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by
Eric Shawn

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PayTrading™

by

Eric Shawn

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PayTrading by Eric Shawn

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Knowledge Assumed of the Reader

It is assumed the reader is familiar with the use of the computer, including Copying and Pasting, switching between multiple browsers, etc. It is also assumed that the reader is comfortable with using the services of an online broker.

No other investment knowledge is necessary, other than the basic concepts of buying and selling stocks (also called *equities* or *securities*).

Introduction - What Did I Do Right?

Ask yourself this question and you will, more often than not, be led before a path for success inaccessible by asking “What did I do wrong?”

I am like you: I read all the books, absorbed every system of trading. And I tried them, too. This included everything from sedate long-term value investing (Warren Buffet-style) to impulsive and fast-paced day trading. I made money sometimes, but mostly watched as the long term stock picks lost value, then regained it, only to lose it again in a nauseating roller coaster ride. And day trading—glued to a newswire in the hopes of swooping upon an opportunity before others do—proved more difficult than I expected when interpreting news stories and trying to determine whether that story had already been “priced-into” the stock, came into play.

But about two years ago, while still in the process of feeling around for an investment strategy that offered safe, consistent, yet considerable returns, I one day happened upon something quite extraordinary.

I made money on a stock.

Ok, nothing special about that, true enough. I’d made money and lost money, and according to the amalgamation of theories offered forth by the myriad stock market gurus it was simply important to make more than you lost, right? But as a lover of mysteries, particularly Sherlock Holmes, I decided to deviate from my typical “What did I do wrong?” approach

reserved for mistakes and investigate the opposite: What did I do right this time?

So that is what I asked myself the day that I saw a stock I had purchased virtually at random climb significantly the day after I bought it. And the answer to that question changed the way I traded stocks from then on.

PART I – Exciting Discoveries

Chapter 1 – Enter: PayTrading

Each stock market investor has what he or she deems to be the best method for success... or in some cases, unfortunately, failure. I am no different. If you are reading this book, then you have at least some desire to actually make money in the stock market, whether your current strategy has been “Buy and Hold,” “Buy Low, Sell High” (!), or “Day Trading.” Notice I placed day trading in quotes. That is because I am now of an opinion that nowhere has a more laughable, emotionalist mentality been applied to the system of stock picking than is practiced by the majority of today’s day traders. I know. I was one of them.

If you have doubts about whether yet another stock trading strategy can benefit you, then congratulations. You have all the rationality and sense you need to actually stop searching for one and begin using one that works. If that describes you, read on. You have nothing to lose; this book is not long, it will not appropriate very much of your time. And along the way, be prepared for a discovery that will surprise you, the skeptic, most of all.

Also, be assured my system does *not* involve Technical Analysis, no Fibonacci Curves, no Bollinger Bands, none of that. It does not have anything to do with attempting to predict the future movement of a stock based on its past movements at all. In fact, you could actually label my system Ultra-Short-Term Value Investing, though that might be a little cumbersome (and more than a little silly).

So back to that profitable stock. What company was it, you ask? Oh, I think it was Best Buy or Home Depot, honestly I don’t remember. Because it doesn’t matter. The conditions that made that stock ripe for buying then may or may not exist any more, anyway. The important thing to

ask was a new mental query in my head that was formulated something like this:

Did that stock rise suddenly on that day for a predictable reason, can such a trade be repeated, and if so, can it be repeated with foresight, safety, and regularity?

Now, mind you, that is the plainly drawn anecdotal version of a thought process that led to *much* research, that in turn led to the following answer: *Yes*.

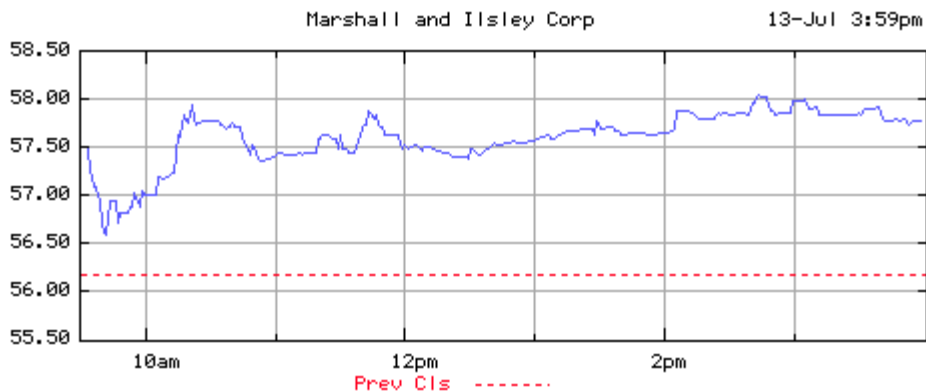
Because I knew I could securely earn a small percentage on these opportunities, even as little as 1 percent, over and over, I knew that if I succeeded in doing so on average of about once a week, each trade would be the equivalent of earning a 67.8% annualized gain, which, as anyone proficient in math knows, would grow an initial investment of \$2000 into \$1,000,000 in about ten years. In other words, beginning with two thousand dollars, you just need to increase your total balance by one percent on 625 occasions to equal one million dollars. Do this on average of once every 6 calendar days, and less than ten short years will have passed. ([Here's the math](#)). The more frequently you average those profitable sales, the fewer the years until the million-dollar goal. By the same token, the more money you begin with, the fewer the years. (\$30,000 becomes \$1 million in about 5 and one half years.) Those years are going to go by anyway. You may as well become a millionaire during them.

My discovery? I checked the online headlines for the stock and made the finding that the security had that morning been **upgraded**. Now, I know what you're thinking, he's just talking about plunking all his money down on a stock that's been upgraded. That's just day trading on news. But hold on, that's not quite it, my friend. There is more to my trading strategy than simply buying a stock on upgrade news, though upgrades do play an important part in initially signaling the presence of a stock worthy of fundamental consideration.

In my research I focused on the historical performance of stocks that were upgraded. I examined thousands of companies and thousands of charts, and using the profound principles taught by Anthony Robbins in his books *Unlimited Power* and *Awaken the Giant Within*, I quickly learned what about my choices, insights, and actions worked and what did not.

What I discovered was like an open door simply asking me to walk through it, and I quickly began to get very excited.

Take a look at the following chart. It is typical. This stock was upgraded before the open on the day shown. Do you see what I see? It is something that I found occurred in almost EVERY single stock's performance chart that I examined (and I examined *a lot*) on the day the given stock is upgraded.



You'll notice that the stock had closed the day before at about 56.25. (The dotted red *Prev Cls* line). You'll also notice the stock shot up to 57.50 on open the morning of this chart. But then it gets interesting: the price of Marshall and Ilsley (NYSE - MI) dipped considerably in the period between the open at 9:30 am and 10:00 am. In fact, had you bought this security at precisely 10:00 AM New York time at about 57 dollars per share, then set a limit sell order for just 57.57, you would have had your sell order filled in just about 30 minutes. A 1% gain. I did it. And you can probably guess where I'm going with this.

Virtually every upgraded stock, (with significant research qualifications in place), dips around 10:00 AM in this fashion. And if I earn that 1% on my balance once a week (on average) I'll turn two thousand into one million in ten years or less.

The dip is caused, naturally, by intraday profit-taking. Why, though, does it occur at a seemingly regular time each morning of an upgrade, whether or not the stock rose on the open? Order lag, human nature, it doesn't matter. The important thing is, it nearly always does. In fact, even

when a qualified (and I will explain these qualifications shortly) upgraded stock *doesn't* climb on open *or appear to dip*, a 10:00 AM purchase of that stock normally will net you your 1% profit anyway, easily within a 7 day period on average, sometimes in a day, and often in just minutes.

Now, this doesn't mean you can just plunge into any randomly chosen upgrade after you learn about it on the Web as long as you buy into it at 10:00 AM and expect to see miracles happen. There are a few pre-screening steps needed to ensure that your speculation is safe first. After all, many dogs are upgraded all the time, often by analysts who participated in the underwriting of the stock's initial public offering, just to help support the stock they have a clear conflict of interest in. These can be dangerous to invest in, tying up your money or plunging terribly.

