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Alexander Paul Morris: What's Working Now In Day Trading......

This is Dave Goodboy, executive producer of www.realworldtrading.com. This week I had the pleasure of interviewing innovative trading software developer and avid day trader, Alexander Paul Morris. Alexander has been trading for many years and is a highly skilled computer programmer. He combined these two passions to create a revolutionary trading platform called TYMORA. Using this highly unique tool, Alexander discovered trading tactics and techniques that are working now in the highly volatile world of day trading. Let’s get started!

Dave: How are you today, Alexander?

Alexander: I'm doing great - Thanks for asking!

Dave: Let's start out by talking about your trading background. What first perked your interest in the market?

Alexander: I've always been fascinated by the markets ever since I was a kid. My grandfather made it through the great depression and even came out a bit ahead. He in fact still held some of the best stocks he had back from those days. One thing he taught me early was the dangers of using leverage and overextending yourself.

Dave: I see the trading passion runs in the family. What year did you trade your first share?

Alexander: Actually, it was more like forays into mutual funds back in the early 80's. We did very well with the Gabelli Funds, and in fact still have money invested with Mario to this day. Out of all the mutual funds out there, he's always been one of the solids in Value Investing.

Dave: Yes, obviously he has survived in many types of markets. I remember seeing Gabelli's advertisements back in high school. How did you transition into day trading from mutual funds?

Alexander: I was always fascinated by the potential, hearing the stories of "If you had bought IBM back in the day..", etc. Believe it or not, what really perked my interest to the shorter-term trading was a kit my father had purchased about trading futures.

Dave: Do you mind sharing what kit this was? Ken Roberts by chance?

Alexander: I knew that the stuff wouldn't work - especially the way it pushed the possibilities through "pyramiding". How'd you guess?!

Dave: Come on you can share the secret!

Alexander: Should I be embarrassed?!

Dave: Not at all! Everyone got those things in the mail from Ken Roberts. Regardless of the validity of his methods and marketing tactics, he certainly perked many peoples interest in the markets.

Alexander: Either way it intrigued me enough to start trading more frequently - so I can say that my first shares were traded in the early 90's. I've also traded foreign exchange, futures, options, you name it.

Dave: What Ken and other promoters like him fail to tell you is pyramiding will cut you down fast when it goes against you. Did you trade through the internet boom?

Alexander: Actually, I started well before the boom.

Dave: I know you learned to use the Level II screens from their inception. Many traders sincerely believe that Level II has lost its usefulness in today's market. What have you discovered about Level II? Is it still useful?

Alexander: Not quite from their inception, but much earlier than most people! It's such a different game now trade-wise. Executable Level II screens really began in 1987 after the crash, when no market maker would honor a quote. That eventually led to the SOES bandit phase, which was really all about arbitrage - arbitrage is great when you can find it. By the time the books are published though, it's because the game is all but over. Getting back to using Level II today, in the markets, every piece of information you have access to is an edge.

Dave: Right, Harvey Houtkin and his group popularized the bandit type trading.

Alexander: Correct! That's why I'm always especially iffy on forex - and also the non-electronic futures back in the day. You just can't see the real market.

Dave: How has using Level II changed from back in the early 1990's to today?

Alexander: Today, everyone who wants to has easy access to Level II and of course every market participant knows this.

Dave: Ok, exactly are you doing differently today in regard to Level II?

Alexander: Back in the day it was all about arbitrage and the market makers literally didn't even know what was hitting them. The entire market is just a game - and with Level II, it's just one more piece of the puzzle. I mean, would you rather trade forex where you see nothing, or a stock where you see who's looking to trade, and time and sales that's saying who's actually going up to bat.
So you have to think of Level II (and trading in general) like a game of poker.

Dave: That makes sense. Can you get more specific as to what you look for on the Level II screen?

Alexander: I'm looking for things that don't make sense.

Dave: What do you mean by not making sense?

Alexander: To understand more, let's take a step back for a second.

Dave: Alright, sure.

Alexander: The question is, for example, what does it really take to create an upmove in the market. First, we need aggressive buyers, and preferably more than one. We also need few aggressive sellers. Any sellers coming in have to be relatively weak. And then you need a catalyst – some event to set things off.

Dave: How do you tell a buyer is aggressive? What do you look for on the Level II screen?

Alexander: It's all about finding the clues. For example, let's say that a stock is edging higher and someone comes in and sticks out a 10,000 share offer.

