

JDALTON **TRADING** **& TRAINING**

ESSENTIAL

TRADER

WORKSHEET

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ESSENTIAL TRADER WORKSHEET **INTRO**

WHAT IT IS

Welcome to the **J DALTON TRADING ESSENTIAL TRADER WORKSHEET**, your go-to, daily trading worksheet. This essential checklist will transform your trading day and add structure and purpose to your trading.

Think of the Essential Trader Worksheet as your daily tactical plan. It is an essential starting point to help you build the foundation for your day and, ultimately, the formulation of your market perspective. I routinely employ this top-down/bottom-up approach to prepare for each day and, now, I am sharing one of my most valuable tools with you!

Creating a routine around your trading is vital. And turning that routine into a habit will make all the difference in your trading success.

One of the books I recommend to our traders is ***The Power of Habit* by Charles Duhigg**. In it, Duhigg's research shows that it is actually far easier to simply layer a new habit over an old nonproductive or harmful habit than it is to change a bad habit. It is the equivalent of pointing your boat downstream instead of upstream.

WHY USE A WORKSHEET?

Developing a new habit such as completing the Essential Trader Worksheet and incorporating this new habit into your daily routine will, hopefully, have effects that run much deeper than surface trading success.

I continually complete the worksheet, and have found that staying with this process has opened my mind to a new way of not only seeing the markets, but to problem solving in general.

ESSENTIAL TRADER WORKSHEET **INTRO**

Used correctly, **THE J DALTON TRADING ESSENTIAL TRADER WORKSHEET** will:

- Protect you from getting caught up in the herd
- Help you to see the bigger picture
- Give you the edge you need to outsmart your competitors

Completing the worksheet will help you avoid cognitive dissonance. As I complete the worksheet, my mind opens, dragging me away from the easy answers. Successful trading involves creative problem solving, and creative market responses begin to form as I focus on preparation.

You, too, will soon experience this shift if you make the Essential Trader Worksheet part of your daily routine!

HOW TO USE IT

The **Essential** Trader Worksheet will help you bring various observations together to give you a top-down/bottom-up perspective, enabling you to observe current trade in context rather than in isolation.

Use this valuable preparation tool for:

- Nightly analysis
- Pre-market opening
- The Open and during pit session trading

On the surface, the worksheet we created may appear to be fairly simple and straightforward; its hierarchy is arranged in a top-down manner beginning with the largest pieces of information and culminating in potential short-term trading scenarios for the next trading session.

In truth, it is everything but simple because it can only be properly completed by an informed trader. Our current Legacy Intensives are designed to guide you toward gaining the experience needed to reduce the risk associated with lack of experience.

This checklist is designed for day and short-term traders.

This checklist appears linear. The completion of it is anything but linear.
Please see our supporting document **J DALTON TRADING ESSENTIAL TRADER WORKSHEET KEY.**

A. TOP-DOWN/BOTTOM-UP PREPARATION COMPLETED?

Yes No

B. LONG-TERM TREND IS

Up Down Balancing

INTERMEDIATE-TERM TREND IS

Up Down Balancing

SHORT-TERM TREND IS

Up Down Balancing

It is not the strongest
of the species that survives,
nor the most intelligent that survives.

It is the one that is

**MOST ADAPTABLE
TO CHANGE.**

- Charles Darwin

WHICH TREND, IF ANY, IS CURRENTLY DOMINATING THE MARKET: _____

Traditionally not all of these trend observations are relevant each day.

- If we are in a strong trend, is it just beginning or growing old? _____
- If we are in a trading range environment, where are we in the trading range? _____

Briefly explain your assessment of the dominating trend:

Longer term references within reach: _____

Intermediate-term references within reach: _____

Short-term references within reach: _____

JIM'S TIP:

Set up your physical space for success. When I am trading, I am relaxed,
not hunched over the machine. I take in the trading landscape.

REMEMBER:

YOUR PHYSICAL POSITIONING REFLECTS YOUR MENTAL PERSPECTIVE AND APPROACH TO THE MARKETS.

C. INVENTORY CONDITIONS: DOES THE SHORTER-TERM MARKET APPEAR TO BE TOO LONG OR TOO SHORT? The factors identifying excessive long or short inventory conditions can often be pre-identified by recording Market Profile structural weaknesses that have not been revisited.

Identify suspect structure:

- Prominent, very prominent POCs _____ Anomalies _____
- Poor highs and lows _____ Stretched out profiles, multiple distr _____

Comments _____

D. TACTICAL PLAN Once you have this perspective, then focus. Your tactical plan should always allow for diverging auctions, i.e. you must be flexible. The shorter timeframe trader you are, the more you must be prepared for the unexpected.

