



WARRIOR TRADING

CHAPTER 2. PICKING STOCKS FOR DAY TRADING

WARRIOR  TRADING



CHAPTER 2. PICKING STOCKS FOR DAY TRADING

PART 1: POPULAR FINANCIAL INSTRUMENTS FOR DAY TRADING

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Today's Lesson

1. Stocks

2 Mutual Funds

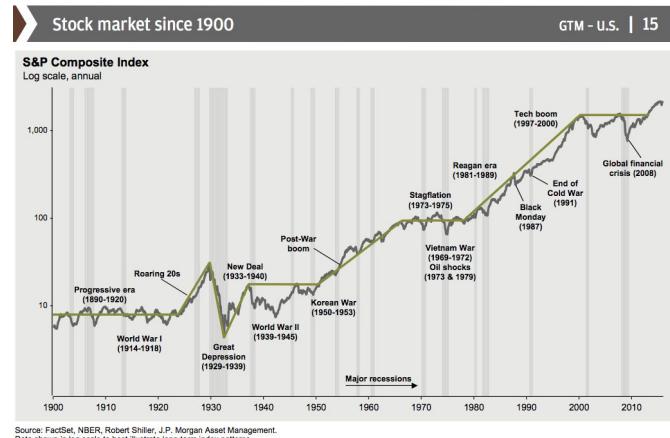
3. Index Funds

4. ETF's

5. Options

6. Commodities

7. Currencies



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Cash Tags \$SPY

Like Hashtags, Cash Tags are frequently used in social media, Google searches, and in chat.

When we enter a stock symbol into a trading platform we do NOT use the \$. But often when people are typing a stock they'll use the \$ cash tag.

It helps people clearly see you are referring to a stock and not an acronym.

Using Cash Tags is not required in our Chat Rooms, it's personal preference.

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Stock Symbols aka Tickers are always in CAPS

In our chat room we ask that all tickers be typed in caps, SPY, VXX, UVXY, etc.

Adding Cash Tags are optional.



1. Investment Vehicles: Stocks

A Stock is a single share of an individual companies. Stocks are traded on exchanges all around the world, but I focus on stocks traded in the NASDAQ, AMEX, and NYSE exchanges, all based in the US.

Some stocks trade on the OTC markets, which do not have the same regulatory requirements as the other US exchanges. For that reason, I personally don't trade OTC stocks.

Stocks are MOST active between:

9:30-11:30am (morning breaking news) We DO NOT trade pre-market

2:00-4:00pm (afternoon momentum into power hour) We do NOT trade after hours

I personally choose to trade the open and then enjoy the rest of my day.



Market Capitalization of Stocks

Types of Stocks:

Micro Caps – market cap of under 100 million – Penny stocks & stocks under \$10

Small Caps - market cap of 100mil – 2 billion

Medium Cap - market cap of under 2 billion – 10 billion

Large Cap - market cap of under 10 billion +



2. Investment Vehicles: Mutual Funds

Mutual Funds are funds comprised of hundreds of different assets. By purchasing a share of a mutual fund, you reduce what's called "Single Stock Exposure". If one of the stocks drop, or even go bankrupt, it won't impact the value of the fund as a whole very much.

Many Mutual Funds underperform the overall market, while a small handful outperform. Mutual Funds charge administrative fees that also eat into the profits. Many people would argue it's better to purchase an ETF since there are very few fees.

Mutual Fund can only be traded once per day. You put in an order after hours and the order executes the next day. **In other words, you CANNOT DAY TRADE a mutual fund.**



3. Investment Vehicles: Index Funds

Index Funds represent multiple stocks. An index fund of the Dow Jones Industrial Average is priced based on the price of 1 share of every stock in the index.

Since Index Funds represent the stocks in the index, they do not require active trading, research analysts, and as a result, do not accumulate broker fees.

While you can day trade index funds, it is extremely uncommon for them to move more than 2% in a single day. That means if you put your entire \$1,000 account into an Index, at best you'd only make \$20 on a great day (not including using leverage). **This means trading Index Funds will not be ideal for day traders focusing on rapid account growth.**



Dow Jones Industrial Average

The Dow Jones Industrial Average is a index of 30 large cap stocks.

The value is derived from the sum of 1 share of each stock in the index, added together.

Fun Fact: General Electric was among the companies on the original DJIA on May 26 1896.



