
BUY HIGH SELL LOW

LESSONS AND WARNINGS FOR BEGINNING TRADERS

JACK EDWARD HEALD

You *will* lose money when you first start trading; it is unavoidable. But will you lose just a little or a lot? The lessons I share in this book cost me about \$50,000, but they'll cost you only the price of a book.

The book has no charts, no trading techniques, no special setups to recognize and no complicated patterns to learn.

It has only one formula.

Instead, what you will find here are the practical and simple – though not necessarily easy – things you must do to prepare yourself for successful trading.

You'll learn:

- *How to pick the right security to trade, and how to avoid the wrong ones*
- *How to pick a broker and how to avoid the wrong one for you*
- *How to select your trading software*
- *How to evaluate your risks and create plans to avoid or mitigate risk*
- *How to develop your own trading strategy instead of depending on others for it*
- *How to manage your money both in and out of trades*
- *How to prepare for taxes and record keeping*
- *How to think like a trader rather than an investor*

Here's what one beginning trader told me:

"It is worth buying this book for its brutal honesty, its focus on starting from scratch with a realistic voice of reason and not an encyclopedia of technical data. I see the benefit in this book when you state that a lot of the slow, painful, expensive work was not necessary to learn. It gives me practical step-by-step information on how to walk through the routines I need to practice to start gaining experience today."

Nicholas Gehringer, Beginning Trader

In "Buy High Sell Low" you will learn expensive lessons on the cheap and thus avoid making the expensive ones yourself.

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INTRODUCTION:

RETHINKING MY RETIREMENT PLAN

The real estate and stock market crashes of the last few years damaged or destroyed the retirement plans of millions of people.

I was one of them.

A deadly disease, a dreadful divorce, and a soul-destroying job had led me to re-evaluate my life, but the economic environment made it unavoidable: I *had* to make drastic changes in my life if I was going to survive, let alone thrive.

I considered becoming independently wealthy, but since I had no wealthy relatives on the verge of death, that option was pretty much closed to me. (In fact, I had no wealthy relatives period - dying or otherwise.)

Through a process of elimination, I decided that trading stocks was the life for me. No boss, no customers, no employees, set my own hours, get disgustingly rich. What's not to like?

Sound familiar?

When I first decided I would learn to trade, I took full advantage of the wonders of the Internet Age. I googled my brains out, read voraciously and promiscuously everything I could find. I researched until my eyes crossed. I signed up for every free newsletter, tried every free lesson, and queried everyone who might know *anything* about trading to try to glean from them whatever knowledge I could.

In spite of the breadth of my reading, the depth of my research and the overwhelming volume of stuff I was told, I still felt lost. I was wandering alone in the dark with no light, no map and no guide.

Yikes! If I'd have had any idea of how utterly ignorant I was, how much I had to learn, and how much money I was going to lose, I just might have gone back to my soul-crushing job. Fortunately, my ignorance saved me from making that particular mistake. Still, I had to figure it out all on my own.

I wrote this book so that you *won't* have to figure it out all on your own.

I run a trader's group that meets every month. At every meeting, I meet beginners, people who are just learning to trade, people just as naïve and innocent as I was when I started. Their queries are very much like mine were. They ask me questions such as:

- *"Which trading platform is best?"*
- *"Which broker should I use?"*
- *"Why do I need to pay for data?"*
- *"What do you pay in commissions? How much should I pay?"*
- *"What's a futures contract?"*
- *"I'm thinking about trading (stocks/forex/options/futures); what do think about that?"*
- *"I'm thinking about buying XYZ training program. What do you think of it?"*
- *"How do you know what to buy?"*
- *"How do you know when to buy?"*
- *"How do you know when to sell?"*

Over the years I've done my best to point these beginners in the right direction, partly because I get my jollies from being useful but also because I was there myself and know how confusing it can be trying to learn how to succeed in trading.

Everything in this book I had to learn the hard way: by slow, painful and expensive experience. But I later learned that a lot of that slow, painful, expensive work was just not necessary.

