WARRIOR TRADING

CHAPTER 3. ACCOUNT TYPES

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PART 1: DIFFERENT ACCOUNT OPTIONS FOR TRADERS

Today's Lesson

1. Cash Accounts

2. Margin Accounts
   - Margin & Leverage
   - PDT Rules & Trading with as little as $500

3. Retirement accounts
   - 401k
   - IRA
   - Roth IRA

Professional vs Non-Professional

When you start trading in our software, you will need to sign market agreements. This is where you declare yourself as a professional or non-professional trader. In the eyes of the market, a professional trader is any trader who has his or her license, such as the Series 7, Series 63, etc.

If you **aren't currently** licensed, you would be a non-professional trader.

You will have to make the same professional/non-professional declaration when you begin trading with real money.

1. Cash Accounts

A cash account with a brokerage firm will allow you to day trade. However, you must wait 2 days for each trade to settle before you can take another trade with that money.

That means if you have a $3,000 account, and you buy and sell $3,000 in stock in the same day, you can't trade that money again for 2 days.

Very few active traders would use cash accounts because of the settlement restriction.

Example:

A $3000 cash account will let you trade $1,500 every day ($7,500 per week)

2. Margin Accounts

A margin account will allow you to trade an **unlimited number of times each day**, as long as you maintain the correct minimum balance amounts.

Margin accounts do not require a settlement period before trading with that money. So if you have $25,000 in the account, you can buy $20k worth of stock, sell it, and right away buy it again allowing you an unlimited number of trades.

Most active traders will utilize a margin account.

In order to short a stock, you must have a margin account.

Leverage & Buying Power

All margin accounts (except for margin on retirement accounts), offer at least 4x leverage and buying power.

$25k deposit multiplied by 4x leverage = $100,000 in buying power. You can trade with $100k: $25k is your cash, $75k is available to borrow from the broker.

If you invest $100k and return a 10% gain, that's +$10k, which is nearly 50% gain on the $25k cash balance. However, if you lose 10% on the $100k, you've just lost nearly 50% of your cash balance.

Trading on margin (using leverage) must be done responsibly.

Getting a Margin Call

If you have a $25,000 account, and you buy $90,000 worth of stock, you are using leverage and margin.

If the value of the position drops to $50,000, you sell and take a loss of -40,000 on the position.

-$40,000 minus $25,000 = $15,000 margin call. You are in debt $15,000 to your broker.

You do not need to keep $25k in available cash. You can have $25k in stock and still be above the PDT level.

Pattern Day Trader Rules

The Pattern Day Trader Rules state that if you day trade more than 3 times in a 5 day period, you must maintain a min balance of $25k in order to keep a margin account.

There are several brokers offshore that allow traders to trade with margin accounts and only $500. I personally used one of them when I started with $583.15 in January of 2017.

Traders under the PDT level who do not wish to open an offshore can do one of the following:

1. Day trade only 3 round trips per week using margin and buying power until the account is above $25k

2. Swing trade (holding stocks overnight is okay)

3. Trade options which settle overnight and can offer higher % returns, but can only be traded on large caps

4. Do a combination of the above

What Constitutes a "Round Trip"

Most brokers consider a round trip to be the following:

Buy 1000 shares then sell 1000 shares = 1 round trip

Buy 500 shares, buy another 500 shares, sell 1000 shares = 1 round trip

Buy 1000 shares, sell 500 shares, sell 500 shares = 1 round trip

Buy 1000 shares, sell 500 shares, buy 1000 shares, sell 1500 shares = 2 round trips

Any time you "change directions," you are beginning another round trip of a trade.

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Cash vs Margin when under $25k

Example:

A $3,000 cash account will let you trade $1,500 every day ($7,500 per week).

A $3,000 margin account will let you trade $9,000 every 5 days or 3 trades in 1 day.

While more money is being traded in the margin account, the cash account allows for more trades and trade every day, which can be a good thing because it puts less pressure on you to have 3 perfect trades each week.

3. Retirement Accounts

In many countries there are government-sponsored retirement accounts. In the US, we have 401(k)s and IRAs. The gains are tax free, however, the profits when withdrawn are taxable in all accounts EXCEPT for a Roth IRA.

What is a 401(k)?

- A 401(k) is an employer-sponsored retirement account, but it can be self-directed and transferred from the employer's 401(k) provider upon leaving the job.
- There is currently a limit per year that can be contributed, but that amount is subject to increase over time.
- Funds from a 401(k) can be withdrawn from the company plan and converted to an IRA, but only upon switching jobs.

What is an IRA?

- An IRA is an Individual Retirement Account.
- There are 2 types: Traditional IRA and Roth IRA. Both have max contribution limits that change from year to year and vary depending on your age.

Traditional IRA vs Roth IRA

Traditional IRA

Traditional IRA profits are tax free while they grow, but taxable when they are withdrawn.

Traditional IRA contributions are made pre-tax (before income taxes are taken out).

Max Contribution Limit

Roth IRA

Roth IRA profits are tax free while they grow AND when they are withdrawn, making them very desirable IRA types.

Roth IRA contributions are made post-tax (after income taxes have been taken out).

Max Contribution Limit

There is an income limit to make direct Roth IRA contributions. However, there are no limits on doing Traditional-to-Roth IRA conversions.

CHAPTER 3. ACCOUNT TYPES

PART 2: CHOOSING A BROKER & OPENING AN ACCOUNT

Today's Lesson

1. Why is a broker required?

2. What do traders need in a broker?

1. Why is a stock broker required?

A stock broker is an intermediary. You fund an account with a broker and they give you access to buy and sell shares from the exchange.

In the United States, and in many other countries, we can't buy or sell stocks without a stock broker.

Here's the problem: not all brokers are created equally! In the new stock market economy, competition between brokers is fierce. It's a great time to be a consumer!

2. What do day traders need in a broker?

1. Fast Executions (less than 1 second between pressing buy button and getting filled)

2. Reliable and Stable Trading Software

3. Preferably Direct Access Routing (ability to choose how your order is sent to the exchange)

4. Hot Keys or Hot Buttons (ability to send orders by simply pressing buttons on your keyboard, for example Control+1 to buy 1k shares). This allows fast order execution.

5. Discounted Commissions. $2.00/trade is the best I've seen when all of the above are included. There are some brokers that offer free commissions, but they generally remove one of the items above I'd consider a requirement (fast executions or stable platform, for instance).

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