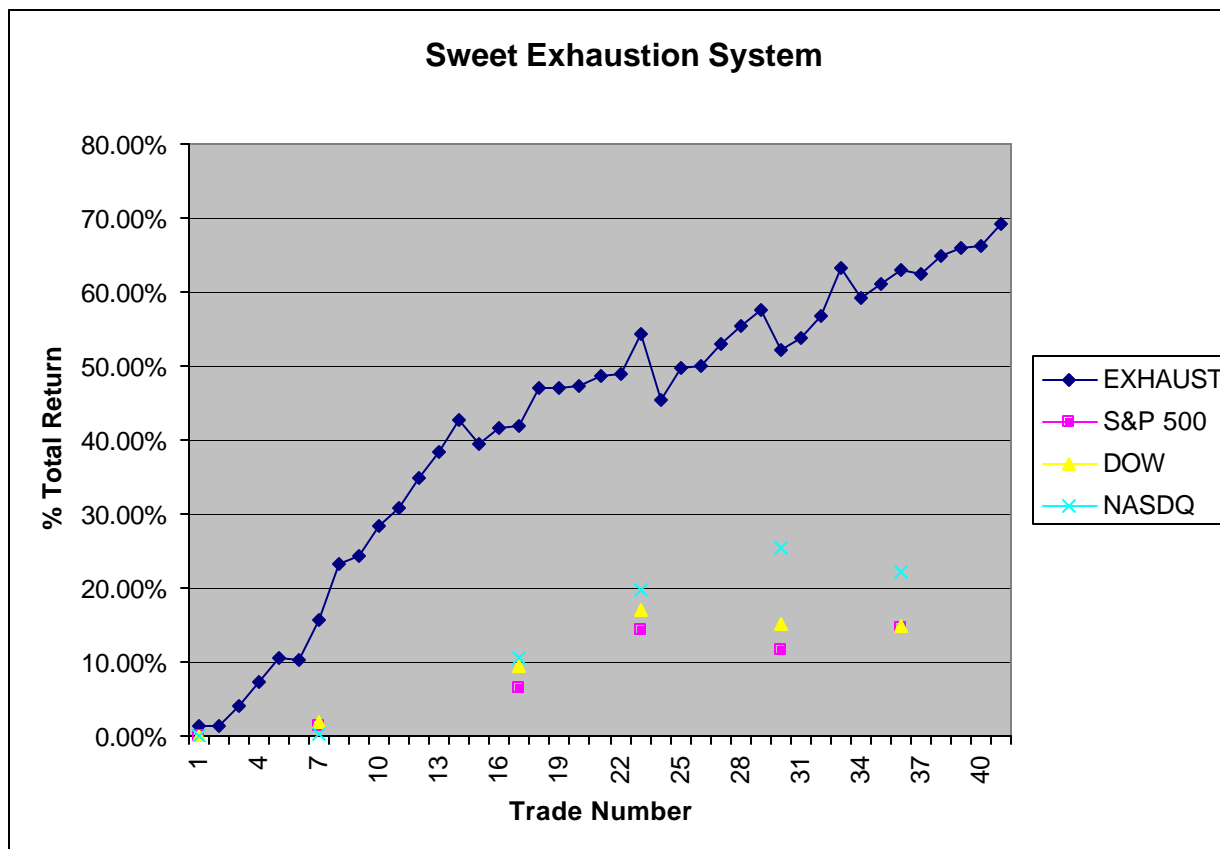


7 Keys to Winning in the Stock Market

Key 1: [Understanding Risk](#)

- ? **Market Risk:** A risk that effects nearly every security in the same manner.
- ? **Business Risk:** The uncertainty that a specific issuer whose securities have been purchased, will not have the business performance anticipated.
- ? **Inflationary Risk:** Arises when an investor's income or growth does not keep pace with inflation.
- ? **Interest Rate Risk:** An uncertainty the price of securities purchased will change solely because of changes in the cost of money.
- ? **Liquidity Risk:** An uncertainty the regular market for the security held will not exist
- ? **Selection Risk:** Understanding the risk that the securities which the investor chooses to purchase, might perform well or poorly compared to the market as a whole.
- ? **Timing Risk:** The uncertainty of sustaining losses or lowering possible gains by purchasing or selling securities at an advantageous or less opportune time.



