The Insiders Game

Price & Volume Trading

by

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TRADING
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Contents

Introduction

Preface

The path to achieving expertise in any field is a difficult one. There are many challenges and difficulties along the way particularly in a field of endeavour as fluid as trading.

It takes teamwork to make the dream work and my path along this journey would not have been possible if it wasn't for a number of unique people who have helped me tremendously along the way.

Firstly to my teacher Peter Varcoe, thank you for your wise guidance and installing in me the attitudes that have allowed me to persist and prevail in the face of constant uncertainty and risk.

To my twin brother Matthew, this would not have been possible without you. Thanks for sharing life's journey together.

To my partner Ellen, thank you for being there on the good days and the bad days.

To Lyn Summers and Chris Collingwood, thanks for your support and the opportunity to work with both of you. It's the best thing doing business with people who are fun to be around.

Finally, to all the students who I have taught, through the teaching and your learning we have inspired each other and I have learnt as much from the teaching and your learning as you have learnt from me.

"Learning trading expertise means spending a couple of years how most people won't, to live the rest of your life how most people can't."

Chapter 1.

The Reality of the Market and its Change

The media and financial pages are full with commentary about the market and how it is. Media personalities have comments to make and prognosticate about where the market is headed and what you should do with your money. Economics paper are written and columns are filled with opinions about market direction and how fundamentals dictate x and y and z.

Many trading educators behaving in good faith teach people what they have learnt from their teachers and what has worked in past. They faithfully go over trade setups and stopping strategies and then send their students on their way.

And the reality is that 90% of traders fail.

As a student of trading I became curious about why this is the case. Why is it that some of the brightest people in society fail at the endeavour of trading. Everyone who trades has access to the same primary data, the open price, the low price, the high price, the low price and the volume traded.

How is it that 90% of people fail at something where everyone gets the same data?

The answer to this question is obvious. The successful traders know how to read the data and understand the rules of the market. The unsuccessful traders do not.

My initial training was as an engineer. A fundamental part of the engineering education is the ability to understand the physical rules that you are operating under. If you are considering steam for example, you need to understand how steam behaves at different temperatures and pressures. If you are considering the behaviour of metals, you need to understand how metals behave at different temperatures with different compositions and different stresses.

Once you understand the rules then any problem that presents itself can be understood in terms of those rules. If you know the rules you plug the data into the rules and you come up with a solution or a proposed solution, which you then implement.

With trading, I found an environment where 90% of people fail. This caused me to come to the conclusion that most people (myself included at the beginning) didn't understand the rules by which the market operates. So my search began to understand the rules by which the market operated.

The commonly understood perception of the market is that all the market participants have the capacity to trade profitably and to participate on an equal playing field. Also it is commonly understood that the wealth generated in the market is available to all participants. If this was REALLY true, why is it that most people actually lose money trading? How is it that something that is supposedly even and fair has most people failing at it?

So began my quest to understand the market as it actually is.

Examining the data present in the market showed me several things that profoundly changed my view of the markets and subsequently increased my success in the market.

Firstly, that the market is a fundamentally unfair place. The large trading funds and banks have the capacity to trade before the market opens, after the market closes and a prices significantly above the current price during the day. These are the pre and post market actions and cross trading. Market maker and hedge funds who pay to have access to this type of trading have the ability to trade significantly away from the market price as well as being able to shift the price of a stock after the market close.

These abilities are used to manipulate the price of positions to their own advantage and to disadvantage the normal trader.

For example, the pre-market auction is used to drive price up or down on the open. This is done to either take prices above obvious entry points or to drive price down to obvious stop positions.

The post market auction occurs after the market is closed to the retail trader. Price can be moved in the post market auction for the same purposes as the pre-market auction, to take out stops, to take price through obvious entry point as well as to take price through resistance levels.

Secondly, I found that a fundamental change in the market place had occurred. This change in the market had accelerated the patterns that were present previously. This change is the change associated with the volatility of the market with the entry into the market of the high frequency traders.

High Frequency Traders

High frequency traders use computer algorithms and automated trading programs. They buy and sell on according to the programming and it is mostly done autonomously. The data from the ASX shows how this has affected the market.

