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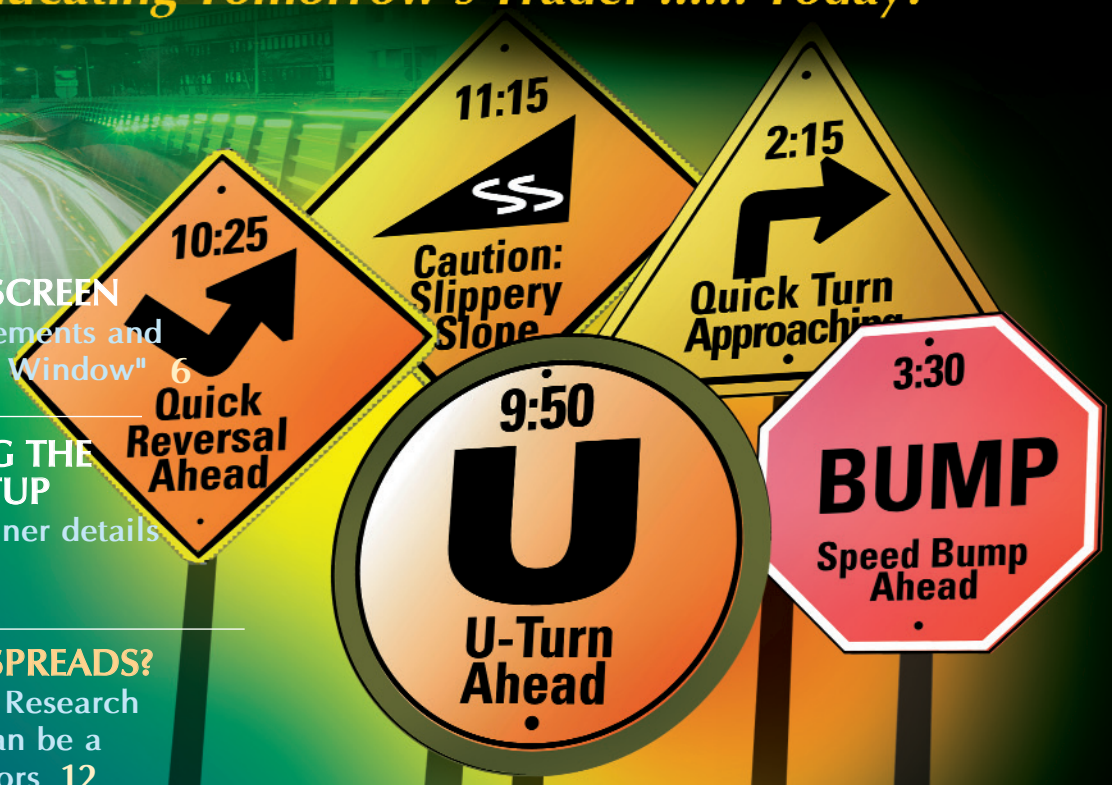
The Pristine View

Educating Tomorrow's Trader ..... Today!™

SUMMER 2003



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Oliver L. Velez and Greg Capra
Founders of Pristine Capital Holdings, Inc.

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A Word from our Chief Operating Officer

The Pristine View
Winter 2003 ~ Volume 2, Issue 2

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Imagine Pristine in its early days, a start-up company with a modest daily newsletter sent by fax from a Bronx, NY basement apartment to a single customer! Certainly, humble beginnings, wouldn't you agree? Just nine short years later, Pristine now serves tens of thousands of clients with free and paid subscription education and market intelligence on a daily basis. We grew by treating each and every client as we would our own family, providing knowledge, support, and encouragement on the way to self-empowerment. After all, isn't that what education is all about? For every student of ours who goes on to surpass the masters, we beam with pride. And that's why we often speak of our clients, as well as our employees and associates, as part of the "Pristine Family." We never forget that you, the client, are the reason for our success; and we are grateful for your continued support and loyalty.

We are extremely excited about recent developments. In February, we acquired Digevents, Inc., a leading edge company in the production and distribution of live and recorded online content. This purchase has truly catapulted us into the world of media. We now produce and present online courses (both live and archived) and CD's of our own material as well as that of other leading educators in our field. We've expanded our on-site education and venues as well, providing more than 200 seminars and workshops throughout the country and abroad per year. What's more, we've expanded our range of educational programs, with seminars, in-house laboratories, mentorships, and one-on-one coaching. Whether you are new to the markets or a seasoned professional, we have something for you. Take a moment and look through our expansive curriculum at www.pristine.com, or request our latest Course Catalog at 877-999-0979.

And now, we are pleased to welcome you to our latest, expanded edition of **The Pristine View**. This issue is forty percent larger, with more articles and powerful new content on trading the markets. We're sure you'll find some enjoyable and informative reading, with ideas and concepts to improve your investment and trading results.

In this edition, we present articles from both our founders, Oliver L. Velez and Greg Capra. Oliver provides insights into market timing focusing on key reversal periods throughout the market day. Greg addresses important concepts of The Pristine Method™ by delving deeper into Pristine Key Buy and Sell Setups, explaining nuances and refinements in our approach. We believe you'll find these articles both entertaining and enlightening.

Also in this issue, you'll find for the first time, articles from expert contributors outside our Company. Steve Lentz, Director of Education at OptionVue Research, offers insight into options trading in his informative article, **Why Trade Option Spreads?** And David Fleck, CPA, of Traders Accounting, writes an excellent article on the advantages of incorporation in **Treating Your Trading Activity as a Business**.

Enjoy and keep in touch. We like to hear from family!

Best,
Alan Himelfarb

The View From Inside

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Novice Notes
Using Your Level II Screen

By Paul Lange

If you are new to trading, you may have very little experience with a Level II screen. Level II data is the long list of buyers and sellers at various price levels for any stock. Some systems refer to it as a "market maker window" but it is more commonly known as the Level II screen as it displays Level II data from the exchanges, ECNs and Market Makers. A picture of a Level II screen is shown in figure 1.

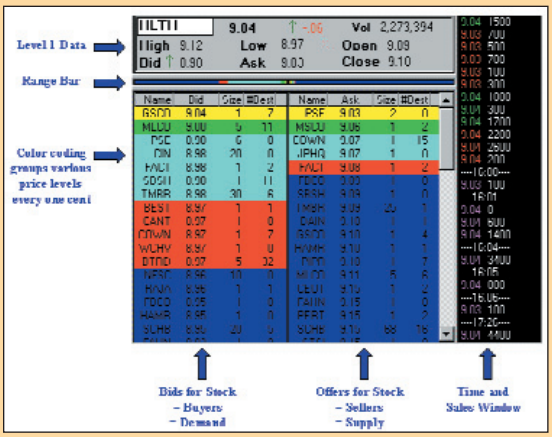


Figure 1

First, let's discuss some of the basics. The area on top is called the Level I data. Here is what most non-active traders (and brokers) are accustomed to seeing. Here you have the current "best bid", the current "best offer", and the last traded price. You may also elect to show many other items depending on the layout you choose. You may have the high and low of the day; you may have an up and down arrow telling you if the stock just traded up or down from its last price. You may have an arrow showing if the stock is on an "up-bid" (meaning the last high bid is an increase over the prior bid, mandatory for shorting a stock). You may also show volume, open and close prices, and you may even have a mini candlestick showing the current day's bar as it builds through the day.

The advantage of Level I data is that it is fast and available from a wide number of sources for free. Conversely, there is limited information compared to the many price levels and minute-to-minute feel for the market provided by the Level II screen. Though, during very fast markets, there can be discrepancies between Level I and Level II data, during these times Level I is usually more accurate and timely. For many swing traders (holding stocks two to five days) or core traders (holding stocks weeks to months), Level I may be all they ever need. In fact, for trading multi-day timeframes, a chart or two may be your only true requirement.

Now, if you enter and exit trades the same day using day trading or guerilla type tactics you will need to use a direct access trading (DAT) system to enter stocks at the best possible prices. The DAT system will provide a Level II screen. Here you will see the entire list of potential buyers and sellers and the number of shares they are showing. The potential buyers show the price they are willing to pay known as the "bid" on the left; and the potential sellers show the price they would like to receive referred to as the "ask" or "offer" on the right. The highest bid will usually be at least one penny lower than the lowest offer. When the bid and offer are the same, that buyer and seller have agreed on the price, completing the sale of stock and therefore their respective bid and offer is removed. Figure 1 shows a bid higher than the offer because it was taken after normal market hours. Market makers are not live after normal hours so the GSCO bid at 9.04 is not really there. This confuses many traders both pre-market and post-market. There are some other exceptions, but these are the basic concepts you'll need to get started.

