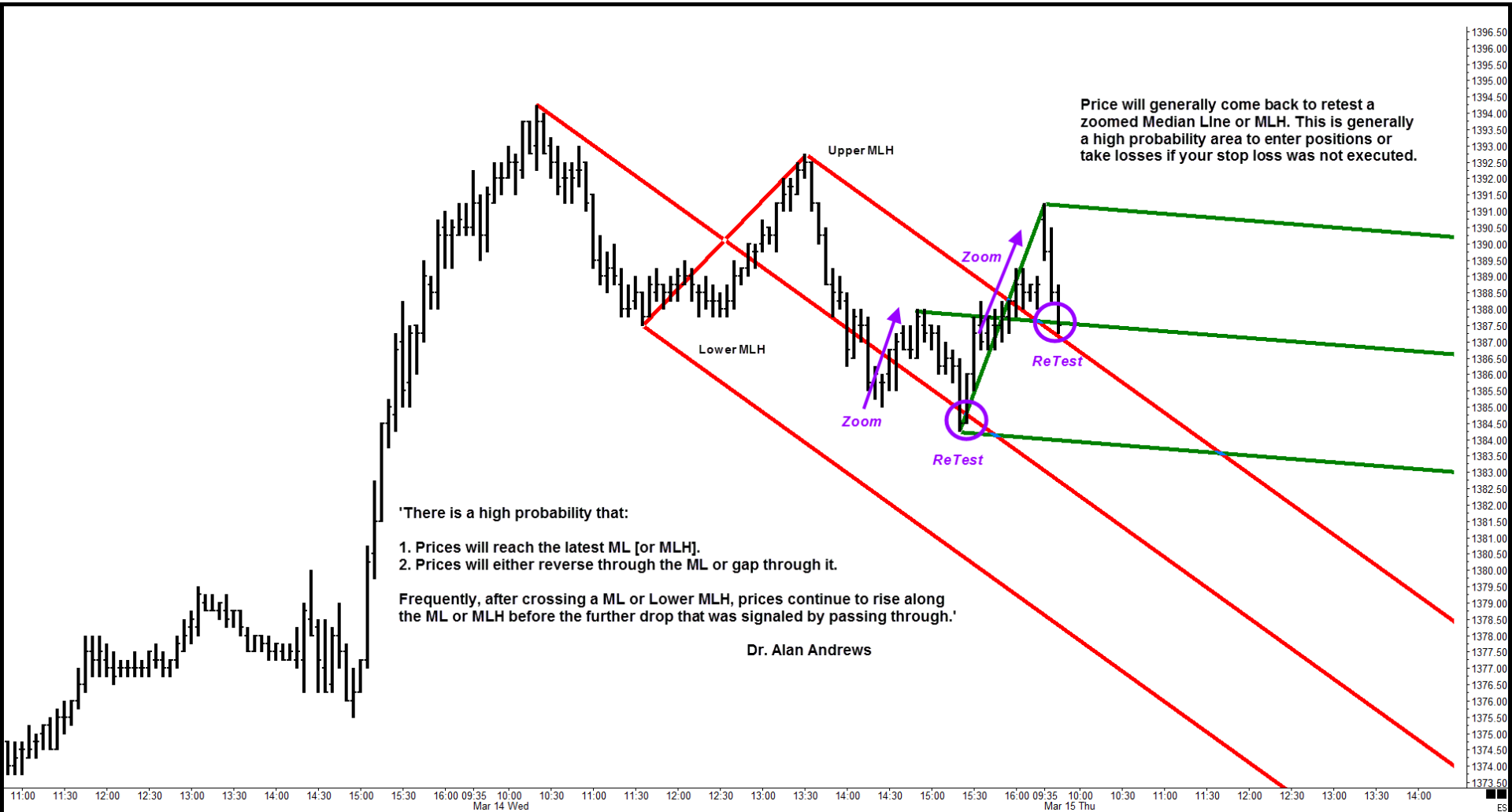


Price Gaps
Open Higher

Traders get impatient and
CHASE Price higher on the opening.

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Price will generally come back to retest a zoomed Median Line or MLH. This is generally a high probability area to enter positions or take losses if your stop loss was not executed.

'There is a high probability that:

