

TICKET TO RIDE

Learning how to trade with consistent success can be a costly and time-consuming business. So rather than starting from scratch, why not give yourself a helping hand by adopting the tried and tested techniques of the pros. Here, Matt Blackman explains how Roy Kelly's Floor Traders Tools for TradeStation can significantly cut the cost of success.

It is always interesting to speak to traders who have been around the block more than once and have the battle scars to prove it. New traders are always keen to know how much they should spend on seminars, books and programs to get to the point where they can consistently make money, but it is not a question they often have the nerve to ask.

The night before Roy Kelly's recent trading seminar in Houston, a trader in his early sixties was asked this question while having a drink in his hotel. He was well known to a number of traders at the table as someone who had paid his dues and made a comfortable living trading full time. The questioner was a novice trader. Up to that point, the conversation had been light. But as the question hit its target, a hush enveloped the table and all eyes darted in his direction. It was not something one normally asked a relative stranger. The pro took a long sip on his fresh vodka tonic, swallowed and began to speak.

"You mean what I have spent on every trading book, seminar, training session, computer program and all the rest, since I got started?" He asked as if to buy some time.

The questioner nodded nervously.

"I'd say about \$100,000 in total," he said in his mid-western American drawl. "And most of the stuff is collecting dust in a drawer somewhere." Those newer to trading squirmed in their seats, while the more

experienced smiled in acknowledgment.

"But Roy Kelly's indicators are among the few I still use," he finished. It was an endorsement that money couldn't buy, yet it made us all feel a lot better about having made the commitment in time and expense to be there. It was too bad that Roy wasn't there to hear it.

This incident raises an interesting question. What does the average trader spend to reach the point of success? For many it may be a few thousand dollars, but they are the lucky ones. The other end of the spectrum is lettered with the losing brokerage statement of those who never make it.

One trader I know spent seven figures and took more than 20 years. He made millions and lost it "three or four time" before breaking the boom and bust cycle. He is not alone. Among the ranks of dedicated professionals, mistakes have catastrophic significance. But it doesn't really matter if your account size is \$10,000 or hundreds of millions. Success in this business requires a dedication that often borders on fanaticism. Winners simply refuse to see failure as an option.

All traders must run the learning gauntlet before they "get it". How much it costs and how long it takes depends on a combination of skill and luck. There is no right answer for everyone. But it is certainly cheaper to take too many seminars, get carried away in buying books and learn more computer programs that

seem necessary than to go broke even once. And this was the primary reason why there were so many traders at Kelly's seminar.

Who is Roy Kelly?

He may not be a household name, but Roy Kelly has developed a solid reputation among his peers. He got his start after losing \$30,000 by entrusting it to a fast talking options broker in the mid 1970's. Three weeks after writing the cheque to open his account, his broker called to ask for another \$750 to cover margin losses. His original investment was gone. It was the equivalent of losing more than \$200,000 today. An expensive lesson, but it helped put him on the right track.

Roy decided that if he were to make money in the markets, he would have to take full responsibility. This was lesson number two. Over the next 10 years, he used whatever resources he could, combined with lots of determination and personal sacrifice, to make it.

Roy bought everything he could lay his hands on in the late 1970s and early 1980s, spending tens of thousands of dollars. Two of the biggest lessons he learned was the importance of money management skills, a dedications to the business of trading.

Trading the Roy Kelly method

As Roy gained experience, he began to find indicators that worked for him. He became proficient with TradeStation in the early days, and designed and developed his own indicators. His first big breakthroughs were the Kelly Cycle Identifier and Turn Point Indicators, which he has continued to modify and still uses today. Unhappy with the moving average indicators available, he developed something he called the Roy Kelly Advance MA for the S&P 500, and other markets.

Later, he automated one of his trading methods into a TradeStation strategy, which was rated by Futures Truth as the number one S&P 500 system in 1997.

With experience came expertise, and the next logical step was to offer training. He developed his seminars as a result.

