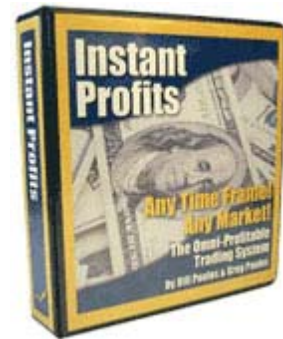


"Who Else Wants To Discover The Trading Secrets That 95% Of All Traders Don't Even Know Exist... And Could Give You An Edge That Most Traders Only Dream About..."



Welcome to **Instant Profits!** This is a special “sneak preview” chapter of my omni-profitable trading system. After 30 years of trading the markets, I distilled the best of what made me successful in the markets into an easy-to-follow trading course that I call “**Instant Profits**”. The course is made up of the following parts:

- The **Instant Profits** Manual, including over 40 charts and 50 example trades.
- Over 75 minutes of screen capture video tutorials on CD-ROM.
- A 90 Minute DVD of my “sneak preview” Instant Profits seminar.
- 4 trading “blueprints”.
- Lifetime customer support – just drop me an e-mail and I’ll answer all your questions because I want you to be successful!

This “sneak preview” chapter is just a tiny part of the 150 page manual. It’s meant to give you a glimpse of the manual, but the true “meat” of the system is only available when you purchase the course. I’m so confident that **Instant Profits** will help you that I want you take 90 days to evaluate it 100% satisfaction guaranteed. If you truly feel that **Instant Profits** hasn’t taught you anything about making money in the markets, I’ll give you a full refund.

When you’re ready to order the complete **Instant Profits** course, just click on the following link:

<http://www.instantprofitstoday.com/>

I worked hard to make **Instant Profits** easy to understand and easy to apply. I hope you enjoy everything it has to offer, and I look forward to seeing you become an owner of the entire **Instant Profits** trading course.

Good Trading,

A handwritten signature in black ink that reads 'Bill Poulos' with a stylized flourish at the end.

The Bad News and The Good News

The bad news is there is no Holy Grail of trading (see Myth #3). It simply doesn't exist. However, amateurs don't believe this and are ever hopeful of finding it. They go from system to system, chasing after the next sure thing only to be disappointed over and over again.

Amateurs think that they should be able to win on every trade, or practically every trade.

Amateurs believe it is possible to achieve a near straight line positive equity curve with no significant drawdowns. Amateurs usually abandon their latest trading method after a few losing trades in a row concluding that the method just doesn't work. Well, it should be clear by now that the reason most amateurs remain amateurs or give up trading all together is that they never stop believing and pursuing the Holy Grail.



So what's the good news? The good news is that the Holy Grail is not required to succeed in trading the markets. This is a very important piece of good news. You don't have to win on every trade to be successful. It's OK if you have a few losing trades in a row. As a matter of fact, every good trading system or method has losing trades as well as *successive* losing trades.

I have experienced the false beliefs of amateurs first hand, long ago, through my own experience. It was only after many frustrating false starts that I finally realized that the greatest obstacle to successful trading was my ability to accept losses. Whenever I would encounter a few losses I would quickly lose interest in the method and begin thinking about looking at something else. For whatever reason I wasn't able to accept

that there were losing trades and I was certain that if I looked long and hard enough that someone would have what I was looking for.

I know that we are all searching for that one elusive methodology or advisory service that will somehow have little or no losses and we therefore keep chasing after it. The truth is that it doesn't exist – believe me, if the Holy Grail existed it would have been found by now.

The big awakening for me was that this behavior actually kept me from making money, as I never could muster the discipline to stay with a winning methodology. My unwillingness to accept that there were losers really held me back as well.

And then it happened! I finally realized that losing is part of the game and is unavoidable with any good trading method. The only way to avoid losing is to not trade at all. So please do your financial future a favor and realize that losing trades are just part of the game.

Action Exercises

1. The Holy Grail of trading is not required to succeed in trading the markets. TRUE or FALSE?
2. Every good trading system or method has losing trades as well as _____ losing trades.
3. The only way to avoid losing is to _____.

