Reddit r/RealDayTrading Wiki (May 12, 2024)

Contents

Chapter 0. Read This First

So now that you're here, the first question you might want to ask yourself is: Is Daytrading Right for You? This question isn't posed to gatekeep this forum or daytrading as a career, but to instead warn that becoming proficient at daytrading is a significant and difficult undertaking. This warning should not be taken lightly, especially when considering the common monetary losses that come with learning this. This process is agreed by the verified traders to take **at least TWO YEARS** and **there are NO SHORTCUTS.**

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Is Day Trading Right for You?

I have no idea how to make this a sticky at the top of the sub, so if anyone knows how to do that, please tell me.

Let's face it, there are tons of subreddits and forums on trading. The pandemic has driven many people into becoming retail traders, some looking to make longer terms investments, while others are YOLOing their life savings away. Almost all of these forums claim they can help **you** make money somehow.

This forum r/RealDayTrading has a very specific purpose: ***Day Trading as a Career***.

So, if you do not believe that:

1) **Day Trading can be Profitable.**
2) **Day Trading can be *consistently* Profitable.**
3) **Day Trading is *hard* and takes a lot of time to learn.**

Then this is probably not the forum for you.

Unlike other places, this subreddit has actual professional Day Traders contributing. They are here to teach you what they know, discuss strategies, and offer advice. *However*, they are not here to debate the viability of something they do every day. As I am sure you read, we have a very strict no troll policy here. Trolling will get you banned immediately.

If you want to share your service, YouTube video, community, etc. I encourage you to do so. The sharing of resources is important in learning. *However* - it must be accurate and valuable. as judged by the mods. Furthermore, do not claim to be an expert in Day Trading unless you actually are one. Nobody is going to ask for proof of anything here, that is a rabbit hole that this forum will not go down. *However* - it will be very clear whether you know what the hell you are talking about. There are new traders here looking for help and they will listen to what you tell them - if that advice is not correct it is going to wind up costing them money. It is morally wrong to claim expertise. So don't.

Any decisions you make based on information received from this forum is *your responsibility*. It should go without saying, but if you follow someone into a trade, you should have your own exit strategy for that trade, and not rely on the person that posted it to tell you what to do.

This forum is an incredibly unique opportunity for you to learn a skill that will be valuable to you for the rest of your life. Just yesterday u/OptionStalker posted two detailed posts on reading SPY and the market. Today u/Professor1970 , who is literally one of the only people out there (other than perhaps Ross from Warrior Trading) that makes an *extremely* profitable living through scalping, posted information on his method. These posts are **pure gold**. They never would have posted those anywhere else. They and others will continue to contribute in order to help you all on this journey.

Also - I do not care how large this community gets, I care more that the people here are ones that want to be here and want to either learn or help others learn how to Day Trade for Living. I honestly believe this place can become very special, but in the end that is of course up to all of us.

Best - Hari Seldon

(Yes, it is after the character from the Isaac Asimov Foundation series - a book series that inspired me so much in my youth, my entire career path has been based on the concepts in those novels

Day Trading for a Living

For some time now I could tell there was a huge disconnect between the reality of Day Trading for a living and what I would read here on Reddit. I am here for one reason - to help people. Anyone who has read my post on how I began can see that I know how difficult this journey can be for others. Life is difficult enough as it is, so if I can save someone time, money, and frustration, I am happy to do it.

Throughout my time here I have seen many traders prosper, some of which I now trade with every day. There has been an incredible amount of support and amazing stories I've heard from many of you, and I appreciate them all.

Still, I also noticed that almost every post is also met with an incredible amount of vitriol and cynicism. I would always chalk up those responses to people who have tried their hand at Day Trading and failed. To some extent I am sure that is true. But lately, reading through some comments on recent posts I have realized that something else is going on here. Not only on this sub, but on most subs dedicated to trading.

First, let's back up a bit to Day Trading for a Living. For us, Day Trading is a career. Just like any other career, except for this one you get the freedom of being your own boss, and the security of knowing that as long as you have an internet connection you have a source of income. And to be secure in that you better know how to trade in a down market as well as a surging one. Many of us have had successful careers before this, some of us have only done this and nothing else, but either way I can confidently speak for others who do this for a living when I say - there is nothing else we would rather do. It is an amazing job, truly. It is also one of the hardest skills to learn (but that was another post). **Still - to us - it is a job.**

There are traders that make over $50k a week and have for a long time, and there are traders that are perfectly happy making $2K a week, and everyone in-between. The notion of being consistently profitable is a given, not a question. And we don't care *how* profitable you are, as long as you make a living with it. In fact, it is in bad taste to ask a trader how much they make, although I do get why new traders ask all the time - they want to see if the potential reward is real and worth it.

So, when we say we Day Trade for a living and are consistently profitable, it isn't bragging, it is just what we do. Just like any other profession. Some of us trade alone, but most of us trade with others in one community or another, and share trade ideas, analyze trades at the end of the day and help each other prep for tomorrow's action. I am on the west coast (which does suck a bit), so I am up around 5:30am and monitoring the pre-market action. At 6:30 to 7am I typically just watch the market, and rarely make a trade in the first 30 minutes (although I do know this is where momentum traders find many of their best trades, it is just not how I like to trade, although there are always exceptions). From 7am to 1pm, I trade consistently throughout the day. From 1pm to 3pm I am reviewing the trades from that day with other traders - especially the trades that didn't work. And then finally from 3pm to 5pm I am prepping for tomorrow.

And then I come on here, and it is very clear that there exists two worlds of trading. In this world on Reddit, many of the traders are new - most likely drawn into trading because of some combination of the pandemic keeping them at home and the allure of meme stocks which have gotten a lot of attention. And yes, you also have a lot of people who have tried trading and failed, but still remain interested enough to read these subs. What results is a tremendous amount of cynicism - the notion that Day Trading is anything but pure luck is scoffed at, any success is met with demands of proof, and every piece of advice is criticized for some reason or another. *This isn't to say there also aren't some brilliant criticisms that I've read here, and justifiable cynicism, there is - and thank god there are, otherwise these subs would be intolerable.*

Also, what many here don't seem to get is that asking a successful Day Trader to show proof after every successful trade (or trades) is like asking a lawyer to constantly send photos of her Law Degree every time she says she is a lawyer. And yes, I do compare the two. I used to be a Professor of Sociology, I went through graduate school, I know what it is like to write and defend a dissertation and be on the tenure track at a university, and I can tell you now without hesitation that learning/mastering Day Trading is harder. No contest. Btw, imagine being a lawyer and coming on to a sub about being a lawyer, and reading comments from people who aren't even lawyers themselves that say, "There is no way to actually practice the law, it's impossible because it is all subjective. You're full of shit. Let me see your last winning case file!" Yeah, that’s how many of us feel when we come on here. It is pure insanity to see people every day say what you do for a living doesn't and can't exist. Especially when you've been doing it for many years.

Obviously, there are a lot of people on here that are full of shit, but one look at their profile and posting history should make it fairly easy to tell who is and who isn't. Overall, though, just look at the advice given - either it makes sense, or it doesn't, either take it or don't. Spending your time attacking the person giving it is pointless, criticize the post, not the poster.

Still when I suggest a trade concept that I have used thousands of times over many years, and have a well-defined win rate with that concept, only to see a bunch of responses that say, "This will never work and here's why...." I try to answer each and every one of those comments as patiently as possible, but yes, sometimes the urge to say, "WTF are you talking about?!?!?!" is a bit hard to resist.

For all people who are new to trading, or have dabbled and recently got more interested in it, please know that a majority of what you see here (and especially on YouTube) is *NOT* Day Trading. Day Trading is not just momentum trading in the first hour, it isn't just on stocks under $10, and it isn't luck - it involves a vast number of strategies that involves going long, shorting, options, option spreads, and yes, swing trading as well. ***Our goal is to consistently make a profit, which means consistently hitting singles.*** We won't ignore the home run, but it isn't what we set out to do with each trade. Our lives and the lives of our families depend on us reaching a minimum $ number every month.

Our trades can last anywhere from 15 seconds to 5 days, we know when to enter and exit, and what method to use. *Anyone can be profitable on any given day, but to do this for a living you need to be consistently profitable.* The methods used to do that often seem to conflict with the mentality of people who read/post on these boards. Their goal seems to be to try to make as much money as possible, despite the increased risk. I urged you to ignore those that do not pay their bills with Day Trading and listen to those that do. *If you check my profile, I have posts on how to get started, tips, strategies, and personal reflections - if you are interested, I hope you give them a read*.

But mainly you should realize that there is an entire world out there of Day Traders. From what I can tell the average successful Day Trader took 2 to 3 years to get to the point where they can confidently make a living doing it. Most have one skill they excel at (I trade with some traders that are incredible scalpers, others who are masters at day trading options, others that kill it using option spreads, traders that crush the futures market, as well as amazing short-sellers) but despite their specialty, all of them are able to trade across various strategies and in bull or bear markets (yes I know we are in a 10+ year bull market). Some use stop-losses (primarily momentum traders), most do not and use mental stops on their trades to stay flexible with a shifting market. Our "watchlist" changes every 5 to 30 minutes, and we trade everything from SNDL to AMZN. One thing we all have in common is we **never look at our P&L while in a trade.** Yes, we have our targets. But when we exit a trade it is based on the price action, not the P&L.

So be careful to not believe that what you read here is the actual world of Day Trading, it is not - but that world does exist. I hope to see some of you in it one day, because trust me, it's much nicer than this one.

Day Trading as a Career is Obtainable

****Updated and Reposted for the Wiki****

There seems to be a *huge* disconnect between what is actually occurring in the world of short-term trading and what many people here believe is happening.

To begin with - there are many consistently successful traders that make enough profit year after year to live quite comfortably. And they all rely on some form of technical analysis to do their **jobs**.

But if you read these forums, just about every post is filled up with comments that claim Technical Analysis doesn't work, or that Day Trading is simply gambling (*seriously, why are those people even on these forums if they think that way)*.

To get one obvious point out of the way - It would be statistically impossible for a large number of people to be *consistently* profitable, year after year, if Day Trading were based primarily on chance. Unless all the traders I know are just supernaturally lucky day in and day out, it takes **skill**.

Secondly, Technical Analysis not only provides the basis for these traders to do their jobs, they are also the foundation of algorithms used by large institutions. You can be certain if those algorithms weren't profitable, they wouldn't use them. But they are.

Finally, you can *back-test* almost every pattern or indicator to see its level of success.

Every successful trader has their own preference for which metrics they use and how they interpret them, but they all have one thing in common - their analysis gives them an *edge* over whomever takes the other end of their trades. **It isn't luck, it is skill**. Skill that is the result of an immense amount of hard work. As I have said in the past - being a successful Day Trader is really fucking hard. Only those that treat it as a job and put in the time/effort can be successful.

But all that doesn't matter because here comes *BrianDead007* commenting that the entire thing is a casino and TA is bullshit. Not only is that an insult to all the hard-working traders out there, but it is very discouraging for people hoping to learn a new skill that could give them financial freedom one day (unfortunately it is very encouraging for those that *want* to treat the market as a casino).

It doesn't take Freud to figure out who these people are - clearly they tried to trade and lost money, most likely *a lot* of money. Instead of admitting they screwed up and didn't do it correctly, they instead would rather believe that the entire thing is random. Because if *they* can't learn this, *nobody* can.

Just so everyone is on the same page here –

There are many successful Day Traders who do this for a living (a *very good* living for most), they all use Technical Analysis in some way, and are consistently profitable year after year.

Their world of trading is *very* different from the one you see on these forums. They are not rushing in during the first 30 minutes in the morning, they don't get FOMO (or at least they don't *act* on it), they rely on a fine-tuned set of indicators, they have a plan before they enter a trade, and they are constantly going through charts - before and after-hours.

It is not that some don't grab that huge gap up first thing, it is just that is only a small portion of that they do. Having a career Day Trading and the Day Trading you see on YouTube are not the same thing at all. 90% of what you see on YouTube is meant to try to make Day Trading look easy. Who wouldn't want to grab $XYZ at $3.50 at 9:32am and then exit at $4.75 at 9:57am? But that is all smoke and mirrors....and not *real* Day Trading. Very few Day Traders are consistently successful using only that method.

The good news? Becoming a successful Day Trader is a **real** and **attainable** goal.

The bad news? It is not the *Gap and Go* method for an hour and then you're done for the day.

Why Would Anyone Teach You How To Trade? (/u/OptionStalker)

I am going to be brutally honest. Unless someone has a vested interest in your success, they are not going to personally mentor you.

You can't afford a great trader. Every minute a great trader spends with you is a lost opportunity for them. Realize that the people who are charging $2000+ for a weekend session at the Holiday Inn are not the "real deal". A great trader doesn't need your $2000. These supposed "gurus" are fleecing you for something you can read in a book, and you are not going to learn much in the course of a weekend. The same is true for online courses. "Prop shops" will teach you the basics and impose a bunch of rules on your trading. Their goal is to keep you in the game so that they can charge you commissions for as long as possible. They only care about your success to the extent that they will have to fill your seat when you blow out.

When a great trader teaches hundreds of traders, he gives his edge away and now he must compete with you and every other trader he's taught (and anyone you might teach). It makes no sense for him to divulge his secrets and to share that wealth.

It’s difficult to complete the trading journey and to summit. It is mentally exhausting, and a mentor has to relive the trials and tribulations. The constant questions wear you down. They are rehashed over and over again and some of them are ridiculous. The mentor pours his soul into it and ultimately the trader fails anyway. Given what he can do trading, it’s just not worth it.

Even at the level of this sub, I only answer well-conceived questions where I know the person has put the effort into reading the WIKI.

I don't want to taint this article. This is self-promotional and you can click here to find out [why I do it](#).

During Covid-19, Hari discovered OneOption. He has incredible trading skills. He learned the system very quickly. This decision-making process provided him with an edge, and he took his trading to new heights. In 30 years, I have not seen anyone with his trading skills and generosity. He makes hundreds of thousands of dollars in a day. Why would someone like Hari want to mentor you when it might cost him his next great trade? Why would any trader of that caliber waste their time on you? Hari posts all his trade logs with detail, he writes articles, and he does live Twitter events. Stick very close to him, he is one of a kind.

This is a rare community, and it is the only one I post to. I appreciate the culture Hari has created and the fact that you are all helping each other out. When I see this collaboration, it motivates me to contribute.

My parting message is this; don’t trust anyone who wants to charge you money to teach you how to trade. They just want to fleece you for something you can read in a book. This journey is one that you must complete yourself. The real skills come from experience. You will learn a lot about yourself on this journey and you must live it (not just read about it). Great traders keep to themselves, they do not teach classes. They make more money trading than you could ever pay them. They fiercely protect their secrets, and they work that edge as long as they can. If a large institution discovers it, they will exploit it until it is gone.

Society has bred a sense of entitlement. I owe you nothing. However, if I see you pouring your heart and soul into this and ask intelligent questions that tell me you’ve read the WIKI, I will try to help.

This system is the base of the pyramid. Even after you master it, the learning will never end. Your success will depend on your effort, creativity, and discipline as you complete the top of the pyramid and make it your own.

Do not trade until you read this.

This market right now is most likely chewing you up and spitting you out. Hell, if you are under the Pattern Day Trading (PDT) requirements (*i.e.*, having min $25K equity) I am seeing it first-hand in the $5K Challenge - it is really hard out there for a swing trader.

Many of you are discouraged, some at their breaking point even.

But the market really isn't the problem.

Here is the problem - *When I said it takes two years to do this, it takes **two years** to do this no matter where you are with your trading experience.*

To put that in perspective - even if you are someone that has been trading for several years, and you started to learn this method from the first day this sub appeared, around 8 months ago - *you wouldn't even be halfway to the point where you should be trading regular positions right now.*

Many of you have simply decided that because you know how to trade, you are just going to switch methods and trade differently. Most likely you would find some success in doing that - certainly it would have improved your win-rate and profit factors. But that does not mean you are *ready to trade*. Unless you have three profitable months in a row - *you are not ready to trade*.

You're impatient, I know - you want to make money. I get it. But imagine if you did this -

Every day you watch the market, using the method here find 2-3 trades and make them in a paper trading account. After the market closes you put those trades in your trading journal and analyze them, note the set-ups, note the mistakes. At the end of each week, group together your best trades and your worst. Improve the following week using that information.

At the end of each month, you should be looking at 30-40 trades, you made, but also looking at potential trades you *missed* and why. You should be examining your exits on those trades (i.e. Walk-Away Analysis) and noting if you exited too early or too late.

Just think where you would be right now if you spent the last six months doing this and never trading a dime of your own money. How much would you have saved? How much more knowledge would you have right now as to what works and what doesn't?

Now imagine doing that for a year, and at the end of that year, beginning to trade 1 Share and/or 1 Contract with real money, increasing to 3-5 trades a day. And then doing *that* for six months to a year. All the while, you are figuring out how to avoid the mistakes you are noting, and how to find the set-ups that are profitable.

Think of how much less stress you would have - the difference would be huge I am sure.

At the end of this process there are two potential outcomes -

1. You have a win-rate over 75% and a Profit Factor over 2, using 1 Share or 1 Contract
2. You are unable to reach that goal.

If it is the second outcome, it tells you that trading is not something you should be doing. If after two years of practice, dedicated hours each day to study, you still can't hit those levels, then no, you most likely should not be trading.

If it is the first outcome, you are now ready to trade and it is a far better position to do it than you are right now.

Now consider how far you are from having done that - and you will have the answer to your question and frustration of, "Why can't I get this? No matter what I do I am losing money!"

As I have said, *there is no shortcut*. The only way to potentially speed up this process is if after 100 Paper Trades you are above those standards listed above, you can move on to the next step of trading 1 Share or 1 Contract without waiting the full year.

Most of you will not do this, and I get that, I do - it is a long, hard journey. But unless you are able to string three profitable months together, it is a journey you *need* to take.

Why Following Someone Else's Trade Is Dangerous

Look I get it - you have successful traders posting trades in *real time* - you see the track record, and you want some winning trades yourself - so you follow the trade posted.

Makes total sense, and many of you do it. However, many of you also get burned doing this and here is why -

1) To begin with you don't know the reason that trader is making the trade. For example, perhaps I shorted **AMZN** or **GOOGL**, but the reason I did that is because the rest of my swing trades were all bullish and one bearish **AMZN** trade is enough to hedge an entire bullish portfolio. As a *hedge* I am actually hoping it *isn't* needed and it loses money. Or I might be executing that trade to just balance out my holdings, so it isn't a *hedge* but it also doesn't have the same conviction behind it as other trades might.

2) Different account size - I might do a $6 Option Lotto trade - and on Lotto trades they tend to be all or nothing - they either work or they go to $0. And you follow that Lotto. However, I have close to $2 million in Buying Power in my account, so if a $7 Option goes to $0 it is fine - hell, if 20 of them go to $0 it is still fine. This happened today - I had 20 **SNOW** Puts, and lost $14,000 - but I made over $35,000 on **LCID.** I don't like giving out numbers like that, but it is needed to make this point. At the end of the day I look at *all* my Lottos combined and see if they made money - in other words, *was the strategy profitable*. I sized the Lottos so a .23 cent to .69 win on **LCID** is more than enough to make up for $7 to $0 loss on **SNOW**.

3) You don't know the exit plan of the person trading, and they are not going to stop and spell it out. Why? Because *they are trading, it is their job*. Maybe you went long in **ISIG** at $24.50 following someone into the trade - now they might be good all the way down to $20.50 which is where the upward sloping trendline crosses - but that is a $4 loss, are you sized for a $4 loss? Probably not, since you did not know that $20.50 would be the mental stop. And once again, traders are not going to go through the whole *Long ISIG $24.50 with a mental stop around $20.50 because the upward sloping trendline from the 12/27 candle connects there and it has offered support on the 1/4 - 1/5 - 1/6 and today, so I will exit the trade if that support is broken* ***and*** *there are consecutive candles staying below that price.* No - they are just going to say Long ISIG $24.50. And then the exact same trader may make that trade again, but this time looking for a fast move and if they don't get it they will exit almost immediately - once again, you don't know that.

4) Let's face it - when people ask, "*Are you still in XYZ?"* what they are really saying is, *"I followed you into XYZ and now it is down, so I am freaking out and hoping you can offer some reassurance!"* . Let me say this again, as I have said it many times in the past - ***traders hate being followed into trades, hate feeling responsible for those trades, and especially hate that other traders are now depending on them for their exit strategy****.* And that is the issue - you are *relying* on someone else for an exit - not thinking it up yourself. So what happens if I enter **ISIG** and it hits my profit target, so I sell - but shit I knocked over my coffee, so I quickly grab paper towels, clean it up, and I get a bunch of texts (this all actually happened this week by the way) - and I wind up posting the exit about 5 minutes after I completed the trade - well on a stock like **ISIG** that is like an eternity - and now you are seeing the exit too late.

You *should* be learning from trades that are posted, examining them and trying to understand how they found the stock, why they chose the type of trade they did, and what made them exit, *and then* after-hours if you still have questions you ask the trader about it.

But if you *do* follow someone into a trade (hell, I followed [u/onewyse]() into several trades this week) - ***it is your own trade - not theirs - so you need to figure out your exit and strategy. You need to make the trade as if you found it yourself, and rely on yourself to manage the trade.***

If everyone followed this you would have a much better trading experience.

Trading is hard - it helps to speak out your feelings

This market is hard - there is no denying that. But what makes it harder is not having someone you can talk to. Trading can be extremely stressful - and many people, especially beginners, can get extremely down on themselves. Some feel like failures, and others lose so much money they don't know what to do. We aren't psychologists, or psychiatrists, or anything professional -- but we are still people, and we'd like to help somehow.

We're starting a new section in the RDT discord (for ease of management). A channel will be created where members can post a new thread and simply vent, or to ask for guidance in what they can do. It can be helpful to see that you're not alone.

We're also aware that this can be deeply personal, so you are also free to DM someone here so you can have a private 1:1 talk. We hope that this is something that will be beneficial to our members here at RDT - let's get through this market together. There is a light at the end of the tunnel.

Here are some resources that we've compiled:

998 is for the suicide and crisis lifeline - available 24 hours and is also available for Spanish speakers

Depending on where you are, there are local hotlines you can call as well. Findahelpline.com is an online resource you can use to help narrow down where you can call

Therapy is also quite useful - although you can find someone for 1:1, not all of us have this opportunity. Youtube is a good place to start listening - personally, u/5xnightly has had experience with Dr. Andrew Menaker and recommends starting there.

We will continually update this as needed in order to expand the resources.