The seminars - back to basics

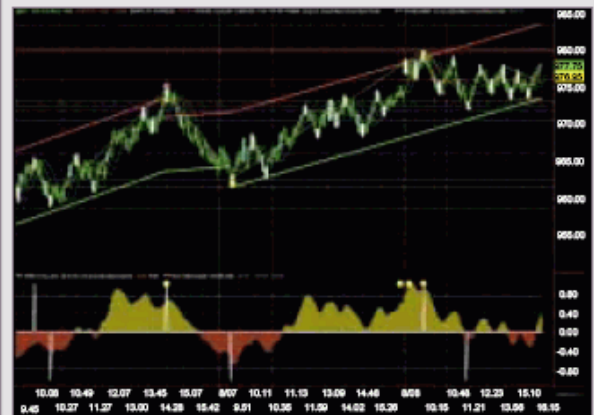
Roy began to make money trading in the early 1980s. He developed a trading plan that described where to enter trades, take profits and place stops. His plan defined a trend (he only traded in the direction of the trend), and was the tool he used to take emotions (the biggest being fear and greed) out of his trading.

He also kept a daily journal, recording his actions and observations. It was important to know what allowed him to be successful, but he also documented when and why he failed. He developed the following list of reasons why success had eluded most traders:

- 1) Lack of (or didn't follow) a game plan
- 2) No money management
- 3) Failure to use or obey stops
- 4) Taking very small profits
- 5) Overstaying a position
- 6) Overtrading an account
- 7) Changing strategy during market hours
- 8) Lack of patience

F1) Workspace of the S&P 500 E-minis on a 610 tick chart

Workspace of the S&P500 e-minis (@ES) on a 610-tick chart showing a number of Roy Kelly indicators. The large magenta and yellow dots on the chart show major cycle turning points and the smaller dots, the minor ones. The FT Filtered Waves consisting of the red and green channel lines show major and minor trend channels. The lower window show one of the more powerful RK indicators called the FT Kelly's Cycle Identifier that indicates major (with red vertical lines inside the white arrow points) and minor cycle turning points. Large yellow dots in lower window are the phantoms that warn of divergence. The FT Roy Kelly Expert consists of the dark red and brown histogram used to show divergence with price and warn of weakening trends.



Source: www.tradestation.com

It wasn't rocket science, just plain old common sense. But how many of us are guilty of one, or more, of these failures even though we know better? Having the best trading plan and habits is no good if you don't have the ironclad discipline to follow them religiously.

His seminar was seeded with words of wisdom, but it also included some useful market indicators and data that could greatly improve results. For example, when day trading try to make your money early. Often that is when the greatest buying and selling takes place. The first hour is known as amateur hour, since that is when inexperienced traders jump in with emotions in high gear. They are easy prey to those who check their emotions at the door and use a written game plan.

Other tips included looking for the counter trend during the lunch hour, never shorting bonds after 2.30 EST and being wary of thin markets.

The Roy Kelly (RK) indicators

Most of the participants at the seminar already owned at least one of his indicators packages and had come to hear Roy explain them in detail. After lunch on day one, he began, complete with a multitude of market examples.

In all, Roy Kelly's Floor Trader Tools includes 15 indicators. For a complete list and descriptions, visit www.trendpro.com/floortraders.html.

A few favorites:

Cycle Identifier

As mentioned in figure 1, the FT Kelly's Cycle identifier is one of the most powerful and useful in the package, especially when used in conjunction with the Cycle Turn Point (small red and magenta dots in figure 1) and Cycle Forecaster indicators (see figure 2). The Filtered Waves (trend Channels) and Trident indicators were also very useful.

The Cycle Identifier recognizes tops and bottoms using a mathematical cycle recognition process (rather than being based on an oscillator, which can give more false than real signals). The cycle indicator will disappear in cases where a trend reversal does not materialize, but these signals are relatively rare. According to the supporting literature, the indicator properly identifies 75-88% of cycle tops and bottoms.

This is a real help in deciding when to enter and exit trades. Even signals that eventually disappear serve a purpose in warning of a potential change in direction, allowing the trader to protect profits. If the trend regains momentum, the trade can simply be re-entered. The indicator plots both major and minor cycle.

Cycle Turn Points

Cycle Turn Points and Cycle Major Turn Points are also very useful. The former warns of potential minor trend changes, and the latter, major changes (see small and large dots on price bars). A trader ignores signals generated by both the Cycle Identifier and Cycle Turn Points at his or her peril, especially major warnings.

F2) Ulstarcom daily chart

Daily chart of Ulstarcom Inc. (UTSI) with Roy Kelly Cycle Forecaster (green horizontal line in November showing minor cycle high. As it does not use the same parameters as the Cycle Id (white arrows in lower window), it can warn at different times. The Auto TrendLine (blue line near end of chart) along with the Cycle Id and yellow phantom dots in lower window as well as the FT Turn Points (magenta dot in upper window) all warn of a potential trend reversal. Note the magenta lines on the FT Roy Kelly Expert also warn of change in direction at both the top and bottom of intermediate trends.