Keys to Successful Trading

While the Holy Grail is thankfully not required to succeed in the markets, a winning methodology, risk management, and discipline are absolutely required. Without them, *you will lose*. Professional traders understand this. They do not get lost in endless analysis of the myriad of indicators, patterns, and methods. They find or develop a winning methodology and trade it over and over again, adhering to strict risk management principles.



Winning Methodology

What is a winning methodology? Well, it's a set of rules that tells you precisely how to enter the market, exit the market, and how much to allocate to each trade so that you end up with a Profit Factor greater than 1.00.

Let's look at the formula of the Profit Factor:

$$\text{Profit Factor} = \frac{\text{Avg. Winning Trade}}{\text{Avg. Losing Trade}} \times \frac{\% \text{ Winners}}{\% \text{ Losers}}$$

From the above formula, if the average winning trade equaled the average losing trade and the method wins 50% of the time, the Profit Factor would be 1.00 (see Table 1, System A). It should be self-evident that no money could be made with this method. The average winning trade must be greater than the average losing trade, the % winners

must be greater than the % losers, or both must occur to make money. A method that generates 50% winners and an average winning trade 1.5 times the average losing trade (including commissions and slippage) would have a profit factor of 1.5 (Table 1, System B). Or better yet, a method that generates 66% winners and an average winning trade 1.5 times the average losing trade would have a Profit Factor of 3.0 (Table 1, System C). Any trader that can consistently achieve a Profit Factor of 1.5 or greater will enjoy great success. A trader that can operate at a Profit Factor of 3.0 could become very wealthy.

System	A	B	C
Average Winning Trade	\$1000	\$1500	\$1500
Average Losing Trade	\$1000	\$1000	\$1000
% Winners	50%	50%	66%
% Losers	50%	50%	34%
<i>Profit Factor</i>	1.00	1.50	3.0

Table 1 – A Comparison of Profit Factors

The key message from the preceding discussion is that the Holy Grail is not required to win. A method or system that is only right 50% of time but generates average winning trades at least 1.5 times the average losing trades is all you need. This should cause you to realize that trading the markets from a small portfolio into a large one is possible.

Risk Management

It has been said that risk management is more important than the methodology one uses to trade, since an otherwise winning methodology ends up losing without proper risk management, but a mediocre methodology with strong risk management can end up winning. You hold in your hands a potentially *winning methodology* coupled with *strong risk management*.

I emphatically agree that risk management is the most important success factor. For example, if you have a winning method that wins on the average 66% of the time, the probability of 3 successive losing trades is 4%. That means you will lose 3 trades in a row 4% of the time for any series of three trades. Further, to illustrate the point, if you risk 33% of your initial capital on each trade you will eventually be wiped out. This is a clear example of a winning methodology undermined by extremely poor risk management.

Much has been written on this subject, its importance, and the means to scientifically calculate the amount that should be risked per trade, but I have found in order for a good trader to consistently apply sound risk management principles, that simpler is better.

The technique I use and strongly recommend to you is to simply risk no more than 1 to 2 percent of your trading account on each trade. By risk I mean the amount you are willing to lose, not the amount applied to make the trade. For a \$50,000 account, you would risk no more than \$500 to \$1,000 per trade. If on the next trade you bought \$10,000 of a stock and lost \$1,000, your account balance would be \$49,000, limiting your risk on the next trade to \$980 (2% of \$49,000). Unlike the example above, where 3 losing trades wiped out the account, by limiting your risk to 2% per trade, your account would be down only \$2,940 to \$47,060. On the other hand, as your account grows, you can risk 1 to 2 percent of the growing account balance which will allow you to grow the

account more quickly. A caveat here is in order. Successful traders with very large accounts will often risk no more than a half percent (0.05%) per trade to further limit risk. This is contrary to what amateurs do when they are fortunate enough to make money in spite of poor practices, only to give it all back by increasing the risk percentage per trade thinking they can do no wrong.

The importance of this simple rule should be self-evident. In order to become wealthy trading the markets, you need to stay in the game and the 1 to 2 percent risk rule will keep you in the game to give your methodology the chance to payoff in the long run. Remember, if you have a winning trading method individual trade outcomes are not important, it is the outcome from a series of trades that is important, where you know that the more trades you make the more likely you will be a net winner. This is, of course, what the casino models are based upon. They don't mind losses up to the house limit, because they know that the odds are in their favor and when the month comes to a close, the casino will be a net winner, time and time again. You want to be like the casino. Work your winning method with sound risk management so that you are not taken out of the game along the way.