Dow Jones Chart since 1896

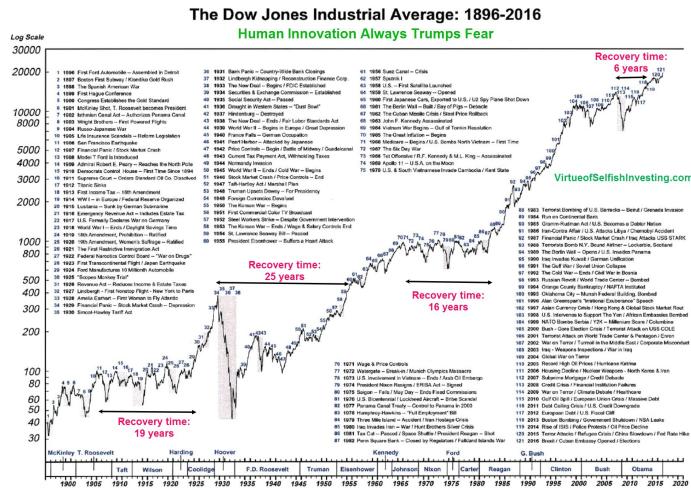


Image from Market Watch

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Standard & Poor's 500

In contrast to the DJIA, the S&P 500 tracks the market capitalization of 500 United States publicly traded companies. Because the S&P 500 tracks a larger group of stocks, it is considered a more accurate reflection of market strength than the DJIA.

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S&P 500 Chart since 1927



Image from MacroTrends.Net

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Stock Market Sectors

- Utilities
- Healthcare
- Shipping stocks
- Tech stocks
- Financial stocks
- Retail stocks
- Airlines (inverse relationships, oil goes up, airlines go down, etc)
- Commodities (Gold, Oil, Natural Gas, etc)

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4. Financial Instruments: ETF's

ETFs are Exchange Traded Funds can be based on a number of different underlying assets or market sectors. There are ETFs for different commodities, such as Gold, Natural Gas, etc. ETFs can also be based on an Index, such as the S&P 500.

Since ETFs are exchange traded, they can be bought or sold anytime during the day. This makes them very liquid investments, even more so than mutual funds, which can only be traded once per day.

Unlike Index funds, ETF's can be leveraged, and some can be very volatile. Although there are opportunities to day trade them, they are often difficult to trade due to their relationship with global events, politics, and overall market conditions. **ETF's are not a preferred investment vehicle for my strategy.**



5. Financial Instruments: Options

We can purchase option contracts on Stocks and ETF's. These options are a contract that give us the right to buy the underlying asset at a fixed price anytime up until a fixed expiration date. We pay a premium for the option to purchase stock, which is a fraction of the cost to actually buy the asset.

If the asset goes up, we can either execute the contract and purchase the shares, or we can sell the option contract on the open market since it will have increased in value.

We will discuss Options Trading during the Warrior Pro classes.



6. Financial Instruments: Commodities / Futures

Trading Commodities has been gaining in popularity as volatility in commodity futures has increased. Commodities are traded in Futures Contracts. Historically these future contracts helped investors and producers lock in prices, but more recently, active traders have been able to become speculators of price and capitalize on volatility.

Popular Commodities:

Corn, Soybeans, Wheat, Natural Gas, Crude Oil, Gold, Silver, Steel

Commodities trading is very different from stock trading, as a result, I DO NOT trade commodities/futures contracts as part of my strategy, although I may occasionally trade commodities ETF's such as Gold, but that is buying stock not futures contracts.



7. Financial Instruments: Currencies / Crypto

Forex Trading has always been a popular market. It has incredible amounts of liquidity but relatively lower levels of volatility.

In recent years Crypto Trading has gained popularity. Crypto currencies like Bitcoin, Ripple, Ethereum, and Litecoin, are among the most popular.

These trade on several different exchanges, and at several different prices on each exchange simultaneously. Each crypto currency trades against another currency pair, like the USD or EURO.

I DO NOT trade currencies as part of my strategy.



Choosing the Best Financial Instruments for Day Trading...

There is no single investment vehicle that is the best, and it's important for you to know that everything you learn in the Warrior Starter and Warrior Pro can be used to trade different financial instruments and different exchanges.

However as a Day Trader, we can mitigate the risk of bear markets by focusing on short term opportunities.

It's a question of what is best for YOU. At the end of the Warrior Starter Course we'll give you a quiz that will help you decide which strategies taught in the Warrior Pro course may be best suited for your goals.

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PART 2: LONG VS SHORT SELLING

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Today's Lesson

1. Buying vs Short selling
2. Restrictions and limitations of short selling

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Buying (Long Biased)

When you buy 1000 shares, you are a long biased trader, you will make money when the stock goes up. When you go long, you can only lose the amount of money you put into the trade.