Figures released in the past 4 months from the ASX shows that HF trading has delivered a 750% increase in the number of share transactions on the ASX in just 7 years. There are currently 1500 transactions per minute as opposed to 200 per minute in 2005. The average size of each transaction has fallen from $38000 to just $9623 over the past 6 months. Recently it has fallen even further to the average size of each transaction to just $8458.

Addition, the number of orders hitting the ASX has changed substantially. From 2000 orders per second in 2006 to over 12000 orders per second last year. This is a direct result of the High Frequency traders.

Another important aspect of the high frequency traders is that they are charged by the volume they trade. So they can divide up with trades into small parcels and implement them quickly into the trading system. This allows them to high what they do from the market and release small packets of shares, sometimes 1 at a time, into the market.

Currently the ASX is upgrading its order matching service and trading platform to improve the system and speed up the system by a factor of 10. They are also working in implement a parallel system for HF traders to be able to trade the ASX 200 on a separate market called Pure Match. This is designed specifically to attract HF traders to the Australian market.

Below is the chart of XJO. This is the chart of volume on the ASX 200 over time. It can be easily seen that the trend of the market towards increasing volume is substantial and sustained through time.

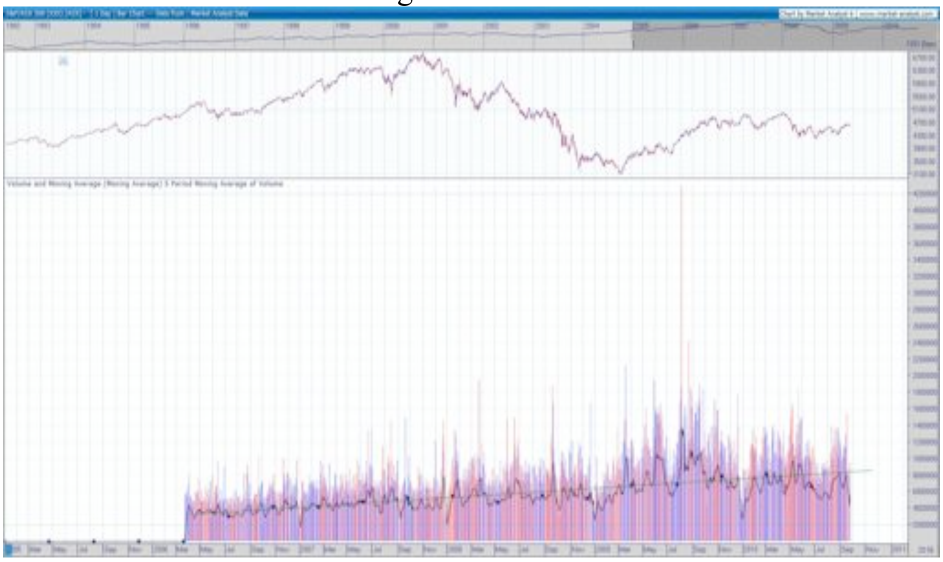


Figure 1

With increase in penetration of the high frequency traders into the Australian market there has been an increase in the volatility and range of movement of price. One example of this is the chart below of Rio Tinto. The chart below shows the increase in volatility or range of price over the past 6 years. In August 2005 Rio Tinto traded an average of 50cents price range per day. Today the longer term average is approximately 1.30 but has been as high as 5.60.

