



WARRIOR TRADING

CHAPTER 3. STOCK SELECTION & BUILDING A WATCH LIST

PART I: STOCK SELECTION

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Today you will Learn

- HFT Trading
- Stock Selection
- High Relative Volume
- Extreme Stocks
- Trading the Big Days
- How do we find stocks to trade?
- Low Float Runners
- Follow through days
- Inside days
- Building a Watch List of Gappers
- Breaking News

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Why Is This Important?

The theories of trading are great, but at the end of the day, you need to apply these to stocks in real-time. In order to do this you need to know how to find the best stocks to trade.

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HFT trading



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A Retail Traders Market

As retail traders, we are competing against HFTs, billionaire hedge fund managers, intuitional traders, etc.

Here's the thing, big money looks for different opportunities in the market. The stocks that move 20-30% each day, are rarely the stocks they will be trading because they are too volatile for 100+mil investments.

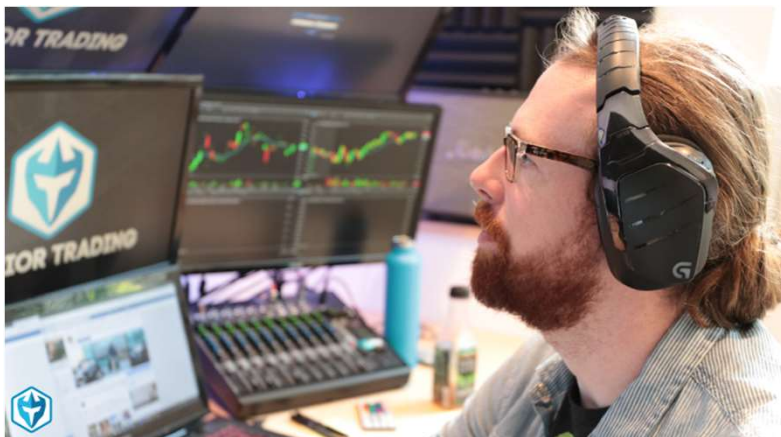
They are more likely to be trading the big S&P 500 stocks. For that reason, I leave those stocks to the big guys, and I focus primarily on the small caps.

Retail traders often prefer stocks under \$10, or stocks trading on breaking news of all price ranges.

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Stock Selection



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Stock Selection

1. Low Float (Float under 10mil preferred, under 20mil ideal, rarely will I trade over 50mil)
2. High Relative Volume (at least 2x above average)
3. Ideally a former runner with history of making big moves
4. Volume Spiking at or around time of entry.
5. Ideally we want a strong daily chart with current price above the 200ema and with no nearby resistance (we will review this in more detail later)
6. Ideally we need a news catalyst driving the momentum, but a technical breakout on the daily chart can work.

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1. Float Under 50mil Shares (under 10mil is best)



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Float is the number of shares of Common Stock available to trade

With many small cap stocks, there is a cycle of changing floats, beginning with IPO, then Secondary Offerings, then Reverse Splits, then Additional Secondary Offerings, and additional reverse splits. These companies sell share onto the market to keep financing their growth in hopes that they finally achieve success and either get bought out or can maintain stock prices of \$20+

Initial Public Offering (IPO): When the company sells shares onto the open market.

Float: Number of shares available to trade

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3 ways a Float can change

Share Buybacks: When the company sells shares onto the open market.

Secondary Offerings: When a company sells more shares onto the market.

Reverse Stock Splits: When a company reduces the float and increases the price.

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Starts with the IPO...selling shares to the open market.

Example: 10mil share IPO at \$10.00 = \$100,000,000 raised

Files S-3 Shelf Registration to sell 50,000,000 shares on the open market (expires in 3 years)

5mil share secondary offering at 5.00 = \$25,000,000 raised (stock drops to 5, price of offering) - Float is now 15mil shares.

10 mil share secondary offering at 2.00 = \$20,000,000 raised (stock drops to 2.00) - Float is now 25mil shares.

Stock drops to 50 cents over the next 6 months and is no longer in compliance with exchange min price requirement of 1.00.

Company performs 10:1 Reverse Split, Stock opens at 5.00 per share, float is now 2.5mil shares.