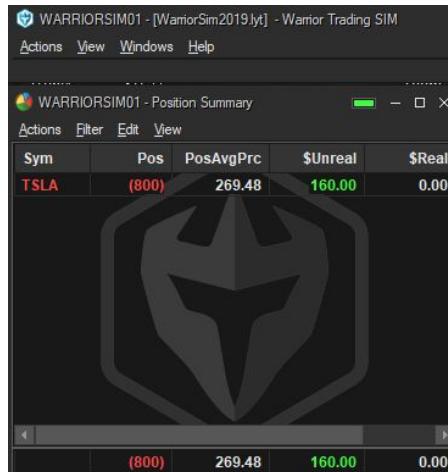
This is the type of trading & investing I'm doing 95% of the time. I buy stocks with the expectation that they will go up and I will profit.

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Short Selling

Short Side Trading: Traders who are "Short" a stock, are selling shares and creating a negative share balance. This means if they short 200 shares they will be holding -200 shares as a negative balance.

Helpful Tip: Don't worry if you've never seen a positions window like this one, I'll teach you what this all means during this course!



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Short Selling

Borrowing: You must borrow shares from your broker in order to short. If your broker doesn't have shares available to borrow, you can't short the stock. IPO's are rarely shortable since brokers won't have shares available yet to borrow. Stocks under \$10 are often difficult to borrow.

Covering: To close a short position a trader must "Cover" their position. This is buying the stock to cover the shares they borrowed from their broker. Like a long sided trader, they can scale out of the short position in small increments.

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Short Selling

Days to Cover: Brokers will give traders who borrow shares a certain number of days to cover. This could be 7 days, 14 days, etc. By the end of this period if the trader has not covered their position, the broker can do it manually and will charge the trader a liquidation fee.



Short Selling

Short Squeeze: This is when a stock suddenly starts moving up, and traders who are holding short positions start buying to cover their position, or their broker covers their position for them because they've hit a max loss on their account. This creates an extreme buy/sell imbalance and can lead stocks to making 50-100% moves intraday.



Short Selling

Short Sale Restriction: Short Sale Restriction (SSR) occurs when a stock drops 10% vs the previous day's close. Once a stock has SSR traders cannot take short positions except when the stock is moving up. Positions can only be taken on "upticks".

That means traders can only short at the Ask Price, and have to wait for a buyer to buy the shares they are trying to sell short.

During SSR a trader cannot short with a marketable order at the bid price.

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The Long Biased Market

Historically the Market has been consistently strong, despite some years of bearish markets. As a result, the market has a strong bullish sentiment. When the market dips, people buy the dips, creating strong support.

Many traders who have a short bias, are trying to short the world's strongest bull market. This can result in massive losses if they aren't professionally trained to manage risk.

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The Biggest Risk of Short Selling

A short position that goes against you, can in theory, create an **unlimited loss**. This has caused many traders to blow up their accounts and fall into debt to their broker.

NOTE that most Trading Simulators will let you short everything, when in reality you need to make sure you have shares available to borrow.

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2 Sides to Every Trade



Helpful Tip: Don't worry if you've never seen a chart like this one, I'll teach you what this all means during this course!

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PART 3: WHAT MAKES A **STRONG** STOCK?

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Today's Lesson

1. Volatility creates opportunity for traders
2. FEAR in the market
3. GREED in the market
4. Supply & Demand
5. Retail vs Institutional Traders
6. Former Runner Status and Herd Mentality

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1. We are Hunters of Volatility

As Traders, we're hunters of volatility. Active Traders profit from markets that are moving, whether it's commodities, options, penny stocks, crypto's, or regular stocks.

Emotions create movement in the market, in other words **Fear & Greed** drive all markets.

Financial instruments that often are the most volatile are the ones experiencing the most extreme imbalance between supply and demand.



2. We see FEAR as an Opportunity

Fear in the market takes many forms.

We see the **Fear of Missing Out**, when traders see others making a lot of money, the fear of missing out can encourage irrational trading.

Fear of loss can make traders panic and bail out of positions, creating whips in the market.



3. We Capitalize on GREED

Greed in the market starts to kick in when you're seeing lots of stocks making big moves and you're trying to make as much as possible in a limited period of time.

This means the next stock that starts to show strength, you jump on faster and sooner. Multiply that by a million traders, and the market can be irrationally strong, or can even form a bubble!

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We wouldn't want to trade something like this



Helpful Tip: This is a stock chart of a stock that is basically not changing in price.

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This is where the emotions start to come out!