Another important aspect of risk management when it comes to trading stocks or options is to not get caught with several long positions in a bull market reversal or with several short positions in a bear market reversal. The following is a way to hedge for this situation, which will occur sometime in the life of every bull and bear market. In a bull market, it is always a good idea to have one short position on (only those that would meet the criteria defined in this course) for every three long positions. And likewise, in a bear market, it is always a good idea to have one long position on (only those that would meet the criteria defined in this course) for every three short positions. When the market reverses, often times unexpectedly, you will be able to offset a good portion of the loss from the losing trades with the usually exceptional profit on the one winning trade.

Discipline & Psychology

The key message about discipline is that without it *you will lose*. It's that simple. So you think, "I understand that and so I will be disciplined in my trading." But this is where fear and greed enter into the picture along with an emotional rollercoaster that will truly test what you're made of. Remember earlier how I said that trading tested the very boundaries of my emotions? I wasn't kidding! You *must* master your emotions when trading. If you are trading a winning methodology and using sound money management practices, you will eventually have the following experiences:

- a) You will win several trades in a row or at least win most trades for a time. You will then start to feel pretty good about yourself and your trading ability.
Caution: You may then become reckless in your trading. Increasing the amount of risk per trade, ignoring stop loss points, or staying in a profitable trade hoping for more than your profit target. These actions driven by greed will cause your trading account to suffer.

- b) You will have several losses in a row. You will then feel depressed and think your trading methodology no longer works, forgetting that even good methodologies will have successive losing trades on occasion. **Caution:** You may then become reckless in your trading by increasing the risk per trade attempting to win back your recent losses all at once. Or more likely, you will abandon your trading methodology and jump to something else, only to repeat the cycle at a later date – this is the Holy Grail syndrome. Or you may give up trading altogether, concluding that it is not possible to win consistently.

- c) You will make several trades, but experience a number of winners and losers that leave your account at breakeven at best. You will become bored and possibly complacent. **Caution:** Again, you may become reckless in your trading; trying to make something happen that will break you out of your malaise and get back to

winning. This is called forcing the market to do what you want it to, which is never a good idea.

The emotional reactions to the foregoing set of experiences are precisely why most traders lose in the markets. They fall victim to one or all of these experiences. Winning traders, on the other hand, have learned that these experiences will occur, and when they do they stay disciplined, sticking to their trading methodology and risk management rules without wavering. This makes all the difference in the world and is the primary reason that winners are winners. Can you imagine a casino changing its gaming rules after losing several jackpots in one week or only breaking even for several weeks? Can you imagine a casino closing down after losing several jackpots in one week? No! Why not? Because, you know the casino will be a net winner if they simply stick to their methodology which gives them a winning edge. Winning traders do the same thing as the casinos – they stay disciplined and win!

Another way to look at this is through personal success coach T. Harv Eker's concept of your body's thermostat. When your home's thermostat is set to 70 degrees and you open the windows in the winter, the temperature will drop but eventually the thermostat kicks in and returns the temperature to 70 degrees. If you open the windows in the summer, the temperature will go up, but again the thermostat kicks in and brings the temperature back down to 70. The point is that your body, your mind, and your emotions work the same way. You've grown accustomed to a certain way of thinking and behaving and *reacting* – that's your body's thermostat. When you try to follow a new path, or attempt something that might seem a little awkward or unnatural at first, your internal thermostat brings you back to what makes you comfortable. It causes you to revert back to your old behaviors. To master your emotions with trading, you need to learn to adjust your thermostat to a new setting and *leave it there*.

Action Exercises

1. What is the formula to calculate a system's Profit Factor?

$$\text{Profit Factor} = \frac{\quad ? \quad}{\quad ? \quad} \times \frac{\quad ? \quad}{\quad ? \quad}$$

2. If a trading system is only right 50% of the time but generates average winning trades at least 1.5 times the average losing trades, will it make money over time?
YES or NO.

3. What is the maximum amount of money you should risk on each trade?

4. If you are trading with a winning stock method and you encounter three losing trades in a row, what should you do? _____

Notes

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Rev 15-20050110

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