Company releases great news, stock surges to 10.00.

Company does 5 mil share secondary offering at 7.00 = \$35,000,000 raised = float is now 7.5 mil shares.

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[illegible]

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Form S-3 Outlines Details of Shelf Registration

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ABOUT THIS PROSPECTUS

This prospectus is a part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or SEC, relating to a "shelf" registration process. Under this shelf registration process, we may offer and sell, either individually or in combination, as one or more offerings, any of the securities described in this prospectus, for any gross proceeds of up to \$120,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we offer securities under this prospectus, we will provide a prospectus supplement to this prospectus that will contain more specific information about the terms of that offering. We may also authorize you to access this writing prospectus to be provided to you that may contain material information relating to these offerings. The prospectus supplement and any related free writing prospectus that we may authorize to be provided to you may also add, update or change any of the information contained in this prospectus or in the documents that we have incorporated by reference into this prospectus.

We urge you to read carefully this prospectus, any applicable prospectus supplement and any free writing prospectus we have authorized for use in connection with a specific offering, together with the information incorporated herein by reference as described under the heading "Incorporation of Documents by Reference," before investing in any of the securities being offered. You should rely only on the information contained in, or incorporated by reference into, this prospectus and any applicable prospectus supplement, along with the information contained in any free writing prospectus we have authorized for use in connection with a specific offering. We have not authorized anyone to provide you with different or additional information. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and as provided where it is lawful to do so.

The information appearing in this prospectus, any applicable prospectus supplement or any related free writing prospectus is accurate only as of the date on the front of the document and any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus, any applicable prospectus supplement or any related free writing prospectus, to any sale of a security.

This prospectus contains statements of various provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the statements are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed, will be filed or will be incorporated by reference in exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of these documents as described below under the section entitled "Where You Can Find Additional Information."

This prospectus contains, or incorporates by reference, trademarks, trade names, service marks and service names of Akamai Technologies, Inc.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and any accompanying prospectus supplement and the documents we have filed or will file with the SEC that we or will be incorporated by reference into this prospectus and the accompanying prospectus supplement contain forward-looking statements, within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve risks and uncertainties. Any statements contained, or incorporated by reference, in this prospectus and any accompanying prospectus that are not statements of historical fact may be forward-looking statements. When we use the words "anticipate," "believe," "expect," "forecast," "project," "intend," "estimate," "may," "plan," "predict," "will" and other similar terms and phrases, including references to assumptions, we are identifying forward-looking statements. Forward-looking statements involve risks and uncertainties which may cause our actual results, performance or other outcomes to be materially different from those expressed or implied by forward-looking statements.

A variety of factors, some of which are outside our control, may cause our operating results to fluctuate significantly. They include:

- changes in the market acceptance of our products and services;
- challenges we may face in identifying, acquiring and operating new business opportunities;
- the outcome of ongoing litigation or other proceedings or which we may become subject to in the future;
- unexpected benefits of our operations.

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Breaking News! Secondary Offering

Most secondary offerings are announced pre-market or after hours. However, we do occasionally see them announced during regular trading hours although usually they are in the afternoon (likely in response to price action that occurs in the morning).

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Secondary Offering



Helpful Hint: We discussed SEC Filings in the Warrior Starter Course under Fundamental Analysis

AKER
Akers Biosciences announces \$4.8M registered direct offering
Akers Biosciences announced that it has entered into definitive agreements with several institutional and accredited investors for the purchase and sale of 1,366,856 shares of the company's common stock, at a purchase price of \$3.53 per share, in a registered direct offering priced at-the-market under Nasdaq rules. The closing of the offering is expected to occur on or about May 18, 2020, subject to the satisfaction of customary closing conditions. H.C. Wainwright & Co. is acting as the exclusive placement agent for the offering. The gross proceeds to the company from this offering are expected to be approximately \$4.8M, before deducting the placement agent's fees and other offering expenses payable by the company.
[Show Related Items >>](#)

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Secondary Offering



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Secondary Offering



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Secondary Offering



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Secondary Offering



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For each company that does a secondary offerings...