So I endeavored to assemble a system by which:

1. I first learn of *all* upgrades as **completely** as possible by using a consolidation of several upgrade/downgrade newswire sources. (More on this coming up).
2. I carefully examine each by judging the relative veracity of the analyst making the upgrade and the projected price target (if given). I also make sure the stock was not simultaneously downgraded today.
3. Then I choose only one of the upgraded stocks (if any) that best meets the criteria of safety by researching the stock's performance, earnings, news of any *recent* downgrade, and price target consensus. (This is not as complicated as it sounds, details coming up). If none meet the criteria, I sit out that day's trading session.
4. If the stock has met the above considerations, I buy it at precisely 10:00 AM New York time, *regardless of the price*. While I do use a real-time chart, I do not emotionalize, attempt to wait for a relative dip if it does not seem to have dipped, nor do I worry or fret.
5. After my buy fills, I then immediately set a limit sell order, good 'till cancelled, (GTC) for precisely 1% greater than my purchase price. My trading is done.
6. I then shut down the browser, because it doesn't help the stock climb if I sit there sweating bullets because it has temporarily moved below my buy price, or because it's fun to watch it skyrocket. Instead, I begin my workday and check on the stock at the day's end. Absolutely rational.

7. If the stock has not sold, I wait until it does, no matter how long it takes. Period. **I never take a loss.**

The research and order placement takes less than 15 minutes, and is only done as often as once in a business day. (*More thorough and refined Step-by-Step instructions appear in a coming chapter.*)

Sound like a lot do in 15 minutes? Not at all. I've got it down to a science. Anyone with an internet connection (preferably DSL or faster) an online trading account, and a personal computer can do it. You can, too. I call the system *PayTrading*.

First, let's back up a little and examine exactly what it boils down to.

It's gambling. All stock market investment is. Even long-term, buy and hold strategies are betting that, despite the ups and downs of the market, ultimately the stock will appreciate in value. Day traders are betting that they can do it in a few hours, and often make the bet many times a day.

PayTrading, on the other hand, takes idiosyncrasies inherent in the marketplace and uses them to its advantage. This improves the odds to such a degree that it is not uncommon to average only 6 to 8 calendar days between profitable sales in two entire years of using the system. (At this writing, 7 days is my current statistic for my personal account.) The more frequently these trades are made, the faster two thousand dollars becomes one million.

But, you complain, how safe is it to put your whole account balance into one stock? The answer: after your research, (and quite because of it) no less safe than buying and holding a blue chip for a year, which many millions of people seem to have no qualms about, even as their investment erodes before their eyes, particularly in recent months. The erroneous notion that one "shouldn't put all one's eggs in a single basket" may very well be true of eggs, baskets, and clumsy handlers, but it is not remotely wise when it is one's aim to consciously, safely, and diligently concentrate the power of their portfolio into as sure a thing as can be found.

There are rules, like the rules of grammar, that need to be adhered to in equity investment, and they shouldn't be forgotten. One is the cardinal rule of stocks, and it is never to put money into a trading account that you can't afford to lose. And remember, I'm only recommending that you begin with \$2000. If the unthinkable happened and you lost it, you can decide that, well, it is after all only two thousand dollars. You can always earn it

again. If you find that attitude unthinkable, then you have no business buying stocks using anyone's strategy. The market is risky no matter how you invest.

But, more importantly, I put it to you that *I have lost not one penny investing using my strategy in over two years*, and instead have consistently gone from profitable sale to profitable sale on average of every 7 calendar days, meaning I've been earning on each trade an average 67.8% annualized gain on my money. And this has been during some of the most turbulent times in the markets, when the Nasdaq has plunged to untapped depths and the Dow has given forth the bleakest of trends.

But don't take my word for it—I suggest you experiment with the system entirely on paper, trading with make-believe money, for as long as necessary until you feel comfortable. That way you have nothing at all to risk.

Why not try to go for 2, 3, 10% or more? you may ask. Originally, when developing the system, I experimented with different returns and found that my average interim time (as I described, the length of time between profitable sales) dramatically increased to a point of diminished returns after 1%. In other words, in practical reality, it made more money to forego per-trade greediness and enjoy more frequent turnarounds with the 1% model than any other profit target that took longer to achieve on average. With this strategy, it's always all right to walk away leaving money on the table.

What, pray tell, do I do if the stock drops after I buy it? Glad you asked. Actually, from time to time, about one in ten trades or so, this very thing happens. So here's what I do: Nothing. I wait. My limit sell order has been placed, so I stubbornly stick to my guns. And sure enough, even if I've had the misfortune of suffering a drop of ten, even twenty percent, and getting stuck in a stock for a month or more, it trots right up to my sell price eventually. I never take a loss. This is because of the research homework done prior to buying the stock in the first place. More on that research in a bit. In contrast, day traders "never get married to a security." They typically cash out, even if it means taking a disastrous loss, at the end of each business day. They also sometimes trade multiple times in one session, something not done in PayTrading. Remember, it is the *average* interim time that is of primary concern. Sometimes it'll sell in the same session, sometimes in two

days, sometimes in six, seven or maybe twenty. But it is the *average* that spells the future, the magic day that one million dollars is reached. It is in this way that the system is a long-term plan: by treating the market as a job where you go to work each business morning (assuming you're in cash; you get to sleep in on the days you aren't) you realize unheard of gains, gains that not only beat the S & P, they are nothing short of miraculous.

And best of all, it's stress and worry free.

Now, like any formula, there *are* important fine points that you need to be shown. As Mies van der Rohe was famous for saying: "God is in the details." The coming chapters will provide you with a clear and comprehensive understanding of the method, each being devoted to an aspect of PayTrading. Later in the book, I summarize the entire system in a concise, step-by-step format for easy reference.

And once you see how easy to learn and master the system of PayTrading actually is, you'll not only use it, I'm confident you'll be telling everyone you know about it as well.

Read on.



Click the image at right now if you'd like to share this information with someone!

PART II – Down to a Science

Chapter 2 – What You’ll Need to Get Started

To begin, you’ll need a computer. It is likely you have already achieved this step. If not, I recommend that you purchase a computer with as fast a chip and as much memory as you can afford. While the PayTrading system is not memory intensive, the faster your computer is the less likely you are to encounter problems trading online.

Next, you will need an internet connection. I cannot stress strongly enough how important it is for you to access the web using a DSL (Digital Subscriber Line) connection or faster. DSL has come down in price, is available in more areas than ever, and is practically unbeatable for speed and reliability online. Speed is critical when placing trades online. If you insist on using a standard modem connection, at least try to get the fastest one made and sign up for the most reliable dial-up internet service you can find. The last thing you need is to be kicked off line in the middle of a trade, particularly a limit sell order placement! Again, my recommendation is to get a DSL connection. You will be glad you did.

Once you’ve established an internet connection, be sure to download and use Internet Explorer from Microsoft at Microsoft.com. At the time of this writing, both popular versions of Netscape have problematic bugs with regard to a certain browser code object called the *document.referrer* property, making them a nuisance to use when attempting to access sites where security is an issue. Internet Explorer is smooth as silk, and I highly recommend you use it.

Next, you’ll need an online trading account. In my experience with online brokers, I have tried all of these: Charles Schwab, Quick & Reilly, Ameritrade, and Datek Online. Of them, I both use and recommend **Datek Online** (Datek.com), as it is vastly superior to any of the others mentioned.

At the time of this writing, it is also less expensive to place limit orders, to boot. But most importantly, Datek has **real-time charts**. Don't confuse real-time *quotes*; you can get those just about anywhere. But free, real-time charting functions are not as easy to come by. Datek has them, and they work great. If you don't want to use Datek, and need real-time quotes (not charts), you can get them reliably (and for free) at: FreeRealTime.com (at the time of this writing).

Now, you may try another broker I have not tried and find that it performs just fine. I can only speak from experience, and for the needs of PayTrading, Datek meets and exceeds every measure when it comes to order execution, intuitiveness of its online interface, and the ease with which one can place GTC sell orders that can execute in the regular and extended markets. Also, Datek has multiple servers which let you jump from one to the other in case web traffic becomes heavy.

Now all this technology needs is the fuel. And that fuel is *data*.

Chapter 3 – Who Has *all* the Data?

The first step each buying session is to get the day's upgraded securities as offered up by analyst and brokerage firms. These are firms such as Merrill Lynch, JP Morgan, CSFB, AG Edwards, Prudential, and Bank of America Securities...to name just a few. Each morning, many of these firms publicize their buy, sell, and hold recommendation changes on stocks they follow or cover. Some stocks are initiated, some upgraded, and some are downgraded.

Since it is important to the PayTrader to have a **complete** list of this information upon the market open in the morning, and since free resources such as Yahoo! Finance, CNET, or other portals providing upgrade data often emerge with data too incomplete to allow reliance upon just one data provider, it can be tricky locating a single informational resource for the upgrades. Believe me, I've tried depending upon the free services for my data, only to find out later that important companies that *had* been upgraded were entirely left out. In addition, whether or not it is because the data is free I am unsure, those providers don't seem to prioritize the *timeliness* of the upgrade postings. Sometimes they're on time, other times they aren't, with stocks trickling into the list over a period of hours. It was a big mistake ever depending on them, and I learned my lesson.

