

Book Review

Dr Alexander Elder *Sell & Sell Short*

Over the years, I have noticed that when I speak about what stocks to buy and when to buy them, I invariably attract a full house. However, when I speak on how to sell stocks, the audience is substantially smaller. This is an important observation, because it says a great deal about where the audience is currently on the learning curve to becoming a good trader.

At least half of the audience at the presentation on buying are still at the start of the journey of learning the craft. These would be traders who are still at the point where they mistakenly think all they need is to find the right stock to buy and profits will fall into their lap. Very unfortunately, many of them may not reach the level of mastery of the art of trading.

On the other hand, the people who come to the presentation on selling have reached the point where they understand that the selling decision is critical to the process of making successful forays into the market. It is for these operators, and those of the first audience who will listen, that Dr Alexander Elder has written his latest book *Sell & Sell Short* (Wiley 2008).

I have just had a short period of convalescence after some minor surgery. I thought that it was a good time to catch up on some reading. The first book on my pile of books to read was Dr Elder's new book. Right from the start, I could not put it down. Also the further I got into it, the more fascinating it became.

It has been written in three parts:

Part One

Dr Elder first brings the reader up to speed on how to buy, manage risk and keep records. While the buying method summary and the risk management to a large extent summarise and refer to his previous works (*Trading for a Living*, *Come into my Trading Room* and *Entries & Exits*), the discussion about keeping records provides important new insights. Indeed Dr Elder makes the strong claim, which I would echo from my own experience, that the best traders will be those who keep good records. The reverse also applies. Poor traders tend to have no records. This is because investing is not simply a matter of acting in the market and making money. It is a voyage from ignorance to mastery. The key to this voyage is that you know where you want to go, how you intend to go there and learn from every attempt, so improving your skills.

Part Two

Here Dr Elder takes us deep into the question of how to sell. He has divided this part of the book into three chapters, dealing with each of the three types of selling.

The first chapter deals with selling at a target. He shows how he does this with a moving average, envelopes or channels, and resistance levels. Dr Elder does a marvellous job here, explaining the logic of his trading plan and how the various selling points derive from that logic. This is no academic exercise. Here, and throughout the book, he shows actual trades, often showing what he learned from the ones that went well and the ones which did not work out.

The second chapter deals with selling on a stop. This is one of the best chapters in the book, particularly because it is one of the questions which beginners ask me most often. Dr Elder's discussion explores every aspect of setting stops from a very practical point of

view and with many examples. I would have paid the price of the book for this chapter alone.

The third chapter deals with selling on what Dr Elder calls “engine noise”. This addresses a very common issue that neophyte traders agonise over: wait till the stop is hit, or bail out early. This chapter includes some anecdotes on how the market can ring a bell near the top and introduces the idea of a decision tree for selling, not as a theoretical idea, but what it means in practice, based on Dr Elder’s own experience working on his own trading decision tree over many years.

Part Three

This year, we are living through a bear market. One way traders can profit in a bear market is by short selling. This involves a basic idea of trading: trade with the trend, which is down. Short selling is an easy concept to grasp. You borrow some shares, sell them and later buy them back at a lower price, before returning the borrowed shares. There are some complications in this, compared to going long, which are discussed from a practical perspective based on Dr Elder’s extensive personal experience with short selling.

While short selling was banned for a while in Australia recently, as in the US for financial stocks, it is an important part of the trader’s skill set. In this respect *Sell & Sell Short* has been published at the perfect time. I am asked all the time about short selling. Dr Elder has written for me an answer to those questions, to which I will point traders for years to come.

Short selling is a skill which may be employed in falling markets. However, even in upward trends, there are counter trend moves which are exploitable using Dr Elder’s methods. He shows examples in the stock market and also discusses the particular characteristics of shorting futures, option and forex.

Conclusion

This book is beautifully printed in colour on glossy paper. This is necessary to fully explain the methods and bring the charts to life in an easily understood way. It also explains why it is not the cheapest book in the bookstore. This reminds me of the trader who years ago asked me for a good book on trading. When I suggested he buy and read *Trading for a Living* (Dr Elder’s first book), the trader admonished me for suggesting a book which then sold for about \$100.00 Australian. I asked him how he was faring in the market that year, to which he told me he was down \$15,000 to date. I was impertinent enough to suggest that \$15,000 was a high price for tuition, compared to what was available for only \$100. He walked away. However, this story focuses on a philosophy of mine that has paid great dividends. I have read several hundred books on the markets. From almost every one, I learned at least one thing which was worth far more than the price of the book.

The current weakness in the Australian dollar makes *Sell & Sell Short* relatively expensive in local bookshops. I suggest those interested in the book look at the price on Dr Elder’s web site www.elder.com. His prices are in US dollars as are his postage rates. However, if you note clearly on your order that I sent you, Dr Elder will give you a special postage rate of US\$6.00 for the book and its Study Guide, if ordered at the same time. You may also request Dr Elder sign the book for you.

Please note that I receive no money or other personal gain from Dr Elder for publicising his work. I do it because he is a long-time friend and I regard him as the best teacher of short term trading in the world. *Sell & Sell Short* has only reinforced my view.