We are starting a channel within the RDT discord (#health-mindset-support) where people can go to just talk to someone, if needed. To keep it a little more focused, we are locking it so only individuals who ping a mod can be added to a specific group that allows posting in that channel.

A mod or verified trader or intermediate trader will be there to listen.

Again, we are not professionals, but most traders know what it feels like to be struggling. Let's get through this.

Why I Post My Trades & What This Means To You

I will try to outline what I see as a potential "disconnect" or "confusion". Whether or not I will be able to successfully articulate that issue remains to be seen, but nevertheless, as usual, I shall give it a shot.

Let's start with something that I know isn't, as of now, communicated well -

Everyone joining this sub is told that it will take roughly two years to learn everything that is taught here and reach the goal of consistent profitability. The Wiki outlines exactly what that process is and focuses on two primary areas of study: **Method** and **Mindset**. Simple enough in theory, right?

The part that remains unsaid is that this is just the *foundation* of your trading career. Without that *foundation* it would not be possible to move forward, but the *foundation* is just the beginning. It gets you to the point where you can be consistently profitable using a method that has a distinctive edge while maintaining a mindset that allows one to do this for a living.

So why not just stop there? I mean, you're consistently profitable at this point - why change anything?

Because, that *foundation* needs to be built upon. Just like if you decided to go into Law, Medicine, Physics, etc...at some point you need to decide where you want to specialize. Nobody just *does Law*, there are *Tax Attorneys, Defense Lawyers, Prosecutors, etc..etc.*

And how one decides to build on that *foundation* will determine the type of trader they will be going forward. You may have noticed that of the full-time traders you see here, each of us has very different trading *styles* and *skill-sets*. Those *styles* and *skills* were built on top of that *foundation* that each of us has at the core of our trading. For example, u/onewyse and myself both share the same *foundation* of knowledge, but we trade quite differently from each other. Everything from our tolerance for risk, to whether we "trade what is in front of us" or "trade a larger thesis", can at times be, miles apart. Whereas other times we'll find ourselves in the exact same trade for the exact same reasons.

Here's the good news - once you do make it past that entry-level, you will have enough ability and knowledge to be able to chart your own course. Some of you may become more inclined towards "scalping", others might be more conservative using only high-probability option spreads, many might decide to gravitate more towards swing trading while others are going to focus on profiting from intra-day volatility, others still may decide to solely trade futures for a living. **Every trader is different.**

At this point, I am sure you can see the dilemma for a sub like this? If I were to post "advanced" trading methods and strategies, do you really think anyone would stick with going through the *beginner* process? Of course not. Everyone would jump ahead and attempt to integrate any one of the various *advanced* methods before they are even remotely ready.

Ok, now with that part explained - consider this - when I decided to post *every trade* I make, I stuck to that promise. However, while many of those trades fit neatly into the box of teachings that make-up that *foundation* here, others do not.

So, what happens? The inevitable questions of:

I don't get it, doesn't that trade go against what you said in the Wiki? Why are you still holding that losing position, aren't we supposed to cut them?, etc.

I get the confusion. And you're right. You are being exposed to trades and trading strategies that are beyond that scope of this sub and your training. For example:

Back in early Aug. I had a *bearish* thesis as the market was going up - at one point holding a number of shorts that were significantly underwater. Questions and comments ensued, but within two weeks just about every one of those trades turned a significant profit. The same thing happened the week of 9/6, again in the beginning of October, then again on 10/18 and of course, right now. Every time I held to my *bearish* thesis despite a rising market, took considerable heat and then turned a profit on the drop.

Which isn't to say that I only traded from the short-side during these times, in-fact you will see that many of my intra-day trades were in fact, bullish and therefore, *with the market*. But my swings were (and are) based on a larger overall thesis for the market. Trading a larger thesis that runs counter to the current technical environment is definitely beyond the scope of what we teach here, but it *is* part of my trading skill-set.

All of this is to say that it was probably a mistake to post *every trade*.

Believe it or not most pro-traders that you see here, including Dave, Pete, Professor, etc..*do not* post many of their trades. They tend to only post the ones which conform to the *foundation* taught.

So going forward that is what I intend to do - *only post those trades that match the teachings of this sub*. In fact, Tuesday which starts a new month, gives a nice "clean slate" point to begin a new journal for everyone.

Much like we did on the last Twitter Space (and if you haven't listened to it, it is really good - [Twitter Space - Live Trading Recording]) where every trade fell under the category of *high probability* that how I plan to post going forward. This way there can be no confusion between the trades I am posting that are part of my job as a full-time trader, and those that can/should be used for educational purposes.

There are only three reasons one should post a trade:

1) You feel others can learn from the trade by studying it.
2) You are attempting to point out a good opportunity that other traders should consider.
3) You are seeking advice / feedback.

As usual, no trade should be *followed blindly*, and anyone following a trade is solely responsible for that trade.

Hopefully this will eliminate any confusion going forward!

Chapter 1. First Steps

Before you Begin... Step 0

I typically refer people to the [10 Step Guide to Getting Started] when they ask me where to begin their trading journey. Recently it occurred to me that there might be an essential step missing, one that should happen before you even start on Step 1.

Whether you are looking for some supplemental income or a new full-time career, the road to consistent profitability is the same in terms of time and effort.

The new step I'm proposing centers on mental preparation, bringing you to a deeper understanding of the journey you're about to embark on.

I cannot stress this enough - if you are not fully aware of just how *much* you need to do the following, then you might not be ready to start trading.

Unlearn - Unless you are prepared to realize that much of what you learned up until now about trading will not help you and in many cases, will lead you the wrong way, you will be banging your head against the wall. All the stuff you spout in chat rooms and forums to try to look like you know what you are talking about is readily available "knowledge" (I use the word loosely here). *Volume Profiles, Elliot Waves, Fib Lines, Inverse H&S, etc... *Realize if everyone's relying on the same information and over 90% are still losing money, it's time to question the validity of that information. Toss it. Come in with a clean slate.

Expectations - This won't take you weeks, months, or even a year before you begin to see consistent profitability. It will take a minimum of two years. Expecting anything different is only going to result in disappointment. It's like pursuing a degree – be prepared to invest time without immediate financial returns. I often see traders walk away disheartened after a mere six months. It is also equally important to remember that early success can be misleading, and humility in the face of initial gains will serve you well.

Humble Yourself - It doesn't matter if you are a CEO or a janitor, if you have been trading for years (and losing) or just started - unless you have made a consistent profit then you don't know shit. Just because the "rules" are easy to learn, does not mean it is not a highly skilled endeavor. Imagine for a moment you just learned how to play chess, it isn't that difficult to figure out, right? Does that mean you can now win a tournament? Beat a grandmaster? Would you be so arrogant to think you could "improve" on a professional chess player's strategy? This is honestly one of the more difficult thing for people because they come into this thinking, "This isn't that hard...." or "Others failed but I have always excelled at shit, so I will be able to do it!" and then they get their ass-kicked. Humbling oneself is so difficult that even after the market constantly beating a trader down they still think they know better than everyone else. Go into any trading forum - especially outside this community - you would think it is *filled* with profitable traders because *everybody* has to give advice.

I mean if they were being truly honest, this is what the advice should sound like:

"I loved this book <book title here>, it really helped me out, especially the stuff on mindset, now I am losing twice as much as I did before, but I feel much smarter about it!"

"Why did you make that trade? It was clearly retracing and just bounced down from the top of the cloud. I waited until I saw the cross and *then* I took the trade. Of course, I lost just as much as you, but I can justify it technically!"

"I used to trade like that, driven by FOMO. Took me a long time to learn self-control. You need to learn the patience to find the right trade and only *then* really fuck up, just like me!"

While comments like that would be more entertaining, I doubt people would actually admit to those truths.

Now if you can come to terms with those three things, then you need to take a step back and realize you are still about to embark on one of the most difficult tasks you ever had to complete professionally. Would you go to Law School on a whim? It would be a major life choice, wouldn't it?

That's the level of decision you are making here. Obviously, if you just installed ThinkorSwim, threw some money in and figured you would gamble a bit - fine, you don't need to learn much at all. This is for those that actually want to be consistently profitable from *trading*.

If not, just invest your money long-term and let it sit there.

I am already at a 85% return for the year, something you will never get from Investing, in fact a year that your portfolio beats the S&P is considered a "good year". So, there is definitely a reason to want to trade vs. invest, you can make a *lot* more trading; however, long-term investing is safe and almost guaranteed (unless you are a total idiot). Don't get wrong, they aren't mutually exclusive, you can do both, it is just the "trading" part that takes the most effort.

There is also little to no barrier to entry here - As long as you have average intelligence you can do this - as I have said many times, I've seen total idiots get their law degree, P.hd, Medical license, etc. They just had to work harder for it than others. Obviously, there is a range of success amongst pro-traders - but if you work hard enough there is absolutely no reason you shouldn't be able to at least hit your base goal. This isn't like Baseball or Basketball where no matter how much you practice you aren't going to make the pro-team. Talent plays a role, there is an X-factor in trading, but that just helps put you on the higher end of the continuum. The *learned skill* part is something just about all of you can do but not before you come to terms with the magnitude of your decision to try.

So, there you have a “Step 0” if you will - I hope you all follow it.

Your 10-Step Guide on Getting Started (Revamped)

This guide is by far the most important post any new, or struggling trader, should read.

There are NO short-cuts to this!

These steps have a constant *proof-of-concept* that anyone can see: testimonial after testimonial in this community of those that have followed it, and are now successful traders.

There are also many posts and comments from those that have tried to "cut corners" or try multiple paths forward at once - most, if not all, have failed to reach consistent profitability.

This will take time - on average it takes roughly *2 years*. Some have done it in less time, and others have taken longer. Do not compare yourself to anyone. There are people that have all the free time in the world to do nothing but learn this skill. There are others that have to try to fit in for a few hours on the weekend to learn.

Everyone is different.

How do I get started?

By far that is the most asked question from traders that I come across.

How do I stop the bleeding and start making money?

And that is the second most asked question from traders I get.

For those that are trading but, losing money, you may have already completed some of these steps (e.g. Choose a Broker), and may think you know some others (e.g., Learn). For the steps you have already completed, feel free to skip them, for the parts you think you already know - redo them, because obviously you do not know as much as you might think.

As you go through these, remember - the point of this process is to make **trading your full-time job**. This is what you will be doing for a living.

Think about all the crap one must deal with just to go up the corporate ladder and finally get some small crappy office with a salary of $150,000? **Years and years of crap.** How many years does someone have to put in at the factory before they finally get promoted?

People spend a good portion of their life just trying to get ahead in a job they don't like, working for a company that doesn't care about them.

Being a Full-Time Trader *is everything you would think it is, and more*. You get up and go to the "office" which is right in your own house. You make your own decisions, and it is your own skill level that determines how far ahead you get. There is no boss (although some would say the Market is your boss) and you are truly the master of your own fate.

Given that - ***2 years*** is not much time and effort in comparison - particularly when you think of the amazing job you will have at the end of the journey.

Ok - with all of that out of the way - here is the revamped 10-Steps.

Step 1: *Choose A Broker* -

As a general rule, once you have your broker it is really hard to break-away and try another platform. A comfort level develops and gets to the point that the idea of moving your cash and learning a new interface is usually enough to keep people with the same broker all throughout their trading career. So this is a rather important step considering you will be spending hours every day using whichever one you decide upon now.

To begin with - **stay away from any mobile-only broker (i.e. *Robinhood***)** they suck. It might seem convenient and easy, but just imagine this for a moment - *You hire an accountant, meet at their home because they don't have an office, and show her all your finances. You're fully expecting them to go to their computer to start up QuickBooks or something similar, but instead they take out their phone and start entering your financial into an App called NumberTime! - How comfortable would be? Would you think this person is taking their job seriously?* Obviously you wouldn't use that accountant.

You want a broker that you can use on your computer, and has a good trading platform (I like *ThinkorSwim*, but *Interactive Brokers*, *TradeStation*, *Fidelity*, *Traider*. etc are all fine). Some brokers have better charting software, others are easier to place trades with, *etc*., it just depends on what matters most to you, so do your research. You'll want something that will serve your needs both now and down the road. That means brokers advertising themselves as being great for beginners, may work well at first, but can become very limiting as time progresses. One thing is a **must-have**, the platform must allow you to *paper trader (i.e. trade with fake money)* with *real-time data (*once again *ThinkorSwim* is excellent for this). You also will want to compare the *fees*. Options have fees, Futures have fees, hell every trade has hidden fees. It is not uncommon to make 100 trades in a month, break-even, but wind up having paid over a thousand dollars in fees to your broker.

Once you have decided - Deposit enough money that it allows you to *Paper trade* with *Real Time* data. Over time, as you progress, you will want to make sure you qualify to have a margin-enabled account, trade Options at the highest level, and trade Futures.

2) *Learn* -

Before you make a single trade, you need to learn. **A lot.** *This can take months*. Most brokers offer free online courses for you to take. Do not pass those up - most of these courses, while corny in their production value, are actually *really really good*. There are also plenty of books out there; *Technical Analysis of the Financial Markets* by John Murphy, *How to Make Money in Stocks* by William O'Neil, *Options as a Strategic Investment* by Lawrence McMillian, *Trading in the Zone* by Mark Douglas (more psychological), etc., and plenty of videos that are purely educational (i.e. they are not trying to sell you something). **Soak up everything.**

This is where you want to use your Paper Trading account. As you learn how to trade, especially Options, try it out using the Paper account set to *Real Time*. It is also important that you not put an unrealistic amount of fake money into this account. Don't start with a million dollars - it should be similar to the actual amount you will be starting with in your real portfolio. At this point you are just trying to get a handle on how to trade the following (and the Wiki has detailed posts on all of these):

a) Stocks -

Fairly basic, learn how to buy and sell stocks (going long and shorting). And while most advanced traders use mental stops, as a beginner you will be using real ones, so you will also learn how to set them, including OCO brackets. The difference between the bid and the ask, the liquidity in the equity, ETFs, Inverse ETFs, etc. all of these should be memorized and understood. Most traders just know how to buy a stock and then sell it. By the time you are done you should know not only *how* to short a stock, but what it *means* to short a stock.

b) Options -

In the Wiki there is a post dedicated to helping you understand Options - make sure you read it:

Options - Explain it Like I am Five Years Old

Most of you are not starting with a lot of capital, which means chances are you will be trading options. And you will soon find out that Options are *very very dangerous*. It is extremely easy to lose your entire account by playing around with these instruments. So, make sure you learn everything you can about Option trading before you ever spend one dime of real money on a Call or Put. This includes learning the Greeks, understanding how premiums work, what IV does to the price of your Options especially as it pertains to earnings season, and most importantly, how to combine Options to create the best possible method for your trade.

c) Option Spreads -

Correctly using Option spreads is one of the best ways to grow an account. It is also one of the more difficult things to master. So spend a lot of time on these. As you will see there are *many different types of spreads*. I suggest getting most familiar with *Call Debit, Put Debit, Call Credit, Put Credit, Diagonals, Covered Calls, Butterflies* and *Poor Mans Covered Calls*.

The key to trading Options is not just to know ***how*** *to trade them, but to truly understand the mechanics behind the entire transaction.*

By the time you are done with this section you should know how to execute any type of trade on your platform. Since you are paper-trading to learn this, do not worry about winning or losing the trade, just make sure you master executing them.

Set goals for yourself where you must successfully execute various types of trades each day without error.

3) ***Analysis -***

If you have just completed the first two steps then you know **how** to make a trade and even know **what** you are trading, but everything else is most likely still a blur. This is where *Technical Analysis* comes in.

All of short-term trading is based on *Technical Analysis*. Long-term investing is focused primarily on *Fundamental* analysis, but as a short-term trader, 99.5% of the time you really do not care what the fundamentals are behind the company you are trading. If you are holding a position for a few hours or days, it doesn't really matter to you what their P/E ratio is, or how their future outlook was last reported. Hell, many times I do not even know what company I am trading, other than the sector it might be categorized.

What does matter are the charts. You need to learn how to read the candlestick patterns, which indicators are useful (and which ones are crap), how to read the market, and of course, how to find the right stocks. Once again, I have recommendations in this sub on what resources you should use for this, but there are many out there. This part of your journey is probably going to be the most difficult to master - in fact, you will continue to learn and get better at it as you go along. Every great trader never stops being a student of analysis, and neither should you.

Make sure you do not get stuck in Analysis Paralysis!

Many traders fall prey to trying out every indicator they hear about thinking it will be the Holy Grail. THERE IS NO HOLY GRAIL INDICATOR.

And do not fall for all the "back-testing" crap either - it will always result in some insanely high win-rate. Just backing testing a 3/8 EMA Cross (you will learn what this is) alone gives you a win-rate over 80% and if that were true every one of us would be insanely rich by now.

In fact, the cleaner your charts, the better. So, learn them (many are in the Wiki), but when it comes to finally trading, K.I.S.S.

By the time you are done with this step you should be able to analyze the charts of any stock you choose, starting with the identification of Support and Resistance across various timeframes.

Even if you think you know all the basics, it is good to go back and review everything. Besides there is always something new, especially with these damn kids these days and their new-fangled coding on those Commodore 64's (yeah, I know a lot of you won't get this reference)!

4) *Choose a Journal -*

The three most popular are *Tradersync, Tradervue* and *Edgewonk.* RealDayTrading offers a discount for *TraderSync* (TraderSync Discount) which is the one I use. Whichever one you choose, make sure at the end of each day, whether paper trading or real, you upload your trades to the journals. Take the time to go through each trade, labelling them with your set-up/mistakes, and look at your statistics. You want to focus on your win rate, profit vs. loss (i.e. *Profit Factor*), number of trades per day, the types of trades you do well and the ones you tend to lose when using.

Categories like *Type of Stock (price, market cap level, volume, etc.), Time of Day/Week, Trade size, Type of trade (Long, Short, Option Spread, etc.)* are all important to note and study.

These first five steps should take you at least six months. Which means that is several months where you have not yet made a single trade using real money. And you will be tempted - particularly as you start seeing trades in your paper account making huge returns. Don't do it.

5) *Choose a Strategy -*

Now that you have a good understanding of how to trade, and you have a decent amount of data in your online journal to see what is working for you, it is time to choose a strategy. While there are many strategies to choose from there is **one strategy we KNOW is consistently profitable.**

Are there other strategies out there that work? Of course, but I cannot vouch for them. I and the other professional traders in this sub can attest to the one that is taught in this sub. It works and it is proven out daily with our trades.

It also should be noted that no matter what - there is *one strategy you should **not** use - Scalping.*

Especially Scalping low-float stocks. **Scalping** is defined as taking a very short-term trade based on the immediate price-action and exiting that trade with the same criteria. These trades are typically identified through their huge bursts of volume and rapid price movement, particularly compared to the price of the stock. One needs to balance the need to have tight stops with the volatility that could easily trigger those stops as well. This method of trading is unfortunately what lures most traders into this field to begin with (countless YouTube videos promising you that you can get rich doing it) and it *seems so easy. Scalping is one of the most difficult strategies one can choose and should only be done by people who are **very** experienced.*

6) *Choose a good scanner -*

All this knowledge is not going to help if you cannot find the right stocks. Most brokers come with decent scanners built into their platforms (although this is where *ThinkorSwim* comes up very short), and there are a number of free scanners available as well (listed in the Wiki). There are also a number of scanners out there that cost money, some of them are very good, others are a waste. Be careful that the scanners you are choosing are not optimized to just find ***scalping*** targets. Once again, I have ones I recommend in the Wiki, but there are many out there that give you great stocks to trade every day (*e.g.*, [Stockbeep.com]() is a free scanner that will serve you up some great trades). Also note that if you are looking to Day Trade then you are scanning on a much shorter timeframe (5-Min) then if you were Swing Trading. Your strategy (step 5) will determine the settings on your scanner. Most people will tell you to look for huge jumps in volume, which is always an important factor, but that mainly applies to *Momentum Trading*, which you should be avoiding. At a bare minimum, you do want stocks that have high Relative Volume, but you also want stocks that are strong/weak to the market, have great daily charts, have high liquidity, and have some sort of "buy" signal (whether it is a 3/8 cross on the EMA's, or a breach of consolidation, breaking through *resistance/support,* there are many different scenarios that qualify here). These scanners should also help you create *Watchlists*.

Most importantly you need to learn how to set alerts on your charts. Whenever you go through a chart, you should place alert lines on it at areas you want to be notified of if breached.

If you learn how to correctly set alerts you will be given great potential trades every day by your own platform.

7) *Decide on a Community -*

Many people prefer to trade alone, excel at it even. For me it was fine, but I much preferred trading in a good community. However, there are many scams out there. Three years ago, after trying many different groups, I finally found one that worked for me (*OneOption - which, despite the name focuses on Stocks and Options, Day Trading & Swing Trading*). It improved my trading dramatically. So, if you are going to join something, make sure you choose a service that:

a) is not focused solely or mainly on *Momentum/Scalping trading*. Most of them will revolve on exactly that - for example, *Warrior Trading* is a scalping group. Ross, the trader that owns and runs the community is without a doubt one of the best *scalpers* in the world - **but** he is well aware that very few people will actually be able to achieve consistent profitable with his method.

Instead, you want a community that teaches a full 360 approach to trading.

b) has pros in it. People that actually do this for a living. And make sure they are accessible. ***This is essential - and I am talking about ACTUAL professional traders. If someone isn't paying their bills and supporting themselves/families with the profits from their trading - they aren't a professional trader.***

c) has a great chat room. ***This part is equally essential.*** You want to be in a chat room that isn't a free-for-all, but rather focused on trading and led by actual professionals. Chat rooms that are filled with amateurs (like you will find on Discord), throwing out trades all the time, can and will actually hurt your trading.

d) is filled with resources. Any community you choose that is worth joining will probably cost you money, so make sure they have useful resources, including scanners, platforms and educational content.

Remember, this is your career - which means some things will cost money in helping you prepare for it. The investments in things like a Trading Journal (I recommend TraderSync - here is a discount link: [TraderSync Discount]()) , Charting Software (I recommend TC2000), a News service (I recommend TradeXchange, here is a discount link - TradeXchange Discount), community, etc - tend to pay dividends down the line.

8) *Start Trading -*

Now that you have chosen your broker, learned the basics of trading, understand technical analysis, found a really good scanner, used a journal to help you choose which strategies you want to focus on, and decided on whether or not you want to be in a community - you are ready to trade.