The Chart above is an example of a relatively smooth equity curve with Risk control an important consideration. Traders should focus on steady gains with few and small draw downs.

Key 2: [Put the power of compounding to work for you.](#)

The most important factor in the overall “profit maximization picture” is the influence of profit compounding. With each successful trade, more funds are available for re-investing than before. The nature of the law of compounded interest is such that the overwhelming contributor to capital is about: How often the compounding takes place.

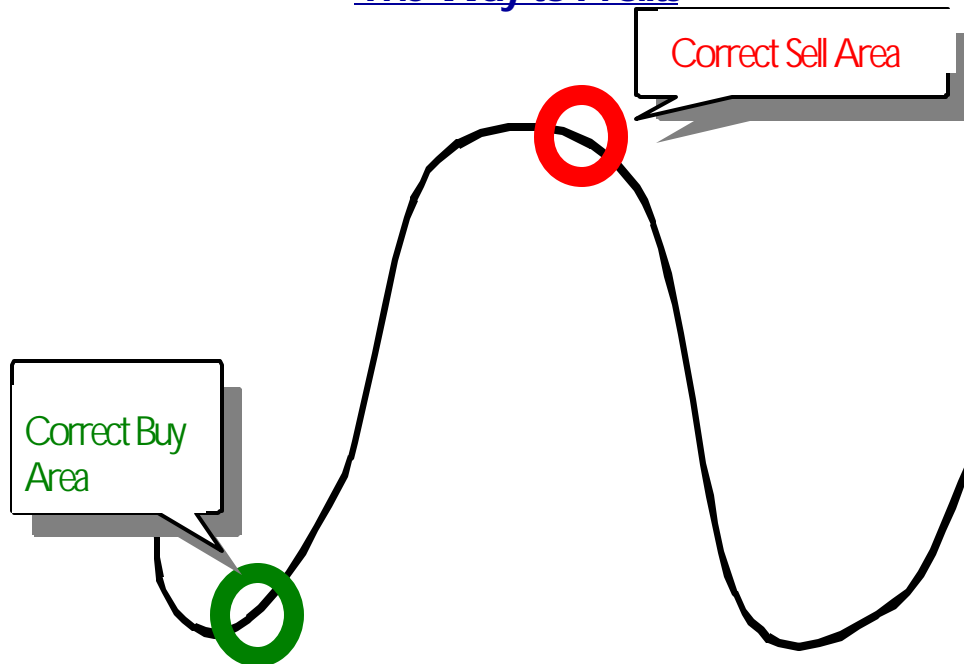
In order to facilitate compounding of profit, you must have a system that gives a

high probability of success on every trade. High probability trading can bring profit compounding into play while simultaneously or at the same time accurate timing can permit short-term trading to drastically amplify the compounding effect. It should be noted that the goal of successful trading is to be in a trade for the least amount of time, thereby reducing risk, yet long enough to increase the possible profit. Risk always increases with the time in which securities are held while the potential profit does not. In other words, as a position is held over time, the risk is constantly increasing. Since the market is unpredictable, the longer a trade is held, the higher the probability that there could be an unexpected adverse price movement.

Key 3: [Learning to Buy and Sell Correctly.](#)

When the mindset in the market place is greed, then that is the time to think about selling. When fear is running through the market-place, that is the time to think about buying stocks.