There are dozens that make incredible moves. So we focus on the strongest stocks, and trade for short periods in the morning to try to avoid the risk of being caught in a stock halted going down on secondary offering news.

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Low Float Potential

This stock squeezed from \$2.00 to over \$20.00 in a matter of trading days. While some short sellers eagerly took positions hoping for a secondary offering, next thing you know, the stock is up 500, 700, 800, and 1,000%.



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Low Float Potential

Another 1,000% gain in a matter of days. Incredible momentum, early short sellers were squeezed out, and momentum traders rode the wave!



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Low Float Potential

In 1 day, from 1.39 to 5.98. An impressive 400%+ squeeze.



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Low Float Potential

Up 100% in 1 day of high volume trading.



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Low Float Potential

Often these stocks have gone through the cycle of IPO, secondary offerings, reverse splits, and it's often following a reverse split (when the float has been dramatically reduced) that the company will release positive news, and suddenly the stock is surging up 100-200% and traders are rushing for an opportunity to catch a piece of the action.

For this reason, I prefer to look for stocks with floats of under 10mil shares that have breaking news today. I won't check their 5-3 status since I'm only planning on doing quick day trades between 9:30-10:30/11am.

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2. High Relative Volume (min 2x above avg)

High Relative Volume is the result of a surge in demand

A surge in demand only creates big moves when there is limited level of supply (low float)

If a stock is gapping up more than 5% with at least 10,000 shares of pre-market volume, it will have high relative volume.

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What Makes a stock Extreme?

High Relative Volume is typically the result of a News Catalyst, but sometimes it can be the result of a technical breakout.

Catalysts usually come as news posted after market hours including: Earnings, Breaking News, Activist Buying, FDA announcements, SEC announcements, Pharma Clinical Studies.

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We Trade the Big Days



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We Trade the Big Days



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We MUST follow the Volume

Trading Low Volume stocks is asking for trouble. When you look at a breakout spot on a low volume stock, you might be the only person looking at it!

Stocks breakout because so many traders and investors are watching the setups form. The only reason thousands of traders will be watching a stock is if there is a catalyst.

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Low Volume Example



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High Volume Example

Clean Patterns and heavy volume make this stock trade in a much more predictable manner.



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3. Former Runners

It's always a good idea to keep an eye on stocks that you remember are former runners.

These are stocks that have a history of making huge moves (typically within the last 6 months). We know when a new catalyst comes out they can get wild!

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Former Runners Cont.



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4. Volume Spiking

I like to buy stocks spiking with volume. This tells me other traders are watching this stock and looking for an opportunity.

Sometimes it means the stock has news, other times it's purely technical, but there is always potential with this volume.

To find volume spikes I look at stocks hitting my high of day momentum scanner.

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5. Clean Daily Chart

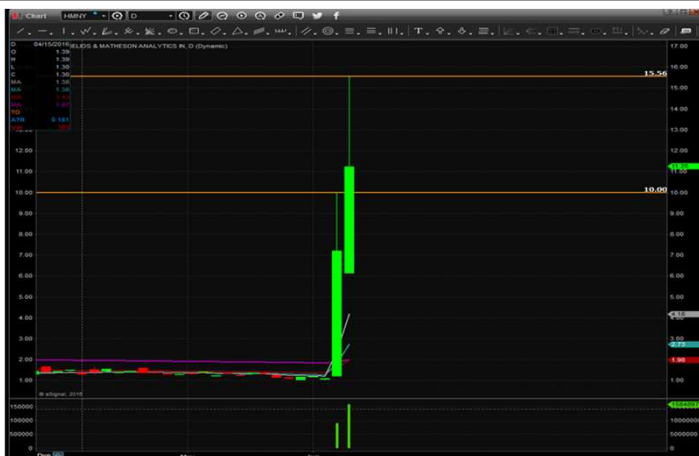


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Follow / Continuation Through Days

The day AFTER a huge move is considered a follow through day.



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Inside Days

The price action is completely inside the previous days candle. These typically aren't worth trading unless they break yesterday's high or low.



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6. We Look for a Catalyst

The strongest stocks have a catalyst, or a reason to move. This reason CAN simply be the fact that it's moving up quickly with lots of volume. There isn't always a headline associated with the breakout, but typically we'd prefer to see a good headline.

