ANDREW AZIZ, Ph.D.

HOW TO DAY TRADE FOR A LIVING

A BEGINNER'S GUIDE TO TRADING TOOLS AND TACTICS, MONEY MANAGEMENT, DISCIPLINE AND TRADING PSYCHOLOGY

3rd EDITION

How to Day Trade for a Living

A Beginner's Guide to Trading Tools and Tactics, Money Management, Discipline and Trading Psychology

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Chapter 1:
Introduction

In this book, I explain the fundamentals of day trading and how day trading is different from other styles of trading and investing. In the process, I also describe important trading strategies that many traders use each day. This book is deliberately short so readers will actually finish reading it and not get bored halfway through and put it to one side. We are all distracted by Internet diversions, emails, *Facebook* or *Instagram* notifications or the dozens of other apps that we have on our smartphones or tablets. Therefore, this book is concise and it is practical.

If you are a beginner trader, this book will equip you with an understanding of where to start, how to start, what to expect from day trading, and how you can develop your own strategy. Simply reading this book will not make you a profitable trader. Profits in trading do not come from reading one or two books, but, as I will explain later, profits can come with practice, the right tools and software, and proper ongoing education.

Intermediate traders may benefit from this book's overview of some of the classic strategies that the majority of retail traders use effectively. If you don't consider yourself a novice trader, then you may wish to jump ahead and start reading at Chapter 7 for an overview of the most important day trading strategies. However, I encourage you to skim through the earlier chapters as well.

In my opinion, the most important lesson that you can learn from reading this book is that you will not get rich quickly by day trading. Day trading is not similar to gambling or playing the lottery. This is the most important misconception that people have about day trading and I hope you will come to the same conclusion after reading this book. In fact, statistically speaking, 90% of people who start day trading fail and lose their money. It is easy to be one of those nine out of ten people. It is very easy.

This brings you to my first rule of day trading:

Rule 1: Day trading is not a strategy to get rich quickly.

A very common misconception that people have about day trading is that it is easy - you buy stocks, and when they go higher, you sell them for a good profit. "It's that easy."

Well, if it were that easy, then everyone would be a successful trader. You must remember that day trading is difficult and will not make you rich quickly. If you have this misconception, and if you want to get rich quickly and easily in the stock market, you should stop reading this book right now and spend the savings that you put aside for day trading on a nice family vacation. It would be much more satisfying to spend your money that way, rather than losing it in the stock market.

In day trading, you will be competing with the sharpest minds in the world. The market is a massive crowd of traders, with each trader trying to take money from the others by outsmarting them. The main objective of day trading is to take money from other traders while they are trying to take yours. That's why it's such an intellectually intense business. You do not generate money in the stock market. The only reason there is money in the market is that other traders have put it there. The money you desire to win belongs to other traders and they have no intention of giving it to you. That is why trading is such a hard business.

This leads to my second rule of day trading:

Rule 2: Day trading is not easy. It is a serious business, and you should treat it as such.

You can succeed in day trading only if you handle it as a serious intellectual pursuit. Emotional trading is the number one reason traders fail. You will need to practice self-discipline and defensive money management. Good traders watch their capital as carefully as professional scuba divers watch their supply of air.

In day trading, simply being better than average is not good enough. You have to be significantly above the crowd to win in day trading. Unfortunately, day trading often appeals to impulsive people, gamblers, and those who feel that the world owes them a living. You cannot be one of them and you should not act like they do. You must start developing the discipline of a winner.Winners think, feel, and act di f f erently than losers. You must look within yourself, discard your illusions, and change your old ways of being, thinking and acting. Change is hard, but if you wish to be a successful trader, you need to work on changing and developing your personality. To succeed, you will need motivation, knowledge, and discipline.

So, then, what is day trading? In reality, day trading is a profession, very much like medicine, law and engineering. Day trading requires the right tools and software, education, patience and practice. You will have to dedicate countless hours reading about trading styles, observing how experienced traders are trading, and practicing in simulator accounts to learn how to trade with real money. An average successful day trader can make between $500 and $1,000 every day. That's equal to $10,000 to $20,000 a month (based on about twenty trading days in a month) which equals $120,000 to $240,000 a year. So why would anyone expect a job that pays this well to be easy? Doctors, lawyers, engineers and many other professionals go through years of school, practice, hard work and examinations to earn a similar income. So why should day trading be any different?

So if it isn't easy and doesn't get people rich quickly, why would you want to day trade?

What makes day trading attractive is the lifestyle. You can work from home, work only for a few hours each day and take days off whenever you wish to. You can spend as much time as you want with your family and friends without requesting vacation time from a boss or manager. You are the boss. Since day trading is a form of self-employment, you are the CEO and you make the executive decisions for your business.

The lifestyle is extremely attractive. And, of course, if you master the profession of day trading, you can potentially make thousands of dollars every day, far more than in most other professions. I personally know some traders who average over $2,000 every day. Some days are lower and some days are higher, but over the long term, they have a profit of over $2,000 every day. No matter where you live and how you live, $2,000 a day is a substantial amount of money and can contribute to a very satisfying lifestyle.

If you want to own your own business, day trading is a simple place to start. Take a moment and compare day trading with opening a pizza shop or a restaurant. If you want to open a restaurant, you'll have to spend large amounts of money on rent, equipment, staff hiring and training, insurance and licenses - and you still won't be guaranteed to earn money from your restaurant. Many businesses are like that. Day trading, on the other hand, is very easy to set up and start. You can open a trading account today, at no cost, and then start trading tomorrow. Of course you should not do that until you educate yourself, but the logistics of commencing day trading are extremely easy compared to many other businesses and professions.

Day trading is also an easy business to manage the cash flow of. You can buy a stock, and, if things go badly, you can immediately sell it for a loss. Compare that to people who have import-export businesses and are importing goods from other countries. There are plenty of things that can go wrong when purchasing shipments of goods to sell in your own country - problems with vendors, shipping, customs, distribution, marketing, quality and customer satisfaction - plus, your money is locked in for the entire process. Unless everything goes well, you can't do anything about it. At times you cannot even accept a small loss and easily step away from your business. With day trading, if things go wrong, you can come out of the trade in a few seconds with an action as quick and simple as a click (and, of course, a small loss). It is easy to start over in day trading and that is a highly desirable aspect of any business.

Closing a day trading business is also easy. If you think day trading is not for you, or if you don't make money from it, you can immediately stop trading, close your accounts and withdraw your money. Aside from the time and money that you have already spent, there are no other costs or penalties. Closing other professional offices or businesses are not nearly as straightforward. You cannot as easily close your store, office or restaurant, or lay off your staff or walk away from your lease or equipment.

Why then do most people fail in day trading?

I will explain specific reasons behind this important question later in this book but, overall, in my opinion, the most common reason that people fail in day trading is that they do not regard it as a serious business. They instead treat it as a form of gambling that will quickly and easily make them rich.

Some people start to day trade as a hobby or for fun because they believe it is "cool". They trade for the thrill of short term gambling in the markets. They play around a little bit in the market but never commit themselves to acquiring a proper education or an in-depth awareness of day trading. They may get lucky a few times and make some money, but eventually the market will punish them.

This is actually my own story. At the beginning of my trading career, a company called Aquinox Pharmaceuticals Inc. (ticker: AQXP) announced some positive results for one of its drugs, and its stock jumped from $1 to over $55 in just two days. I was a beginner at the time. I purchased 1,000 shares at $4 and sold them at over $10.

What looked like a very good thing however, turned out to be very bad. I had made over $6,000 in a matter of minutes on my first beginner trade, leaving me with the impression that making money in the market was easy. It took me time and several severe losses to get rid of that very mistaken notion.

It was pure luck. I honestly had no idea what I was doing. In just a few weeks, I lost that entire $6,000 by making mistakes in other trades. I was lucky because my first stupid trade was my lucky one. For many people, their first mistake is their last trade because they blow up their account and have to desperately close, leave and say good-bye to day trading.

New day traders should never lose sight of the fact that they are competing with professional traders on Wall Street and other experienced traders around the world who are very serious, highly equipped with advanced education and tools, and most importantly, committed to making money.

Never forget Rule 2: day trading is a business, and it’s an intensely serious one. You have to wake up early in the morning, do your preparations every day on the stocks that you plan to trade, and be thoroughly prepared before the market opens. Imagine for a moment that you have opened a restaurant. Can you afford not to be ready for your customers when you open your doors? You can’t close the restaurant at lunch time because you aren’t feeling well or you’re not in the mood or you didn’t have time to order enough groceries for the kitchen staff to prepare meals with. You must always be ready. The day trading business is no different.

Day trading requires proper tools, software and education. As with any business, you must have the right tools to succeed. So what are the basic tools you need for your day trading business?

1. Enough capital (money) to trade with (at least $5,000 if outside of the USA and $25,000 if a resident of the United States).

2. High speed Internet service.

3. The best available broker.

4. A fast order execution platform that supports hotkeys.

5. A scanner for finding the right stocks to trade.

6. A community of traders.

Some of these tools must be paid for every month. Just as other businesses have monthly bills for electricity, software, licenses and leases, you have to be able to pay your Internet provider’s monthly bills, your broker’s commissions, scanner costs and trading platform fees. If you are part of a paid chatroom or community, you can add the cost of that membership to this list too.

Chapter 2:
How Day Trading Works

In this chapter I will review many of the basics of day trading and hopefully answer your questions about what day trading is and how it works. The chapter will also introduce some of the main tools and strategies that you'll come across later in the book. As with any art form, tools are of no value unless you know how to use them. This book will be your guide in learning how to use these tools.

Day Trading vs. Swing Trading

A compelling question to begin with is: What do you look for as a day trader?

The answer is simple. First, you're looking for stocks that are moving in a relatively predictable manner. Secondly, you are going to trade them in one day. You will not keep any position overnight. If you buy stock in Apple Inc. (ticker: AAPL) today, for instance, you will not hold your positon overnight and sell it tomorrow. If you hold onto any stock overnight, it is no longer day trading, it's called swing trading.

Swing trading is a form of trading in which you hold stocks over a period of time, generally from one day to a few weeks. It is a completely different style of trading, and you shouldn't use the strategies and tools that you use for day trading to do swing trading. Do you remember Rule 2, where I mentioned that day trading is a business? Swing trading is also a business, but a completely different kind of business. The differences between swing trading and day trading are similar to the differences in owning a restaurant and a food delivery company. They both involve food, but they are very different: they operate with different time frames, regulations, market segments and revenue models. You should not confuse day trading with other styles of trading just because the trading involves stocks. Day traders always close their positions before the market closes.

Many traders, including myself, do both day trading and swing trading. We are aware that we are running two different businesses, and we have gone through separate educational programs for the two kinds of trading. One of the key differences between day trading and swing trading is the approach to stock picking. I do not swing trade and day trade the same stocks. Swing traders usually look for stocks in solid companies that they know won't lose their entire value overnight. For day trading, however, you can trade anything, including companies that will soon go bankrupt, because you don't care what happens after the market closes. In fact, many of the companies that you day trade are too risky to hold overnight because they might lose much of their value in that short of a period of time.

You have now reached Rule 3 of day trading:

Rule 3: Day traders do not hold positions overnight. If necessary, you must sell with a loss to make sure you do not hold onto any stock overnight.

Buying Long, Selling Short

Day traders buy stocks in the hope that their price will go higher. This is called *buying long*, or simply *long*. When you hear me or a fellow trader saying, “I am long 100 shares AAPL,” it means that we have bought 100 shares of Apple Inc. and would like to sell them higher for a profit. Going long is good when the market is going higher.

But what if prices are dropping? In that case, you can sell short and still make a profit. Day traders can borrow shares from their broker and sell them, hoping that the price will go lower and that they can then buy those shares back at a lower price and make a profit. This is called *short selling*, or simply *short*. When people say, “I am short Apple,” it means they have sold short stocks of Apple and they hope that prices will drop. When the price is going lower, you owe 100 shares to your broker (it probably shows as -100 shares in your account), which means you must return 100 shares of Apple to your broker. Your broker doesn’t want your money; they want their shares back. So, if the price has gone lower, you can buy them cheaper than you bought them earlier and make a profit. Imagine that you borrow 100 shares of Apple from your broker and sell them at $100 per share. Apple’s price then drops to $90, so you buy back those 100 shares at $90 and return them to your broker. You have made $10/share or $1,000. What if the price of Apple goes up to $110? In that case, you still have to buy 100 shares to return to your broker because you owe them shares and not money. Therefore, you have to buy 100 shares at $110 in order to return 100 shares to your broker. In that case, you will have lost $1,000.

Short sellers profit when the price of the stock they borrowed and sold drops. Short selling is important because stock prices usually drop much more quickly than they go up. *Fear is a more powerful feeling than greed*. Therefore, short sellers, if they trade right, can make astonishing profits while other traders panic and start to sell off.

However, like anything in the market that has great potential, short selling has its risks too. When buying stocks of a company for $5, the worst case scenario is that the company goes bankrupt and you lose your $5. There is a limit to your loss. But if you short sell that company at $5 and then the price, instead of going down, starts going higher and higher, then there won’t be any limit to your loss. The price may go to $10, $20, or $100, and still there will be no limit to your loss. Your broker wants those shares back. Not only can you lose all of the money in your account, but your broker can also sue you for more money if you do not have sufficient funds to cover your shorts.

Short selling is a legal activity for several good reasons. First, it provides the markets with more information. Short sellers often complete extensive and legitimate due diligence to discover facts and flaws that support their suspicion that the target company is overvalued. If there were no short sellers, the price of stocks could unreasonably increase higher and higher. Short sellers are balancing the market and adjusting prices to their reasonable value. Their actions are conducive to the health of the market.

If the price is going to go lower, you may correctly ask, why does your broker allow you to short sell instead of selling stock themselves before the price drops? The answer is that the broker would like to hold their position for the long term. Short selling provides investors who own the stock (with long positions) with the ability to generate extra income by lending their shares to the shorts. Long term investors who make their shares available for short selling are not afraid of short term ups and downs. They have invested in the company for a good reason and they have no interest in selling their shares in a short period of time. They therefore prefer to lend their shares to traders who wish to make a profit from short term fluctuations of the market. In exchange for lending their shares, they will charge interest. Therefore, by short selling, you will need to pay some interest to your broker as the cost of borrowing those shares. If you short sell only during the same day, you usually will not need to pay any interest. Swing traders who sell short, usually have to pay daily interest on their short stocks.

Short selling is generally a dangerous practice in day trading. Some traders are long-biased. They only buy stocks in the hope of selling them higher. I don’t have any bias. I will short sell when I think the setup is ready, and I will buy whenever it fits my strategy. Having said that, I am more careful when I short stocks. Some strategies that I explain in Chapter 7 work only for long positions (Bull Flag and Bottom Reversal). Some strategies work only for short selling (Top Reversal) and others will work in both long and short positions depending on the setup. I explain these positions in detail in Chapter 7.

Retail vs. Institutional Traders

Individual traders, like you and I, are called *retail traders*. We can be part-time traders, or full-time traders, but we're not working for a firm and we’re not managing other people's money. We retail traders are a small percentage of the volume in the market. On the other hand, there are Wall Street investment banks, mutual funds and hedge funds, the so-called *institutional traders*, and most of their trading is based on sophisticated computer algorithms and high frequency trading. Rarely is any human involved in the day trading operations of these large accounts. Through whatever means, institutional traders have considerable money behind them and they can be very aggressive.

You may correctly ask, “*How can an individual trader, like you and me, coming later to the game, compete against institutional traders and win?*”

The Achilles’ heel of most institutional traders is that they must trade, while individual traders are free to trade or to stay out of the market as they deem best. Banks must be active in the market and trade large volumes of shares at almost any price. An individual trader is free to wait for the best opportunities to arise.

Unfortunately, however, the majority of retail traders fritter away this fantastic advantage by over-trading. An individual who wants to succeed against the giants must develop patience and eliminate greed. The ultimate problem of losers is not their account size but their lack of self-discipline, over-trading, and their bad money management.

I always use the analogy of retail day trading and guerrilla warfare. Guerrilla warfare is an irregular approach to warfare in which a small group of combatants, such as paramilitary personnel or armed civilians, use hit-and-run military tactics, such as ambushes, sabotage, raids and petty warfare, to maneuver around a larger and less-mobile traditional military force. The United States military is considered to be one of the most formidable fighting forces in the world. However, they suffered significantly as a result of jungle warfare tactics used against them in North Vietnam. Earlier examples include the European resistance movements which fought against Nazi Germany during World War Two.

In guerrilla trading, as the term suggests, you are in hiding, waiting for an opportunity to move in and out of the financial jungle in a short period of time to generate quick profits while keeping your risk to a minimum. You don’t want to defeat or outsmart investment banks. You are simply waiting for an opportunity to reach your daily profit target.

As a retail day trader, you profit from volatility in the market. If the markets are flat, you are not going to make any money; only high frequency traders make money under these circumstances. Therefore, you need to find stocks that will make quick moves to the upside or to the downside in a relatively predictable manner. Institutional traders, on the other hand, are trading with very high frequency and will profit from very small movements of price, or as it is sometimes called, from a “choppy price action”.

It is extremely important to stay away from stocks that are being heavily traded by institutional traders. As an individual retail day trader, you must stick to retail trading territory. You will not trade stocks that other retail traders are not trading or not seeing. The strength of retail day trading strategies is that other retail traders are also using them. The more traders using these strategies, the better they will work. As more people recognize the line in the sand, more people will be buying at that point. This, of course, means the stock will move up faster. The more buyers, the quicker it will move. This is why many traders are happy to share their day trading strategies. It not only helps other traders to become more profitable, but it also increases the number of traders who are using these strategies. There is no benefit in hiding these methods or keeping them secret.

As part of the algorithmic trading by computer systems, the majority of the stocks will trend with the overall market unless they have a reason not to. So, if the market is moving up, the majority of stocks will be moving up. If the overall market is going down, the prices of the majority of stocks will also go down. But, remember, there will be a handful of stocks that will buck the trend of the market because they have a catalyst. I call these stocks *Alpha Predators*. I will explain them in Chapter 4 and describe how to find them. This is what retail traders are looking for - that small handful of stocks that are going to be running when the markets are tanking, or tanking when the markets are running.

If the market is running, and these stocks are running too, that's fine. You just want to make sure you are trading stocks that are moving because they have a fundamental reason to move and are not just moving with the overall market conditions.

You may ask, what is the fundamental catalyst for stocks that make them suitable for day trading? Here are some examples:

- Earnings reports
- Earnings warnings/pre-announcements
- Earnings surprises
- FDA approval/disapproval
- Mergers/acquisitions
- Alliances/partnerships/major product releases
- Major contract wins/losses
- Restructuring/layoffs/management changes
- Stock splits/buybacks/debt offerings

When I do reversal trades (Chapter 7), my favorite reversal trades are on stocks that are selling off because there has been some bad news regarding that company. If there is a quick sell off because of bad news, many people will notice and start monitoring the stock for what is called a bottom reversal. If stocks are trending down with the overall market, such as oil was some time ago, you cannot do a good reversal trade. Their value pops up by 10 cents, and you think it’s a reversal, but then they are sold off for another 50 cents. They’re selling off because they’re trending with both the overall market and their sector. Oil was a weak sector for a while and the majority of the oil and energy stocks were selling off. When a sector is weak, that is not a good time for making a reversal trade. That’s where have to differentiate.

So here’s the fourth rule of day trading:

Rule 4: Always ask, “*Is this stock moving because the overall market is moving, or is it moving because it has a unique catalyst*?”

That’s when you have to do a little bit of research. As you become more experienced as a trader, you will be able to differentiate between catalyst-based price action and general market trending.

As discussed, as a retail trader, you must be careful that you are not on the wrong side of the trade against institutional traders. But how do you stay out of their way? Instead of trying to find institutional traders, you find out where the retail traders are hanging out on that day and then you trade with them. Think about a schoolyard for a moment. You don’t want to be off in the sandbox doing your own thing, trading a stock that no one is paying attention to. You’re in the wrong place. Focus where everyone else is focused: focus on the stock that is moving every single day and receiving literally a ton of action. That is what day traders will be looking at. Can you day trade stock like Apple or Priceline or Coca-Cola or IBM? Of course you can, but these are slow moving stocks that are dominated by institutional traders and algorithmic traders, and in general terms they are going to be very hard to day trade. Think of it as the equivalent of hanging out in that isolated sandbox instead of hanging out with your peers in the playground where the cool cats are.

How do you determine what retail traders are focused on and your place in that playground?

There are a couple of ways to find your best place. One is by watching day trading stock scanners. I explain later in Chapters 4 and 7 about how I set up my scanner. The stocks that are gapping significantly up or down are going to be the stocks that retail traders are watching. Secondly, it's good to be in touch with social media and a community of traders. *StockTwits* and *Twitter* are usually good places to learn what is trending. If you follow a handful of traders, then you'll be able to see for yourself what everyone is talking about. There is a huge advantage to being in a community of traders, such as a chat room, and there are many chatrooms on the Internet.