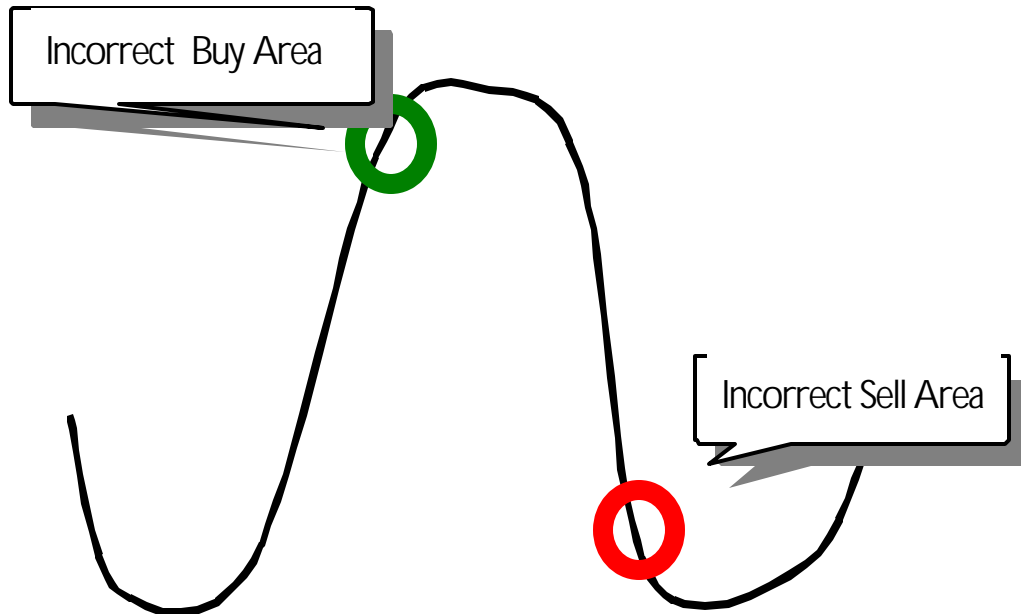
The Way to Profits



Traders profit consistently by learning to trade the security cycle in this way.

All too often investors let the herd mentality take over and because of the upset of missed opportunities, they buy too near the top when the smart money is taking profits. Alternatively, they hold on too long as their positions turn into losses, and finally sell at the bottom in a panic.

The Way to Losses

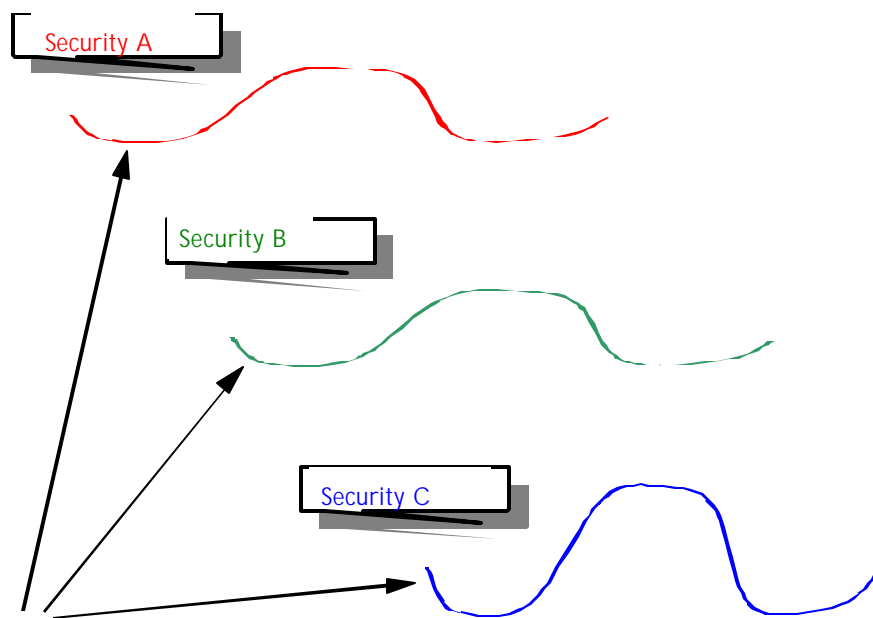


Traders who lose trade the security cycle the "incorrect" way.

Key 4: Understanding the cyclic nature of securities.

Cyclicality exists in the price motion of all stocks. Through simple observation, you can determine that the cyclic components in each issue will have similar durations. The highs and lows of these cyclic fluctuations are time synchronized and the relative magnitudes of the cyclic components are similar in all securities. In the case of a security that is in a long term up trend, the security does not go straight up. You may have observed this if you have ever glanced at a stock chart. A security will go up for a while and then stop. Often after a short rest, the security will fall in price before regaining it's strength for the next move up. However, it is important to remember the relative magnitudes and durations of cyclic components differ slightly from security to security. Time synchronization is not perfect. A cycle high or low in one security will not necessarily occur at the exact same time in another security. It is common for several components to dominate in a security at any given time, while others may dominate in other