JIM'S TOP READS:

Trading Psychology 2.0, Brett Steenbarger
The Power of Habit, Charles Duhigg
Thinking Fast and Slow, Daniel Kahneman
Nonsense, Jamie Holmes

E. SHORT TERM BALANCE ___ Yes ___ No

Comments _____

F. SCENARIOS

Up:

1.

2.

3.

Down:

1.

2.

3.



PRE-OPENING:

G. OVERNIGHT INVENTORY is ___ Long ___ Short ___ Neutral Approx 65% see counter auction relative to overnight inventory. Extenuating circumstances: _____

H. ARE WE GOING TO OPEN IN OR OUT OF BALANCE AND TO WHAT DEGREE?

___ In ___ Out ___ Near extreme of balance

I. PRE-IDENTIFIED SHORT-TERM AND DAY TIMEFRAME STATIC REFERENCES. Start with shortest term.

Pit High _____ ON High _____ Unchanged _____

Pit Low _____ ON Low _____ Other References _____

Prominent POC(s) _____ Anomalies _____

Pullback Low/Rally High (trending days only) _____ Other structural references, if any _____

J. ANYTHING THAT IS UNUSUAL OR CATCHES YOUR EYE — MARKET LOGIC:

THE OPENING

K. Opening price _____

Confidence: ___ Low ___ Medium ___ High

Excessive confidence _____

Tempo _____

Directional conviction ___ Yes ___ No ___ Uncertain

DYNAMIC REFERENCES:

Secure high – Excess _____ Secure Low – Excess _____

Poor high _____ Poor low _____ Halfback _____

Weak High _____ Weak Low _____

Early morning high and low _____

NYSE Volume: _____ First 30 minutes

Comments _____



L. VALUE AREA DEVELOPMENT

___ Higher ___ Overlapping higher ___ Overlapping ___ Overlapping to lower ___ Lower

30 Minute One timeframing ___ Yes ___ No

ESSENTIAL TRADER WORKSHEET KEY

A. RISK CONTROL

You would never see a professional sports team or professional boxer, for example, walk onto the field or climb into the ring without having extensively reviewed the past performance of their competition.

They are searching for strengths which they will have to prepare to counter as well as weaknesses that they can exploit. Most often, pattern recognition is at the center of their review; in trading, for example, a short covering rally is often preceded by excessive emotional selling. Overly elongated profiles exhibiting multiple distributions and anomalies is a common pattern associated with a market that is dangerously short.

Failure to perceive the risk associated with this pattern can be devastating, both emotionally and financially. Through diligent preparation you can lessen the risk of not knowing.

Let's begin by looking at some of the patterns that can be identified by reviewing bar charts.

B. BAR CHARTS

This section begins by examining traditional single dimensional bar charts. This is a top-down review starting with the monthly bar. I use the bar charts to gain a broad overall market perspective. Later, as we construct our daily tactical plan, I will review the more dimensional Market Profile.

I begin with the monthly bar to determine if the market appears to be trending upward, downward or — if the months are overlapping — we are more likely to be in a longer-term balancing environment.

You may recall that markets generally go from bull, for example, to balance then either revert back to bull or transition to bear. Of course, we would see the mirror image if the market was in a bear market. I don't dwell on this review; I go with what appears to be very natural. In other words, I don't force an answer.

ESSENTIAL TRADER WORKSHEET KEY

Next, I review the weekly bars looking to see if the weekly bars are trending up, trending down or are overlapping, which would suggest balance. Then I look to see if the weekly bars are directionally consistent with the monthly bars, counter to the monthly, or are simply overlapping.

If the monthly and weekly bars are directionally consistent the odds are good we have identified a current trend.

It would not be inconsistent to see, for example, the weekly bar moving opposite of the monthly bar. This could represent one of two scenarios. First, it might simply be a healthy inventory correction relative to the long-term auction. Or, it might be the start of a reversal for the long-term auction. Next I review the daily bars.

I am looking to see if there appears to be a short-term trend relative to the daily bars, or simply several overlapping bars suggesting that the market has come into a tight balance.

Ultimately I'm trying to determine which trend, if any, is currently dominating the market.

Traditionally, not all of these trend observations are relevant each day. Long and intermediate-term trends are much slower acting and change infrequently. It is important that I identify what reference level might alert me to potential change in either of the long or intermediate-term trends. A change could also represent a breakout from a trading range or balance.

ASK YOURSELF:

If a trend has been identified, does it appear that the trend is just starting, middle-aged, or has aged considerably? The answer to this question is not linear. Distance traveled is not relevant for determining the aging of the trend.

What is relevant is the last breakout from an area of congestion. A young trend will show a clean upside or downside breakout relative to the last congestion. An older trend will show a less dynamic breakout, while an aging trend will see an overlap between the last area of congestion and the new area of congestion.