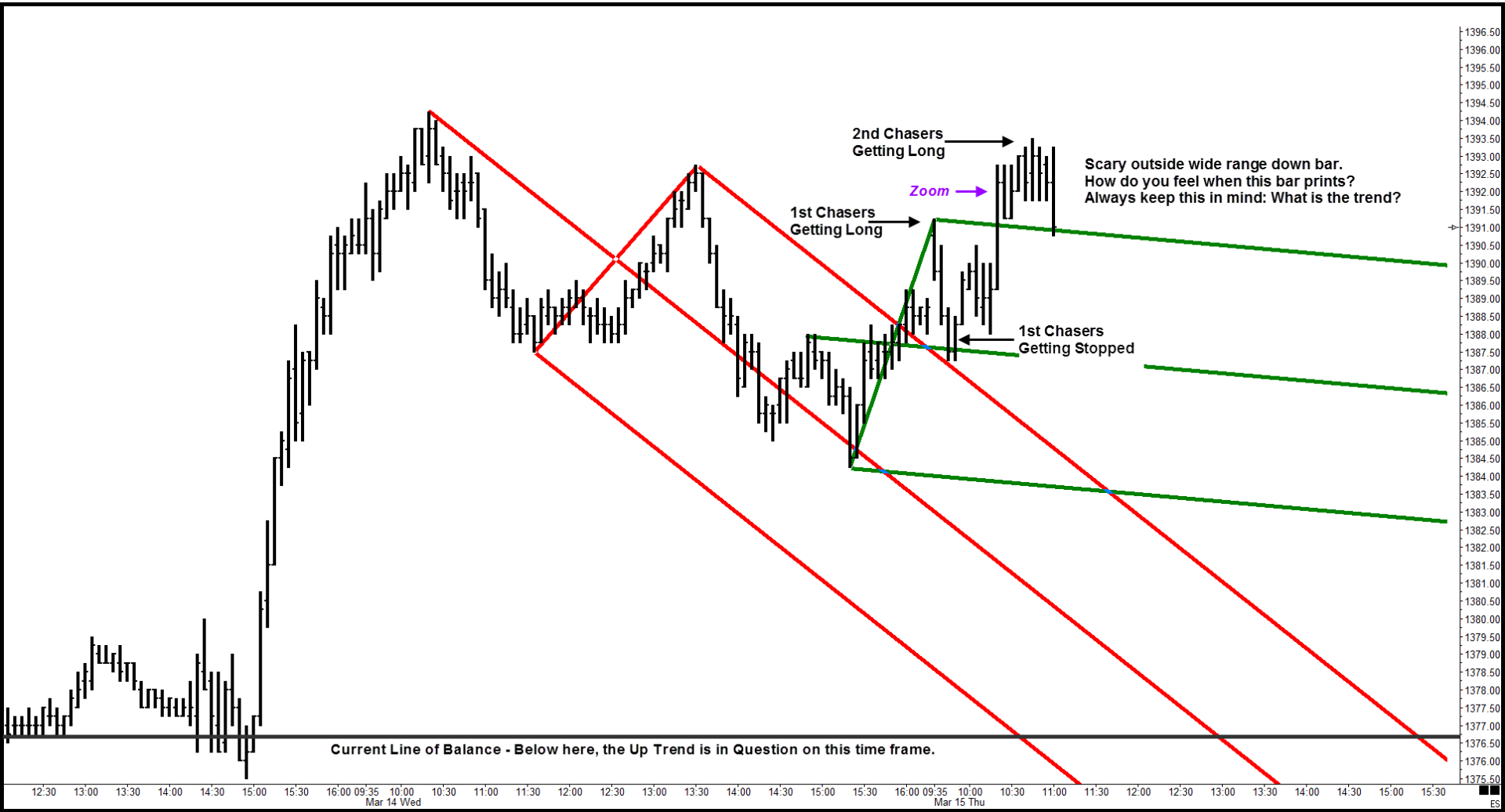
1. Prices will reach the latest ML [or MLH].
2. Prices will either reverse through the ML or gap through it.

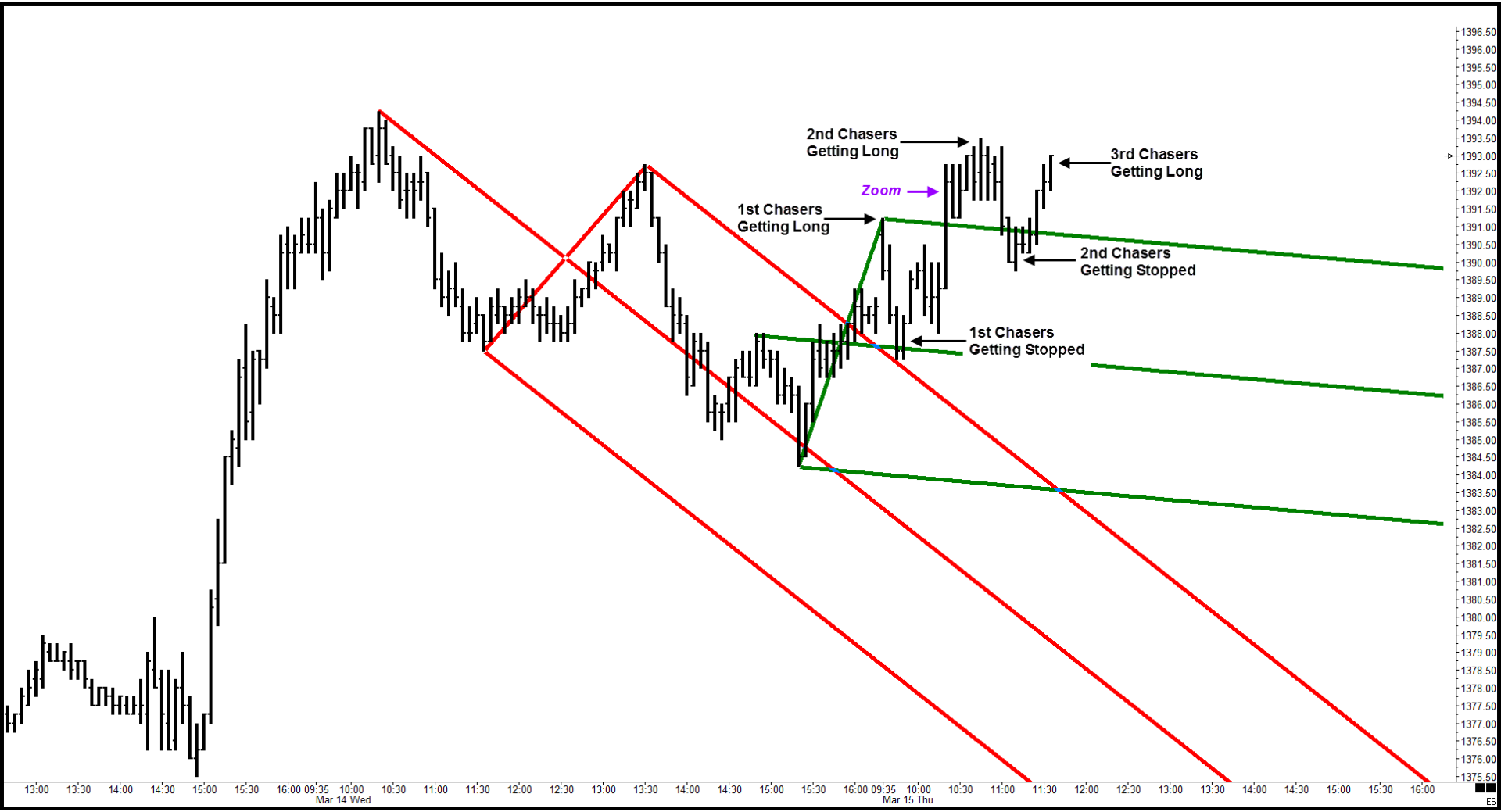
Frequently, after crossing a ML or Lower MLH, prices continue to rise along the ML or MLH before the further drop that was signaled by passing through.'