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Steps you can take today

These are steps you can take today to get better at Stock Selection.

- 1) Only trade stocks with High Relative Volume, or the Daily Gap Scanner
- 2) Only trade stocks priced above \$1.50
- 3) Don't trade Penny Stocks or OTC Stocks
- 4) Be very cautious trading stocks without breaking news
- 5) Be very cautious trading stocks that are running into moving averages or have bad daily charts.

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CHAPTER 3. STOCK SELECTION AND BUILDING A DAILY WATCH LIST

PART II BUILDING A DAILY WATCH LIST

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Today you will Learn

Today I will walk you through the process of building a watch list

- How do we find extreme stocks?
- Finding catalysts
- Understanding different catalyst types
- Building your watch list
- Trading off the watch list

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Building a Watch List

Warrior Trading Top Gappers Scanner: 19:34:00 - 19:39:00

Symbol	Price	Volume Today	Float	Relative Volume (Daily)	Relative Volume (5 min)	Gap(%)	Change From Close(%)	News
HTZ	2.88	272,198	138,198	4.84	2.93	15.86	92.89	HTZ
FRSX	1.17	43,528	45,308	13.62	15.34	196.39	28.94	FRSX
PDV	0.84	5,508	5,908	24.22	0	55.13	55.15	PDV
UK	5.62	178,188	233,158	2.58	2.66	53.53	39.77	UK
QEP	1.83	25,358	176,578	3.43	0	51.83	69.44	QEP
XSPA	2.38	148,478	188,818	2.51	5.89	56.53	21.85	XSPA
CPE	1.41	184,848	283,198	4.19	2.41	47.89	71.41	CPE
MITT	3.88	18,568	28,898	3.66	2.21	43.43	41.89	MITT
OAS	1.25	188,928	284,138	18.22	34.23	42.15	124.42	OAS
IVR	4.55	43,518	137,878	3.57	0.72	39.11	27.89	IVR
BOBB	1.19	19,658	118,828	6.97	4.92	38.33	72.39	BOBB
MFA	3.86	71,828	449,578	4.78	3.52	36.42	31.98	MFA
MCEP	3.82	774,2K	1,348	7.35	0	36.88	28.88	MCEP
WMC	3.18	4,868	45,678	4.37	0	33.46	28.62	WMC
DLNG	2.88	891,8K	35,498	19.43	0	38.54	12.44	DLNG
RIG	2.62	82,558	684,548	4.66	2.83	29.52	57.83	RIG
YSL	1.88	96,538	88,138	2.18	1.81	27.19	-12.27	YSL
AAL	19.89	333,548	264,418	4.84	6.78	27.83	14.17	AAL
XAN	3.88	3,138	26,978	2.57	0	25.18	15.83	XAN
UAL	44.83	184,788	252,188	1.89	0.78	24.83	12.61	UAL
TPPH	2.35	4,678	5,818	2.87	0	24.41	18.33	TPPH
GRN	2.88	378,6K	18,398	3.97	0	24.82	13.39	GRN
NCLH	23.48	84,918	231,368	1.43	2.14	23.58	19.45	NCLH
SMH	3.28	1,838	16,298	2.62	0	23.27	33.88	SMH
GOGO	3.38	6,348	52,158	2.84	0.45	23.15	6.11	GOGO

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Step 1: Reviewing the Gap Scanners

I review the gap scanners (streaming in the chat room) through the following process

1. Review top 10-15 leading gappers
2. Check price, float and volume to decide which stocks are worth potentially trading

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Step 2: Identify the Catalyst

There are many different types of catalyst that we've seen.

1. Technical (no news)
2. News: Earnings
3. News: FDA or Clinical Trial announcements
4. News: Merger or Buyouts
5. News: Stock Split or Reverse Stock Split
6. News: Analyst price target
7. News: Activist Investor Position
8. News: New Orders/Contracts/Deals/Partnerships, etc.
9. News: Secondary Offerings
10. IPO's



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1. Technical (no news)

There are many different types of catalyst that we've seen.