Filtered Waves

Filtered Waves confirm trend channels and are a highly useful indicator for swing or channel trading in the direction of the trend. The user may set the trend sensitivity depending on the preferred type of trading – lower per cent changes for shorter trends, and higher for longer trends. It is set to 3.5% trend in figure 2.

Auto TrendLine

Auto Trend line as the name implies automatically plots the most recent trends. A break warns of a potential change in direction.

RK Trident

RK Trident confirms existing trades. It establishes price balance points, profit targets, exit and entry prices. It comes complete with an Expert Commentary to help the trader confirm that his entry and exit points were correct. It's like having a trading coach sitting beside you.

Chatroom

To assist traders, Roy recently launched a chatroom using Hotcomm. It allows users to follow trades second by second during market hours called by a pro and long-time user of his signals. It costs \$200 a month and requires Hotcomm Lite (see link below), but it is well worth the cost for those who like to get

Product reviewed

Product reviewed Roy Kelly's Floor Traders Tools™

Cost \$899.00, including videos

Manufacture ARC Systems Inc., 1800 East Sahara Avenue, Suite 107, Las Vegas, NV USA 89104

Phone: +1.530.245-8999

Internet: <http://www.trendpro.com>

Email: support@trendpro.com

System Requirements Windows 98 or higher, Pentium 4 1.7 GHz, 384 MB RAM, 6 GGB free hard drive space. Works with TradeStation 2000i or higher. Broadband Internet connection recommended.

Machines used in testing

- 1) Desktop – Windows 2000, 512 MB RAM, 800 MHz, 8GB hard drive
- 2) Desktop – Windows 2000, 512 MB RAM, 2.4 GHz, 80GB hard drive

Both machines equipped with TradeStation version 7.01

While the program and indicators worked fine with the 800 MHz machine, it was significantly faster on the 2.4 GHz machine

Data Inter-day data provided by TradeStation

Chartroom Moderated by Roy Kelly's pro trader. Requires Hotcomm Lite available at <http://www.hotcomm.com>. Cost for the lite version is \$59.95 for three months or \$189.00 per annum. A free trial is currently available

Seminar Attending a Roy Kelly seminar is well worth the expense and time. Not only will you have a chance to hear a pro talk about trading, you will also meet and have a chance to chew the fat with some other talented traders. Cost is \$1,499

confirmation before they enter or exit a trade. Each trader is expected to develop and follow his own trading plan, but it is interesting to watch a professional trader in action using the Kelly system. There is a free chatroom trial for those who wish to check it out.

Putting it all in perspective

Like any plug-in package, RK indicators are not standalone. They require the use of TradeStation as the primary charting program. I spoke with a number of traders, novice and experienced, who put a lot of faith in Kelly's indicators to trade on a daily basis.

However, they are no guarantee of success. That will depend on the personality, proficiency and discipline of each trader. However, if you prefer to learn through the experience and mistakes of others, the indicators and his seminar are highly recommended.

If you are the type, who believes that any indicator you use must be developed by you, good luck. At his seminar, Roy tells a story about one Internet wizard who turned millions into a few thousand trying to develop and trade his own system of indicators before admitting defeat.

It harks back to an old joke about the down-on-his-luck trader whose luck finally turns and he wins the lottery. When asked what he will do with the money, he quips that he'll trade until it's gone.

Unless you have the proper qualifications, mathematical skills and lots of time, chances for success in designing your own workable system of original indicators are slim to none. Only one person can invent the wheel, the rest are just copycats. Trying to figure it out on your own is nothing more than a waste of time, if someone else has already done it for you.

However, if you are looking for indicators that have been developed from years of experience, trial and error, and are used by traders who prove their power day in and day out, check out Roy Kelly's website and indicator packages. As a popular TV ad in North America selling oil filters used to say a few years ago, you can pay a little now to use the product or a lot more later for not using it. By Matt Blackman

TRADERS'

Matt Blackman is a trader, tectechnical analyst, software reviewer and content provider for technical trading/websites. He is an affiliate member of the Market Technicians Association (MTA) and Canadian Society of technical Analysts (CSTA), and is currently enrolled in the Chartered Market Technicians (CMT) program, he lives and works in Vancouver.