Dr. Alan Andrews

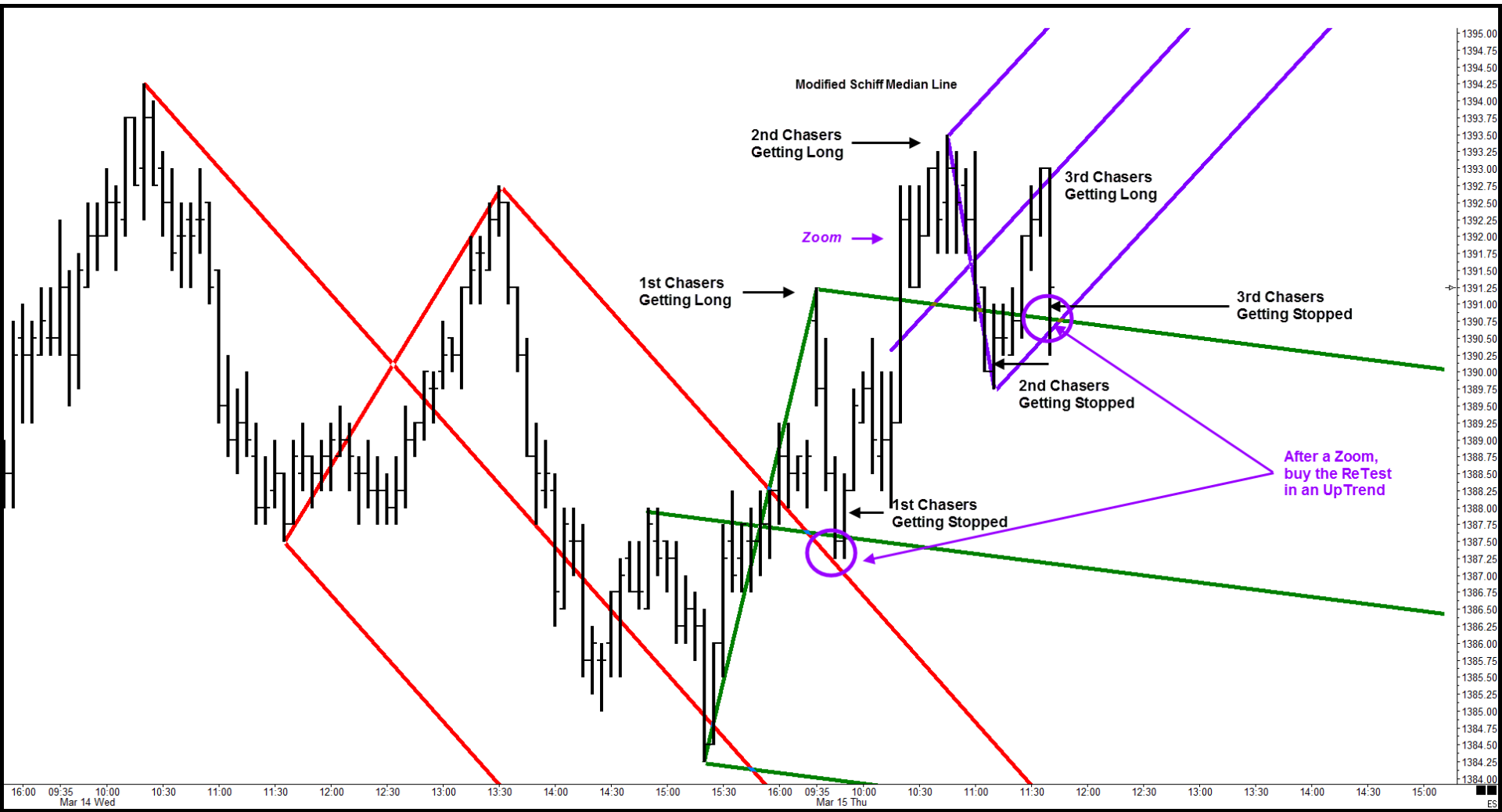
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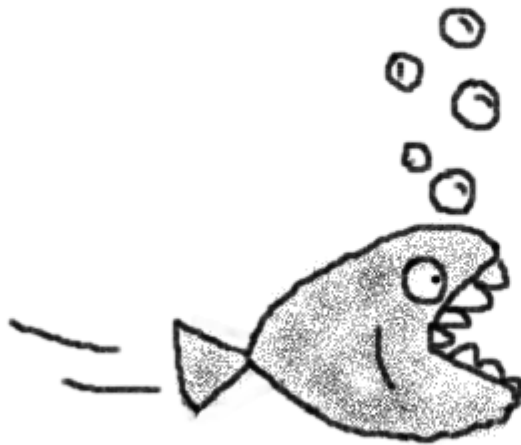