Technical (no news) catalysts can be surprisingly strong. A technical breakout is usually when a stock has been weak for a very long time, and then suddenly starts to breakout from consolidation.

We may never know what initially causes the breakout. It could have been a few deep pocket traders covering a short position, or buying a long position, and that sparks interest among other retail traders.

Just remember, if a stock is up 50-100% on no news, it's going to be risky, and there could be risk of a secondary offering.

Having said that, we've seen stocks like \$DRYS go from \$2.00 to over \$100 per share with zero headlines. So don't underestimate technical breakouts!



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2. News: Earnings

When a stock announces their quarterly or annual earnings reports this can be a big deal, especially if the results are much higher (or lower) than analysts and investors were expecting.

Earnings results that are in line, whether positive or negative, are often non-event situations.

Earnings that are a big beat or a big miss, will bring in the high relative volume. As a Long biased trader, I focus on the big wins, but short biased traders can focus on big misses.

Also take note of the fact that earnings can be "bad" in the sense that the company is losing money, but if they are losing substantially less than they were last year, investors can look at those results positively.



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3. News: FDA or Clinical Trial announcements

As active traders pharma and biotech companies are some of our favorites. These stocks can go from zero to hero overnight when successful clinical trials on experimental treatments.

These stocks can be extremely volatile, and offer big opportunities when they are in play.

I look for positive FDA announcements such as a company getting a Fast Track designation, or the approval of a drug.

We can also look for insurance companies to report approving the use of a certain drug to be covered by insurance.



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4. News: Merger or Buyouts

Mergers or Buyouts can be tricky. If a stock has announced they are buying another company, the stock doing the buying will sometimes go down because investors fear the expense of the acquisition and the increased complexity of a buyout.

The company being bought out, will usually trade exactly at the buyout price, giving it no volatility and no opportunities for trading.

This is also true with Merger agreements. When a merger agreement is signed, but no pricing is released, speculation can drive stocks higher.

Potential bidding wars can also drive buyout stocks higher, and issues with getting approval from the government with anti-monopoly laws can also cause volatility.

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Stock buyout example



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5. News: Stock Split or Reverse Stock Split

When a stock does its initial public offering "IPO" they release a fixed number of shares. Lets say its 100mil shares.

If the stock (in the case of AAPL), climbs to \$700 per share, the company may feel that a stock split to reduce the price will bring in new investors. Apple did a 7:1 stock split so if you were holding 1000 shares at \$700, the next day after the split you'd be holding 7000 and \$100. You own the same amount, but the price and share #'s have changed. The float has also increased to 700mil shares.

Inversely, if a stock is priced at 30 cents, and needs to regain compliance, they can do a REVERSE stock split. If you own 10,000 shares at 30 cents, the next day in a 10:1 split you own 1000 shares at \$3.00. The float in this case, went from 100mil, to 10mil.

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6. News: Analyst price target

When a stock is priced at \$3.00 per share and a respected analyst comes out and gives a \$18 price target, this is something that investors and traders get excited about.

It's important to note that not all analysts are especially well respected.

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7. News: Activist Investor Position

An announcement that somebody has taken a position can be significant, especially if the person or company who took the position is considered an activist investor.

Again, you can ask in the chat room each morning when you see this type of headline.



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8. News: New Orders/Contracts/Deals/Partnerships, etc.

Headlines such as a company getting a large contract, large order, or new deal, can be a big deal. Anytime we see a small cap stock get a partnership or deal with a big company (like Apple), it can be huge news.

Sometimes we see the same headlines again and again, company gets 10mil new order, and it stops becoming something traders care about.

Reverse Splits can also be considered a headline.



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9. News: Secondary Offerings

Typically a secondary offering is NOT the type of headline we like to see as a long biased trader.

This means the company is selling more shares to the open public (diluting value of the stock) to raise money.

