

Tips for Traders | 7/7/2008

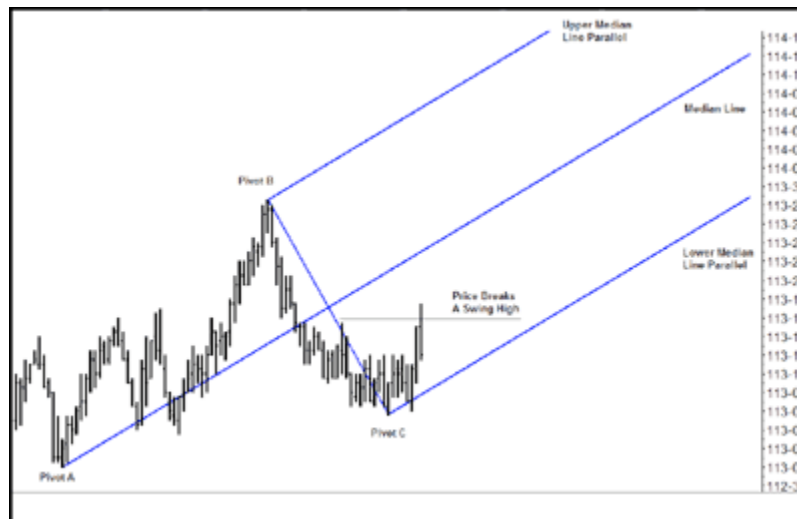
## Knowing When to Take Money Off the Table

Traders on the Internet, on my forums, and at the various Traders Expos I speak at often ask why I teach seminars, write books, and write articles and mentor traders. 'Why would a professional trader with 36 years experience waste your time teaching-it just takes away from trading!' is what I hear over and over.

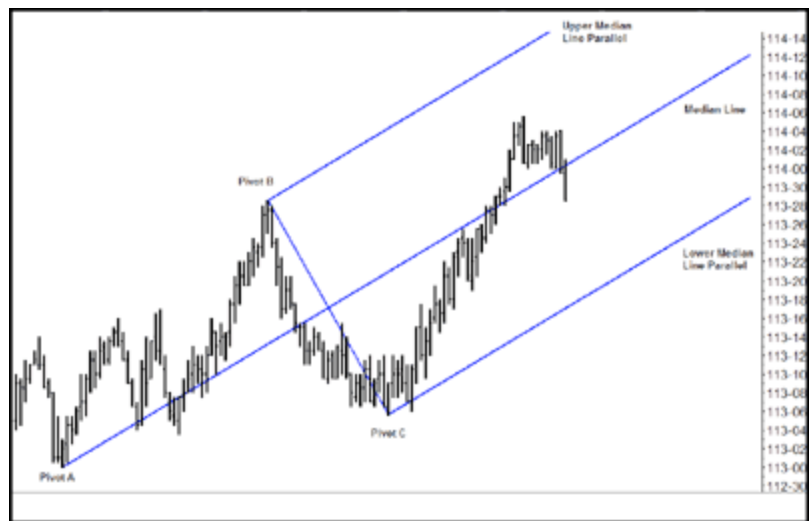
The simple answer is that I find teaching is fulfilling. I find meeting other traders at the Traders Expos, whether they are just starting out or have been trading 40 years, is something that just makes me feel good. And I write because I like to write. I don't do any of these activities to make money-I trade my own money and manage money for three large offshore funds and that's my 'profession', but teaching and writing fills a need that trading doesn't fill. Sometimes, when I least expect it, I learn something from those I am teaching to trade; and that's a wonderful bonus. But teaching and writing is food for the soul to me.

And when I take a winning trade and then do a mentoring session a day or two later and watch a student going through their own trades with me one on one and they start diagramming out the same winning trade, it really makes me smile. I not only managed to make money on the trade, but I managed to teach someone else how to successfully read the market and use my techniques-and we BOTH made money on the same trade set up. That really is the 'icing on the cake'.

Let me show you a recent example from the 30 Year US Bond Futures:

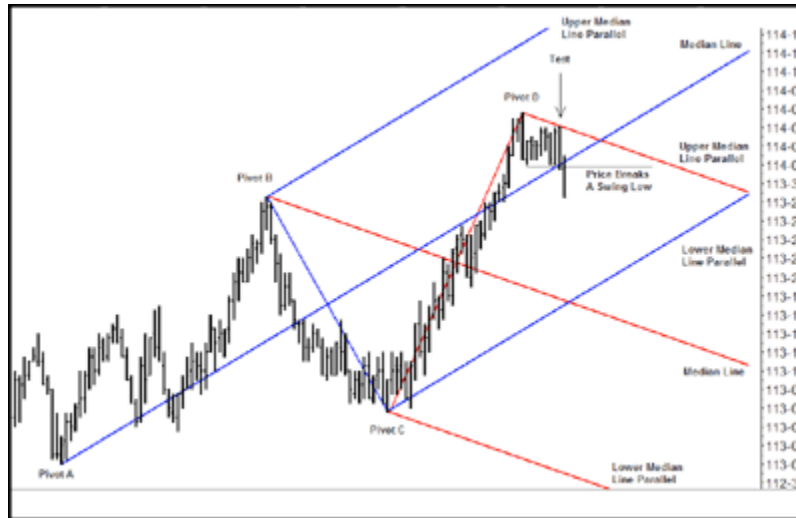


Bond futures were in a gentle up trend, making higher highs and high lows. Then they had a nice sell off before entering a trading range. Once price restored its energy by trading in the Energy Coil or congestion area, it broke to the up side and took out a Swing High. This was the first sign of strength since the sell off, so once price broke above the Swing High, I added in a blue up-sloping Median Line and its Parallel Lines.

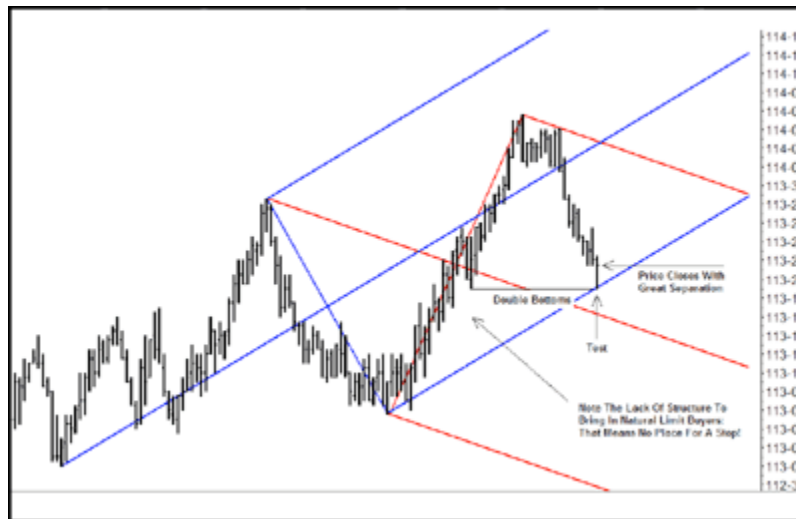


Once price broke out of the Energy Coil or trading range, it traded straight up in an orderly fashion, easily breaking above the up-sloping blue Median Line. But price had climbed about a full point without resting to restore its energy, so it was unable to hold above the up-sloping Median Line. You can see that the last bar on the chart above zooms lower, through the up-sloping Median Line, and closes on its lows with great down side separation-which is a sign of weakness.

When price zooms through the up-sloping blue Median Line and closes on its low, I add a red down-sloping Median Line and its Parallel Lines. You can see that price has already tested this new down-sloping Upper Median Line Parallel, so I now have two sets of Median Lines on my chart—one up-sloping and one down-sloping—that have been tested.



Though it sounds like it will only confuse the issue, instead it spawns areas where Lines of Opposing Force meet—and I call these areas Energy Points. My research has shown that these Energy Points can act as price attractors, giving me both a price target and in some sense, a good feel for the time it will take price to make it to any specific Energy Point; in other words, you know where price SHOULD go and how fast it SHOULD get there. Of course, price doesn't always cooperate, but the probabilities once price starts heading for these areas is quite high, so they are quite useful.

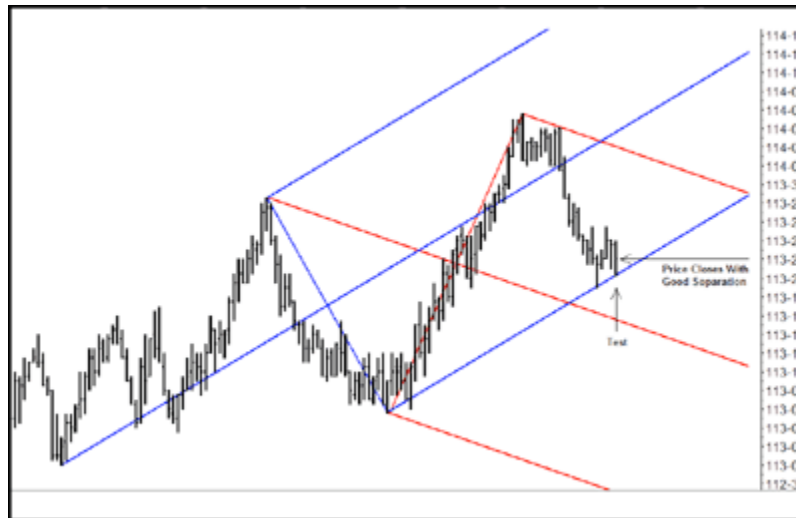


You can see on the chart above that price did head down toward the area where the up-sloping and down-sloping Lines of Opposing Force met, but price drifted too far to the right [in time or space] to touch or interact with that Energy Point.