As the reader of this book, you are welcome to join our private Vancouver Traders chatroom (www.Vancouver-Traders.com). We have hundreds of traders and we are talking about what is hot today. If you’re trading completely on your own, you're off in the corner of that proverbial playground. You're not in touch with what other traders are doing, and inevitably you will make it really hard on yourself because you will not know where the activity is. I have tried blocking out social media and trading in a bubble, basically doing my own thing, and it did not work. Draw on the laws of high school survival to guide you!

A little more about what I do: As a day trader, I don’t trade based on the company’s fundamentals such as product, earnings, earnings-per-share growth and financial statements. I'm not a value investor and I'm not a long term investor. I don't trade Futures either, but I do use Futures to gain an understanding of the overall market direction in the near-term future. I am also a swing trader. In swing trading, I personally do care very much about the fundamentals of the companies I choose to trade: their earnings, dividends, earnings-per-share, and many other criteria. But swing trading is not the focus of this book, so I won't pursue that topic for now.

I'm also a FOREX (foreign exchange market) trader and sometimes I trade commodities and currencies. But in the mornings, I am mostly an equities day trader and I focus on the real stocks. The majority of day traders don't trade penny stocks or on the over-the-counter (OTC) market. Penny stocks are extremely manipulated and they do not follow any of the rules of the standard strategies. We at www.Vancouver-Traders.com trade real stocks. Sometimes we may be trading Facebook (ticker: FB) and sometimes we may be trading Apple (AAPL), but we will always be trading the stocks that are having a big day. You may be surprised, but on almost every single day in the market, there's a stock having a big day because the company has released earnings, had a newsbreak, or had something bad or good happen to it. These are the fundamental catalysts that you must look for.

What does my day look like as a day trader? You will read about it in detail in Chapter 8, but a day in my life typically starts at around 6 a.m. (9 a.m. New York time) with pre-market scanning. I'm scanning to see where there is volume in the market. As early as 5:30 a.m., you'll know what stocks are gapping up or gapping down. Then I start scouring through the news for catalysts that explain the gap. I start to put together a watch list. I rule some out and then I pick and choose which ones I do and don't like. By 9:15 a.m. (New York time) I am in my chat room, going over my watch list with all of our traders. By 9:30 a.m., when the bell rings, my plans are ready.

From when the market opens at 9:30 a.m. until around 11:30 a.m. New York time, is when the market will have the most trading volume and also the most volatility. This is the best time to trade and to especially focus on momentum trading (which will be explained later). The advantage of having all of that volume is that it provides liquidity. This means there are plenty of buyers and plenty of sellers, which in turn means that you can easily get in and out of trades.

Around mid-day, you can have good trading patterns but you won't have the volume. This means a lack of liquidity, which makes it harder to get in and out of stocks. This is especially important to consider if you want to take large shares. My focus has always been on trading at the market's opening, which is 9:30 a.m. in New York (Eastern time). I personally trade only within the first one or two hours of the market's opening. If you join the private chatroom that I mentioned above, you will see that I rarely make any trades after 10:30 a.m.

On a good day I have reached my goal by 7:30 a.m. Vancouver time (10:30 a.m. New York time) and I'm easing up. Often by lunchtime I've already hit my goal and I'm going to be sitting on my hands unless there is that perfect setup. From 4 p.m. until 6 p.m. I am in trading courses and we're reviewing our trades from the day.

Why is the market at low volume during the mid-day and afternoon? Imagine you made $1,000 by 10 a.m. What are you going to do? Are you going to walk away with that profit or will you keep trading until you lose that money? Hopefully you will walk away. Many people are finished for the day at some point in the morning, and then they are going to go golfing or spend the rest of the day at their leisure. But, if they have lost $1,000 by 10 a.m., those traders are going to keep fighting it out to stay in the market. They're going to keep trading, trying to make back what they lost. That means that mid-day trading is dominated by traders who have lost in the morning and are aggressively trying to regain their losses. That causes a lot of volatility, and not in a good way. That causes stocks to shoot up and down because people are going in and out with market orders. It’s this time of day that I consider to be dominated by more amateur traders and trading. Extrapolating from this, I go really easy at mid-day.

I avoid pre-market trading because there’s a very low liquidity as there are very few traders trading. That means stocks can pop up a dollar, then drop a dollar, and you can’t get in and out with large shares. You have to go really small, and you have to use such small positions that, for me at least, it's just not worth it. If you don't mind trading in only a couple of hundred shares, then you can certainly trade pre-market.

I live in Vancouver, Canada, so in my time zone the market opens at 6:30 a.m. (Pacific time). This means that my days start really early. The great advantage for me is that I can be finished trading before most of the people in my city are even out of bed. I can then spend the rest of my day skiing, climbing, with family and friends, or focusing on other work and the other businesses that I have. I try to hit my daily goal by 7:30 a.m. my time (which is 10:30 a.m. Eastern time) and then ease up. You know how easy it is to lose money. Once you have some money in your pocket, you should hold on to it.

Chapter 3: Risk and Account Management

To be a successful day trader, you need to master three essential components of trading: sound psychology, a series of logical trading strategies, and an e f f ective risk management plan. These are like the three legs of a stool - remove one and the stool will fall. It is a typical beginner's mistake to focus exclusively on indicators and trading strategies.

A good trading strategy delivers positive expectancy; it generates greater profits than losses over a period of time. All of the strategies outlined in Chapter 7 have been demonstrated, if executed properly, to show positive expectancy. But, keep in mind, even the most carefully executed strategy does not guarantee success in every trade. No strategy can assure you of never having a losing trade or even suffering a series of losing trades. This is why risk control must be an essential part of every trading strategy.

The inability to manage losses is the number one reason that new traders fail in day trading. It's a common human inclination to accept profits quickly and also to want to wait until losing trades return to even. By the time some new traders learn to manage their risk, their accounts are badly, if not irreparably, damaged.

To be a successful trader, you must learn risk management rules and then firmly implement them. You must have a line in the sand that tells you when to get out of the trade. It's going to be necessary from time to time to admit defeat and say, "I was wrong," or "The setup isn't ready yet," or "I'm getting out of the way."

I'm generally a successful trader, but I still lose frequently. That means I must have found a way to be a really good loser. Lose gracefully. Take the losses and walk away.

I can't emphasize enough how important it is to be a good loser. You have to be able to accept a loss. It's an integral part of day trading. In all of the strategies that I explain in Chapter 7, I will let you know what is my entry point, my exit target, as well as my stop loss.

You must follow the rules and plans of your strategy, and this is one of the challenges you will face when you are in a bad trade. You may very likely find yourself justifying staying in a bad trade by saying, "Well, you know, it's Apple, and they make really great smartphones. They're definitely not going out of business. I'll just hold this a little longer."

You do not want to do that. You must follow the rules of your strategy. You can always get back in, but it's hard to recover from a big loss. You may think, "I don't want to take a $50 loss." Well, you definitely don't want to take a subsequent $200 loss. And if you ended up taking an $800 loss, it would be really hard to recover from that. Take the quick losses, get out, and come back when the timing is better.

Every time you trade, you're exposing yourself to the risk of losing money. How do you minimize that risk? You need to find a good setup and manage the risk with proper share size and stop loss.

Here is my next rule:

Rule 5: Success in day trading comes from risk management - finding low-risk entries with a high potential reward. The minimum win:lose ratio for me is 2:1.

A good setup is an opportunity for you to get into a trade with as little risk as possible. That means you might be risking $100, but you have the potential to make $300. You would call that a 3 to 1 profit-to-loss ratio. On the other hand, if you get into a setup where you're risking $100 to make $10, you have a less than 1 risk-reward ratio, and that's going to be a trade that you should not take.

Good traders will not take trades with profit-to-loss ratios of less than 2 to 1. It means if you buy $1,000 worth of stock, and are risking $100 on it, you must sell it for at least $1,200 so you will make at least $200. Of course, if the price comes down to $900, you must accept the loss and exit the trade with only $900 ($100 loss).

If you cannot find a setup with a good profit-to-loss ratio, then you should move on and keep looking for another trade. As a trader, you are always looking for opportunities to get low risk entries with big win potential. Being able to identify setups that have big win potential is also part of the learning process. As a beginner trader you may not be able to differentiate between a range of setups. It may be difficult for you to recognize what is a home-run Bull Flag and what will end up being a "false breakout". That's something that comes with both experience and training. We will cover this in more depth in the coming chapters. You can learn from videos on YouTube and Google. You can also join our private chatroom (free to you) in www.Vancouver-Traders.com where I explain my trades in real time while I am trading them. You will be able to observe me and my monitor and my trading platform.

Using a 2 to 1 win:lose ratio, I can be wrong 40% of the time and still make money. Again, your job as a day trader is managing risk, it is not buying and selling stocks. Your broker is buying and selling stocks for you in the market. Your job is to manage your risk and account. Whenever you click "buy" in your trading platform, you expose your money to a risk.

How do you manage that? You essentially have three steps in managing risk. You need to ask yourself:

1. Am I trading the right stock?

Chapter 4 focuses on finding the right stocks for day trading. I will explain in detail how to find stocks that are suitable for day trading and what criteria you should look for in them. You must avoid stocks that (1) are heavily traded by computers and institutional traders, (2) have small relative trading volume, (3) are penny stocks that are highly manipulated, and (4) don't have any reason to move (no fundamental catalysts). I will explain these in more detail in Chapter 4. Do remember that risk management starts from choosing the right type of stock to trade. You can have the best platform and tools and be a master of strategies, but if you are trading the wrong stock, you will definitely lose money.

2. What share size should I take?

One share, 10 shares or 100 shares? What about 1,000 shares? This depends on your account size and your daily target. If you are targeting $1,000 a day, then 10 or 20 shares might not be enough. You either have to take more shares or increase your account size. If you don't have enough money to trade for a $1,000 daily target, you should lower your daily goal.

I am holding around $25,000 in my trading account and I usually choose 800 shares to trade. My daily goal is $500 or $120,000/year. That is sufficient for my lifestyle. What is your trading goal?

3. What is my stop loss?

The absolute maximum a trader should risk on any trade is 2% of his or her account equity. For example, if you have a $30,000 account, you should not risk more than $600 per trade, and if you have a $10,000 account, you should not risk more than $200. If your account is small, limit yourself to trading fewer shares. If you see an attractive trade, but a logical stop would have to be placed where more than 2% of your money would be at risk, then pass on that trade and look for another one. You can risk less, but you should never risk more. You must avoid risking more than 2% on a trade.

Three-Step Risk Management

Step 1: Determine your maximum dollar risk for the trade you're planning (never more than 2% of your account). Calculate this before your trading day starts.

Step 2: Estimate your maximum risk per share, the strategy stop loss, in dollars, from your entry. This comes from the strategies set out in Chapter 7, where I explain in each strategy what the stop loss should be.

Step 3: Divide "1" by "2" to find the absolute maximum number of shares you are allowed to trade each time.

For example, if you have a $40,000 account, the 2% rule will limit your risk on any trade to $800. Let's assume you want to be conservative and risk only 1% of that account, or $400. That will be Step 1.

Suppose you look at the stock of BlackBerry (ticker: BBRY) for ABCD Pattern Strategy (Chapter 7). You buy the stock at $16 and want to sell it at $19, with a stop loss at $14.50. You'll be risking $1.50 per share. That will be the Step 2 of risk control.

For Step 3, calculate your share size by dividing "Step 1" by "Step 2" to find the maximum size you may trade. In this example, you will be allowed to buy only 266 shares (or rounded to 250 shares).

With the strategies introduced in Chapter 7, I explain where my stop loss would be based on technical analysis and my trade plan. I cannot consider maximum loss for your account because I of course don't know your account size. You need to make that judgment for yourself. For example, when your stop would be above of a moving average, you need to calculate and see if that stop would be bigger than your maximum account size or not. If break of moving average will yield a $600 loss, and you have set a $400 maximum loss per trade, then you should either take fewer shares in that trade or not take that trade at all and wait for another opportunity.

You may correctly argue that it will be difficult to calculate share size or stop loss based on a maximum loss on your account while you are waiting to jump into a trade. You will need to make a decision fast or else you will lose the opportunity. I understand that calculating your stop loss and maximum loss in your account size in a live trade is difficult. Remember Rule 1? Day trading is not supposed to be easy. Trading needs practice and I strongly recommend that new traders paper trade under supervision for at least three months in a live simulated account. It sounds crazy at the beginning, but you will quickly learn how to manage your account and your risk per trade. You will be amazed at how rapidly the human brain can do calculations on what share size to take and where to set the stop loss.

Trading Psychology and Risk Management

A burning question when you begin your trading career is “Why do most traders fail?”

Day trading requires you to make quick decisions and at the same time to be very disciplined. When you hear breaking news that an activist investor has just taken a stake in Amazon.com Inc., your initial reaction might be to load the boat. I can hear the logic that compels you. “Let's buy 5,000 shares in Amazon! Let’s put on a big order!” But you need to be able to make a quick decision on whether you should buy or sell or sell short that stock, and you need to make that call with discipline.

My trading strategies slowly improved with time, but the breakthrough came when I realized that the key to winning was controlling myself and practicing self-discipline. It is hard enough to know what the market will do, but if you don’t know what you will do, the game is lost. New trading strategies, tips from me or from this book, or even the most sophisticated software imaginable, will not help traders who cannot handle themselves.

You must ask yourself questions:

- Does this fit into my trading strategy?
- What strategy will this fit into?
- If this trade goes the wrong way, where is my stop?
- How much money am I risking in the trade, and what is the reward potential?

This is what many traders find difficult. All of these decisions, the very process of making sure these decisions fit into your risk tolerance and your strategy parameters, are a tough multitasking call. Not only is it multitasking, but it is multitasking while under stress.

I understand that stress. There have been times when I've been in the trade, had $15,000 in shares, and all I needed to do was sell. But as I was looking at my keyboard, I couldn’t even figure out which keys to punch. This sort of paralysis is not unusual when you’re overwhelmed. Whenever that happens, you need to realize that you have pushed yourself a little too far out of your comfort zone. It happens to every single one of us. Expect it to. Once you have some experience under your belt, it’s good to work on the edge of your comfort zone so you're always pushing your boundaries. However, if you find yourself too far outside of your comfort zone and outside of your risk tolerance, you can end up making some significant and costly mistakes.

I encourage you to foster a state of self-awareness within yourself. Dial in:

- Are you focused?
- Are you calm?
- Are you making good decisions?

Be in touch with the results of your decisions and constantly be reviewing your performance.

- Are you trading profitably?
- Have you had five winners in a row or have you had five losses in a row?
- If you are on a losing streak, will you be in touch with your own emotions and maintain your composure, or will you let your judgment?

I cannot overstate how critical that skill will be.

Consider skill and discipline to be your trading muscles. Muscles require exercise to grow and, once you've grown them, they need to be exercised or you will lose them. That's what I experience every day: continually exercising my ability to practice self-control and discipline.

Some of these skills, however, are comparable to learning to ride a bicycle. Once you've learned it, riding a bike is a skill that can't be taken away. Once you've learned it, the skill of identifying a good stock chart isn't going to go away. But remember, discipline is something you will need to constantly work at to be a successful trader. You've entered a profession in which you will always be learning. That's great. In fact, it's better than great - it's stimulating. But it's important to remember that if you start to get over-confident and think you've outsmarted the market on trading wisdom, or that you don't need to learn any more, you'll often get a quick reminder from that market. You'll lose money and you will see that the market is correcting you.

I will reiterate: being able to make quick decisions and being able to make and then follow your trading rules are critical for success in the market. As you continue through this book, you are going to read much about risk management. Everything that traders do comes back to risk management because ultimately it is the most important concept for a trader to understand. All day long, you are managing risk. Related to this is the ability to manage risk so that you will make good decisions - even in the heat of the moment.

That's the next rule of day trading:

Rule 6: Your broker will buy and sell stocks for you. Your only job as a day trader is to manage risk. You cannot be a successful day trader without excellent risk management skills, even if you are the master of many effective strategies.

As mentioned before, traders are in the business of trading. You need to define your risk as a business person - the maximum amount of money you'll risk on any single trade. Unfortunately, there is no standard dollar amount that I can suggest. As explained earlier, an acceptable risk depends on the size of your trading account as well as on your trading method, personality and risk tolerance. But remember the 2% rule explained above. It is worth repeating:

The absolute maximum traders may risk on any trade is 2% of their account equity. For example, if you have a $30,000 account, you may not risk more than $600 per trade, and if you have a $10,000 account, you may not risk more than $200. If your account is small, limit yourself to trading fewer shares. If you see an attractive trade, but a logical stop would have to be placed where more than 2% of your equity would be at risk, pass on that trade and look for another trade. You may risk less, but you may never risk more. You must avoid risking more than 2% on a trade.

Chapter 4: How to Find Stocks for Trades

Your next challenge as a new trader is how to find actual trades. You may understand how day trading works, but when it comes to actually finding setups in real time, it can be difficult. I certainly experienced this as a new trader. I was often able to see setups in hindsight when I looked back on charts during the day, but finding them while the day was unfolding was very difficult.

Alpha Predators

You must remember that retail trading does not work on all stocks. It only works on the stocks that have high relative volume. Some stocks like Apple Inc. (ticker: AAPL) will on average trade millions and millions of shares each day, while other stocks on average might trade only 500,000 shares a day. Does this mean you should trade AAPL only? No. High volume will be relative from one stock to another. You don’t just look for high total volume. There are some stocks that on average will trade with much volume. You need to look for what's above average for that specific stock. Thirty million shares of AAPL traded in one day might very well not be higher than usual. Do not trade AAPL unless it has a very unusual trading volume. If trading volume is not higher than normal, it means that the trading is being dominated by institutional traders and high frequency trading computers. Stay away from it.

AAPL Daily Chart for Summer 2016. Days that AAPL had a significant relative volume are marked. Those days were suitable for day trading AAPL.

Take a look at the AAPL daily chart for the summer of 2016. As you can see, there were only two days that had high relative activity. They’re marked with arrows on the chart. Interestingly enough, when you take a close look at the chart, you realize that on those days the stock gapped up or down. I marked those price gaps in the chart. If you wanted to trade AAPL, you should have traded it only on those days. The other days were comprised of just normal, high frequency, algorithmic trading. Retail traders should stay away from stocks that are trading normally.

The most important characteristics of high relative volume stocks is that these stocks trade independent of what their sector and overall market are doing. When the market is weak, it means that the majority of stocks are selling off. It does not matter if it is Apple, Facebook, Amazon or Exxon. When the market is strong, the prices of the majority of stocks will be going higher. Similarly, when you hear someone say the market is “bear” or “collapsing,” they don’t mean a specific stock. They mean that the whole stock market is losing its value - all stocks together. The same is true for specific sectors. For example, when the pharmaceutical sector is weak, it means all of the pharmaceutical companies are losing their values together. How do you recognize behavior of market? Index funds such as the Dow Jones Industrial Average (DJIA) or the S&P 500 (SPY) are usually good indicators of what the overall market is doing. If the Dow Jones or the SPY are red, it means that the overall market is weak. If the Dow Jones or SPY are strong, then the overall market will be going higher.

The behavior of stocks that have high relative volume is independent of the overall market. Every day, only a handful of stocks are being traded independently of their sector and the overall market. Day traders trade only those stocks. I call those stocks “*Alpha Predators*”. In the animal kingdom, an alpha predator is a predator at the top of a food chain upon which no other creatures prey. In day trading, Alpha Predator stocks are the ones that are independent of both the overall market and their sector. The market cannot control them.

Therefore, the next rule is about Alpha Predators;

Rule 7: Retail traders trade only Alpha Predators, high relative volume stocks that have fundamental catalysts and are being traded regardless of the overall market.

What makes a stock an Alpha Predator? Usually it is the release of fundamental news about the stock either the day before or during the same trading day. Important news or events for companies can have huge effects on their value in the market and therefore act as fundamental catalysts for their price action.

As mentioned in Chapter 2, some examples of the fundamental catalysts for stocks that make them suitable for day trading include:

- Earnings reports
- Earnings warnings/pre-announcements
- Earnings surprises
- FDA approval/disapproval
- Mergers/acquisitions
- Alliances/partnerships/major product releases
- Major contract wins/losses
- Restructuring/layoffs/management changes
- Stock splits/buybacks/debt offerings

In Chapter 7, I explain specific day trading strategies such as Momentum, Reversal, VWAP Strategy and Moving Average. For the moment, your main question is, how do I find the stock for each strategy? I categorize stocks for retail trading into three classes. Based on my experiences, this categorization provides some clarity on how to find stocks and on how to adopt a strategy for them. You will find other categories elsewhere, and some of my fellow day traders will disagree with my categorization, saying, with some justification, that it is very simplified.

