

The background of the cover features a light gray bar chart at the top and a yellow bar chart at the bottom. The top chart has a y-axis with values 0, 120, 250, and 500, and an x-axis with years 05, 07, 08, 09, and 10. The bottom chart has a y-axis with values 0, 120, 250, and 500, and an x-axis with years 05, 07, 08, 09, and 10. A large yellow arrow points upwards from the bottom chart towards the title area.

 WILEY Trading

TREND QUALIFICATION & TRADING

Techniques *to* Identify
the Best Trends *to* Trade

L.A. LITTLE

Trend Qualification and Trading

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Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

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Library of Congress Cataloging-in-Publication Data

Little, L.A.

Trend qualification and trading: techniques to identify the best trends to trade / L.A. Little.

p. cm.—(Wiley trading series)

Includes bibliographical references and index.

ISBN 978-0-470-88966-4 (cloth); ISBN 978-1-118-05657-8 (ebk);

ISBN 978-1-118-05658-5 (ebk); ISBN 978-1-118-05658-5 (ebk)

1. Stock price forecasting. I. Title.

HG4637.L58 2011

332.63'222—dc22

2010049530

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

*To my loving wife, Nadereh,
who has always stood by with encouragement
while providing direction, insight, and active concern.
To my son and daughter, Arman and Anaheed,
who are both blessed with bright and inquisitive minds
and now, as they near adulthood,
have boundless opportunities before them.*

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Foreword

The essence of all successful investing and trading is trend following. Trend following is not just a style or an approach to the market; it is the heart and soul of all profits. There is no way to escape the fact that you must embrace an uptrend of some sort if you hope to eventually recognize a gain.

Even the most long-term dedicated value investors, who focuses on fundamentals and buys out of favor stocks, needs to have his or her insight eventually validated by a positive trend. At the other extreme, the aggressive day trader needs a trend of some sort even if lasts for just for a few minutes. Market success and trend following are inescapably connected.

Despite the essential nature of trend following to the investment process, the literature on the topic is woefully lacking. Platitudes such as “the trend is your friend,” “buy low, sell high,” and “cut losers and let winners run” constitute much of the discussion about riding a trend.

In many ways trend following is like the famous dicta uttered by Supreme Court Justice Potter Stewart in regards to pornography: “I know it when I see it.” Trends are always easy to see in retrospect. They are almost always painfully obvious when we look at charts, but defining them and exploiting them for profit is a daunting task.

Many market players, including me, like to think that our success in identifying and riding trends is some intuitive skill that is akin to artistic talent. We like to believe that trend trading is an art form that can’t be easily taught or communicated. L.A. Little crushes that conceit with his systematic approach to trend trading. He uncovers and dissects the many nuances and subtle issues that make trend trading so powerful.

Trend trading isn’t just about holding a stock through a series of higher highs and higher lows. That is the easy part. Anyone can hold a stock that goes up endlessly, but, unfortunately, that doesn’t happen that much in the real world. We have news events, shifting sentiments, and a host of factors that toss stocks around at random. Only the best stocks will continue to exhibit relative strength and reward us if we stick with them. Knowing

when to hold and when to abandon ship is what this book addresses like no other that I have ever read.

The easiest part of the investment or trading process is the buy point. It is not that hard to find a stock that has a positive technical pattern. The hard part is the sell decision and that is what L.A. Little addresses with great precision. He integrates the concepts of volume, swing points, and anchor bars into the analysis, which greatly aids in determining the health of a trend.

In my experience, the most common mistake among active traders is that they don't stick with trends long enough. They simply don't have a good framework for deciding whether a trend will continue and, as the old adage goes, "no one ever went broke" taking a profit. However it can be quite disheartening to look back at how costly premature sales have been.

The great difficulty in trend trading is trying to determine when a trend has ended and it is time to move on versus what is just a healthy correction within a trend. I've heard countless tales about how someone bought a stock like Apple Computers at \$7 in 2003 and then sold it for \$10.50 and a big fat 50% profit a few months later. That sounds pretty darn good until you look at the current price of Apple Computers at around \$340.

There is nothing more valuable in this excellent book than the disciplined structure and set of rules it sets forth for staying with a trend and not selling prematurely. There will be times when the trend is suspect or ambivalent, but L.A. Little develops a clear approach to dealing with those times so that you can stay with the trend and reap the big payoff.

It is obvious to every logical thinker that trend trading is the key to market success. It is the qualification of trends and the execution of the investor that is the key to success. You will not find a better framework for trend trading than that set forth by L.A. Little in this very valuable book.

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Acknowledgments

The lasting influences in one's life are numerous, but none are more relished than those with close family. To my mother, the first love of my life, I extend an unending gratitude. She always provided rich encouragement laced with discipline.

Professionally I extend special thanks to my publisher for all the wonderful work and opportunities they have provided.

To Elizabeth and Jayanthi from *Stocks and Commodities* magazine, who continue to spread the word of technical analysis far and wide.

To William Hennelly and Poilin Breathnach, managing editors of TheStreet.com and RealMoney.com, whose faith in my writing and technical insight provided a much wider audience for my material.

Finally, to the countless technicians, both contemporary and historical, whose writings inspired and embellished my trading methods, I thank you all.

L.A. LITTLE