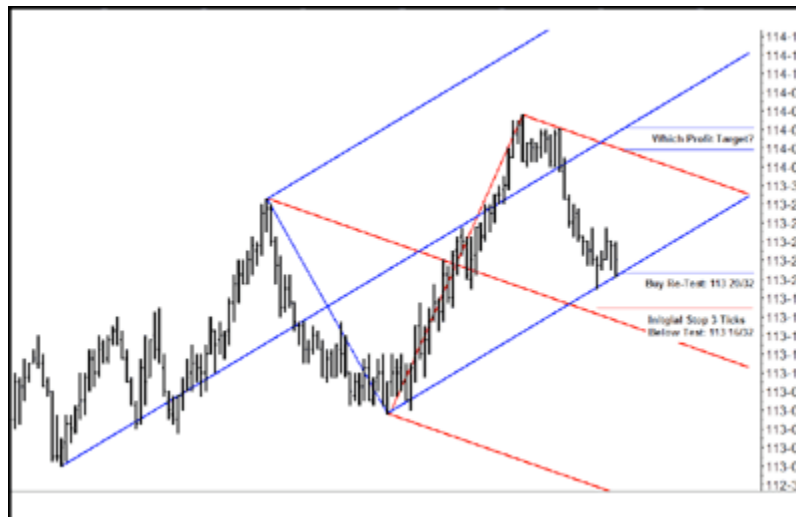
Instead, price tested the up-sloping Lower Median Line Parallel and it closed nicely above it with great separation. This close is the first sign of strength since price broke back below the up-sloping Median Line. But I could not consider simply buying Bond futures at this line, because there are no natural price structures [swing lows where other traders will have resting limit buy orders, for example] to hide my initial stop loss order below.

At the moment, I am left with a gorgeous chart. Price stopped where it was supposed to, leaving double bottoms, but there is no good trade entry set up.

Four bars later, price tests the up-sloping blue Lower Median Line again and it closes with good up side separation—which is again a sign of strength.



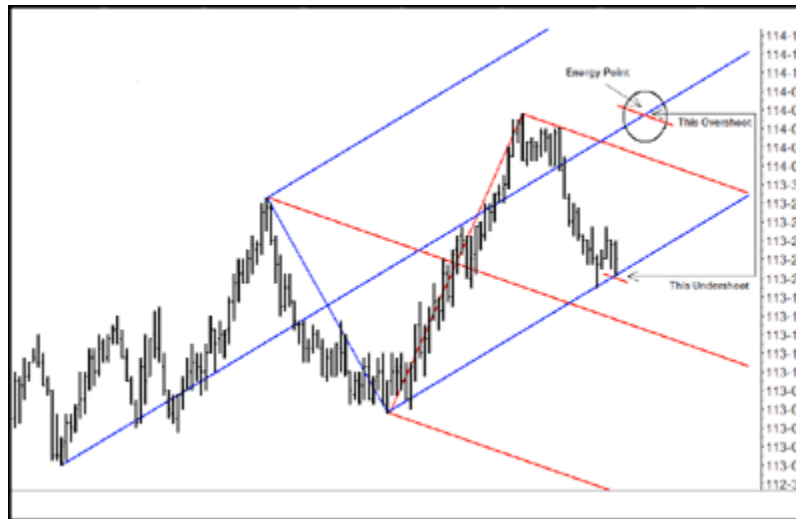
Price is now making higher lows, so I can now use the prior test of the Lower Median Line Parallel as a Swing Low—because there should now be traders placing limit buy orders at that prior low—and I can hide my initial stop loss sell order below this Swing Low. Let me show you what I mean:



Now that I have a Swing Low to hide my initial stop loss below, I can use one of my favorite entry techniques: the 'Test and Re-test' entry. Price has just tested the up-sloping Lower Median Line Parallel and if it comes back down to re-test it, I will be a limit buyer there, at 113 20/32. My initial stop loss will be three full ticks below the low of the first test of this up-sloping Parallel Line, at 113 16/32. I'm risking four full ticks in the bonds, but what is a reasonable profit target?

I have two Median Line sets on this chart and at least for the moment, it's not clear to me which one will act as resistance to price. Do I place my initial profit target at the down-sloping red Upper Median Line Parallel or do I place it at the up-sloping blue Median Line? Both targets offer me better than 2:1 risk reward ratios, so either would be acceptable. There isn't a huge difference in price while I am diagramming out this trade, but remember that as price moves to the right, the difference between the two potential profit targets will get larger and larger. Is there a way for me to get a better feel for which line is more likely to work?