The name column tells the user who is bidding or offering the stock. If the stock is listed-3 letters or less in the ticker symbol, like IBM-then the name represents one of the listed exchanges, such as NYS for the New York Stock Exchange. If the stock is a NASDAQ stock, the name will represent either a market making firm, or an Electronic Communication Network (ECN). This was discussed in a prior issue of "Novice Notes". In figure 1 the size has been set to show in 100s, so the best bid of 9.04 is for 700 shares. Odd lots are shown as 50s, which means 50 individual shares. The other column shown here is called "# Best" and it shows the number of times that either the buyer or seller was the only one left at the best bid or best offer. There are other column options you may include -- these, however are the most common.

Note that the prices are grouped by color. In the figure 1 example all the bids at exactly 8.98 are blue. At the next price level, all the bids at 8.97 are in red. Notice the range bar that graphically represents the number of total shares at each price level being bid or offered. This has much less value than many traders think. Most experienced traders do not even have this range bar showing. It is here for educational purposes only.

The time and sales window shows the last actual trades that were completed. When a buyer pays the offer price (takes the offer) the print is green. When a seller sells at the bid price (hits the bid) the print is red. If it is in between, the print is white. Purple is for irregular trades which includes after market and pre-market, among other things.

Strategic use of the Level II screen for trading is an area that has undergone continuous evolution. Many traders have been led astray by out-dated information, causing them to look for trading short cuts that no longer exist. Some years ago, before decimalization, there was a trading style known as "Level II trading". Level II trading relied solely on use of the Level II screen. Back then the spread between the bid and the ask was "one-eighth", "five-eighths", or even more on

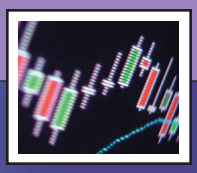
high-priced volatile stocks. This was a time when Goldman Sachs showed up as GSCO and ECNs were new to trading.

Currently, you must understand how things have changed and how little information you can really obtain from the Level II screen in terms of determining a stock's direction. Market makers can trade through any ECN they choose. They do not need to use their own name, and they can use their own name to show the opposite of their true intention! For example, you may see SCHB on the screen above with 6800 shares offered at 9.15. This makes it appear they are a seller. Since they are not near the low offer, they are not really selling. If the best offer gets near their price, they can just pull the offer. During this time, SCHB may actually be buying anonymously under the "alias" of any ECN. Market makers also leverage their technological advantage by employing techniques that allow them to trade stealthfully. For instance, an institutional trader might show a miniscule order of say 100 shares, but actually be buying thousands of shares using a process called refreshing. Using another technique known as an invisible bid, a market maker might show a price of 8.98 for instance, but really be bidding 9.04!

Sound confusing? Well, it can be. The bottom line is that with all the smoke and mirrors that are now deployed by major market participants on the Level II screen, there is not much point to the individual trader trying to divine the direction of a stock from Level II data alone. Yes, a large number of bids mean that you will have someone to sell to if you buy the stock but that may only last for seconds or minutes. And yes, it is nice to know that the "ax" -- the market maker most actively buying or selling a stock -- leaves the offer. The problem is that it is no longer easy to determine who the ax really is -- for it is very unlikely they would be using their own name. Besides, they may simply return to the offer after you have already bought the stock.

The bottom line is: use Level II to make sure a stock has sufficient liquidity to trade. It can be used for "micro entries" early in the morning before a chart has developed. It can also be used to determine the proper price to bid for a stock or offer it out. Just remember, you won't be making your living trying to beat the market makers at the Level II game!

The Six Steps: Refining the Pristine Key



By Greg Capra

Over the past ten years, we have taught scores of professional and semi-professional traders, fund managers and investors what is known today as the Pristine Key Buy Setup (PBS) and the Pristine Key Sell Setup (PSS). Later, as these Pristine Method graduates began to apply their new knowledge to the business of trading, many would contact us with questions like, "Greg, what are your thoughts about the XYZ stock PBS" or "Is the PSS on ABCD a high rated or low rated one?" Over time I realized that while our students understood the basic concepts behind these two specific patterns, they were missing much of what defines a high quality, high probability setup. I am not going to explain the broader concepts of these two setups here, as this is not the correct format for that. Instead, I will delve into the finer details of effectively selecting and managing these indispensable patterns -- the nuances the majority fail to see. While you can be certain that these details will increase your ability to find more reliable trades, you will also have to accept the fact that your trading opportunities will materialize less frequently. Refinement and higher quality always come at a cost. Once you understand these refinements, then the decision will be yours to make: Quality or Quantity?

What follows are the six key steps that those who have achieved Pristine Trained Trader (PTT) certification use to qualify Pristine Key Buy Setups and Pristine Key Sell Setups of the highest caliber.

Step 1

Define the quality of the individual bars

The open of each bar in relation to the close of the prior bar is one of the major keys to determining the quality of the setup. When the vast majority of investors are certain or confident in a stock or an index, the bars, or in our case candles, do not gap or trade more than 20% or so into the prior candle's high to low range. This makes for cleaner candles. Ideally, these cleaner candles have an open that is very close to the area of the prior candle's close. This continues from candle to candle throughout the pattern, forming what I like to call a tight pattern. What you need to do is focus on the candle bodies, not the upper and lower tails. The body or range between the open and close of each candle is most important. The tails, or area at the outer edges above and below the main candle body, have minor importance.

Another important point to remember is this: During the decline into a PBS, each candle's close should be under the opening price of the prior candle. The same is true in reverse for the PSS.

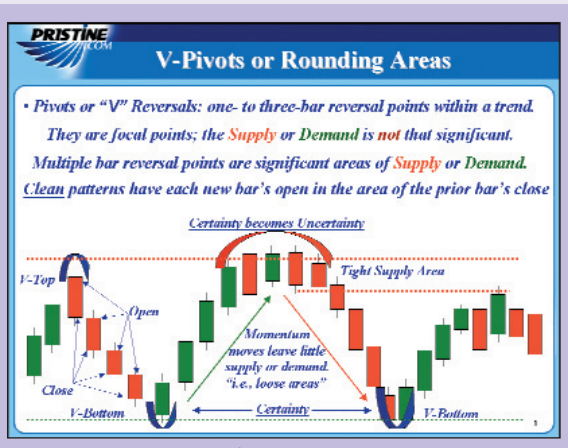


Figure 1

Step 2

Define the potency of the trend or the main direction of strength

There are only three major trends to speak of: The Up Trend, The Down Trend and The Sideways Trend. I do not consider the formation of a Bullish Changing of the Guard (+COG) (a dynamic trading pattern that we teach to all our students) in a downtrend or a sideways trend a true PBS. In fact, neither is a Bearish Changing of the Guard (-COG) in an up trend nor sideways trend a true PSS. While potent in their own right, when these chart patterns form against the prevailing trend, they are nothing more than reversal patterns that suggest scalping opportunities for aggressive traders. By virtue of their conflict with the prevailing trend, they do not earn the status of a Pristine Buy or Pristine Sell Setup. The reason for this is simple. Counter-trend trades do not provide the same odds of overcoming a prior high or low. A PBS or PSS qualified by these six criteria and traded in the same direction as the prevailing trend will, in most cases, out-perform the counter-trend trade hands-down. We do teach several tactics that are specifically designed for trading against the trend, but traders first need to understand the what, the when and the why of doing so. In short, the old saying, "The trend is you friend" rings just as true for trading the PBS and the PSS.

Step 3

Define the origin of the trend

Ask yourself: Did the up or down trend ignite from a broad sideways base or did the move originate from what we call a V-pattern (reverse V-pattern for tops)? Trends that are born or begin from bases are far more reliable, as supply/demand has been allowed to increase over time, which creates greater certainty. Conversely, V-patterns (steeple-like tops and V-like bottoms) are weaker and often require a retest before they gain true momentum. The exception to this would be a reverse V-top or V-bottom that kicks off an extremely powerful initial thrust. I define an extremely powerful initial thrust as a move that starts from a Wide Range Bar (WRB). A WRB is an abnormally elongated bar or candle, measured from high to low and from open to close. The candle body length is what displays the thrust we are looking for, not the exact high and low marked by the wicks that may be on either end of the real body.

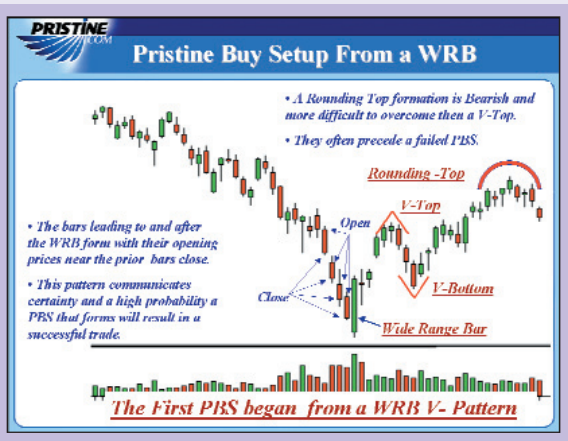


Figure 2

Step 4

Define the areas from which the pullback begins

Unlike the origin of the major trend, pullbacks after the trend has begun should actually start from a V-pattern, not a base. This creates a small, relatively insignificant, area of supply/demand to overcome. After an initial rally, a sideways base will occur when traders are becoming overly confident. In other words, the market participants are so complacent that they don't feel compelled to take profits on the heels of the rally. Once a pullback does occur, dashing the hopes of these confident players, a larger area of overhead supply is created. The potential for the stock to be unsuccessful in its attempt to overcome this area increases, as does the potential for a failed PBS or PSS. On the contrary, a normal reversal against a trend, one that is formed within 1 to 3 bars, communicates a healthy degree of skepticism, fear, and disbelief that the trend can continue. This skeptical mindset is what causes traders to take profits quickly, which in turn is what forms the V-like reversal patterns we prefer. These tops and bottoms provide greater odds of being exceeded, after a PBS or PSS forms in the direction of the prevailing trend.