You first goal is to Paper trade and achieve the following:

3 Straight Profitable Months with at least 100 trades

A Win-Rate of 75% or higher

A Profit Factor of 2.0 or higher

You should not trade with actual money until you can hit these milestones. It would be in your interest to make sure you have a diversity of trades in your journal - which means you should be proficient at *Call-Debit Spreads, Put-Credit Spreads, Time-Spreads, Calls / Puts, Going Long and Shorting Stock*.

Once you graduate from that step, you can use regular money (make sure your account is enabled with margin, options and futures capabilities) and you will now trade only 1-Share per trade.

Again, you need to hit the same goals:

3 Straight Profitable Months with at least 100 trades

A Win-Rate of 75% or higher

A Profit Factor of 2.0 or higher

This is going to be frustrating and take **a lot** of self-control. You are going to be very tempted to take larger trades, especially when you see other people making money. Don't do it.

This is your most crucial step. It is not only validating your mastery of the strategy, but also your ability to be patient. TRADE ONLY 1 SHARE AT A TIME!

Once you hit these goals, and have completed all the other steps, you are now ready to start trading. This entire process, on average, takes two years.

9) *Set Goals -*

Trading for a living is a business. Treat it like one. Set your monthly goals. While you should not focus on your P&L while trading (meaning you do not exit a trade because you are down or up a certain amount of money, you exit because the analysis tells you to exit) you should focus on it in terms of the salary you need to live off day-to-day. It is important to realize that if you reach your monthly goals on *win rate*, *number of trades a day* and *profit factor*, you will also reach you monthly target as well. Remember the ultimate goal here is that at the end of each month you are going to be taking out the profit (this is your salary), and leaving the base behind. By the time you reach this step you should have a really good idea what type of profit you can expect from your strategy, and base amount in the account.

There are two ways to give yourself a "raise":

A) Increase your base amount by a set percentage every six months. This is what I do. Every six months I increase the base amount by 15%, which winds up roughly a 32% increase in the base every year. **Note: You should only be increasing your base amount if you are profitable.**

B) Re-invest 25% of any profit overage each month - if you have a profit target of $10,000 a month and you make $14,000 - reinvest $1,000 back into your account.

As your base amount increases, so should your profit targets. If you start with $50K and work your way up to $55K, your profit targets should increase by 10%.

10) ***Get an Accountant -***

Some people can do this themselves (I am not one of those people), but you want to make sure you are using the best possible set-up to pay the least amount of taxes. Do you qualify for Day Trader status with the IRS? Are you trading out of an IRA? Are you using an LLC or S-Corp? Since this is going to be your business, make sure you have your financials in order.

So, there you go.

Why do most people fail at short-term trading? Because they jump in before doing any of these steps. They deposit money, and try to scalp low float gappers, or they try to buy a lot of OTM options on the hot MEME stock. Eventually after losing enough money, they quit.

Not only are they given the wrong information, they have an expectation of becoming profitable right away. The notion of waiting almost two years before actually trading is an utterly foreign concept to just about anyone entering this space.

That is why most short-term traders lose money.

And even after you complete ***all*** *these steps, you should still start* ***small -*** *as it will take time. There are some things only experience will give you. Whether it is spotting a Bull-Trap or knowing when to exit a losing position, it takes time in the chair to recognize those patterns.*

And finally - you need to know going in that there are people that have gone through all 10-Steps, know trading backwards and forwards, and still fail because of ***mindset*** issues. That is why such a large portion of the Wiki is dedicated to mindset as it plays such a large role in your success.

I know nobody wants to hear that it will take that long to get good at this, however - ***Trading for a living gives you financial freedom.*** The ability to make money no matter where you are, as long as there is an internet connection. No boss. Just you and the market. **Having that life is worth the time and effort.**

I did several challenges to show you that this can be done, and I posted my trades in real-time every single day for over a year. Other pros have done the same. You can see beyond any doubt that this isn't some far-fetched rare occurrence. *It is a learned skill that with time and effort can be obtained*.

You can see trader after trader post their testimonials in this sub - going from being ready to give up all the way to quitting their jobs and becoming full-time traders.

As I mention in the introduction section of the Wiki - the first two years of learning was pure hell for me, both financially and emotionally- because I had ***nobody*** helping me.

I want to spare all of you from that.

So I urge you - if you are trying to figure out how to get started - or want to turn things around, do this the right way - there are no shortcuts.

Follow these steps and start your journey.

Please share this post with anyone that you think needs to read it.

Top 10 Checklist to Become a Profitable Day Trader - Comprehensive Guide

Posts offering advice tend to be reductive in nature. Just about everything falls under the umbrella of "Easier written than done." I acknowledge that.

I also realize that someone starting out in this field can be bombarded with seemingly endless directions on the best way to begin. There are YouTube videos, books, forums, communities, chat rooms, classes and services – all of which claiming they can help you make money.

If you wanted to be a lawyer, the steps you would need to take are clear – go to college, go to law school, do an internship, pass the bar, and then get a job. Unfortunately, even though Day Trading is a legitimate career, there is no centralized organization, or intuitively obvious path that leads towards getting to your goal - consistent and sustainable profitability.

As someone who has been doing this for a living for several years, meaning I pay my bills, support my family, and can count on a consistent amount of profit at the end of each month, I feel somewhat qualified to write this post.

With that in mind, this "checklist" can maybe help serve as a guide and provide some semblance of structure to an otherwise chaotic endeavor. If you are further along in your journey towards becoming a Day Trader, just skip to the step that best applies to you:

1) Two Years: The first thing you need to know is that this process will take roughly two years. If you need an immediate source of income, Day Trading is not going to be the solution.

The "Catch-22" of this becomes – You need two years to dedicate time and effort towards becoming financially independent, but you need to be financially independent to take the two years' worth of time to do it.

In a sense you will be like the person who is working to put themselves through school. If you can not trade during market-hours because you have a job, then you need to study and catch up at night.

2) The Right Broker: Most people stick with the same broker they start with, so choose wisely. Why do they stick with the same one? To begin with, it is a pain in the ass to switch over. Secondly, you develop a comfort level with the platform you are using. In my opinion, Ameritrade (ThinkorSwim), Fidelity, TradeStation, Interactive Broker, etc. all work fine. Tradier is also a good broker in terms of pricing, but you will need a different platform. However, do yourself a favor and stay away from any platform that has you primarily trading from your phone (I am sure you know which one I am referring to here).

3) Study – Paper Trading: There is *a lot* of information out there. People tend to always ask, "What books should I read?" and it is a difficult question to answer, because most of them are them same. However, *Technical Analysis of the Financial Markets by John Murphy, Encyclopedia of Chart Patterns by Thomas Bulkowski,* and *Options as a Strategic Investment by Lawrence McMillian* are excellent places to start. A warning though? They are *very* dry, so make sure you are wide awake when you read them. *Trading in the Zone* by Mark Douglas is also a useful book that focuses more on mindset than technical analysis. There are also plenty of free online course out there, some are offered by your broker. As you're studying, use the Simulated (Paper) Trading account offered by your broker to practice the methods taught in these books. For the visual learners out there, you will find plenty of videos out there to choose from – some are free, some cost money. I am not going to recommend one over the another here, except to say that you should focus on the videos that are geared towards teaching the information, rather than trying to sell you on a method. Before you trade with a single dollar of real money you should be able to pass a comprehensive test on reading chart patterns, candlestick formations, screeners/scanners, trading ladders, how to interpret various indicators, the basics of buying/selling stock, options/option-spreads, swing trading and money management.

4) Setup: You will want a minimum of two monitors. Most of you will start with one monitor, but trust me, you want at least two. Make sure you have a good internet connection that is stable and fast enough. The last thing you want is to be in the middle of a momentum trade, with a low float stock moving quickly and then suddenly, your WiFi goes down. Those minutes as you wait for your router to reboot will feel like *very long* minutes indeed. Make sure you are not using an old computer than has memory issues or tends to malfunction. You will want an area to trade in that is as secluded as possible from the rest of your house, with a comfortable chair and well-placed desk. Remember, this will be your job – your full-time job – so make it as comfortable. Obviously if you are sharing a studio apartment with three roommates and using an old laptop many of these things are not going to be feasible. I am giving you the ideal set-up to strive towards, so as you progress in your Day Trading career, invest in your setup, it is worth it.

5) Routine: Every Day Trader has two routines – Preparation and Personal. On the personal side - some get up hours before the opening bell to monitor the pre-market activity and some get up right before the market opens. There are people who like to get up early, exercise, eat breakfast watching the sunrise, take a shower, grab coffee, and sit down at their desk fully dressed (the Patrick Bateman's of the world). Whereas others roll out of bed, down a bunch of pills with their coffee and slide into their chair sucking on a vape fifteen minutes before the bell rings (the Hari Seldon's of the world). Either way, find your routine and get comfortable with it – you need to be mentally prepped to go to battle. For *preparation*, much of it takes place the night before, where you go through your scanners and identify the stocks of interest for the next day. You should be putting alert lines on these charts and entering these stocks into an easy to monitor watch list. In the morning, you want to note the overall market (Bearish or Bullish) and which sectors seems to be in favor for that day. There will also be between 5 and 10 good morning gappers that you should put into another watchlist you will be paying attention to during the first hour. Remember – for a Day Trader, every day is a new market, and you will need to know how to trade from both sides of it. Also note that the Day Trading occurs throughout the *entire day*, it is not just the first two hours. Some of my best trades happen three to four hours into trading when I can truly see the patterns on stocks I have been monitoring and note how they have been reacting to the market (SPY).

6) Money – Part I: This is what it is all about, right? Making money. That is why it is so hard to spend time studying, using simulated accounts, and watching the market, when you are not making any money. However, you are also not *losing* any money during this time either. Now I am not stupid enough to believe that any of you are going to wait two years before you use actual money. Still, no matter how much you plan on starting with, whether it is $5,000 or $500,000 – start out trading small. This is not just to save you from losing large sums of cash, but it also helps you learn something that is key to your success as a Day Trader – **You can not trade your P&L**. You must trade the charts. That is exceedingly difficult to do if you start out risking a lot of money on your trades – as your lack of experience, combined with the natural volatility of the market – will have you trading out of fear, not technical analysis. My advice to every new trader is the same – start out with $5,000 or $10,000, use a margin account (2X margin) which gives you 3 Day Trades every five days. Learn how to swing trade first. Train yourself to only choose stocks that have strong daily trends as you will have to hold most of your trades overnight. You will be forced to use the three allotted Day Trades judiciously each week. Once you know you can double that account, only then should you move up to the $25,000+ needed to Day Trade.

7) Money – Part II: How much should you start with? It all depends on your monthly goals. Because that is what you need to set – *monthly goals*. If you want to make $120,000 a year, then obviously you need to make $10,000 per month. So how much do you need in your account to hit that mark? That part depends on your Win Rate %, Average Number of Trades Per Day, and Average Profit/Loss Per Trade.

Most professional Day Traders strive for a Win Rate of at least 80%. With an 80% Win Rate, if you did 10 trades a day you would just need to make an average of $75 on the winners and debit $69.5 on the losers in order to hit the goal of $10,000 a month:

10 Trades Per Day = 220 trades per month

80% Win Rate = 176 Winners, 46 Losers

176 winners * $75 = $13,200

46 losers *$69.57 = $3,200

Total = $10,000

Risk|Reward = 1:1.07

The higher your win rate, the lower the number of trades needed and the better the risk/reward ratio can be to hit your goals. Getting your win rate over 80% is your number one goal in building a Day Trading career.

Consistency is the primary objective here. Your strategy should be producing consistent results for you. Which mean there should be no risk of losing your entire account during the 20% of time that the trades do not work, because your strategy should not allow for it.

So how much do you need in your account to do 10 trades a day where you make $75 on average for the 8 trades you win, and lose roughly $70 for the 2 trades that do not work? A $30,000 account with a 4X margin (giving you $120,000 in buying power) is more than enough. Now if you want to make $50,000 a month, you are going to need to either increase the number of trades you do a day to 50 in this scenario (which is not plausible) *or* you will need to increase how much you make per trade. The number one way to increase how much you make per trade is to increase the size of your position, and that requires a higher starting balance.

Also notice that if your Win Rate is 60% what happens in this same scenario:

10 Trades Per Day = 220 trades per month

60% Win Rate = 132 Winners, 88 Losers

132 winners * $100 = $13,200

88 losers *$36.36 = $3,200

Total = $10,000

Risk|Reward = 1:2.75

You went from a 1/1.07 Risk/Reward ratio to a 1/2.75 ratio. Just a 20% drop in your win rate made your job over 250% more difficult.

8) Strategy: Naturally, you need a strategy. To do that, you first need to be honest with yourself – what type of person are you? Are you a gambler? Stingy? Do you take a lot of risks or are you a more cautious person? You want to adopt strategies that work for you. *Everyone trades differently*. I know extremely successful traders that are pure scalpers, while others are more conservative only taking extremely high probability trades, and everyone in-between. No single *type* is more successful than another. Some traders prefer to only trade stock, while others use options and spreads to make their living. Just know that while most people are drawn into Day Trading via *Momentum Trades* (fast moving, cheaper stocks that typically have a low float), this type of trading is *extremely* difficult to do and equally as risky. I do not recommend starting out as a *Momentum Trader* unless you have an innate talent for doing it well. Either way, learn your strategy and practice it, using real money but with small position sizes. Get that win rate up using the strategy you are most comfortable executing.

9) Alone or Not?: While I am a misanthrope of the highest order, I could not stand trading alone. I enjoy trading with others in a chat room, bouncing ideas off people more experienced than I am, discussing strategies before and after-hours. Watching better traders has made me a better trader. However, there is a very key distinction here – if you do decide you want to trade in a group, it does you no good (and may do you harm) if that group does not have traders that are objectively better than you are currently. If you are surrounded by amateur traders that simply like to throw out ticker symbols whenever they see a volume spike, that is probably going to hurt your trading overall. However, if you do manage to find a group that is filled with experienced traders, I believe it is an invaluable part of your job.

10) Mindset: Finally – Day Trading requires a very particular mindset, because this is the innate mindset most of us start with:

- **a.** We tend to think our losers will always turn around, but that our winners will reverse.
- **b.** We are hardwired to focus on the totals at the end of each day, instead of the monthly averages.
- **c.** We get more upset with losses than we celebrate wins.
- **d.** We *always* like to think we are smarter than we are.

Each one of these can blow up our account if you let them. The first one leads to bigger losses and smaller wins. The second makes you feel like you are in a casino rather than an actual occupation. The third issue can cause you to go on “tilt”. And the final one has you making trades based on your “gut”, anticipating a move rather than confirming it. Know which ones cause the biggest issues for you and work on them – because you can do everything in this list, from 1 through 9, but if you do not have the right mindset it is going to throw it all away.

There you have it – consider this your “Getting Started Check-List”. Nobody is guaranteed success. But I can assure you that if you do these ten things listed here, that you will have a high likelihood to be a profitable Day Trader. And yes, this may seem difficult, arduous even, but think of the reward – complete and total financial freedom. The idea that as long as you have a connection to the internet, you have a source of income. No boss, and you make your own lifestyle.

That type of reward does not come easy, but I can also assure you – it is worth it.

This is the Best Time to Learn!

Nobody likes hearing that it takes roughly two years to learn how to trade and be consistently profitable. Especially when they are further told that means two years of *studying, practice, and dedication*. Meaning, the less time you put it into the longer your journey towards becoming a full-time.

I always use the analogy of *chess* (or poker) - where it takes a very short amount of time to learn the rules, but *years* to master the game.

However, right now an amazing opportunity is presenting itself to new traders - ***the market's volatility***.

It is relatively easy to learn when you have a string of one Bullish day after another, especially if you are swing trading. When it is rare that the market has consecutive days in the red, and stocks that gap up tend to continue increasing throughout the day without any fear of the rug being pulled out, is a bit like learning how to hit when someone is pitching underhand to you.

Now, obviously I am over-simplifying a bit, but there is no doubt that learning how to trade during a massive bullish run, even when dealing with intra-day trends is playing the game on easy mode.

But now you have volatility. **SPY** is unpredictable and experiencing huge swings. We have seen complete reversals during the day, and an increased sensitivity towards external events.

This is evident in the $5K Challenge, in which there is a multitude of trading methods, techniques and strategies being employed to just stay ahead of the market. And that is *exactly what you need*.

If you have followed the advice in the Wiki and done everything to get to the point where you can now trade 1 share and 1 option contract, then this is the perfect time to practice. And I know that we have constantly emphasized the importance of *win-rate*, but right now, your focus should be on learning how to:

- *Balance your portfolio when you have no bias*
- *Hedge when you do have a bias*

As well as:

- *Utilize methods that offer protections (e.g. CDS'/PDS'), high return on lower risk (e.g. Butterflies, Spec Plays), Sector Analysis (e.g. Energy/Oil), legging out of spreads (i.e. buying back the short side), timing your exits (i.e. do you take profits early, increase your position or hold), etc.*

Most importantly, it is the perfect time to really take a deep dive into the Walk-Away Analysis and see where your strengths/weaknesses lie.

We may not have this opportunity in a month or two from now, so I hope you are all taking advantage of it the best you can. And if you can't trade with real money, you should at least be paper trading this current environment.

Nothing reduces that two year timeline more than the experience this current market can give you.

See you all out there tomorrow!

Stock vs. Options - It is a Matter of Time

In a bullish market, which despite current circumstances we are still in, roughly 99% of your long trades will eventually be profitable - given enough time.

Obviously I am not talking about low-float low cost crappy stocks that gap up and you grab for $6.75 only to realize that is probably the last time that stock will ever see that price again (that is until you sell it at $3.60 and the next day watch it run it to $12...). I am talking about the stocks we all know and love, the AAPL's, HD's, etc.

Only a major negative change in the company, like we saw with **PTON** will drop a stock beyond repairable levels.

Think about it - what are the odds you bought a stock at the exact moment it will start to drop for the rest of its life on the exchange? I could buy **AAPL** right now at $162.41, and even though it might drop - at some point it will eventually be over that price again. The entire concept of *Long Term Investing* is based on this and *this is the benefit of a bull market*.

The only question is time. Let's say I bought **AAPL** and the market starts to really crash, **AAPL** could continue to drop, all the way down to $100 perhaps - but I would know that if I just held it, maybe for a year, maybe 2, hell, maybe 10, it will eventually get above that price.

Since we are short-term traders we have don't have luxury to wait 10 years, we need those moves to happen quickly. So we use technical analysis to help increase the odds that the trade will go in our favor.

Let's say our maximum time horizon for holding a trade is *one month* - now clearly the percent of stocks that will eventually go above our entry price *within a month* is less than the 99% you get for waiting a lifetime. However, because you should be choosing stock with strong daily charts and Relative Strength, the odds are still *very* high - most likely still over 90% in fact.

And now you see the power and danger of options - Options give you incredible leverage. You can benefit from **TSLA** moving up $50 in a day, without having to own 100 shares of **TSLA**. That is a *huge* advantage. But the trade-off is time. Now there is a time-limit on how long you can wait for the stock to turn around. And every day you wait, the value of that options drops from *time-decay*.

The moment you buy an option you are starting a clock, and that is how long you have to get into profit. Whereas with stock, there is no clock, but there is the restriction on buying power.

So that's the trade off - time vs. buying power.

Let's say on Monday the market turns bullish and by Tuesday I am convinced it found support. Let's also say I have $10,000 in my account, with $20,000 in stock buying power (because in this example I am using margin like you all should be). I like **AAPL** which is now at $165 and rising, so now I have two choices:

I can buy 100 shares of **AAPL** for $16,500 pretty much wiping out my buying power completely or I can buy 5 In-The-Money Options that expire in two-weeks for $7 each, costing me $3,500, leaving me plenty left over to still make other trades.

And then - BAM - it was a headfake, the market heads back down towards the SMA 200, taking **AAPL** with it -

If I bought the 100 shares of stock, and **AAPL** dropped $5 in price, I would be down $500 - and I could just hold the stock until it rebounds, which it eventually will. But my buying power will still be tied up.

If I bought the 5 Call Options, they would be down about $4, losing 80% of their value - and I would not have much time to wait it out, plus I would have lost roughly $2,000. Still, I would be left with plenty of money to make trades.

See the trade-offs here?

This is one of the major benefits larger accounts have - they can buy the stock instead of the options without worrying about the impact on buying power.

When you buy straight calls or puts you want *immediate* movement in the direction of your trade. The appeal of using *spreads* is that you time does not hurt you as much (and in some cases helps you) as it does with straight options.

That is why the decision between stocks and options really all comes down to a matter of time and how long you are willing and able to hold a position.

The next reason has to do with IV -

When you buy an option you want to pay as little as possible in premium and when you sell one you want to receive as much as possible in premium.

However, market makers and their algos are *very smart*. If an option is cheap, meaning you aren't paying much in premium for it (remember it is (Stock Price - Strike Price) - Price of Option, for in the money options) there is usually a reason. That reason is the lack of expectation that the stock is going to make a significant move in either direction.

Right now VXX remains somewhat low (VXX is your indicator for Option Premiums), despite the heavy selling pressure - which make straight Puts more attractive. When the market finds support and gets bullish, straight calls will become very popular.

For example - right now if I were to buy the $150 strike calls for AAPL it would cost me around $13.41 (really it's $13.50 but you'll see why I am using $13.41). So lets plug into that equation above - Stock Price is $162.41 - Strike Price of $150 = $12.41. $12.41 - Option Price of $13.41 = -$1 I am paying $1 in premium for that Call. If I looked at the percent of the price that is premium it is $1/$13.41 = 7.5%.

But what if I were to go out to Feb 11th expiration? Now the same option is roughly $14.41 or $2 in premium - which is paying 13.8%.

So now you have two things going against you - *time* and the stock needs to go up enough to cover the premium you are paying before you are in profit. And the longer it takes to make that move, the more it has to go up due to *time-decay*.

Now your decision comes down to the attributes of the stock itself - if I am looking at stocks that are tied to sector rotation (meaning sometimes the sector, like energy, is hot and sometimes it goes cold), I may not use Options because I won't be able to weather the wait for the sector to rotate back into favor again.

But let's face it - the reason most of you are using Options is - **price**. If wasn't for Options some of you wouldn't be able to play **TSLA (**as an example) at all.

In the end - if you had an account with a billion dollars in it, you wouldn't mess with Options at all - you wouldn't need to, so the decision on whether to use Options or Stock now comes down to two things:

- *Time*
- *Money*

I currently have 750 shares of **NFLX** at a price of $425ish, because a) I feel it will go above that level at some point, and b) I can afford to wait for it to happen. If I was using Options I wouldn't have the luxury of the second point and likely be screwed. Hence, why I chose shares.