Before explaining the three categories, let me explain the definition of “float” and “market capitalization” or “market cap”. Float means the number of shares available for trading. Apple Inc. for example, as of July 2016, had 5.3 billion shares in the market that are available for buying and selling. Apple is considered a “Mega Cap” stock. These stocks usually don’t move much during the day because they require significant volume and money to be traded, so Apple shares might on average change by only one or two dollars each day. They are not very volatile and therefore day traders don’t like trading them. Day traders look for volatility.

On the other hand, there are some stocks that have very low float. For example, Cesca Therapeutics Inc. (ticker: KOOL) has only a 1.2-million-share float. This means that the supply of shares of KOOL stock is low and therefore a large demand can very quickly move the price of the stock. Low float stocks can be volatile and move very fast. Most of the low float stocks are under $10 because they are early stage companies which for the most part are not profitable. They hope to grow, and by growing further, they issue more shares and raise more money from the public market and slowly become mega cap stocks. These low float stocks are called small cap or micro-cap stocks. Day traders love low float stocks.

Now let’s return to the three categories I had just mentioned. The first category consists of low float stocks that are priced under $10. These stocks are extremely volatile, moving 10%, 20%, 100% or even 1000% a day. Yes, there have been these kinds of moves! You must be careful with this category. Just as you can turn your $1,000 into $10,000 in a single trade, your $1,000 can easily turn into $10. Low float stocks under $10 are often highly manipulated and difficult to trade, and therefore only very experienced and highly equipped retail traders should trade these stocks. I personally rarely trade in them. If someone claims to have turned $1,000 into $10,000 in a month, and if it’s true, they must have traded this type of low float stock. No beginner or even intermediate trader can trade with such accuracy and efficiency. If novice traders tried trading low float stocks that are under $10, they would more likely turn their $1,000 into nothing in a matter of days.

When it comes to low float stocks, the Bull Flag Momentum Strategy — which I detail in Chapter 7 — works best. The other strategies in this book are not suitable for low float sub-$10 stocks.

You generally cannot sell short low float stocks that cost less than $10. For short selling, you need to borrow shares from your broker, and it’s rare that a broker will lend you such volatile stocks. Even if your broker is willing to lend them to you, I strongly advise that you do not attempt to short sell them. They can easily surge and you will end up wiping out your account.

You definitely can become a full-time profitable day trader without short selling risky stocks, so leave that to the Wall Street professionals.

The second category is medium float stocks in the range of $10-$100. These stocks have medium floats of around 5 million to 500 million shares. Most of my strategies explained in this book work well on these stocks, especially the VWAP and Support or Resistance Strategies. Medium float stocks that are more expensive than $100 are not popular among retail day traders and I myself avoid them. You usually cannot buy many shares of them because of their high price. Therefore, it is basically useless to day trade them. Leave them for the institutional traders.

The third category of stocks for trading is mega cap stocks like Apple, Ali Baba, Yahoo, Microsoft and Home Depot. These are well established companies that usually have over $500 million in shares outstanding available for trading. These stocks are traded in millions of shares every day. As you may guess, these stocks move only when large institutional traders, investment banks, and hedge funds are buying or selling large positions. Retail traders like us, who typically trade 100 to 1,000 shares, usually cannot move the price of these stocks. Retail traders should avoid these stocks unless there is a good fundamental catalyst for them. From the strategies set forth in Chapter 7, Reversals and Moving Average Strategies usually work well on these stocks. Do not forget though, unless there is a fundamental catalyst, these stocks are being heavily traded by computers and high frequency traders and are not suitable for retail day trading.

The table below summarizes these categories:

Float	**Price Range**	**My Favorite Strategy (Chapter 7)**
Low float *(less than 5 million)*	Under $10	Only Momentum (Long)
Medium float *(5-500 million)*	$10-$100	All, mostly VWAP and Support or Resistance
Large floats *(+500 million)*	Any (usually +$20)	All, mostly Moving Average and Reversal

Finding Trades

Trades can be found in two ways:

- pre-market morning watch list
- real time intraday scans

Let me explain how each day I find Alpha Predators for trading.

I use my scanner every morning and program it to find stocks suitable for my day trading based on the following criteria:

- Stocks that in the pre-market gapped up or down at least $1
- Stocks that have traded at least 50,000 shares in the pre-market
- Stocks that have an average daily volume of over 1 million shares
- Stocks that have Average True Range of over 50 cents
- There is a fundamental catalyst for the stock

Why these criteria?

When there are some fundamental catalysts, there will be unusual pre-market activity. Stocks gap up or down before the market opens with a significant number of shares being traded (such as 50,000 shares). I look for highly traded stocks, so that buying and selling 1,000 shares won't be a problem. That is why I am looking at stocks with an average daily volume of over 1 million shares. I also am looking for stocks that usually move in a good range for trading. That is why I look at Average True Range (ATR). ATR means how large of a range a stock has on average every day. If ATR is $1, then you can expect the stock to move around $1 daily. That is a good number. If you have 1,000 shares, you may profit $1,000 from the trade. But if ATR is only 10 cents, then the trading range is not attractive for me.

Let's look at an example of how my watch list will form. On August 19, 2016 at 9 a.m. (Eastern time), my scanner showed these stocks:

Gappers Watchlist: 9:00:00 - 9:04:59 8/19/2016

Symbol	Price ($)	Gap ($)	Gap (%)	Vol Today	Flt (Shr)	Avg True	Avg Vol	Company Name
GEO	21.58	2.07	10.6	398,063	72.5M	1.82	5.24M	GEO GROUP
CXW	19.25	1.68	9.6	436,502	116M	1.77	9.03M	CORRECTIONS CORP
RH	32.85	2.08	6.8	60,714	38.2M	1.38	1.66M	RESTORATION HARDWARE
AMAT	29.05	1.37	4.9	346,655	1.09B	0.40	11.7M	APPLIED MATERIALS
FL	64.61	2.93	4.8	120,569	134M	1.24	2.19M	FOOT LOCKER
DE	80.00	3.06	4.0	353,444	259M	1.00	3.05M	DEERE
TWLO	53.10	-1.30	-2.4	88,975	45.3M	4.16	11.6M	TWILIO INC
EMR	51.89	-2.78	-5.1	118,092	639M	0.88	2.37M	EMERSON ELECTRIC
USLV	23.20	-1.60	-6.5	64,144		1.20	1.18M	VELOCITYSHARES 3X LONG SILVER

My Gappers watch list on August 19, 2016 at 9 a.m. EST.

As you can see, I have highlighted the Gap% and Float columns on my watch list. From over 4,000 stocks, I now have only nine candidates. I will go over each of them before the market opens at 9:30 a.m. I will check the news on each of them to learn why they gapped up or down. Is there a fundamental catalyst for that stock? Has there been any news coverage or extreme events for the company?

From these nine, I usually select three or four stocks to watch closely. You cannot watch nine stocks, and regardless, there are usually no more than two or three good candidates. I watch them closely on my screen, looking for potential setups. I plan my trades before the market opens and then wait for the market bell. I then trade my plan.

Real Time Intraday Scans

For some strategies, you cannot find stocks in the pre-market. The Momentum, Top, and Bottom Reversal Strategies explained in Chapter 7 are the types of strategies applicable for when a setup suitable for trading happens, and that is usually during trading hours. It is hard to find these stocks during a pre-market scan watch list. For these strategies, I have specific scanners that look for these stocks and I will explain these scanners in detail in Chapter 7.

Real Time Volume Radar

During the day, there may be some Alpha Predators in the market that I did not catch in my morning watch list. Therefore, I have a scanner on my Trade Ideas software (see Chapter 5) that is set to find real time stocks for me that:

VolumeRadar: 10:55:00 - 10:59:59

Symbol	Price ($)	Chg Close	Vol Today (Shr)	Avg Vol	Pos Rng (%)	Rel Vol	Avg True	Sector
USG	30.54	8.8	3,059,686	918K		10.6	0.56	Manufacturing
RMD	67.89	-1.7	622,086	1.41M		3.23	0.99	Manufacturing
KLAC	68.74	1.8	706,826	1.51M		2.31	1.80	Manufacturing
HLF	62.30	3.0	1,853,963	3.26M		1.86	1.52	Wholesale Trade
HOG	51.83	-1.4	936,729	1.20M		1.34	1.28	Manufacturing
GOLD	98.37	-0.7	172,337	960K		0.56	2.77	Mining, Quarrying, and Oil and Gas Extraction

My intraday Volume Radar scanner looking for real time Alpha Predators.

1. Have gapped up or down at least $1

2. Have ATR of more than 50 cents

3. Have average relative volume of at least 1.5

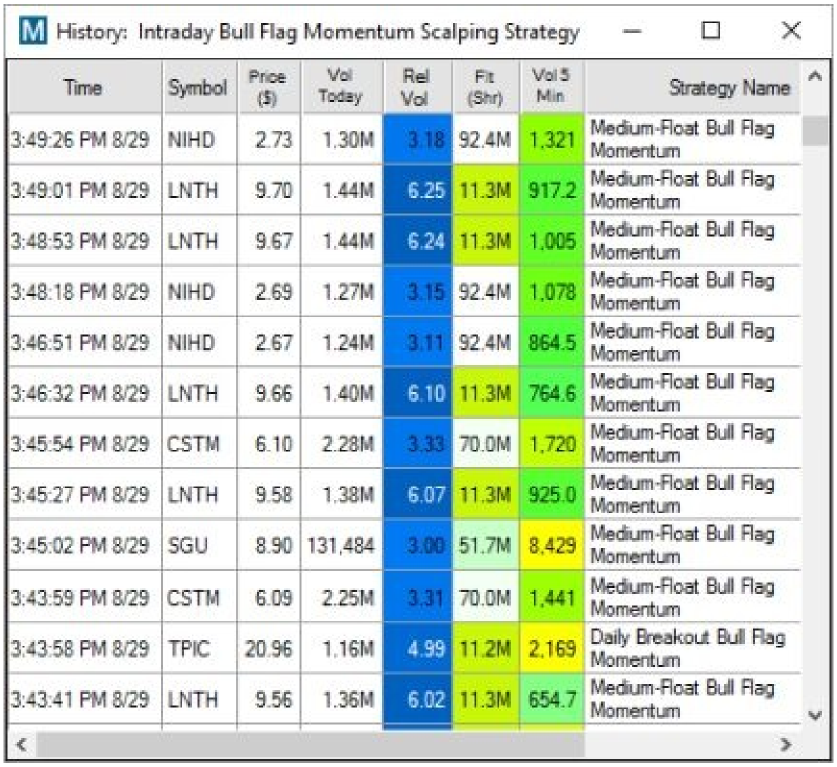
4. Have average daily trading volume of at least 500,000 shares

These are my requirements for an Alpha Predator. Having ATR of more than 50 cents is important because you want stock to move during the day so you can make profit out of its volatility. There is no point in trading a stock that is moving only 5 cents on average in a day.

I will also take a look at the sector of stocks. If I have a few stocks in one sector, there is a good chance that these stocks are not Alpha Predators. They have high relative volume because their sector is under heavy trading by institutional traders. It is important to know that stocks usually trade with their sector. For example, when oil stocks are selling off, almost all of the oil companies sell off. Therefore, it is important to recognize your real Alpha Predators from the herd.

Real Time Bull Flag Momentum Scanner

For the Momentum Strategy, as I explained above, you need to find low float stocks that are moving. You cannot find these stocks unless you are using a good scanner. I am using the Trade Ideas scanner. (www.trade-ideas.com).


History: Intraday Bull Flag Momentum Scalping Strategy

Time	Symbol	Price ($)	Vol Today	Rel Vol	Flt (Shr)	Vol 5 Min	Strategy Name
3:49:26 PM 8/29	NIHD	2.73	1.30M	3.18	92.4M	1,321	Medium-Float Bull Flag Momentum
3:49:01 PM 8/29	LNTH	9.70	1.44M	6.25	11.3M	917.2	Medium-Float Bull Flag Momentum
3:48:53 PM 8/29	LNTH	9.67	1.44M	6.24	11.3M	1,005	Medium-Float Bull Flag Momentum
3:48:18 PM 8/29	NIHD	2.69	1.27M	3.15	92.4M	1,078	Medium-Float Bull Flag Momentum
3:46:51 PM 8/29	NIHD	2.67	1.24M	3.11	92.4M	864.5	Medium-Float Bull Flag Momentum
3:46:32 PM 8/29	LNTH	9.66	1.40M	6.10	11.3M	764.6	Medium-Float Bull Flag Momentum
3:45:54 PM 8/29	CSTM	6.10	2.28M	3.33	70.0M	1,720	Medium-Float Bull Flag Momentum
3:45:27 PM 8/29	LNTH	9.58	1.38M	6.07	11.3M	925.0	Medium-Float Bull Flag Momentum
3:45:02 PM 8/29	SGU	8.90	131,484	3.00	51.7M	8,429	Medium-Float Bull Flag Momentum
3:43:59 PM 8/29	CSTM	6.09	2.25M	3.31	70.0M	1,441	Medium-Float Bull Flag Momentum
3:43:58 PM 8/29	TPIC	20.96	1.16M	4.99	11.2M	2,169	Daily Breakout Bull Flag Momentum
3:43:41 PM 8/29	LNTH	9.56	1.36M	6.02	11.3M	654.7	Medium-Float Bull Flag Momentum

My intraday real time Bull Flag Momentum scanner.

In the screenshot above, you can see how I am scanning real time for my Momentum Strategy. During the day, the scanner is finding stocks that have high relative volume, low float, and high activity. I then check them in my trading platform and decide, based on my Momentum Strategy set out in Chapter 7, if I want to trade them.

Real Time Reversal Scanners

Top and Bottom Reversal Strategy is another type of strategy that you cannot find stocks for in the pre-market. You must have an intraday real time scanner. Here is an image of a Top and Bottom Reversal scan:

History: Bottom Reversal

Time	Symbol	Price ($)	Vol Today	Consec Cndls	Rel Vol	Avg True	5 Min RSI (0
3:51:29 PM	ZG	34.80	648K	-4	1.12	1.13	23.8
3:49:21 PM	TRI	41.54	733K	-4	1.25	0.48	20.7
3:48:13 PM	TRI	41.55	718K	-4	1.23	0.48	21.9
3:45:45 PM	TRI	41.56	700K	-4	1.22	0.48	22.8
3:38:37 PM	MCHI	46.86	909K	-4	1.07	0.51	18.1
3:37:28 PM	MCHI	46.87	885K	-4	1.05	0.51	18.6
3:36:12 PM	MCHI	46.89	862K	-4	1.02	0.51	19.9
3:35:09 PM	MCHI	46.90	844K	-4	1.01	0.51	20.6
2:31:55 PM	SBAC	112.96	618K	-6	1.37	1.79	23.4
2:26:13 PM	SBAC	112.98	608K	-5	1.37	1.79	24.1
2:23:22 PM	PGR	32.33	2.00M	-4	1.55	0.39	23.4
2:21:22 PM	PGR	32.34	1.99M	-4	1.56	0.39	24.3
2:18:40 PM	RMD	67.51	2.48M	-7	5.79	0.89	19.2
2:12:47 PM	RMD	67.54	2.46M	-6	5.91	0.89	18.7
1:18:44 PM	AMT	115.03	923K	-5	1.29	1.31	26.1
1:16:34 PM	AMT	115.05	912K	-5	1.29	1.31	26.6
1:15:29 PM	AMT	115.07	910K	-5	1.29	1.31	27.3
1:14:14 PM	AMT	115.08	907K	-4	1.29	1.31	27.4

History: Top Reversal

Time	Symbol	Price ($)	Vol Today	Consec Cndls	Rel Vol	Avg True	5 Min RSI (0
2:36:54 PM	DATA	62.00	6.17M	4	7.76	1.49	53.2
2:27:42 PM	SGEN	47.83	535K	4	1.50	1.20	57.1
2:27:35 PM	FISV	104.19	711K	4	1.42	1.63	67.9
2:27:35 PM	FISV	104.19	711K	4	1.42	1.63	67.9
2:10:03 PM	DD	70.42	2.74M	4	2.23	0.90	73.1
1:46:26 PM	PVH	109.37	829K	5	2.10	2.41	64.6
1:40:54 PM	SHOP	42.20	1.20M	5	1.43	1.72	56.3
1:40:49 PM	MENT	23.68	2.26M	5	6.47	0.47	59.4
1:40:10 PM	PVH	109.36	807K	4	2.09	2.41	65.4
1:35:26 PM	SHOP	42.19	1.19M	4	1.45	1.72	55.7
1:35:14 PM	MENT	23.67	2.25M	4	6.56	0.47	58.3
1:32:41 PM	SWFT	19.48	1.32M	5	1.03	0.53	68.4
1:32:12 PM	DSW	26.01	1.07M	4	1.40	0.67	61.7
1:31:37 PM	ZAYO	29.37	1.14M	4	1.01	0.40	53.0
1:23:30 PM	AME	49.71	852K	4	1.08	0.83	68.0
1:20:12 PM	AME	49.70	848K	4	1.08	0.83	66.9
1:20:12 PM	AME	49.70	848K	4	1.08	0.83	66.9
1:20:12 PM	BA	134.14	1.96M	4	1.20	1.37	55.6

My intraday real time Reversal scanner.

As you can see, I am scanning the market real time to find stocks that are selling off or surging up so I can trade my Reversal Strategies. You can read more about these strategies in Chapter 7.

I won’t go into the details here about how to make these scans, but I will explain in Chapter 7 under each strategy the specifics of what to look for in stocks in each category. If you develop new strategies for yourself, you can define new scanners for yourself. These scanners are highly adjustable and you can change the parameters as you like. These are the parameters that work for me, but as you gain experience and learn more about other strategies and your trading style, you may very well decide to define new scanners for yourself.

Many new traders don’t initially need a scanner. If you join a community of day traders such as www.Vancouver-Traders.com, you will be able to see my scanner in real time. These scanners are costly, around $100 per month, so at the beginning of your career transition to day trading, you will probably want to keep your expenses down as much as possible.

Planning the Trade Based on Scanners

Once I find my daily Alpha Predators (the stocks that are independent of the overall market) I start to look for the individual setups in them. I constantly monitor their charts and try to plan a trade based on the strategies detailed in Chapter 7. I usually select three Alpha Predators and watch them separately on my three monitors. When I see a potential strategy, I plan my trade. This is a fast decision making process. Sometimes you have to plan a trade in a few minutes and at other times in just a few seconds. This is why you need months of training in simulator accounts to well understand the decision making process.

I focus considerably on quality versus quantity. There are millions of traders out there and there are no doubt millions of strategies out there as well. I had to find the strategy that worked best for me, my personality and my account size. I’ve found a strategy that works really well for my students as well as for my own personal trading. This strategy involves taking only the best setups and waiting on the sidelines until I see something worth trading.

Day trading can be a boring profession – most of the time you are just sitting and watching your list. In fact, if day trading is not boring for you, then you are probably over-trading.

If you require a reminder of the importance of patience in trading, here it is. There are plenty of traders out there who are making the error of over-trading. Over-trading can mean trading 20, 30, 40, or even 60 times a day. If you do that, your broker will love you. You’ll be commissioning them to do all of those trades, so you are going to lose both money and commissions. Many brokers charge $4.95 for each trade, so for 40 trades, you will end up paying $200 per day to your broker. That is a lot. Remember, your goal is to trade well, not to trade often.

Another problem with over-trading is risk. While you're in a trade you're exposed to risk, and that’s a place you don’t want to be unless you have proven that there is a setup in the strategy worth trading.

Here is my next golden rule:

Rule 8: Experienced traders are like guerrilla soldiers. They jump out at just the right time, take their profit, and get out.

The stock market is controlled by machines and highly sophisticated algorithms and, as a result, there is considerable high frequency trading. High frequency trading creates significant noise in the price action and is specifically designed to shake out retail traders like you and me. You must be smart. Don’t expose yourself to them. Profitable traders usually make only two or three trades each day. They then cash out and enjoy the rest of their day.

Chapter 5:
My Tools and Platforms

Like starting any other business and profession, to start day trading you require a few important tools. You need a broker and an order execution platform. These are tools you will definitely need for yourself.

As explained in Chapter 4, you will also need a stock scanner to find your watch list and look for potential real time setups. You may not need a scanner though if you are part of a trading community. People who are part of our community in www.Vancouver-Traders.com can see my screen in real time and use my scanners.

What Broker to Use?

For day trading, you need an awesome broker. You don't need a good broker; you need an awesome broker. Your broker is your vehicle to trade. If you have a bad broker, you lose money, even if you are trading properly and accurately because a broker eventually has to fill your order on time and at a good price. There are many brokers out there with various software and price structures. Many of them are great but expensive, some are terrible but cheap, and many of them are either terrible or expensive or both. For the sake of keeping this book short, I will not start reviewing all of them, but I do have additional information on my website about brokers and which ones to choose. If you visit my website, you will have access to that information. I will share here though what broker I am using and why.