That leaves premium newswire providers such as Reuters, Bloomberg, and others like them. Unfortunately, many of those raw newswire services are prohibitively expensive, and worse, to be sure that no upgrades are missed, you need to overlap them. One needs to utilize *several* of them at once, not just one! This is because no single newswire alone ever publishes a complete list of upgrades and downgrades due to inconsistent information gathering practices among the newswires. Now, before you become

discouraged, realize that the importance of this information may more than outweigh its cost. But it's true that if you're paying anywhere from \$25 to \$500 per month or more for the upgrade data, and you're making only a small profit total each month because you are just starting out, this would entirely frustrate the goal of the trading strategy.

However, never fear. I offer a far less expensive solution for this very problem (is about \$2 per month cheap enough?), because I am aware that many people will wish to: a.) experiment with no money at first, or b.) begin with just \$2000, meaning after commissions and the newswire fee, they'd never get anywhere. My solution is the PayTrading TipSheet™. More on the TipSheet later.

Say you've obtained a few newswire services and have gotten access to a complete live daily source of upgrade / downgrade listings. Let's then look at some actual upgrade data, shall we?

Below appears a typical morning's stock upgrades. Sometimes there are more listings, sometimes there are fewer.

Upgrades

Company	Symbol	Brokerage Firm	Upgrade from	Upgrade to	Target
Symbol Techs	SBL	Robert W. Baird	Mkt Outperform	Strong Buy	\$20
Watson Pharm	WPI	Buckingham Research	Neutral	Accumulate	\$75
Pixar Animation	PIXR	Gerard Klauer Mattison	Neutral	Buy	
J.B. Hunt Trans	JBHT	Deutsche Bc Alex. Br	Mkt Perform	Buy	
EnSCO Intl	ESV	Deutsche Bc Alex. Br	Buy	Strong Buy	
Nabors Ind	NBR	Deutsche Bc Alex. Br	Mkt Perform	Buy	
BJ Services	BJS	Deutsche Bc Alex. Br	Mkt Perform	Buy	
Sandy Spring Banc	SASR	Ferris Baker Watts	Buy	Strong Buy	\$40
Concurrent	CCUR	Morgan Keegan	Mkt Perform	Outperform	
Mohawk Ind.	MHK	CSFB	Hold	Buy	
CEMEX S.A.	CX	Merrill Lynch	NT Accum	NT Buy	
Alcan Aluminium	AL	Bear Stearns	Attractive	Buy	\$54
Pervasive Software	PVSW	FAC/Eqts First Albany	Neutral	Buy	

Notice on this day some of the *Target* cells are empty. A price target is the price the given analyst or firm believes the stock will be trading at usually within one year. Sometimes firms offer price targets, sometimes they do not. Price targets do not represent much here per se, but do come

into important consideration later when testing the individual stocks for financial merit.

Part of the attractiveness of investing in upgrades lies in the fact that you are taking advantage of the valuation analysis—the difficult, painstaking, number-crunching research—done by a professional or, in some cases, a team of professionals. Think of the analyst as a Realtor to the world of stocks. Since they have gone to the trouble of doing all this work, it often pays to utilize the fruits of their labor in locating a potential winner.

Naturally, not every stock upgraded will climb on a given day, while some will skyrocket. The trick is to seek out not just those that are most likely to rise (nearly every upgrade will open higher, except in rare cases). The goal is to...

Find the upgrade that will rise 1% from your purchase price at 10:00 AM, and which meets rigorous safety criteria just in case it doesn't do this right away.

This is accomplished by following these steps:

1. Check for a downgrade.

One key condition of purchasing any upgraded stock is that another firm has not also simultaneously downgraded it. This important test is done for you using the **TipSheet**, but if you are using another daily informational source, be sure to check for this by visually scanning or electronically searching for the ticker symbol of the stock among the day's downgrades. Stocks that are both upgraded and downgraded the same day make poor PayTrading picks, and often fall.

2. Consider the Source.

Some brokers have better performance standards in upgrades than others. All of the firms have some amount of status and pride in their picks, but you'll find that a few are the cream of the crop and seem to point the way to great picks more than the others. While I suggest testing *all* of the morning's upgrades for financial prowess and potential for investment, the equities upgraded by the following companies should be given an added bonus of merit in your mind when comparing the stocks: *Bank of America Securities, Prudential, CSFB (Credit Suisse First Boston), JP Morgan, Lehman Brothers,*

Salomon Smith Barney, and Wit SoundView. Note that I did not mention Merrill Lynch. While I do not suggest you ignore their upgrades, I do rank it with the standard crowd precisely because of their disparate rating system, to wit: *NT Buy, LT Buy, NT Accum, LT Accum, NT Neutral, LT Neutral, NT Reduce, LT Reduce, NT Sell, LT Sell* -- This kind of rating system makes it very difficult to rate an upgrade. I don't mean to single out Merrill Lynch...others have such systems as well. They're just an example. My firm belief is that firms attempting to protect themselves to this degree aren't sharpshooters. They're *skeet* shooters.

3. **Write down the ticker symbols of the upgraded stocks.**
Write down the symbols so you can use it as a checklist, enabling you to cross off candidates one after another as you conduct the research in the next step.
4. **Examine the fundamentals and price history.**
One at a time, copy the ticker symbol of each stock in the upgrades list on the upgrades screen (the list is usually not long), and paste them into a financial information resource such as Yahoo! Finance (<http://finance.yahoo.com/>), being sure to select a one-year chart view.

Here is where the magic happens, where we quickly discover the fundamental worth of the stock to determine its suitability for short-term investment. The specifics of the research done from this point are handled in the next chapter.

Chapter 4 – Examining the Fundamentals and Price History

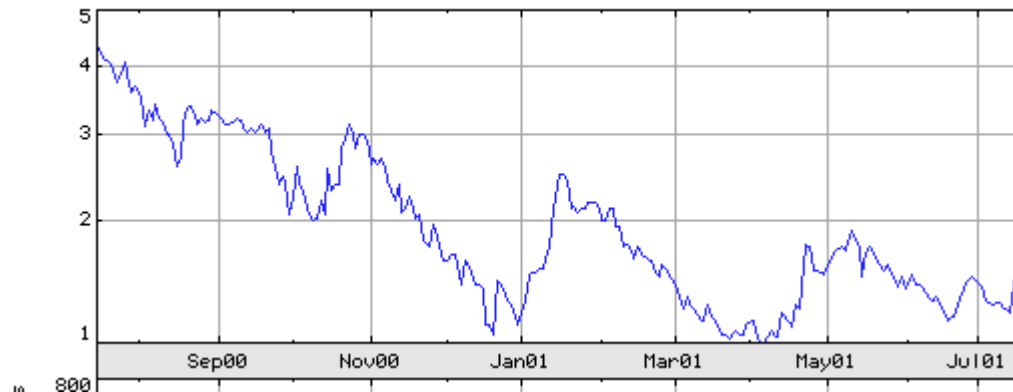
The second step each buying session is to carefully examine each of the upgraded stocks in your list one at a time for fundamental strength. Before going further, let me say this process is not as nebulous as the previous statement makes it sound. You are not going to have to use any kind of subjective, emotional guesswork to determine which of the securities presented are suitable. I distilled it down to a simple, step-by-step analysis that is easy to follow. **And remember, all of this is summarized later on in an easily referenced step-by-step format that includes each PayTrading rule.**

Principally, and preferably in a separate browser window, you are going to first look at the stock's **one-year performance chart** in a free financial web portal such as *Yahoo! Finance* (finance.yahoo.com) or *CBS MarketWatch* (cbs.marketwatch.com) to get an instant snapshot of the relative price history of the stock. This is one of the reasons it helps to have a fast and reliable web connection.

This alone can disqualify stock after stock in the list. Here's what I mean:

The stock in the chart that follows, Pervasive Software (PVSW), has been terribly battered.

Pervasive Software Inc
as of 16-Jul-2001

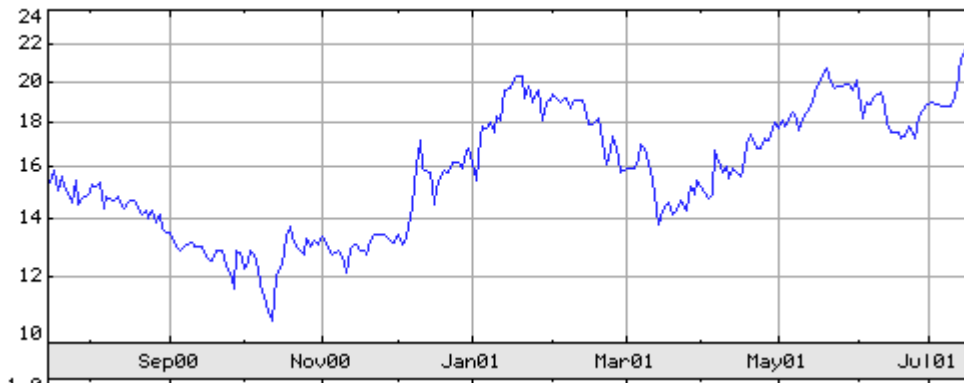


We cross it off. Why, you may ask? Certainly it could make a comeback? That may be true. But remember what we're looking for here: **safety**. A one-year history of upward movement is nothing to sneeze at; it shows, at the very least, that the company has earned consistent support in the marketplace. I don't know about you, but I wouldn't want to be the owner of such a poor performer should it take a downturn after my morning buy.