The decision you make must take those two factors into account - if I didn't have the account size to handle those **NFLX** shares, even though I feel it will go up, I wouldn't have bought Options because I do not know *when* it will go up.

Look at a stock like **NRG**, right now it is at $39.19 - and one of the few stocks that went up on Friday. However, despite its' current strength the daily chart remains very weak. If you bought Options and on Monday the stock took a downturn, you do not have the daily chart to lean on to wait it out - thus, your Options would be sold for a loss. But you if you had the stock you could hold.

However, a stock like **WELL** which at $87.51 is above all its' SMA's , showed great strength on Friday, and did not break consolidation to the downside, in fact it went up - might be a great stock to hold Call Options for right now.

As you can see, three different stocks, three different calculations on whether to use Options or Stocks.

Fundamental vs Technical Analysis

EDIT - this was written roughly a year ago and originally posted in r/daytrading so read it in that context.

There seems to be a lot of confusion around this issue, so hopefully this will clarify things a bit.

Fundamental Analysis: This is used by *Long Term* traders. This deals with the overall health of a company - amount of cash on hand, long-term guidance, price to earnings ratios, etc. If you are trying to figure out where a company will be a year or two from now, this type of analysis needs to be part of your decision-making process.

If you are holding a stock for a week, a day, a few hours, a few minutes, you do **not** need *Fundamental Analysis*. Why? Because if I buy a stock at 9:50am and sell it 30 minutes later, I don't even need to know what the company is that I am trading, let alone what their profit margins are.

Technical Analysis (TA): There is a lot of disagreement on this board about TA - most likely because it is a *very* broad area of study. TA covers everything that has to do with price, volume and time. All the indicators, charts, candlesticks, Heiken Ashi, trendlines, moving averages, standard deviations, support/resistance, etc....all of it is TA. So is price action, option pricing through B-S modeling, Level 2, volume studies, crossovers, time trends, etc. All *short-term* trading is based off of *Technical Analysis*, whether it is Day Trading (round-trip trades within the same day) or Swing Trading (holding a position for a few days/weeks).

Yes, there are external catalysts that one might trade, but what you are really trading is the impact of that catalyst on price and volume, which is - *Technical Analysis*.

These two forms of analysis are the two pillars of trading, everything falls underneath these categories. Both work, and both take years of study to get right.

I've heard people say, "If Technical Analysis works, why do so many fail at Day Trading?" Simple - because it takes an immense amount of time and effort that most people do not want to put in, to master TA. And even among those who do put in the time and effort, some cannot resist the urge to simply gamble. That alone knocks out a huge percentage of people who try.

Since this is a Day Trading board, Technical Analysis is the foundation on which you need to build your career. Rejecting TA as a Day Trader is like wanting to be a doctor and rejecting modern medicine.

Is all of TA correct? No. Personally I think more than half the indicators are bullshit. But through learning the entire field, you will be able to discern what works for you and what doesn't.

Either way, I hope this helps people understand the difference between the two and what each mean.

Stop Chasing Methods

Many of you just can't stop looking for new "foolproof" methods. I get it, I was that way too when I started.

In this sub you have watched as I turned a $30K account into $60K in five weeks time, I did it publicly, posting every trade live and sharing the trading journal with everyone. You are currently watching [u/Professor1970] turn $5K into $30K, also in real time.

Every single thing you need, to learn how we, and the other pros, do this every day is here in the Wiki. All the resources you need are also listed here.

Am I saying this is the *only* way to do it? No, of course not. But I can tell you this - the professionals that run this sub have tried just about everything you can think of, and I can assure you that if you are either a new trader, or a trader that can't seem to "get it right" - this is absolutely the best way. I've literally spent several hours these past few days looking up various "systems" that people have posted, just to see if they are *ok* to be posted here. You want to talk about a method being used, then write a post and *describe* the method, you don't need to shill a service to do that. If you are truly trying to help other traders, then put the method out there and let's discuss it.

But the truth is, and I will reiterate this over and over - *there is no quick method to doing this, no shortcuts.* Even the method here will take you a long time and a lot of effort to learn and get right. Do not expect to be successful after just a few months. Still, every day I see many of you looking for that shortcut, looking for one more method, one more strategy that if you just followed to the letter would make you profitable. *It doesn't exist*.

The more you search, the more you "gurus" you will find - some will swear on volume profiles, others bank on pure pattern trading, but in the end it doesn't matter. Because they are talking about a specific method for specific conditions for which you still need a lot of experience to pull off correctly. It isn't even a matter of whether or not what they do works or doesn't work - you are being taught a method here that we *know* works for new and struggling traders.

What we teach here is a foundation, an overall approach that can give you a lifelong professional with financial independence. If we felt that one of those other methods was better at helping you become profitable, trust me it would be taught in this sub. The same goes for the millions of indicators out there - yes, Bollinger Bands are useful, so is the Ichimoku Cloud - but it is not the right indicator for traders that need help. Pivot levels and Volume Profile analysis is nothing new, you can wrap it up and resell it a million different ways, but it is also the same thing, all trying to find levels of Support and Resistance.

I tend to give *tough love* on here for a reason - *I don't want to see you lose your money*. And I will tell you this - if you get the mindset part right, then learn the method taught here - and once you are successful at that, *you should absolutely branch out and learn other strategies.* But if you can't get to the point where you are consistently profitable with what we are teaching here, then I will guarantee you that your shortcut will not work. Because at that point your issue is one of work ethics.

Think of it this way - Imagine you are an executive at a successful company, and every month a new crop of interns and assistants come through the door. And you genuinely want to see all of them succeed. Some of them learn everything they can, work hard and get promoted, some of them now even work side-by-side with you every day. Others, fresh out of college, or even worse - fired from several other companies, come in and immediately start suggesting different ways of doing things, jumping in during meetings and offering their *ideas*, or something they read somewhere. After a while you can get pretty good at seeing who is going to succeed and which ones aren't.

So, what you might see as me and others being "defensive" or "not willing to try new things" is actually just us not wanting *you* to lose your money and knowing that is exactly what will happen. I honestly hope that you will all become successful at this, I do. And I know that many of you won't, but I am going to do everything I can to lower that number as much as possible. If that means telling you to stop chasing every shiny object out there, and learn the method taught here - that is what I am going to do.

Ten Things I Wish I Knew When Getting Started

****Updated and Reposted for the Wiki****

Every weekend I try to post something that covers the questions I get throughout the week from many of you. Previously I posted general tips on Day Trading, my personal story on getting started, Day Trading as a career, and various strategies. I want to thank you all for the amazing messages - knowing these posts are helping some of you in your journey through this difficult path is the reason I stay in this community.

So here are the things I wish I knew (in no particular order) and understood five years ago when I got started:

1) Position Sizing - Many of the issues traders have can be attributed to trading with too large of a position. It is very hard to make your decisions based purely on the technical analysis when you are watching your account dwindle down. I've also seen traders get out of a trade simply because they needed the buying power for a "better trade". Ideally you should be trading *as if* you have 1 share. **In trading - the more your emotions play a role in your decisions, the worse the outcome will be.** Obviously you want to make money, so I am not suggesting to size your trades to where they don't matter, but you also need to size them to where you aren't trading out of fear.

To help with this, try to go for a week and trade very small position sizes - I am talking 1 contract on options, or only a few shares. At the end of the week look at your win and profit/loss percentages and compare them to your previous week. Chances are you will see a huge improvement.

2) Avoid FOMO - This one is a killer. FOMO has been the death of many an account. We've all been there - you are in some good trades, and then your chat room or message board starts to explode with something like - CLOV! CLOV is goinnnnng! OMG - CLOV is non-stop! So, what do you do? You look at CLOV, and sure enough, the damn thing is heading to the moon as they say. You start seeing people post their profits on CLOV, and you can't take it anymore, you say to yourself, "This is the way." and you close some positions that are working, but now they look painfully slow to you. You jump in CLOV. And what happens? CLOV pulls back and the trade you were in begins to shoot up. Damn it! Now you exit CLOV and jump back into the trade you were originally in. And what happens? CLOV starts to go again and your original trade stalls. At this point you want to throw the monitor across the room, and you begin to drink, heavily. So, here's a simply solution - stop with the FOMO. If the trade looks good, take it, but not because you see everyone else losing their minds over it.

3) When to Exit a Trade - This is definitely one of the most asked questions from traders. Many new traders take profit too quickly and let losers run too long. Here is the most important piece of advice I can give you: **Trade the Technicals, Not The P&L.** This is a mindset issue. You are exiting trades based on your loss or your gain, and not on the charts. *I exit a trade when the conditions I entered the trade no longer apply.* Whether it is a reversal in the HA (Heiken-Ashi) candles, the loss or gain of Relative Strength/Weakness against the market (note - this is NOT RSI or Beta), VWAP or some form of support/resistance, etc. I do not make my decision based on how much I am down or up on the trade. It may also surprise you to know that just about every professional Day Trader I know does not use Hard Stops, they use Mental Stops. I know you see Hard Stops taught everywhere and in all the videos, and I am sure some of you will argue to the death how necessary they are - I am just telling you that most traders that do this for a living do not use them. It is just really hard to teach Mental Stops, and thus, you see Hard Stops in the videos and books. In reality your exit changes based on the market and the price action, and thus flexibility is needed. But, it takes a lot of experience to use mental stops (took me three years to transition over and when I did my profit % went up dramatically); however, if you aren't at that point yet, I encourage you to continue using regular stops until you are ready to switch.

4) Journal - Whether you are using software to do it or manually entering your trades in a spreadsheet, it is very important to keep track of everything. You need to be able to analyze what types of trades you do well in and which ones you do not. Are there times of the day you are stronger and why? Do you tend to make money day trading stocks but lose on options? The answers to all of these questions give you important insight into how to improve your trading. When I started doing this I finally began to identify areas that I was weak and needed to work on to improve.

5) Buy High - Sell Higher - We are all taught *Buy Low - Sell High*. In theory this is correct, and there are plenty of times when buying the dip makes sense. The problem is that this mantra gets so drilled into our heads we can't think of any other way to trade. When we see a stock that has strong bullish momentum, up 4% on the day, and up 8% over the past week - we think, "It is over-extended", maybe…but here's the thing, if you buy *into the trend*, and buy *strength*, you will be part of the trend. And when trading, being part of the trend is exactly where you want to be.

6) Different types of Day Trades - There are different types of Day Trades, and you should learn each and know what you are comfortable with using. When I began I lumped all stocks that would pop up on scanners into the same category, which was a huge mistake.

A) Scalping - Scalping has many definitions, for the purposes of this post it is defined as taking advantage of quick price changes to make a profit off a minor move. It can be done with larger stocks, but usually (since it involves a high position size) it is with stocks under $10. These trades do not last long - a few minutes typically and you are taking profit off a very minor change. These trades are also very dangerous, as due to the volatility inherent in the set-up the stock can drop quite fast, leaving you stuck or stopped out.

B) Momentum Trading - Similar to scalping, but a bit more involved. Many times these types of trades are on morning gappers, and you are using various reads on the candlestick patterns to capitalize on strong moves. It differs from scalping as sometimes these trades can result in larger gains if you catch a really strong runner. They can also be dangerous as the stops (whether hard or mental) tend to be rather wide in order to give the stock room (on scalps the stops are not wide), but also can result in a significant loss. You're paying particular attention to volume in these trades.

C) Technical Based - Best explained with an example - on Thursday I noticed that CAT was below it's SMA 50, and Relatively Weak to SPY (when SPY went up on the 5 minutes charts, CAT continued down), so I shorted the stock around 232.50 and was looking to see if it broke horizontal support at 232, which it did. At that point I watched to make sure it stayed Relatively Weak to the market, and rode it down towards it's next level of support at around 226. I exited the trade at the end of the day making around $5.70 a share on the short. I could have held it overnight given the weakness on the daily chart, but since I did not know what the market would be on Friday I closed the trade (turns out it would have continued to print money for me). This is a typical Day Trade and represents the majority of the trades I do. Using technical analysis, scanners and a strategy, I identify the stock I want to trade and come up with various potential exits. I also never do a trade on a stock using this method that doesn't have a strong daily chart. Why? Because if the market or stock suddenly turns against me, but doesn't break support/resistance and the reasoning for the trade is still intact, I am able to hold it based on the daily chart. *A good Day Trader is also a good Swing Trader.*

D) Option Trading - There are various kinds of option trades, too many to post here, but I will cover two basic ones for Day Trading:

Call/Put - very straightforward, you are day trading calls and puts. You should always try to use calls/puts that are at least 1-2 weeks out from expiration and have a delta of .7 or higher. Otherwise you are wasting money on premium with these plays. Yes, I know these options are more expensive, but they are also worth it. Not only do you get the benefit of the option providing more leverage with the higher delta, but you also do not get hit with as much time decay, even if it is only during a single day.

Spreads - despite popular belief you can day trade spreads. An example would be Call Debit Spreads that expire that week are a very secure way to do it. On stocks that have huge gains for the day, (i.e. ZM is up $17), you can do an ATM call debit spread, and try to get a debit that is less than 50% of the strike distance (e.g. if you do a 220/225 spread, you want to pay less than 2.50 in a debit). You then immediately put in an order to buy it back for a 10% profit on a Monday/Tuesday, 20% on Wednesday, 25-30% on Thursday and 40-50% on Friday.

I also have a post on Friday lotto trades, which are quite fun to do, I urge you to check it out.

Know the different types of Day Trades. Your scans should be different depending on the type of trade you want.

7) Resources - By the far, the number one question I get asked is for recommendations on books/videos/communities/etc. It is easy to get overwhelmed with the various choices out there. When I started I was stupid and bought all the books I could, paid for courses, joined communities - basically my dumbass wasted a lot of time and money. Hell the free courses on Ameritrade alone were better than half the crap I bought. Anyway, think of those resources like this:

A) Selling You Something - There are plenty of books and videos that have one goal in mind, to try to sell you something. The problem is that many of them are either scams or well-meaning, but not worth it. I am not suggesting you dismiss them all, but there is an easy way to tell which is which - *Anything that suggests you can get rich quickly is a scam. Period.* These videos usually features someone in a sports car (usually a Lambo for some reason), and they highlight how you can turn a little bit of money into millions. Or how one "easy to use method" is all you need to make money. Bullshit.

If you are going to pay for some course, community, or service - make sure it; acknowledges how difficult Day Trading is and how long it really takes to learn, teaches a well-rounded method that is sustainable and focused on consistent smaller wins, features a chat room that has a core group of professional traders, and/or a platform that contains useful scanners.

B) Teaching You Something - These are more like textbooks and instructional videos. Some are very dry but informative, while others are easier to digest but perhaps not as in-depth.

What you want is something that teaches you; Candlesticks and their patterns, Indicators and their uses, Options (with the Greeks explained), Spreads and how/when to use them, and Scanners settings.

It difficult to recommend any particular video or book as a lot depends on your personal style of learning, but it is important to know what type or resource you are looking at (A or B) and whether it offers what you need.

8) "It Can't Go Any Higher/Lower..." - Yeah it can. Stop trying to predict tops and bottoms. Sure if there is a technical reason you believe it won't continue to increase or drop, that is one thing, but simply because a stock is already down/up a significant amount does not mean there isn't plenty of gas left in that tank. In fact, there usually is, follow the charts not your gut. *Counter-trend trading is one of the top reasons new traders lose money*

9) You Are Not An Economist - I am a former professor of Sociology, so I thought I knew shit. Yeah, I didn't know shit. Not even the Economists know shit. Remember back in January how they were saying if the Dems won the Senate the market would crash? Remember how it went up? A lot of people got burned on that. I see traders all the time make comments like, "SPY is *due* to drop." Or - "Inflation fears, over-valued market - there is a crash coming." And so you begin to have a market-bias, which impacts your trades, even your day trades. Trade what is right in front of you.

10) Don't Trade What You Don't Know - Finally, this sub is constantly filled with people asking questions about a trade they are currently in, whether it is an option or stock trade. You can tell from their questions that they jumped into a trade without having the slightest clue what they were doing. This is a pretty simple concept here - if you don't know it, don't trade it. If the extent of your option knowledge is - Calls means you think it is going up and Puts mean you think it is going down - don't trade options. You would think this is common sense, but sadly it isn't very common at all.

The Only Way to Win Is To Unlearn What You Have Learned

It is a new year which is a perfect time to start with a clean mental slate.

One of the most difficult aspects about teaching traders how to be consistently profitable is how much their heads have been filled with absolute garbage.

Consider the following: There is no "*house"* when it comes to the market - meaning, the market has no built-in statistical advantage for or against you, the way a casino does. You are free to choose either side of a trade, and to decide whether to use stocks or options - and for every trade you make, someone else is on the other side. They aren't making the exact opposite trade the same time you are - they are just happily taking your order knowing you will probably lose.

Think about that - every market maker and institution out there would be more than happy to take the other side of a retail traders position - no matter what that position is - you want to be short **AAPL**, great, they are lined up going long. Want to go long **AAPL**? Fine - that same money is ready to take the bearish side.

Why? ***Because they know you will play it wrong.***

Let's look at the Monty Hall Problem for a moment. For those that don't know it, it is a famous example of how people are bad at statistics:

If a contestant on a game show was told there are three doors - behind one of those doors is a new car but you don't know which door it is, and behind the other two is nothing. All they need to do is pick the right door to win. In other words, they have a 33% chance of winning.

They pick door number 1 (or 2 or 3, doesn't really matter) - but before the host of the game show opens door number 1, she opens door number 2 showing there is nothing behind it. She then asks the contestant if they want to switch their original pick of Door 1 to Door 3.

Over 70% of people would stick with their original pick (i.e. roughly 70% of people get this question wrong). However, Door 3 has a 66.6% chance of having the car behind it, and the original pick only has a 33.3% chance. In other words, you should only stick with the original door if you don't really want a new car.

Knowing how often contestants would make the wrong choice, I would bet against them getting a car every time. Why? Because I know I have a 57.1% chance of being right and winning the bet. (e.g. the 70% of idiots will still win 33.3% of the time, and the 30% that know math will win 66.6% of the time, meaning on average 42.9% of contestants would win the car, and 57.1% would leave with nothing) If I bet against the contestant 100 times, I am going to win around 57 of those bets on average.

Is the game fixed against the contestant? No, in fact, in this case, it is actually fixed in their favor. I just know they are likely to screw it up.

That is like the market - *it is actually fixed somewhat in your favor* - all the data and indicators are there, an overall bullish trend exists, the *story* of what stock is doing is being played out in front of you, and you have complete freedom to choose any trade you want. If you can't get the odds better than random chance with all of that going for you than you shouldn't be trading. But much like the contestant, traders do not play correctly and therefore lose.

Part of this is due to bullshit cliché sayings that everyone tends to believe to be gospel, like:

Buy Low - Sell High! So many traders trying to pick bottoms, and what wind ups happening is they - *Buy low, panic and sell lower but then watch it go higher as they start a bad drinking habit.*

Instead it should be *Buy High - Sell Higher*. But people don't like to do that. *When is the best time to buy a stock (i.e. when it is most likely to go up after you buy it?) -* ***right after it hits its' All-Time-High***. But this is usually when retail traders try to *short* or *wait for a dip*. The opposite of what they should be doing.

Or everyone's favorite - *Nobody ever went broke taking a profit* - um, yeah they did, all the damn time. Because if the times you a take profit is less frequent, and/or much smaller in size than your losses, hell yes, you can go broke. Most of the time you should be *adding to your winners* not getting out of the trade.

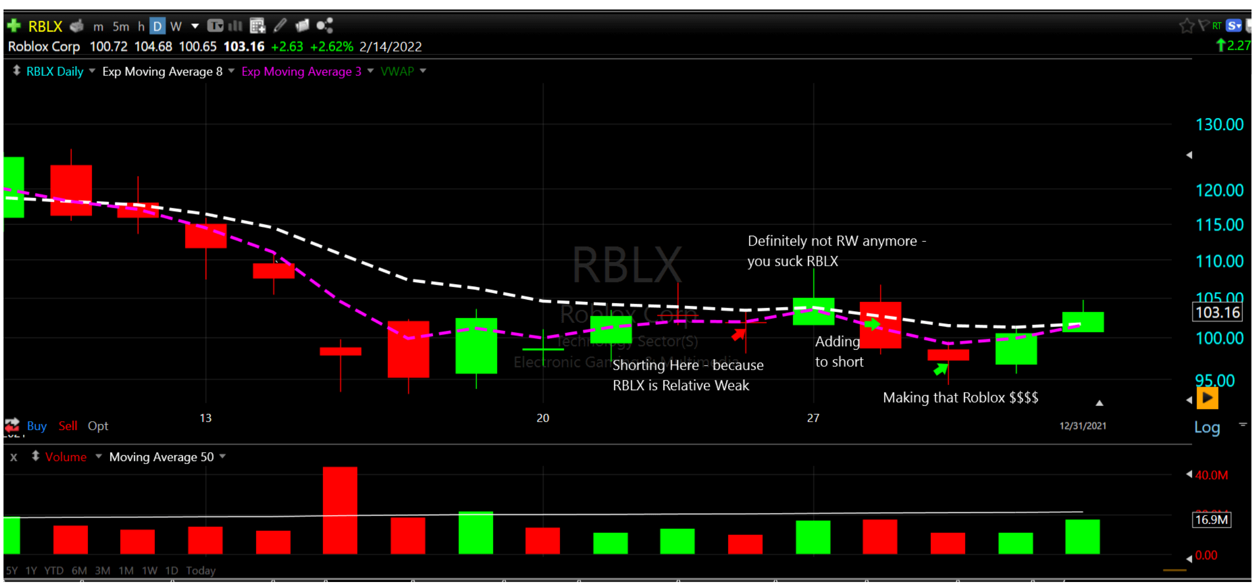
The truth is, *most trades are winners* (especially bullish trades in a bullish market) it is just a matter of *when*. If on Monday I bought 1,000 shares of **AAPL** at $177.50, I can be about 99.9% sure that at some point in the next year I am going to be in profit on that trade - lest I think that $177.50 is going to be the highest price **AAPL** will see for the next twelve months. So it really is just a matter of *when* it will be in profit.

Now, if I pick a volatile stock like **SAVA** and buy a 1,000 shares on Monday at $43.50, there is a somewhat higher chance that the stock will never again go above that price, but even with a stock like that, the chance is very low. Again, it really is just a matter of *when*.

The other side of the trade is banking on the fact that you will exit before that "*when"* occurs. Especially if you are using options when you have a ticking clock working against you, and time decay eating away at the value.