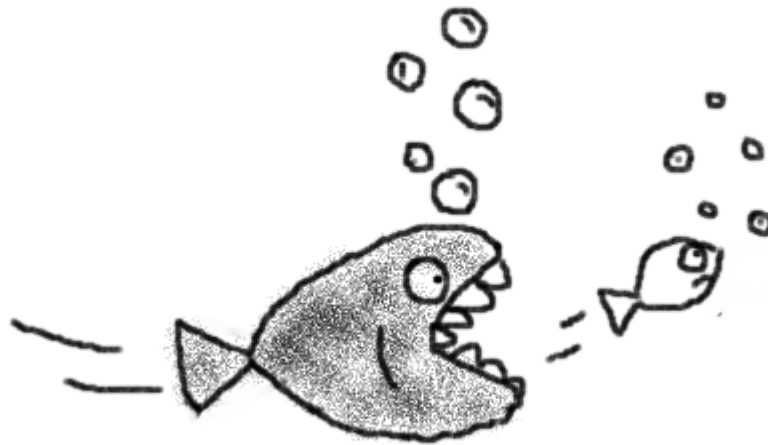
Don't the Chasers ever learn?

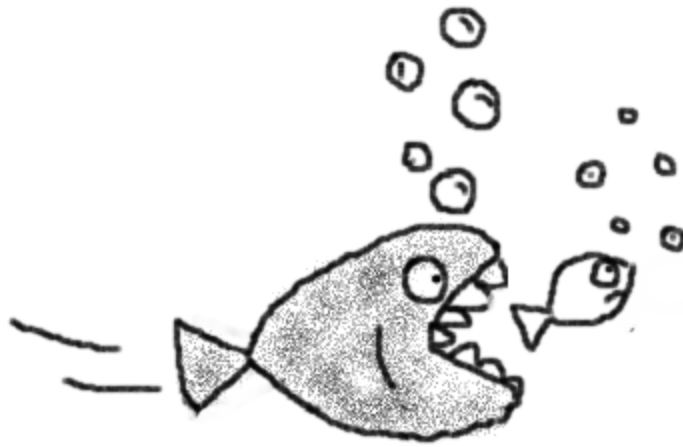
It's the nature of the market. We call it 'Minor into Major'. This is part of the Language of Price.

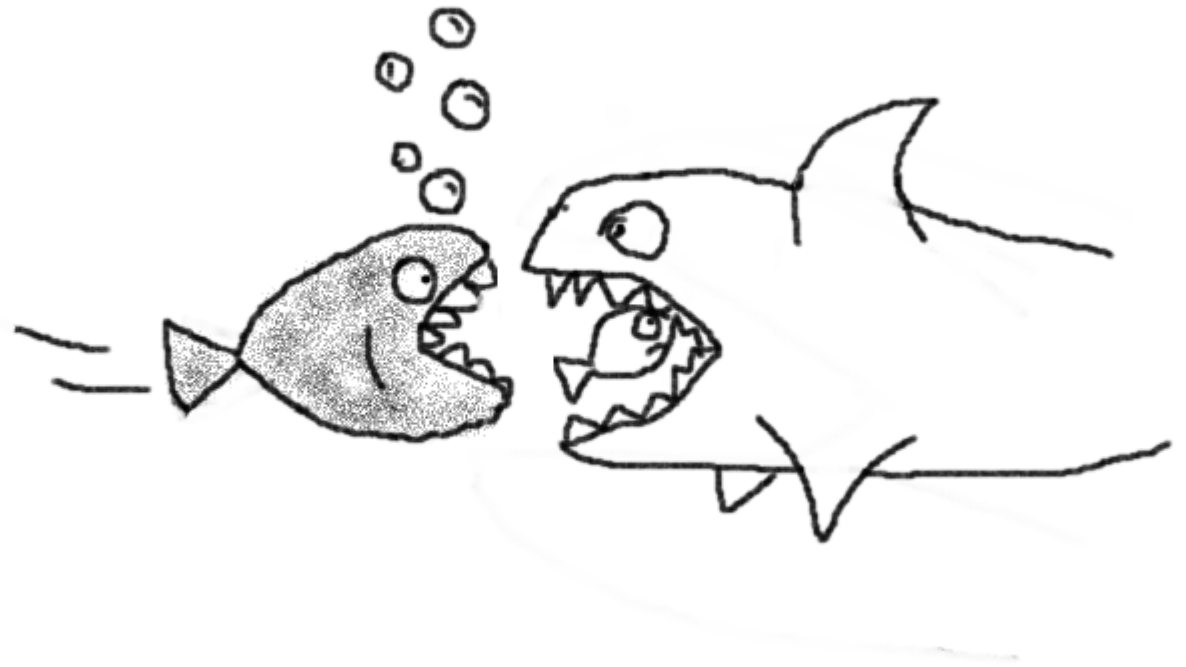
When the chasers are jumping in, price is running out of directional energy. Then Price pulls back – generally enough to cause the Chasers to get stopped out. But their stop levels are usually where the Major Trend reasserts its pull, and Directional Energy is restored. As the minor pullback ends, the Major Trend begins again.