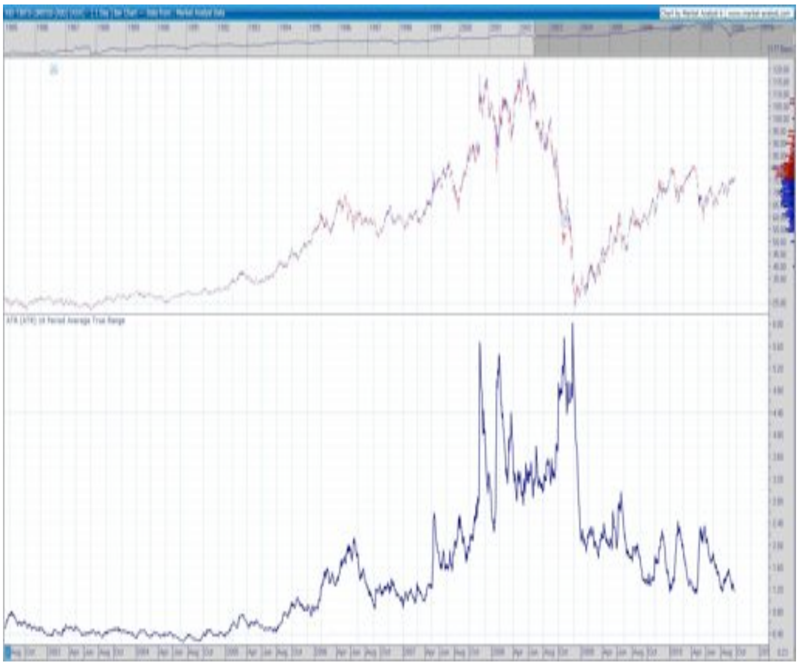


Figure 2 Rio Tinto with the Average True Range of Price.

One of the principle characteristics of high frequency traders is that they have the capacity to move price very quickly. The ASX is implementing a new system called Price Match where it will bring the execution time of an individual trade down to 30 microseconds or 0.03 seconds. It takes 0.30 – 0.40 seconds for a human to blink their eyes. So high frequency traders can now place 10-15 seconds on the ASX in the time it take for you to blink your eyes.

What Does This Mean?

You may be asking who cares but this has a significant impact on the ability of normal traders to make profitable trades in this market.

The capacity of high frequency traders to rapidly move price means that they can move price which ever way they want at any time they want. If you are seeking to trade in a market and profit from that trading you want to be taking your trades are the right time and at the right price.

If you are in any way informed you will also be seeking to protect your capital and set stop loss points on your trade. This will minimise you losses in the event that a trade goes against you.

What the High Frequency Traders Know

Trading strategies have been taught in the market place for many decade, since the original teachers of trading, Wyckoff, Dow, and others in the early 20th century.

While the advent of computers and the widespread use of computer programs and charting packages have become prevalent in the market, trading methods haven’t changed substantially.

The main methods for trading are Trend Following, Dow trading, pattern trading and fundamentals.

- Trend following involves identification of a trend and entering the position once the trend has changed. The trade is maintained while the trend is maintained. The stop position is normally set underneath the trend in either a rising support line or a trailing stop.

- Dow trading involved the entering of trade once resistance levels have been breached. Stops are typically placed at or around major lows or resistance levels.

- Pattern trading involves the entering of trades from patterns that occur in price action. The entry points are normally the breakout of trades from a pattern and the exit point are normally either a trailing stop or on the rising support line.

- Fundamental trading relies on examination of the fundamental of the business, price to earning ratios, future profits, dividends and entering the trade based on this information.

As you can see from the above, there isn't really a lot of variation in the methods that most traders use.

The high frequency traders know this and know how to manipulate the movement of price in order to disadvantage the rest of the market.

Imagine a battlefield where you know what your opponent is likely to do; you know that you have much more fire power then them and that the battlefield is skewed in your favour. Also you can do things that you know your opponent will react to and you can then use their tactics to get them to surrender to you. How often would you win?

I would make the contention that the manipulation of price in order to disadvantage the average retail trade is the norm rather than the exception. For each and every trading methodology there is a strategy that the larger players in the market use to cause losses in the average retail trader.

What Does This Look Like?

There are many patterns of price manipulation that will be covered further. Probably the easiest example of this is the shakedown.

A shakedown is the rapid movement of price downwards at the beginning of a day or in the middle of the day and then bringing of the price back up to the close. What this does is triggers stops that are in the market. Most traders who use stops only use price as a condition for their stop. So, if you have the capacity of moving price rapidly down and then up you can trigger stops that are in the brokers systems once a particular price has been hit. That volume is then put into the market once the condition of the price has been hit. The high frequency trader who is manipulating the price then buys up all the cheap volume in order to sell it at a higher price.

Example.

Why Should You Care?

The actions of the HF traders and the smart money directly affect the ability of retail traders to make money in the market.

They use their ability to rapidly move price in order to causes losses to the retail traders through the active movement of price through natural stop levels. They also will actively sell off volume at elevated prices and then allow prices to fall leaving the average retail trader with stock are highly elevated prices and high losses.

The Real Nature of the Market

The whole market is driven by large funds accumulating stock at cheap price including manipulating price to pick up volume at cheap prices. The price of an instrument is then driven up. Once price is driven up it is then sold off through various means to retail traders who don't know what is going on.