For example, on 12/23 I shorted **RBLX** using Put Options, and the price was around $101 at the time, which turned out to be a poor entry on my part. The next day **RBLX** went to $108.79 - I held (all while getting constant questions of "*Hey Hari - are you still in RBLX?*" (while I felt like saying, "*Yes you fucking taint-stick I am still in the damn trade",* I just ignored the inquires instead). The following day, **RBLX** peaked around $107 - I held again. It finally started dropping and I added to the short, the last day of the trade **RBLX** dropped to $95 - I took profit.

How many of you would have bailed when **RBLX** went to $102 that same day? If you held on, how many would have definitely exited when it almost hit $109 two days after taking the trade? What about on the third day when it showed signs of weakness but still hit close to $107?



You can see the candle after I shorted never really got above the low of the candle before **RBLX** gapped down - that told me that this little bump up was meant to do one thing - flush out shorts like me - well I refused to be flushed damnit!

Through the course of that trade you had a *loser,* a *breakeven* and a *winner* - the only question is - when do you exit?

A hard stop would have had you exiting at a loss, a mental stop above the low of the candle before the gap up would have had one exiting at even a bigger loss - only by letting that next day's candle play out, and finish at $105, then adding during the drop the next day, and finally taking profits when it hit support do you come out with a good winner.

Open up trading journal (and if you don't have one then what the hell are you waiting for)?

Go to every losing trade you had that is more than 2-weeks old, and calculate the following:

1) What percent of your losing trades *would* have been winners at *some point* after you exited - if you had options than chart that option position, and if it ever exceeded the price you bought it at, after you closed the trade for a loss.

2) Of the trades that *would* have been winners, what percent are stock and what percent were options?

3) What is the average amount of time you would have had to wait until they turned into winners for stocks? Options?

You will find that a majority of the stock trades *would* have been winners at some point - if you don't see that you are not picking good stocks. Next you will find that ITM Options would have been winners more than half of the time - again, if not you are picking the wrong stocks. Finally, you will find that a majority of the OTM Options you lost on would never have been winners no matter how long you waited.

As noted earlier a vast majority of stocks will *eventually* be winners, but since we are short-term traders here, picking the right stocks is *crucial* because you need them to exceed your entry price in a relatively short period of time.

Doing this will tell you if your issue is primarily with the stocks you are picking, or if it lies in when you are exiting (or both).

Finally, add up all the times your losing positions *could* have been winners, and then add that total to your winning positions - what is you winning percentage now? Thus if you made 100 trades and had 40 winners and 60 losers, but among those 60 losers 35 of them *could* have been winners if you played it correctly, you *could* have had 75 winners and 25 losers. That is a good winning percentage. Your issue most likely isn't with your picks, but rather how you are playing them. Make sense?

Another thing you are likely to notice is that any *momentum trades* you did had the lowest chance of turning into winners even if you held them - which is why they are so dangerous. A $5 stock that jumps $7 only to start dropping may not see that $7 level again for a long time. Whereas a stock like **AAPL** is much more likely to return to your entry price in a short period of time.

Essentially what is happening is you are actually putting the odds in your favor through your analysis - using scanners and indicators you are most likely picking the right stock more than half the time. If not you are definitely not doing it correctly - your picks should *at least be better than random choice*.

So you are entering into trades with an *edge* - it is your actions *after* you enter the trade that is turning those trades into losers. How can that be? How does one take a trade that is statistically in their favor and turn it into a loser? Because the other side of that trade knows exactly *how you think*. They know when you are likely to jump ship and exactly at what price they need for a majority to finally say, "No more - I am out!". They know it so well, they can program it - those algorithms are literally designed with your mentality in mind.

And what is that mentality based on? All the crap you have been taught about trading combined with the average mindset of someone that wasn't born wealthy (i.e. making decisions based on fear of loss). They use your predictable psychological responses to take away your statistical advantage.

They only way to combat this is to, in the words of a short little green man, *Unlearn what you have Learned*.

That is what this sub endeavors to do - replace all that crap with tools you need to win.

The Woes of the Lazy Trader! (/u/OptionStalker)

You know the lazy trader! He's the guy who comes to this sub and who has to constantly be reminded to read the WIKI. Today the lazy trader was punished, and he learned an old trick that institutions love to play when the market is dead. Let me set the table.

The lazy trader shows up with his cup of coffee when the opening bell rings and he sits down in front of the computer to see what's moving. The day unfolds and the action is pretty dull. Because he is lazy he doesn't realize that the FOMC minutes are going to be released at 2:00 PM ET and that everyone is just waiting for the news. All of a sudden the lazy trader sees a headline "Putin Adds Troops On the Ukrainian Border." The S&P 500 drops on the news and it falls to a new low of the day. This is just the type of news he has been waiting for so he shorts the S&P 500. A few minutes later he loses 10 handles and he wonders what the #$%^ just happened.

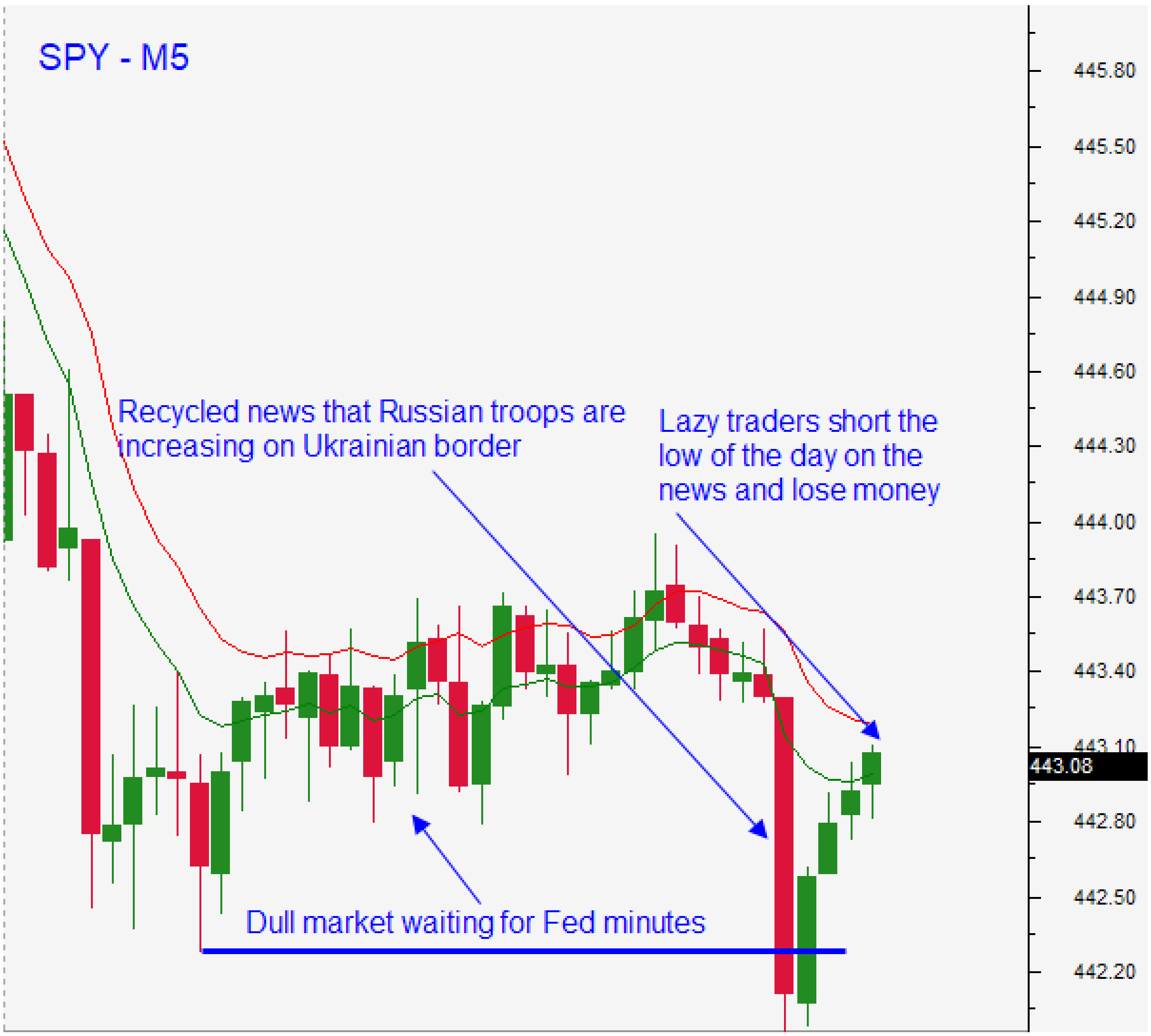
If the lazy trader had done his homework he would have known that the Russian news was released well before the open.

Here's the game institutions love to play. Trading firms pay a lot of money to have colocation servers for news feeds and optical readers. I have no doubt that trading firms and the media work in concert with each other. When trading is dull ahead of the Fed minutes, they recycle some old news. This drop shakes lazy traders out of good long positions and some of them get short. In an instant the institutions pivot and they make enough money on that move to justify paying big bucks for the news feed. There is nothing illegal about this practice. The media company is just reporting the news - right?

Trading is one of the toughest professions. If you take this lightly, you will lose. Institutions will do everything they can to take your money from you and you need to be on top of your game. We knew that Putin was increasing his troop count before the open. When we saw this headline we knew it was recycled news and we did not flinch.

Start your trading day at least an hour before the opening bell and know the headlines. Understand this game and you won't fall victim to it like the lazy trader.

Trade well.



Margin vs Cash Accounts

Previously I had made an argument in favor of using a Margin account for those that have an account balance under $25K. That post can be found in the Wiki, or right here:

> If you are over $25K and therefore have PDT Status this isn't a question - you use Margin, and get 4X Day Trading Buying Power.
>
> But what if you are under $25K, which should you choose?

Once again the answer is - Margin, but with some caveats.

In a Cash Account you can Day Trade - that is the primary advantage to it. If you have $10,000 in cash, you can make as many Day Trades you want as long as you still have cash to do it. Every time you make a trade the cash you used for that trade is no longer available to you for that day - *it has to settle*.

If for example you bought 100 shares of a $50 stock and then closed the trade, you need to wait two days before you can use that $5,000. For Options the wait is one day.

There are lots of ways you can get hit with violations in a cash account, so you need to be careful. Let's say you start the day on Monday with $10K in settled cashed and buy $200 shares of a $50 stock. The stock goes up $2 and you sell it for a $400 profit. Then with your $10,400 you buy another 200 shares of a stock worth $50, and sell it Tuesday morning. You are in violation, because technically the cash you used to buy the second stock wasn't settled yet.

Despite the various ways you can get caught in a violation, if you follow basic rules you should be fine.

However, with a cash account you cannot do *Option Spreads*, nor do you get *Margin*.

In a **Margin** account you get 2X margin on your money (so with $10K you have $20K of Stock Buying Power), and are allowed 3 Day Trades every five trading days (it refreshes). You are also allowed to do *Option Spreads*.

As you will soon see in the $5K Challenge, *Option Spreads* are **extremely** important in growing a small account - in fact, I would go as far to say *they are necessary*.

Let's say I want to trade **TSLA** - it is going up on the day, the market is bullish and I want to get in on the move. With a $5K account, one ATM call that expires that same week is probably going to cost me close to $3,000 - that is 60% of my entire account! *However*, if I bought a $1060 strike call and sold a $1075 strike call, it will only cost me $675. That spread still gives me a $15 move in the stock, meaning I have $825 of potential upside per contract. If I did 2 contracts of that spread, costing $1,350 - I can make $1,650 if **TSLA** finishes above $1075 by Friday. I can also sell it for profit that same day (using one of my Day Trades) or later in the week for a profit if **TSLA** continues its bullish move.

What if I wanted to get in on a stock like **SOFI**, let's say it puts out a positive press release and it starts to jump from $15.81 to $16.50 and rising. I can buy 625 shares of that stock if I want given my margin, and even a .50 cent move nets me around $300 if I use one of my Day Trades - that is a 6% increase in my total capital on one trade.

Also - if you are under PDT you should be learning patience and trade selection - in other words, it is good for you to be limited to 3 Day Trades every 5 trading days. There is no reason to be using a cash-settled account just so you can Day Trade.

In the end you do not lose anything by using a margin account (as the ability to Day Trade a cash account is actually a detriment to what you should be learning), and you gain not only additional capital to trade with, but also *Option Spreads* which are invaluable.

In order to get Margin you need to apply with your broker, you also need to apply for a higher Option level to do spreads (*hint: you need to say you have a lot of experience and are an aggressive trader to get approved quickly)*.

You can read about how to do Option Spreads in the Wiki (https://www.reddit.com/r/RealDayTrading/wiki/index) and practice using Paper Accounts if needed.

And yes, I know just about every other Day Trading sub, video, book says to use a Cash-Settled account, and as usual, they are wrong and do not know what they are talking about. Why? Because preying on Day Traders is a business all in itself. The shit I am telling you *is not marketable*. Nobody wants to hear - use a margin account and learn how to do *Option Spreads*. It is boring. People want - *You can Day Trade all you want and scalp Prog!* Unfortunately, the disconnect between how real traders do things and what most of you have learned is huge. And that is due to a concerted effort to fleece new traders with promises of working only 1-hour a day and making millions! But I have gotten off on a rant here... anyway, yes, Margin - use it, learn it, love it.

However, after spending several months experimenting with various methods using a sub-$25K account I have come to the following conclusions:

- **In a trending market it is still *much* better to use a Margin account**
- **In a choppy market it is better to have a Cash account**
- **If you are in the "1-Share" a trade phase of your training, it is also better to use a Cash account**

Trending market allow for *Swing Trades* - the ability to successful Swing trade, particularly using Option Spreads, helps mitigate against the PDT restrictions.

However, a Choppy Market (which, in many ways, a Bear market is, by definition) does not lend itself towards Swing trading for obvious reasons. The best way to take advantage of a Choppy market is to Day Trade the volatility, which one can not do with a Margin account under PDT-Restrictions.

For that reason it is better to use a Cash account which allows you (within the limitations of your cash settlement) to Day Trade as often as you like.

Further, if you are only trading 1-Share as you work on improving your *win-rate* and *profit factor*, you need to be able to Day Trade the methods taught here - which once again, a Margin account precludes you from doing.

So consider this a slight amendment to the previous post. I will update the Wiki as well.

The Various Accounts of Traders

Most full-time traders have several accounts, each serving a different purpose and each can be traded differently.

For example, I have:

Stocks: This is a long-term account in which I have various stock positions. Almost all of these positions have come from *selling Puts* and having those Puts exercised. *Note: I never sell a Put on a stock unless I want to **own that stock***.* The Puts are typically sold from the Day Trading account (where I would keep the premium collected if the trade isn't exercised) and then the stocks are transferred over to this one. On most positions I will sell OTM Calls (Delta below .10) against the shares each week. If the shares get called away I sell Puts on them until I have them back. In this account I will both *average down* and *dollar cost average* on the shares (i.e. I averaged down today on both AMD and AFRM). Getting the average cost of the shares down and then using the Covered Calls, has this account generating constantly revenue.

Leaps: Not every trader has this type of account but in some years it is actually the most profitable. I will typically have 8 to 10 LEAPS (deep ITM Calls that expire at least a year out) on stocks like **COST**, **SHOP, AMZN, HD, GOOG, etc.** Every week I am selling OTM calls against the Leap for a *Poor Man's Covered Call* or *Fig Leaf*. If the stock has an extraordinary good week, the short call gets exercised and is covered by the LEAP, which is a very profitable occurrence.

Day Trading: This is the main and most active account where most of the trading occurs. The core balance remains the same and the profit is removed at the end of each month. Every six months the base amount is increased by 15%. I've been using this method for the past four years now.

Challenge Account: Whether it is the $30K to $60K Challenge, the $5K challenge, or soon to be "$50K - Make a Living" Challenge - this account is kept inactive when there isn't a challenge.

As mentioned, each account is traded differently. For example, averaging down when Day Trading a stock is typically not a good idea (although there are times when it makes sense) but it may be appropriate in a long-term portfolio. Closing a trade because of a technical break is the correct move in a Day Trading account, but one will typically ride out those swings for their Long-Term Investments. The LTI's (Long-Term Investments) can rely on Fundamental Analysis whereas Day/Swing Trades rarely, if ever, take Fundamentals into one's thesis.

Each account is treated differently and operates under its' own set of rules.

(this post is in response to some questions received on recent Stock trades)

The Method

DISCLAIMER: This subreddit has quite a lot of crossover with the OneOption community and much of this subreddit's information comes from their community. Pete Stolcers (u/OptionStalker), CEO of OneOption, is the man who popularized Relative Strength vs. the SPY Index among many of the professional traders in this subreddit and he offers a subscription for his OptionStalker program. This subreddit is not trying to sell you OneOption services, nor do any of the contributors here profit off of this subreddit.

This sub-reddit prescribes a specific trading methodology that focuses on finding and trading stocks/options that have "Relative Strength or Weakness" against the SPY. This methodology has two core principles: ***Market First*** and ***Stock Second*** that focus on understanding what the market is doing first before choosing corresponding stocks to trade. Once the market direction is established, the stock selection needs be tied to the direction of the market and should follow certain rules. Once these two principles are applied correctly, it becomes a lot easier to trade that ticker using any strategy, whether it is directly buying that stock or to trade options. These concepts and rules will be covered in detail in the sections below.

Chapter 2. Relative Strength or Weakness vs SPY

Core Foundation of This Trading Edge

From: https://oneoption.com/intro-series/our-trading-methodology/

Learn Our Proven System:

Relative Strength & Weakness

We trade the S&P 500 with our signals, but we have an added "edge" when we trade stock. Stocks that are strong relative to the market indicate institutional buying and our searches find them. The "smart money" leaves a trail of breadcrumbs for us to follow. Here's how it works.

1 Market First

More than 75% of all stocks follow the market. This is the most important piece of the trading puzzle. We use our proprietary 1OP indicator and technical analysis to form our market opinion. That bias and our confidence in it drives all of our trading decisions.

2 Select Stocks

If our market bias is bullish we search for stocks that are breaking out on heavy volume. When the market dips, we filter out the fakes and we zero in on stocks that continue to move higher. Institutions are accumulating and we want to follow the smart money.

3 Options Last

When you get the market & stock right, you've solved 95% of the puzzle. You can trade almost any options strategy and make money. Before you start leveraging your capital, we suggest you master the first two steps with a win rate of ~75%. We'll teach you how.

Our Trading Methodology

This article is part of our Introductory Series. Visit [Start Here] to learn more.

Introduction

Trading "edges" are very hard to come by and we've been exploiting one for more than 20 years. It identifies institutional order flow and the concept is simple...follow the big money!

In the early years, we analyzed our trades and we added steps that helped us eliminate costly errors. In time, we recognized characteristics that were common in our winning trades. If we could quantify them, we could search for them. So that's exactly what we did. We developed a search engine to find these opportunities quickly and efficiently. Over the last 15 years, we've continued to refine our systematic trading approach and our quest for perfection continues.

A systematic trading approach serves many purposes: it prioritizes the steps, it eliminates errors, it removes emotion, it can be refined and most importantly, it can be replicated. Our trading technology, our chat room, and our education all revolve around this specific trading system. It's a system like no other that you will find anywhere else.

Before you take it for a test drive, you need to learn the system. Put the time into these resources and you will be rewarded. When you get behind the wheel you'll be ready to hit the gas.

Our edge is founded on these three principles:

1. Market First
2. Stocks Second
3. Options Last

Market First

Novice chess players know the basic moves and they focus on their game plan. They are oblivious to what their opponent is doing and they are quickly mated. The market is your opponent. It doesn't care about your game plan; it has its own agenda. You need to reveal it and then use that knowledge to your advantage.

More than 75% of all stocks follow the market. This is the most important piece of the trading puzzle. If you get the market right, your probability of success increases dramatically. If you get it wrong, the odds are against you.

We developed a proprietary indicator called 1OP (1OPtion) and it is the only indicator we use for the S&P 500. When the indicator "agrees" across multiple time frames we have a strong signal. We also use trendlines, horizontal support/resistance, major moving averages, and price patterns for technical confirmation. To learn more about our market analysis read the next article in this series: Why Market First?

Our long-term and short-term market opinion drive all of our trading decisions. We could just trade the S&P 500, but we can dramatically increase our probability of success by trading stocks.

Stock Second

Analyzing your trade history is critically important. When we reviewed our trades we discovered that our win rate was higher for stocks than it was for the S&P 500. They both had the same directional bias, so we needed to find out why. This analysis revealed a very powerful "edge" and we have been trading it for more than 20 years.

We learned that stocks that move higher when the market is declining have relative strength. This is a sign that institutions are accumulating shares and they are undeterred by market dips. Their bid is so strong that it offsets the selling pressure from profit-taking/sell programs during market dips. Relative strength was providing us with a cushion and we were able to exit stock trades with little or no loss when we got the market wrong. When we got the market right, these stocks shot higher.

We wanted to find as many of these stocks as we could so we quantified relative strength and we built a powerful search engine called Option Stalker. Stocks that were breaking out on heavy volume and that also had relative strength performed the best so we added technical variables to the search engine.

When our market bias is bullish we trade these stocks as surrogate market positions. Read the next section to learn more about how we find stocks with relative strength and weakness.

Options Last

Options are the icing on the cake. If you get the market right and the stock right you can trade almost any option strategy and make money. We understand that traders are excited about the big returns they can make from trading options, but leverage is a double-edged sword that cuts deeply. Consequently, most of our focus is on the first two steps.

Until you have mastered our system and until your win rate is greater than 75% for two straight months, you should only be trading one share of stock. It will take time for you to reach that level and our technology, educational materials and community will help you get there. You will make mistakes and you need to keep the "tuition" small. Once you get to that level you can gradually increase your size and you can start trying some options strategies. We stick to basic options strategies (buying calls/puts, and vertical spreads).

Conclusion

We provide a systematic trading approach that is designed around a very powerful edge. Our educational resources are included with the membership and they will teach you everything you need to know. Option Stalker is our search engine and it finds these high probability trades. Members in the chat room share their trade ideas and these picks all conform to the system. They are living proof that the system works and this tight-knit community of traders helps new members find their way. Before you take a test drive, please make sure you review these resources. When you've finished our free trial, we are confident that you'll see how all of the pieces fit together.

Why Market First?

More than 75% of all stocks follow the market. If you get this puzzle piece right your chances of success increase dramatically. If you get it wrong, your chances of failure are great. Getting the market right is by far the most critical element in your trading success.