Dave: OK

Alexander: Now, the weakest hands will first think, "OH NO! Run for the hills". The real question though is why would someone show such a large offer? And of course, who is it scaring out of the game?

Dave: As a kind of a bluff?

Alexander: Exactly! Level II is a giant bluffing game. And also figuring out when it's not a bluff since someone might really be trying to sell that 10,000 shares. He might also have 100,000 more to sell.

Dave: Well, figuring that out seems like the trick to master the market. How is this done?

Alexander: Let's say the 10T share block shows up, a few hundred shares are sold, AND ... hmmm.. the stock upbids and tightens the spread? That's ... interesting..

Dave: OK.

Alexander: There are many ways to bluff, so I'd have to say that most likely yes. I mean, if you ever posted even a hundred shares up a penny to see if other traders would follow, that could be considered a sort of bluff -- a test.

Dave: Understood.

Alexander: We're always trying to test the market to see if our premise still remains accurate.

Dave: I see. It is really like the world's biggest game of poker.

Alexander: Exactly - Level II really gives an edge when people are on the line -- when people aren't "thinking straight". Going back to the earlier example.

Dave: Right, go on.

Alexander: I can also take a relatively low risk bet on panic.

Dave: how do you identify panic on Level II? Can you give an example?

Alexander: Everyone's watching this stock creeping higher towards the 10T share block. Some may be short, some thinking of going long. But most are likely thinking hey, I've got 10,000 shares to cover, or 10,000 share to go LONG from if I need to, so I'm okay.

Dave: Right, and…..

Alexander: BUT no one's selling out.. and the bid keeps edging higher and .. woah! Someone just grabbed 5000 shares! Now, let's think following the big money-- Who's got the guts to buy a 5000 share clip into a 5 cent spread on a stock that is edging higher and simply no sellers are entering the market? I want be on that side of the market! We've also identified a potential catalyst - a group of traders who may be caught with their pants down hoping the stock will finally break and go lower. |

Dave: Whoa, slow down Alexander! Now, we all know any trader on many platforms can fake size on Level II. How do we even know the 10k block is real?

Alexander: We get the clues from watching the Time & Sales along with Level II. And we see the shares getting taken without being pulled. Once those last shares are taken – say in two or three large blocks, the stock may jump a quarter point as they all chase and panic.

Dave: Gotcha, so you are combining the Level II with time and sales?

Alexander: Absolutely! It would be much less useful without it.

Dave: Moving on here, you mention the top 10 market makers in your writings. Who are they currently?

Alexander: Well, believe it or not, that changes moment by moment depending on the stock.

Dave: Interesting.

Alexander: My platform, TYMORA, in fact, keeps track of all that information. For example, if we look at ONXX, a stock I was trading on Friday, TYMORA currently indicates that ETRD (ETrade) is currently ranked as the #1 Market Maker. Probably not who you would normally expect.

Dave: Impressive, so your software discovers the rankings at the moment of the MM's?

Alexander: Everyone always thinks Goldman, and GSCO is certainly a true force to reckon with when they play the game, but they are not always "on the chopping block".

Dave: Yes, Goldman is the first group that comes to my mind when I think of MMs.

Alexander: Yes. And we don't figure it out just by who's showing up a bunch of times on the top of the Level II. It's more like, who's "causing some trouble" when they show up.

Dave: What do you mean by this? You mean who is actually making transactions and movi ng the stock?

Alexander: Right. Now another thing to remember is that the ECNs nowdays also play a big role, even by the market makers. So that's also why we need to consider the whole picture, and not just follow GSCO like we hear so often. Always remember, if Goldman is in control, do you think he's going to make it easy for anyone to figure out his moves?

Dave: Obviously not.

Alexander: In fact, if GSCO is the one in control, maybe we would be less inclined to trade that stock right now too unless we get a very clear read of what's going on. Why? Simple - think of poker.

Dave: AH, I see your thought process - it makes perfect sense.

Alexander: Do you want to go up and bet against the world champion, or rather the Sunday afternoon amateur poker crowd?

Dave: You are clearly thinking outside of the standard box most day traders are trapped in.

Alexander: Exactly. That's really what trading's all about.

Dave: You will actually never trade a stock a powerhouse like Goldman is lead in?

Alexander: I wouldn't say never. It's always case-by-case based on what we see, and that's just one more factor to consider.

Dave: Understood.

Alexander: Trading is really about learning how to sit back and listen to what the market is telling us - putting together the clues. And also knowing when we are off our game. But that's something to perhaps touch more on later.