For several good reasons, I am currently using Interactive Brokers or IB (www.interactivebrokers.com). First, I live in Vancouver, Canada, and IB allows me to have my tax-free and registered retirement accounts for day trading. Many brokers do not allow you to have tax-free or retirement accounts for day trading. Second, IB is an inexpensive broker. It charges you less than $1 per trade. Another reason I am with IB is because IB does not require people in Canada to have a minimum of $25,000 for day trading. If you are in the USA, you will probably need a minimum of $25,000 for day trading. You can read further about the "Pattern Day Trade" regulation online.

Do remember that brokers will give you 3 to 6 times leverage. If you put in $30,000, you're going to have $120,000 in buying power (a leverage of 4:1 in this case). That leverage is called the "margin", and you're allowed to trade on margin, but you need to be responsible about it. It is easy to buy on margin, but it is also very easy to lose on margin. If you lose on margin, your broker takes the loss from your main money account. Therefore, margin is a double-edged sword. It provides you an opportunity to buy more, but it also exposes you to more risk. There is nothing wrong with buying in margin, but you do have to be responsible.

Margin is like a mortgage for your house. You borrow a significant amount of money and buy a residence. Banks will give you a mortgage, but they won't take any responsibility or risk on it. For example, imagine that you put $100,000 down and borrowed $900,000 on a mortgage (10:1 leverage) from your bank to buy a $1,000,000 house. If the price of your house goes up to $1,200,000, you still owe the bank the original $900,000 plus their interest. So the extra $200,000 is your own profit that actually came from margin leverage. You couldn't have bought that house without mortgage leveraging. Now imagine that the price of the house drops to $900,000. You still owe the bank $900,000 plus their interest, so the drop has hit your main $100,000 and you have lost all of your original down payment of $100,000. That is the other side of leveraging. Therefore, you need to be responsible about when and how much you use your account margin.

When a broker sees that you are using leverage and losing money, they might issue a "margin call" to you. A margin call is a serious warning and day traders must avoid getting them. It means that your loss is now equal to the original money you had in your account. You must add more money or else your broker will freeze your account. If you need to know more about margin, leverage or margin calls, check the broker's website, do some research on the Internet, or ask me or other traders in our private chatroom at www.Vancouver-Traders.com).

Trading Platform and Market Data

Fast trade execution is the key for day trader success. You need to be able to move in and out of trades quickly. If your broker doesn't use a software or platform that has hotkeys, you're not going to get in and out of trades fast enough. I can't tell you how many times I've been up a thousand dollars because all of a sudden the stock spikes. When stock spikes, you want to be able to put money in your pocket and profit from it quickly. You definitely don't want to be fumbling with your orders. You need quick executions, which is why I highly recommend a good broker and a fast order execution platform.

I use DAS Trader (www.dastrader.com) as my trading platform. DAS systems provide one of the most efficient execution solutions for online brokers, institutional trading desks and traders worldwide that demand smarter execution services.

On a literally 24/7 basis, I have found their support team incredibly helpful and competent. DAS servers are collocated with NASDAQ data centers. You cannot be any closer to the market for trading than this. DAS Trader is not a broker, but you can link your trading account to its platform for fast order execution. Some brokers will offer you the DAS platform when you open an account but IB has its own platform that I do not recommend. I have a subscription to DAS and they have linked my IB account to the DAS platform.

Watch List and Scanner

I talk to new traders almost every single day. I talk to hundreds of traders every month. One of the common themes among new traders is not knowing what to trade. Thousands of stocks are moving in the market every single day, but finding a setup that is both consistent and a good fit is really hard. I use Trade Ideas software (www.trade-ideas.com) for scanning the market and finding good trades. I explained my scanners and watch list building in Chapter 4 and I will explain in detail later in this book what I am looking for with my scanner as well as my trading strategies. You will also see some pictures of my scanner in the sections that follow. If you join our free private chatroom, you will see my scanner online in real time and will be able to observe how I use it.

Community of Traders

Trading alone is very difficult and can be emotionally overwhelming. It is beneficial to join a community of traders and ask them questions, talk to them if needed, learn new methods and strategies, get some hints and alerts about the stock market, and also make your own contributions. I personally trade in a private chatroom with some of my friends and family. We can talk to each other and everyone can view my live screen and platform and watch how I am trading. It is a fun, interactive environment, and we all learn from each other. I frequently answer questions from other traders, and if there is anything I'm not sure of, I will ask other traders. There are some experienced traders in our chatroom that I learn much from, and we tip each other off about potential good trades and setups. We would like to grow our chatroom slightly and therefore everyone who is reading this book is welcome to join with us. It is free, of course, and you will benefit from both watching me trade and hearing my responses to questions people have, including your own questions.

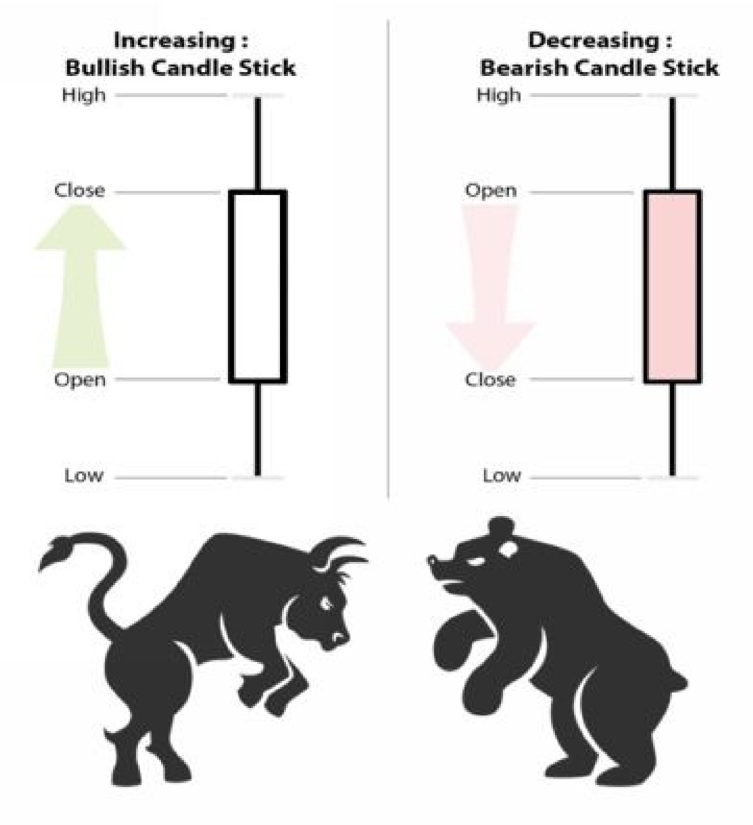
If you join me, you will see that quite often I lose money. It is always a good feeling to see that losing money is not just limited to yourself, but that everyone, including experienced traders, have to take some losses. It is part of the process. There are many chatrooms that you can join on the Internet. Some of them are free but most of them require payment. You can join our chatroom (of course for free) and see my screen in real time while I am trading and explaining my strategy. You can take trades with me, or just watch and listen. You can also take your own trades and still be part of my community. If you are interested in watching me or talking to me, check out our private chatroom at www.Vancouver-Traders.com

It is extremely important to remember, however, that if you are in any community of traders, either our chatroom or the dozens of others that are out there, you should not follow the pack. You need to be an independent thinker. Generally, people change when they join crowds. They become more unquestioning and impulsive, nervously searching for a leader whose trades they can mirror. They react with the crowd instead of using their minds. Chatroom members may catch a few trends together, but they get killed when trends reverse. Never forget that successful traders are independent thinkers. Simply use your judgment to decide when to trade and when to not.

Chapter 6:
Introduction to Candlesticks

To understand my strategies in the next section, we need to quickly review price action and the fundamentals of candlestick charts. The Japanese began using technical analysis and some early versions of candlesticks to trade rice in the 17th century. Much of the credit for candlestick development and charting goes to a legendary rice trader named Homma from the town of Sakata, Japan. While these early versions of technical analysis and candlestick charts were different from today's version, many of the guiding principles are very similar. Candlestick charting, as we know it today, first appeared sometime after 1850. It is likely that Homma's original ideas were modified and refined over many years of trading, eventually resulting in the system of candlestick charting that we now use.

In order to create a candlestick chart, you must have a data set that contains (1) open price, (2) highest price in the chosen time frame, (3) lowest price in that period, and (4) closing price values for each time period you want to display. The time frame can be daily, 1-hour, 5-minute, 1-minute or any other period you prefer. The hollow (white) or filled (red) portion of the candlestick is called "the body". The long thin lines above and below the body represent the high/low range and are called "shadows" (also referred to as "wicks" and "tails"). The high is marked by the top of the upper shadow and the low by the bottom of the lower shadow. If the stock closes higher than its opening price, a hollow candlestick is drawn with the bottom of the body representing the opening price and the top of the body representing the closing price. If the stock closes lower than its opening price, a filled (usually red) candlestick is drawn with the top of the body representing the opening price and the bottom of the body representing the closing price.



Candlestick Examples

Compared to other forms of representing price action, many traders consider candlestick charts more visually appealing and easier to interpret. Each candlestick provides an easy-to-decipher picture of price action. A trader can immediately compare the relationship between the open and close as well as the high and low. The relationship between the open and close is considered vital information and forms the essence of candlesticks.

Here is my ninth day trading rule:

Rule 9: Hollow candlesticks, where the close is greater than the open, indicate buying pressure. Filled candlesticks, where the close is less than the open, indicate selling pressure.

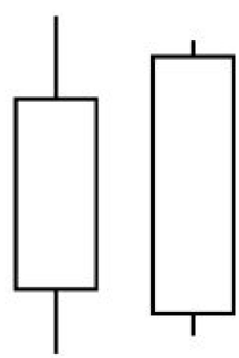
Traders can be divided into three groups: buyers, sellers, and the undecided. Buyers want to pay as little as possible and sellers want to charge as much as possible. Their permanent conflict is reflected in bid-ask spreads. “Ask” is what a seller asks for merchandise. “Bid” is what a buyer offers for that merchandise. Prices are created by masses of traders—buyers, sellers, and undecided people. The patterns of prices and volume reflect the mass psychology of the markets. The goal of a successful day trader is to discover the balance of power between buyers and sellers and bet on the winning group. Fortunately, candlestick charts reflect this fight in action. A successful day trader is a social psychologist armed with a computer and charting software. Day trading is the study of mass psychology.

The presence of undecided traders puts pressure on bulls and bears. Buyers and sellers move the prices fast because they know that they’re surrounded by a crowd of undecided traders who could step in and snatch away their deal at any moment. Buyers know that if they think too long, another trader can step in and buy ahead of them. Sellers know that if they try to hold out for a higher price, another trader might step in and sell at a lower price. The crowd of undecided traders makes buyers and sellers more willing to deal with their opponents.

Buyers are buying because they expect prices to rise. Sellers are selling because they expect prices to fall. Buying by bulls pushes markets up, or as I phrase it, “Buyers are in control.” Selling by bears pushes the markets down, or as I express it, “Sellers are in control.” Undecided traders make everything happen faster by creating a sense of urgency among buyers and sellers.

Candlesticks tell us a great deal about the general trend of a stock and the power of buyers or sellers in the market. Candles are always born neutral. After birth, they can grow to become either bearish, bullish or, on rare occasions, neither. When a candle is born, traders do not know what it will become. They may speculate but they do not truly know what a candle is until it dies (closes). After a candle is born, the battle begins. The bulls and the bears fight it out, and the candle displays who is winning. If buyers are in control, you will see the candle move up and form a bullish candle. If sellers are in control of the price, you will see the candle move down and become a bearish candle. You may be thinking that this is all very obvious, but many traders don’t see candles as a fight between buyers and sellers. That little candle is an excellent indicator that tells you who is currently winning the battle, the bulls (buyers) or the bears (sellers).

Candles with large bodies toward the upside, like the figure below, are very bullish. As you can see, it means that the buyers are in control of the price action, and it is likely that they’ll keep pushing the price higher. The candle not only tells you the price, it tells you that the bulls are winning and that they have power.

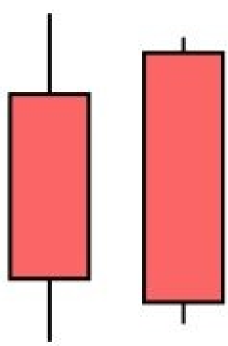


Bullish Candles

A series of bullish candles shows bulls (buyers) are in control of the price.

On the other hand, bearish candles are any candles that show a bearish body. So what does the bearish candle tell you? It tells you that the sellers are in control of the price action in the market. It tells you that the sellers are currently in control, so buying or a “long” position would not be a great idea.

Red candles that have this big red body mean the open was at a high and the close was at a low. This is a good indicator of a bearishness in the market.



Bearish Candles

A series of bearish candles shows bears (sellers) are in control of the price.

Just by learning to read candlesticks, you will begin to generate an opinion on the general attitude for a stock. This is called “price action”. Understanding who is in control of the price is an extremely important skill in day trading.

A major goal of a serious day trader is to discover the balance of power between bulls and bears and to bet on the winning group. If bulls are much stronger, you should buy and hold. If bears are much stronger, you should sell and sell short. If both camps are about equal in strength, wise traders stand aside. They let the bulls and the bears fight with each other and enter trades only when they are reasonably certain which side is likely to win.

You never want to be on the wrong side of the trade. It is important therefore to learn how to read candlesticks and how to constantly interpret the price action while you are trading.

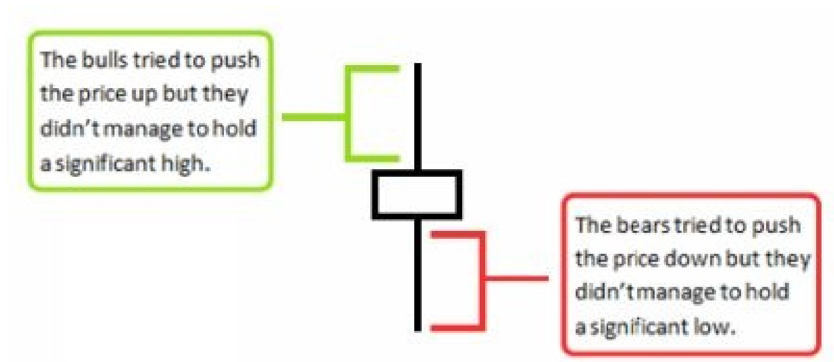
There are hundreds of imaginatively-named chart patterns that you will find with a Google search including Head-and-Shoulders, Cup-and-Handle, Abandoned Baby, Dark Cloud Cover, Downside Tasuki Gap, Dragonfly, Morning Star, Evening Star, Falling Three Methods, Harami, Stick Sandwich, Three Black Crows and Three White Soldiers. Believe me, I did not make any of these names up. These candlesticks are really out there. As intriguing as their names might be, many of them, in my opinion, are useless and confusing. Therefore, I skip discussing most of them in this book.

In my opinion, trend lines and most charting patterns are quite subjective, and can result from wishful thinking and self-deception. You can draw a trend line across any prices or zones in a way that can change its slope and its message. If you’re in a mood to buy, you can draw your trend line a little steeper. If you feel like shorting and squint at a chart, you’ll “recognize” a Head-and-Shoulders Pattern. None of those patterns are objective, and I am skeptical of claims regarding even classical formations, such as Cup-and-Handle and Head-and-Shoulders. The biggest pitfall with this kind of pattern charting is wishful thinking. Traders will find themselves identifying bullish or bearish patterns depending on whether they’re in a mood to buy or sell.

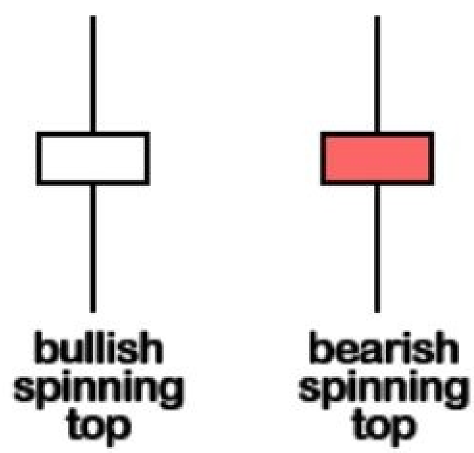
In the next section, I’ll give you a quick overview of the two most important patterns for day trading (spinning tops and Dojis) and then, in Chapter 7, I will explain how you can trade using these patterns.

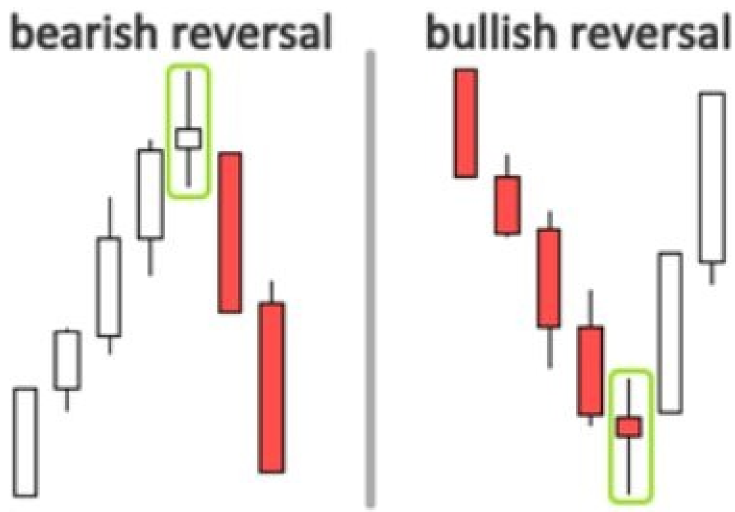
Spinning Tops

Spinning tops are candles that have similarly-sized high wicks and low wicks that are usually larger than the body and will often be a little bit more indecisive. For the sake of poetry, let’s call them candles of indecision. In these candlesticks, the powers of the buyers and the sellers are almost equal. Although no one is in control of the price, the fight continues on. Usually the volume is lower in these candlesticks as traders are waiting to see who wins the fight between the sellers and the buyers. Trends in price can change immediately after indecision candles and they therefore are important to recognize in the price action.



Buying and selling pressure definition on spinning top candlestick.

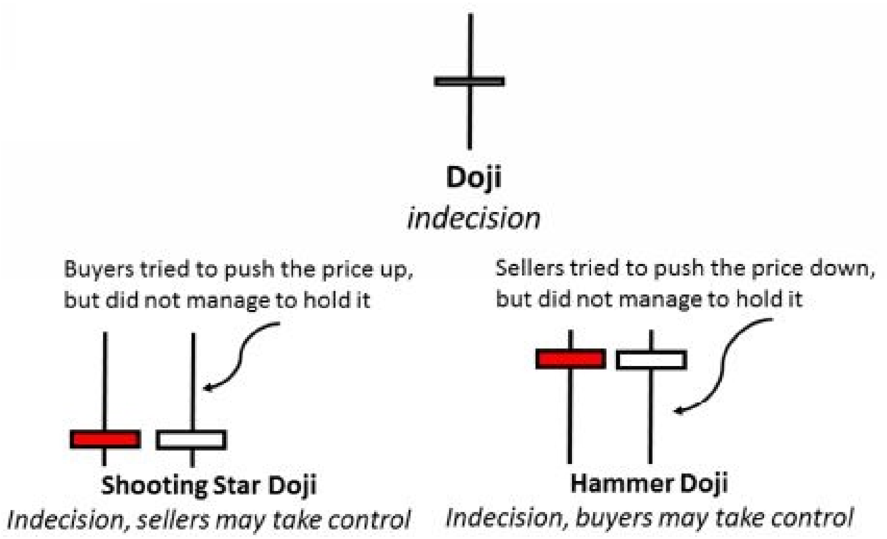




Formation of spinning top candlestick for reversal trends.

Dojis: Simple, Shooting Star, and Hammer

Dojis are another important candlestick pattern and come in different shapes and forms but are all characterized by having either no body or a very small body. A Doji is also an indecision candlestick that is similar to a spinning top. When you see a Doji on your chart, it means there is a strong fight occurring between the bears and the bulls. Nobody has won the fight yet.