"Market dynamics is the systematic transfer of wealth from the uneducated and amateur to the educated and professional." Warren Buffet.

How Long Has This Been Going On?

ACCUMULATION—DISTRIBUTION.

The whole philosophy of the game in Wall Street is summed up in two words.

The pools first accumulate stocks. We have explained when and how they do it.

Having accumulated they must hold on and gradually manipulate the prices upward. They cannot unload on the public suddenly or the prices would tumble before the stocks were peddled out. It takes a month or two after prices have been worked up near the top to get the public to take the stocks off the hands of the pools. The public have to be stimulated to buy by all the means known to shrewd managers.

As a rule the public has more money and consequently more courage in the *Fall* than in the Spring, and, hence, as a rule, the bull campaign begins in the *Spring and ends in the Fall;* when the public take the stocks.

As we said before, the pools after accumulating the stocks must put the prices up and *hold them up* until they can get out.

They must use the financial columns of the press, market letters, business and crop reports, every artifice that will tend to put a bright outlook before the public. Then the pools can distribute their stocks. When once this distribution has taken place nothing can prevent prices from sagging. Increased earnings of railroads, glowing reports of crops are still put out. Slowly at first, but surely, the tide goes out. After a

Above is a quote from the book “The Game on Wall Street." This book was written in 1898 and it is as true then as it is now.

How Is This Allowed?

You are probably asking how this can be allowed. Surely there should be rules to even the playing field.

Actually the opposite is correct. The ASX is doing everything it can to open the way for the larger players in the market and the high frequency trading.

If you are a large fund trader you can:

- Trade without your trades being seen in the market (iceberg orders)
- Trade on volume along not on the transaction
- Trade before and after the regular market (off market trading)
- Trade during the trading sessions at price (cross trades)
- Trade with benefits for large orders (volume match)

The ability to trade charged only on the volume has very significant benefits. This allows larger traders and high frequency trader to rapidly move price in small volume packets without having to pay for each packet. That means that if you can move price and do you are only charged on how successful you are and not for trying. As such you can’t lose doing it.

There is much information on the ASX website about attracting high frequency traders and large investor to Australia and there is a very good reason for this. Currently 40% of the equities on the Australian market are foreign owned and the high frequency traders currently trade around 40% of the volume, on any day on the Australian market. There are currently 70 collocated servers close to the ASX server.

That's right. They pay the bills and make the profit for the ASX. So The ASX is doing everything they can in order to make them happy and open up the market for them.

What To Do About It?

This all sounds pretty bleak and you probably haven't heard of this before. But what goes on is done in a very repeatable way.

You may be asking yourself if the market is so skewed in favour of the larger funds, if as a retail trader I'm at such a tremendous disadvantage how can I win?

I asked myself the same question and then thought about it a lot. Eventually I did what I learnt as an engineer and started looking for the rules. I didn't understand what was going on but one thing that I've learnt along the way was that all human behaviour is patterned.

The high frequency traders and smart money, who manipulate price, behave in a patterned way. They do things regularly and repeatedly. They do what they do in response to what other traditionally trained traders do.

Since the smart money and high frequency traders do things in highly repeated ways, you can trade in harmony with them. You can use their behaviour and the way they trade to carry you along.

After coming to this realisation, I went back to the data and I started looking around on the Internet, and found some of the information that I needed to begin an exhaustive study of the data in Australia.

And then I began trading it, and it worked marvellously well. Not long afterwards a fellow trader; Lyn Summers, insisted that I teach my methods of trading the smart money.

As of the writing of this book I've taught over 60 students, some of whom have made the transition from part time to full time trading.

The following chapters are details of the methods and practices that we call "The Insiders Game".

Chapter 2.

Major Principles

The market is constantly in flux. The overall market is flowing and the individual positions are constantly changing within that. In order to deal with this complexity and randomness of movement a trader needs a set of rules.

Trading is a purely voluntary activity. No one ever forces you to take a trade. In no other area of our lives is there a complete absence of rules as there is in trading. There are rules for how we drive our cars, how we walk down a street, how we behave in all areas of our lives, with the exception of trading.

This is a cause of great difficulty for many people. They have to either come up with their own rules in order to act in a profitable way, or learn them from someone else. Once a trader has a rule set that works, they can deal with the fluctuations of the market.