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BRIEFLY
EXPLAIN

YOUR ASSESSMENT OF THE DOMINATING TREND

By putting your comments to words you will better appreciate how clearly your understanding is relative to the dominating trend.

NOTE: The harder it is to commit your view to writing, the greater the likelihood that there is still considerable confusion.

Before you leave this section, you want to **identify reference levels** for the longer, intermediate, and short-term trends that would increase the odds that change was occurring.

Initially, you are likely to spend considerable time reviewing the monthly, weekly and daily bars. As you gain experience you will quickly realize that overall change is slower than you might imagine. As you gain experience with this process you will find that in most cases it only takes a couple of minutes a day to complete this portion of the trade worksheet. And, it is also likely that if you find yourself spending more time on this review change is more likely.

REFERENCES: You will want to identify and label reference levels that would suggest change is approaching relative to any of the bars. The majority of your references will be reserved for the shortest timeframes.

If you elect to go through the Legacy Intensives, you will find that considerable time is spent on this area of preparation. As your experience increases so, too, will your ability to appreciate when potential change is just around the corner.

C. INVENTORY CONDITIONS: Does the shorter-term market appear to be too long or too short?

Assessing if the short-term market is either too long or too short depends upon understanding what has occurred in the recent past.

ESSENTIAL TRADER WORKSHEET KEY

If a market is too short, for example, as the market declined you will detect multiple market weaknesses. These weaknesses will include structure that is too thin, very often consisting of multiple distributions, anomalies, prior prominent POCs that have not been revisited, 45° lines, and potentially poor highs.

This was written on December 7, 2015. Reviewing the market declines on Wednesday, December 2 and Thursday, December 3 provides an excellent example of the conditions identifying a market that got dangerously short. You can also see this by reviewing the webinar on Monday morning December 7. A market that had gotten too long would be the mirror image.

D. TACTICAL PLAN

We started our worksheet checklist from the top down. The goal was to give us a broader perspective prior to developing our tactical plan, which for short-term traders is a bottoms-up exercise. Generally, markets are not very predictable; however, we really don't want to believe that. The most successful short-term traders, over the long haul, are those that are the quickest and most agile when reacting to change. The shorter-term trader you are, the more important it is to be able to adapt.

IT IS NOT UNUSUAL FOR MOST OF US TO HAVE A BIAS COMING INTO THE DAY. CREATE SCENARIOS THAT WOULD PROVIDE ATTRACTIVE OPPORTUNITIES IF YOUR BIAS IS CORRECT, AS WELL AS SCENARIOS THAT SUPPORT YOUR BIAS. AND, DON'T FORGET TO LIST OUT SCENARIOS THAT CHALLENGE YOUR BIAS.

People would rather

BELIEVE

than be

RIGHT.

- Edward O Wilson,
Pulitzer Prize-author,
Research Director and Curator
at Harvard University

As strange as it may sound, your tactical plan might be to have no tactical plan at all, but rather be prepared to constantly position yourself for unexpected opportunities.

Part of my tactical plan, and one which I espouse most often, is to stay deeply involved in the market each day. It is not uncommon for the biggest opportunities to occur early in the day and late in the afternoon. Unless you have stayed totally involved in the market throughout the day you are unlikely to be prepared for some wonderful late afternoon opportunities.

ESSENTIAL TRADER WORKSHEET KEY

E. SHORT-TERM BALANCE

Short-term balance could be the final distribution of a multiple distribution trend day, a very narrow neutral day (a neutral day generally has no range extension or only limited range extension on either extreme with a very prominent point of control about centered within the daily range) or, two to multiple days of overlapping value. Some of the best short-term trading opportunities occur when a market either trades out of balance or, trades out of balance, fails to show continuation, and reverses.

Before you begin to prepare your scenarios for the day, do your best to determine if the market is within a longer-term trend, an intermediate-term trend, a short-term trend or within a short-term balance.

F. SCENARIOS

We recommend that you create and rehearse at least three scenarios in each direction prior to the market opening. Once the market opens and does something unexpected, it can be very difficult to react unless you have foreseen that possibility or something very similar.

Creative problem-solving is the hallmark of a successful short-term trader. One of the best ways to be a creative problem solver is by having rehearsed multiple opportunities prior to the market's opening.

Scenarios can be dynamic. And, by that we mean they don't have to be three scenarios that point higher and three scenarios that point lower. For example, one might be to fade a rally that fails to take out or find acceptance above the previous day's high or low. Two more might be to go with a breakout from balance or fade any breakout from balance that fails. If the market appears that it will gap higher or lower, one scenario might be to fade any early attempt to fill the gap that fails, or to go with a gap failure.

During the Legacy Intensives we will be constantly focusing on potential scenarios. At this point we are beginning to focus indirectly on the execution part of trading.