**BEGINNERS GUIDE TO TRADING**

**Types of stock trading:**

1. **Day trading**

When day trading, positions are closed out within the same day they are taken, and no position is held overnight. Traditionally, day trading is done by professional traders such as specialists or [market makers](https://www.investopedia.com/terms/m/marketmaker.asp). However, [electronic trading](https://www.investopedia.com/articles/stocks/11/securities-market-introduction.asp) has opened up this practice to novice traders.

1. **Swing trading**

Some actually consider position trading to be a [buy-and-hold](https://www.investopedia.com/terms/b/buyandhold.asp)strategy and not active trading. However, position trading, when done by an advanced trader, can be a form of active trading.

Position trading uses longer term charts – anywhere from daily to monthly – in combination with other methods to determine the trend of the current market direction. This type of trade may last for several days to several weeks and sometimes longer, depending on the trend.

Trend traders look for successive higher highs or lower highs to determine the trend of a security. By jumping on and riding the "wave," trend traders aim to benefit from both the up and downside of market movements. Trend traders look to determine the direction of the market, but they do not try to forecast any [price levels](https://www.investopedia.com/terms/p/price_level.asp).

Typically, trend traders jump on the trend after it has established itself, and when the trend breaks, they usually exit the position. This means that in periods of high market volatility, [trend trading](https://www.investopedia.com/terms/t/trendtrading.asp) is more difficult and its positions are generally reduced.

1. **Position trading**

When a trend breaks, [swing traders](https://www.investopedia.com/trading/introduction-to-swing-trading/) typically get in the game. At the end of a trend, there is usually some price volatility as the new trend tries to establish itself. Swing traders buy or sell as that price volatility sets in. Swing trades are usually held for more than a day but for a shorter time than trend trades. Swing traders often create a set of trading rules based on technical or [fundamental analysis](https://www.investopedia.com/terms/f/fundamentalanalysis.asp).

These trading rules or algorithms are designed to identify when to buy and sell a security. While a swing-trading [algorithm](https://www.investopedia.com/terms/a/algorithm.asp) does not have to be exact and predict the peak or valley of a price move, it does need a market that moves in one direction or another. A range-bound or sideways market is a risk for swing trader.

1. **Option trading**

Options are a form of [derivative](https://www.investopedia.com/terms/d/derivative.asp) contract that gives buyers of the contracts (the option holders) the right (but not the obligation) to buy or sell a security at a chosen price at some point in the future. Option buyers are charged an amount called a [premium](https://www.investopedia.com/terms/o/option-premium.asp) by the sellers for such a right. Should market prices be unfavorable for option holders, they will let the option expire worthless and not exercise this right, ensuring that potential losses are not higher than the premium. On the other hand, if the market moves in the direction that makes this right more valuable, it makes use of it.

Options are generally divided into "call" and "put" contracts. With a [call option](https://www.investopedia.com/terms/c/calloption.asp), the buyer of the contract purchases the right to buy the [underlying asset](https://www.investopedia.com/terms/u/underlying-asset.asp) in the future at a predetermined price, called [exercise price](https://www.investopedia.com/terms/e/exerciseprice.asp) or [strike price](https://www.investopedia.com/terms/s/strikeprice.asp). With a [put option](https://www.investopedia.com/terms/p/putoption.asp), the buyer acquires the right to sell the underlying asset in the future at the predetermined price.

Let's take a look at some basic strategies that a beginner investor can use with calls or puts to limit their risk. The first two involve using options to place a direction bet with a limited downside if the bet goes wrong. The others involve hedging strategies laid on top of existing positions.

1. **Scalping**

[Scalping](https://www.investopedia.com/terms/s/scalping.asp) is one of the quickest strategies employed by active traders. Essentially, it entails identifying and exploiting [bid-ask spreads](https://www.investopedia.com/terms/b/bid-askspread.asp) that are a little wider or narrower than normal due to temporary imbalances in supply and demand.

A scalper does not attempt to [exploit large moves](https://www.investopedia.com/articles/trading/05/scalping.asp) or transact high volumes. Rather, they seek to capitalize on small moves that occur frequently, with measured transaction volumes.

Since the level of profit per trade is small, scalpers look for relatively liquid markets to increase the frequency of their trades. Unlike [swing traders](https://www.investopedia.com/articles/active-trading/021715/scalping-vs-swing-trading.asp), scalpers prefer quiet markets that aren't prone to sudden price movements