Below are some principles that I have found that and my students have found to be useful to trade with.

Rule #1

Protection of capital is your first priority.

This should be self explanatory however I found in teaching and coaching many student traders that many of them are very prepared to lose a lot of money on the market, far more so than they should be.

As a trader you will make mistakes. Those mistakes will cost your money. There will be times that you don't read the market correctly and or something will occur where you lose on a position. When this happens you will need to protect your capital.

The single biggest cause of traders blowing up their accounts is holding on when they should sell their positions. They hang on and hang on hoping that it will come back to them. Most often they sell at exactly the wrong time or bottom of the market.

If you make a mistake or don't read the market well and you get out, you can live to trade another day and pick up the losses on the next trade. It is more difficult to do, but it is achievable. If you don't protect your capital, you can't do this.

Rule #2

Profit is natural consequence of well-executed entries and exits.

This is one of the most important things you will hear as a trader. There is many years of wisdom in this rule. When you focus on the profit or loss you tend to engage your emotions strongly. Emotions are useful in trading as they can give you an indicator of how well you are doing. However, when traders focus too much on their profit and loss on a trade they can cloud their decision-making and start making poor decisions.

If as a trader you focus on the execution of your trades, (assuming you have sufficient training to tell you when to get in and when to get out) you will make money. You focus on what matters which is making the right decisions.

Your overwhelming focus must be on the correct execution of your trades.

Rule #3

Manipulation of the market is the norm rather than the exception.

The market has fundamentally changed in terms of speed. Price moves much faster now than ever before. 20 years ago it just wasn't technologically possible on an equity to move the price rapidly in 50 millisecond increments. Now it is possible and it's commonplace.

The new market still behave according to the old rules that price is accumulated by the large institutions or smart money and is then driven up to be offload or distributed to the dumb money, or uninformed investor. This has always been the case and the nature of the market hasn't changed in that respect.

The exchanges are now doing all they can to help the smart money with their trading. There is competition amongst the exchanges to attract predatory institutions and HF trading platforms to the exchanges and ASX is doing all it can to help them. They aren't doing anything to assist the retail trader.

Rule #4

Profit occurs when you trade in harmony with the market and smart money.

If you are trading in harmony with the smart money you will be making money. If you are trading out of harmony with the smart money you will be making a loss. This may seem self-obvious but making this a core principle of your trading can be highly advantageous to you as a trader. If you are losing money you aren't seeing the market the way the smart money is seeing it and it's time to adjust your thinking.

One of the significant benefits of this rule is you are continuing to work on looking at the market the way the smart money does. It's a tendency of human beings to correlate data to their previously held beliefs. This is a very costly thing to do as a trader. The more you understand the smart moneys behaviour and their intentions the more you can trade in harmony with them.

Rule #5

Price action is meaningless without volume.

Many traders are taught to trade with many indicators and many different tools. Some trading educators do not teach the importance of volume. There are dozens of different indicators that come from mathematical manipulations of the 5 primary piece of information (open, high, low, close, volume).

Price action or the movement of price can only be understood through the volume associated with that price. For example, a breakout above a resistance level on very low volume signals a very different intent from the smart money from a breakout with very high volume on the breakout.

A breakout on low volume can be either a test of the market, in which case price action is taken sideways for a period of time before the real breakout, or it is a trap up designed to trap traders into poor positions before being driven rapidly down. In either of these circumstances you can't tell from the price alone. Further, if you are using for your confirmation an indicator that is derived from price, you will not be able to distinguish from you indicator the intention of the smart money for that price.

Decision on when to get into a trade and when to get out must be made on price and volume.

Rule #6

Price moves only with the permission or intention of the smart money.

As an educator I get to talk to a lot of traders who have varying degrees of success. Almost every trader I have talked has had the same experience of entering into a trade based on a good entry signal and then had it reverse on them down to the logical stop point that they placed their stop at. Price then immediately bounced off their stop point and went in the direction they desired. When I bring this up to traders and they say they have had that experience I always ask the question " Do you think it was an accident?" They always so no and they are right.