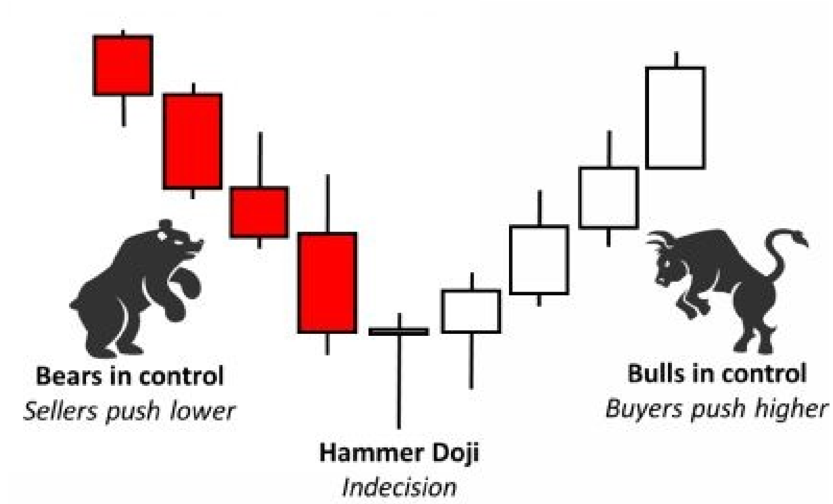


Examples of Doji candlesticks.

In the picture above, a Doji tells us the same story as a spinning top does. In fact, most indecision (reversal) candles tell you basically the same thing. This will be discussed in greater detail in the next section.

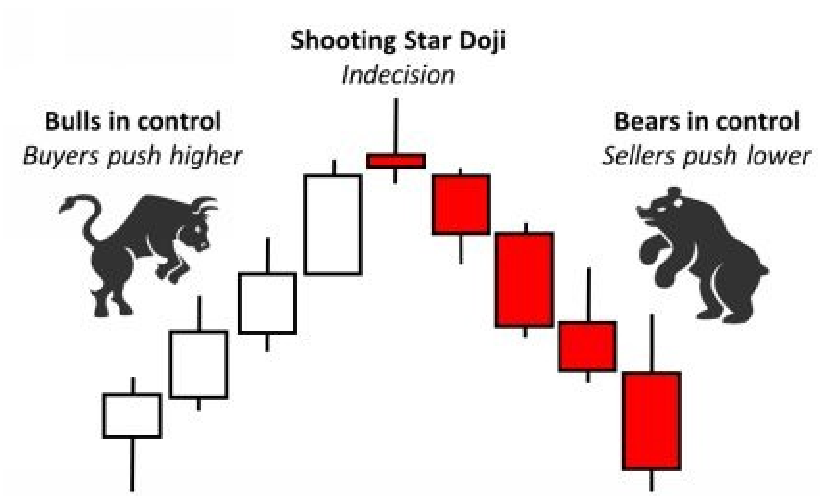
At times Dojis have unequal top and bottom wicks. If the top wick is longer, it means that the buyers tried unsuccessfully to push the price higher. These types of Dojis, such as the shooting star, are still indecision candlesticks, but they may indicate that the buyers are losing power and that the sellers may take over.

If the bottom wick is longer, as in hammer Dojis, it means that the sellers were unsuccessful in trying to push the price lower. This may indicate an impending take over of price action by the bulls.



Bottom Reversal Strategy with an indecision hammer candlestick formed as sign of entry.

All Dojis indicate *indecision* and possible reversals if they form in a trend. If a Doji forms in a bullish trend, it suggests that the bulls have become exhausted and the bears are fighting back to take control of the price. Similarly, if a Doji forms in a bearish downward trend, it suggests that the bears have become exhausted and the bulls (buyers) are fighting back to take control of the price.



Top Reversal Strategy with an indecision Shooting Star candlestick formed as sign of entry.

After learning these candlesticks, it is important that you not get too excited too quickly. Candles are not perfect. If you take a trade every time you see a Doji formed in a trend, you will end up with significant losses. Always remember that these candles only indicate indecision and not a definite reversal. To use indecision candles effectively, you must look for confirmation candles and ideally use them with other forms of analysis such as support or resistance levels, both of which are explained in Chapter 7.

Chapter 7:
Most Important Day Trading Strategies

In this chapter, I will introduce some of my strategies, based on three elements: (1) price action, (2) technical indicators, and (3) chart patterns. It is important to learn and practice all three elements at the same time. Although some strategies require only technical indicators (such as Moving Average and VWAP), it’s helpful to also have an understanding of price action and chart patterns in order to become a successful day trader. This understanding, especially regarding price action, comes only with practice.

As a day trader, you shouldn’t care about companies and their earnings. Day traders are not concerned about what companies do or what they make. Your attention should only be on price action, technical indicators and chart patterns. I know more stock symbols than the names of actual companies. I don't mingle fundamental analysis with technical analysis; I focus exclusively on the technical analysis.

Now, having said that, as I mentioned in Chapter 4, I do hunt for a fundamental catalyst, a reason why a stock is running up. If I have a stock that's running up 80%, I want to know what the catalyst is, and I don’t stop until I find out. “So, it's a biopharmaceutical stock and they just got FDA approval.” or “They just passed through clinical trials. Okay, there's a catalyst, now I can understand what’s going on.” Beyond that, you won’t find me listening in on conference calls or sifting through the earnings papers. I don't care about those aspects because I'm not a long term investor - I'm a day trader. We trade very quickly - guerrilla trading! – at times we trade in time periods as short as ten to thirty seconds.

In case you’re doubting me on this point, I can tell you from experience that in ten seconds you can make thousands of dollars. I've done that. In ten seconds you can also lose thousands of dollars. I've done that too. When the market moves quickly, you need to ensure you're positioned in the right place to take advantage of the profits and reduce your risk exposure.

There are millions of traders out there and even millions more of strategies. Every trader needs their own strategy and edge. You need to find your spot in the market where you feel comfortable. I focus on these strategies because these are what work for me.

I’ve come to recognize in my trading career that the best setups are the seven strategies that I will be explaining in this chapter. These are simple strategies in theory, but they are difficult to master and require plenty of practice. These trading strategies give signals relatively infrequently and allow you to enter the markets during the quiet times, just like the professionals do.

Another point to remember is that in the market right now, over 60% of the volume is algorithmic high frequency trading. That means you are trading against computers. If you’ve ever played chess against a computer, you know that you’re eventually going to lose. You might get lucky once or twice, but play sufficient times and you are guaranteed to be the loser. The same rule applies to algorithmic trading. You're trading stocks against computer systems. On the one hand, that represents a problem. It means that the majority of changes in stocks that you are seeing are simply the result of computers moving shares around. On the other hand, it also means that there's a small handful of stocks each day that are going to be trading on such heavy retail volume (as opposed to institutional algorithmic trading) that you will overpower the algorithmic trading and you and I, the retail traders, will control that stock. Each day, you need to focus on trading those particular stocks. These are what I call in Chapter 4 the Alpha Predators, stocks that are typically gapping up or down on earnings. You must look for the stocks that have significant retail traders' interest and significant retail volume. These will be the stocks you will buy, and together, we the people, the retail traders, will overpower the computers, just like in a storyline for the next Terminator sequel.

I personally use the candlestick charts explained in Chapter 6. Each candlestick represents a period of time. As I mentioned before, you can choose daily charts, hourly charts, 5-minute charts, even 1-minute charts. My preference is 5-minute charts because I believe a 1-minute chart is too noisy and at times you can be misled by normal price movement in a 1-minute interval.

And please, remember, my philosophy of trading is that you must master only a few solid setups to be consistently profitable. In fact, having a simple trading method consisting of a few minimal setups will work to reduce confusion and stress and allow you to concentrate more on the psychological aspect of trading, which is what separates the winners from the losers.

Trade Management

Before explaining my strategies, it is important to know about my order entry, exit and trade management.

It always intrigues me in the www.Vancouver-Traders.com chatroom when two elite traders select the same stock—one long and the other short. Often, by the end of the day, both are profitable, proving that experience and trade management are more important than the stock and the direction that traders pick.

My trade size depends on the price of the stock and on my account and risk management rule (Chapter 3), but 800 shares is my usual size.

1. I buy 800 shares all at once.

2. I sell 400 shares in the first target, bringing my stop loss to break-even (entry point).

3. I sell another 200 shares in the next target point.

4. I usually keep the last 200 shares until I am stopped out. I always retain some shares in case the prices keep moving in my favor.

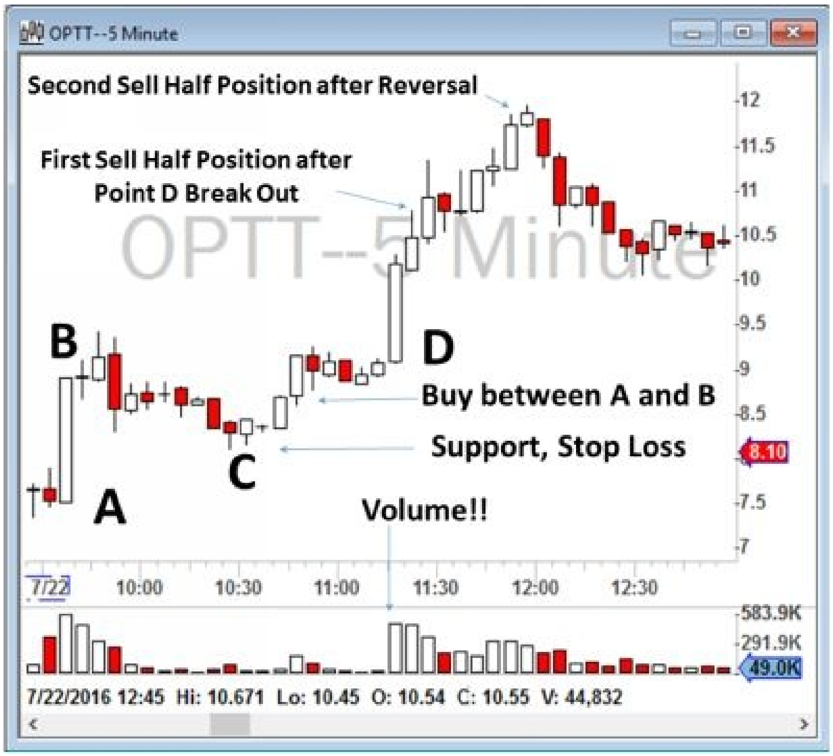
Some professional traders never enter the trade all at once. They scale into the trade, meaning they buy at various points. They might start with 100 shares and then add to their position in various steps. For example, for a 1000-share trade, they enter either 500/500 or 100/200/700 shares. If done correctly, this is an excellent method of risk and trade management. However, managing the position in this system is extremely difficult. Many new traders who are trying to do this will end up over-trading and will lose their money in commissions, slippage and averaging down the losing trades.

I rarely scale into a trade but at times I will, especially in very highly volume traded stocks. But remember, scaling into a trade is a double-edged sword and beginners may use it incorrectly as a way to average down their losing positions, sending good money after bad. I don’t recommend this method for beginners. Although they can appear similar, there is a huge difference between scaling into a trade and averaging down a losing position. For beginners, averaging down a losing trade is a recipe for wiping out your account, especially with small accounts that cannot stand several rounds of averaging down.

ABCD Pattern

The ABCD Pattern is the most basic and the easiest pattern to trade, and it is an excellent choice for beginner and intermediate traders. Although it is simple and has been known for a long time, it still works very effectively because many traders are still trading it. As mentioned earlier, it has a self-fulfilling prophecy effect. You should do whatever all of the other traders are doing because a trend is your friend. A trend may very well be your only friend.

Let’s take a look at this pattern:



Example of an ABCD Pattern.

ABCD Patterns start with a strong upward move. Buyers are aggressively buying a stock from point A and making constantly new highs of the day (point B). You want to enter the trade, but you should not chase the trade, because at point B it is very extended and already at a high price. In addition, you cannot say where your stop should be. You must never enter a trade without knowing your stop.

At point B, traders who bought the stock earlier start slowly selling it for profit and the prices come down. Still you should not enter the trade because you don’t know where the bottom of this pull back will be. However, if you see that the price does not come down from a certain level, such as point C, it means that the stock has found a potential support. Therefore, you can plan your trade and set up stops and a profit taking point.

Let’s take a look at Ocean Power Technologies Inc. (ticker: OPTT) at July 22, 2016, when they announced that they had a new $50 million contract to build a new ship (There’s a fundamental catalyst! Remember Chapter 2?).

The stock surged up from $7.70 (A) to $9.40 (B) at around 9:40 a.m. I, along with many other traders who had not heard the news, waited for point B and then a confirmation that the stock wasn't going to go lower than a certain price (point C). When I saw that point C was holding as a support and buyers wouldn't let the stock price go any lower than $8.10 (C), I bought 1,000 shares of OPTT near C, and my stop was below point C. I knew that when the price went higher, closer to B, buyers would jump on massively. As I mentioned before, the ABCD Pattern is a very classic strategy and many retail traders look for it. I purchased stock between points B and C. Close to point D, the volume suddenly spiked, which meant that traders had jumped into the trade.

My exit would be when the stock made a new low, which was a sign of weakness. As you see, OPTT had a nice run up to around $12.

Let's look at another example, this time for SPU on August 29, 2016. There are actually two ABCD Patterns. I marked the second one as *abcd pattern*. Usually as the trading day progresses volumes become lower and therefore the second pattern is smaller in size. Please note that you will always have high volumes in points B and D (and of course points b and d in this example).

Example of ABCD Pattern and abcd pattern.

To summarize my trading strategy for the ABCD Pattern:

1. When I observe with my scanner or I'm advised by someone in our chatroom that a stock is surging up from point A and reaching a big new high for the day (point B), I wait to see if the price makes a support higher than point A. I call this point C. I do not jump into the

trade right away.

2. I watch the stock during its consolidation period. I choose my share size and stop and exit strategy.

3. When I see that the price is holding support at level C, I enter the trade close to the price of point C in anticipation of moving forward to point D or higher.

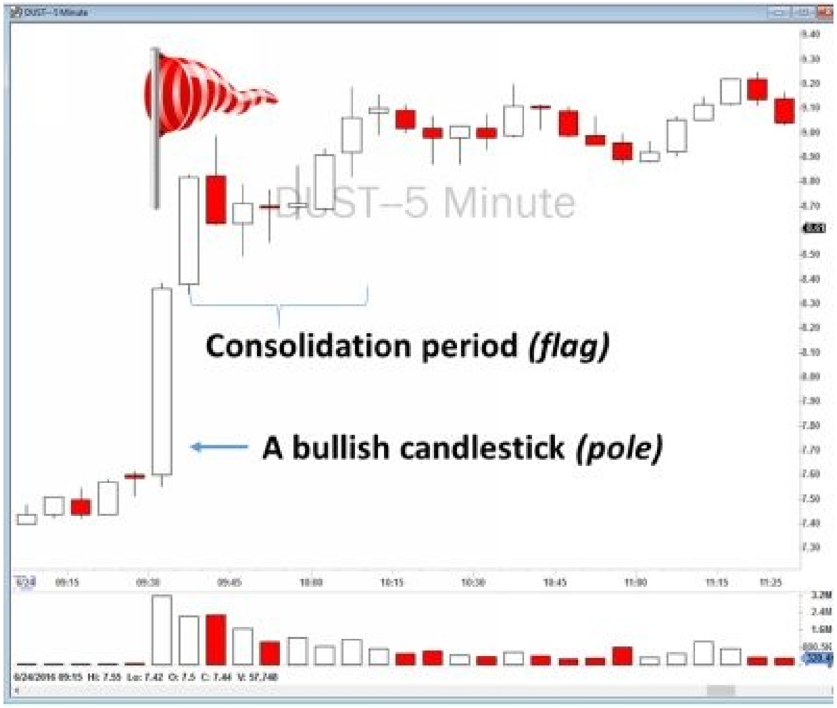
4. My stop is the loss of point C. If the price goes lower than point C, I sell and accept the loss. Therefore, it is important to buy the stock close to point C to minimize the loss. Some traders wait and buy only at point D to make sure that the ABCD Pattern is really working. In my opinion that is reducing your reward and increasing your risk.

5. If the price moves higher, I sell half of my position at point D, and bring my stop higher to my entry point (break-even).

6. I sell the remaining position as soon as my target hits or I feel that the price is losing steam or that the sellers are acquiring control of the price action.

Bull Flag Momentum

In day trading, Bull Flag is a momentum fast execution strategy that usually works great on low float stocks (Chapter 4). I believe Bull Flag is a scalping strategy because these flags won't last long and you must scalp the trade - get in quickly, take your profit, and then get out.



Example of Bull Flag formation with one consolidation period.

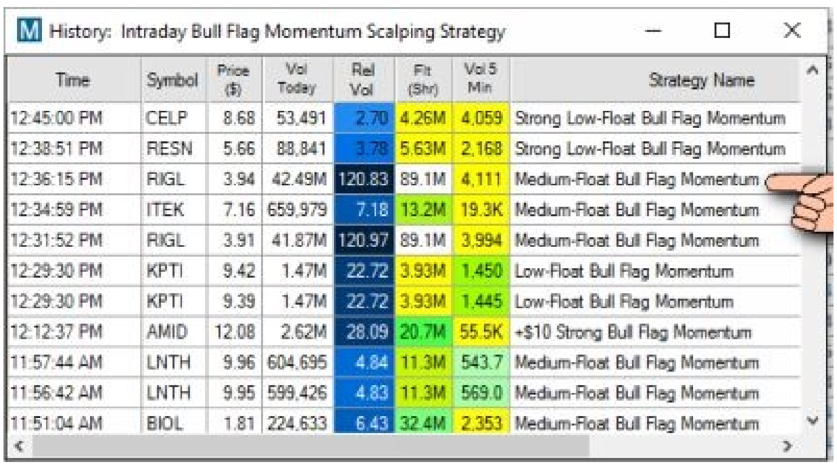
This pattern is named Bull Flag because it resembles a flag on a pole. In Bull Flag, you have several large candles going up (like a pole), and you also have a series of small candles moving sideways (like a flag), or, as we day traders say, "consolidating". Consolidation means that the traders who bought stocks at a lower price are now selling and taking their profits. Although that is happening, the price does not decrease sharply because buyers are still entering into trades and the sellers are not yet in control of the price. Many traders will miss purchasing the stock before the Bull Flag starts. It is risky to buy stock when the price is increasing. That's called "*chasing the stock*". Professional traders aim to enter the trade during quiet times and take their profits during wild times. That, of course, is the total opposite of how amateurs trade. They jump in or out when stocks begin to run, but grow bored and lose interest when the prices are, shall I say, sleepy.

Chasing the stocks is an account killer for beginners. You must wait until the stock finds its high point, and then wait for the consolidation. As soon as the price breaks up in the consolidation area, you can begin purchasing stocks.

Usually a Bull Flag will show several consolidation periods. I enter in only the first and second consolidation periods. Third and higher consolidation periods are risky because the price has probably been very extended in a way that indicates that the buyers will soon be losing their control. Let’s study an example of a Bull Flag of RIGL on August 30, 2016.

Example of Bull Flag formation with two consolidation periods on RIGL.

This is an example of two Bull Flag Patterns. It is normally hard to catch the first Bull Flag, and you will probably miss it, but your scanner should alert you to it. Let’s look at an example from my scanner in this time period:



History: Intraday Bull Flag Momentum Scalping Strategy

Time	Symbol	Price ($)	Vol Today	Rel Vol	Flt (Shr)	Vol 5 Min	Strategy Name
12:45:00 PM	CELP	8.68	53,491	2.70	4.26M	4,059	Strong Low-Float Bull Flag Momentum
12:38:51 PM	RESN	5.66	88,841	3.78	5.63M	2,168	Strong Low-Float Bull Flag Momentum
12:36:15 PM	RIGL	3.94	42.49M	120.83	89.1M	4,111	Medium-Float Bull Flag Momentum
12:34:59 PM	ITEK	7.16	659,979	7.18	13.2M	19.3K	Medium-Float Bull Flag Momentum
12:31:52 PM	RIGL	3.91	41.87M	120.97	89.1M	3,994	Medium-Float Bull Flag Momentum
12:29:30 PM	KPTI	9.42	1.47M	22.72	3.93M	1,450	Low-Float Bull Flag Momentum
12:29:30 PM	KPTI	9.39	1.47M	22.72	3.93M	1,445	Low-Float Bull Flag Momentum
12:12:37 PM	AMID	12.08	2.62M	28.09	20.7M	55.5K	+$10 Strong Bull Flag Momentum
11:57:44 AM	LNTH	9.96	604,695	4.84	11.3M	543.7	Medium-Float Bull Flag Momentum
11:56:42 AM	LNTH	9.95	599,426	4.83	11.3M	569.0	Medium-Float Bull Flag Momentum
11:51:04 AM	BIOL	1.81	224,633	6.43	32.4M	2,353	Medium-Float Bull Flag Momentum

Example of my intraday Bull Flag Strategy.

As you can see, my scanner showed RIGL at 12:36:15 pm. As soon as I saw that, I realized that there was also a very high relative volume of trading, which made this a perfect setup for day trading. I waited for the first consolidation period to finish and, as soon as the stock started to move towards its high for the day, I jumped into the trade. My stop loss would be the breakdown of the consolidation period. I marked my exit and entry in the picture below. As you can see, if you had wanted to wait for a second consolidation period in hope of the third Bull Flag, you would probably have been stopped out. That is why I usually enter the first and second Bull Flags, but not the third one.