If you only keep your eyes on the minor, you are likely to run into the Major. Here is my 11 year old daughter's take on 'minor into Major'.









The Truth about most Retail Traders:

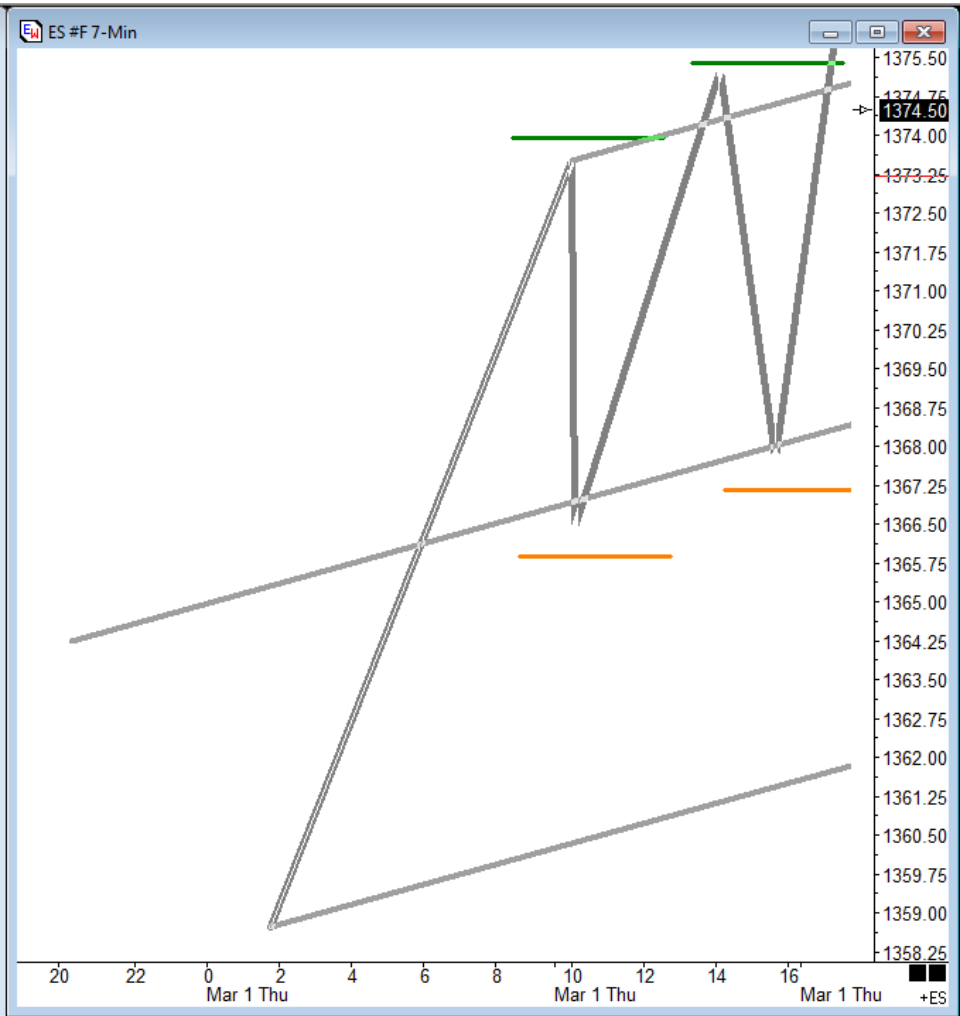
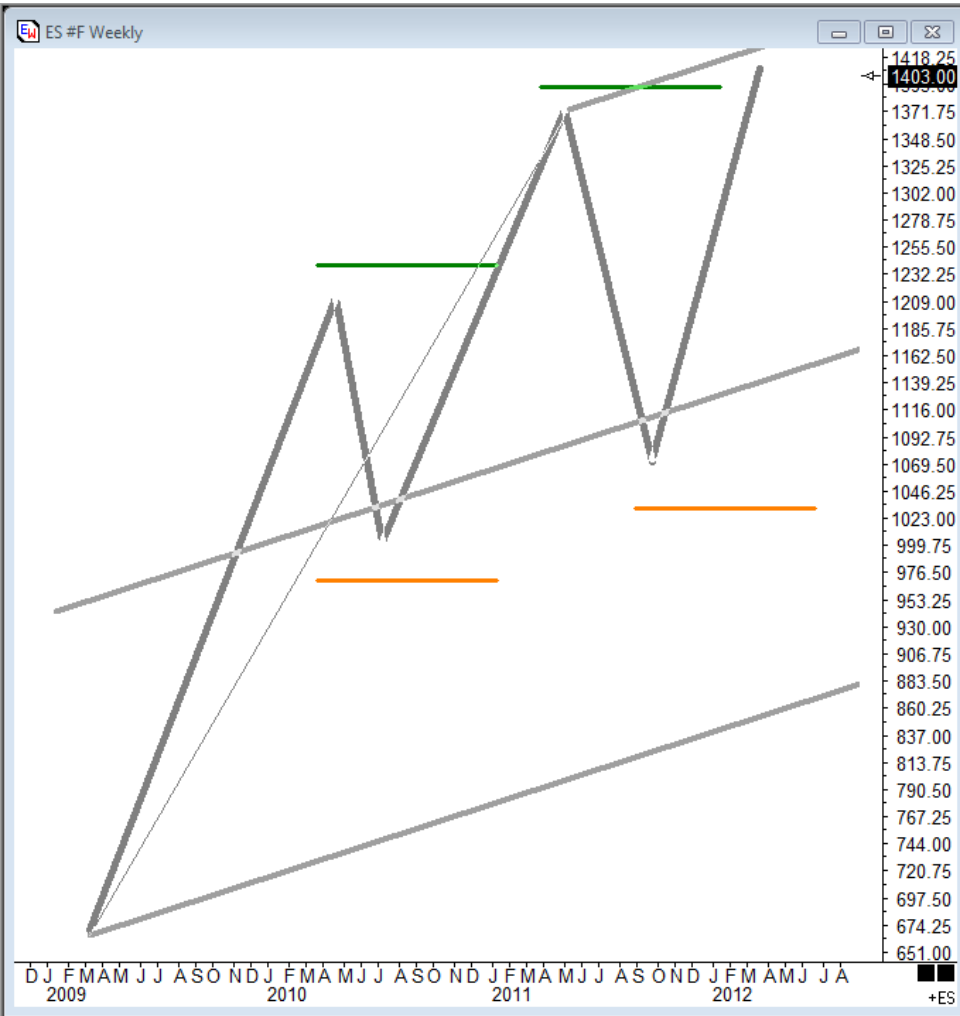
- They don't take the time to plan their trade before putting in orders.
- Too many of them enter 'at the market', when their intuition tells them Price is getting away from them!
- Only after they enter 'at the market' do they do any trade analysis, if they do any at all!
- They are often right about the direction of the market but often get stopped out before the market makes the move they thought it was going to make.
- The few times they are right only reinforces this type of 'shoot from the hip' behavior.
- They have no idea that the larger players, the Whales, take advantage of these tendencies and like a Smaller Fish chasing a Guppy, they never see the Whale right in front of them.

