Foreword

From birth, we join the struggle for a place that we will occupy in society. Year by year, we improve our skills, implementing the best ideas and achieving results. To bring something new to the world, to make a brilliant career, to build a happy family, to receive recognition and respect. It is only important to find your lifework and devote yourself to it entirely. The choice. Everyone has it, day after day we make it, making certain decisions. I always had plenty to choose from, and exchange trading fully meet all those criteria that allows me to continuously develop, get decent rewards and be successful.

The exchange-traded field is one of the most competitive. The best minds of the planet continuously redistribute financial flows, taking different sides in transactions, winning and losing, rising and falling, and then rising again, continuing the battle. The endless process of struggle is fascinating, giving unforgettable emotions: the joys of gain and the pain of loss. Once you enter the exchange world, you realize that you will never want to return to the dullness and routine of everyday life. Here the struggle is elevated to the level of absolute value, only the most persistent, experienced and wise strategists win. Those who do not correspond to this will have to pay the winners. Such is the business.

So, where to start? With the opening of a brokerage account, and a couple of other people's ideas, taken from recognized "guru"? There are a fairly large number of books that deal with the trading of stock products, however, applying the ideas of the system based on classical figures of technical analysis, Japanese candles patterns, moving averages, MACD, Fibonacci corrections, and things like that, you realize that all this does not work. Having passed this road, many people, having received painful lessons, stop the fight without figuring out where they were wrong. It always happens, the weak leave first, and no one has achieved anything on the stock exchange without putting enough effort into it. The rest will have to change the principles on which their trade is based, as well as to change themselves. In course of time, only the strongest will survive - they are the elite, traders who consistently make money from year to year, those who find a workable trading system.

Why can't you just borrow a system that has already been tested by time from other successful traders, diligently following all their instructions and recommendations? Because exchange trading is primarily a trader’s way of thinking and only then the practical implementation of his ideas. Trying to fasten someone else's head to your neck is doomed to failure. On the stock exchange, the main rule always said: “never to give or to ask for advice”, because the one who gives advice does not carry responsibility for his money for the decisions made, and the one who take advice does not have his own thinking, so this job is not for him. So you need to understand your life’s purpose and ability to win an uphill battle.

You cannot do without a clear trading system on the stock exchange, and this is a fact. And in order to form it, it is better to understand the principles on which the trading systems of the most successful investment corporations are built.

This book is based on the principles of professional investment, developed by Goldman Sachs. They allow you to design portfolios of varying complexity, minimizing the impact of each individual security and impact of the market direction on the result of profit from the portfolio. The system of building competent investments will defeat non-system.

This book is the fruit of more than a decade of stock trading experience. It is written for traders with various levels of market knowledge. For multipurposeness, it includes plenty of theoretical information, but only in the necessary volumes. In addition, it is important that the key ideas presented here are confirmed by accurate mathematical calculations and numbers. Strictly, conservatively and to the point. Everything that really works, making a profit, is put together. It is up to you to decide which of these knowledge to use.

Yours respectfully,

Max Ananyeu

Stock Trading System

I'm playing against great players,
playing against the best in the world.
The competition – that's what I've always wanted.

Kobe Bean Bryant

All games have common elements. It does not matter whether it is children's game or game for adults, sports or political game. The core is only one: there are rules and there are winners. Stock market gambling, in fact, does not differ from other games. All the same rules allow a few to beat the crowd. The one who understands these regularities and is adequately consistent and disciplined in his actions will be on top, and the rest will be left with nothing.

The secret to all victory lies in advantages. Athletes are constantly lead practice, day by day improving their fitness, speed, hardiness that are necessary to win. And traders are studying markets, other traders and themselves. They look for regularities in everything, that drives market forces. Nobody knows the future. It is unknown. However, in spite of it, some make the right decisions and succeed, but others do not. But all act in a state of uncertainty about the final result. What allows those selected to be on top?

Let's take a look at the players. To this end, let's consider relations between an employer and employee. The employer assumes all the risks of a commercial project, and gets a certain part of profit from work of each employee. As a result, he will be wealthier than each of them. But it is a game, in essence, and it is the employer who dictates the rules of it. And the longer they play this game, the richer he gets. Needless to say that many very wealthy families play it for generations.