Entry, stop and exit of a Bull Flag Strategy on RIGL.

To summarize my trading strategy:

1. When I see a stock surging up (either on my scanner or when advised by someone in our chatroom), I patiently wait until the consolidation period. I do not jump into the trade right away (you will recall that is the dangerous act of "chasing").

2. I watch the stock during the consolidation period. I choose my share size and stop and exit strategy.

3. As soon as prices are moving over the high of the consolidation candlesticks, I enter the trade. My stop loss is the break below the consolidation periods.

4. I sell half of my position and take a profit on the way up. I bring my stop loss from the low of the consolidation to my entry price (break-even).

5. I sell my remaining positions as soon as my target hits or I feel that the price is losing steam and the sellers are gaining control of the price action.

As I mentioned, many people, including myself, buy only at or near the breakout (similar to the ABCD Pattern). The Bull Flag is essentially an ABCD Pattern that will happen more on low float stocks. It's fast and it will fade away more quickly. Therefore, it is more or less a *Momentum Scalping Strategy*. Scalpers buy when a stock is running. They rarely like to buy during consolidation (during that waiting and holding phase). These types of stocks usually drop quickly and brutally so it is important for you to jump only when there is a confirmation of breakout. Waiting for the stocks to break the top of a consolidation area is a way of reducing your risk and exposure time. Instead of buying and holding and waiting, which increases exposure time, scalpers just wait for the breakout and then send their order. Get in, scalp, and get out quickly. That’s the philosophy of momentum scalpers:

- Get in at the breakout
- Take your profit
- Get out of the way

The Bull Flag Pattern is found within an uptrend in a stock. The Bull Flag is a long-based strategy. You should not short a Bull Flag. I personally don’t trade much momentum. It is a risky strategy and beginners should be very careful trading these. If you choose to, trade only small size and only after sufficient practice in simulators. You will also need a super-fast execution system for scalping.

Top and Bottom Reversal Trading

Top and Bottom Reversals are among the easiest trading strategies. Day traders love using them because they have a very defined entry and exit point and a very high profit-to-loss ratio. In this section, I’m going to explain how to find reversal setups using scanners, how to read the Bollinger Bands to find extremes, how to use indecision or Doji candlesticks to take an entry, how to understand where to set your stops and your profit targets, and how to trail your winners.

If you are part of our private chatroom, you will hear me say time and time again that what goes up, must come down. Don’t chase the trade if it is too extended. The inverse is also true. What goes down will definitely come back up to some extent. When a stock starts to sell off significantly, there are two reasons behind it:

1. Institutional traders and hedge funds have started selling their large position to the public market and the stock price is tanking.

2. Retail traders have started short selling the stock but they will have to cover their shorts sooner or later. That is where you wait for an entry. When short sellers are trying to cover their shorts, the stock will reverse.

I’m going to illustrate this strategy with a few examples so that you can see exactly what to look for. Below is an example of what it looks like to find a stock that’s sold off really hard right after the market opens. Moves like this are extremely hard to catch for the short side, because when you find the stock, it is already too late to enter the short selling trade. But please, remember the mantra: *What goes up, must come down*. Therefore, you have the option of waiting for a reversal opportunity.

Example of a Reversal Strategy on EBS.

Each Reversal Strategy has four important elements:

1. At least 5 candlesticks (5 min) moving upward or downward.

2. The stock is trading close to or outside of the Bollinger Bands. Bollinger Bands are an indicator of volatility, and stocks usually stay inside of these bands.

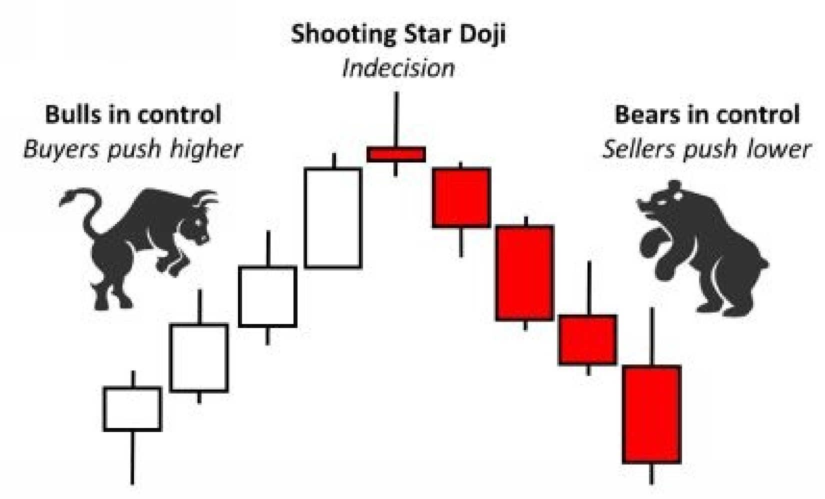
3. The stock will have an extreme RSI indicator (Relative Strength Index). An RSI above 90 or below 10 will pique my interest. If you are not familiar with what an RSI indicator is, you can do a Google search or ask me in our chatroom. Your trading platform will probably have an RSI indicator built into it.

These three elements demonstrate that a stock is really stretched out, and you must pay close attention to the scan for all of these data points. You must simultaneously look for a certain RSI level, a certain number of consecutive candles, and a certain position within the Bollinger Bands.

4. When the trend is going to end, usually indecision candles, such as a spinning top or Doji, form. That is when we need to be ready.

In reversal trading, you are looking for one of these indecision candlesticks - spinning tops or Dojis. They are an indication that the trend may soon change. A Doji is a candle that has a wick longer than its body. You can see a picture of a bearish Doji below. It has that long upper wick that some would call a top and tail and that others would call a shooting star. This candle tells us four things: the open price, the close price, the high of that period and the low of that period. So, when you have a candle with a top tail, you know that at some point during that candle period the price moved up, was unable to hold at that level, and was then sold off. It depicts a bit of a battle taking place between the buyers and the sellers in which the buyers lost their push up. It is a good indication that the sellers may soon control the price and will push that price down.

The same is true about a bullish Doji. You can also see a picture of a bullish Doji below. It has that long lower wick that some would call a bottom tail and others would call a hammer. When you have a hammer candle with a bottom tail, you know that at some point during that candle period the price moved down, was unable to hold at those low levels, and was bought up. This indicates a battle between the buyers and the sellers in which the sellers lost their push down. It is a good indication that the buyers may now gain control of the price and push that price up.



Top Reversal Strategy with an indecision Shooting Star candlestick formed as sign of entry.

In reversal trading, you look for either Doji or indecision candlesticks. They are an indication that the trend may soon change. In Reversal Strategies, you are looking for a clear confirmation that the pattern is beginning to reverse. What you definitely don't want is to be on the wrong side of a reversal trade, or, as we call it, "catching a falling knife". It doesn't sound like a good idea in real life and it's not a good idea in trading. It means that when a stock is selling off badly (the falling knife), you don't want to buy on the assumption that it should bounce. If the stocks are dropping, you want to wait for the confirmation of the reversal. This will usually be (1) the formation of a Doji or indecision candle and (2) the first 1-minute or the first 5-minute candle to reach a new high. That is my entry point. I set my stop at the lows.

In reversal trading, the RSI should be at the extremes (above 90, below 10), and that final candle should be outside the Bollinger Bands. Once you have your entry requirements listed, you must then look for an actual entry. An entry for me is going to be either the first 1-minute or the first 5-minute candle to reach a new high.

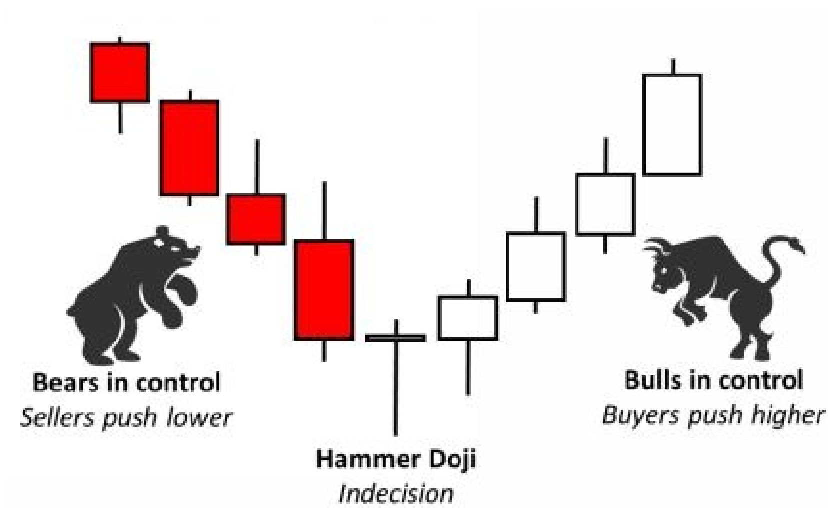
When you've had a long run of consecutive candles making new lows, the first candle that makes the new high is very significant. That's my entry point. There are times when I'll use the 1-minute chart, but typically I'll wait for the 5-minute chart because it is a much better confirmation. The 5-minute chart is cleaner. The first 5-minute candle to make a new high is the point at which I get in the reversal, with a stop either at the low of the day or simply down around 20 to 30 cents. Usually, if a stock goes 30 cents against me, I will admit defeat, recognize that I mistimed my entry, and try again rather than continue to hold. At times, especially on stocks that are more expensive or more volatile, I'll simply use a 20- or 30-cent arbitrary stop if the low of the day is too far away.

Once you're in one of these trades, your exit indicators are quite simple. If the stock pops up and then suddenly moves back down on a bottom bounce, you stop out for a loss. If you jump in the stock and it ends up just going sideways, it's a sign that you are probably going to see a flag (a reverse flag), and that is an indication that the price is probably going to continue to drop. If I get in and I hold for a few minutes and the price stays flat, I get out, no matter what happens after that. I may be wrong, but so be it, I don't like to expose my account to the unknown. I need to be in the right setup, and if it is not ready yet, I'm out. If I get into the profit zone, I can start adjusting my stop, first to break-even, and then to the low of the last 5-minute candle. I will then keep adjusting my stop as I move up.

You must realize that almost all of the big moves will eventually be corrected. What goes up, must come down. In Reversal Strategies, one of the main advantages is the opportunity to watch stocks that are running up, while simultaneously calculating possible resistance points and areas that could provide a good reversal opportunity. This allows you to resist being impulsive and rushing into the trade. You can instead take your time to watch the trade develop and wait for the momentum to begin to shift.

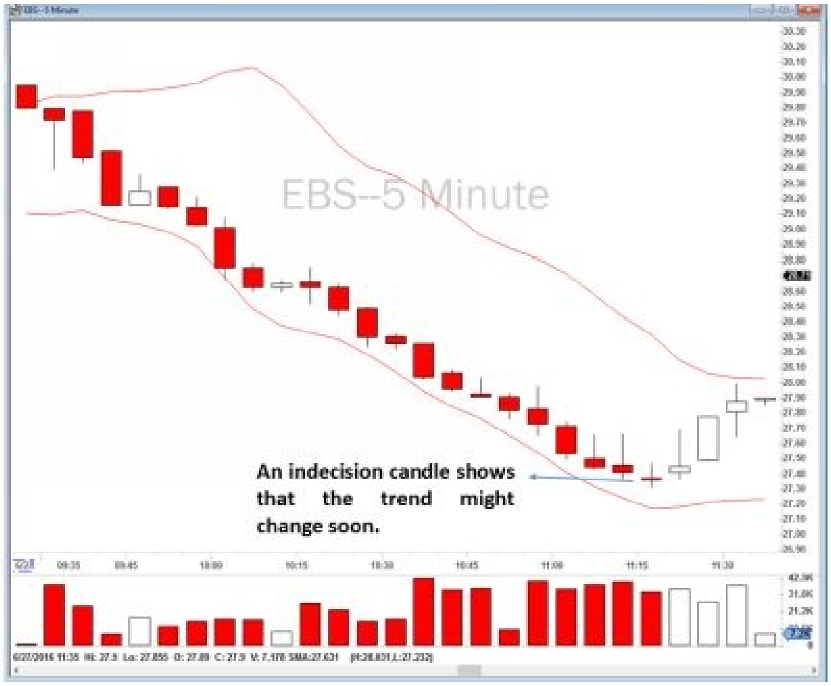
An important metaphor many traders use when talking about Reversal Strategies is that of a rubber band. When stocks become really stretched out to the downside, then inevitably they're due for a correction. So, when a stock is really squeezing down, you will know that at some point it's going to make a bounce, and you want to be in there for the bounce. What you definitely don't want to be is to be the one still selling. As I said before, that's like "catching a falling knife". If stocks are dropping, you want to wait for the confirmation of the reversal. This will probably be the first 1-minute or the first 5-minute candle to make a new high. That's my cue to jump in. I set my stop at the lows.

Bottom Reversal



Bottom Reversal Strategy with an indecision hammer candlestick formed as sign of entry.

This beautiful illustration on Emergent BioSolutions Inc. (EBS) shows a perfect reversal that I found using my stock scanners. An indecision candlestick at the bottom of the downtrend signifies a potential reversal, and as you see right after that you see a big swing back up. I took this trade right after seeing indecision Doji, and kept my stop at the low of that indecision candlestick.



Example of a Reversal Strategy on EBS.

The biggest advantage of Reversal Strategies is that they overcome the difficulty of anticipating when stocks will make major moves. You will probably miss the moment when the stock starts to sell off, and you won’t have the time to short the stock for profit, but you can always prepare for the reversal trade.

Another example:

Example of a Bottom Reversal Strategy on ALR.

I found ALR (Alere Inc.) on June 27, 2016 at 10:57 a.m., using a software program that scans the stock market and lets me know exactly what I want to know. See the image below:


History: Bottom Reversal (m...

Symbol	Time	Consec Cndls	Price ($)	Flt (Shr)	Avg True	Vol 10 Min	Rel Vol
GWRE	10:57	-6	57.49	72.45M	1.50	48.7	2.35
PHG	10:57	-8	23.04	912.49M	0.66	163.9	3.18
BXP	10:57	-10	125.53	152.55M	1.91	82.6	1.68
ALR	10:57	-7	40.70	82.21M	0.77	142.9	1.21
BOFI	10:57	-7	15.51	57.57M	0.65	105.6	1.63
IMAX	10:57	-6	27.62	58.75M	0.90	77.6	1.02
DIS	10:57	-6	94.19	1.49B	1.41	141.8	1.45
COP	10:57	-10	41.29	1.24B	1.47	84.4	1.65
YELP	10:57	-9	26.57	54.92M	1.09	138.0	1.61
P	10:57	-4	11.25	188.46M	0.48	245.0	1.23
UHS	10:57	-11	129.57	87.99M	2.75	99.0	1.29
AYI	10:57	-8	234.47	43.02M	5.03	172.2	1.73
RNG	10:57	-6	19.04	56.45M	0.60	60.7	1.98
YNDX	10:57	-10	19.78	264.00M	0.81	496.1	2.02
CAB	10:57	-6	46.42	45.13M	0.99	112.5	1.46
ETN	10:57	-8	54.36	456.47M	1.33	485.9	5.74
FSIC	10:57	-5	8.55		0.17	89.7	0.83
EZPW	10:56	-5	6.77	45.20M	0.34	106.3	1.50
ZOES	10:56	-6	34.60	17.22M	1.18	733.1	2.85

Example of my Bottom Reversal real time scanner for ALR.

My scanner, at 10:57 a.m., showed me that ALR had seven consecutive candles to the downside, a relatively low float (80 million shares) and a relative volume of 1.21, which meant it was trading higher than usual. I actually did not take this trade because I missed my entry, but I wanted to show you what overall trading strategies look like for bottom reversals.

When you're looking at reversals, you want to make sure that you only trade extremes. The example we just saw was a stock that made an extreme move to the downside before that move reversed. A stock that's been selling off slowly all day long usually isn't suitable for a reversal. Instead, it's helpful to think of stocks the way you think of rubber bands - you want to see them really stretched out to the downside or, for short selling, really stretched out to the upside. You want to see the big extension, which means that you want to see considerable volume. Once you do, you then look for a couple of key indicators that will suggest that the tide may be about to turn, and that's when you take the position. I've said it many times: what goes up, must come down. Oftentimes these stocks will give up days' and weeks' or years' worth of price gain in just a matter of minutes. It is very critical to be able to time the reversal.

I'll say it again: the key to the success with top and bottom reversals is trading the extremes. How do I quantify these extremes? There are a few things I look for:

1. An extreme RSI above 90 or below 10 will pique my interest.

2. A candle outside of the Bollinger bands is also going to interest me.

3. Finally, seeing five to ten consecutive candles ending with an indecision candle or a Doji is definitely going to catch my interest. These candles usually show that sellers are losing their control while buyers are becoming more powerful, and that indicates the end of a trend.

I will add a caveat to that final point: there will be times when you will have five to ten consecutive candles without much price action. They may be drifting down slowly, but not quickly enough for you to sense that it's a good reversal. You must look for a combination of these indicators all occurring at the same time. Never sell short just because the prices are too high. You should never argue with the crowd's decision, even if it doesn't make sense to you. You do not have to run with the crowd - but you should not run against it.

Utilizing all of these different factors will create the strategy that has been extremely successful for me due to its incredible profit-to-loss ratio. Your profit-to-loss ratio is your average winners versus your average losers. Many new traders end up trading with a very poor profit-to-loss ratio because they sell their winners too soon and they hold their losers too long. This is an extremely common habit among new traders. The Reversal Strategy, however, lends itself to having a larger profit-to-loss ratio. To return to the rubber band analogy, by following such a strategy you will always buy stocks when the rubber band is stretched as far as it can go. When you time this right, you're in as the rubber band snaps back and you can then ride the momentum right back up.

To summarize my trading strategy for the Bottom Reversal Strategy:

1. I set up a scanner that show me stocks with four or more consecutive candlesticks going downward. When I see a stock hit my scanner, I quickly review the volume and level of resistance or support near the stock to see if it is a good trade or not.

2. I wait for confirmation of a Reversal Strategy: (1) formation of a bearish Doji or indecision candle, (2) candlesticks being very close or outside of the Bollinger Bands, and (3) the RSI must be lower than 10.

3. When I see the stock make a new 5-minute high, I buy the stock.

4. My stop loss is the low of the previous red candlestick or the low of the day.

5. My profit target is (1) the next level of support or (2) VWAP (Volume Weighted Average Price, described later in this chapter) or moving averages or (3) the stock makes a new 5-minute high, which means that the buyers are once again gaining control.

Top Reversal

A Top Reversal is similar to a Bottom Reversal, but on a short selling side. Let's take a look at

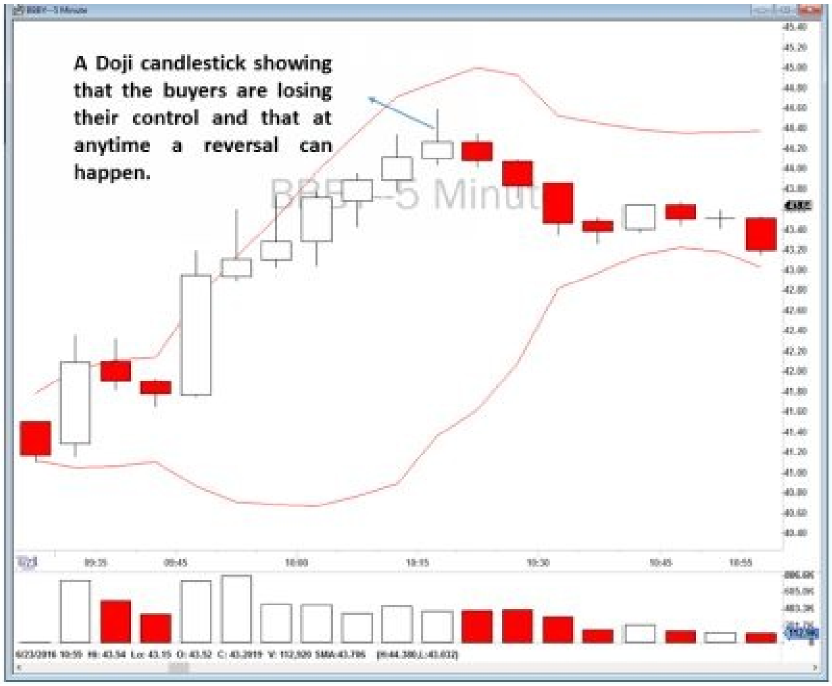
Bed Bath & Beyond Inc. as it traded on June 23, 2016. My scanner showed BBBY going up at 10:18 a.m. with six consecutive candles. It had a relative volume of 21.50, which meant it was trading significantly higher than usual. That was because, as discussed, retail traders look for unusual trading volume.