Step 5

Define the area where the PBS or PSS has formed

Ask yourself: Does the reversal occur near minor or major support or resistance? Reversals that occur at minor areas possess a higher probability of moving beyond the prior high or low. Reversals that occur at major areas tend to fail overcoming the prior high or low. Therefore, it is important to keep in mind that pullbacks (those within a well-established trend that bypass minor areas of support-or-resistance "SOR" and revisit major SOR) are denoting weakness. This weakness creates uncertainty in the prevailing trend, increasing the odds that profit taking will take place before the stock is able to overcome the prior high or low.

Trading Tip: *At times a PBS or PSS may form without minor or major support-or-resistance (SOR) to the left. This is acceptable after an extreme momentum move.* The strength of such a move creates a high level of confidence, which automatically establishes the supply/demand for a PBS or PSS, without the need for other forms of major or minor SOR.

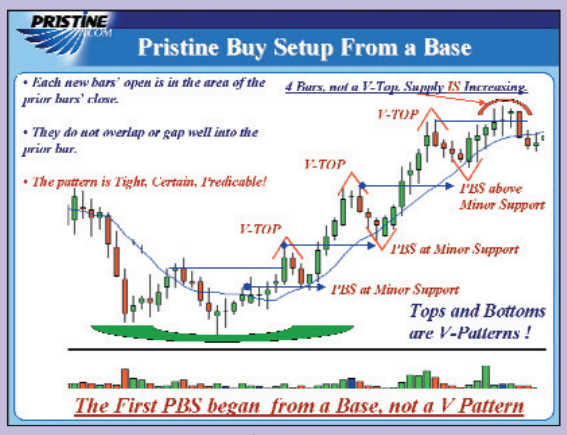


Figure 3

BY GREG CAPRA

Step 6

Confirm the overall quality of the PBS or PSS

As covered above, after the major trend is established, the subsequent Pristine Key Buy Setups or Pristine Key Sell Setups should materialize in the form of V-tops or bottoms. This V-pattern communicates great certainty that buyers or sellers are undeniably aggressive. This being emphasized, it is important to consider the impact of the following circumstances:

1) A PBS with a Topping Tail (TT) and a PSS with a Bottoming Tail (BT) must always be viewed with suspicion. The best of these setups always form strong closes of the current (last) bar -- at or near the high for the PBS or the low for the PSS.

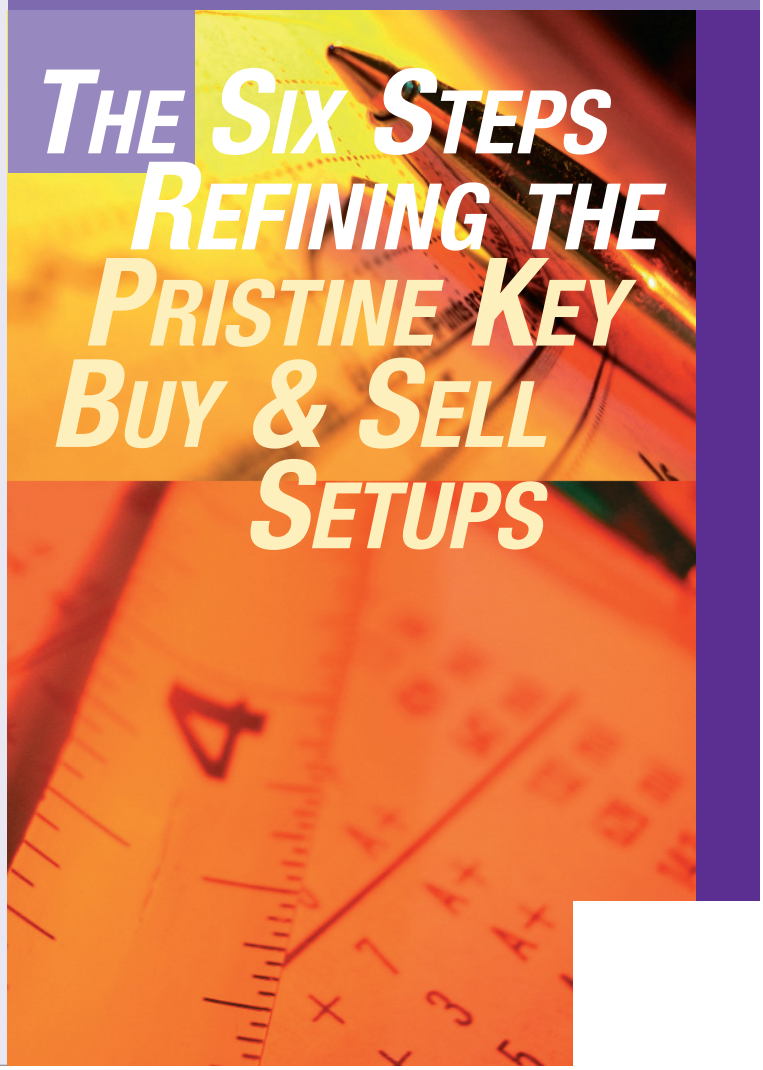
2) A PBS or PSS that contains significantly more than three bars conveys that traders are less confident than they were in the past. This often leads to a failure at or near the prior high or low. When there is a strong belief in the prevailing trend to buy the dips or sell the rallies, confident traders quickly seize the opportunity presented. This in turn forms the well-defined V-patterns that we like to see in our PBS and PSS setups.

There you have it. These are the six steps used in refining the Pristine Buy/Sell setup. They are all equally important and do not have to be applied in any particular order. Study them and completely understand their power. They will give you reliable clues -- even speak to you, if you will -- regarding: a) the potency of the existing supply and demand, b) the probability of a trend's follow-through, and c) the psychology of the participants trading at the time.

Always remember, that while a chart pattern is a graphical representation of supply and demand, it is also a thought pattern -- an X-ray, if you will -- allowing the astute trader to peer into the heads and hearts of participating market players. Pristine Traders, who learn and utilize the six step filter, will gain an insightful edge in gauging market participant conviction. And in the end, it is these combined convictions that make markets move. So when you see your next PBS or PSS, run it through the six steps. If it meets the criteria, the odds are extremely high that you have the start of a winning trade.

Always remember, that while a chart pattern is a graphical representation of supply and demand, it is also a thought pattern-an X-ray, if you will-allowing the astute trader to peer into the heads and hearts of participating market players.

GREG CAPRA



Why Trade Option Spreads?

By Steve Lentz, Director of Education, OptionVue Research

Perhaps you've heard stories of traders who've made millions of dollars trading stock options. Such stories do have some basis in fact. How did they do it? One word: leverage. The leverage available with options is one of the essential qualities that make buying options attractive. Combine the limited risk and unlimited profit potential of a call option and you have a powerful tool for speculators.

For example, an option that costs 30 cents can easily multiply in value with just a modest move in the underlying stock. By continually reinvesting the winnings from those types of trades, you could conceivably achieve mammoth-size returns. But that trading style comes with an equally daunting downside. That 30-cent option could easily go to 10 cents in a single day, with the trader losing 66% of his investment. If you consistently put half of your portfolio into such trades, the potential for disaster will never be far away.

It is this potential for large losses that give option trading a reputation for being "too risky". However, it is our contention that options, properly utilized, can play an important role in any trading business, helping a trader to both increase profits and limit losses. All it takes is a little education to understand how options work and, of course, disciplined trading practice.

To start you on your way, we will first compare owning a stock outright with buying a call option. Then we will show how the long call position performs relative to an option spread -- a combination position that includes both a long and a short call. Along the way, we will explain how to use risk graphs to understand the profit/loss potential of any trade. Getting comfortable with these graphs may take some time, but it is well worth the investment.

Risk graphs rely on mathematical models to present information on which you can base your option trading decisions. By graphing the potential profit/loss of a trade against relative prices of the underlying stock, we can get a good idea of our risk/reward ratio and probability of making a profit. But there is an additional variable that significantly affects the value of an option: Time. So the risk graph of an option position contains multiple lines, enabling you to see the effect time will have on your position.