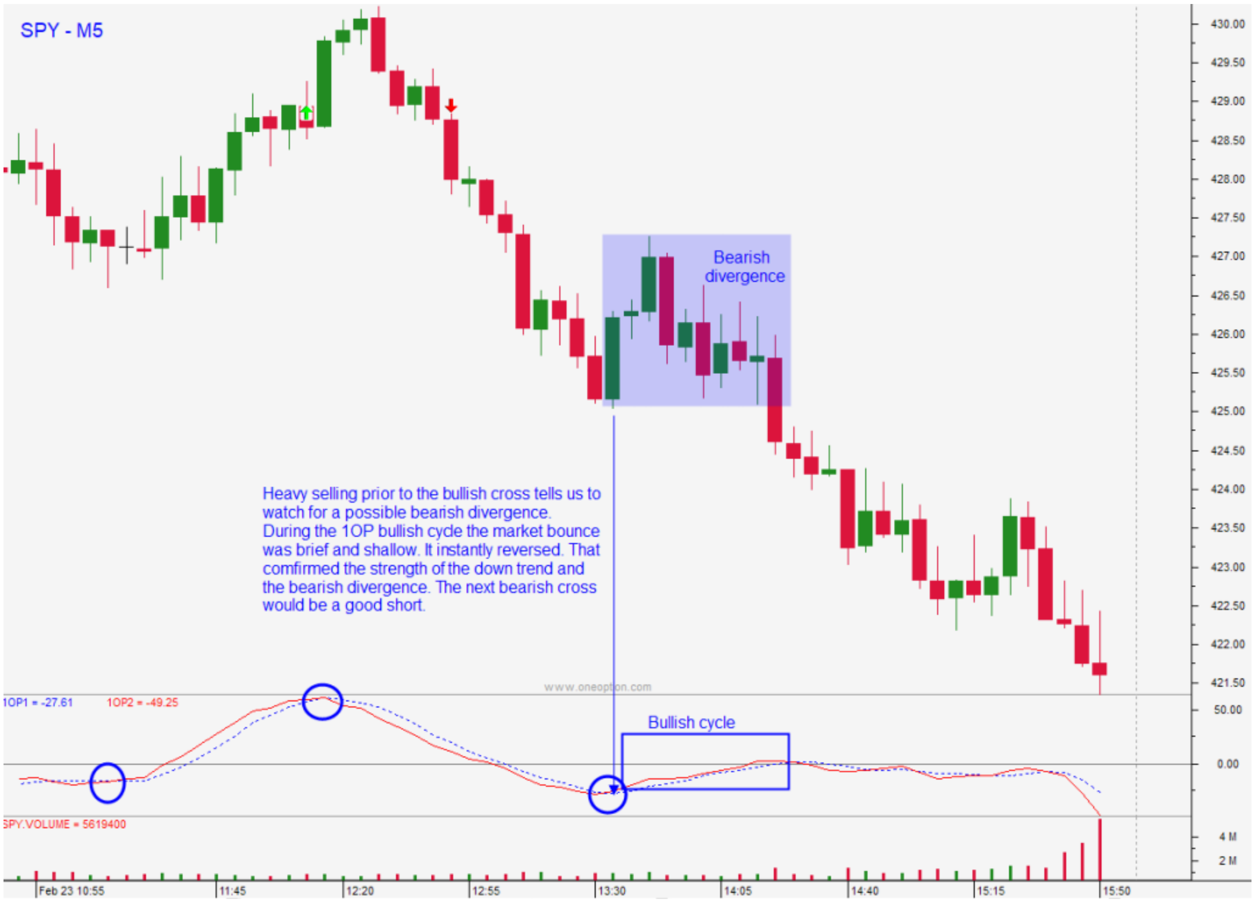
Your long-term and short-term market analysis will result in a directional bias and a confidence level. That outcome drives ALL of your trading decisions. We primarily use technical analysis to form our longer-term and shorter-term market opinion.

Market Indicator

The 1OP indicator is all we use to trade the S&P 500 and it works across multiple time frames. It stands for **1OP**tion and this proprietary indicator took 10 years to develop. This is the only indicator we use for the S&P 500. **The 1OP is predictive, not reactive: this is a big difference.** The 1OP indicator performs two very important functions. It provides us with a directional bias and the cycles help us time our trades.

When 1OP is rising it is in a bullish cycle. During a bullish cycle we expect the market and stocks to rise. When the indicator spikes it is a sign that the rally is getting tired and that is a good time to start scaling out of long positions. When the indicator rolls over a bearish cycle begins. Remember the indicator is predictive and that means we need price confirmation. That can be a trendline breach, a horizontal support breach, or even a bearish candlestick formation. When the sell signal is confirmed technically you would take gains on your remaining long positions and you would take short positions. During the bearish cycle, you want to see organized selling and consecutive red candles. That would be a sign of selling pressure that will confirm the short position. As the 1OP indicator dives deeply into negative territory you should be prepared to take profits on the pending bullish cross. This indicator helps us identify reversals and it helps us time our trades.

There are instances when 1OP generates a signal and the market does not behave as we expect. This happens about 20% of the time and we call those divergences. They are extremely powerful because they confirm the current trend strength. We expect them and we watch for them when the momentum in one direction is very strong. In the example below, we have consecutive red candles with little overlap. If the market can't get any lift during the bullish cycle, this confirms that the selling pressure is heavy and that we can expect more downside on the next bearish cross.



Technical analysis

We stick to the basics when it comes to technical analysis. We use trendlines, horizontal support/resistance, major moving averages, and price patterns. If other traders can look at a chart and reach the same conclusion, the metric has merit. It is critical for us to have a longer-term and shorter-term market bias. In the chart below we can see that the market has broken major technical support levels and it is spending time below those support levels. This is a sign of persistent selling on a longer-term basis and the downward sloping channel tells us that we should sell bounces and take gains on big drops.

On a short-term basis, we also use trendlines and horizontal support and resistance. We do not use major moving averages on intraday charts and we lean more heavily on price patterns and 1OP. The play-by-play analysis is depicted in the chart annotations below. Notice how the longer-term support (now resistance) in the daily chart came into play on the 5-minute chart.

We publish our pre-open market comments each morning and they are your road map the moment you join. [Visit our blog to view recent market comments.]

We can and we do trade S&P 500 futures based on 1OP trade signals. However, there is an advantage to trading stock as a surrogate market position. In the next section, we will describe that "edge" and we will show you how we find the best stocks.

Stock Second

Many novice traders skip the first step. They read a headline or they fall in love with a stock and they are oblivious to market conditions. We did not fall into that trap. We have our market bias and it is bullish on a longer-term and a shorter-term basis. We are going to wait for the next bullish 1OP cycle for the S&P 500 and we are going to buy the strongest stock in the index. In the next section, we will describe an edge that we have been trading for more than 20 years and it is a game-changer.

Relative Strength

There is an index called RSI (Relative Strength Index). It measures a stock's current strength relative to its previous strength. This is a worthless indicator – do not use it.

We compare the stock's recent price movement to the S&P 500. When the market is moving lower, we want to find stocks that are treading water or that are moving higher. This is what we call relative strength and to avoid confusion we will refer to this as 1OSI (1Option Strength Index). In the daily chart below you can see how the market was declining and XOM was moving higher. This is what relative strength looks like.

Here's why this price behavior is so powerful. We know that 75% of all stocks follow the market. During a market decline, institutional programs sell baskets of stocks and investors take gains on their stock positions. When a stock is able to "defy gravity" it is a sign that institutions are accumulating. The smart money does not care about the market dip; they want to own this stock and any temporary profit taking in the stock plays right into their hands. Instead of driving the stock higher with their buy orders, this market dip is providing an opportunity for them to quietly accumulate shares. This is a gigantic "tell" and here is how we use it to our advantage.

When the 1OP indicator for the S&P 500 is in a bearish cycle and the market is drifting lower, we are searching for stocks that are strong relative to the market. This tells us that institutions are buying. When the market finds support we will start buying these stocks. If by chance the market continues to sink lower, these stocks will tread water. S&P 500 traders would lose money in this scenario, but stocks with relative strength will provide us with a cushion because institutions are buying shares. If the bullish cross for 1OP produces a market rally, these stocks will shoot higher. In the next section, we are going to explore combining these indicators.

Trade Signals

1OP works great for the S&P 500 and it also works great for stocks. 1OSI is a way for us to gauge relative strength so it is only natural to combine both indicators. When 1OP for the stock is in a bullish cycle and when 1OSI > 0 a buy signal is generated. The system sticks with that signal until the stock breaks technical support. When 1OP is in a bearish cycle and when 1OSI < 0 a sell signal is generated for the stock. The system sticks with that signal until the stock breaks above technical resistance.

The puzzle pieces are starting to come together, but we need a way to find these stocks. The next section is called Options Last and we will show you the tools we have developed to help us find the best stocks.

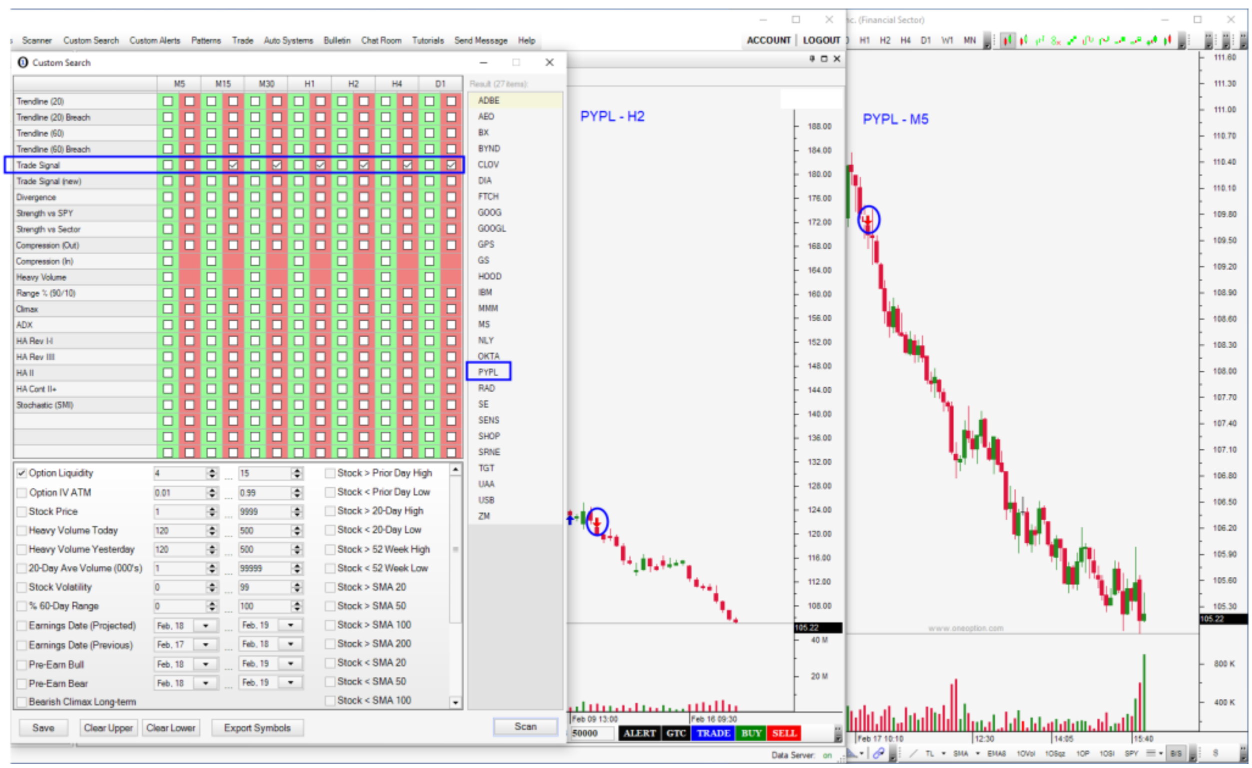
Options Last

Everyone wants to dive right into options trading. They learn a few strategies and they read a few stock headlines and they feel they have everything they need to make a fortune. Getting the market right is 65% of the trading puzzle. Getting the stock right is 30% of the trading puzzle. Options are only 5% of the puzzle and until you have your win rate consistently above 75%, you should not trade options. In fact, you should only trade one share of stock. You need to keep your "tuition" low while you are learning and there will be mistakes. Let's focus on how we can improve your win rate.

Searches

The best stock candidates have common characteristics. A stock with many desirable characteristics has a higher probability of performing as expected. We refer to those as checkboxes. In addition to our market analysis and proprietary indicators, we offer an incredibly powerful search engine called Option Stalker and Option Stalker Pro. In both products, you can use our favorite searches or you can create your own.

Imagine finding a stock with good option liquidity that had sell signals across all time frames. That would be a weak stock and we can search for them using the Custom Search in Option Stalker Pro. Here's an example.



Trendlines, trade signals, new trade signals, divergences, relative strength, sector strength, compressions, heavy volume, relative strength, reversals, continuations, liquid options, and earnings dates are just some of the variables you can use in your searches. Name, define (bullish/bearish) and save your searches. No coding is required. Trading opportunities pass quickly and these searches get you right into the action.

Probability

The notion of checkboxes was mentioned earlier. The more checkboxes we mark, the higher our probability of success.

The most important checkbox is the market. Instead of a single SPY M5 sell signal, what if we have sell signals across multiple time frames? That would certainly confirm a weak market.

The second most important check box is the stock. In the stock example above PYPL was on sell signals across multiple time frames.

Now we have a weak market with sell signals across multiple time frames and we have a weak stock with sell signals across multiple time frames. Our probability of success is very high. What if we filtered that list of stocks even further and we looked for stocks with heavy volume, great options liquidity, technical breakdowns and strong momentum?

You get your win rate above 75% by waiting for these high probability set-ups and this is how we help you find them. Once you start consistently nailing trades you can consider options trading.

Read [OneOption e-book here](#).

What are Institutional Traders?

I was asked to write a post on this, so here you go:

Most people have an image in their heads when they hear the term "Institutional Trading" - it's usually either an old white guy in a suit that looks like a combination between Mortimer and Randolph Duke from Trading Places, or a young white guy in a suit that looks like Leo DiCaprio from Wolf of Wall Street. They are typically pegged as amoral, with unfair advantages in life and trading.

They might donate to charities for a tax write-off and at the same time step over you if you were dying in the street.

Not a pretty picture, is it? The funny thing about this image is that it is simultaneously grotesque, and aspirational for some people.

I am not going to argue whether that stereotype is close to the truth. The fact is I have met some of these "Masters of the Universe" and a few matches this description, while others would be hard to differentiate from your neighbor.

One thing is certain - they are all *wealthy*. Notice I didn't say *rich*, I said *wealthy*. *Rich* is the person who gets a big check, *wealthy* is the person that signed that check - there's a difference.

So, what are these Institutions? You have heard of the names I am sure - *Blackrock, Vanguard, Fidelity, Ark, etc.* ***But what are they really?***

Imagine you are trading with a million dollars in your account. That's a lot, right? You can make some pretty big trades with that - especially given the 4X Buying Power. Now imagine you have 99 other friends all with a million in their accounts as well. The 100 of you decide to get together and form a trading company. You each put your $1 million into the company trading account, and now have $100 million. At this point you probably would feel pretty damn powerful and ready to dominate the market - but the truth is you would *barely qualify* as an *Institutional Trading* firm. Perhaps a very small one.

That should give you a sense of how much money we are talking about here - even if you had a million and combined it with 99 other friends, you still wouldn't even be a sub-division of a sub-division in one of these firms.

So, what advantages do they have? Well, not so long ago the answer was - *a lot*.

They had access to real-time price movement, historical data, programs that could test strategies, run studies, and chart almost anything they wanted. They were able to place trades immediately and without delay and did so with only marginal fees. *These were* ***huge*** *advantages over the retail trader*.

Now a 20 year old with an Ameritrade account pretty much has every single one of those things at their fingertips in the comfort of their own homes.

Does that mean things are now fair? Hell no - they never are - and never will be.

Think about it - If you were going to buy a new TV or even a new iPhone, you wouldn't have much room to negotiate the price - you're pretty much paying what they are listing it for or walking away empty-handed. However, now imagine you walked into that store and said you want to buy 10,000 TV's or 25,000 iPhones. At that point you certainly aren't paying anywhere near the retail price, shipping is free, and you'll have access to several upgrades that might not even be available to the public.

Same thing applies to stocks - if you trade a $30,000 account, Ameritrade is only going to go so far in knocking down those fees - if you trade a $300,000,000 account, well you're naming your price.

IPO's? Swaps? Yeah - they get first crack, and sometimes the only crack at it.

Taxes? I doubt many of you have off-shore accounts, tons of "phantom write-offs" and access to the top tax lawyers. But they do.

So yes, they have advantages - Some may argue that those advantages are necessary and reasonable (you spend a lot, you get a lot), others will cry foul. I can see the argument on both sides, but one thing is certain - *they do have the advantage*.

However - keep in mind that those advantages *are highly regulated*. In other words, it isn't as easy as you think to just cheat the system. Congress, which ironically is the biggest perpetrator of using inside information, tends to make it a sport to crack down on these Institutions, especially around election time. And for the record - *Inside Information* means information that is not available to the public through *any means*. That last part is important. Because some information is available, but only for a price and that price could be astronomical - well outside the reach of the average trader. But because *it is technically* available, it is not considered *Inside Information*. This is one way to skirt that law - you make the information so hard to obtain that only the very wealthy can actually obtain it.

But that still doesn't answer - what are these institutions?

In essence, they are trading, just like you are, except instead of trading an individual account they are trading on behalf of a company/corporation. Inside these Institutions you have *Analysts* and *Operators*. The Analysts are studying the technical and fundamental information, as well as the larger economic trends, and writing detailed reports. These reports, which can be hourly, daily, weekly or monthly are sent to the Operators who then use that information to make decisions on what, when and how much to trade.

One significant change in recent years has been that *Analysts* began to see the *Operators* as the "middle-person", and started writing Algorithms that put their analysis into action. These algorithms would recognized patterns and act accordingly. It is so prominent now that almost 75-80% of all their trading is done through these Algorithms. Meaning the power within these Institutions shifted from *Operators* to *Analysts*. Now you have *Analysts* and *Data Scientists* directing the deployment of capital. Not surprisingly profits soared. And for those of you thinking, "Well then I should just use Algorithms to trade!" consider for a moment the amount of information, staff and trading power these companies wield. In fact, the very pattern you might be thinking of writing your algorithm to trade, is the same one *their* algorithm is trained to recognize and lead yours into a trap.

There are also different kinds of *Institutional Trading Firms* - the one that gets the most attention are *Hedge Funds* - Elliot Management, Citadel, etc.

Hedge fund managers generally have complete autonomy to trade what they want with their clients money. That freedom allows them to be flexible, creative, and yes - hedge. Even though they are what comes to mind for many retail traders, they only represent between 3-5% of the money going into the market at any one time. However, because they take risks, their capital tends to get deployed into equities that other funds would never touch. Hedge funds can move the price of **PLTR** or **GME** because they are trading those tickers in high volume.

The largest contributor of capital to the market are **Mutual Funds,** the boring distant cousin of **Hedge Funds**. Why do I say boring? Well, there is nothing boring about making billions of dollars - but they do so without very little freedom. They simply invest in what their clients direct them into, although they of course *advise* (which is what gives them the flexibility), but before the money is even transferred to their account it has already been decided where it should go and when.

Pension Funds which is basically the employee donated money that they expect to receive upon retirement, controls roughly 10% of all the cash in the market. Managers of Pension Funds have been historically plagued with a lot of accusations of corruption until the space got more regulated (this is an area the Mafia used to generate a lot of income back in the day). While they have more freedom than Mutual Funds, they cannot take the same risks as Hedge Funds. Still, when the market crashes, it not only takes out investors and those with wealth, it also wipes out many pensions that people were counting on.

Finally, you have **Investment Banks** that act more as advisors or intermediaries - **JP Morgan Chase, Goldman Sachs**, etc. All these firms write up extensive daily reports that help their clients move around their money into the best returns.

Finally - how does all this matter to you - the Retail Trader? Because Institutions:

A) **Know a lot more than you do**
B) **Move the market**
C) **Know a hell of a lot more than you do**

That is why we follow the money.

Understanding what is and what isn't institutional moves in a stock is essential in deciding which trades to make on the retail side.

Will they always get there first? Yes, of course. But getting there second, or even third, is still a very profitable strategy.

Simple and Effective Day Trading Method - But Rarely Mentioned or Used: Relative Strength

As any Day Trader knows **a lot** goes into being consistently successful.

For this post I am going to focus on **one** technique - it is not the only thing one should focus on, nor should it replace indicators that are currently working for you.

As a final caveat (and on Reddit caveats *are* needed) - *this does not apply to momentum-based trades on low-priced gappers that you are trading within the first 30 minutes*.

It is really quite simple - roughly 70-80% of all stocks follow the market. And when I say "market" here, I am referring primarily to the S&P 500, which is reflected in the **SPY** ETF. However, you'll notice that every day there are some stocks that seems to be relatively strong or weak against SPY. Sometimes this is due to a news event or earnings, but others the stock is just weak/strong on its own.

There are four types of these stocks:

1) SPY is up, but this stock is stronger than SPY proportionally

2) SPY is up, but this stock is down

3) SPY is down, but this stock is weaker than SPY proportionally

4) SPY is down, but this stock is up

These are the stocks you want to focus on to day trade. As an example on Friday - SPY was up, but at around 2 hours into trading **DGX** began dropping, even as SPY continued to push upwards. Shorting DGX around 2hrs and 30 mins into trading, right around 137.50 and you would have made a quick $1.50 a share. Seeing the weakness in the stock you could have even done a lotto play and bought the 135 puts which were going for about 20 cents at the time and within an hour were at 60 cents (a 300% return).

Another example on Friday would have been **UPST** - it gapped up $4 and then within the first hour is jumped up another $10 before pulling back and consolidating. But then at roughly 1:45pm (est) it started to move up again, even though **SPY** was flat. This answers the age-old question of - "The stock is already way up, isn't it done for the day?" Clearly it wasn't and increasing while **SPY** is flat is a signal of the stock's strength. Going long at 1:45pm (est) and selling at the first pullback would have given you $5 on the trade (as well as an insanely good lotto trade with the 100 calls).

Note I am not talking about RSI which is different than Relative Strength or Relative Weakness against SPY. Nor is this Beta which measures volatility compared to the market.

Trading these stocks also gives you an advantage - if you are shorting a stock that is relatively weak against SPY and the market starts dropping - that stock will drop even harder. If the market goes up, that stock will at worst just stay flat most of the time.

When you Day Trade stocks that are not Relatively Strong or Weak against SPY than you are at the mercy of the market.

