

Jim Wyckoff Discusses A Favorite Trading "Set-Up"

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(Note: This is the first installment in a regular weekly series of educational articles on trading techniques and how to be more successful in the very challenging business of trading the futures markets.)

I had a fellow email me recently, asking: "Without giving away any precious secrets, could you tell me a way to improve my entries and exits (on trades)? It seems nobody wants to share their system."

Well, first of all, I don't have any trading "secrets." What I do have is many years of market experience, including studying the markets and technical analysis--and listening carefully to the best and brightest traders share their philosophies on successful trading. (You should be suspicious if anyone tries to tell you they do have a "secret" to trading success, but that's another story.)

On better entering and exiting trades, first of all you need a trading plan--before you enter the trade--and you need to stick to it. Your trading plan can have different scenarios and options once you're into the trade, but the key here is don't "fly by the seat of your pants" when you're into a trade. You don't want to let emotions dictate your strategies while you're actively trading a market.

Know how much money you can stand to lose and then place a stop accordingly, and then don't change your mind when you're in the middle of the trade.

If you've got a winner going, you should also have a plan in place regarding when to take your profits. Again, your trading plan can allow for some flexibility once you are in the trade.

More specifically, I like to "buy into strength" and "sell into weakness." This trading method abides by the old trading adage, "The trend is your friend." Conversely, traders who try to "fight the tape" and be a bottom-picker or top-picker usually wind up getting their fingers burned.

One of my favorite trading "set-ups" is when prices have been in a trading range--between key support and resistance levels--for an extended period of time (the longer, the better). Then if the price "breaks out" of the range (above the key resistance or below the key support), I like to enter the market--long on an upside breakout or short on a downside breakout. A safer method would be to make sure there is follow-through strength or weakness the next trading session--in order to avoid a false breakout. The trade-off there is that you could be missing out on some of the price move by waiting an extra trading session.

If you are long the market, set your sell stop just below a technical support level that's within your tolerance for a drawdown. If you're short, set your buy stop just above a technical resistance level that's within your tolerance for a drawdown. Don't set your stops right at support or resistance levels, because there's a decent chance

that those levels will check and possibly reverse the price move--and you'll miss getting stopped out.

If you've got a winner and decide to let your profits run (per your initial trading plan), use trailing stops that utilize technical support and resistance levels.