Price moves only with the permission of the smart money and the big money players in the market. Now they can move price rapidly with algorithmic trading and can do so quickly. If they want price to move in a particular direction it will. If the don't want it to go in a particular direction it won't. Yes there are some things that occur unexpectedly in the market that is true. However the smart money has ways of dealing with this. They have much longer time frame and a much larger ability to absorb losses than retail traders.

Rule #7

Manage your risk first and your money second.

The reality of the high frequency is that it moves much faster and is a lot more volatile than any markets in the past. Price movement that used to take a week is now happening in a matter or hours or minutes. I have had a position move 20% in 16 seconds with no bad announcement or news.

The reality is that the modern trading environment has risks that were not present 15 years ago. As such risk management is far more important in today's market than it ever has been.

If you are able to manage your risk by your positions sizing rules and your stopping rules you are able to trade for the longer term. Once you are doing that you can manage your money and how you deal with your profits and losses.

Summary

The above rules are the frames through which I see trading and I act. They are also the frames that I teach through and encourage my students to trade through.

The important thing is the give you a way of behaving in systematic process orientated way in a completely fluid environment where you don't know what is going to happen next. By having a set of rules to trade by when you don't know what to do and for most traders who are learning that is most of the time, you can act in a disciplined way. If you can act in a disciplined way you can execute your trades well, entering at the right time and exiting at the right time. If you can do that you can make profit.

If you can make profit reliably and sustainably by being in harmony with the market maker and smart money you can trade over the longer term and make it from breaking even to being profitable to being very wealthy from your trading endeavours.

Chapter 3.

Patterns of Accumulation and Distribution

As previously discussed the market exists for the large institutions and smart money to make money. This has been the case for many, many decades and will continue in the future.

As retail trader or private trader you are probably wanted to do it for yourself and make money on your own. How do you compete on such an uneven playing field?

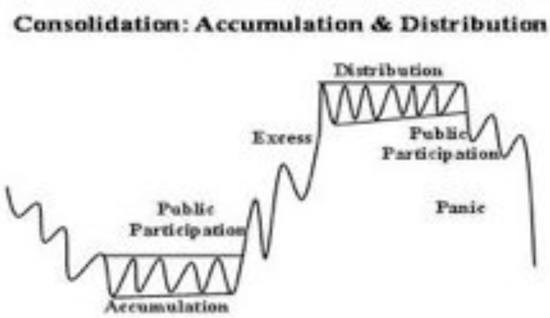
The answer to that question is the smart money behaves in repeatable ways. They have a pattern to their behaviour and must behave within the rules of the market. "*Know you enemy and know yourself and in a thousand battles you may never know defeat.*" Sun Tzu, the Art of War.

The Smart money has to do things in repeatable ways.

Typical price action pattern is:

- Accumulation
- Testing of the market
- Mark up
- Consolidation patterns
- Distribution
- Mark down

The overall pattern is presented in the figure below.



These are discussed below.

Accumulation

Accumulation occurs when large institutions buy large parcels of stock or contracts in a commodity or instrument for the purpose of selling it at a higher price. Accumulation can occur in a short period of time or it can take months. This is normally done at the bottom of a price cycle after price has been marked down. In order to accumulate you need a lot of money particularly in the larger stocks.

Testing

Once volume is accumulated the market is tested. The purpose of testing the market is to see how much interest there is in higher prices. The smart money and larger institution only want to take price higher after they are ready and have the volume they want. They will also wait until they feel the market is supportive of the higher prices. In order to find this out they will test the market. Sometimes this is through little bursts of upwards movement other times it will be with a single day's trade.

Because of the amount of money involved they don't want to fail so they are very careful about what they do.

Mark-up

Price is driven up by the smart money using their algorithmic trading programs. This is often time in with announcements about a particular stock if it's a stock or general economic data if it's a commodity. This occurs by progressively buying up sellers at progressively higher and higher price.

Another way price is marked up is through generating media reports. I know of number of examples of the creation of excitement about a particular stock from reports in the media that proved to be incorrect at a later date. These reports are designed to get the public excited and buying into the stock.

Consolidation Patterns

It’s very difficult to drive prices up very fast and not have an explanation for it. This is why often price is paused on the way up in mid move consolidation patterns. These typically are flag, pennants, triangles and compressions. The purpose of these patterns is to mark time until an appropriate trigger comes along for the further upward movement of price.

