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### INTERVIEW CENTRAL: Bennett McDowell, Part 2

By Jeff Neal, Optionetics.com  
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Bennett McDowell, the founder and president of TradersCoach.com, started his financial career on Wall Street with the firm J.J. Kenny Co. in 1984 after serving as an officer in the U.S. Navy. Bennett also served as a Retirement Plan Specialist with the Equitable in New York and has investment real estate experience as well. In addition, his 1979 Economics BA degree from Syracuse University in upstate New York gave him a foundation upon which he was able to build a solid background in Finance

Bennett has extensive experience in trading the financial markets and is currently an active trader including day trading the financial futures markets. This is Part 2 of a two-part interview.

**Optionetics:** What is your most memorable trade?

**Bennett:** I have had many memorable trades, both good and bad. But I learned the most from this trade. When I was a novice trader and really did not know much about trading and risk control, I bought a bunch of put options on Applied Materials because my analysis indicated a bear market for AMAT. Well, my analysis was wrong and AMAT began its largest bull move in years and I was holding put options! Within one week, I realized my trade was in trouble when I was down about \$15,000. I could not believe it, but I kept saying to myself, well the market can't keep going higher forever! Well, it did go higher! And at that time I felt like a deer caught in the headlights of a car, I froze and did not know what to do. At this point my emotions determined the outcome of the trade. I lost all objectivity and eventually got out for a \$30,000 loss in just two weeks! And of course, I did finally get out near the top! That was a lot of money for me at time, and it hurt me emotionally for a while too. However, this one trade taught me my best lesson, and I have never let that happen again! I learned the importance of risk control!

**Optionetics:** With all the different technical analysis tools out there how does a new technician avoid information overload or "analysis paralysis"?

**Bennett:** That is a good question! It is interesting to note that with all the new technology available today, that the ratio of winning traders versus losing traders remain about the same as it was twenty and thirty years ago. Why? Because successful trading comes from within and since we all trade our own beliefs, we all interpret information from a different viewpoint and thus react to that information differently. In trading, this has profound implications since it all comes down to how we interpret information and what information we choose to interpret. This is why I developed and use "Applied Reality Trading" to trade the markets. Our approach eliminates the excess information that can confuse traders.

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**Optionetics:** What kind of technical analysis and fundamental analysis tools do you employ?

**Bennett:** I use a proprietary trading approach I developed called "Applied Reality Trading" using our "Pyramid Trading Point™" reality indicator. The "Pyramid Trading Point™" transforms the concept of trading "pivot points" and "fractals" into the next generation. Both the size and base of the "Pyramid Trading Point™" have great meaning. In "Applied Reality Trading™" you learn the methodology of how to use the "Pyramid Trading Point™" on any market and timeframe you trade. While all entries and exits are based on proprietary technical analysis, I do at times use fundamental information to confirm what the technicals indicate. This can be in the form of market sentiment, etc. I also believe that price and volume represent the "Truths" of the market, and that most indicators distort the reality of the market because they are a derivative of price and volume.

**Optionetics:** How would you characterize your approach to the markets?

**Bennett:** My trading approach matches our proprietary trading signals with your own personality so that you can design your own personal trading system. When you can align your personality with your trading approach, this can be a powerful force in the markets. Stop relying on "black box" trading systems that you don't trust or have no confidence in. We have found that when traders experience "draw down" periods on a system they have not designed themselves, that they usually abandon the system and move on to another one

I believe that no one was born a great trader and that anyone with the passion, commitment, the right education, and the risk capital has the potential to become a great trader. Trading is not a get rich quick philosophy, instead it is a profession that needs to be mastered in order to be profitable. Through education, practice, and commitment you can potentially master the skills needed to trade the financial markets for a living. Trading should be fun, and if it is not fun for you, then you are doing it wrong!

I believe that profitable trading is the perfect business because it is capitalism at its best. In trading, the markets do not care who you are, where you came from, if you are rich or poor, your education level, or anything about you. In trading there is no office politics, difficult bosses, or difficult employees. You can trade from just about any location and there are a variety of liquid markets to trade. There are not many rules, and you can run your business as you see fit. This truly seems to us like the "Perfect Business"!

I believe that professional trading is not gambling, but some gamblers use the markets to trade and satisfy their addictive and destructive habit. The door that separates the trading room from the gambling room is called risk control. Professional traders have strict money management guidelines that they follow, a trading approach that they have tested and believe in, and view trading as a business. Their satisfaction comes from trading well, not from the thrill or "rush" that gamblers feel when trading. Professional traders actively trade or speculate with no more than 10% of their net worth and this money is money they can afford to risk.

I believe that most traders incorrectly view the markets from purely a "linear" mindset and instead should view the markets from a "nonlinear" mindset as the markets are "nonlinear" themselves. This is why rigid logical thinkers or "linear intellectuals" find trading the markets so frustrating. Since they operate from their logical "linear beta" mind state, and become frustrated when market behavior does not do what it "should."

I believe that every trader trades his or her own beliefs. And therefore, your beliefs and personality will determine how you trade and whether you will be successful or not.

When you can align your personality with your trading approach, this can be a powerful force in the markets. I teach traders to stop relying on "black box" trading systems that you don't trust or have no confidence in. I have found that when traders experience "draw down" periods on a system they have not designed themselves, that they usually abandon the system and move on to another one. Why? Simply because the trader's beliefs do not trust the "black box" system anymore now that it is losing money. Traders trade their own beliefs! And this is what makes trading both an art and a science.