It is very simple, very basic and very essential to Day Trading, particularly once you are out of that first hour of momentum trading.

Understanding and Figuring Out Relative Strength

Relative Strength

Think of 100 people running a race, and they are all running into 100mph winds. About 75 of them get knocked back or simply can't move forward. Another 20 or so are able to get ahead, but slower than they normally would have - and the final 5 are running as if there is no wind at all.

Now, if the wind reversed and those runners all had the wind at their backs, who do you think would win the race? If you are thinking the 5 runners that were able to get ahead despite having the wind against them, you would probably be right.

In this analogy, the *wind* is **SPY** and the runners are the stocks. Like a rising tide **SPY** tends to lift or drop most stocks, roughly 3/4th of all stock will follow that ETF even if they are not part of the index themselves. By identifying the stocks that have strength (or weakness) independent of **SPY**, you have an amazing trading edge - as you know that the stocks that are going up even as **SPY** drops or stays the flat, are going to surge when the market bounces (much like the runner with wind at their back).

Calculating **Relative Strength** is not as easy as one might assume -

Obviously the foundation of the calculation needs to be the difference between a stock and **SPY** percent change. This calculation can be done on a daily basis, 5-min basis, etc. Let's say you wanted to look at it over a 5-min basis (which is most useful for Day Trading), and since you would want recent results (as a stock's *Relative Strength* changes throughout the day) you go back the last 12 candles (or 1 hr).

Stock A goes up 1% and **SPY** goes up .5% during that hour - meaning stock A over-indexed **SPY** 2 to 1 in its' increase. **Relative Strength**, right? Maybe not.

What if Stock A typically goes up or down 2% an hour (the *ATR* of Stock A each hour), while **SPY** typically goes up or down .5%, which is exactly what it did. That means in this example Stock A is going up 1/2 the typical amount expected, while SPY is right on target. So that balances it out, meaning - No **Relative Strength**, right? Maybe not.

You also need to take volume into account as well. Like I said, not that easy.

I use the indicators to help me identify the stocks with **Relative Strength**. Just be careful though when looking for the right indicator, as some, like the one on ThinkorSwim, use a basic correlation matrix to calculate **Relative Strength**, which is a mistake - for example, if a stock is moving up while **SPY** is flat, there would be little to no correlation, but yet that stock would most likely have **Relative Strength**. However, ThinkorSwim, allows you to code just about anything, so it should be possible to create the measure that works.

BETA is another indicator, but that measures the relative difference in volatility between a stock and an index, which while a useful measure at times, is not the same thing.

And of course **RSI** which is something completely differently altogether (and not very useful in my not-so-humble opinion).

It is important to *always* keep the 5-min chart of **SPY** running on a popped out chart so you can look at it when looking at your stocks. And it is also always useful to simply map **SPY** on to the charts so you can see how each move at the same time.

Either way, based on the posts and the questions I've seen, I thought I would help clear up the concept a bit.

A New Measure of Relative Strength

This post is going to be a bit of real-time mental workshop - in other words, I do not know how it will turn out, I am writing as I think.

Properly identifying ***Relative Strength and Weakness vs. SPY*** is one of the most powerful edges you can have while trading. We know this, use this and have proven it. Great....but something about it still bothers me.

Essentially, what RS/RW really does is highlight *Institutional* activity within an equity. Removing the market dynamics as a factor, the remaining price action is generally due to heavy buying and selling, on a level that retail traders can rarely achieve.

However, we have all seen stocks have RS at one point, then lose it, then have it again, only to reverse and become RW at some point - all within the same trading day.

To begin with I believe simply measuring the rate of change of a stock vs the rate of change for SPY in an inadequate method of measuring RS/RW. At the very least ATR needs to be considered. Currently we look at RS/RW as something like this:

$$RS = \frac{(P_{1S} - P_{2S})/P_{1S}}{(P_{1M} - P_{2M})/P_{1M}}$$

Where:

Subscript (S) = Stock

Subscript (M) = SPY

P_1 = Initial Price

P_2 = Price at end of Period

This alone gives an index. So, if you are looking at the RS for Stock A, and P_{1S} = \$100 and P_{2S} = \$101, then it moved \$1 during the time period, which = a 1% change. If during that period SPY went from

\$370 to \$371, it will have also moved \$1, but that would be a .2% change. So Stock A over-indexes here by 500%, or a 5x.

Next let's quickly talk about the time period. I do not believe the time period examined should be the same for RS on a 5-minute basis as it is for a daily basis. For the sake of this post, let's say that on a 5-min basis we want to look at the RS over the last 12 periods, or last hour. And for a daily basis it would be the last 5 periods, or 5 days.

However, this type of analysis (whether you index it as I did, or simply do a subtraction as is normally done) has an inherent flaw - that can be illustrated as follows:

$$RATR = \frac{\Delta_{PS}/ATR50H_S}{\Delta_{PM}/ATR50H_M}$$

Where:

RATR = Relative ATR

Subscript (S) = Stock

Subscript (M) = SPY

Δ_P= Price change in the stock, defined above as P_1-P_2.

ATR50H = ATR of the stock over the last 50 periods, with each period being 1 hour (which is the twelve 5-minute periods we measured RS), or in other words, what is the average price movement of the stock in any given hour over the last 50 hours of trading. So let's say on average the stock in this example moves 20 cents an hour. But in this case, it moved \$1, so the stock moved 5 times more in the past hour than it usually does.

Next run the same equation on **SPY**, which let's say the ATR50H for SPY is 50 cents, meaning SPY moved 2 times greater than its hourly average.

Now we have:

$$RATR = \frac{\Delta_{PS}/ATR50H_S}{\Delta_{PM}/ATR50H_M} = \frac{5}{2} = 2.5$$

In other words, the stock moved five times greater than its' expected average, while SPY moved two times greater than its' expected average, so overall the stock moved 2.5X more than expected given SPY.

The first question here is, which number is a better indicator of *real* RS? For example, let's say **SPY** moved \$2.50 during the past hour, which is 5 times its' normal rate of 50 cents, and the stock moved \$1 dollar during that period, which as before is also 5 times its' normal rate of 20 cents.

If we used the regular definition of RS we would get a 1% change in the stock and a .06% change in **SPY**, which would be a RS of 1.66, *but* we also know that **SPY** moved five times more than average and so did the stock, so does the stock *really* have RS here, or did it just move at the same rate that **SPY** did?

There is a way to control for this as follows:

What is the *expected* change in the stock given the change in **SPY**? If we are really controlling for **SPY** here, than if SPY moves 5 times its' norm, one would expect stocks to also move 5 times their norm, and deviation from that would be movement that is independent from **SPY**.

Thus, if **SPY** dropped $2 in an hour, and the hourly ATR of **SPY** is .50 cents, than **SPY** dropped 4X's more than would be expected. So the *SPY Power Index (new term)* here is -4.0

That means the *Expected Change* in stocks would be -4.0X its' normal hourly ATR. If a stock typically moves 10 cents in an hour, and the *SPY Power Index* is -4.0, one would expect that stock to drop 40 cents. Make sense?

Back to our example, if the stock had an hourly ATR of .20 cents, then the *Expected Change* given the *SPY Power Index* of -4.0 would be -.80 cents. Or:

*SPYPI * SATR = -.80*

(SPY Power Index times Stock's ATR)

However, if the stock consolidated during this time, and had a net change of only -.20 cents, than it would have defied the *expected changed*.

So the equation than becomes:

PC (-.20) - EPC (-.80) = .60 / SATR (.2) = 3.0

In other words, the stock dropped 20 cents, but it *should* have dropped .80 cents. Meaning it was .60 cents stronger than expected. If you divide that by the stocks ATR or .20, than it out-performed **SPY** by a multiple of 3.0

That gives the stock a RRS (Real Relative Strength) of 3.0

Another example: If **SPY** went up $1.50, than it has a *SPY Power Index* of 3.0, that means the stock in our example *should* have gone up .60 cents. But what if it only went up .20 cents? Then:

.20 - .60 = -.40 / .20 = -2.0

The stock would have a *Real Relative Strength (or in this case - Weakness)* of -2.0. It should have gone up 60 cents, but instead it went up 20 cents, which is 40 cents below expectations, divided by the ATR of .20 cents equals -2.0.

Let's now take this even further - how do we combat the problem of stocks losing their RS/RW?

What if a stock had one strong 5-min candle (a huge buy order perhaps) that accounted for most of the price change? That would result in a false RS reading, right?

If Stock A (ATR of .20 per hour) started at candle 1 at $100 and the following happened over 12 periods with each period representing 5 minutes vs. SPY (ATR of .50 per hour):

Period	**Stock A Ending Price**	**SPY Ending Price**
1	$100.00	$370.05
2	$100.02	$370.15
3	$100.00	$370.20
4	$100.04	$370.30
5	$101.01	$370.31
6	$101.02	$370.46
7	$100.99	$370.55

8	$101.01	$370.65
9	$101.02	$370.60
10	$101.04	$370.75
11	$101.03	$370.88
12	$101.00	$371.00

In this example, almost all of the gains came from candle 5, otherwise, the stock is basically flat, but as you can also see, SPY is steadily rising as well. But if you were to just look at the change in prices, the stock went up 1% and SPY only went up .2%. If you were to do the *Real Relative Strength* it would look like *SPY Power Index* would be 2.0, which means the stock *should* have gone up .40 cents, however it went up $1, which mean the *Real Relative Strength* would be $1 - .40 = 60 cents / .20 = 3.0

However, since the stock remains flat after that jump up in price, as the candles tick on, eventually that Relative Strength number would drop, and if SPY continued to go up while the stock remained flat, it would in fact soon turn negative. And there you have your case of a stock that seemingly had RS strength and lost it.

But now what if we took the *Real Relative Strength* as a constantly *rolling average* off the previous 12 candles? Meaning, if you started looking at the stock at candle 12 above, you would see the stock went up $1 and SPY went up $1 over the past hour, and you would get either a RS reading as it currently stands of around 1.66 or a *Real Relative Strength* of 3.0. **But** if you look at the average of all 12 candles before it then it might look something like this:

Real Relative Strength rolling (plugged in numbers assuming not much changed in the prior candles):

Period	Stock A Ending Price	SPY Ending Price	Real Relative Strength
1	$100.00	$370.05	-0.05
2	$100.02	$370.15	-0.4
3	$100.00	$370.20	-0.3
4	$100.04	$370.30	-0.5
5	$101.01	$370.31	4.6
6	$101.02	$370.46	2.5
7	$100.99	$370.55	2.2
8	$101.01	$370.65	1.9
9	$101.02	$370.60	1.6
10	$101.04	$370.75	1.5
11	$101.03	$370.88	1.1
12	$101.00	$371.00	0.9

The *Rolling Real Relative Strength* here would 1.25 - In other words, the *Rolling Real Relative Strength* would penalize that one candle bursts, but would remain stronger and more consistent if the stock was moving in a consistent fashion relative to SPY.

This somewhat stream of consciousness might be confusing, but I am sure this is a far superior method to measure a stock's Relative Strength.

Thoughts? Additions? Critiques?

ThinkOrSwim code by u/smuggler__

```
//@version=5
// Real (Relative Strength) & EMAs
// original script by u/funcharts Ratio (Relative Strength) & EMAs
indicator(title="Real (Relative Strength) & EMAs", shorttitle="RRS&EMAs",
overlay=false, precision=3)
// period length to calculate atr, set to 600 which is 50 hours on the M5
atrLen = input(title="ATR Length", defval=600)
ratio_symbol = input.symbol(title="Ratio Symbol", defval="SPY")
ema1_length = input.int(title="EMA 1", defval=3)
ema2_length = input.int(title="EMA 2", defval=8)
spy_close = request.security(symbol=ratio_symbol, timeframe="",
expression=close)
//ATR for stock and SPY
atr_stock = ta.atr (atrLen)
atr_spy = request.security (symbol=ratio_symbol, timeframe="", expression=
ta.atr(atrLen))
//spy power index
spyPI = (spy_close - spy_close[1]) / atr_spy
//real RS
rrs = ((close - close[1]) - spyPI * atr_stock) / atr_stock
ema1 = ta.ema(rrs, ema1_length)
ema2 = ta.ema(rrs, ema2_length)
//plot(ratio, title="RRS", color=#FF00C5, linewidth=2)
plot(rrs, title="RRS", color=#FF00C5, linewidth=2)
plot(ema1, title="EMA 1", color=color.yellow)
plot(ema2, title="EMA 2", color=color.red)
// to check if ATR makes sense
// plot(atr_spy, title="ATRS", color=color.black)
hline(0, title="Zero", color=color.white, linestyle=hline.style_dashed)
bgcolor(ema1 > ema2 ? color.new(color.green,80) : color.new(color.red, 80))
```

What It Means to Have an Edge

You hear this all the time - *You need an edge to be successful*.

So, what does that mean?

Literally it means - Having a statistical advantage in the outcome being in your favor.

For example: There is no edge in flipping a coin. If it is flipped correctly, you have a 50/50 outcome.

When you have no edge, or if the edge is against you - and you are wagering money on the outcome, it is known as *gambling*.

In almost every game offered (except for Poker, and in rare instances Blackjack) the casino has an *edge*, but it is not a huge one - only 1-2% in their favor. But that slight edge is enough to ensure that if enough players with enough money engage with their games, they will be profitable. In large quantities, it doesn't take a large *edge* to matter. In fact, those games are constructed in such a way to allow for the smallest possible *edge* to the casino while remaining in profit. Why? If their *edge* was any greater, people wouldn't play. People need to feel like they *can* win, and sometimes *do* win, otherwise even the worst gambler would stay away.

Sometimes you can obtain an *edge* through information. But information can be tricky. Many gamblers believe that by studying the conditions of a horse race (the jockey, the track, the horse) they can beat the odds. They don't - because they never fully realize that their *edge* is mitigated by those very odds. In other words - it is *baked in* to the odds on the horse. There is nothing they can learn that the odds makers don't already know. This is similar to those that believe they can outthink the *Institutional* buyers in the market by coming up with some theory on a stock - without realizing that even if they were correct, that information would already be *baked into* the price of the stock. However, if information you have, is not readily available to anyone else, it *can* provide an edge - but as many of you know this is usually *illegal* and referred to as *inside information*. For example, studying all the information I can about two football teams is not going to help me is overcoming the odds already set on the game - however, if I knew that the quarterback of one team was having medical issues and that information wasn't public, then yes, I would have an *edge*.

Unlike a casino the market is a level-playing field. As much as we like to muse about how it is *fixed* against us, it really isn't. Market dynamics does not play favorites - if you go long on **AAPL**, you are taking a position opposite of someone else who is hoping **AAPL** goes down. If you are buying a Call Option, someone else is selling that Option. Do some have an advantage? Yes - clearly. Members of Congress for example have outperformed the market consistently - that is not a coincidence. That is most likely an *edge* due to *information* that is not readily available. However, *Institutional* buyers and sellers also tend to out-perform everyone - once again, not a coincidence. But for them, it is not about illegally obtained information (in fact, it is extremely regulated) - rather it is because they are able to *out-analyze* everyone else because they have more *resources* to do so.

There are two things that can give you an *edge* in this market: Analysis and Skill.

Institutions can out-analyze everyone else simply because they have more data and more resources to analyze that data. That's it. The average retail trader cannot afford to purchase the information they can, and do not have access to the data-scientists and computing power they do. Hence, they have an *edge*.

So, what is your *edge?*

Well, if you go on YouTube, or look across the subs on Reddit, everyone claims to have found some secret method that can put the odds in your favor. As I hope you know by now, they are all pretty much full of shit.

Trying to come up with your own *edge* is a foolish endeavor. Back-test all you want. Write whatever code you want to write that automates your trading. In the end, you are going to wind up shaking your head wondering how something with such a high win-rate didn't work. Use all the indicators you can use, and once again you will drive yourself crazy trying to figure out where you went wrong.

So, what is the *answer*? And why does this sub proclaim to know it where all the others have failed?

The answer is right in front of our faces - *Institutions have an edge*. They have spent hundreds of millions of dollars developing that *edge* and use it constantly. Retail traders do not move the market, they do.

What professional traders have figured out is that instead of trying to figure out how to predict the markets, you need to figure out how to follow *Institutions*.

That is what *Relative Strength* and *Relative Weakness* **really** does. It alerts you towards concentrated *Institutional* efforts in an equity position. And **that** is your edge.

For example: let's say the market is flat, basically chopping around. That doesn't mean *Institutions* aren't buying and selling - they are - they just don't have a unified bias in any one direction. When all economic indicators converge on a bullish sentiment, *Institutions* typically act as one - all accumulating equities, and increasing their stakes. You can see what sectors they are favoring or not simply by looking at a heatmap of the S&P on any given day.

But when one stock seems to be out-performing (using a bullish example) everything else, that is the clue you need to hitch a ride on their *edge*. Back to the example - if **SPY** is flat, and tech stock are similarly flat, but **AAPL** continues to go up - that tells you that *Institutions* are actively increasing their stake in that stock, in greater proportion to other stocks. *It is independent of the general market sentiment*. Meaning if **SPY** were to drop, the reason why *Institutions* were accumulating **AAPL** on that day most likely will not have changed - so **AAPL** is not going to drop at the same rate at **SPY**. Yes, the buying may slow down as traders start to turn bearish, even temporarily, but you still know that **AAPL** is going to give you an *edge* that other equities will not.

Relative Strength in this instance cleared away the **noise** in the market and *controlled* for all the irrelevant information allowing you to see the independent strength of that stock. Hence, you can now act on that information.

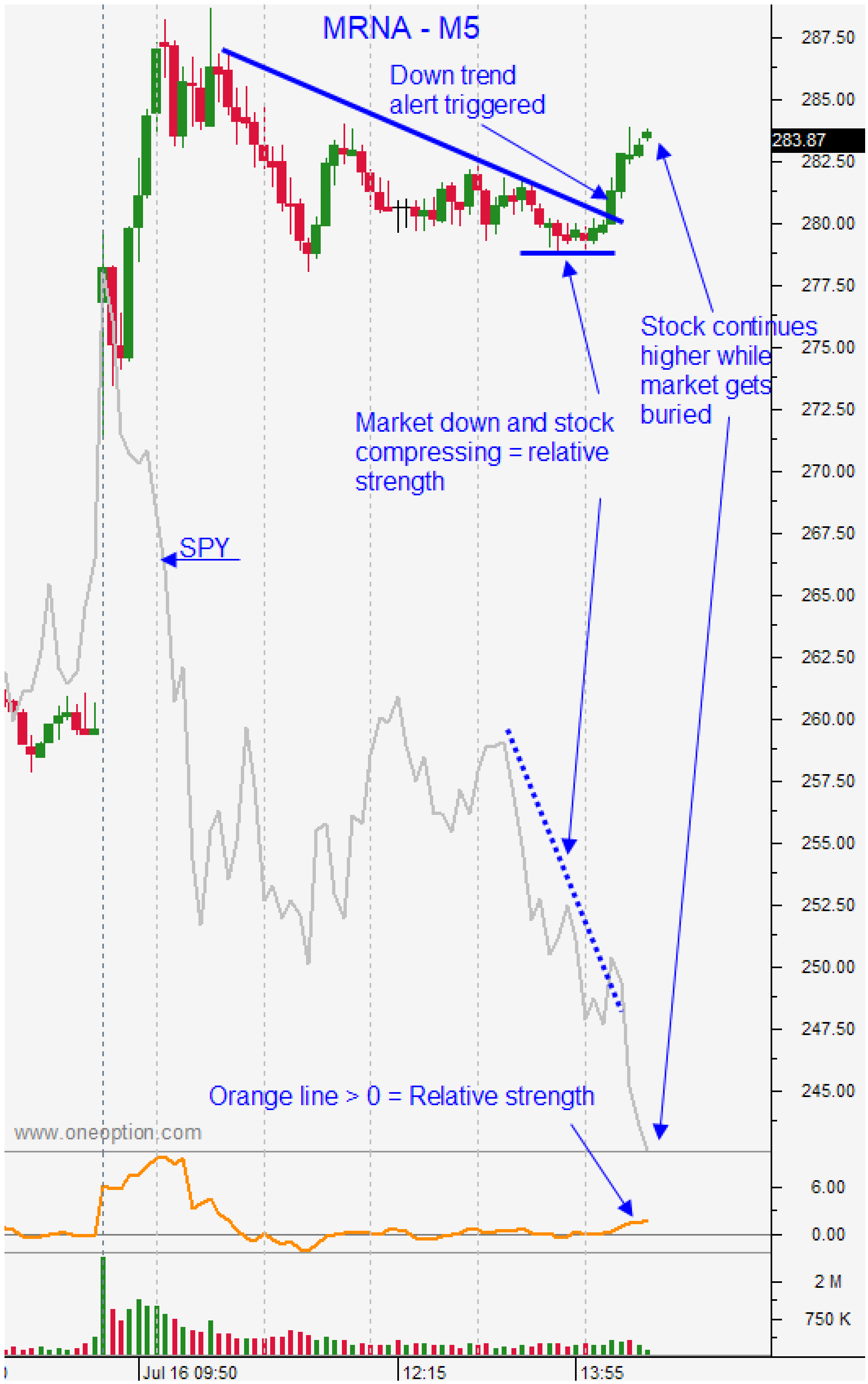
Will you always run slightly behind the *Institutions?* Yes - that is why we confirm rather than anticipate. They get to have the first part of the move, but all you want to do is ride on their coattails, until you see signs that they are no longer focusing their money into that trade. They might make $2 a share and you might only take $1 off it, but that $1 is still your *edge*.

In a sense, your *edge* is their *edge*, only less. But when even a small *edge* can lead to that is all you need.

Honing this ability is the *skill* part of the equation, and this sub is all about teaching you that skill.

Classic Example of Relative Strength (RS) (/u/OptionStalker)

This is an example of relative strength (RS). DO NOT CONFUSE THIS WITH THE RSI INDICATOR. They are two vastly different concepts. One is a worthless indicator and the other is the best trading edge you can ever have.
I tried to post this image when I answered a question, but apparently only the original post can have images.
Please study this chart. We search for relative strength (RS) on multiple time frames.


MRNA - M5
Down trend
alert triggered
Stock continues
higher while
market gets
buried
Market down and stock
compressing = relative
strength
SPY
Orange line > 0 = Relative strength
www.oneoption.com
287.50
285.00
283.87
282.50
280.00
277.50
275.00
272.50
270.00
267.50
265.00
262.50
260.00
257.50
255.00
252.50
250.00
247.50
245.00
6.00
0.00
2 M
750 K
Jul 16 09:50
12:15
13:55

How to Monitor Relative Strength vs SPY

I keep seeing the question - How do I get a Relative Strength vs. Spy indicator?