As previously discussed, price only moves with the permission and intention of the market maker. The patterns are created by the market maker. They serve a purpose to mark time for good news to come out and also to accumulate more volume. When a pattern is being created it has the added benefit of testing for supply and to see if there are many other traders trying to buy into the instrument.

Distribution

Once the instrument has been marked up it’s time to sell it off. This is carried out through distribution patterns. Typically there are either long patterns of sustained high volume or a climax in volume toward the top of the upwards run.

The best time to sell something is when there is a lot of demand for it. As such the best time for distribution is where the buyers are very excited about what you are selling. Increasingly high volume at the top of an upwards run is a strong indicator that an upwards run is coming to an end and it’s time to get out.

Markdown

Once stock as been distributed to the uniformed investor the floor is pulled from under the market and the price drops like a stone. Uninformed investors panic and sell out; the smart money has already taken their profit and have walked away with the money of the uninformed investor who now become gripped with down and self recrimination.

Once price starts to fall it tends to accelerate, the panic gets deeper and price gets rapidly driven down. Once it has fallen sufficiently for the smart money to become interested the price start to rise again.

Summary

The above is the pattern of the market. This is the way it's been for hundreds of years and it's the way it will be into the future.

As a trader when learn to recognise the patterns associated with each stage you can trade in harmony with the smart money. Once you do that not only does your trading become more profitable but it also becomes a lot more fun.

Patterns of Accumulation and Distribution

Accumulations – What They Look Like

It is important to recognise accumulation patterns when they happen. They normally signal the market maker preparing to move the price. When accurately identified they allow you to identify when things are going to happen, before they actually happen.

Accumulation patterns are like a signal flare on a battlefield going up. Something is going to happen. You need to get ready and prepared.

Another important thing to understand about accumulation patterns is that the price point at which the accumulations occur will be protected. If you are looking to spend a lot of money on accumulating a lot of stock then you will protect that price from any falls in price.

Properly identified they represent moments of low risk for longer-term traders.

Accumulation is evidenced in different parts of the cycle in different ways.

On the Bottom of a Price Fall

The most common way is have a sustained increase in volume towards the bottom of the fall. This is known as a selling climax. Typically this is evidenced by a number of days of increasing volume to a very high level on the bottom of a downward run.

In the Middle of a Price Rise

This it most often presented as large volume spikes with no increase in the range of motion or price spread. When you have a very large increase (as in multiples of the weekly average in one day) in volume that is normally smart money buying and accumulating the stock.

In the Middle of a Pattern

This is most often presented as above, large volume spikes with no increase in range of motion. This no increase in range of motion is important as it indicated that smart money with access to off market trading purchased those share.

Above is a chart of SWK showing the accumulation volume spike prior to the price running up.

How to Trade Accumulation Patterns

Accumulations are a strong signal of strength in a position.

Where the accumulation occurs look for a number of things:

- In a pattern, look for other signs of strength over the next couple of days or a breakout soon afterwards. The fact that an accumulation has occurred is indicative that the smart money wants to mark the price higher. They don't do it otherwise.

- In a range bound stock after the accumulation, look for either extremely low volume or a volume ramp up to the break out point (3 days of increasing volume) and a break out on high volume.

- In an up trend look for the next day's price action. If there is further signs of strength this can be an continuation entry signal or at the least a signal to hold the position.

Distribution Patterns – What They Look Like

Distribution can occur at the top of an up run, prior to a pattern failing or an announcement. Often distribution is occurring through very high volume after a very long run up.

Distribution is evidenced in different parts of the cycle in different ways.

At The Top of an Up Run

Distribution is characterised by high volumes at the top of an up run. This is known as a buying climax.

Mid-Move Consolidation

Distribution is often displayed by high volume in a mid move consolidation and the volume remains high through the pattern. This will occur in mid move consolidations on the way down.

In a Pattern Prior to Pattern Failure

Often pattern will show that look good but the pattern will have extremely high volume toward the end of the pattern. This is a sign of distribution prior to pattern failure.

Above is a chart of JRL. Note the very high volume immediately before the breakdown at the top of the pattern. This is distribution.

How to Trade Distribution patterns

Below are the options of what to do when you see distribution patterns. What you do depends on your risk tolerance.

- ***Get out***

When you start seeing distributions particularly if you see a massive volume spike at the top of an upwards run, strongly consider exiting your position. You don’t want to be the sucker holding it on the way down.