The book you are reading now is the guide I needed when I first started trading. I wrote it because it didn't exist and it needed to exist. It will guide you, not only to the things you need to do, but also away from the things to avoid.

If I can save you a little time and a little unnecessary expense, then I will consider this book a success. I cannot do the work for you and I cannot make your decisions for you, but I can point you in the right direction, warn you about the big potholes ahead, and teach you what to do to become a successful and profitable trader.

WHAT YOU WILL LEARN

To succeed in trading, you must learn to think, act and respond like a successful trader. That may seem so obvious I don't need to say it, but sometimes what is most obvious is overlooked or ignored. That's why I will repeat it:

You will not succeed without learning new ways of thinking and acting.

I describe these new patterns of thinking and acting in the chapter called ***The Methodology of Successful Trading***. Developing those new habit patterns will require commitment and time and hard work from you.

But first, you must face some elementary decisions and must take a number of simple but important steps. The steps are practical but not easy. The decisions are simple yet vital to your success.

The bulk of this book is about those practical, simple steps.

You will need to do the following things to trade successfully, though not necessarily in this order. I will walk you through the each of the following steps:

- ***Decide*** which particular security you want to trade and the market in which you wish to trade it. I describe the various types of securities and point out some things you should avoid at the beginning of your trading career.
- ***Acquire*** a trading platform (software) which works with your chosen security and make sure you have the data feed you will need.
- ***Select*** a broker who supports trading that security, (not all brokers support all types of securities), then open and fund a trading account with that broker.
- ***Develop*** your Risk Response Plan.
- ***Develop*** the first trading strategy you will use.
- ***Manage*** your money both in and out of your trades.
- ***Prepare*** for taxes and record keeping.
- ***Improve yourself by following the Methodology of Successful Trading.***

I make no effort to be objective in this manual. I learned a lot of lessons the hard way and as a result I have a lot of strong opinions. At the end of the day, you must take responsibility for your own decisions. I offer my opinions and experience to help you, but you have to make the decision whether or not to accept that help.

This book will *not* teach you how to make a trade. Making a trade is a simple skill that any reasonably intelligent 12-year-old can learn. But this book *will* help you move from ignorance and inexperience about trading success to knowledge and know-how about trading success.

Once you work through the lessons of this book, you will have become an informed and competent – if perhaps a bit inexperienced – trader. Absorb the lessons of this book and you will – by virtue of the behaviors you adopt, the patterns of thinking you use, the self-determination you possess and a little bit of good luck – seize control of your own future by succeeding as a trader.

Good trading.

CHAPTER 1: THE MOST FRUITFUL LESSON

In 1984, I was hired as the 11th employee at Dell Computer Corporation. At that time, it was doing business as “PC’s Limited”. I did a little bit of everything, because we were so small and growing so fast that titles and roles didn’t matter. My main responsibility was to make sure orders got taken, orders got filled and orders got shipped. It was a blast.

Yes, I was in on the ground floor of one of the biggest business success stories of the last century. I was well positioned to become a millionaire many times over before I turned 30. That didn’t happen because I made a stupid decision.

I got my knickers in a twist and cashed in my stock options a year before the public offering. I left the company and went on my merry way, oblivious to the riches I had walked away from. Had I stayed, I’d be wealthy beyond my wildest dreams of avarice, sipping mojitos on the beach in Cabo San Lucas and working on my tan. Instead, I pour my own coffee and write about trading while seeking refuge from the blistering Arizona summer in the cool of my home office.

The reason I am not a Dell bazillionaire is that *I screwed up.*

Not Michael Dell.

Not the market.

Not the Fed.

Not my crazy ex-wife.

Me.

It was my decision to leave and I bear the consequences of that decision. It’s the reality I created and I alone bear the responsibility for it.

Learning that painful lesson has made me more careful about the opportunities that come along and made me more thoughtful about what I do with them when I have them.

Hopefully, your lessons won’t be quite as expensive as mine.