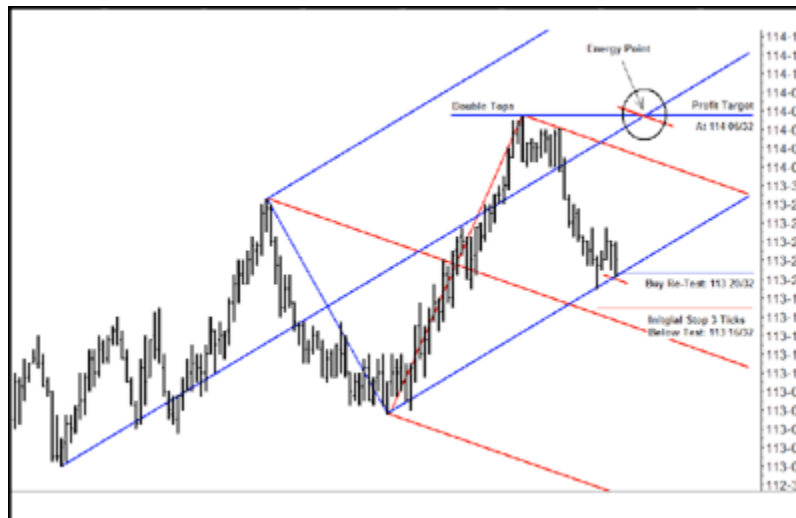
Note that I measured just how far price stopped above the down-sloping red Median Line on its second test of the up-sloping blue Lower Median Line Parallel—the area where I want to get long.



Then I transferred that same distance above the red down-sloping Upper Median Line Parallel. I added in red Sliding Parallels at both areas to make the measurement easy for you to see.

And now, right in front of me, is a new Energy Point that SHOULD act as a price attractor. It's the area where two Lines of Opposing Force meet: The red down-sloping Upper Sliding Parallel I just added in and the blue up-sloping Median Line.

Are there any other clues?



Looking to the left, I notice that there is already a significant Swing High at the same area—and so I simply add in a horizontal blue line to mark the potential 'Double Tops' that might form IF price gets attracted to this area and runs out of energy.

You can see I have diagrammed my limit buy order, my initial stop loss order and now I have added my profit order at 114 06/32, at the Energy Point.

Now that I have settled on a profit target, I enter my limit buy order and my initial stop loss order. I can't place a profit order until I have a position! Let's see if the markets let me in...

Price did come back to re-test the up-sloping blue Lower Median Line Parallel, getting me long in the process. Once I check that my limit buy order has been filled at 113 20/32, I enter my limit sell order at the Energy Point at 114 06/32.



You can see that price spiked higher and at the close of the bar that got me long, I had a potential eight full ticks of profit in the bonds—and that's too much money to let turn into a loser [\$250 a contract]. I cancel my initial stop loss order at 113 16/32 and move it up to break even, at 113 20/32. I would move it higher, but there is no natural market structure to hide my stop below.



You can see that price traded right to the Energy Point at 114 06/32, filling my profit order. Even though I use the areas where these Lines of Opposing Force meet in my trading day after day, I am still amazed when they act almost like an elevator, pulling price nearly vertical to an Energy Point. But I see Energy Points attract price in this fashion over and over again. Once you learn to identify them, they are wonderful sign posts in the markets to use when you trade, giving quality price and time projections.

I mentioned at the beginning of this article that 'when I take a winning trade and then do a mentoring session a day or two later and watch a student going through their own trades with me one on one and they start diagramming out the same winning trade, it really makes me smile'. In this case, I had a mentoring session the very next day with a beginning trader that had had three prior one on one mentoring sessions with me and halfway through the session, he began to show me this same bond trade and my face broke into a broad grin. I didn't interrupt him as he told me in great detail how he stalked the entry, how he carefully chose his initial stop loss area because there should be limit buy orders there that would act as protection for his stop loss order. To be honest, we chose different profit targets: he chose to put his profit order at the red down-sloping Upper Median Line Parallel, partly because it was the more conservative of the two targets. And he did not 'see' the undershoot/overshoot that I used to draw in Sliding Parallels, so he didn't have an Energy Coil on his charts where the two Lines of Opposing Force met.

But his entry was identical and his stop was picture perfect, hidden below the prior Swing Low to take advantage of the likely limit buy orders resting in that area. And although I squeezed a few more ticks out of the trade, I'll bet he was more excited about his winning trade!

But I got the satisfaction of knowing that someone was now making money using the methods I taught him. And odd as it sounds, I probably got more satisfaction from him seeing and executing that winning trade than I got when I made the same winning trade the day before.

I wish you all good trading.

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