- ***Wait for reversal signal***

If you decide you want to stay in, put in a rising support trend line, and wait for a strong break below the price action. Exit

- ***Get ready to go short***

When considering going short you need to ensure that the signal you are taking is a genuine. Look for strong distribution and a strong break down on solid volume.

A Note on Probability

One of the most fundamental thing you need to come to terms with as a trader is the probability of a trade.

Before you take a trade you should consider what the probability of that trade being successful is. With every trade there is probability that it will be successful and there is a probability that it will fail. There is no such thing as a risk free trade.

Many trading educators will tell you that the probability of a particular trade setups is fixed or at a fixed number, like 70%. This is normally given as a definitive number. So the expectation would be that out of 100 trades of that setup you would get 70 percent of them making profit.

This concept of a fixed probability breaks down when you consider the extremity of market swings and unexpected events occurring in the market. In a highly volatile market the probability of a successful trade, unless it's a very short term trade can be considered to be low.

In a low volatility market the probability of a trade can be considered to be stable.

The important point is that the probability function of any trade is changing with market conditions. These need to be considered when you are making your trading decisions.

Conclusion

This eBook has been written to assist traders who are starting out in understanding the market and the content in this book only barely scratches the surface of the course I teach called the Insiders Game. In this course we teach about the tactics and traps that the smart money uses (and there are many of them) in order to take your money away from you or to confuse you into indecision or to make bad decisions.

The market is at the same time a grossly unfair uneven place, and a fair place. It's grossly unfair in that it is orientated towards the large investors and smart money. It's fair in that everyone trade gets to see the same information as everyone else.

How well you understand that information is reflected in how well you are trading and whether or not you are making money.

If you are interested and have learnt something reading this book then you should contact Stockcourse or Trading State to enquire further about the Insider's Game.

Good luck with your trading and I wish you every success in the world.

Michael Brook

TRADING
STATE

PS. As a special bonus, I have recorded a 1-hour video further explaining these strategies and techniques. To watch it now please go to this link:
http://www.stockcourse.net/education/the-insiders-game

PPS. Here is what some previous students have said about the course.

"Awesome! This course **changed my view of the market forever and will make me a much more profitable trader.** The playing field is far more even now! I started trading with a small amount of money at beginning of the course, using your

principles and am stoked with results so far - 10 winning trades 1 losing, average 12% gains with an average holding time 24 days. Course well worth the money and with some hard work will, I believe **set me up for future financial freedom.** Love your work Michael (and Lyn) and appreciate the tools I have been given in the last 6 weeks. Thanks heaps."
Gavin Lowcock

"This was an excellent course - Michael's passion for this material is very evident and he is great teacher. Anyone who covers this material will be a much better trader by the end of the course. **The content is superbly structured and very well delivered.** My trading knowledge and ability has jumped to a whole new level and Michael has **provided me with a whole new set of skills and knowledge to continue learning and improving as a trader.** The course was exceptionally valuable and I think every single person who completed the course is a much stronger trader than they were at the beginning. The structure of the material was excellent and broken down into manageable chunks. Michael also wanted to go over and over key points to make sure the concepts were clearly understood, which was excellent. Each piece of material was thoroughly delivered and explained."
Darren Page

"The Insider's Game has made a huge difference in my trading, with 90% wins at the moment. I have cut a few short but am focused on matching my old work salary, not working now, which I'm doing very well. I would like to thank Lyn, for having an open, broad based view on trading and bringing Michael to our table, as I feel this course has came easier to me than options have, and feel this will be one o f my major skills going forward. It has given me great confidence and has reassured me that quitting my job was the right thing to do. It will give me more time to gradually broaden my knowledge base and if there is a second Insiders Game 2, I will probably do that next time around, as I am about to do a trek through the Alpines in a 4wd with my son, who ever thought I would have the freedom to this! **The Insiders game and the money from it has allowed me to quit my job, pay for the courses, buy a 4wd, travel, have the time to do things properly for a change, and inspire others to have a back up plan.** It's funny but I'm starting to become a teacher to some of my friends that you can do anything if you are driven. Again many thanks."
Ken Tattersall

"**Best money ever spent,** it's a bit like being given a legend to a map!"
Jacque Toole