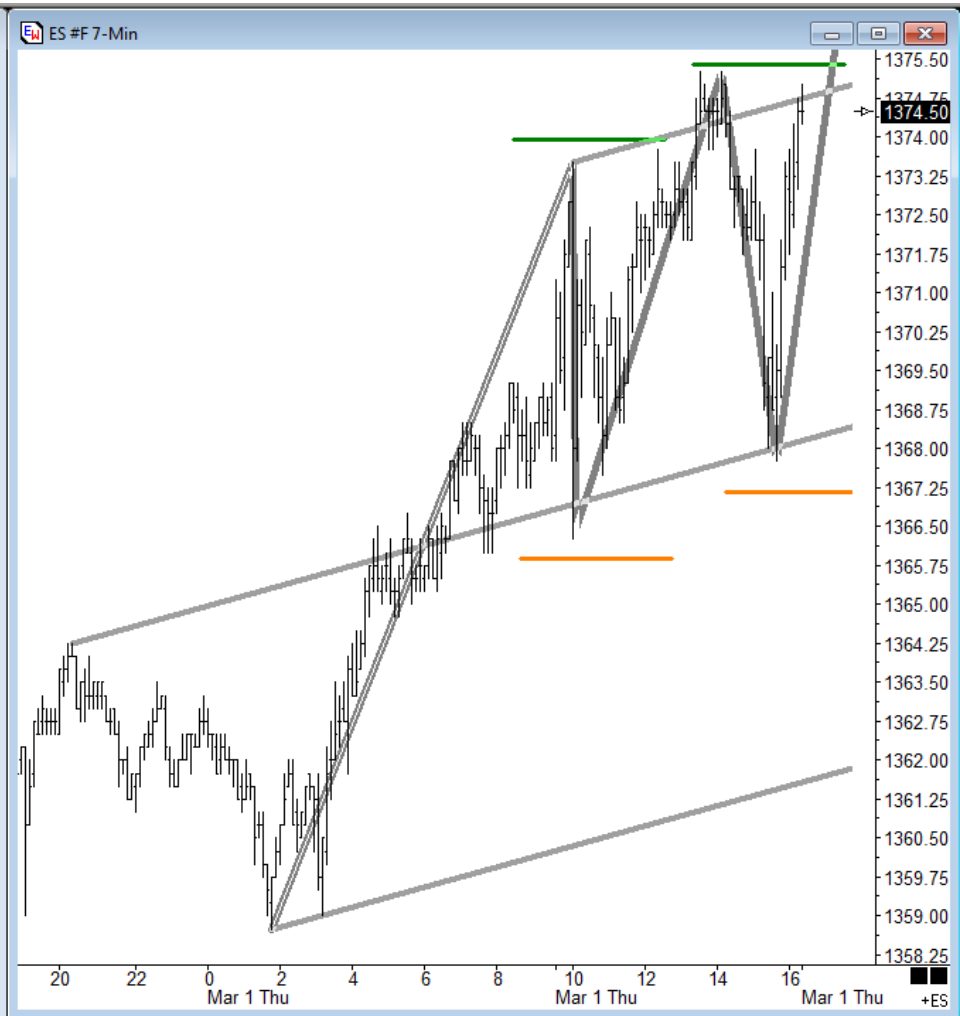
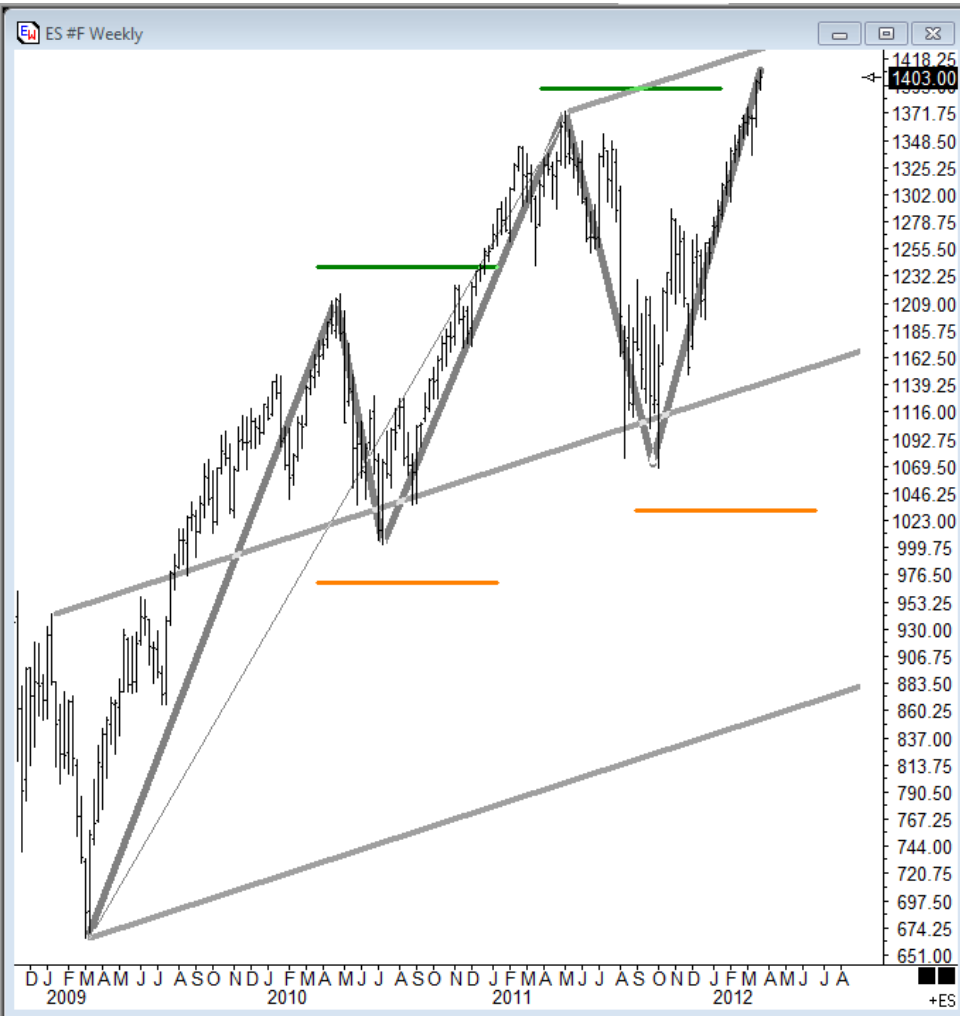
What kind of trader are you?

