

Wiley Trading Series

FAUSTO PUGLIESE

HOW TO  
BEAT THE  
MARKET  
MAKERS  
AT THEIR  
OWN GAME

UNCOVERING THE  
MYSTERIES OF  
DAY TRADING

WILEY



## ADDITIONAL PRAISE FOR *HOW TO BEAT THE MARKET MAKERS AT THEIR OWN GAME*

“As the founder of Falcon Technology Trading Computers, I see many traders who are just getting started. Many of these new traders are naïvely confident in their ability to trade yet they are seriously unprepared to face the markets. While there are a lot of people who don’t make it as traders, there are plenty who become successful traders. What makes people successful traders is learning from successful traders. Fausto Pugliese is the kind of veteran trader who can help people learn to trade successfully. This book is about day trading but the lessons learned here will help you become a better trader on any time frame.”

—Scott Tafel, President, Falcon Technology Trading Computers

“Fausto not only has developed a trading technique that is very successful, but his easy-to-follow instructions allow investors to clearly understand his trading strategy. *How to Beat the Market Markers at Their Own Game* is an excellent guide for not only using successful mechanical strategies techniques but Fausto also describes the correct mental attitude to be a successful trader. Utilizing the information in this book will provide definite improvements into your trading capabilities. This is a must read for any trader that wants to get on the path for producing consistent profits.”

—Stephen W. Bigalow, Owner of Candle Stick Forum

“*How to Beat Market Makers at Their Own Game* is a must-read for traders who are just starting out as well as traders who are struggling. Anyone who has walked the floor of any major Trader’s Expo has no doubt seen Fausto trade live against other top traders. He always wins. This is because he follows a clear trading plan and NEVER wavers from his rules. This book continues his theme of ‘discipline first’ . . . and that’s the glue that holds any trader’s success together. Read it and read it again.”

—Norman Hallett, Founder, The Disciplined Trader

“After spending 10 years making markets at the Chicago Board Options Exchange, I understand how challenging trading can be. In this text, Fausto draws from his own trading experiences to offer readers a step-by-step guide for beating market makers at their own game—and the results are superb. Having had the pleasure of working with Fausto for the past few years, I respect him as both a trader and educator. I’m pleased to add author to this list, as this book will be a must-read for traders for years to come.”

—Andrew Keene, President/Founder, Keene On The Market

“Fausto is the real deal. How many times do you have to see him win live trading contests to become a believer? Fausto sets himself apart from the rest with the key ingredients—knowledge,

the right attitude, proper understanding of the markets, real personal experience, and integrity. You need to be a winner to teach others how to win—Fausto is a winner!”

—Jordan Kimmel, President, Magnet Investment Group

“I have known Fausto for many years and watched him win at least 2 of his 12 Live Trading Challenges at Trading Expositions. He was one of the original early day traders, known as SOES bandits, who became professional scalpers. I am a professional money manager and have taken his class. I would recommend his classes and book for anyone who wants to be a trader as an avocation.”

—Dan Stewart CFA®, President, NorAm Asset Management, Inc.

“As a valuable NinjaTrader Educational partner, Fausto Pugliese and the team at Cyber Trading University raise the bar for excellence in delivering active trader education. This is evidenced in Fausto’s latest book where he clearly outlines what is required to be a successful active trader of the equities markets and in particular his ‘Rules of the Road’ should be a must read for any new trader. By reading this book and participating in Cyber Trading University’s vast array of other educational opportunities their traders can rest assured knowing they have received proper training and education to capitalize daily on today’s market opportunities.”

—John Gromala, VP of Sales & Marketing, NinjaTrader, LLC

“Fausto’s knowledge of how market depth and how to follow what the market makers are doing is an important part of what traders should understand. This book helps traders understand how to read Level II and see who is buying and who is selling. This will help traders understand market pressure and take their views of the market to the next level.”

—Kelly Clement, Thomson Reuters

“Fausto’s understanding of the level two markets is a unique asset to the industry of trading. In this book, Fausto clearly covers the roles market makers play in manipulating the market. He clearly identifies how to understand what is happening in the market. This knowledge provides clear, interesting techniques for quick trades. Readers of this book will surely have a new view of the market after reading through this book.”

—Jeffrey Gibby, Senior Business Development Specialist, Thomson Reuters

“I have enjoyed getting to know Fausto over the years and have come to appreciate not only his style of trading but his passion for educating traders across the world as well. This book has provided the trading world with a glance at the level II and level III markets from someone that was there from the beginning and has several insights to help any active trader. If every trader read and lived by Rules 1–10 that Fausto lists in the final chapter, their odds of succeeding in the business would increase dramatically. Thanks Fausto for your contribution!”

—Morgan Busby, President, TradingPub.com

# **HOW TO BEAT THE MARKET MAKERS AT THEIR OWN GAME**

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# HOW TO BEAT THE MARKET MAKERS AT THEIR OWN GAME

Uncovering the Mysteries of Day Trading

**Fausto Pugliese**

**WILEY**

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Cover design: Wiley

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***Library of Congress Cataloging-in-Publication Data:***

Pugliese, Fausto.

How to beat the market makers at their own game : uncovering the mysteries of level II trading / Fausto Pugliese.

1 online resource.—(Wiley trading)

Includes index.

Description based on print version record and CIP data provided by publisher; resource not viewed.