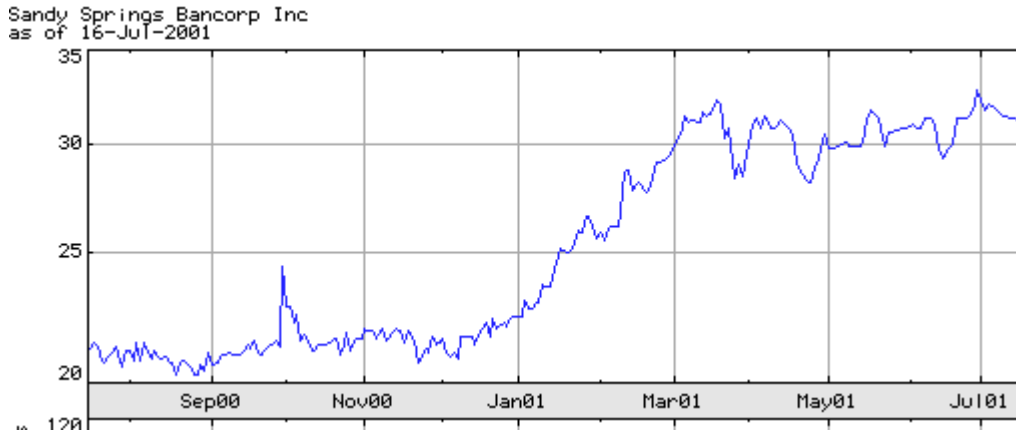
It is also too cheap. It is exceedingly important to avoid stocks trading below 15 dollars per share, as these stocks are often so low for a reason. You should also refrain from investing in stocks less than one year old. They tend to be "immature" and that can frustrate the short-term gains we are after.

The following stock, JB Hunt (JBHT), has had an acceptable run this year. It has shown "price strength," if you will. We don't cross this one off.

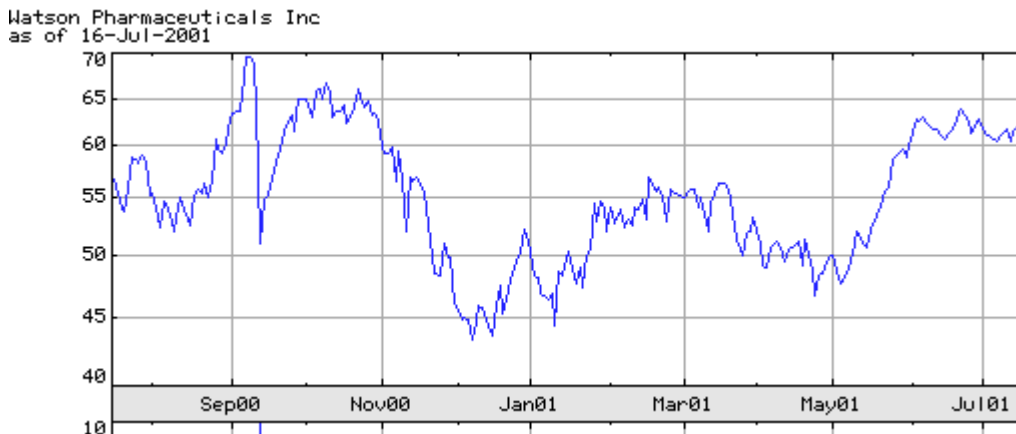
JB Hunt Transport Services Inc
as of 16-Jul-2001



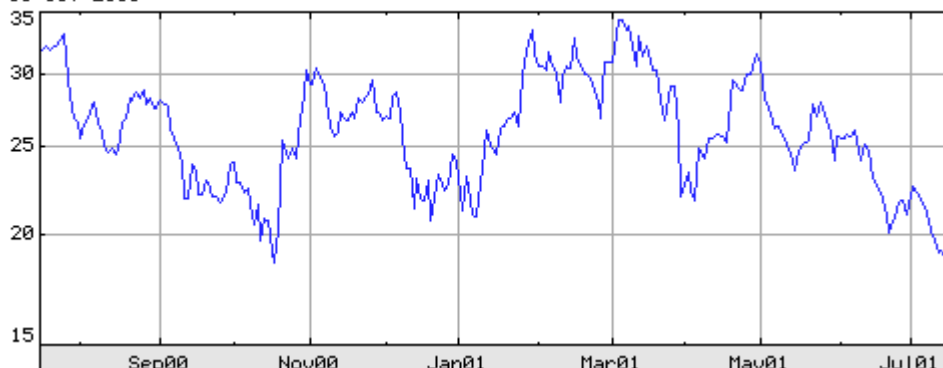
This stock below, Sandy Springs (SASR), has also had a nice run this year. Note we are not using this trend to predict a price; the important thing here is that we aren't seeing a stock that has been battered. So we don't cross this one off, either.



Now, what about charts that look like the following two?



Symbol Technologies, Inc
as of 16-Jul-2001



Those two charts above are a little trickier, aren't they? The first stock, Watson, had some trouble six months ago but has made a comeback. Symbol Technologies, the second stock examined, has shown what is called *volatility*. It also has finished poorly in recent months. The answer to this situation is simple: **when in doubt, disqualify**. Since neither of these charts is stellar in appearance, I would cross off both of these issues.

While you're there, also check recent headlines for the stock. They are usually on the same page, probably near the bottom. Each lists its date. Be sure the company was not *downgraded* in the past week.

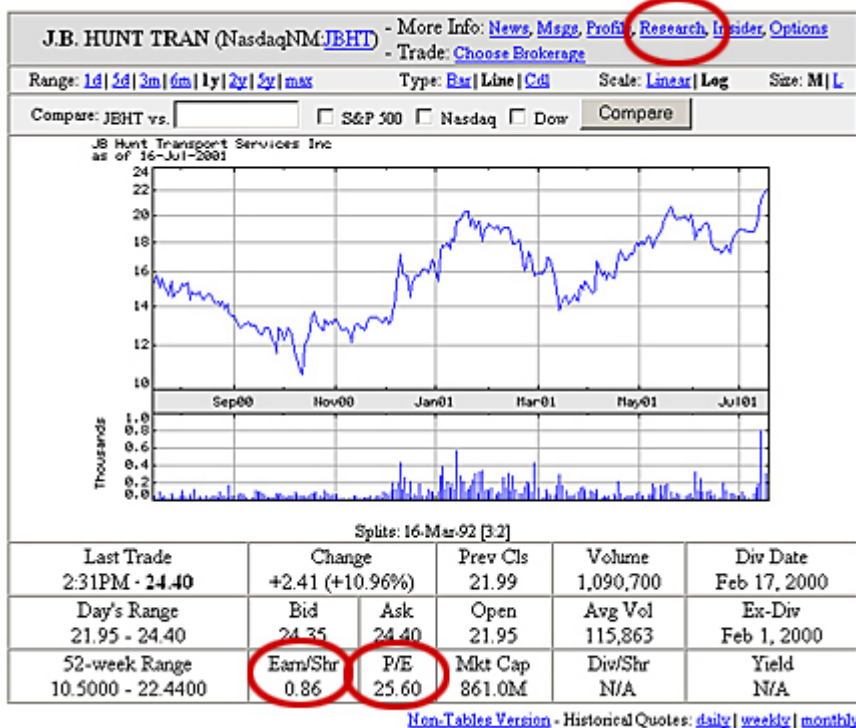
You continue in this fashion with each stock in the list, making sure it has had an acceptable year, that it trades at or above 15, and that its recent news headlines say nothing of a recent downgrade, until you are left with just a few that have not been disqualified using this screen. The beauty of this method, as simplistic as it may seem, is that it is *visual*, therefore intuitive and quick.

The next test is also pretty simple.

Again using the financial portal, select a 3-month chart view and perform the same test. Treat the visual data of the 3-month chart this way: make sure the line is flat or rising. Disqualify those stocks that show a downward trend in this time period.