Let's start by looking at the purchase of 100 shares of IBM at $79.33 per share, for a total cost of $7,933 (for simplicity none of our examples include commission costs). Below is a Graphic Analysis of this long stock position:

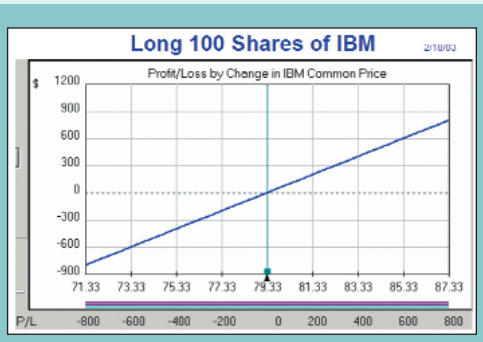


Figure 1

The X-Axis of this graph represents the price of IBM stock. The Y-Axis represents the dollar amount of the trade's profit or loss. The solid blue line shows the profit or loss of this trade at various prices of the stock. The point where it crosses the dotted zero line is our breakeven point. That is the price where we neither make nor lose any money.

As the price of IBM stock goes up, we move to the right along the blue line. If the price of the stock rises $2.00 to $81.33, then our profit will be $200. If the stock price drops $2.00 to $77.33, we will lose $200 as displayed in the P/L guide underneath the graph. This means that the risk to reward ratio for buying stock is 1:1 (on a normal distribution).

Now, let's look at purchasing a March 80 call option. The option controls the same 100 shares of stock. The "80" means we have the right (but not the obligation) to purchase the stock at $80 per share, and "March" indicates that this right expires on the third Friday in March. The call option was purchased for $3.40, costing us a total of $340. Below is the Graphic Analysis of this long call position:

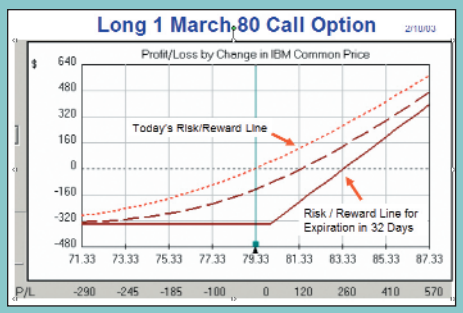


Figure 2

The X-Axis of the graph still represents the price of IBM stock, and the Y-Axis the dollar amount of the trade's profit or loss. But as we mentioned earlier, time has a significant affect on the value of an option, which is represented by the three red lines within the graph. The dotted line depicts the risk/reward profile as of today, and the P/L guide below the graph shows the figures for this line. Do you see the positive risk/reward ratio that occurs with this near term line? If IBM immediately increases $2 to $81.33, the long call position makes $120, while a $2.00 decline yields a loss of $100.

This option expires in 32 days, and the risk/reward profile on that day is shown by the solid line. The dashed line in-between represents the trade in 16 days, halfway to the expiration date. Following the zero (breakeven) line across, you can see how we move from breaking even on the dashed line at $79.33 and slowly move to the right until the solid line representing the trade on the March expiration day crosses the break-even line at $83.33. This phenomenon is due to time decay, the enemy of option buyers, and one of the main drawbacks to purchasing options. IBM must move up $2.00, or 2.5%, within a month for this trade to just break even.

Now let's directly compare purchasing the long call option with simply buying the stock. The risk graph below shows the long March 80 call option in 16 days with the long stock position superimposed on it. The Profit/Loss (P/L) guide below the graph shows the figures for the amount gained or lost by the long call position.

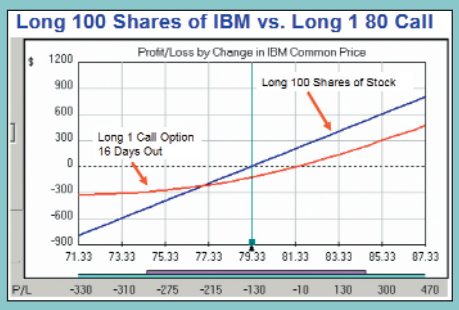


Figure 3

If you remember, owning the stock itself had a risk/reward ratio of one-to-one. The option position on the other hand shows a loss of $215 if IBM declines by $2.00 in 16 days, and if the stock price goes up by $2.00, the option still loses $10. Notice that the two lines cross at roughly $77. That means if the stock ends up higher than $77 in 16 days, you would be better off simply owning the stock. Based on the price action relationship alone the risk/reward of owning the stock presents a much better scenario. However, the overall cost, and thus the risk, of each position is very different.

Remember that you had to pay $7,933 to buy the stock, but only $340 to purchase the option. That lower cost to control the same number of shares is what makes the option a leveraged position. On the downside, both positions have a possible loss of 100%, and no more. For the option, that means a loss of $340, but if IBM were to go bankrupt (admittedly unlikely, but a couple years ago I would have said the same for Worldcom), you would lose $7,933. More importantly, past $77.00 your losses mount quickly if you own the stock, but with the option position you can lose the $340 and no more.

Long option positions have their place in any knowledgeable trader's toolbox, especially in situations where you expect a relatively quick move in the underlying stock price. Nevertheless, the major drawback of any long option strategy is time decay. Day by day, time decay can erode the value of your position, causing a trader's bottom line to deteriorate.

So what's an option trader to do? The answer is: sell options. That's right. Not only can you buy options, but you can sell them as well. When you buy and sell different options of the same type (call or put) at the same time you create what is called an option spread. And option spreads can help put the odds in your favor.

Since you collect a premium on the option sold, a spread requires even less capital than purchasing an option. It also tends to make more money than buying an option when you expect to hold a trade for more than a couple weeks because selling the other option lowers your breakeven point. An option spread also behaves differently than a long option position, since the spread takes time to develop, requiring less attention on the trader's part.

A spread also has the same limited risk as purchasing an option. You can only lose the amount you paid for the spread and no more. But while profit potential of a long option is unlimited, the value of a spread can increase only to the difference between the strike prices of the two options. An example of an option spread is shown in the illustration in figure 4. Here we've purchased a March 60 put option, and at the same time sold a March 75 put option:

The Profit/Loss line shows this trade in 16 days, halfway to the expiration day. Notice that the risk/reward ratio is a very favorable 5:1. This trade loses just $25 if the price of

Why Trade Option Spreads?

...CONTINUED

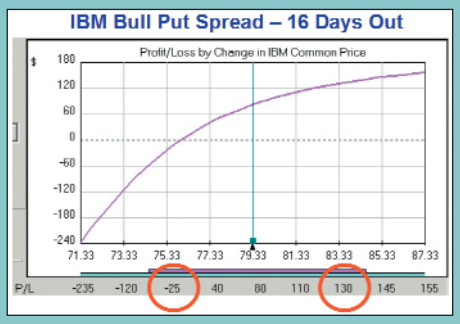


Figure 4

IBM stock declines by $4.00, but earns $130 if IBM increases by $4.00. This is a clear demonstration of how option spreads can place the odds in your favor.

To further understand the basics of options, refer to the resource list at the end of this article. Once you gain some fundamental knowledge, you'll be well on your way to executing these odds-enhancing option strategies with confidence and consistency -- significantly enhancing your well-balanced trading program. Good luck and good trading.

Recommended Resources:

Courses:

"Trading Options 101" - with Steve Lentz
"The Options Intensive" - at the CBOE's Options Institute
"Options Trading the Pristine Way" - with Dan Gibby

Books:

Simple Steps to Options Trading Success, by Steve Lentz and Jim Graham
High Performance Options Trading, by Len Yates (to be released this summer)
Getting Started In Options, by Michael C. Thomsett
Using Options to Buy Stocks, by Dennis Eisen, Ph.D.

Software:

OptionVue 5, Options Analysis Software
OptionVue Research.com (online analytical tools and scanners)

Author's Bio:

Steve Lentz is the Director of Education and Research for OptionVue Research, Inc. In addition to developing curriculum and teaching courses on options strategies, trading, and software he conducts continuing research into the use of options as part of a profitable trading approach.

An active trader in equities, futures, and options Steve has studied the financial markets for many years, and has written numerous articles on topics ranging from beginner-level trading concepts through advanced technical analysis. Steve has recently completed producing three seminars on CD for Pristine Trading University which can be found at: http://www.pristine.com/seminars/seminars_online.htm

Reversal Times: The Master Key to Well-Timed Micro Trades

By Oliver L. Velez

Every so often a professional trader who dedicates the vast majority of his working hours to the market makes an amazing discovery. Some of these discoveries are minor but still offer benefits that can have a palpable effect on the progress and profitability of one's trades. Then there are the major discoveries, the ones that come once or twice in a lifetime and have the potential to revolutionize the totality of one's trading life forever. A little more than a decade ago, the day-to-day trading of stocks and other financial instruments inadvertently led us to such a discovery. And I'd like to share part of that discovery with you. Here it is: there are very specific time periods each day around which stocks, sectors and the general market as a whole consistently experience pronounced price reversals. These Reversal Times, as I like to call them, are so uncannily accurate that many of our trading students and subscribers use them as the primary basis for every single one of their micro trades. In fact, the potency and accuracy of these time frames has compelled us to rely on these specific periods (there are eight in total) so completely that we encourage most of our traders in training to only take micro trades if and when the signals to act on them occur at or near one of the eight reversal times. It should be noted that these reversal times are intra-day in nature. They serve as an incredibly valuable tool for micro traders who constantly look to exploit small but tradable price moves within a single trading day. It should also be noted that these time periods have not changed. So far, they have stayed the same day in and day out. I truly believe that what I'm about to reveal to you will help take your intra-day trading skills to higher levels of trading mastery.