In this game, there is a key element of victory - an advantage. The opportunity to use not only the fruits of your own labor, but also the fruits of other people's labor. So there are business dimensions that allow a few to profit from many. Bankers will take a percentage from everyone. We are the Traders, and we honestly and gently, within the framework of the current legislation, will nattily and imminently take our share from the bankers. And it is a challenge.

So we take up this challenge!

If decent citizens have no desire to force banks to come down with money through the "kind word and a gun", then there is a much more attractive way. To win them at the stock market. As well as to beat other players, after all, not only bankers have money. In other words, to create a system that will make a profit from their weaknesses and patterns of behavior.

People have always studied nature. Observing the nature allows people to use its resources for their own benefit. The behavior of markets is, after all, the nature also, only it is the nature of human passion for the game. Let's use the experience of those who studied it. Hundreds of authors wrote about the markets, watching thousands of participants, in countless numbers of market situations. The observations are different, and conclusions, made up by the authors of these books, are also different.

They have value. But only as the observation. But meantime, let's not hurry with the conclusions. After all, none of the books is an integral system that allows you to beat the market. Even one of the best books on the subject "Way of the Turtle" by Curtis Faith gives only a few good ideas. As well as most other books. Just a few useful ideas on many thousands of pages. The point is to collect the most efficient of them in a clear system that subordinates to the rules. And to follow these rules.

The main idea of this book is to describe the system, which allows to get an advantage over other market participants in all components that are possible, and to protect yourself in cases where other participants have an advantage, keeping yours loses to a minimum. The system, that is used by market professionals to create the largest investment corporations in history, having studied their decision-making mechanisms. To reveal the secrets that help stock market trading to become the most exciting work in the world. And to win!

What games we play

So we want to win. But what are our odds of winning in this or that game? Maybe the rules and special aspects of it will prove to be inappropriate for us? After all, you can devote your whole life to training skills of playing on a certain field, but never succeed. There is an ancient Chinese proverb: *"A man without a smiling face must not open a shop."* And if a person, a strongly pronounced introvert by nature, is unsociable, and even preferring to keep his emotions under tight control, then the shop is not his game. And no matter how much he practices, he will not become a Sales Star.

But if a person is young, athletic, born in Kenya and runs every day, then why not to try to take part in the marathon? After all, his genetic potential, strong muscles, plus proper daily workouts give him a chance to win.

But there is one kind of game that excites human minds, forcing even the strongest hearts to beat with accelerated intensity. The game, the main prize of which is the key to all world wealth. The game, with inexhaustible financial opportunities. Gambling for all money of the world.

Stock market, it beckons!

Let's study it out and first let's talk about the markets.

Forex - *Foreign Exchange* - founded in 1976, market of interbank currency exchange at free prices.

One of the largest markets with a daily turnover of $5 trillion as of 2016. Forex trading is carried out in currency pairs, in which one currency acts as a commodity and the other as means of payment for this commodity. Its main instruments are the world's major currencies. USD-EUR-CNY-AUD-JPY-CAD-CHF-GBP

Forex works twenty-four-hour due to the location of the main currency areas in every time zone worldwide. It is not tied to a specific trading venue, as it is a virtual market whose participants can make currency transactions from anywhere in the world. Forex is based on the principle of free currency conversion, which assumes government non-interference in transactions. Usually, with a value date on the second working day (*spot market*).

The market is characterized by high liquidity and low volatility.

Cryptocurrency - is a type of digital currency, the creation and control of which is based on cryptographic methods.

Cryptocurrency does not have a physical form, but exists only in electronic form. It is means of payment, and represents a specific mathematical code. The key feature of cryptocurrencies is the absence of any internal or external administrator. Therefore, banks, tax offices, judicial and other public or private bodies cannot influence the transactions of any participants in the payment system.

The emission of different cryptocurrencies can be made through mining or ICO. As a rule, developers initially specify the upper limit of the total volume of emissions.