Now, for each remaining stock we need to know just a few more things before making a determination of which of the day's upgrades are suitable, if any. See the following illustration:

Chart: [Basic](#) - [Moving Average](#) - [Technical Analysis](#) - [IntraDay](#) - [Detailed](#)



In your financial resource browser (again, a service such as Yahoo! Finance, etc.) next be sure that the stock has at least *some* earnings. We aren't too picky about the actual figures because if it came right down to it, and we tried hard enough, we could find something wrong with every stock we ever found, I assure you. Just look for its Earnings per Share or *P/E ratio*. The P/E ratio is the Price to Earnings ratio, which tells us, in the example above, that JBHT's stock price is currently trading at 25.6 times its most recent earnings per share. This is also called a stock's *multiple*. If the stock had no earnings, the Earnings per Share would be zero or a negative number and the P/E would read *N/A* or something similar to that. **If there are earnings shown, that is all we need to OK it.**

Now, the next two tests are absolutely the most important tests you will perform. First, we need to examine *Earnings Growth Estimates* for the nearest term.

This can be found using the *Research* link on the company's page in Yahoo! Finance, along with other financial information. (See the illustration above) If you use another service, you may or may not find this feature, so I do suggest using Yahoo! Finance. The service is fast and accurate as well.

Earnings Growth				
	FirstEnergy Corp.	Industry	Sector	S&P 500
This Quarter Est. (Q3)	11.2%	8.0%	8.2%	-12.8%
Next Quarter Est. (Q4)	21.1%	12.4%	12.0%	0.3%
This Year Est. (2001)	5.6%	13.1%	13.5%	-9.3%
Next Year Est. (2002)	13.7%	11.5%	11.9%	20.8%
Past 5 Years	6.4%	N/A	N/A	N/A
Next 5 Years Est.	5.4%	9.38%	9.56%	13.29%
Price/Earnings (ttm)	10.7	12.60	13.17	24.07
PEG Ratio	1.98	1.34	1.38	1.81

Look for the Earnings Growth table on the Research page. Make sure that the estimated percentage figure shown under the Company's column is:

- a) not zero or a negative number
- b) greater than the figure presented for its Industry

This helps ensure that the business is expected to perform at or above the expectations for its competitors and that a subsequent downgrade or decline is less likely.

Equally as important as the Earnings Growth test is the *EPS Trend & Revisions* examination. Again, on the same screen you will find the EPS Trend & Revisions chart. Shown below are the EPS Trend & Revisions charts for two different companies for comparison:

EPS Trends & Revisions		EPS Trends & Revisions	
	This Quarter (Sep 01)		This Quarter (Sep 01)
EPS Trend		EPS Trend	
Current	1.23	Current	0.28
7 Days Ago	1.23	7 Days Ago	0.28
30 Days Ago	1.22	30 Days Ago	0.37
60 Days Ago	1.22	60 Days Ago	0.41
90 Days Ago	1.22	90 Days Ago	0.40
EPS Revisions		EPS Revisions	
Up Last 7 Days	1	Up Last 7 Days	0
Up Last 30 Days	4	Up Last 30 Days	0
Down Last 30 Days	0	Down Last 30 Days	0
Down Last 90 Days	1	Down Last 90 Days	15
Acceptable		Unacceptable	

Make sure that the EPS Trend for *This Quarter* from 90 days, 60 days, 30 days, 7 days, and Current display flat or rising Earnings Per Share going forward, as in the example on the left above. (The amounts must be the same or become larger as they become more recent, rising up the chart). The example on the left above displays an acceptable EPS Trends & Revisions reading on a stock. The example on the right is unacceptable and the stock should be disqualified.

Now, the next trick is to determine a consensus of the stock's price target. This means we're going to find out what all the brokers who cover the stock as a whole feel is the proper price target for it. Again, this can be done on Yahoo! Finance by clicking the *Research* link.

In the resulting screen, you will see something similar to this table:

Target Price (12 Month)	
High Target	\$33.00
Mean Target	\$30.50
Median Target	\$30.50
Low Target	\$28.00
Number of Brokers	2

This says that the lowest of the targets stated by the brokers is 28, and that the highest is an optimistic 33. Throw away the top and bottom figures and just look at *Mean* and *Median*. Select the **higher of the two**. Since the stock in this example is now near 22, and we only need to sell at 22.22 (assuming for the sake of argument we are able to pick it up at 22), a 30.50 target is more than adequate for a margin of safety. But isn't the target a 12 month projection? Yes, it is a twelve-month target, but the thing about price targets is this: many may have been made several months ago. Therefore, they may be reached *soon*. They can also be *raised*. And remember, we're simply using it as a gauge.

The more brokers offering targets for a stock, the better. Use this knowledge when ranking the remaining stocks against one another. You can see what we've done: even if today's upgrade did not include a price target, we've gotten a consensus of one anyway.

Now, naturally, we see here that only 2 brokers are offering targets on this stock, and sometimes one or *even no brokers* are offering a target price on a stock in the Target Price chart because it does not yet reflect that morning's coverage changes if they contain a target.

Here's what you do: **disqualify the stock if there are no targets shown.**

When testing the remaining stocks on your list against one another, simply keep written notes beside each representing the mean or median target, whichever is higher, and the number of brokers. This way, all other things being equal, you can select for purchase the stock that carries the most favorable research criteria.

Next, (and on the same web page in Yahoo! Finance) take a look at the *Broker Recommendation Consensus* (see the following chart):

Current number of brokers recommending as:	
Buy	2
Buy/Hold	6
Hold	3
Hold/Sell	0
Sell	0

[Upgrades & Downgrades](#)

Here, we can see the number of brokers who recommend the stock at all, whether or not they've issued a price target. Eleven brokers cover this stock. Two of them (technically *three* now, because the morning's data is not reflected yet, but we won't count that) recommend a *Buy*. Six say *Buy/Hold*. Three are telling us to *Hold*.

The best way to interpret this information is to simply make sure there are more total recommendations in *Buy* plus *Buy/Hold* than in the total of any of the others. So in this case, we show 8 recommendations above *Hold* against 3 at or below it.

Read this as: *8 out of 11 brokers are in favor of the stock.*

Disqualify a stock that is even or outweighed in the opposite manner, i.e. in favor of *Hold*, *Hold/Sell*, and *Sell*.

This will keep you safe from a rogue broker recommendation this morning pumping up a stock most other brokers recommend as a *Sell*.

That's it! Simply compare the equities on the list in these areas, and choose the one that "wins." In every case there are invariably items of criteria that cause one stock to be more valuable than another. If you get to this point but have difficulty deciding on one over another, look deeper, if you like. Using the financial resource content provider, check recent news for any negativity in the stocks. Disqualify the one with the most recent mention of anything negative in its news stories. Also, use the price target consensus as a gauge: the greater the variance between the current price and the target, the more qualified the stock.

The idea is to select the qualifying stock based upon these tests. It may come about, as sometimes occurs with me, that *no* stocks that morning fit within the specified criteria. In that instance, I simply sit out that session's trading. This is not day trading; we do not gamble blindly on any stock which has seemingly favorable news, or plunge in with an attitude that we simply *must* be in some security each day. We carefully do the research.

The fact is, the upgrade behaves as a signal to us of two things. It tells us someone else, hopefully more educated than us, has risked his or her reputation on improving the recommendation rating of an equity, thereby producing in the marketplace an *actual short-term addition of value* for the security, not just a positive news story open to interpretation which may or may not already be priced-in. And, it signals the possibility of a strongly valued stock in the long term, which we test for, and which gives us the needed safety to risk going after the short-term gain from the stock's newly upgraded status.

Add this to the tendency of upgrades to dip at around 10:00 AM New York time, and we have a recipe for consistently earned short-term gains in a long-term format.

Now, if you are an individual who feels that it may be too difficult to do this research each morning, good news. You don't have to. You can simply subscribe to the TipSheet and I do all the work for you, providing my recommendation of just which stock is best among the upgrades of the day. All you have to do is place the buy order at the correct time.

The PayTrading Online TipSheet™ (PayTrading.com)

Along with this book you've also just discovered as valuable an informational resource as can be found: the **PayTrading Online TipSheet™** (Just visit PayTrading.com)

Each morning, this web-based system posts a pre-screened Pick using the PayTrading rules as applied to the consolidation of *every* upgrade right on the market open (a full half-hour prior to 10:00 AM...it is not necessary to have the data any earlier; it plays no part in PayTrading to purchase before ten. What matters is *completeness*). The upgrade data I use is derived from multiple, licensed upgrade newswire information so it cannot be redistributed directly, but the *results* of distilling the information *can*. The screening process is the precise method taught in this book. This makes

it even easier to screen the upgrades, and you'll have it straight from the horse's mouth.