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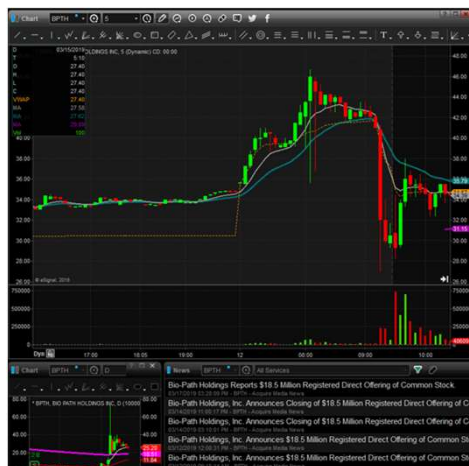
Secondary Offerings dilute the value



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Secondary Offering announced pre-market



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Secondary Offering announced at 1pm



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10. IPO's

Trading IPO's is popular among day traders, but it's fairly risky.

I only trade really hyped up IPO's, like FB, TWTR, BABA, SNAP, etc.

These are extremely volatile so I always use smaller size.

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\$SNAP IPO

SNAP IPO traded 50mil shares in the first 10min.



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Step 3. Identifying Strong Daily Charts

In Chapter 4 we will discuss the anatomy of a strong daily chart. For now, we will simply say a stock is either above the 200ema, or is far enough below the 200ema that it has room to move up to that level.

The stock must always be above the 9ema.

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Step 4. Identifying Potential Entry Points

We'll discuss strong entries as we get further into this course.

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With a Watch List Prepared, it's time to Stay Focused!

Once I have my Watch List I keep those stocks on WATCH until they prove to me they aren't worth watching

I will watch them all day if I have to

If you watch 4 stocks all day, you are guaranteed if a pattern forms you won't miss it.

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Typical Watch List



\$GBSN 3.9mil share float, gapping up 7.5%. This is a stock that likes to make big runs, then sell off, much like \$MOC. I'll be watching this out of the gates over pre-market highs if we see continued strength pre-market. Headline: [Great Basin Begins Clinical Trial for Stool Bacterial Pathogens Panel](#)



\$EAC 5.8mil share float gapping up 218%. About 300k of pre-market volume as of 8:50am, it may be a bit crowded. We'll see. Watching possible long over \$2.00. Headline posted after hours yesterday: [Erickson Announces Award of Two Contracts with the United States Navy Military Sealift Command](#)



\$GIGA, 4.7 mil share float gapping up 13%. Announced earnings last night, possible runner. Pre-market flag isn't very nice. Big move after hours then dropped back down. Headline: [Giga-tronics receives \\$3.3 Million Order for Advanced Signal Generator Products](#)



\$CALI 2.39 mil share float gapping up 43%. Watching long over pre-market highs if we get some volume. Headline: [China Auto Logistics Sells Zhonghe for Approximately \\$62.3 Million; Sees Net Proceeds of Approximately \\$25.8 Million After Transfer to Purchaser of Outstanding \\$36.5 Million Zhonghe Related Payable](#)

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Adding to Watch List

As the day progresses, I may take stocks off my watch List that have failed to breakout. If they went red right away or just felt too choppy or unpredictable, I take them off my watch so I can focus on something stronger.

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Breaking News

I subscribe to a proprietary news services that will post headlines in the room as soon as news is breaking. This can offer opportunities to trade breaking news throughout the day.

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News Reversal Example

This stock sold off 3 points on breaking news, then quickly reversed. This provided a mid-day opportunity for trades.

We'll discuss the setups and patterns later on, but for right now, just know that this is the right type of stock to trade.



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Stock Selection

Remember while you are reviewing stocks that we always want to have the home run big win potential. I always take base hits when I get them, but I don't take trades that don't have the potential to give me that 2:1 profit loss ratio.

We must also be able to apply out risk management techniques to any stock we're considering.

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Stock Selection as Risk Management

Stock Selection is a 2nd level of Risk Management

By avoiding penny stocks, low volume stocks, illiquid stocks, we can focus our trades in safer areas of the market.

Use your Stock Selection as an opportunity to reduce risk.

The next topic will be trading the strongest patterns to further reduce our risk.

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Steps you can take today

These are steps you can take today to get better at Building a Watch List.

- 1) Use the Gap Scanner to find the top 10 gappers
- 2) Check Market Watch or the chat room for headlines
- 3) Write down the reasons you like the stock & post in the chat room

The next step will be learning the strategy you can apply to these stocks.

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