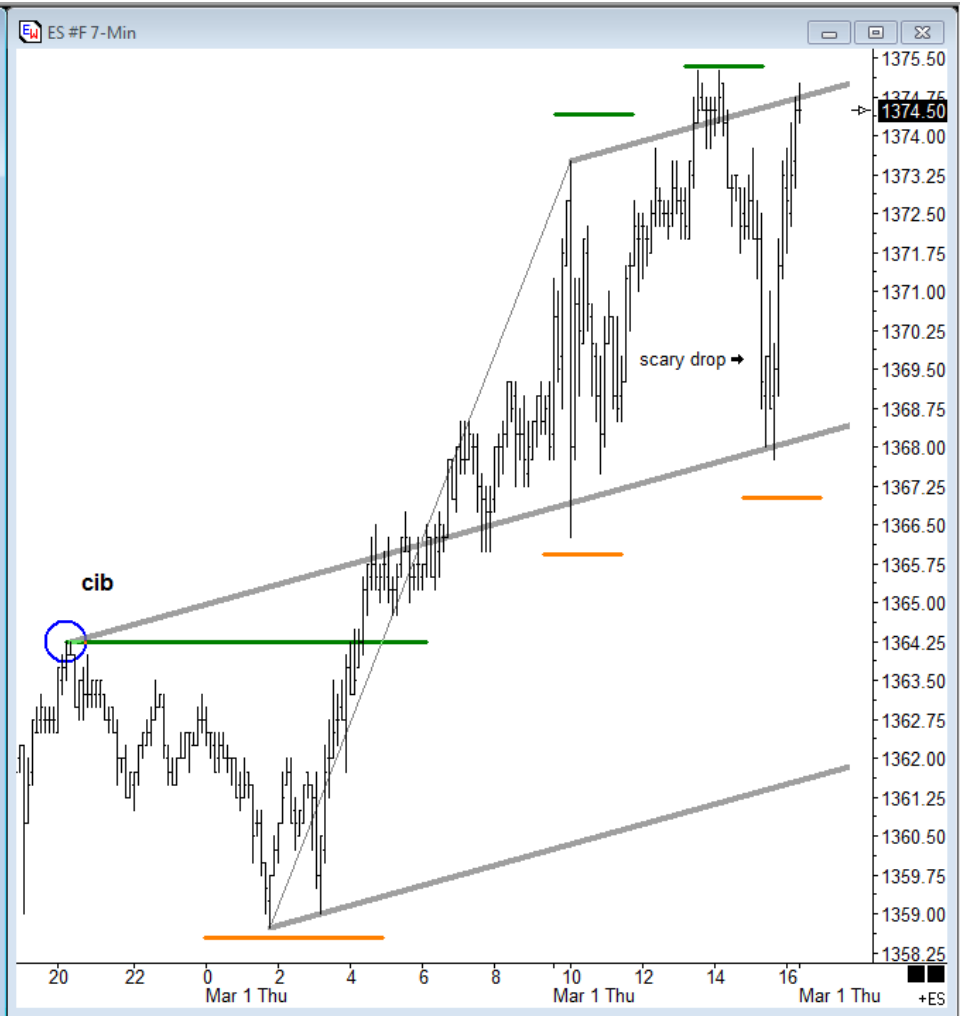
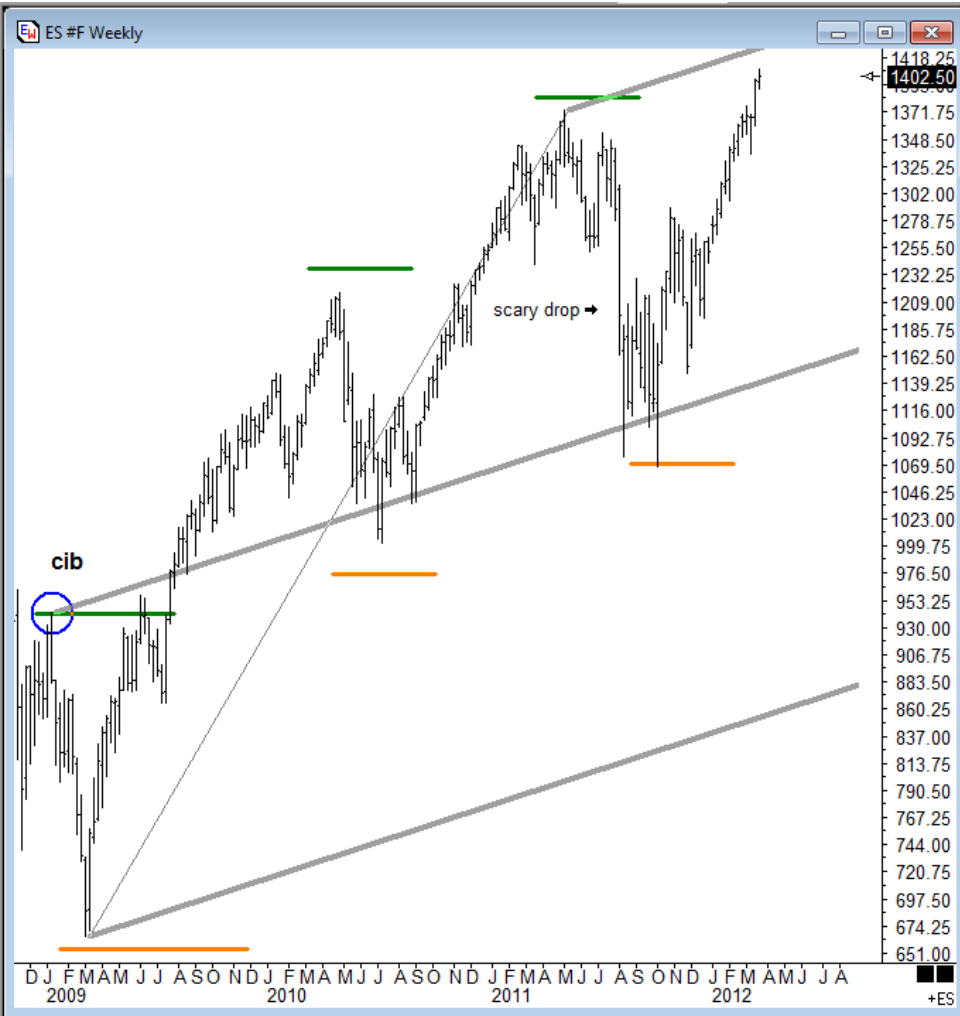
Same instrument, different time frames. Same behavior.