Dave: OK, that brings me to another fascinating discovery of your research, time of day tendencies. Can you fill our members in on what you have found? Particularly what the "dangerous" time zones are.

Alexander: There is definitely truth in time-of-day, because people tend to act in a herd mentality. The thing is with many people being aware of these tendencies, the effects can often shift, kind of like seasonality. The January effect becoming the December effect, etc. Of course, there are some that always seem to stand true. I'll tell you though that as an example, although lunchtime tends to be the boring fake out shake out no-trade zone, I've found some amazing opportunities pop up then. It helps having the right tools of course to point you towards them. The first hour of trading tends to be the most volatile, while all the panic sets in, all the gaps are played out.

Dave: Makes sense. Go on.

Alexander: Sometimes, I find great fading opportunities off the bell. A stock will suddenly drop a point for no reason off a large offer slamming down, for example. Once the offer dries up, it bumps back up a good half of the move down, and sometimes even recovers completely. Usually though I like to take a step back and let all the other traders hash things out first - sort of like phase one of a war. Then as they slow down and burn themselves out, I start looking around for the pieces that are left standing and pick and choose what looks best. The last week in fact is a perfect example of how psychology plays out in the markets. Everyone was panicking over the London terror attacks. Most of the time, it is exactly this type of catalyst that the big boys need in order to suck up the float they want and then aggressively push the markets to achieve the outsized move they are looking for.

Dave: I see. Is this another thing you watch for on Level II?

Alexander: Exactly! You see, if a trader wants a big move, he can literally create his own move by slamming out the offers. Especially on a low-liquidity stock, you'll watch it pop a point until it will re-equalize at a new level, and for that time traders will all "believe" that's the new level, BUT... what good will that do the large trader if he didn't pick up 100,000 or so BEFORE the move to distribute back out to the public.

Dave: OK, this makes sense. Let's get back to the dangerous times to trade. What are the most dangerous times?

Alexander: I'd have to say the first 45 minutes and the last half-hour are the most dangerous. Triple-diamond danger would be the first 5 and the last 5 minutes of the day.

Dave: When anything can happen.

Alexander: As an example, I've seen stocks that have gone up steadily for 3 hours drop 75 cents from 3:58 to 3:59 and then be higher by 4:02pm.

Dave: Geez, talk about volatile!

Alexander: For someone new to the game it's a good way to get shaken out fast. Which goes back to the point of waiting for those types of events, where people get thrown off kilter before putting your hard-earned money at risk.

Dave: That triggers another question, do you find it wiser or easier to trade stocks than e mini type future products?

Alexander: I think that's much more of a personal question than anything else. I've trading all of these types of assets at one point or another. For example, I liked trading the e-minis the first few years they were out. Not as much competition, had potential for some nice quick moves. But now everyone wants to trade the e-minis. The time I get interested in them again is on an event such as the terrorist attacks when they go through the floor. However, my first choice then would probably be the DOW minis - they currently trade more like the e-minis did a few years back. And you don't have 250 contracts sitting at every price level.

Dave: I see, it's all in the waiting. Waiting for the perfect time to pounce and make the trade.

Alexander: The biggest mistake that people make, though, is trying to trade a particular vehicle just because of the huge leverage it can offer them without consideration for the opportunities they feel they can extract. That will just help them part with their money that much faster. If someone's found a statistical edge that they feel confident they can trade, go for it. But please, people, don't try and trade forex just because you don't have $25K, you don't "see" the forex commission, and you can start with $1K to control $100K.

Dave: The political, environmental, and economic factors need to line up to create the perfect trade, and the e-minis are the perfect vehicle to ex ploit abnormalities.

Alexander: If someone had been up around 5am that Thursday morning, I believe the e-minis would definitely have been the best way to go.

Dave: Exactly, that makes perfect sense. Let's move onto chart patterns. Have you found any validity to chart patterns and what ones in particular?

Alexander: There is definite validity to some chart patterns, and I do keep track of the ones that people tend to watch the most. In addition, with TYMORA, I am always aware of all the Key Trendlines and Support and Resistance Levels. The difference is that at the point of make-or-break, I watch the players and the time and sales to ascertain how the current scenario will likely play out.

Dave: Ok, you combine charts with tape reading?

Alexander: Absolutely - that's what gives the real edge. My best trades always tend to be the ones that start out slow and boring. But I can just "feel" the bubbling beneath.