Let me now carefully define each one of the reversal time frames, and review their idiosyncrasies and tendencies, for each reversal time is unique and possesses its own individual character.

The Eight Reversal Times Defined and Explained

There are eight key time periods around which stocks and the market in general tend to consistently turn or reverse. They are as follows: 1) 9:50 - 10:10; 2) 10:25 - 10:35; 3) 11:15 - 11:30; 4) 12:00 - 12:15; 5) 1:15 - 1:30; 6) 2:15 - 2:30; 7) 3:00; 8) 3:30. All times are Eastern Standard Time.

Let's now delve a little deeper into each.

1 9:50 - 10:10 EST This is the first of the eight reversal times, and it happens to be one of the most significant. Frequently, a stock that is moving up sharply into this reversal time zone will either stall or completely reverse and head lower. The same is true of a stock heading in the opposite direction. A stock that is moving down into this reversal time zone will tend to stall or completely turn and head higher. It should be noted that these turns are not always complete reversals, but retracements or micro turns that will offer the astute intra-day trader a decent profit-making opportunity, especially if the move preceding the turn was very robust. There is a very good reason why the 9:50 to 10:10 period is one of the more potent reversal times and why it often produces the most abrupt turns in stocks and the general market. It's because the activity in the first 20 to 30 minutes of trading is often driven by an accumulation of pre-market and overnight orders that have been placed on the books of specialists and market makers. An individual stock's character, or a specific sector's strength or weakness, or even the broad market's overall bias is often temporarily affected by the sudden execution of these pre-market orders. In other words, the first 20 to 30 minutes of trading are often "painted," inadvertently and advertently, by the natural backlog and sudden execution of all these pre-market orders, created during the market's 17.5-hour close (overnight/European). This gives the market and individual stocks a 20 to 30-minute bias (up or down)

that often fades, stalls or completely reverses after the backlog of orders has been satisfied. Needless to say, this tendency sets up a tradable opportunity for those who are aware of it and prepared to act. Astute micro traders trained by our firm use several micro time frames (largely 5 and 15-minute charts) to look for stocks that are showing the noticeable signs of change between 9:50 and 10:10 am. We will cover the signs you need to know and how to identify shortly.

2 10:25 - 10:35 EST This is the second reversal time and it also represents one of the more potent ones. By the time this period comes along, the market will have revealed its true bias for the morning, making sound trading signals more reliable. A stock that is moving down into this reversal time zone will tend to either stall or reverse back to the upside. If a stock is moving up into this time zone, it will often halt its advance or reverse and head lower. Once again, our trained micro traders predominantly use 5 and 15-minute charts to look for stocks that are showing the signs of change between 10:25 and 10:35 EST.

3 11:15 - 11:30 EST This reversal time tends to accomplish two very important things. First, it tends to halt the prevailing trend preceding it, just like all the other reversal periods. For instance, if the E-mini S&P 500 futures contract is rallying strongly into the 11:15 to 11:30 time zone, chances are its advance will either be abruptly halted or a partial-to-complete reversal of that advance will ensue. We have further found that the stall or reversal that this time zone puts in tends to be enduring in nature. In other words, tops or bottoms made between 11:15 and 11:30 have a tendency to remain in place for several hours. The second thing this reversal time accomplishes is the kick-off of the period we commonly refer to as the mid-day doldrums. The mid-day doldrums is an elongated period that spans from 11:15 to 2:15. It represents the most troublesome period for micro traders because during this extended time zone, many stocks, as well as the market as a whole, often go into a major lull. Follow-through during the doldrums is usually sparse at best and absent at worst, resulting in a higher than normal failure rate in all micro trades. If there is one period during which we wish we could force traders to take a departure from the markets, it is the mid-day doldrums. All of our traders are encouraged to take a break or at least to trade very lightly during this time. We've seen too many traders allow this "black hole" in the market to reclaim their hard won profits from the first part of the day. "Stay away if you can. Trade lightly if you must." That is our general rule of thumb.

4 12:00 - 12:15 EST We have found this minor reversal period to be most important on days in which the majority of the morning has been quiet and/or directionless. Despite the fact that it is in the mid-day doldrums period, we have seen the 12:00 - 12:15 time zone ignite some significant moves in both directions, but only when the preceding period was very quiet. Keep in mind that these 12:00 - 12:15 reversals are far less common than the three preceding reversal periods.

5 1:15 - 1:30 EST This is another minor reversal period but its reliability is very high. We have found that 1:15 to 1:30 reversals in stocks (when they do occur) are most significant when they coincide with the retest of a prior high or low. For example, let's say XYZ tops out around 11:15. After a pullback, it rallies back to retest the 11:15 high during the 1:15 to 1:30 time period. The odds of a sharp pullback are dramatically increased, because the retest of the prior high is coinciding with the 1:15 - 1:30 time period. The retest of prior tops and bottoms synchronized with the 1:15 to 1:30 reversal time can present some very potent trading opportunities.

6 2:15 - 2:30 EST This time period puts an end to the mid-day doldrums period. It also serves as a very reliable reversal period for stocks and the general market as a whole. The most important thing to remember about the 2:15 to 2:30 time is that it often marks the precise period when things start heating up again. In other words, the sectors in the market that were exceptionally hot or weak before the mid-day doldrums will often resume their original up or down trends shortly after the 2:15 to 2:30 reversal period. In fact, the tendency for stocks to reverse between 2:15 - 2:30 is so pronounced at times that many of our trained traders regard the period as the market's second open. Is this always the case? No. But it happens enough to make special note of it.

7 3:00 EST This minor reversal time often brings change because it coincides with the close of the bond market. Bonds often have a pronounced affect on the equity market. When they have served as a nemesis for the market all day, their close at 3:00 will often represent a relief to equity traders, and the market will experience a bullish reaction. If, however, bonds have served as the underlying support for stocks, and is the main reason for the day's bullishness in equities, the closing of the bond market will be construed as the stock market having lost its number one ally. This perception will often result in a negative reaction. To summarize, once U.S. bonds are out of the way, they can no longer help or harm the market. This often results in stocks or the market taking on a slightly different character. Please note that we have found the 3:00 reversal time to be most valuable as a guide for S&P futures and the corresponding e-mini contracts.

8 3:30 EST We have found that this time often reverses any move ignited by the prior 3:00 reversal time. For instance, if the market starts dropping at 3:00 and continues to do so right into the 3:30 reversal time, the odds increase that the next short-term move will be up. The same situation occurs in reverse. Keep in mind that the last half hour is one of the most active for many day traders, as it often represents the last substantial flurry of activity.

9 4:00-4:15 EST Though we stated that there are eight reversal times to be aware of, we do not want you to forget the fact that we are fast approaching a 24-hour trading environment. As post-market activity proliferates and exchanges all over the world continue to merge and unite via electronic systems, this period will gradually become more significant, resulting in the ninth reversal time. Even though we are not quite there yet, our traders are beginning to take advantage of this developing reversal period via the e-mini futures contracts. If your trading system has the ability to track these contracts after the official close, we encourage that you monitor this time frame carefully. We are betting that its future importance will be significant.

Below, in figure 1, I show a 5-minute chart of a single day in the life of the E-mini S&P 500 futures contracts. Each one of the 9 key reversal times (including 4:00) has been marked off for your review. While every single reversal period won't produce a significant move, this chart shows that the occurrence of turns and periods of stalling at these specific times is significant enough to help the micro trader dramatically improve his timing of trades. After viewing this chart, do you now think that you might be able to trade the E-mini S&P 500 futures (or even the S&P SPDR ETF) with a higher degree of accuracy? I bet you can. Let us now look at how our traders are taught to profit from this knowledge.

Figure 1

How the Master Trader Plays Reversal Times

We have found that the best way to exploit the eight reversal time frames for potential profits is via one of the most reliable chart patterns we teach, namely, the Climactic Buy Setup (CBS). Of course the sell or short version of this powerful chart pattern is known as the Climactic Sell Setup (CSS). Using predominantly 5 and 15-minute real-time charts, the master trader would look for a CBS or CSS to form in a stock at or near any one of the eight reversal time frames. A trade would only be taken if this pattern called for action right at a reversal time. Climactic Buy Setups and Climactic Sell Setups can and often do happen at any time throughout the trading day, but the ones that occur at or near one of the eight reversal times tend to be far superior in terms of odds, quality and accuracy. In our system, on a quality scale from 1 to 10, the Climactic Buy Setup and its corresponding sell setup rate an 8. A CBS or CSS that triggers at or near a reversal time is considered a 10. Let's quickly go over what a Climactic Buy Setup is and explore why this simple price pattern has continued to deliver powerful results for our traders year after year.