I believe that the markets talk to us through price and volume and that these are the truths of the market. Price takes into account and represents all reality that is in a market. There is no such thing as "overbought" or "oversold" because market price is exactly where it should be at every given moment since it represents exactly what buyers and sellers agree to pay and receive at that given moment. When a trade occurs, the buyer and seller

agree on price, but disagree on value, which is why the trade occurred at that price. I feel that most indicators that are used in trading the markets actually take the trader further away from the realities of the market. Most indicators are built as a derivative of price and volume, and thus distort price and volume, which takes the trader further away from the truths of the market and thus further away from what the market is really saying.

These indicators actually may not help the trader, but instead can confuse the trader by creating opinions and illusions about future price movement. In fact, I have found that when traders form an opinion about market direction, they often miss great trades! I train traders to listen to the market and want what the markets want by basing all trades only on the truths of the market, which you can learn through our complete home study course **Applied Reality Trading** or ART for short. I feel to trade the market well, you need to follow the market and we do this with basing our trades on "Grounded Market Assessments." Incorporated in our home study course are specific trading signals and our state of the art "Pyramid Trading Points" all of which represent trades based on "Grounded Market Assessments." In addition to the entry signals, the stops or exit signals are precisely based on the market, but only using the "truths" of the market to actually set the stop.

I believe that traders usually make trading decisions based upon either "Grounded Market Assessments" or "Ungrounded Market Assessments." I believe that when trading the markets you must base all your trades from "Grounded Market Assessments" which means basing your actual trade entries and exits on what is happening in the market now as it is unfolding. Trading in this way insures that you are trading from the realities or truths of the market. "Ungrounded Market Assessments" occur when traders try and trade by forecasting future market prices, they are not trading the realities or truths of the market, instead they are trading from their fantasies or illusions and then have a mindset of hoping the market will follow the forecast. To forecast the market is to create a fantasy about future market activity and the reality is that no one can accurately predict future price movement well enough to consistently make money. If you must hope that your trade will make money, then you are not trading well and hoping creates anxiety, stress, fear, and greed. Instead, when you look at the market, you should trade from "Grounded Market Assessments" which will tell you almost instantly whether you should be long, short, or out of the market. It is possible to combine "Grounded Market Assessments" with some "Ungrounded Market Assessments." I feel that to be a successful trader you must not trade solely with forecasts or fantasies but instead with "Grounded Market Assessments," which is what we teach the trader to do in our home study course **Applied Reality Trading**.

I believe that paper trading is a great way to practice your trading and develop your skills in a stress free environment before risking real money. If you cannot profitably paper trade, then I believe you will not be profitable trading with real money in the markets. Once you begin to trade in the markets with real money, your psychology becomes the main factor in your being successful or not. I have specific ways for traders to paper trade and know when to begin trading with real money. I feel that paper trading is a better way to test your trading system or approach than conventional backtesting methods popularly used today because paper trading" is how *you* actually trade the trading system or trading approach in a stress free environment

I believe that all trading methods involve risk and there are no absolutes in life, the markets, or in trading. Traders must take total responsibility for their trading. Using our methods In **Applied Reality Trading** of "Grounded Market Assessment" trading allows the trader to maintain strict risk management while reducing stress and anxiety and limiting the human inclination to fall prey to your greed and fear. In addition, all traders should only trade with money they can afford to risk. While we enter and exit the markets based only on "Grounded Market Assessments," we do at times like to forecast potential future market actively using "Ungrounded Market Assessments" like the Elliott Wave. We feel the Elliott Wave is the best forecasting method available in the financial markets and we like to use it at times to gain an overall big picture of where the market should go based on Elliot Wave theory models. Our research indicates that the Elliott Wave theory is a stand-alone forecasting method that takes into account world and economic events. However I realize, that the Elliott Wave forecasts are theories only representing fantasies about future market behavior

**Optionetics:** What do you think are the greatest misconceptions people have about trading and investing?

**Bennett:** Most new traders believe trading is easy and the only thing you need to be successful at it is money. In other words, money is the ticket to gain entry to making more money. They fail to realize that successful trading is a skill that takes hard work, persistence, time, and education to master. Most traders view trading as a "Get Rich Quick" program.

Another misconception that people have, thanks to the news, is that day trading is foolish and just gambling. While it is foolish and it is gambling to trade without knowing what you are doing, professional day traders are not gamblers and are not foolish. Quite the contrary, they are highly skilled and talented professionals.

It is important to realize that you must react and be aware of the risks of trading the financial markets. Many "positive thinkers" preach that if you think *only* positive thoughts and say *only* positive affirmations you will

succeed. While this may be a good start, it falls very short of what is really needed.

You must live in full awareness. Let your positive beliefs lead you to take the action necessary to succeed. For traders to blindly enter the financial markets and start trading simply because they are thinking positive is to ignore the full spectrum of what is possible while trading the markets. You must acknowledge both sides of the coin, the good and the bad. You must acknowledge and react with full awareness.

To react with only positive thoughts or only positive outcomes would cause you to neglect attention towards risk control and ultimately you will go broke. On the other hand, to live in the fear of only losing will cause you to react with fear, anxiety, negativity and aggression, which is equally destructive. But to trade the markets with the reaction and pre-emption of full awareness without fear, anxiety, and despair allows a balance that manifests itself into a positive reality creating a feeling of abundance and good will. The Purpose of TradersCoach.com is to align your personal psychology with that of a sound trading system. And to mold your psychology into that of a winning trader.

**Optionetics:** Thanks so much, Bennett, for sharing your valuable trading insights.

For Part I of this interview, please click [here](#).

### **Jeff Neal**

*Staff Writer & Options Strategist*

*Optionetics.com ~ Your Options Education Site*

[jeff@optionetics.com](mailto:jeff@optionetics.com)

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