Keep in mind you don't *have* to use the TipSheet...you can utilize the services of the news bureaus providing the daily upgrade data and apply the PayTrading techniques yourself. But with a subscription rate of only about \$2 per month, and as low as \$1.08 per month with a one-year subscription, you may wish to consider it, even if just to check your work.

Each business morning, **the TipSheet provides insight into just which one of the selections best meets the PayTrading criteria tests, if any.** These observations consist of the timely and incisive Pick of the Day, so you can virtually "watch over my shoulder" if you wish, as you witness just which move I'm making each morning. And best of all, the subscription rate is only about *\$2 per month, and as low as \$1.08 per month with a one-year subscription.* Why so little? Because I couldn't charge less. I wanted to make the service free, but server space, web hosting, and data content all cost money. This helps to defray those costs.

Payment is accepted online at PayTrading.com, or you can sign up by mail by sending your payment to:

Eric Shawn
PayTrading TipSheet
2860 Elizondo Ave.
Simi Valley, CA 93065 USA

Enclose: \$12.96 for a 12-month subscription, \$11.94 for 6 months, or \$8.97 for 3 months. Cancel any time, refunds given on written request for unused portion, and your satisfaction is guaranteed.

Make checks or money orders payable to the author, **Eric Shawn.** Be sure to include a valid e-mail address; your username and password will be sent to you there.

Included with your subscription: Direct Q & A dialog between you and Eric Shawn via e-mail (limit 2 per day please!). So, should you need a little help, I'll be there for you.

Be sure to visit <http://www.paytrading.com/> to find out more about the TipSheet and see a preview of this valuable service.



Click the image at right now if you'd like to share this information with someone!

Chapter 5 – Placing the Trade

The previous steps to ascertain the day's investment-grade company from the upgrades list are very easy to learn and implement. Go ahead, practice using make-believe money at first to see how simple it is and how quickly it can be done. You can use the list given in the previous chapter to practice with first, but then you'll need fresh upgrade news to continue. You will find that it takes less than 15 minutes, sometimes less than ten.

Typically, your morning research will be finished a good twenty minutes before the 10:00 AM (New York time) buy window. Be sure to adjust correctly for time differences! Since some parts of the country participate in Daylight Savings Time and others do not, I cannot tell you without knowing where you are just what the time differential is from your region to New York. The time in New York is something you will need to find out, and one way to find out is to go to the following URL (a working link as of the time of this writing):
<http://www.swissinfo.net/cgi/worldtime/clock.pl?New=York,NY=USA>.
Your online brokerage account window should also display the current New York trading time.

If you finish up the research early, great. Go make coffee. Have a little breakfast. But be sure to be at the computer at 9:55 AM (N.Y.T.) and have your Online Brokerage account trading window open in a browser window, and in another window, either your Datek real-time chart for the stock set to a 5 day view, or your real-time quoting system set to your pick. (If you've never opened multiple browser windows, you simply launch the browser again. It will open another instance of the program which can be directed anywhere you like.)

See a view of the Datek real-time chart below.

Chart Center

American Axle & Mfg Hldgs Inc								Data as of 7/18/2001 12:13:05 PM
Last	Change	High	Low	Volume	Prev. Close	Day's Range	52 Week Range	
21.60	0.15	21.90	21.01	73,300	21.45	21.01 to 21.90	5.75 to 22.70	

Chart Options

Time Frame:
 Frequency:
 Compare to Index:
 Compare to Symbol:
 Price Display:
 Moving Averages:

 Upper Indicator:
 Lower Indicator:

NYSE: AXL

Real-time



[3rd Party Research Disclosure](#)

This illustrates a 5-day view. You can switch the view to many different timeframes, but a 1, 2, or 5-day timeframe is the most useful for keeping an eye on the stock's price. It does not update in streaming fashion, it requires a periodic refresh.

The real-time chart is helpful to us not for the reasons peculiar to day traders, which involve volume to price tests, timing, and other techniques. The real-time chart (or real-time quote) is helpful as a tool for getting a current idea of the behavior of the stock just as you are preparing to purchase it. Mostly, it is for peace of mind, for control; so that you know the price *now* and are not surprised because you placed a *market buy order* at 10:00 and then found that you filled at a higher price than expected. A market buy means you ask the broker to fill your purchase at the best price available, and they're great because they always have priority over limit orders in the trading systems of all brokers.

You can also place a *limit buy order* based on the most recent price at 10:00 plus a penny or two. The markets are all decimalized now, meaning entering and completing orders is easier than ever before. No need to fuss

with fractions. For example, if the price you see quoted is at 21.50 at ten AM, you could immediately place your *limit buy order* for 21.52. However, I recommend simply placing a market buy order, since the price could transcend your limit, in which case you may be left without a filled order.

How many shares do you buy?

That is entirely up to you, of course, but to meet the objective of this book, it will be necessary to maximize your buying power, concentrating it on the upgraded stock. It is a profit of 1% on our *total balance* we wish to achieve. **Divide the available cash balance by the stock's price.** Again, decimalization makes this easy. You can use the Windows calculator if you like, it is very handy. This will give you the number of shares to buy. **Be sure, however, to round off the number of shares purchased to the nearest hundred shares.** (e.g. 1,449 shares becomes 1,400)

A group of exactly one hundred shares is called a *round lot*. Stocks are typically traded in these round lots, so ensuring that your order conforms to this standard ensures that your order is filled faster and does not fill in several parts which may delay your entry into the stock. Later, it also facilitates a faster, smoother sale when the stock reaches your limit sell price.

Note: I do recommend trading on paper for a while until you get the hang of PayTrading. While I personally find it the easiest and safest system of investment, I want you to see that for yourself in a risk-free compartment. When you are satisfied that it does indeed work, then go ahead and begin PayTrading with real cash, and only then. (In fact, I insist on this!)

Once you have placed your trade, wait for your fill. When your online broker has reported the fill in the browser, immediately get out the calculator and add 1% of your stock's price to your fill price. It does not have to be precise, for example, on a filled buy of 27.29, I would simply add 27 cents giving me a sell price of 27.56. (If the cents portion were fifty cents or more, i.e. 27.50, I would add 28 cents.)

Immediately place your *limit sell order, GTC*, for the sell price you just calculated. In my example, it would be a *limit sell, GTC*, for 27.56. If your stock is a Nasdaq stock, be sure to indicate in the broker's site that you wish to enable the sale trade for the extended hours markets as well. NYSE stocks don't yet (typically) trade in the EH, but more are going to soon. Datek makes it easy to select this option. At the time of this writing, Ameritrade requires you to manually cancel the first sell order and place a separate sell order for the EH, a real nuisance in my opinion.

Once you see that the broker has received this sell order, you can close your browsers. Your trading is complete, and you can go about your day.

Check in at the day's end to see if you've gotten your sell filled yet. If the stock has fallen, above all, *don't worry*. Remember to keep in mind that it is the average number of calendar (not business) days between your trades (the interim), even if the stock is down considerably, that determines when your financial goal is reached. Just hold the stock as long as necessary until it does sell. Remember, you've done some crucial homework, the stock is in favor, and often, stocks that have been upgraded by one firm can be upgraded again in a few days by another, giving it another boost. The stock will reach your price eventually. If you use the TipSheet, you will be comforted to know that the stock I recommend is in all likelihood the stock my personal account is invested in as well, unless I'm already in a previous security waiting for *it* to sell! We're in it together. I've been "stuck in" many different stocks, and I've never lost money, and some have been down quite a bit, for a month, two months or more! Yet my average hold time still bounced back over the span of just 2 years to about a 7-day hold time. So chin up, and remember: **You Never Take a Loss**.

When the stock sells, great! Get up the next business morning and do it again, and keep careful track of two pieces of information: a running total of the number of trades you've completed, and the number of *calendar* days you've held each security. Keep this in a two-column list so you can average it out later. *This is very important!* You could even use an Excel spreadsheet for this if you want.

In the next chapter you will find a walkthrough that explores a day's analysis and trade based on the example upgrades (an actual day's upgrades, by the way) presented earlier.

