

Books & Trades #213

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Risk Management ... The End of the Bull Market? ... Meeting in New York ... Specials

Dear Trader,

A good trading system delivers greater profits than losses over a period of time, but even the most carefully designed system doesn't guarantee success in every trade. No system can assure you of never having a losing trade or even a series of losing trades.

A system is a plan, but as Helmuth von Moltke, a 19th-century German field-marshal, put it: "No plan survives contact with the enemy." The US boxer Mike Tyson, quoted by *The Economist*, put it more bluntly: "Everyone has a plan 'til they get punched in the mouth." This is why risk control must be an essential part of every trading system.

The inability to manage losses is one of the worst pitfalls in trading. Beginners freeze like deer in the headlights while a deepening loss wipes out profits of many good trades. It's a general human tendency to take profits quickly but wait for losing trades to come back to even. By the time the despairing loser gives up hope and closes his trade with a terrible loss, his account is badly and sometimes irreparably damaged.

To be a successful trader, you need to learn risk management rules and always apply them. If trading is a high-wire act, then safety demands stringing a net underneath that wire. If we slip, the net will save us from smashing into the floor. The only thing better than a safety net is two safety nets: if one doesn't catch us as we fall, the other will.

Markets can snuff out an account with a single horrible loss that effectively takes a person out of the game, like a shark bite. Markets can also kill with a series of bites, none of them lethal but combined they strip an account to the bone, like a pack of piranhas. The two pillars of money management are the 2% and 6% Rules. The 2% Rule will save your account from shark bites and the 6% Rule from piranhas. We will discuss them in the future issues of this newsletter.



Click [here](#) to enlarge this chart (only when you're online)

Our recent newsletters nailed down tradable bottoms in stocks and gold before they rallied. Gold is currently reacting, a normal behavior in any bull market. Stocks, as you can see in the chart above, appear in the midst of a major reversal.

The weekly chart of NH-NL, stock market's best leading indicator, shows a nasty bearish divergence. Its latest bull market confirmation (weekly NHNL rising above +2,500) flashed in December and expired at the end of March, leaving the field for the bears.

Weekly MACD-Histogram has traced a massive bearish divergence A-C. Compare the power of bulls at peaks A and C (separated by a bottom B, 'breaking the back of the bull'). Last Friday the S&P rallied to a new lifetime high, couldn't hold and collapsed, leaving behind a 'false upside breakout.' I consider this combo – a divergence with a false breakout – the strongest signal in technical analysis.

The bull market is 5 years old. It has trained everyone and their grandmother one lesson – 'buy dips!' These charts indicate that a better course of action going forward might be 'short rallies.'

If any of the terminology above is new or unclear to you, there are three very inexpensive resources on our website: e-books on the New High – New Low Index, on Divergences, and a paperback The New Sell & Sell Short. These letters, sent out approximately once a month, work for sharing general ideas. For up to date precision timing, stock trading ideas, and much more take a Trial membership of SpikeTrade.com.

Traders' Education

Please visit [our website](#) for more information on these events

ONLINE: April 9 & 16 at 6pm ET - Webinar – "Current markets with Dr Elder." [Enter](#) Dr. Elder's trading room from your own computer and watch him review stocks and futures. Send your picks to him and ask him

to review them. **An ongoing bonus for all webinar participants – receive an email each weekend giving you the results of bullish and bearish scans of the S&P500.**

NEW YORK: MAY 9 - 10, 2014 SpikeTrade Reunion– no Traders' Camp is planned for 2014, but you're welcome to join this unique event.

*Best wishes for successful trading from all of us at elder.com
Dr. Alexander Elder & staff*