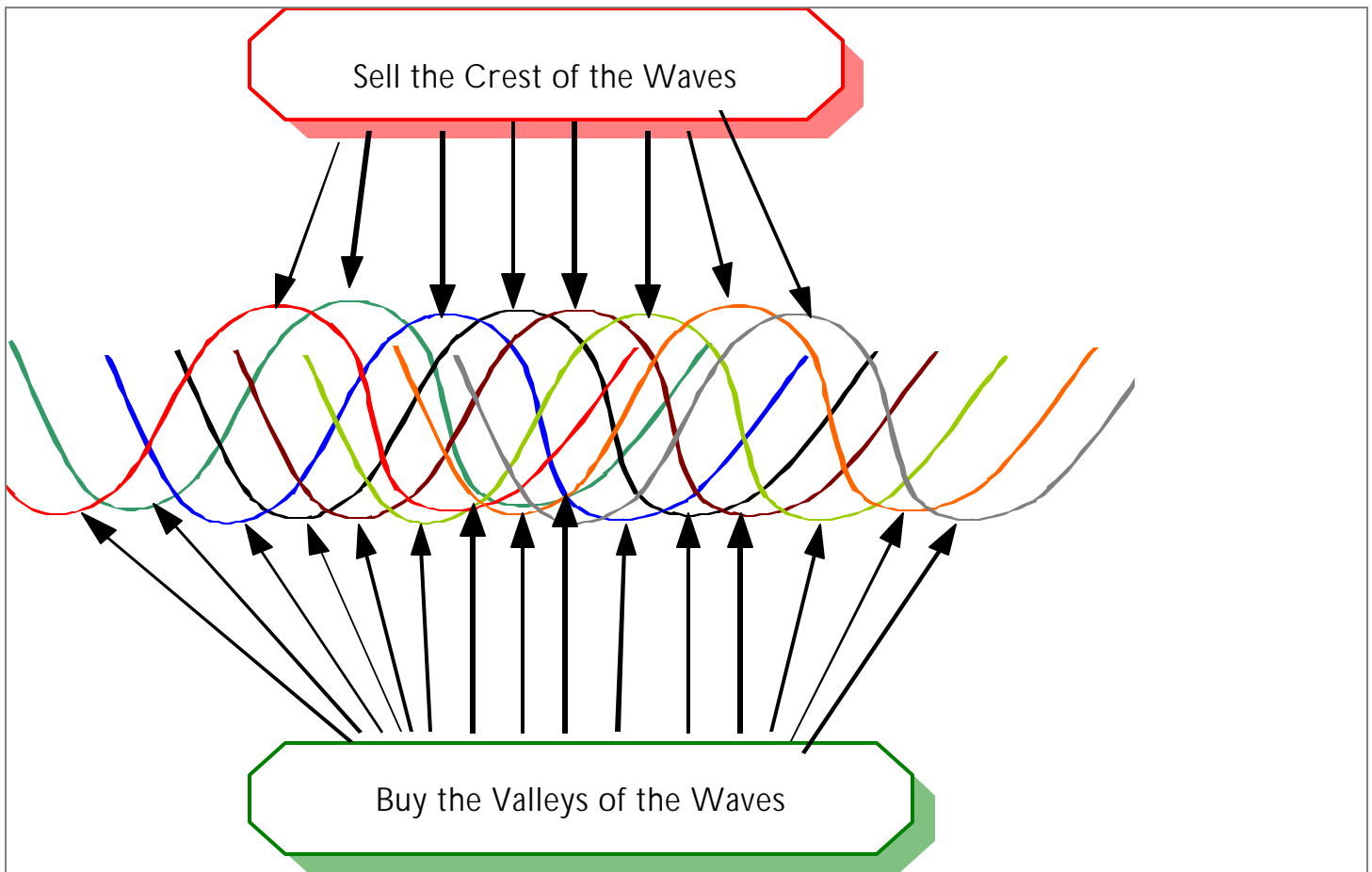
securities simultaneously.



Each security has a slightly different cycle

Key 5: Building a Stable of suitable securities.

It is very important to have a “Stable” of potential high probability securities ready in order to reduce the inactive time between trades to a minimum. Properly handled, the correct techniques will assure a minimum of six (6) to twelve (12) action signals per day from a stable of 80 to 100 securities. If you need more or less signals, you can always increase or decrease the screening, analytical and tracking work, which will adjust the size of your stable. By simultaneously monitoring a group of securities there are multiple opportunities to buy or sell daily.