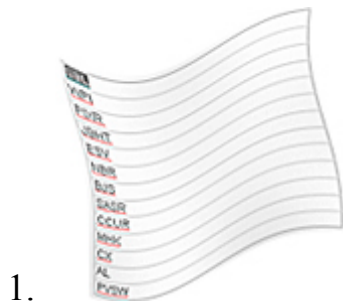
PART III – Practice Makes Perfect

Chapter 6 – A Comprehensive Use-Case and Summary

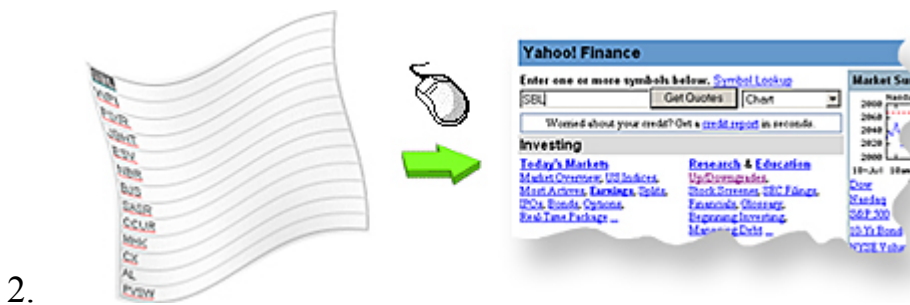
This chapter focuses on an example walkthrough which summarizes the steps and rules involved in PayTrading. Here again is the example upgrade list from a recent day:

Upgrades

Company	Symbol	Brokerage Firm	Upgrade from	Upgrade to	Target
Symbol Techs	SBL	Robert W. Baird	Mkt Outperform	Strong Buy	\$20
Watson Pharm	WPI	Buckingham Research	Neutral	Accumulate	\$75
Pixar Animation	PIXR	Gerard Klauer Mattison	Neutral	Buy	
J.B. Hunt Trans	JBHT	Deutsche Bc Alex. Br	Mkt Perform	Buy	
EnSCO Intl	ESV	Deutsche Bc Alex. Br	Buy	Strong Buy	
Nabors Ind	NBR	Deutsche Bc Alex. Br	Mkt Perform	Buy	
BJ Services	BJS	Deutsche Bc Alex. Br	Mkt Perform	Buy	
Sandy Spring Banc	SASR	Ferris Baker Watts	Buy	Strong Buy	\$40
Concurrent	CCUR	Morgan Keegan	Mkt Perform	Outperform	
Mohawk Ind.	MHK	CSFB	Hold	Buy	
CEMEX S.A.	CX	Merrill Lynch	NT Accum	NT Buy	
Alcan Aluminium	AL	Bear Stearns	Attractive	Buy	\$54
Pervasive Sftware	PVSW	FAC/Eqts First Albany	Neutral	Buy	



First, check the upgrade/downgrade listing to be sure the stock was not simultaneously downgraded. Then, copy down the ticker symbols of the upgrades onto a paper list in order to facilitate the elimination of the disqualified stocks one at a time.



Next, one at time, copy and paste each of the symbols from the on-screen upgrade list into an online financial website such as Yahoo! Finance. Be sure to select a 1-Year Chart view.



Next, visually examine the stock chart for acceptable (rising) performance over the year, and make sure the stock is at least one year old, trades at 15 or more, and has earnings. Also, check its recent News headlines to be sure it wasn't downgraded any time in the past few business days. Then...

Upgrades	
Company	Symbol
Symbol Techs	SBL
Watson Pharm	WPI
Pbar Animation	PBF
J.B. Hunt Trans	JBHT
EnSCO Intl	ESV
Nabors Ind	NBR
BJ Services	BJR

4.

...disqualify the stocks which do not meet the previous fundamental examination test by crossing them from your list. Repeat steps 3 and 4 for each stock on the list.

Earnings Growth				
	FirstEnergy Corp.	Industry	Sector	S&P 500
This Quarter Est. (Q3)	11.2%	8.0%	8.2%	-12.8%
Next Quarter Est. (Q4)	21.1%	12.4%	12.0%	0.3%
This Year Est. (2001)	5.6%	13.1%	13.5%	-9.3%
Next Year Est. (2002)	13.7%	11.5%	11.9%	20.8%
Past 5 Years	6.4%	N/A	N/A	N/A
Next 5 Years Est.	5.4%	9.38%	9.56%	13.29%
Price/Earnings (ttm)	10.7	12.60	13.17	24.07
PEG Ratio	1.98	1.34	1.38	1.81

5.

This test and the one that follows are the most important: for the remaining stocks on the list, check **Earnings Growth Estimates** for the current quarter. This can be found in the Research link of the company in Yahoo! Finance, along with the other financial information. Make sure that the estimated percentage figure under the Company's column is:

- not zero or a negative number
- greater than the figure presented for its Industry (not to be confused with its *Sector*)

EPS Trends & Revisions		EPS Trends & Revisions	
	This Quarter (Sep 01)		This Quarter (Sep 01)
EPS Trend		EPS Trend	
Current	1.23	Current	0.28
7 Days Ago	1.23	7 Days Ago	0.28
30 Days Ago	1.22	30 Days Ago	0.37
60 Days Ago	1.22	60 Days Ago	0.41
90 Days Ago	1.22	90 Days Ago	0.40
EPS Revisions		EPS Revisions	
Up Last 7 Days	1	Up Last 7 Days	0
Up Last 30 Days	4	Up Last 30 Days	0
Down Last 30 Days	0	Down Last 30 Days	0
Down Last 90 Days	1	Down Last 90 Days	15

Acceptable
Unacceptable

6.

Check **EPS Trends & Revisions**. Make sure that the EPS Trend for This Quarter from 90 days, 60 days, 30 days, 7 days, and Current display *flat* or *rising* Earnings Per Share going forward, as in the example on the left above. (The amounts must be the same or become larger as they become more recent, rising up the chart). The example on the left above displays an acceptable EPS Trends & Revisions reading on a stock. The example on the right is unacceptable and the stock should be disqualified.

Current number of brokers recommending as:		Target Price (12 Month)	
Buy	5	High Target	\$35.00
Buy/Hold	0	Mean Target	\$35.00
Hold	3	Median Target	\$35.00
Hold/Sell	0	Low Target	\$35.00
Sell	0	Number of Brokers	1

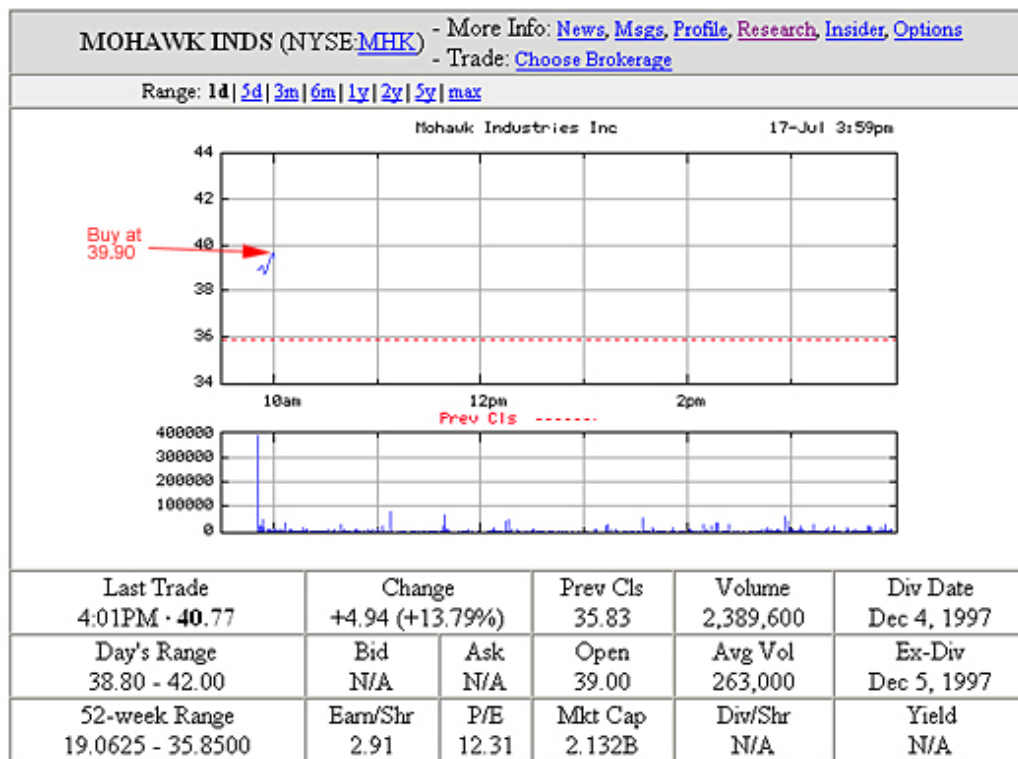
7.

Next, check the Target Consensus and Recommending Brokers of the remaining companies. The total of *Buy* and *Buy/Hold* simply must be greater than the total of all the other recommendations. Use the greater of either the Mean Target or Median Target. The target price must be greater than the current price plus 1%. If no targets are shown, disqualify the stock. Write down the info beside each entry in your list, and then reduce your choices to one last stock. (Above appears the info for *Mohawk Industries Inc. [MHK]*, fourth from the bottom on the example list.)