ISBN 978-1-118-74547-2 (pdf)—ISBN 978-1-118-74565-6 (epub)—ISBN 978-1-118-65453-8

(paperback) 1. Investments. 2. Speculation. 3. Stock exchanges. I. Title.

HG4521

332.64'2—dc23

2014014900

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1



*This book is dedicated to all of the visionaries, entrepreneurs, investors,  
small business operators, and creative people who have already used  
crowd funding to make their dreams a reality.*

*I'd also like to give a shout out to some of the talented YouTubers,  
including Tyler Oakley, Jack and Finn Harries, and Markus Butler, who  
have discovered how to utilize crowd funding in order to rally their  
massive audiences and raise hundreds of thousands of dollars for some  
very worthwhile charities and causes.*



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## ABOUT THE AUTHOR

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**F**austo Pugliese is founder and president of Cyber Trading University, a firm that provides a variety of trader education courses and products. He began his career on Wall Street as a stockbroker. Fausto was one of the original SOES bandits of the early 1990s. He was also one of the first independent traders to take advantage of the Direct Access Trading technology boom that started in 1987. Fausto regularly presents and competes at trading shows throughout the world and has won the World Traders Challenge twelve times. He has appeared on Fox News, CNBC, and other financial shows. He also writes for *Equities Magazine* and hosts a radio show on Biz Radio.



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## INTRODUCTION

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Contrary to popular media reports, day trading is alive and well in America. This isn't a comeback for day traders either; many of us never left. I continued day trading throughout the shakeup of the early 2000s, and during that time, I consistently made money. For years, day trading has represented a significant portion of my income and it continues to do so even now, despite today's economic climate. I'm not alone; my company, Cyber Trading University, has trained thousands of people to do the same thing, and many of these people have gone on to duplicate, or in some cases exceed, my success. In the following chapters, I will share the system I have relied upon and perfected with you.

Of course, this is not to say that there hasn't been a shakeup in the industry. Many traders lost their shirts in 2000 and in times since. The truth of the matter is that most of these people weren't day trading in the first place; they were the unfortunate victims of an out-of-control fad that called itself "day trading." In actuality, this fad was anything but day trading—it was outright speculation.

You must remember that during the late 1990s, making money in the stock market was incredibly easy. In fact, it was almost impossible to lose money in the market. The Standard and Poor (S&P) 500 Index averaged a 20 percent or greater return *every* year from 1995 to 1999. Remarkably, the S&P 500 had poor performance compared to the Nasdaq Composite. In the years 1995 and 1998, the Nasdaq rose by 40 percent, and in 1999, the year before the bubble burst, it was up 86 percent. With the market going up 86 percent in a single year, how could you possibly lose money?

People signed up with online brokers and began trading stocks with little or no training. Most of them lacked a predefined strategy or even the knowledge that they needed one in order to succeed. These traders would simply search for the latest hot stock, buy it, watch it rise in price, sell it, and collect their profit. It could not have been any easier.

As we all know, there is no free lunch in life—what goes up must come down. That is exactly what the market did, starting in 2000.

To be sure, not all stocks went down. With most stocks falling and with many day traders having no discernible strategy to pick the few winners out there, it's easy to understand what happened. Utter financial devastation fell on many day traders.

A few of us did survive. In fact, with the decreased competition, we thrived. And as we started sharing our secrets of success, our ranks began to grow.

Before I explain the system and how it works, I want to make a few things clear. First and foremost, this is not a get-rich-quick system. I am not promising that you will go from homeless to living in a mansion in six months by day trading. That simply isn't a realistic expectation. One of the primary tenets of my day trading system is to set (and attain) *realistic* goals.

Another important tenet of this system is humility. Very often, people approach the topic of trading with the mindset, "I'm smarter than most people, so I'll make money." Well, if that is how you're thinking, get that idea out of your head immediately! Yes, you might have been voted the smartest kid in your high school class, or you might have graduated *magna cum laude*. In the stock market, however, you don't know *squat*. Don't worry, neither did I (and I mean it)!

Quite honestly, I have no idea which stocks are safe investments and which are bad ones. And guess what? I don't care. I'm not in the business of picking good stocks. I'm in the business of making money in the stock market, and as you will soon discover, the two are not necessarily the same.

So how do I pick my stocks then? I leave my ego at the door and play "follow the leader." I learn what the market makers are doing and mimic their movements. If they're buying XYZ Company and expect a \$2 bounce, then I buy XYZ Company with them and sell when they do. In this book, I'll show you how to find this information and more importantly, how to act on it. However, I can't stress enough that you must let go of your ego and not second guess the real experts.

The final, and arguably most crucial, piece of the puzzle is discipline. Like anything else in life, discipline also requires some work and effort. Sadly, this is something that many people don't understand, and they quickly jump to the conclusion that the system doesn't work.

For instance, most people are familiar with the power of compound interest. We know that if you invest a small amount of money at regular intervals over a long period of time, you can accumulate an astonishing amount of money. To illustrate, if you put aside \$5 from your first weekly paycheck starting at 18 years of age and continue doing the same thing every week, that money will grow to almost \$1.8 million (assuming a modest return of 10 percent per annum) by retirement. That's a pretty simple thing that anyone could do to retire as a millionaire. Sadly, the number of people who bring this plan to fruition is not enough.