•**The Climactic Buy Setup:** This simple but powerful price pattern is comprised of five basic criteria:

Criteria 1: On the 5-minute chart, the stock or underlying item must have formed five or more consecutive red bars, or five or more lower highs. Either will suffice. Of course, the 15-minute micro trader would require five or more consecutive 15-minute red bars or five or more lower highs. Just keep in mind that our trained traders look for this Setup on the 2-, 5-, 15-minute and 60-minute times frames. For the sake of simplicity, I will describe the mechanics of this pattern and its required action using the 5-minute time frame. Just know that each of these time frames is equally applicable. I will also focus on the Climactic Buy Setup and leave it to your understanding that the Climactic Sell Setup is simply all the criteria and actions reversed.

Criteria 2: The stock or underlying item must form a narrow range bar (NRB) or what we call a bullish changing of the guard bar (+COG) on the fifth bar or beyond a bottoming tail (BT). More on this later.

Criteria 3: The stock must show a noticeable pick up in volume on or near the BT, NRB or +COG.

Criteria 4: The stock's current price must be unusually far from the chart's 20 period simple moving average (20MA). We tend to use a "2% or greater" guideline.

Criteria 5: All of the above four criteria must occur at or near one of the eight reversal time frames.

The Action: Once the CBS has occurred and all five criteria are met, there are only three action steps required to exploit the opportunity. These steps are simple and easy to employ. Let's quickly go over them.

Action Step 1: Buy just above the high of the BT bar, the NRB and/or the +COG bar.

Action Step 2: Place a protective stop (this is usually in the form of a mental reference point) just below low of the BT, the NRB and/or the +COG bar.

Action Step 3: Look to take profits at or near the overhead 20 period moving average (20MA).

I have provided a few examples (figures 2 - 6) of the Climactic Buy Setup and the three Action Steps required to exploit the pattern. A careful review of these examples will drive the entire concept home. Please take the time to study each one.

Figure 2

Figure 3

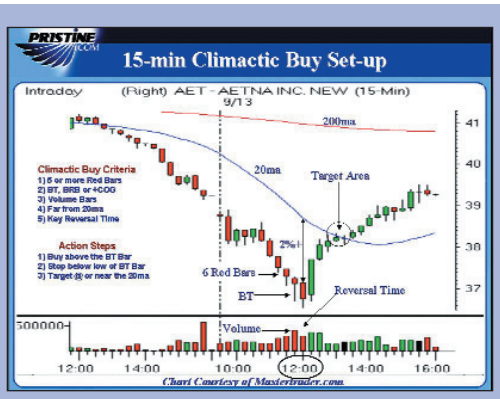


Figure 4

Figure 5

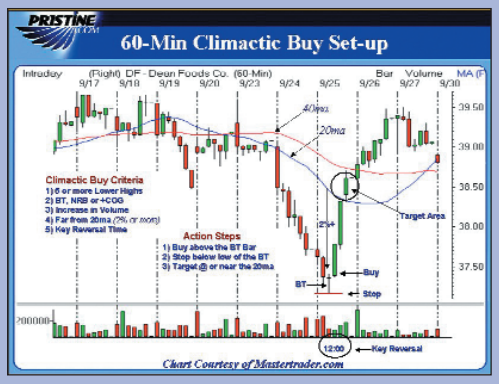


Figure 6

Conclusion

That's it. We are done. You should now know what to do, when to do it and how to do it. In other words, you now understand precisely how to define and find your opportunity by using the five basic criteria which make up the Climactic Buy Setup. You recognize when to take this opportunity and when not to: only if it occurs at or near one of the eight reversal times. And, you know how to execute this strategy using proper safety measures and profit taking guidelines -- by applying the 3 action steps. Simple! Is there anything more? Yes, there is. You now need to become so familiar with this process that it becomes a permanent part of you. Right now this new knowledge that I've shared with you is nothing more than an intellectual concept. You must move this knowledge from the intellect to the heart, to every fiber of your being. It must become second nature to you. In other words, it must become a part of you. Then and only then will the concept begin to bear fruit. You can't make money off of what is mine. Money in the market comes from within. This is often missed when people try to educate themselves in the ways of the market. Textbook knowledge never made anyone a dime. But, the right knowledge, when allowed to season and mature over time, through study and experience, can and often does change one's life. I truly believe I've shared the right knowledge with you. The rest is up to you. Make it yours. You won't regret it.

BY JARRED FROMAN

Are you being watched?

Protecting your computer from spyware

A few months ago, my brother complained that his new computer was running very slowly, some applications had stopped functioning and he was inundated with popup ads when browsing any website. He tried running the standard set of tools included with his operating system to clean up his computer, but unfortunately it did not help. Upon examining his computer, I found over 500 instances of spyware.

Spyware is a piece of software that is normally included in programs that you download off of the internet, such as shareware or freeware. Many people have spyware installed in their computer and are completely unaware of it. This software keeps track of the software you use, websites you visit, and in some cases, records what keys you press. The information is then transmitted to a 3rd party over the internet, which is then reviewed for their own use.

Most spyware applications use the information collected to display advertising to you through the use of popup ads. There are some that are more malicious in nature which collect usernames, passwords, bank account numbers, credit card numbers -- information you would not knowingly pass on to strangers.

As the internet has become a basic tool for our every day needs, it is important for you to learn how to keep others from taking advantage of you with spyware. To the rescue have come a number of companies that now provide applications to clean up your computer. Most of these applications perform much like anti-virus software; searching your computer looking for any spyware applications and attempting to remove them. Some also provide real-time monitoring to prevent any spyware from being installed.

One popular spyware removal program is Ad-aware created by Lavasoft. A free version can be downloaded from www.download.com. Other versions of the software are available for purchase and include enhanced functionality.

The best preventive measure is to always do a little research on a piece of software before downloading and installing it. If you are unsure about an application, ask a friend or colleague, search the internet for reviews, or send an email inquiry to the software provider. A bit of due diligence before you install will spare you hours of headache and even potential victimization by cyber-criminals.

A Student's Testimonial: "I Survived Pristine's

Two-Part Series...WEEK TWO

By Avery Meizner

DAY 6

Pristine guerrilla tactics. Can you list all the plays? Can you explain them? You'd better be able to. Oh and you'd better be able to go into your stock universe and find a few.

Why is a bear trap a bear trap? Why is a bullish gap surprise so potent? Why is a Pristine mortgage play called a Pristine mortgage play?

It's funny. During our boot camp there was a Pristine mortgage play. We saw it coming in the after hours. Although it actually requires a gap down in the morning, we watched it unfold the night before. What a setup. You could feel the pain that the bulls felt. You could see why the rate of success is so high on this play.

I actually found an "almost" mortgage play the same day. I say almost because the pattern was not perfect. But the results were. Nothing like watching one in action to make you appreciate the significance of not holding a stock long into earnings. Yes we watched as two tech stocks were pounded. It was textbook. In fact I suggested that the instructors print the chart for their next boot camp.

In fact, there were a few charts, come to think of it that were textbook. There was the networker that gapped down to the 200MA on the hourly chart and then bounced a dollar. Then there was the biotech that ran up a dollar and a half on a late day breakout after basing for two hours within a thirty-cent range. I was already quite proficient at finding late day breakouts after my first *Trading The Pristine Method I* seminar. So I paper traded that one for a nice gain.

It was like the market was making sure that we got real life examples of many of the patterns.

We continued discussing guerrilla-trading setups. We of course were dissecting the Nasdaq all day. I could feel the patterns. Several traders had the Pristine Method Trading Room up on their screens. So it was comforting to know that Paul Lange's assessment of the market was the same as ours.

I closed my eyes on the train ride home and saw the Nasdaq futures daily chart. I had looked at it so often I had it memorized. And that's a good thing.

DAY 7

Day seven we powered into Level II again. We built some charts from scratch. But when I got a demo of the beta test version of ESP, I nearly flipped. Here I was scanning my stock universe and calling out plays to my colleagues and at the same time the wizard on ESP was flagging the same plays.

In one instant, the master trader to my left called so and so stock bouncing off the 200 MA. I had just seen it too. The wizard on ESP then saw it a second later. So it was me, a master trader and a wizard, all finding the same play at the same time. I was starting to get it!

By now we were trading the demo account. Every trade me made, we documented and analyzed. Sure it was only play money. But interestingly enough the same demons kept popping up. I took profits too soon. Amazingly, the emotions that overtook me and had me bailing too soon did so even though I did not have a penny of my own money on the line. Hmmm. Something to think about.

Even though there was no reason to trade more than 100 shares, (I mean there were no commissions), I insisted on trading 1000. Why? Ego? Who says you can't learn a lesson from a demo account?