Mining – *activities aimed at creation of new structures for the functioning of cryptocurrency platforms.*

ICO *is a way of attracting investments through sale to investors of a fixed number of new cryptocurrency units received by a single or accelerated* emission*.*

Currently there are a huge number of cryptocurrency coins. On January 26, 2019, more than 1900 cryptocurrencies and tokens were represented. The main ones are: Bitcoin, Ethereum, Litecoin, Ripple, XRP, EOS, Bitcoin Cash, Tether, Stellar, Tron, Dash, IOTA, NEO, NEM.

Discussions are underway on the economic nature and legal status of cryptocurrency. In different countries, they are considered as a means of payment, a specific product, and may have restrictions in use. Their global turnover is relatively small. Cryptocurrencies are characterized by low liquidity and ultrahigh volatility.

Debt market *is a market where long-term debt is traded.*

Debt financial market makes it possible to obtain borrowed capital for a specific period through bank lending, issuing bonds, bills and other debt financial instruments. Long-term debt with a maturity of more than one year is traded on the debt market. The global debt market is estimated to be more than 247 trillion US dollars in 2018. And accounts for 318% of global GDP.

Debt securities are documents that certify the right of the lender of an individual or legal entity on loan redemption, which must be repaid in future under certain conditions. The issuer of debt securities is a borrower, and the buyer of debt securities is a lender. They are divided into public and corporate.

Public debt securities are debt obligations of Treasury, that is acting as an issuer to other states or companies, that acquire issued securities. The issuer's main obligation is to repay the debt on the issued bonds in full and on time, taking into account the payment of pre-arranged interest.

Besides treasury, securities can be issued by any commercial organization. They are corporate debt securities.

The debt market is of high liquidity and low volatility.

Commodity - products that are actively resold in organized markets.

Currently, about 100 commodities are sold on commodity exchanges in the world. They account for about 20% of international trade. Its tools: energy commodities, non-ferrous and precious metals, grain crops, live animals and meat, foodstuffs, textile raw materials, industrial raw materials. Chicago Board of Trade (CBOT) - the oldest stock exchange in the USA - is actually the center of the modern commodity market.
Peculiarities of such products are: commonality of consumer properties, interchangeability, storage, transportability, fragmentation of batches. Specific items of such goods are easily interchangeable or qualitatively homogeneous, and practically does not matter who, where and how produced them.

According to the established rules, based on the concept of exchange commodity, each stock market has the right to independently determine the scope of commodities that will be the subject of stock trading. However, those requirements that are imposed on exchange commodities by the practice of stock trading are taken into account. As a rule, investors buy or sell exchange commodities through futures contracts.

The commodity market is of high liquidity and low volatility.

Stock market – *is a complex of economic relations regarding the issue and circulation of securities among its participants.*

Stock market is a place where stocks of public companies are issued and traded, and public companies get money through the sale of stocks - equity securities that secure the owner’s right to a part of the company's assets in case of its liquidation, confirm participation in formation of authorized capital, give the right to get part of profits and to take part in enterprise management. It is the easiest and surefire way for a company to get financing for further growth, allowing the issuer to raise the cheapest and most long-term capital, to enhance the value of the company, and reduce borrowing costs.

The stock market participants are:
Issuers - companies that are issuing securities.
Investors - buyers of securities - are companies and individuals for whom trading on the stock market is a professional activity.

An economy in which the stock market flourishes is almost always considered as growing economy. In fact, the state of the stock market is usually taken as the main indicator of economic strength and development of the country. Volume of stock market in 2017 amounted to about 100 trillion US dollars.

Stocks of public companies vary in volatility and liquidity.

Derivatives *- securities of secondary level, the price of which is derived from the price of one or more underlying assets.*

A contract, under the terms of which the parties are entitled or committed to perform actions in respect of the underlying asset. Usually provides the opportunity to buy, sell, provide, get some goods or securities. Unlike a direct purchase/sale contract, the derivative is formal and standardized, initially provides for at least one of the parties to freely sell this contract.