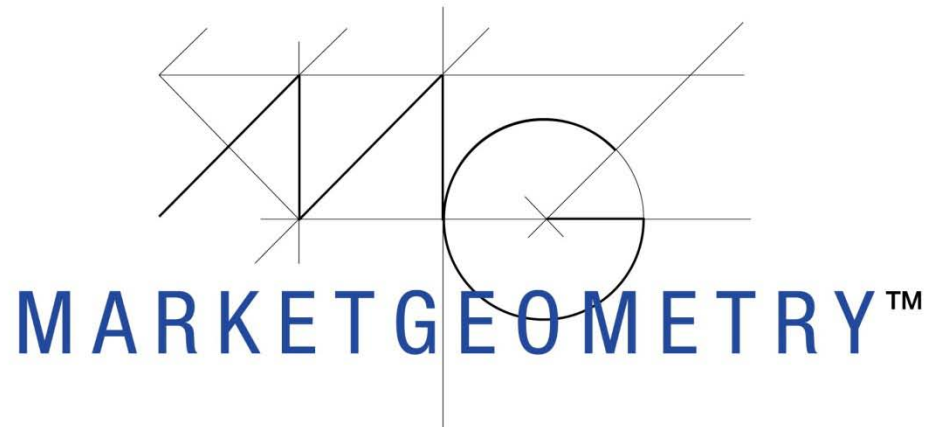






Same playbook for Aug 2010 and Aug 2011

1. High drama and market crashing
2. Right into the next higher low in a trend
3. Major volatility at those lows and lots of bad news
4. Then smooth grinding momentum out of it
5. Price gets one small bump back down in 2010 at previous Highs
6. Then more smooth grinding momentum
7. We are currently at the previous highs and getting a bump - Currently looking at the Wide Range Bar for where that bump stalls. Will the market play out the same way?



Thank You for taking the time to attend this session. Questions?

“Master your tools, master yourself.”

®Timothy Morge