Now, I didn't overtrade but admittedly I did open a position in the doldrums. I made 30 cents. *I had won the wrong way!* Would I take the lesson? Or would I go back to the well and ultimately pay for that one. Time will tell.

DAY 8

Today was my day. It was my job to do the pre-market analysis. The gap list. The futures. The watch-list picks.

It was about 9 am. I stood up at the head of the room. I discussed the gap. I discussed the daily futures chart. I pointed out the moving averages. I dropped to the hourly-then to the 15.

I read off my long and short list and explained my gap play list.

The market opened. Sure I was dying to get back to my computer and play the gap. But I stayed at the board and walked through the futures bar by bar on the five minute chart till the first reversal period. Just like the instructors had done it in the previous days. I had learned from them how to do this. I could talk through the opening, bar by bar. They had shown me how to handle five-minute highs and lows. How to handle gaps to moving averages. How to look at the TRIN-Q, the TICK, and the PC ratio.

I flipped to the daily and marked support and resistance using the trend tool. Flipped back to the five-minute and calculated the risk reward of a Pristine Gap-n-Snap play. My colleagues were impressed I think. My instructors looked on approvingly. Hey. It's one thing to talk about a chart at 4:30 PM. But this one was moving as I spoke. I considered this an important boot camp lesson.

DAY 9

All week we analyzed the *Pristine Day Trader* plays. Sam Seiden was in Chicago that week. But Peter Zagrobelny

Two-Week Boot Camp!"

would instant message him every now and again to talk about the plays -- mark the signal on the entry point. Calculate the risk reward. Constantly pushing us to think -- *How are the futures doing? Did the signal hit? Did we gap up into the signal? Did it run too far? Wait for a pullback?*

What I was seeing, while my colleague was at the board doing the morning commentary was that 99 percent of my time was spent thinking. One percent was actually spent taking trades.

We stepped back a little today. Talked about core trading. We scanned for core setups. I had looked at so many charts that week. But I had only looked at weekly charts to confirm daily signals. Now I was looking at a weekly chart for setups. Hmmm. Another tool in the tool-belt. Interesting. Some very popular stocks were setting up on the weekly.

I thought back to my pre-Pristine trading days, to the days when I was just experimenting with Pristine, and now the thought of entering the market without a Pristine Setup seems ridiculous -- something to evaluate after nine days of boot camp.

One thing that stuck in my mind about day nine was that all afternoon there was a lot of buzz coming from the trading turrets a few desks down. Aron Lenkowsky, a generally soft spoken and focused trader -- personally trained by Oliver Velez and Greg Capra -- was conducting a mentorship. Apparently, that afternoon Aron and his Pristine protége had nailed a low priced NYSE stock for a large percentage gain. Excitement spread through the room. Apparently Aron did not take many positions but when he did, he always had the evidence to back up his actions. Nice going!

DAY 10

I was already feeling like it was over too soon. Ten days went fast. I had learned so much I was truly astounded. I had already thanked Peter a dozen times. I watched my colleagues asking questions about continuing their education with Pristine Mentorships and Pristine In House Trading. I knew that we had all come a long way.

We went through the drill. Pre-market. We analyzed the futures. The opening. The TICK, the TRIN-Q and the PC Ratio. We went through our list of potential longs, shorts and gapping stocks.

I scanned my stock universe over and over again. On the daily. On the hourly. On the five minute. I scanned it at the reversal period. I scanned it in the doldrums. I scanned coming out of the doldrums.

We went over the Nasdaq futures. Over and over. We concluded that the Nasdaq had been and continued to be range-bound.

I thought to myself that although the Nasdaq was range-bound, my own personal trading career was rallying. I was pretty sure that my boot camp colleagues felt the same way.

Postscript: I wrote this last year when the Pristine Trading Lab was still called Boot Camp. I understand from Dan Gibby and Peter Zagrobelny that they have packed even more into the two-week program. (As if that were possible!)

Well, I got way more than I expected from those two weeks. It's a year later and clearly my P&L sheets will attest to that. About the only thing I didn't get is a Pristine tee shirt saying, "I survived the Pristine Boot Camp". (Hint, hint!) Well, I guess "I survived the Pristine Trading Lab" doesn't have the same ring to it. But hey! I can buy my own darn tee shirt!

Thanks again guys!

Treating Your Trading Activity as a

By: Dave Fleck, CPA, Traders Accounting www.tradersaccounting.com

Another April 15th has come and gone. Whew! I would like to take this opportunity and share with you the #1 lesson to be learned from this tax season. Without a doubt, the individuals that planned ahead and talked to a qualified CPA prior to starting their trading benefited tremendously compared to the people who did not.

I am reminded of a trader named Joe that I talked to recently about the problems he is having with the IRS because of his inability to pay his tax obligations.

Joe has been a full time trader since 1999. In his first year of trading he was extremely successful. He made over $250,000 of capital gain income from trading. Because of his overconfidence in his trading ability -- due to lack of proper training and mentorship -- and the sudden downturn in the stock market -- Joe lost over $400,000 of his trading capital over the next two years. During this period neither Joe nor his CPA were aware of the Trader in Securities rules or the Mark-to-Market accounting method that was available for Joe to elect.

Because Joe was not given the proper tax advice, he incurred a significant tax liability on his 1999 tax return that he was not able to pay. Then, from 2000 to 2002, he was only able to deduct $3,000 of capital losses per year. If Joe had received proper, timely advice he could have completely eliminated his 1999 tax burden by carrying his losses back to 1999 and offsetting his prior gains.

Over my fourteen years in the tax field working with individuals ranging from the middle class to the very wealthy, I have come to realize that there are two sets of tax rules. One set for the individual who works all of his or her life as an employee for a company. This individual struggles to make ends meet and hopes that after he or she retires their pension or social security will provide an adequate income for them to live on. And another set of rules for the individual business owner who is able to utilize the tax system to their benefit, allowing them to create and accumulate great wealth.

What is the difference? The difference is that through years of corporate lobbying the thousands of pages of existing tax code and IRS regulations have been skewed to benefit businesses. These tax rules provide a huge benefit to the business owner because they are able to deduct all ordinary and necessary business expenses that the average working American cannot.

It is pretty clear. If you want to have the greatest opportunities for building and keeping your wealth you need to be in business for yourself. As a trader, whether you trade full-time or part-time, you have the ability to treat your trading as a business.

With a trading business, you will be able to convert personal expenditures into business deductions and potentially save thousands of dollars a year in federal and state income taxes. The main challenge for you is to adequately certify that you are indeed operating a trading business, and avoid the limiting 'investor' designation.

Let's first look at a typical scenario for an investor. Maybe you purchased a few securities awhile back and you're planning to hang onto them for a long time-possibly for your child's college fund, or for that once-in-a-lifetime trip around the world. Maybe you live on dividend income associated with your investments, or perhaps you're rolling the interest over and creating a nice nest egg for retirement.

In any case, you pay your capital gains tax, and are lucky to realize even a small amount of associated investment deductions.

As an investor, all expenses incurred in the activity of investing are considered to be investment expenses, which would be deducted as a miscellaneous itemized deduction on Schedule A of an investor's tax return. In addition, as an investor, you are only able to deduct up to $3,000 of net capital losses in any one year.

On the other hand, you can file as a trader in securities-but what is a trader in securities? Currently, there is no Internal Revenue Service code or regulation that provides a definition. The guidance we have only comes from court cases.

A trader in securities typically buys and sells securities frequently, taking advantage of short-term price changes. You don't seek out dividend income, but instead, you make your money moving in and out of short-term positions. Expenses of your work are deductible, and are not dependent on being over 2% of your adjusted gross income, as an investor's

expenses are. In addition a trader in securities is able to elect the mark-to-market accounting method and avoid having their net capital losses limited to $3,000 a year.

Choosing a legal entity

As a trader in securities you can run your business as a sole proprietorship and deduct your expense on a Schedule C and report your income on a Schedule D or Form 4797 (if you have elected mark-to-market accounting).

The downsides of filing as a sole proprietorship are many. To start with, your tax savings are continually in jeopardy due to the reliance on court cases, you have a much higher audit risk, your potential tax savings are smaller, and you don't have any asset protection.

Therefore, I usually recommend to my clients that they avoid using a sole proprietorship and instead, set up a legal entity such as a corporation, LLC or partnership for their trading business.

Conducting your trading business within a legal entity solidifies your business activities and expense deductions. If you're like most traders, you'll easily find deductions totaling from $10,000 to $20,000-without even breaking a sweat. And, if you're a trader with substantial losses, and you are filing under the mark-to-market accounting method, the $3,000 capital loss limitation waiver could be worth tens of thousands of dollars.

Getting proper, timely advice is priceless. If I could have spoken to Joe back in 1999 we could have structured his trading business to take full advantage of the tax rules. I would have recommended an appropriate legal entity for him and that he elect the mark-to-market accounting method. As a result of this structure, Joe would have paid no federal or state income tax due to his ability to carry back the $400,000 of losses and offset his trading gains for 1999. Unfortunately for Joe we did not meet in time and he is now in a situation where he is trying to figure out a way to pay off his 1999 tax liability and he may be forced to sell his home to accomplish this.