The peculiarity of derivatives is that the total number of liabilities under these derivatives is not related to the total amount of the underlying asset traded on the market. Issuers of derivatives are not necessarily the owners of the underlying asset. For example, the total number of CFD contracts for shares of a certain company may several times exceed the number of issued shares.

These include options, warrants, swaps, futures contracts, contracts for difference, futures of stock indices. The purpose of a derivative purchase is not to physically obtain the underlying asset, but to hedge price or currency risks over time, or to obtain speculative profits from changes in price of the underlying asset.

It is difficult to calculate the exact volume of the derivatives market, but according to preliminary data it is several times larger than the stock market.

Derivatives are different in volatility and liquidity.

So, Mr. Market offers us six basic types of stock market instruments. Or the ability to use several of them simultaneously. The final result will be determined by the correct choice. Despite the enormous amount of inventory, the task, as always, is to choose the best one.

In order to maximize profit, the asset must be volatile. Let's take a look at the situation of buying 4 stock products by investing $100 in each of them. The first has a low volatility of up to 20% per year. The second is of medium volatility from 20% to 50%. The third is highly volatile from 50% to 3 times increase in its value. The fourth is ultra-volatile, the price varies from 5% to 30% per day. What is the profit potential in each transaction?

In the first case, the profit will be no more than $20, in the second from $20 to $50, in the third from $50 to $300 per year. And in the fourth from $5 to $30 each trading day.

As a matter of logic, the conclusion is that ultra-volatile assets are the most attractive. And these are cryptocurrencies.

However, there is another important peculiarity of the product - it is liquidity. As one trading joke says: *“exchanged a fox worth 1000 for 2 parrots priced at 500”*. So, it is very difficult to exchange cryptocurrency for ordinary money in large volumes. Yes, and in real life, they have not yet entered into everyday life. Whether they will enter? This is still in question. The investment portfolio, where the majority of assets is cryptocurrency, will be extremely volatile, which will lead to a constant shock for the manager of this portfolio and the need for investors to purchase medicines that calm nervous system. In addition, cryptocurrency is a purely speculative asset that does not have a zone of value and the purchase of cryptocurrency is designed only for entry of new buyers who can pay for it a higher price. But what if they do not enter, and the happy owner of “*foxes and parrots*” will left with them forever and ever? In addition, the regulation of cryptocurrency is not yet fully formulated, and many countries do not recognize them as the means of payment. So cryptocurrency is not an option. For now, let's put aside games with cryptocurrency and look for something better.

Now let's consider the situation in the context of liquidity. Currencies, commodities, debt market instruments are quite liquid. But are they volatile? No. Not at all volatile. They remain motionless. Volatility in per year terms is close to 10%. That is, if we buy an asset at the bottom and sell it at the peak, then our profit will be only 10%! And there are questions. First: buy the bottom and sell the peak is extremely rare, and great luck, if the trader can take at least half of the price movement. Then what remains? 5%? Total?

Not many. Still, the soul wants: "To hunt for elephants, rather than participate in the collection of ants."

In addition, currencies, commodities, debt market instruments are very difficult for fundamental analysis. And it is not always possible to obtain completeness of information about them from open sources. The decision to buy an asset, without a proper analysis of its fundamentals, is clearly not a path to wealth and prosperity. And, finally, the variety of these instruments is not so large, and if so, it will be difficult to form out of them the most differentiated investment portfolio, promising impressive prospects.

What is the bottom line? Stocks and derivatives. Very large groups of commodities. Liquid and quite volatile. Stocks have a clear foundation for analysis. Derivatives have more complicated fundamental analysis. For example, in order to analyze the fundamentals of a futures contract for the Dow Jones index, it is necessary to first analyze each of the 30 stocks included in this index. In the S&P 500 there are 500 stocks, in Russell 2000 there are 2000. But each stock has dozens of fundamental indicators. By the way, the behavior and membership of market participants, who buy an underlying asset and the derivative for it, may differ. In derivatives - only speculators, and in stocks - speculators and investors. So why make everything more complicated? Of all the groups, stocks look like the most attractive. This book is about them.