Dave: Obviously, it's difficult, even with the latest software, to trade multiple stocks while tape reading and watching the chart. Is there an ideal number of stocks one should trade at a time?

Alexander: That's really more of a personal thing.

Dave: What have you found?

Alexander: I have to say that such a big part of trading is about focus, and even with all this technology, unless there's a few that I really like, I like to stick with one or two at a time. Now, that doesn't include a part of a position that I may let ride with a trailing stop and do as it may.

Dave: I understand. I am talking about active trading.

Alexander: As far as "babysitting" new positions, I'll tell you that sometimes stocks turn so fast that I've had two profitable positions turn to losses in a flash because I was scrambling to get out of both instead of focusing on one.

Dave: Focus is the key.

Alexander: It's frustrating when the one you pick doesn't budge and several others start running, but in the end, it does go back to narrowing your focus. That's actually one of the hardest parts of trading. I think fishermen could make great traders.

Dave: Interesting concept. Why?

Alexander: Because they know patience and they know that if they rock the boat too much while waiting they may scare their best bite away! So, just sit and wait and focus and be patient. It's a lot harder to do consistently than most people think.

Dave: You are credited with creating a unique software platform that does many of the things we have talked about so far. Can you briefly describe this revolutionary platform?

Alexander: My pleasure Dave! Basically, I couldn't find any software out there that could look at the markets the way I wanted to see them to get the edge I felt I needed just to have a chance in the game. Fortunately for me, I've always been exceptionally talented with computers.

Dave: I know exactly what you mean. Even many of the proprietary trading packages I have seen are seriously lacking in what works in this environment.

Alexander: Whenever there was something I wanted to do, I could "just write a program". Even today, I am constantly updating TYMORA with new features, tools, and analysis that have the potential to provide the best shot at success – and an even greater edge. There's no communications gap between the developer and the trader. |

Dave: TYMORA--that's a unique name. Does it have a meaning?

Alexander: In fact it does! I chose that name based on the ancient Greek Goddess TYMORA. She represents Good Fortune, Skill, Victory, and Adventure. Fortune Favors the Bold!

Dave: That's very cool. I like it!

Alexander: Thanks Dave! It rang powerfully for me and I liked the karma it provided my "little" project!

Dave: I agree totally. Let's get back to some of the unique key features that TYMORA does.

Alexander: How much time do we have left Dave? I may need a few hours! I'll touch on a few of the top features.

Dave: Great, what features are not found on any other platform.

Alexander: TYMORA has Level II screens, Charts, Execution, Statistics, Portfolio Management, and Alerts, as do some other platforms. But that's about where the similarities break off. Instead of trying to run down a list, I'll start by presenting a different concept. One of the biggest changes in the recent years has been decimalization.

Dave: Yes, decimalization has been the death of many day traders.

Alexander: Exactly - Now, while that was great on one side, because risk was now potentially down to a penny, many traders were counting on being able to jump in for a move of at least a sixteenth. All gone now... But is it really? It all depends how you look at the game. If a market maker causes a panic in a stock and it drops 25 cents, hey, there's our quarter-point again. If you remember back in the day, Island had 64ths and even 256ths posted!

Dave: Correct.

Alexander: Therefore the spreads were already cracked, it just wasn't "official". The real question is, how does the stock really trade, and what constitutes a real move. We didn't think much of a 64th bid back then. So why worry about a penny upbid now?

Dave: This makes sense, please continue.

Alexander: If the market is trading 25.0-.04, and it goes to 25.01-.04, maybe we could still say how about just considering any activity from 25.0-.05 at the same level. This is exactly what TYMORA does. It automatically figures out what the best increment is based on the trading activity and spreads in a particular stock.

Dave: Wow, I am impressed. That is powerful!

Alexander: Thanks. It's as if we have a spread again! Well, not a 16th, but .05 is close enough! So what we're really looking for now are clues in that price range that can potentially lead it to the next level higher or lower. It becomes much easier to analyze than keeping track of every small penny up and down. TYMORA's DepthVU is setup with this layout by default and TYMORA's LevelChart is based on that kind of activity. The algorithm is in fact much more sophisticated but that gives a basic gist of that one aspect of TYMORA. I say one because I wouldn't want anyone to think that's ALL TYMORA does!

Dave: I follow. Let's talk about what else differentiates TYMORA from the crowd of platforms.