> I usually recommend to my clients that they **avoid using a sole proprietorship and instead, set up a legal entity such as a corporation, LLC or partnership for their trading business.**
>
> DAVE FLECK,
> CPA, TRADERS ACCOUNTING

I hope none of you ever have to go through what Joe is facing. The good news is that Joe's situation is totally avoidable; provided you seek out accurate advice and set-up your trading business so that it works for you and not against you.

To help you better understand what you need to do to protect yourself, I've just recently recorded a cassette tape called: What Your CPA Didn't Tell You: Insider Secrets from Traders Accounting. To get a copy of the tape, go to www.tradersaccounting.com/freetape.asp. Just mention this Pristine article, and we'll send one out to you right away.

Trading Diary: Developing and Using One

By: Dan Gibby

All successful traders should meticulously maintain a trading diary -- providing them the invaluable opportunity to learn from both their successes and failures, particularly the latter. Included in this diary should be records of all actual trades: the good, bad and ugly. Although the format can differ, the important things to document are the criteria, technical pattern, and mental mindset that prompted you to enter a trade with *real money*.

Graduates of Trading the Pristine Method Part 2 are intimately aware that we focus only on what really matters: price and volume; supply and demand imbalances; candlestick and bar-by-bar analysis; market internals; and sentiment analysis. In our Pristine Trading Laboratories and Private Mentorship programs, I have each trader create a trading diary worksheet, which serves to provide the framework for documenting all objective data pertaining to each trade.

Figure 1 - Typical Worksheet

Let's take a tour of what a typical worksheet includes:

- **1)** Level II screen and time and sales. Pristine views the charts as its "strategic plan", and the Level II as its "tactical tool." It is used in the final 1% of our decision making process to make sure the action is consistent with our long or short bias, and allows us to route orders to ensure prompt and best execution.

- **2)** Unless trading a climactic buy or sell setup, Pristine generally trades in the direction of the prevailing trend on multiple time frames, and in the direction of the 20MA. The trend of the Nasdaq E-Mini Futures was down on all time frames, and under the declining 20-period moving average (d20MA) on the 5-Min. chart, favoring shorts.

- **3)** The Nasdaq TICK measures the number of stocks trading on an uptick versus down tick. It is used as a momentum indicator for the day trader. This chart shows major resistance at the horizontal dotted zero line, with lower highs than the prior day. We teach our students that this is the picture of "shorting every rally" until resistance is broken or a bullish divergence emerges.

- **4)** The Nasdaq TRIN shows whether volume in Nasdaq stocks is going into advancing or declining issues. TRIN over 1.0 means that there is more volume going into declining issues, and is bearish to long traders (good for shorts) until it gets climactic and starts to break to what we call a Stage 4 (downtrend). You can see the bearish gap of the TRIN this day (corresponding to a gap down in equities), with major support at a very high 1.6 level. We also favor shorting equities when the TRIN is over its 20MA on the 5-Min. chart, as shown. Like the bearish TICK example, we teach our students that this also is a picture of "shorting every rally."

- **5)** Similar to the Nasdaq, the S&P E-Mini Futures were down on all time frames, and under the d20MA on the 5-Min. chart, favoring shorts.

- **6)** This chart shows the combined bearish NYSE TICK (green line) and TRIN (red), with the TRIN trading above its 20MA (blue). Like the Nasdaq, these support equity shorts.

- **7)** This is a Market Minder of key market internals (i.e., broader markets; TICK; TRIN; put-call ratio; and bond information). All support equity shorts.

- **8)** The remaining analysis focuses on whether we have a low risk, high odds technical pattern on multiple time frames -- another concept emphasized and honed in "Trading the Pristine Method" seminars parts 1 and 2.

THAT WORKS!

Remember, NO PATTERN, NO TRADE, despite the prior analysis supporting a bullish bias. We always start with the larger time frame and work lower, looking for unison in patterns for the time frame being traded.

(a) Although not needed for most day to swing trades, I like having a small picture of my weekly chart up at all times. If it supports the trade bias, it simply gives me a little more confirmation.

(b) The daily chart, which is the primary time frame for Pristine Swing Trades, shows a bearish gap under major support. We immediately are in "short the stalled rally mode."

(c) The hourly chart, an "x-ray" of the daily, more clearly shows the bearish gap under a bullish 5-day consolidation, with no support to the left.

(d) Consecutively moving to lower time frames, the 15-Min. chart shows relative weakness, with meager bounces.

(e) So we look to our 5-Min. chart for entry. The blue arrow shows where the *Pristine Advanced Stocks and Derivatives Trading Room* (ATR) shorted the stock. The ATR suggested a short under the doji bar that formed after a rally to resistance approaching the 10 a.m. reversal period.

This trade worksheet substantiates a high probability trade. I often suggest to my conservative students to first look for reasons NOT to enter a trade. Based on the above analysis, there were none. So the next step is to make sure the stock aligns with your trading plan in terms of pattern, type, price, volume, volatility, spread, reward-risk, etc., and then put on the trade! Set a protective stop, then sit back, and use the same information to monitor the trade while in it.

Good luck, and happy trading!

LETTERS TO THE EDITOR

Dear Subscriber,

As educators, we believe there is always something to be learned from others. Therefore, we encourage you to use this vehicle as an opportunity to communicate with your peers. If you have any comments or questions you'd like to share, please send them to: Pristine Capital Holdings, Inc., The Pristine View, 18111 Von Karman Avenue, Suite 450, Irvine, CA 92612 or e-mail them to Anthony Nunes at tony@pristine.com. Please include your full name, address and phone number for verification purposes. All letters and questions submitted become the property of *The Pristine View* and may be edited for length and/or clarity. The opinions/information shared in this column are not necessarily those of *The Pristine View.*

We look forward to hearing from you.

Sincerely,

Anthony Nunes
Editor in Chief

Extended Hours Trading

By: David Rainbeau

Extended-hours trading, also referred to as after-hours trading, has empowered the individual to execute orders before and after normal market hours (9:30am EST to 4:00pm EST). Up until just a few years ago, pre and post market trading had only been available to institutions.

Mastertrader gives you the ability to execute trades from: 7:30am - 8pm Monday through Friday through the ISLD, ARCA, and Instinet ECNs.

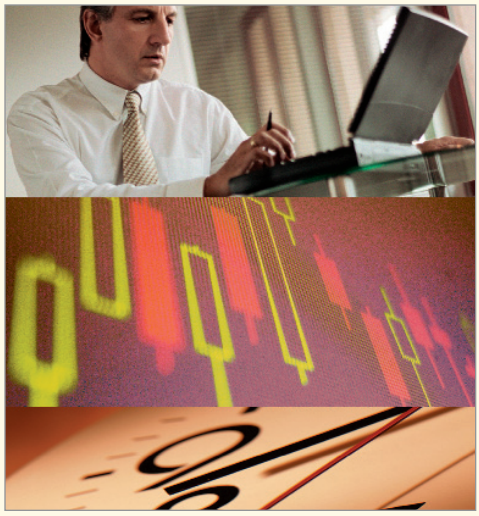
Two main reasons why individuals trade after-hours are:

1) To react to news released outside of market hours.
2) No short-sale up-tick rules are in effect.

There are, however, **significant risks** when trading after-hours. Please see the Extended Hours Trading Risk Disclosure Statement on the bottom of our web site at: www.mastertrader.com.

These risks are generally the result of reduced liquidity. Liquidity refers to the willingness of market participants to buy and sell securities. Generally, the more liquidity, the better the price discovery (more competitive pricing) and thus, a more efficient marketplace.

After-hours trading generally involves lower liquidity, which can lead to:



1) Higher Volatility: Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater volatility in extended hours trading. As a result, your order may only be partially executed, or not at all, or you may receive a price inferior to what you would receive during regular market hours.

2) Wider Spreads: The spread refers to the difference in price between what you can buy a security for and what you can sell it for. Lower liquidity and higher volatility in extended hours trading may result in wider than normal spreads for a particular security.

Some other risks to be aware of are:

1) Changing Prices: The prices of securities in extended hours trading may not reflect the prices either at the end of regular market hours, or upon the opening the next morning. As a result, you may receive a price less appealing than what you would find available during regular market hours.

2) Unlinked Markets: Depending on the extended hours trading system or the time of day, the prices displayed on a particular extended hours trading system may not reflect the prices in other concurrently operating extended hours trading systems dealing in the same securities. Accordingly, you may receive a price in one extended hours trading system that is inferior to the price you would receive in another system.

3) New Announcements: Normally, issuers make news announcements that may affect the price of their securities after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In extended hours trading, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.

Extended-hours trading is yet another tool available to traders. However, it's a tool that entails significant risk and is used by a small percentage of traders who use it with careful planning and caution.

If you have any questions about trading extended-hours, please call Mastertrader at 866-400-2966.

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