Trading is difficult and rewarding. It will grab you by the heart and not let you go. It will slap you around and beat you like a dirty rug. It will demand your best and bring out your worst. It will tease you, provoke you, seduce you and destroy you if it can. But at the end of the day, you alone are responsible for your choices and their consequences.

This can be a very hard pill to swallow, but if you can swallow it, you will become not just a better trader, but a better human being.

I just said it, but now I will highlight it: the first and most fruitful lesson you must absorb to succeed as a trader is this:

You alone are responsible for your choices and their consequences.

A trader manages his own account, does his own research, places and manages his own orders, watches his own money, and takes responsibility for every aspect of his business and every result of his own trading.

If you won't accept responsibility for every single facet of your trading success, then you will not succeed. It's that simple.

- *If you let someone else tell you how to trade, you won't succeed.*
- *If you let someone else tell you which trades to take and which to avoid, you won't succeed.*
- *If you let someone else manage your money, you won't succeed.*
- *If you let someone else pick your trade strategies, you won't succeed.*
- *If you let someone else do your research and analysis, you won't succeed.*

Are there exceptions to these rules?

Of course, *but you're not one of them.*

The greater dangers for the beginning trader are managed accounts, advisory services, newsletters, and "trading coaches".

MANAGED ACCOUNTS

Resist the temptation to open a "managed account", wherein a so-called "seasoned professional" will make discretionary trading decisions for your account and execute trades for you.

Yes, their years of experience in the market has taught them a lot, and one thing it has taught them is that the easiest way to make money trading is to manage *other people's* money and make a commission on every single trade – regardless of whether it is a winner or loser.

Most trading account managers *do not trade the markets with their own money!* And if you think they have a “market incentive” to perform well in order to retain your business, think again: there is a long-standing saying in the managed trading business, “churn ‘em and burn ‘em”.

Your \$15K - \$30K account is small potatoes, and there are many other newbies to be signed up once they’ve churned and burned through your account.

ADVISORY SERVICES & NEWSLETTERS

Resist the temptation to subscribe to expensive “advisory services” or newsletters. The problem is not so much that the advice they give is always bad. Some actually have very good ideas, but most don’t.

But whether the ideas are good, bad or indifferent, you handicap yourself by getting trade ideas from these sources. Doing so fosters an unhealthy dependency on these so-called “experts” and impedes your own progress in learning how to analyze trade ideas. There are many other reasons not to subscribe to advisory services or newsletters, but the most important reason is that you simply *must* learn to trade on your own.

TRADING COACHES

Resist the temptation to sign up for sessions with “trading coaches”. I do not want to categorize them as inherently crooked people, (though some are), but there are many reasons why going this route – though very tempting to the beginner – is not a good idea.

Coaches often charge thousands of dollars, and trust me, you need that money in your trading account more than any trading coach needs it in his/her bank account.

Despite any claims they may make, or what you wish to believe, they will *not* teach you any “secrets” or “advanced techniques” or anything of that sort. They are going to teach you basic concepts of money management, making a plan, controlling emotion, etc. And guess what? You’re learning those same concepts here for far less, and in fact, you can actually learn all this on thousands of trading web sites for free.

Related to the previous point, don't think you'll save yourself the cost of coaching many times over by the mistakes you avoid when you first start trading the markets. Coaches *do not* save you from the "cost of education in the markets"; it's going to happen, so save yourself a lot of money, (and future embarrassment) by not increasing the cost by enrolling in high-priced "coaching" sessions or "academies".

No one will ever care about your money more than you do, so do not entrust that care to anyone other than yourself.

In the following chapters, I lay out for you the various choices you need to make to become the most effective and efficient trader you can be. I'm going to ask you questions you should ask *and answer* yourself. I'll give you the straight dope about brokers, software, taxes, markets, risk, strategies and the various habits you need to run this business successfully.

My directions might be incomplete. They might be wrong. They might be misleading. Nevertheless, you must accept responsibility for the choices you make. Or maybe my directions are perfection itself, but you must still accept responsibility. You cannot blame me, you cannot blame others.

You alone bear the responsibility, and you alone will get to reap the rewards.

Onward!