Helpful Tip: This is a stock chart of a stock increasing by over 50% in just 30min

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Home Runs vs Base Hits

As a trader with a small account, contrary to what some might tell you, the fastest way to grow your account is by hitting lots of base hits.

If you swing for home runs you'll risk blowing up your account.

Taking base hits on stocks with home run potential is the safest way to grow your account. Once your account is larger, you will likely feel comfortable taking more risk and trying to hit a home run every now and then.

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4. An Imbalance Between Supply and Demand

A home run is when an investment vehicle moves 20-30% or more, in 1 day.

What creates big moves like this? An incredible amount of demand, combined with a limited amount of supply.

In other words, an imbalance between Supply and Demand.



Supply Side: Float

It's important to remember that we're trading in a closed market. This means when we buy shares, we're always buying from a seller, and when we sell shares, we're always selling to a buyer.

When a company has its Initial Public Offering, they release a fixed number of shares onto the open market. This becomes the company's "Float". The Float is simply the number of shares available to trade.



Demand Side: News & Technical Breakouts

Demand is typically the result of breaking news. In Chapter 4 we'll discuss the different types of breaking news that can create strong demand.

Demand can also be due to a technical breakout. In Chapter 5 we'll be talking about what it means for a stock to experience a technical breakout



Finding Strong Setups

As we get into the advanced classes we'll describe in detail the exact requirements for finding strong setups. These will vary depending on the strategy you trade, but the common characteristic is an imbalance between Supply and Demand fueled by the emotions of traders.



5. Retail Traders vs Institutional Traders

Institutional traders are licensed by the SEC and work for banks, hedge funds, pension funds, etc. Institutional traders will take positions based on orders from managers. Their mission is to accumulate positions at the best price possible. They create buying support as they accumulate positions when stocks pullback.

These types of traders also utilize High Frequency Trading programs and in some cases may try to capitalize on irrational intraday price action to accumulate at highs/lows.



6. Former Runner Status & Herd Mentality

A stock, currency, or commodity that has a history of making really big moves, is always worth keeping on close watch.

There is a certain amount of Herd Mentality in the market. Meaning traders congregate around certain financial instruments, especially when they are known to provide great trade opportunities.

I generally find it's better to trade with the pack. The technical patterns we discuss in Chapter 5 respond better when the trading volume is above average.





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PART 4: STOCK HALTS

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The Most Common Stock Halts

Code: T1 – News Pending

Code: T12 – SEC has suspended trading in this stock (typically due to an investigation)

Code: LUDP aka LULD aka Circuit Breaker Halt aka Volatility Pause/Halt – (Limit Up/Limit Down Pause) Volatility Trading Pause.

Stocks under \$3.00 have different circuit breaker rules, and S&P 500 stocks and Indices also have different rules.

Circuit breaker thresholds are doubled between 9:30-9:45 because that is when peak volatility exists.

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Circuit Breaker / Volatility Halts

Securities	Time Period	Price Band Percentage
Tier 1 and Tier 2 NMS Securities Reference Price > \$3.00	Market Hours, excluding Open/Close (9:45 AM -to 3:35 PM)	5% (Tier 1) & 10% (Tier 2)
Tier 1 and Tier 2 NMS Securities Reference Price equal to \$0.75 to and including \$3.00	Market Hours, excluding Open/Close (9:45 AM -to 3:35 PM)	20%
Tier 1 & 2 NMS Securities Reference Price Less than \$0.75	Market Hours, excluding Open/Close (9:45 AM -to 3:35 PM)	The lesser of \$0.15 or 75%
Tier 1 and Tier 2 NMS Securities Reference Price > \$3.00	During Market Open/Close 9:30 a.m. and 9:45 a.m. ET 3:35 p.m. and 4:00 p.m. ET	10% & 20% Note: Band % is doubled during these times.
Tier 1 and Tier 2 NMS Securities Reference Price equal to \$0.75 to and including \$3.00	During Market Open/Close 9:30 a.m. and 9:45 a.m. ET 3:35 p.m. and 4:00 p.m. ET	40% Note: Band % is doubled during these times.
Tier 1 and Tier 2 NMS Securities Reference Price less than \$0.75	During Market Open/Close 9:30 a.m. and 9:45 a.m. ET 3:35 p.m. and 4:00 p.m. ET	Lesser of \$0.30 or 150% (upper band only) Note: Band % is doubled during these times



Circuit Breaker / Volatility Halts

These are our favorite types of halts as day traders.