Alexander: TYMORA also has some very powerful alerts that keep track of many unique characteristics of trading activity in order to present traders with a constant stream of unique opportunities. Now, although some alerts may seem as simple as “Closing a Gap that occurred 2 months ago”, just about every alert is provided in conjunction with other unique information that can provide insight into the potential advantage of a particular event.

Dave: Please give me some examples of what you mean.

Alexander: Sure, let's say a breakout occurs on a particular stock. You are immediately aware if there was any news on the stock. You know if it is a low float stock with a high short interest. TYMORA informs you that the stock is currently trading at 3x average volume for that time of the day. TYMORA also optionally scours multiple public news sources around the internet for any possible headlines that may have been released that could potentially affect your decision to take a trade. TYMORA even goes so far as to take all of the information it has and presents potential trading opportunities in the form of "predictive logic".

Dave: I like the idea of predictive logic. Please elaborate on specifically how TYMORA uses predictive logic.

Alexander: It's one more tool provided to offer a distinct edge. What predictive logic does is it presents potential low-risk high-reward trading opportunities for a trader to exploit. They are meant to be used in conjunction with a trader's normal thought process, and provide an additional level of confidence when taking a particular trade. They are not, however, meant to be taken blindly. Traders maintain the advantage of determining their own risk parameters and comfort levels, dealing with such issues as volatility, liquidity, time-of-day tendencies, and of course when to close out a particular trade.

Dave: Let's move on and talk about how you combine this technology with your philosophy. I know you are associated with several cutting edge mental empowerment concepts. Please tell our readers a little about them .

Alexander: In trading, psychology plays the greatest role of all no matter which way you slice it. It's really a big game of managing yourself, which in fact, is just as helpful for life in general.

Dave: Let's talk specifically about the philosophies you subscribe to that are helpful in trading and life in general.

Alexander: Sure. I don't want to get into a long dissertation about it because I know earlier on that's probably what made some of these ideas more difficult to embrace as my own, so I'll try to explain it in a way that seemed to touch base for me.

Dave: OK, perfect. As a trader, I believe many other traders will be able to relate, so please share a little.

Alexander: In trading, there is always something that can throw us off base. It's almost like skiing downhill and no matter how hard you try and avoid it you still manage to hit an ice patch. So the question really is how to deal with it. For example, what causes someone to keep fighting the wild daily swings in GOOGLE versus a slower and steadier stock that may present a truer and more distinct edge. Awareness and tuning into your emotions is a big factor. For example, when I feel myself slipping, I actually look to do the opposite of what most people would expect.: I let myself go!

Dave: What exactly do you mean?

Alexander: I may say fine, trade that darn Google!

Dave: That is an unusual response!

Alexander: Get it out of your system! Of course, I won't be putting down any real size. But that doesn't matter. Because the key is that I'm not fighting against myself. And in fact, by being aware and allowing myself to go with the feeling instead of fighting it, I may regain the clarity to say how about taking a nice short break instead and maybe grabbing a bite to eat.

Dave: Interesting.

Alexander: So the key is “Hey .. if we are our own worst enemy, maybe we should just STOP FIGHTING OURSELVES”!

Dave: That certainly makes sense. Is there a philosophical underpinning this idea is based upon? Something that our readers can check out if this idea interest them?

Alexander: I've studied techniques such as The Hoffman Process and The Sedona Method, and in fact, I assembled a very simple version that I carry around with me all the time. I believe your readers can benefit greatly from this information and even gain some near immediate results. It’s available at http://www.yourika.com/stresstips . As an example, let's say you just enter a trade and you begin to feel scared. Your first reaction may be, "Shoot - why I am twisting all up again" I hate myself for feeling this way. If you work to be aware of these thoughts, you can look to turn them around! You allow yourself to feel the fear. And the amazing thing is that once you do that, you can relatively easily make a conscious decision to drop the feeling like a hot potato – to let it go - and regain the clarity and focus required to rationally determine your next move.

Dave: We are almost out of time. Is there anything you would like to leave our readers with?

Alexander: I think we’ve probably given them a good deal to take in already, so perhaps we should leave it at that for now! For those interested, I am in the process of combining these ideas into a book and video series which should help clarify the concepts to an even greater degree.

Dave: It was great chatting with you. Would like to have you back for an even deeper discussion on what’s working now in day trading. Thanks!

Alexander: Thank you for having me! It was a pleasure to be here with you and I truly hope that I was able to provide your readers with some new ideas to help them improve their trading.

TALK ABOUT IT!

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