Key 6 The Use of Stop Losses

Before entering any trade, always establish a stop-loss. Setting a stop-loss, mechanically through the trading software, helps define the risk parameters. Setting stops is a proactive measure to help decrease the risk that your account is exposed to.

Risk management stops can be categorized in two ways:

- ? *A Price stop* gets you out of the trade if a predetermined price is hit.
- ? *A Time stop* gets you out of a trade whenever a certain amount of time has elapsed.

In the book "Light Gains ... Greater Profit\$" I show you how I set both when

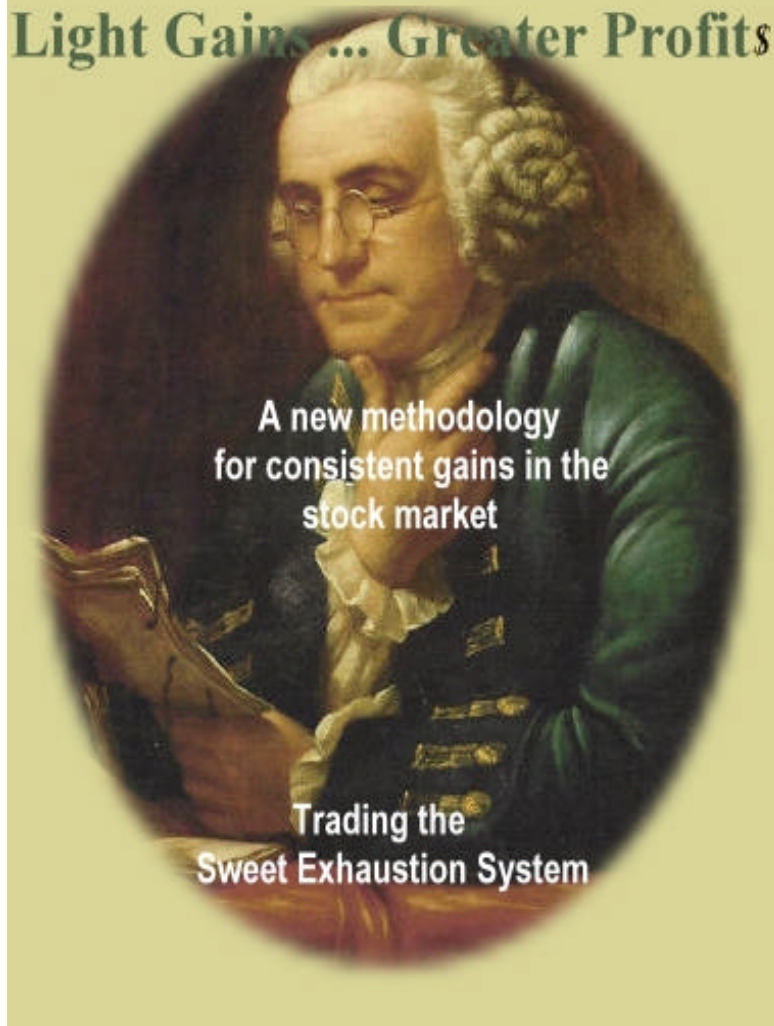
trading the "Sweet Exhaustion System".

Key 7: Proper Timing Methodology.

By developing and testing methodologies that have proper timing and loss avoidance at their core, one can begin to concentrate and focus on creating profits. Just as one trusts the automobile to hold up while concentrating their attention on driving and navigating to get to a destination, a sound timing and loss avoidance methodology is critical in trading much the same way. It provides the confidence allowing you to focus your attention on gains and profit. Without the confidence in a sound timing and loss avoidance methodology, the focus is more on fear of loss and tendencies to lose become greater. Likewise, with a good timing and loss avoidance methodology in place, there is freedom to concentrate attention on making greater profits. I go through this in detail in my book "Light Gains... Greater Profit\$"

For more details on the subject mater, order your copy of "Light Gains ... Greater Profits".
from www.MoneyManagement.com

Light Gains ... Greater Profits



A new methodology
for consistent gains in the
stock market

Trading the
Sweet Exhaustion System

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