A large number of circuit breaker halts in 1 day can be a good measure of how "hot" the market is. Similarly, a large number of stocks making 50-100% moves is an indicator of a "hot" market. Typically those stocks will get halted multiple times.



How do I know a stock is halted?

I have a scanner (running for Warrior Pro students) that searches for stocks currently sending out a halt code. The moment a stock is halted, the halt code will be received by my scanners.

Most of the time when a stock is halted (if I'm already trading it) I can see it's about to get halted due to the LULD Halt Level displayed on my Market Depth. We'll cover this in more detail later in this course.

Sonoma Pharmaceuticals, Inc.							
H SNOA		L 100%					
CHG % +139.74%				VOL 4,050.7			
NSDQ	12.97	12	NSDQ	13.80	1	12.97	1
ARCA	12.86	1	ARCA	13.85	2	12.97	1
UBSS	10.53	5	UBSS	14.50	1	12.97	1
BOSX	0.00	1	BOSX	9999.00	1	12.97	1
IEXG	0.00	1	IEXG	9999.00	1	12.97	1
PHLX	0.00	1	PHLX	9999.00	1	12.97	8
ADAM	0.00	1	ADAM	9999.00	1	12.97	1
AMEX	0.00	1	AMEX	9999.00	1	12.97	1
CDRG	0.00	1	CDRG	9999.00	1	12.97	1
CHEX	0.00	1	CHEX	9999.00	1	12.97	3
COWN	0.00	1	COWN	9999.00	1	12.97	1
CSTI	0.00	1	CSTI	9999.00	1	12.97	1

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When will a halt resume?

Circuit Breaker Halts resume in increments of 5min 99% of the time.

Example.

Halt time 9:44:04

1st possible resumption no sooner than 9:49:04

2nd possible resumption if a 10min halt 9:54:04

3rd possible resumption if a 15min halt 9:59:04

ShiftPrix, Inc.							
H PIXY		L 25%					
CHG % +88.26%				VOL 5,303.1			
ARCA	11.88	2	ARCA	12.29	1	R 12.03	4
NSDQ	9.80	20	NSDQ	12.50	2	R 12.03	2
UBSS	9.62	6	UBSS	13.78	1	R 12.03	3
BOSX	0.00	1	BOSX	999.00	1	Q 12.03	1
IEXG	0.00	1	IEXG	999.00	1	R 12.03	2
PHLX	0.00	1	PHLX	999.00	1	R 12.03	1
AMEX	0.00	1	AMEX	999.00	1	R 12.03	1
CANT	0.00	1	CANT	999.00	1	R 12.03	2
CDRG	0.00	1	CDRG	999.00	1	R 12.03	1
CHEX	0.00	1	CHEX	999.00	1	R 12.03	1
CSTI	0.00	1	CSTI	999.00	1	R 12.03	1
CTDI	0.00	1	CTDI	999.00	1	R 12.03	1

Time & Sales							
H PIXY		12.03					
Price	Size	▼ Time					
12.03	400	09:42:01					
12.03	200	09:42:01					
12.03	352	09:42:01					
12.03	164	09:42:01					
12.03	100	09:42:01					
12.03	295	09:42:00					
12.03	105	09:42:00					
12.03	100	09:42:00					
12.03	200	09:42:00					
12.03	195	09:42:00					
12.03	100	09:41:57					
12.03	100	09:41:57					
12.03	184	09:41:56					
12.03	100	09:41:56					
12.03	100	09:41:56					

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Typically, stocks that halt going up, open higher



Helpful Tip: This is a stock that squeezed over 400%, with a screen shot of my scanner and profit overlayed.

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Typically, stocks that halt going down, open lower



Helpful Tip: This is a stock that squeezed over 300%, with multiple halts showing the gaps upward on resumption

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An Example

Check out an examples here.

You will notice a distinctive pattern in the Level 2 window just before the stock is about to be halted.



We will discuss strategies around trading halted stocks extensively in the Warrior Pro classes.

We will discuss circuit breaker halts extensively as part of the Small Cap Day Trading Course because we see them so often. There is a specific strategy around when to trade them and when to avoid them that we'll be outlining.

For right now, before you finish the Warrior Starter Course, I want you to be at least aware of their existence as you will see them during your simulated trading.





CHAPTER 2. PICKING STOCKS FOR DAY TRADING

PART 5: EXAMPLES OF STOCKS I'VE TRADED

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Example of a Strong Stock



Helpful Tip: We'll get into the details of breaking down charts and what they mean in this class!

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Example of a Strong Stock



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Example of a Strong Stock



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Example of a Strong Stock



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Blank slide for additional note-taking

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