I took this trade and made a good profit on it. The candlesticks were not outside of the Bollinger Bands, but because it was trading with very unusual volume, and forming a nice Doji on top, I decided to take the trade. I shorted stock when a new 5-minute candlestick was made, with my stop being the break of the high of the last 5-minute candles. I covered my shorts at $43.40 for a 60-cent profit when the stock made a new 5-minute high.

History: V5 Top Reversal

Symbol	Time	Consec Cndls	Price ($)	Flt (Shr)	Avg True	Vol 15	Vol Today	Rel Vol
KEX	10:18	4	68.52	52.5M	1.66	94.1	58,955	1.11
KEX	10:18	4	68.51	52.5M	1.66	93.6	58,855	1.11
BBBY	10:18	6	44.60	149M	1.18	1.1K	5.28M	21.60
BBBY	10:18	6	44.58	149M	1.18	1.1K	5.28M	21.59
BBBY	10:18	6	44.57	149M	1.18	1.1K	5.28M	21.59
BBBY	10:18	6	44.56	149M	1.18	1.1K	5.28M	21.59
BBBY	10:18	6	44.55	149M	1.18	1.1K	5.27M	21.59
BBBY	10:18	6	44.55	149M	1.18	1.1K	5.27M	21.59
BBBY	10:18	6	44.53	149M	1.18	1.1K	5.27M	21.58
BBBY	10:18	6	44.51	149M	1.18	1.1K	5.27M	21.58
BBBY	10:18	6	44.50	149M	1.18	1.1K	5.27M	21.57
BBBY	10:18	6	44.49	149M	1.18	1.1K	5.27M	21.57
THC	10:17	5	29.04	79.8M	0.95	139	174K	1.37
KSS	10:17	4	37.77	182M	1.09	70.6	330K	0.45
INCY	10:17	5	80.22	174M	3.03	108	188K	1.29
INCY	10:17	5	80.22	174M	3.03	108	188K	1.29
KSS	10:17	4	37.75	182M	1.09	69.8	329K	0.45
SSYS	10:17	4	22.85	51.2M	1.01	172	158K	0.87
THC	10:17	5	29.03	79.8M	0.95	138	174K	1.38
THC	10:17	5	29.03	79.8M	0.95	138	174K	1.38
SSYS	10:17	4	22.84	51.2M	1.01	171	158K	0.87
BBBY	10:17	6	44.48	149M	1.18	1.1K	5.23M	21.67
KSS	10:17	4	37.74	182M	1.09	68.1	327K	0.44
KSS	10:17	4	37.72	182M	1.09	67.7	327K	0.44
BBBY	10:17	6	44.47	149M	1.18	1.1K	5.22M	21.66

Example of my Top Reversal real time scanner for BBBY.



Example of a Top Reversal Strategy on BBBY.

To summarize my trading strategy for the Top Reversal Strategy:

1. I set up a scanner that shows me stocks with four or more consecutive candlesticks moving upward. When I see the stock hit my scanner, I quickly review the volume and level of resistance or support near the stock to see if it is a good trade or not.

2. I wait for confirmation of a Reversal Strategy: (1) formation of a bearish Doji or indecision candle, (2) candlesticks being very close or outside of Bollinger Bands, and (3) the RSI must be higher than 90.

3. When I see the stock make a new 5-minute low, I start short selling the stock.

4. My stop will be the high of the previous candlestick or simply the high of the day.

5. My profit target is (1) the next level of support or (2) VWAP or moving averages or (3) when the stock makes a new 5-minute high, which means the buyers are once again gaining control.

Some day traders focus exclusively on reversal trades and actually base their entire careers on them. Reversal trades are certainly the most classic of the various strategies with a very high risk-reward ratio and, interestingly, you will always find stocks that are good candidates for reversal trades. I myself am trading more and more reversal trades these days, especially during late morning and afternoon trading. However, reversal trading is not yet the cornerstone of my trading strategies. I am more of a VWAP trader and Support or Resistance trader, which I will explain later.

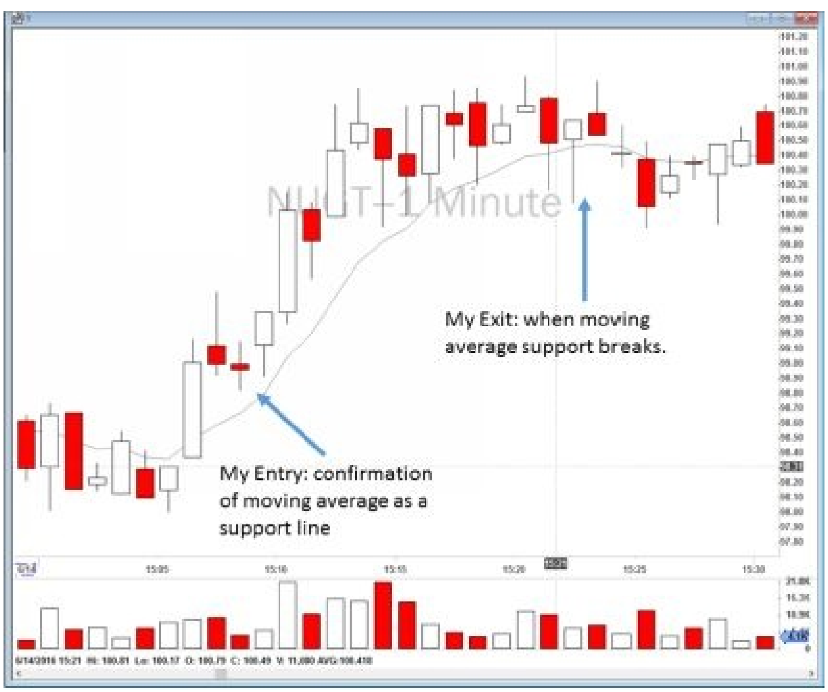
Moving Average Trend Trading

Some traders use moving averages as potential entry and exit points for day trading. Many stocks will start an upside or downside trend respecting their moving averages in 1-minute and 5-minute charts as type of a moving support or resistance line. Traders can benefit from this behavior and ride the trend along moving average (on top of moving average for going long or below moving average for short selling).

I have been asked why moving averages are becoming support or resistance, and the answer is because many traders are looking at these lines and making decisions based on them. Therefore, they have a self-fulfilling prophecy effect. There is no fundamental reason behind moving averages being a support or resistance line.

I use 9 and 20 exponential moving averages (EMA) and 50 and 200 simple moving averages (SMA). I won't go into the details of what moving averages are and the differences between simple and exponential in order to keep this book short. You can, however, do a Google search and find information about these moving averages or you can of course contact me directly through www.Vancouver-Traders.com with any questions you may have. Your charting software will haves most of the moving averages built in. They are ready to be used and there is no need to change the default setting in them.

Let's take a look at the chart below for NUGT to see how you could trade based on 9 EMA in a 1-minute chart.



Example of a Moving Average Trend Strategy on NUGT.

As you can see, at 15:06 pm I noticed NUGT has formed a Bull Flag. I saw that a consolidation period was happening on top of 9 EMA. As soon as I saw that 9 EMA was holding as the support, I jumped on the trade and rode the trend until the price broke the moving average at 15:21 pm. I've marked my entry and exit points on the chart.

Let's take a look at another example, Celgene Corporation (CELG), on June 16, 2016. In the chart below, you will see how you can trade based on 20 EMA in a 1-minute chart. I marked my entry and exit points on the chart.

Example of a Moving Average Trend Strategy on CELG.

Another example is EXAS on July 28, 2016 with 9 EMA.

Example of a Moving Average Trend Strategy on EXAS.

To summarize my trading strategy for Moving Average Trend Trading:

1. When I am monitoring a stock and notice a trend is respecting moving average, I consider trend trading. I quickly look at the previous days' trading data to see if the stock is responding to these moving averages in a 1-minute or 5-minute chart. I have 9 and 20 EMA and 50 and 200 SMA.

2. Once I learn which moving average is more suitable to the behavior of the trade, I buy the stock after confirmation of moving averages as a support, and I buy as close as possible to the moving average line (in order to have a small stop). My stop will usually be 5 cents below the break of moving average line.

3. I ride the trend until the break of moving average.

4. I never use trailing stops and I constantly monitor the trend with my eyes.

5. If the stock is moving really high away from the moving average, I take some profit, usually at half-position. I do not always wait until the break of moving average for my exit.

I personally don't trade very often based on moving averages. I look at them to see potential levels of support or resistance, but I rarely make any trend trade based upon their trend because, in a trend trade strategy, you are usually exposed in the market for a considerable time. Some trend trades can last as long as several hours and that is too long for my personality.

Another major problem I have with Moving Average Trending is that you don't know in the stock you want to trade which moving average is accurately acting at a support or resistance level. In the examples above, if I changed my moving average from 9 to 12, or to 15, or to any other number, then it won't act as a nice clean support.

I use 9 and 20 EMA on my default charts, but I know not everyone does. Some traders are using 11 and 21 EMA. That in the end is a significant problem with Moving Average Trading. You don't know which moving average is best for a stock and you obviously do not have enough time to test them all out during the trading day.

I recommend using either:

9, 20 EMA and 50 and 200 SMA or:

11, 21 EMA and 50 and 200 SMA

Having said that, Moving Average Trend Strategy is an excellent strategy for beginners, because it usually does not require a very fast decision making process and trade execution. In addition, stop loss and entry points can be clearly recognized from the moving average on the charts.

As I discussed, strategies depend on your account size, personality, psychology of trading and risk tolerance, as well as on your software and the tools and brokers that you have. The combination of all of these factors have led me to be a VWAP trader and support or resistance trader, something I will explain in the next section. However, I want to emphasize that trade strategies are not something that you can imitate just from reading a book, speaking with a mentor, or attending a class. You have to slowly and methodically develop your preferred method and then stick with it. There is nothing wrong with any strategy if it works for you. There is no good and bad in any of these strategies; it truly is a matter of personal choice.

Now let me explain what my favorite trading strategies are.

VWAP Trading

Volume Weighted Average Price, or VWAP, is the most important technical indicator in day trading. Definitions of VWAP can be found in both Wikipedia and many other online resources. I will skip explaining it in detail for the sake of keeping this guide short, but essentially, VWAP is a moving average that takes into account the volumes of the stock being traded. Other moving averages are calculated based only on the price of the stock in the chart, but VWAP also considers the number of the shares that the stock is traded on every price. Your trading platform probably has VWAP built into it and you can use it without changing its default setting.

VWAP is a good indicator of who is in control of the price action - buyers or sellers. When stock is traded above VWAP, it means that the buyers are in overall control of the price. When a stock price breaks below the VWAP, it is safe to assume that the sellers are gaining control over the price action.

Trading based on VWAP can be very easy for beginner traders because so many traders are studying the VWAP and making decisions based on it. Therefore, a beginner trader can easily be on the right side of the trade. When a stock tries to break the VWAP but cannot, you can short stock because you can safely assume that other traders that are watching will also begin to short. A trading strategy based on VWAP is a simple and easy strategy to follow. I usually short stocks when traders try but fail to break the VWAP in 5-minute charts.

Let's take a look at a recent trade that I took on SolarCity Corporation (SCTY) on June 24, 2016.

Example of a long VWAP Strategy on SCTY.

At around 10:30 a.m. on June 24, 2016, I noticed that SCTY had found a support over VWAP. I purchased 1,000 shares of the stock with the anticipation of moving toward $22 with VWAP as a support. My stop was a close below VWAP. I first sold a half-size position at $22.50, and then moved my stop to break-even. I sold another position at $22 because I know half-dollars (such as $1.50, $2.50, $3.50) and whole dollars ($1, $2, $3) usually act at a support or resistance level.

VWAP also works well when you want to short stocks. Let's take a look at another recent trade that I took on SolarCity Corporation, this time on June 22, 2016, and this time on the short side.

Example of a short VWAP Strategy on SCTY.

At around 11 a.m., I noticed that SCTY had faced a resistance over VWAP. I shorted the stock with the anticipation of losing the VWAP at around $23. Around 12 pm buyers gave up and the sellers took control of the price action. I had a nice run down to $22 and covered my shorts at $22 for a good $1,000 profit.

To summarize my trading strategy for VWAP trading:

1. When I make my watch list for the day, I monitor the price action around VWAP. If a stock shows respect toward VWAP, then I wait until a confirmation of the VWAP break or support.

2. I usually buy as close as possible to minimize my risk. My stop will be a break and close 5-minute chart below VWAP.

3. I keep the trade until I hit my profit target or until I reach a new support or resistance level.

4. I usually sell half-positions near the profit target or support or resistance level and move my stop up to my entry point or break-even.

A similar approach will work equally as well when you short a stock.

Support or Resistance Trading

Horizontal support or resistance trading is my favorite style of trading. The market doesn’t know diagonals. It remembers price levels, which is why horizontal support or resistance lines make sense, but diagonal trend lines are subjective and open to self-deception. I therefore avoid trend lines because, in my opinion, they are wildly subjective and result in wishful thinking and self-deception. In fact, trend lines are among the most deceptive of all tools. You can draw a trend line across the prices or zones in a way that can change its slope and its message. If you’re in a mood to buy, for example, you can draw your trend line somehow steeper.

After making thousands of trades and looking at thousands of charts, I’ve come to the conclusion that the market doesn’t know diagonals. It remembers price levels, which is why horizontal support or resistance lines make sense, but diagonal trend lines are subjective and open to self-deception.

Support is a price level where buying is strong enough to interrupt or reverse a downtrend. When a downtrend hits support, it bounces like a diver who hits the bottom of the ocean and then automatically pushes away from it. Support is represented on a chart by a horizontal line connecting two or more bottoms (see the figure below).

Resistance is a price level where selling is strong enough to interrupt or reverse an uptrend. When an uptrend hits resistance, it acts like a person who hits their head on a branch while climbing a tree - they stop and might even tumble down. Resistance is represented on a chart by a horizontal line connecting two or more tops.

Minor support or resistance causes trends to pause, while major support or resistance causes them to reverse. Traders buy at support and sell at resistance, making their effectiveness a self-fulfilling prophecy.

Using this method, every morning I shortlist the stocks that I would like to trade based on the criteria I set forth in Chapter 4: a stock that has fundamental catalysts such as news, an extreme earnings report or a new drug approval. These stocks are the ones that retail traders are watching and planning to trade.

Before the market opens, I go back to the daily charts and find price levels that have been shown in the past to be critical. Finding price support or resistance levels is tricky and requires trading experience. If you watch me trading every morning, you will see how I place my support or resistance lines on my Alpha Predators.

For example, let’s take a look at a SCTY daily chart without support or resistance lines and another including the lines.

Example of a Support or Resistance Strategy on SCTY daily chart.

Support or resistance lines in daily charts are not always easy to find, and at times you will not be able to draw anything clear. If I cannot see anything clear, I don't have to draw anything. There is a good chance that other traders will also not see these lines clearly and therefore there is no point in forcing myself to draw support or resistance lines. In that case, I will plan my trades based on the VWAP or Moving Averages or chart patterns that I earlier discussed.

Here are some hints for drawing support or resistance lines:

1. You will usually see indecision candles (Chapter 6) in the area of support or resistance because that is where buyers and sellers are closely fighting each other.

2. Half-dollars and whole dollars usually act at a support or resistance level. If you don't find a support or resistance line around these numbers on daily charts, remember that in intraday these numbers can act as an invisible support or resistance line.

3. You should always look at the recent data to draw lines.

4. The more of a line that is touching price lines, the more that the line is a better support or resistance and has more value. Give that line more emphasis.

5. Only the support or resistance lines in the current price range are important. If the price of the stock is currently $20, there is no point in finding support or resistance lines in the region when it was $40. It is unlikely that the stock will move and reach that area. Find only the support or resistance area that is close to your day trading range.

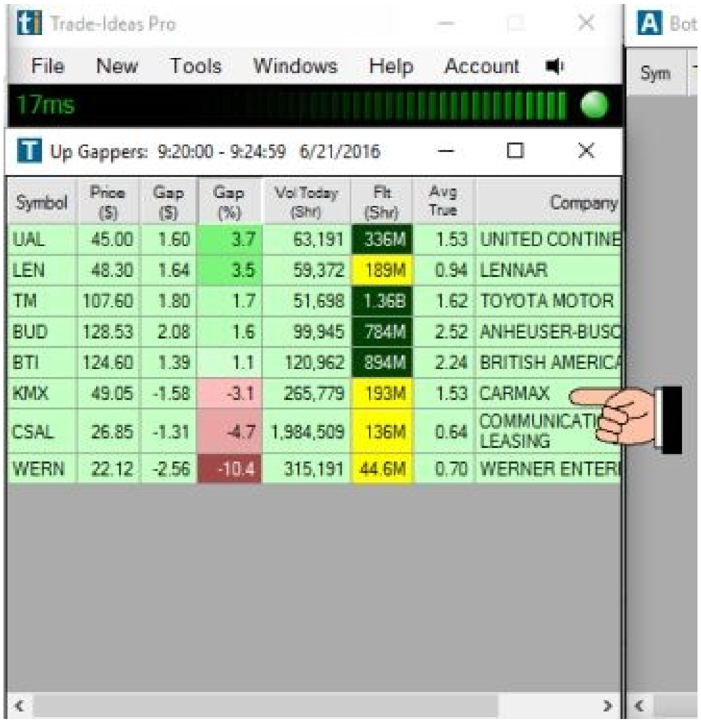
6. Support or resistance lines are actually an "area" and not exact numbers. For example, when you find an area around $19.69 as a support line, you must expect price action movement around that number but not at exactly $19.69. Depending on the price of the stock, an area of 5 to 10 cents is safe to assume. In the example with a support line of $19.69, the real support area might be anything from $19.62 to $19.72.

7. The price must have a clear bounce from that level. If you are not certain if the price has bounced in that level, then it is probably not a support or resistance level.

8. For day trading, it is better to draw support or resistance lines across the extreme prices rather than across areas where the bulk of the bars stopped. This is the complete opposite of swing trading. For swing trading, you need to draw support or resistance lines across the edges of congestion areas where the bulk of the bars stopped rather than across the extreme prices.

Placing support or resistance lines, although tricky, is actually quite simple once you get the hang of it.

Let's review a recent trade that I took based on these lines. CarMax (ticker: KMX), the United States' largest used-car retailer, on June 21, 2016 had extreme earnings and its stock gapped down over 3%. That was a perfect opportunity for retail traders like me to find a good trade plan. I quickly found the support or resistance area level on a daily chart and watched the price action around those levels.



Symbol	Price ($)	Gap ($)	Gap (%)	Vol Today (Shr)	Flt (Shr)	Avg True	Company
UAL	45.00	1.60	3.7	63,191	336M	1.53	UNITED CONTINE
LEN	48.30	1.64	3.5	59,372	189M	0.94	LENNAR
TM	107.60	1.80	1.7	51,698	1.36B	1.62	TOYOTA MOTOR
BUD	128.53	2.08	1.6	99,945	784M	2.52	ANHEUSER-BUSC
BTI	124.60	1.39	1.1	120,962	894M	2.24	BRITISH AMERICA
KMX	49.05	-1.58	-3.1	265,779	193M	1.53	CARMAX
CSAL	26.85	-1.31	-4.7	1,984,509	136M	0.64	COMMUNICATI LEASING
WERN	22.12	-2.56	-10.4	315,191	44.6M	0.70	WERNER ENTER

My watch list Gapper on June 21, 2016 at 9:20 a.m. KMX is an Alpha Predator for that day.

KMX support or resistance lines and my trade for that day.

After reviewing the daily charts, I found two levels of $48.09 and $48.48. When the market opened, I watched the stock and realized that the area of around 48.09 acted as a support. When I saw an indecision candle around the support line, I purchased 1,000 shares of KMX with a stop of below $48. The stock surged up toward the next level at $48.48 and, interestingly enough, $48.48 was also close to my invisible half-round number ($48.50). I sold half of my position for a profit and kept the balance for going higher. Since I did not have any other support or resistance area higher up, I decided to sell my remaining position at the invisible resistance line of $49. As you can see, $49 acted as a strong resistance line, and the stock sold off from that level.

To summarize my trading strategy for support or resistance trading:

1. Each morning, when I make my watch list for the day, I quickly look at the daily charts for my watch list and find the area of support or resistance.

2. I monitor the price action around those areas on a 5-minute chart. If an indecision candle forms around that area, that is the confirmation of the level and I enter the trade. I usually buy as close as possible to minimize my risk. Stop would be a break and a close 5-minute chart under support or resistance level.

3. I will take profit near the next support or resistance level.

4. I keep the trade open until I hit my profit target or I reach a new support or resistance level.

5. I usually sell half-positions near the profit target or support or resistance level and move my stop up to my entry point for break-even.

6. If there are no next obvious support or resistance levels, I will consider closing my trade at or near half-dollar or round-dollar levels.

A similar approach will also work when you short a stock.