The screenshot shows a trading window titled 'Trades' with a sub-header 'Enable Data Direct'. Below this, there are two rows of input fields: 'Buy/Sell' (with radio buttons for 'Buy' and 'Sell'), 'Quantity', 'Symbol', 'Price', 'Order Type' (dropdown menu), 'Expire' (dropdown menu), and 'Stop Limit'. At the bottom, there is a 'Password:' field and an 'Enter Order' button.

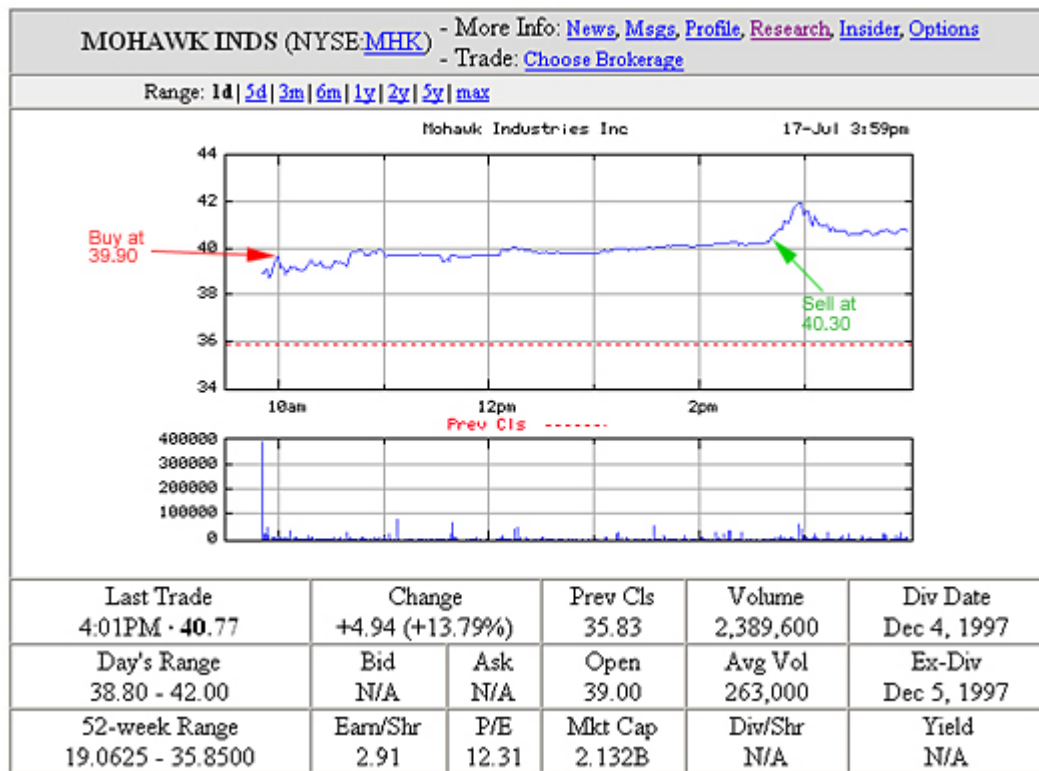
8.

Calculate the number of shares to purchase by dividing your cash position by the share price at precisely 10:00 AM New York time, and place your buy order for the stock. Don't anticipate: wait until exactly 10:00 AM NYT before pressing the button to place the order. Be sure to round off to the nearest 100 shares (a round lot). For example, you don't place an order to buy 243 shares. You buy 200.



9.

When you receive a fill report by the broker, usually in only a few minutes, immediately place your limit sell order, GTC, for 1% greater than your buy price. If it is a Nasdaq stock, be sure to enable the sell trade for the Extended Hours session. In this example, the sell order would be for 40.30. Be careful to get the number of shares right.



10. Check the stock again at the day's end to see if you completed the sale. If not, just hold the stock until it does sell. Above all, don't worry about it, particularly if it has fallen and even if you get stuck with it for a long time. Upgrades are very forgiving, and it is the long-term average interim time that matters, not any one trade. NEVER TAKE A LOSS.

Chapter 7 – Summarized Rules of PayTrading

These rules are of course explained fully in the text of this book along with important points about each. This is merely a checklist of the rules for quick reference.

- The stock must not have been downgraded as well as upgraded today.
- Be sure a security has had a good year visually, meaning its stock has risen significantly in the performance chart.
- Be sure the stock trades at 15 or higher.
- The company must be at least 1 year old.
- There must be earnings in the most recent quarter.
- Look for any downgrades that may appear in recent headlines for the company, disqualify if found.
- The Earnings Growth Estimates for the company must be a positive value, greater than zero, and must be greater than that of its Industry.
- The EPS Trend must be rising going forward.
- The mean or median price target consensus must be greater than the current price plus 1%.
- More brokers must recommend a Buy over Hold.
- Buy the stock only at precisely 10:00 AM New York Time.
- Immediately place a limit sell, GTC, order for your purchase fill price plus 1%.
- Trade only as often as once in any business day.
- If your stock is down, hold it stubbornly. Never take a loss. It will likely sell soon. It is the average interim that matters.
- Keep track of the number of calendar days you hold each stock between sales, and the number of total trades in order to be able to calculate a running average over time.

Chapter 8 – Online Tips and Support

The system of PayTrading is a very simple set of screens that are easy to apply. But if you should find the analysis portion of the PayTrading system daunting, you can dispense with it and instead simply get my own incisive daily pick on PayTrading.com each business morning. In this way, you can “look over my shoulder” as I single out the prime stock for that session’s investment. At the very least it is a time saver.

The subscription is reasonable, as stated earlier in the book, at only around \$2 per month, and as low as \$1.08 with an annual subscription. [View the section covering the TipSheet earlier in the book.](#)

Moreover, I want you to rest assured that I offer my fullest support for the users of the TipSheet. You can reach me by e-mail up to twice daily, and you have my solemn promise to assist you with tips, answers, or even just encouragement, to the best of my ability.

I am always there for you!

Future versions of the PayTrading system may carry refinements to the methodology, so be sure to stop in at PayTrading.com from time to time for the latest version of the PayTrading eBook.

If you’d like to write to me, you are more than welcome to at:

Eric Shawn
2860 Elizondo Ave.
Simi Valley, CA 93065

Thank you for reading PayTrading, and be sure to view the Appendix which follows for important formulae and theses. You have my fondest wishes for great success in reaching your million-dollar goal!



Click the image at right now if you'd like to share this information with someone!

Appendix: The Math and Thesis

- Calculating Annualized Gain:

If trade W appreciates 1.5% in one month, compounded over the twelve month period, the gain is $(1.015)^{12} = 19.6\%$ (^ means “to the power of.”)

If trade X appreciates 1.0% in 7 days, the compounded annualized gain for that trade over one year is $(1.01)^{52} = 67.8\%$

If trade Y appreciates 1.0% in 5 days, the compounded annualized gain for that trade over one year is $(1.01)^{73} = 106.75\%$

If trade Z appreciates 1.0% in 1 day, the compounded annualized gain for that trade over one year is $(1.01)^{365} = 3,678\%$

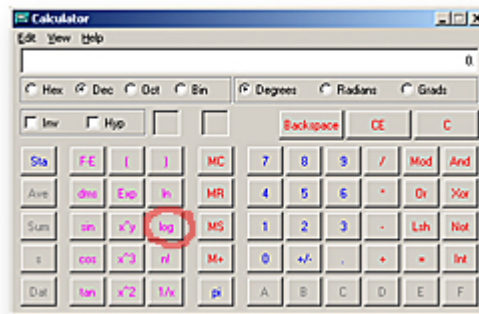
- Calculating the Appreciation Timeframe:

This lets you calculate the number of profitable trades on which you earn a 1% gain on your total, that will be necessary to turn \$2000 into \$1,000,000.

If you'd like to experiment with this calculation, I suggest you use the Windows calculator, and set it on View | Scientific.

$(\log 1,000,000 - \log 2000) / \log(1+0.01)$ or $(6-3.3010) / 0.00432 = 625$ times.

The figure shown in color is the amount of money you began with. To get the logarithm of a number, you enter the number then press the LOG button in the calculator. (See the illustration.)



- When will I be a Millionaire?

Using the above formula, simply multiply the final answer, in this case 625, by the running average of days between profitable trades, i.e. your average interim. (This is assuming you began with \$2000. Re-calculate for another opening balance.) The result is the number of days away the goal is. Then just divide that by 365 to find out the years.

For example, if your average were 6 days interim, the answer would be 3,125 days, divided by 365 days equals 8.56 years.

Note: in the book, taxes are not taken into account. Each year you will have to pay taxes on your earnings, so this will alter the above resulting calculations.

Thesis: (summary) PayTrading can be referred to generically as rigidly timed upgrade trading for short-term gain in a long-term construct based on the historical tendency of fundamentally qualified, upgraded stocks to present relative lows at a specific time in the trading day.

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