Other Trading Strategies

You have now read briefly about my trading strategy. You may be wondering what other traders do. As I mentioned before, there are unlimited numbers of trading strategies that individuals have developed for themselves. Traders often choose their strategies based on such factors as account size, amount of time that can be dedicated to trading, trading experience, personality and risk tolerance.

You should develop your own strategy. A trading strategy is very personalized to each individual. My risk tolerance and psychology are most likely different from yours and from those of other traders. I might not be comfortable with a $500 loss, but someone who has a large account can easily hold onto the loss and eventually make profit out of a losing trade. You cannot mirror-trade anyone else; you must develop your own risk management method and strategy.

Some traders focus heavily on technical indicators like the RSI, the moving average convergence divergence (also known as the MACD), or the moving average crossover. There are hundreds, if not thousands, of sophisticated technical indicators out there. Some traders believe they have found the Holy Grail of technical indicators, and it might be a combination of RSI or the moving average crossover. I don't believe in any of them. I don’t think that they work for day trading, especially over the long term.

Some of my day trader colleagues may disagree with me, but my personal experience is that you cannot enter a trade with a systemic approach and then let indicators dictate your entry and exit. That is my next rule:

Rule 10: Indicators only indicate; they should not be allowed to dictate.

Computers are trading all of the time. When you set up a system for trading that has no input or requires no decisions by the trader, then you are entering the world of algorithmic trading, and you will lose trades to investment banks that have million-dollar algorithms and billions of dollars in cash for trading.

Of course, I use the RSI in my scanner for some of my trading strategies, and in particular for reversal trading. Obviously, I have scanners that rely on a high or low RSI, but those are more conditioned to find stocks at extremes. This is not by any means a buy or sell indicator.

Develop Your Own Strategy

You must still find your own place in the market. I may be a 1-minute or a 5-minute trader; you may be a 60-minute trader. Some may be daily or weekly traders (swing traders). There's a place in the market for everyone. Consider what you are learning in this book as pieces of a puzzle that together make up the bigger picture of trading. You're going to acquire some pieces here, you're going to pick up pieces on your own from your own reading and research, and, overall, you will create a puzzle that will develop into your own unique trading strategy. I don't expect everything I do to work exactly the same for you. I'm happy to help you develop a strategy that is going to work for you, your personality, your account size and your risk tolerance.

The key for now is that you master one strategy. Once you can tread water in the market with your one strategy, you can be a trader without blowing up your account. This is simply a matter of spending time in the chair. The more time you spend watching your charts, the more you will learn. This is a job where you survive until you can make it. You can start casting out later, but first you need to master just one strategy. It can be the VWAP trade, it can be a Bull Flag Momentum Strategy, it can be a Reversal Strategy, or you can create a strategy of your own. Narrow the choices down, develop that area of strength into a workable strategy, and then use that strategy to survive until you are able to develop others.

It is absolutely critical for every trader to be trading a strategy. Plan a trade, and trade the plan. I wish someone had said to me when I first started training, "Andrew, you need to trade a strategy. If you're trading with real money, you must be trading a written strategy, and it must have historical data to verify that it's worth trading with real money." You cannot change your plan when you have already entered the trade and have an open position.

The truth about traders is that they fail. They lose money, and a large percentage of those traders are not getting the education that you are receiving from this book. They're going to be using live trading strategies that are not even hammered out, they will just be haphazardly trading a little of this and a little of that until their account is gone, and then they will wonder what happened. You don't want to live trade a new strategy until you've proven that it's worth investing in. You may practice three months on a simulator, and then trade small size with real money for one month, and then go back to the simulator to work on your mistakes or practice new strategies for another three months. There is no shame in going back to a simulator at any stage of your day trading career. Even experienced and professional traders, when they want to develop a new strategy, test it out on a live simulator first.

Your focus while reading this book and practicing in simulated accounts should be to develop a strategy worth trading, and it's my pleasure to assist you with that process. Remember, the market is always going to be there. You don't need to rush this. A day trading career is a marathon and not a sprint. It's not about making $50,000 by the end of next week. It's about developing a set of skills that will last a lifetime.

Chapter 8:
Step-by-Step to a Successful Trade

Now let's take a look at one of my trades. Later I'll explain in detail how I did it.

Building a Watch List

On the morning of June 2, 2016, before the market opened, SRPT hit my watch list scanner. It was gapping down 14.5%, had a relatively low float (only 36 million shares, which meant the stock would move a lot intraday) and a high Average True Range of $1.86 (which meant the stock on average moved in a range as large as $1.86 during the day, which is really good for day trading).


Up Gappers: 9:15:00 - 9:19:59 6/02/2016

Symbol	Price ($)	Gap ($)	Gap (%)	Vol Today	Flt (Shr)	Avg True	Avg Vol	Company Name
SRPT	18.30	-3.11	-14.5	77,117	36.0M	1.86	9.48M	SAREPTA THERAPEUTICS
CXRX	32.58	1.53	4.9	60,106	39.2M	2.25	609K	CONCORDIA HEALTH CARE
BOX	11.75	-1.06	-8.3	135,063	42.4M	0.33	1.15M	BOX INC
QLIK	30.25	1.28	4.4	1.22M	86.6M	1.06	2.17M	QLIK TECHNOLOGIES
CIEN	19.56	1.80	10.1	536,084	134M	0.46	2.73M	CIENA CORP
ORCL	39.03	-1.23	-3.1	97,831	3.03B	0.53	9.12M	ORACLE CORP

My watch list at 6:15 a.m. (9:15 a.m. New York time) - SRPT is on my watch list.

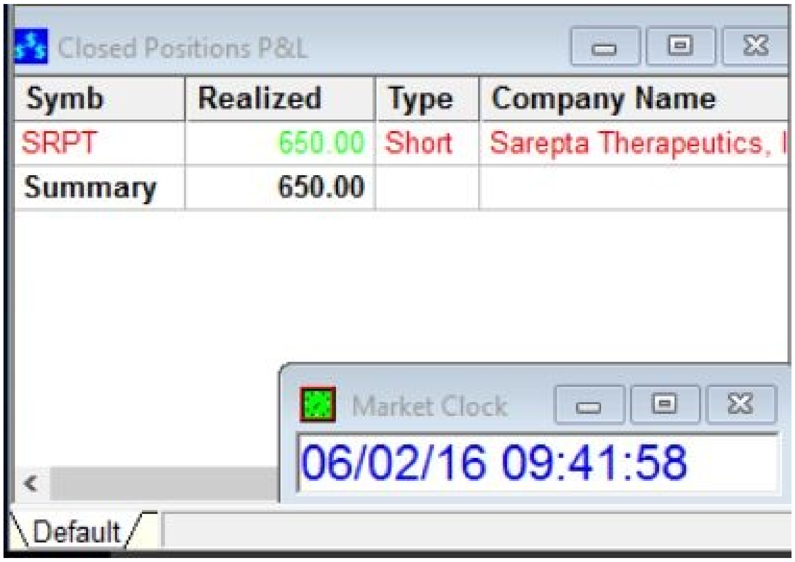
Trading Plan (entry, exit, and stop loss)

I looked at the chart and decided to wait and see the price action for 10 minutes at the beginning of trading. When the market opened, I saw that the buyers could not push the price any higher. There was no interest in buying back the stock. Therefore, I decided to do a VWAP trade. I monitored VWAP and price action around VWAP for two 5-minute candlesticks. I realized that the sellers were in control and that the buyers could not push the price higher than VWAP and hold it. I knew it must be a good short with a stop above VWAP.

5-minute chart on June 2, 2016. Market opened at 9:30 a.m. New York time.

Execution

After 10 minutes, when SRPT closed below VVWAP, I entered the trade by shorting stock around $18.20 with a stop loss in mind just above VWAP. As expected, the sellers took control, and the stock price tanked to $17. I exited when a new 5-minute chart made a new high. When the candlestick made a new high, it meant that the buyers were then gaining control. I covered my shorts at around $17.40 and locked in a $650 profit, as you can see below.



My profit on June 2, 2016
(only 12 minutes into my day).

How Did I Do It?

My philosophy in trading is that you need to master only a few solid setups to be consistently profitable. In fact, having a simple trading method consisting of a few minimal setups will help to reduce confusion and stress and allow you to concentrate more on the psychological aspect of trading, which is truly what separates the winners from the losers.

Now that you have learned the basics of a few trading strategies, let’s review the actual process of planning and making a trade. You now understand the setup you want to trade, but as a beginner trader, you will have a hard time planning and initiating a trade beforehand. It is very common to have a good setup but then enter or exit a trade at the wrong times and lose money while everyone else is making money. I believe the solution lies in developing a process for your trading. Plan a trade, and trade a plan.

I have a Ph.D. in chemical engineering, so I firmly believe in the process approach to trading. I can safely say that this is a major reason for my success. My trading process looks like this:

- Morning routine
- Develop watch list
- Organize a trade plan
- Initiate the trade according to plan
- Execute the trade according to plan
- Journaling and reflection

You must remember that what makes a trade profitable is the correct execution of all of the steps in the above process. Write down your reasons for entering and exiting every trade. Everyone can read this book or dozens of other books, but only a few people have the discipline to execute correctly. You might have a good setup but select a wrong stock to trade, such as a stock that is being manipulated by computers and institutional traders. Perhaps you will find a proper stock to trade, but you will enter the trade at the wrong time. A bad entry will make a mess of your plan and you will eventually lose your money. You can find a good stock to trade and enter a trade correctly, but if you don’t exit properly, you will turn a winning trade into a losing one. All of the steps of the process are important.

Think about something significant that you do frequently in your life, and then think of how it can best be done. Now, consider how you do it currently. This is a great thought process for traders to have. When you take a trade, you need to ensure that you are focused on the right things both prior to entering it as well as during the trade. Creating a system for this thought process will take away most of the emotional hang-ups traders experience when looking to enter into a trade as well as managing it while they are in it.

This brings you to my final rule:

Rule 11: Profitable trading does not involve emotion. If you are an emotional trader, you will lose your money.

Education and practice give you a perspective of what matters in trading, how you trade, and how you can grow and develop your skills. Once you have a perspective on what matters, you can proceed to identify the specific processes on which to focus. The key to success is knowing your exact processes. Often you will learn them the hard way - by losing money.

I have found that trading, sticking to my plan and the discipline inherent in my trading methodology have had a snowball effect of positive habits in my life in general, and these habits have contributed to even more trading success. For example, I start my trading process by following the same routine when I get up in the morning. I always go for a morning run before the trading session starts. As mentioned before, I live in Vancouver, Canada, and the market opens at 6:30 a.m., my time. I wake up at 5 a.m. every morning. I go for a run from 5 to 5:45 a.m. (usually between 7 and 10 kilometers (or around 4 to 6 miles)). I come home, take a shower, and at 6 a.m. start developing my plan.

I have found that when my body has not been active prior to trading, I will make poor decisions. There are scientific studies showing that aerobic exercise has a positive effect on the decision making process. People who regularly participate in an aerobic exercise (such as running for at least 30 minutes) have higher scores on neuropsychological functioning and performance tests that measure such cognitive functions as attentional control, inhibitory control, cognitive flexibility, working memory updating and capacity, and information processing speed. You can easily read about these topics on the Internet or you can email me in our chatroom and I will send you some videos and information about these facts. I stopped drinking coffee and alcohol, and I have stopped eating animal-based food, and my performance levels have increased significantly. Not eating meat and fish (any living beings that are marked with blood), and not using alcohol, coffee, tobacco and all other drugs lifts you above the curse and accelerates you forward in every aspect of life.

In day trading, simply being better than average is not sufficient. You must be significantly above the crowd to win in day trading. Unfortunately, day trading often appeals to impulsive people, gamblers, and those who feel that the world owes them a living. You cannot be one of them, and you should not act like one of them. You need to start developing the discipline of a winner.Winners think, feel, and act di f f erently than losers. You must look within yourself, discard your illusions, and change your old ways of being, thinking and acting. Change is hard, but if you want to be a successful trader, you must work on changing and developing your personality. To succeed, you will need motivation, knowledge, and discipline.

Now, back to trading: as discussed previously, trading cannot be looked at as a hobby. You must approach trading seriously. As such, I wake up at 5 a.m., go for a 30-to-45-minute run, take a shower, get dressed, and eat oatmeal for breakfast prior to firing up my trading station at 6 a.m. I am awake, alert, and motivated when I sit down and start building my watch list. This morning routine has tremendously helped my mental preparation for coming into the market. So, whatever you do, starting the morning out in a similar fashion will pay invaluable dividends. Rolling out of bed and throwing water on your face 15 minutes in advance just does not give you sufficient time to be prepared for the market's opening. Sitting at your computer in your pajamas or underwear does not put you in the right mindset to attack the market. I know, because I have experienced all of these scenarios.

My watch list comes from a specific scan that I use every morning. I will not look anywhere else because I am confident that the stocks on that scanner will have the best opportunity to set up for me to trade. I will vet each stock in the same way, using a checklist where I can determine if it is actually tradeable for me. My watch list is built by 6:15 a.m., and I will not add anything to it after that time because there won't be enough time to review new stocks and plan for a trade. This allows me to watch the tickers on my watch list for the 15 minutes prior to opening. This actually leads into the next step in my process.

During the 15 minutes prior to opening, I watch the tickers on my watch list and develop trade plans for them based on the price action I am seeing. This is the most difficult part, and it requires experience, knowledge and education. Many traders fail at this step. When the bell rings at 6:30 a.m. (9:30 a.m. New York time), I'll have my plans in place written on note cards because it is too easy to forget what I've seen on each ticker coming into the open. What is my plan if it sets up to the long side? What's my plan if it sets up to the short side? What setup do I want to see? What are my profit targets? Where will my stop be? Is the profit window large enough for the trade to make sense? Just asking yourself questions like these when you are planning your trades will give you a significant advantage because you can then go in with a battle plan and stick to it. If it is written down close to my face I can easily refer to it, and that eliminates the anxiety that I used to feel when that bell rang. All I am doing at the opening is looking for my signal and trigger to enter the trade.

In the example above, I saw that SRPT had gapped down 15%. I knew that there wasn't much interest in buying the stock. Who would dare to buy when a stock gapped down 15% overnight? Most investors are actually trying to get out and sell before it goes down even further, as though there's something seriously wrong with the company. I could not find any support or resistance nearby, therefore I decided to watch VWAP and chose a VWAP short trade.

Once the stock sets up, signals, and triggers an entry, I will enter without question (well, that's the plan anyway). Sometimes I may second-guess myself, but not too often. I have my profit targets written out on my trade plan, as well as the technical level that I am basing my stops on, so after entry I am just concentrating on hitting my marks and booking profit. There are some that say that knowing when to exit is the hardest part of the trade. It can be extremely tough not to exit the trade too early if you do not have a pre-set plan. If you have a plan ahead of time and you stick to it, you will have a better chance of letting your winning trades work and cutting your losses off quickly instead of the other way around. This will also help with managing your emotions while in the trade. Recently I talked to one of my students about filtering out the noise. This strategy goes a long way to help do that so you can focus on the trade.

Once the trade is done, I will reflect on how well my plan worked and how well I stuck to what I had written. Most of the reflection on my trades will come in the evening when I review and recap my trades from the day. I believe one of the key things forgotten by many is reflection. “What did I do right?”, “What did I do wrong?”, and “Should I have sold earlier?” are all extremely important questions for the development of your trading. Just because you made good profits doesn’t mean you are a perfect trader. How you play both sides of the table are extremely important. Write down or do a video recap of the trade and everything that comes to mind lesson-wise, and then file it away with other past lessons, and use them all as a reference for the future. Some lessons hit harder than others, but be confident that with time you will only get better. It only takes one incident of getting your hand slammed in a door to figure out that you must be more careful, but it may take two or three times to learn to turn on the lights before walking around your house at night.

Why is this process in trading important? This process is important because it describes how things are done to prepare for a trade and then provides the focus for executing them. It helps to filter out the emotional social noise and gives you a better chance for a more successful winning trade. It provides you with a tool to go back to and reflect on your trades and makes you a better trader. If you focus on the right processes, in the right way, you can design your way to trading success.

Chapter 9:
Next Steps for Beginner Traders

Successful day trading is based on three important skills.

1. You need to analyze the balance of power between buyers and sellers and bet on the winning group (Chapter 6).
2. You need to practice excellent money and trade management (Chapter 3).
3. And you need sufficient self-discipline to follow your trading plan, to avoid getting overexcited or depressed in the markets, and to resist the temptation to make emotional decisions.

Now that you have read this book, you should be in a better position to make a decision on whether or not day trading is right for you. Day trading requires a certain mindset, as well as a discipline and a set of skills that not everyone possesses. Interestingly, most of the traders I know are also poker players. They enjoy speculation and the stimulation that comes from it. Although poker is a type of gambling, day trading is not. Day trading is a science, a skill, and a career, and has nothing to do with gambling. It is the serious business of selling and buying stocks, sometimes in a matter of seconds. You should be able to make decisions fast, with no emotion or hesitation. Doing otherwise results in losing real money.

After you've made up your mind and decided that you want to start day trading, the next step is to get a proper education. You should never start your day trading career with real money. Sign up with one of the brokers that provides you with simulated accounts with real market data. Some brokers give you access to delayed market data, but don't use those. You need to make decisions real time. Most of the simulated data software is a paid service, so you need to save some money for that software. DAS Trader (www.dastrader.com) offers simulated accounts for $120 per month. If you use it for one year and trade only with simulated money, it will cost you only $1,440. This is the cost of a proper education. If you are seriously considering day trading as a career, it's a small expenditure compared to the cost of an education for a new profession. For example, imagine that you want to go to school to get an MBA - it will easily cost you over $50,000. Likewise, many other diploma or post-graduation programs cost significantly more than the education required for day trading.

Once you have a simulated account, you will need to develop your strategy. Try the strategies that I have discussed in this book, and master one or two of them. VWAP, Support or Resistance, and Reversal Strategies are the easiest. You need to only master a few of them to always be profitable in the market. Keep your strategy simple. When you have a solid strategy that you've mastered, make sure there is no emotion attached to it.

Practice with the amounts of money that you will be trading in real life. It is easy to buy a position worth $100,000 in a simulated account and watch it lose half of its value in a matter of seconds. But could you tolerate this loss in a real account? If not, you will probably become an emotional trader and make a decision quickly, usually resulting in a major loss. Always trade with the size and position that you will be using in the real account. Otherwise, there is no point in trading in a simulated account. Move to a real account after at least three months of training with a simulated account and then, start small, with real money. Trade small while you're learning or when you are feeling stressed. If you wish, you can always have a chat with me in our chatroom and receive some guidance.

Continue your education and reflect upon your trading strategy. Never stop learning about the stock market. It's a dynamic environment and it's constantly changing. Day trading is different than it was ten years ago, and it will be different in another ten years. So keep reading and discussing your progress and performance with mentors and other traders. Always think ahead and maintain a progressive attitude. Learn as much as you can, but keep a degree of healthy skepticism about everything, including this book. Ask questions, and do not accept experts at their word.

Join a community of traders. Trading alone is very difficult and can be emotionally overwhelming. It is very helpful to join a community of traders so you can ask them questions, talk to them, learn new methods and strategies, get some hints and alerts about the stock market, and also make your own contributions. If you join me, you will see that I often lose money. It can be comforting to see that losing money is not limited to you, and everyone, including experienced traders, has to take a loss. As I've said, it's all part of the process. There are many chatrooms that you can join on the Internet. Some of them are free, but most of them charge a fee. By joining our chatroom (for free), you can see my screen in real time while I am trading and listen as I explain my strategy. You can take trades with me, or just watch and listen. Or you can take your own trades, but still be part of our community.

It is extremely important to remember however, that if you are in any community of traders, either our chatroom at www.Vancouver-Traders.com or the dozens of others out there, you should not follow the pack but should be an independent thinker. Generally, people change when they join crowds. They become more unquestioning and impulsive, nervously searching for a leader whose trades they can mirror. They react with the crowd instead of using their minds. Chatroom members may catch a few trends together, but they get killed when trends reverse. Never forget that successful traders are independent thinkers. Simply use your judgment to decide when to trade and when not to.

Last but not least, if you enjoyed reading this book and found it useful, I would very much appreciate your taking a few minutes to write a review on the Amazon website. The success of a book like this is based on honest reviews, and I will consider your comments in making revisions. If you have any feedback, feel free to send me an email. Your review on Amazon will help other people to make informed decisions about my book. I purposely priced it low so more people would be able to purchase it and use it. Teaching people and helping them to start a new career fulfills something inside of me that motivates me every day, so I hope you can help me to accomplish this task of ongoing learning.

If you're ever interested in connecting with me, check out our private chatroom at www.Vancouver-Traders.com or send me an email at andrew@Vancouver-Traders.com. I'd be happy to have a chat with you.

Thank you, and happy trading!