If you do not know what Relative Strength vs. Spy is then read the previous chapter

Note that is not **RSI**, which in my opinion is an utterly useless indicator that most people drop after their first year of trading.

But to answer the question - *it isn't easy.*

Most platforms, whether it is ThinkorSwim or TradeStation, or any other, do not have this metric. What they have is a simple correlation between SPY and any ticker. That doesn't really cover it.

The most straightforward way to do this is to just map **SPY** over any chart you are looking at, and every charting software platform out there has this capability. You can then visually see how SPY and the stock you are watching are moving together.

As far as I know, only *OptionStalker* as a platform gives an indicator for Relative Strength, but that isn't to say you can't build one yourself. Many people have built custom RS indicators, and have posted them in this sub - some are better than others.

You need to not only take into account the difference in movement between the two (SPY and Stock), but also the ATR of both, the volume at the time, the proportional rate of movement/stock price, etc. Obviously if SPY moves up 50 cents, and a $30 stock moves up $5 in that period, it is different than if a $300 stock moves up $5 during the same time. If SPY drops 50 cents and a $30 stock moves up 30 cents, that is different than if during the same time a $300 stock moves up $3, even though percentage-wise they are the same.

However, if you read the theory behind Relative Strength, there are ways to come up with a decent enough list of stocks (a list that should constantly be changing and updating throughout the day) that you can then look through their respective charts, with SPY mapped against them.

Hopefully this somewhat answers an oft-asked question!

If We All Trade RS/RW Will the Edge Disappear? (/u/OptionStalker)

I have traded many systems and this is a legitimate concern. It is important to determine the nature of the edge and relative strength/relative weakness is here to stay.

My first public post about this edge (that I can find) was more than 15 years ago and I had been trading it many years prior. Relative strength and relative weakness is not a fad and that is why this sub will grow exponentially for many years.

CLICK HERE TO READ MY ARTICLE FROM 2006

Relative strength/relative weakness exists because institutions are buying. If you are a portfolio manager and you have to "place" $2 billion for a longer term investment (fund) you don't care about the intraday wiggles and jiggles. If you are in charge of a company's share repurchase program and you need to retire stock, you don't care about intraday wiggles and jiggles. The fact that shorter term sellers (speculators, sell programs, baskets, HFT) are selling the stock works in the favor if the institutional buyer because they can get filled on the buy orders without driving the price up.

When the market drops and the stock does not, you know that large institutions are aggressively buying the stock. This trail of bread crumbs is impossible to hide. Prior to electronic exchange networks (ECNs) large institutions would tip their hand when they executed large block trades. In the age of electronic trading large institutional buyers tried to cover their tracks by breaking large block trades into tiny 100 share orders, but the relative strength/relative weakness indicator was not fooled.

Yes, but what about dark pools? It doesn't matter where or how the trade is executed. If dark pool buyers exceed dark pool sellers, that imbalance will instantly be reflected in the current price of the stock. An institution is on the other side of that dark pool trade and they will act on that information. If the institution was an aggressive seller, they will place another order to see if they can get filled on more. If the buyer is gone, they may offer the stock lower (bearish). If the institution on the sell side is not aggressive, they will raise their offer (bullish) on the notion that there is a big buyer. For every buyer there is a seller and supply/demand is disseminated instantly in the form of price.

"Yeh, but I bought a stock with M5 relative strength. The stock looked great when the market was going down and then it caved in. This edge doesn't work!" Very few stocks are going to tread water when the market drop is big and the trend is sustained. When you see the market tanking you need to monitor the stock very closely. If the stock starts to show signs of weakness and the market is stacking red candles (bearish trend) you need to get the hell out of the trade. You were on the wrong side of the market and when the bid started to slip, relative strength provided you with a momentary cushion. It allowed you to be on wrong side of the market without getting crushed. Institutional buyers aren't stupid. When they saw the market tanking, they pulled their bids feeling that they could get filled at a better price and that is why the stock dropped. In some instances, stocks will hold the bid even when the market has a big drop and that is a sign of pure strength. The buyers are undeterred and those are some of the best longs.

If you are in a stock with fantastic relative strength on M5 and D1 and the market is drifting lower with mixed overlapping candles (weak trend) and the market is still above the low of the day and the prior day's low, you might be able to hold the position and weather the storm on the notion that the market drop is temporary. Just make sure the stock is holding up well (EMA8 preserved, green flat bottom HA candles, up trendlines intact…). When the market does find support, you want that stock to take off.

It stands to reason that relative strength on a D1 basis is more relevant than relative strength on an M5 basis. That is why we look for longer term strength in the stock to support our day trades.

I built an entire trading platform around this edge during the 2008/2009 financial crisis, and it is working as well as it did the day the first line of code was written.

In the five-minute chart below you can see how well the stock held up during the 100-point S&P 500 drop. This stock had D1 relative strength, but eventually buyers pulled bids and it dropped. In the last two days, the market is right at that same low, but the stock just made a new all-time high.

(* M5 = 5-minute chart; D1 = Daily chart)

Does this Method Work for Crypto, Forex, etc...etc...

I get this question a lot - and the short answer is - Yes.

The method used here, at its' core is a process of indexing a stocks strength against the larger market in general. For the U.S. Markets, **SPY** is the best proxy for market strength. In fact, using **SPY** as your benchmark is even more successful than using **QQQ** or Sector Indexes - simply because **SPY** is a better measure of overall investor sentiment.

As an example, look at the Real Estate Market - and let's say you wanted to invest in buying a home. In the U.S. the average home price increase 17% in 2021, but in Los Angeles it was almost double that number. In other words, the home price increases were Relatively Strong in Los Angeles compared to the national average.

That stat alone is like Relative Strength. Now would you only use that metric to decide on where to buy a house? No - there are many other pieces of information that should be factored in - school district, neighborhood, assessment of the house itself, etc.

Every market, whether it is Crypto or Forex or NSE in India has central metrics that indicate the overall strength and investor sentiment. That means you can compare the equity you are looking with that central metric and note the Relative Strength or Weakness of it.

However, we know that **SPY** influences the directional price movement of roughly 75-80% of all stocks on the exchange. Other centralized measures may not be as impactful - so it is important to know for example if changes in the price of **Bitcoin** has an impact on other crypto-currencies and if so what is the limitation of that impact? Does it also impact Alt-Coins?

We are applying a statistical method of indexing here to help isolate Institutional activity - in other words - *What is Big Money doing?* That method is not unique to the U.S. Stock Market and can be used just about anywhere, you just need to make sure you are using it correctly and in conjunction with other indicators.

The Great Imbalance and How to Fix It

Understanding the imbalance that exists between losing traders and winning traders is essential to becoming successful.

As has been stated many times, on the face of it, there is no statistical reason why most traders should lose money. As despite popular belief, there is no built-in edge against you.

The only times when there is a built-in statistical disadvantage to an individual is when the opposing side has an inherent edge, such as in casino games. The *game itself* is statistical in favor of the *house.* Which is why that despite sometimes thinking they can overcome that edge, gamblers go into those games relying on luck to get them over the *House Advantage*.

Now you might be thinking - *What about when the the opposing side of transaction has access to elements/information that you do not yourself?*

Yes, true, there is a fine line here, because while *insider information* obviously falls under this, so does data that can be obtained for purchased. One type of advantage is illegal and highly regulated, and the other is simply out of your financial reach. Still, even though this information gives Institutions an *edge* there is absolutely nothing forcing you to take the other side of their "bet". In other words, just because they have the power to get an edge for *themselves* they are not the *house*, you can just as easily play on the same side as them. Imagine you were sitting next to a professional card counter at a Blackjack table - just because they have an edge, doesn't mean it hurts you - in fact, you could easily just follow their bets (as the primarily edge card counters have is in the ability to adjust their betting size based on the remaining composition of the deck(s)).

So the *Great Imbalance* isn't in the access to information Institutions have - it is in the fact that despite there being no inherent *house* edge, well over 50% of traders lose money. How can that be?

You will find the answer in the *Walk-A-Away* analysis I developed, and suggested everyone do it at least once a week.

Because as long as you have some inkling of what you are doing, then burn this fact into your brain:

Almost all of your picks are winners - it is just a matter of WHEN****

So why aren't they winning? Three things are stopping your trades from being profitable in this case:

1) ***Options*** - Options have a time-limit on them, and the more you wait, the less they are worth.
2) ***Impatience -*** Exiting potentially winning positions because you panic-sold.
3) ***Buying Power*** - Your position size was too large and thus holding onto the trade would lock-up your account from making any other plays.

If you went back one year, take any given week and looked at your trades (sort of a *long-term Walk Away Analysis),* whether or not they were Options, look at the entry price on each, and whether it was long or short.

Now look to see - how many of those trades became profitable **at some point** *over the past year? Chances are it will be over 95%.*

And that is where the imbalance lies.

However, we are short-term traders, and thus aren't in the business of holding positions for months at a time. So how do we mitigate against this? How do we correct this imbalance without simply only buying stock and just *waiting it out*?

Everything taught in this sub is meant to do just that - reduce the window of "***when***" and there is no **single** thing that does it -

- *A strong corresponding Daily chart*

- *Relative Strength or Weakness to the Market*

- *Accurate read on the Market itself*

- *Knowing what is noise and what is the signal*

- *Understanding the overall story of the chart*

All of these combine to help reduce the amount of time it takes before your trade is proven correct. As in order for you to be profitable it needs to be proven correct *within* the window of time necessary.

The key here is to understand that these elements do not **stand alone** and *must* be looked at in combination. Nor do they all have equal contribution. For example, you can have four of the five checked off, but if your read on the market is incorrect, the trade will most likely, simply not work.

I see countless posts here that say, "I went long on a stock with *Relative Strength*, and then the RS faded and I wound up losing. What am I missing here?" (btw - a tip, don't say *What am I missing?* in a sardonic manner, because I assure you that **you are in fact missing something**). Without faily, when I look at the trades, they were either against the market overall, or the person exited prematurely, etc.

Time is the great equalizer. Given enough of it, a vast majority of your trades are profitable. Given too little and an equally large majority are not. In order to mitigate against that element you need *all* the help you can get.

Before entering a trade you need to know -

Do I have a sense on where the market is and where it might be headed, both immediately and in the near future?

Does the Daily chart of my trade correspond to the direction of my trade and the market itself? How strong is that agreement?

Is my trade in line with the market itself?

How strong/weak is my stock against the market (i.e. SPY)? On a 5-minute basis? On a daily basis?

What is my overall thesis for this trade and can I withstand the noise that may push against the boundaries of the thesis?

These are the questions you must know the answer to before entering a trade. With experience comes the ability to formulate these answers quickly, but without experience it demands that a trader *slow down and take the time to go through each*.

While this post does not introduce any new concepts, it also gets right to the core of why traders have such a difficult time maintaining profitability.

Either way, I hope it helps!

Great Resource for Learning Relative Strength/Relative Weakness

As many of you know I belong to the One Option trading community. I don't work for them or own any part of the service, I am just a member, an active member, but still just a member. I recommend products and services that I feel are helpful all the time, like TraderSync, TradeXchange or TC2000. If I think it is going to help you, I am going to recommend it.

I am especially going to do so if it is free and useful (i.e. Stockbeep.com). That is the case here.

When Pete (the founder of One Option) told me he was redoing his website and platform (adding a mobile App among other things) I was very interested to see what the result would be as member myself, but also if it would be useful to people. I am a big believer in sharing knowledge, and that one should do so without any desire for profit. The Wiki is an example of that. Although, I don't hold anything against those that sell their knowledge, service, product, etc – if it truly adds value.

Which is why I was happy to see that Pete put everything in his head on to the new website, **for free**. Call it the second Wiki if you will. RTDW could now has two meanings, I guess - Read the damn wiki and read the damn website. The website is www.oneoption.com and the new version just launched.

When you click **Start Here**, it walks you through the entire decision-making process of a trade. Or just go to Go straight to https://oneoption.com/intro-series/our-trading-methodology/ to access the info. I've explained it here a thousand times, but perhaps the way they explain will make more sense to you. I have an ego (shocker, I know), but not so much that I don't think another perspective might be helpful to some. Hell, Pete developed the method and built an entire trading community around it – I just expanded on it (stand on the shoulders of giants....)

This method can be learned and replicated. I say it over and over – *this is a learned skill*. Read the testimonials on the site and here on this sub-Reddit. Many of these people started out either as new or struggling traders and now make their living doing it full-time. Trading is a real and legitimate career, even better – it offers true financial independence.

There are a lot of other things on the site, i.e. you can also see their chat room from the day before and scroll through the trades posted there and check the time stamps to analyze them. You can see my posts there, which is amazing content itself (see – ego), but more importantly, you can see that it is not just a handful of traders who are coming up with great trade ideas, but rather a lot of people that are successful.

I've said before that if you are going to spend any money make sure it is on a journal first (I recommend TraderSync but that is my preference, there are other good ones as well), but the information laid out on that new site is amazing, cost nothing and you should absolutely take advantage of it.

Trading SPY/QQQ - Should You Do It?

Ok, let's talk about trading the indexes. For the sake of simplicity I will use **SPY** as the constant example in this post, but everything here can be applied to an of the other indexes as well, including the interchangeable - **SPX**.

The first thing to get out of the way is to outline the various ways one can trade **SPY:**

1) **Stock -** this is the least common method, but of course one can just trade the ETF itself. You can buy or short shares - however, they are rather expensive (currently $388.65 - but getting cheaper!).
2) **Options -** One of the most common methods used is to simply buy Call or Puts on **SPY**. Some people use spreads, like Call Debit Spread or Put Debit Spreads, and others use Butterflies or Iron Condors. Because the Options on **SPY** are extremely liquid, it is easy to be creative with these. Note that **SPX** Options are typically 10X's the cost of **SPY** options and are based on the index itself.
3) **Futures -** If you are approved to trade *Futures* this is an attractive choice. You can choose to trade the regular contracts or the micro contracts (e.g. **/ES** or **/MES**). One of the downsides here are the fees charged, especially if you are trading the micro-contracts. Since one is usually trading several micro's at once, those fees can add up quickly. You also need enough margin to trade Futures - I believe right now the margin requirement to trade 1 regular S&P Futures Contract is around $14,300. Still, futures have no *theta* decay and much high leverage than Options.
4) **Options on Futures -** And of course you can also trade Options on the Futures - it requires less Margin and has a definitive max "loss" as opposed to trading futures directly.

Out of all of these I would say trading straight options on either **SPY** or **SPX** is most likely the number one method used, followed by trading Futures.

Now that is out of the way - let's get to the heart of the matter:

Should one trade the Indexes directly?

And if so, should the Indexes be the only thing you trade?

My answer is: **No** and **No**. I will explain.

To begin with and I want to be perfectly clear on this - ***I have not seen any evidence that one can trade the indexes in a consistently profitable manner with perhaps a few exceptions.*** The only people I know that can ***consistently*** turn a profit trading **SPY** (or **QQQ**) are professional traders. Someone like [u/Professor1970](), [u/onewyse]() or [u/OptionStalker]() are able to turn a profit - but they have practiced and perfected their method over ***years***.

So let's go through that for a moment - there are several ways one can go about using a method when trading **SPY** (and remember **SPY** is being used here to represent *any* index):

1) **Swing Trading - Overall Thesis:** You could have a long-term thesis on the market. It may be for the next few days or week, or it could be months or a year out. One way or another you have come up with your hypothesis as to where **SPY** is heading on a macro level. While you might take technical analysis into account, there are usually large socio-economic factors that go into your theory. Perhaps you think the market is currently pricing in a 1 bps rate hike

and that it will actually be .75 - at which point the market will jump up. So you buy Calls for next month.

2) **Swing Trading - Technical Analysis:** Looking at the daily chart on **SPY** you form your thesis on which direction you think it will go in the short-term. If for example you note **SPY** has fallen below support and was unable to recover, you might buy *Puts* and hold them overnight.
3) **Intraday Trading - Price Action:** You are day-trading **SPY**, and while you take into account TA in the form of where *Support/Resistance* might be, you are primarily trading the price-action.
4) **Intraday Trading - Technical Analysis:** You are day-trading **SPY** using TA - which might involve indicators, whether ones that are common place, or proprietary (e.g. the 1OP) - these guide you in trying to figure out the short-term directional moves.

Ok - so there you have it - the various ways you can trade **SPY** and the different methods you can use.

Looking at those methods, each one requires a substantial amount of expertise.

For the first one - *a Thesis* - unless you are a social scientist (luckily I happen to be one) and even if you are, you need to understand that the world's greatest economists try to prognosticate the direction of the market all the time. ***And they are frequently wrong***. Safe to say the chance that you will be able to correctly guess, and be right consistently enough to make this strategy viable, is extremely low. Or to put another way - your armchair musings about the economic state of the world may not be as brilliant as you think.

The next method of Swing Trading using TA is actually the *most* viable of these four as more so than stocks, **SPY** adheres to levels of *Support* and *Resistance* in a fairly reliable manner. Because of this it is *possible* to be profitable swing trading the ETF - ***However*** (you knew there would be one, right?) - most days are filled with news events and economic releases that happen before the market opens the next day. In fact, on a majority of the days there is *something* that can impact the market direction before the opening bell. **This alone makes the method of swing trading SPY based on TA too inconsistent to be relied on as a stable source of income. So it is possible, but not probable.**

Next we turn to *intraday* trading of **SPY**.

Trading pure *Price Action* is **extremely difficult.** You need to be very familiar with what you are trading, how it moves, the volume, the directional shifts, etc. You also need to be watching it, **closely**. On some days your stop might be extremely tight, and on others is could be very wide - all depending on how the market is moving. Trend days are very different than Chop days, which are different then Gap n' Go days, etc. Since there is no "one method" - your ability to be *consistent* rests almost entirely on....*your ability*. In other words, you need to be **good**. And not just good, but once again - *consistently good*. In trading, in order to become profitable, the way you trade needs to be both *profitable* **and** *repeatable.* Almost by definition, *Price Action* trading is neither, **unless** you are an expert. Are you? I don't think it is presumptuous of me to think that perhaps you are not.

And finally - *Intraday Trading using Technical Analysis*. The Professor uses the **Cloud**, Pete uses the 1OP, Dave uses HA Candles and BBandwidth - each of them have their methods. They have perfected these methods over a long period of time, and are able to form a thesis, look at the technical set-up, *and* read the price-action. *And even they are wrong at times*. They also do not use *Intraday* trading of **SPY** as their primary source of profit (except perhaps the Professor).

So why not? Here you have some professionals that are able to do something very difficult that most traders cannot do - *trade SPY intraday successfully*, and yet they don't **only** trade **SPY**. Not only that - they don't even *primarily* trade **SPY**.

The reason? ***Because they can make more money trading stocks with Relative Strength and Relative Weakness***.

In trading you need an **edge**. Without it, you cannot be profitable, you can only be lucky. What exactly is the edge of RS/RW? To begin with, you need to understand that most stocks *move with **SPY*** - even if they aren't in the index themselves. Yes, there are exceptions - those shitty little low-float stocks don't care one bit what **SPY** is doing, but in general if **SPY** drops a lot, most stocks are also going to drop, and if **SPY** goes up, most stocks will go up as well. Think of **SPY** as the wind on the back of the stock pushing it higher, or conversely in the face of the stock making it difficult for it to move forward. However, stocks with RS/RW have their own strength, some with enough to overcome that wind or to use it in order to go even farther. In other words, if you removed the wind altogether, many stock would just be flat, but some will move under their own power. *Those stocks have Relative Strength or Relative Weakness.*

Consider this example:

Stock A is at $150 and up $2.50 on the day. The market is also up on the day, and it is at $391, up $2 on the day. Around an hour into trading it becomes clear that Stock A has Relative Strength. When **SPY** pulls back, Stock A continues up. When **SPY** starts going up, Stock A goes up even more.

You go Long Stock A at $150. Someone else decides to trade **SPY** instead and they go long on **SPY** at $391.

Scenario 1: **SPY** goes up $1. Since Stock A has RS - it goes up proportionally more - it goes up $1.50. **Winner - Stock A.**

Scenario 2: **SPY** is flat. But since Stock A has RS - it still goes up a bit. Let's say it goes up .50 cents. **Winner - Stock A.**

Scenario 3: **SPY** drops a $1. Again, since Stock A has RS - it doesn't drop. It stays even. **Winner - Stock A.**

Your edge with **Stock A** is that proportional difference. If you are trading **SPY** and it drops, you are down, but if you were in a stock that had RS, you aren't going to be down as much (you might not even be down at all), or if **SPY** went up, the stock with RS is always going to go up proportionally more than **SPY** did.

There is **no edge** when trading **SPY** directly.

But shouldn't I trade SPY to better understand the market?

No. That is just an excuse because you are comfortable trading SPY. In fact, if you concentrate on trading stocks and learning how they move in comparison to SPY, you will not only be studying the market itself, but also how impacts equities.

When trading you should *always* have a chart of **SPY** up where you can see it - and *always* be aware of what it is doing. You don't need to trade the ETF itself to better understand it, you need to ***watch*** it.

Now with all that said, I will be putting together section in the Wiki on how to better read SPY - which should help you when trading STOCKS.

It is difficult enough to become a consistently profitable trader - even with an edge. Attempting to trade without one is a guaranteed way to lose your money.

And the question to anyone that claims otherwise is simple - ***Are you consistently profitable? Meaning do you take out profits every month which goes into your bank account? Do you post your trades on SPY live, in real-time?***

Like I said, other than a few people, I do not know anyone that does this and can prove they make a profit only trading the indexes.

Hopefully you will read this for the warning that it is - stick to trading Stocks. Once you have mastered that and are a profitable trader, expand your horizons.

But until then - we are teaching you how to use an edge - learn it.

Chapter 3. Market First

The Biggest Tip I Can Give To Day Traders: Put Market First (/u/OptionStalker)

The single biggest mistake I see traders making is as obvious as the nose on their faces. I see this mistake so often that I hammer this point home 4-5 times a day. Even then this basic concept does not sink in for many traders and they discount its importance. I often bait traders with a question looking for this one simple answer and they still miss it. If you learn nothing more from me I hope you will learn this. Market first, market first, market first.

Many aspiring traders can't wait to turn their screens on. They start looking for pre-open gainers and then that becomes their entire focus. OMG, TSLA is running… gotta grab some calls. OMG HSeldon is already in 3 trades in the first 10 minutes, I better buy something. Time stops and the stock "du jour" becomes their entire universe.

Later in the day I field questions like: How do I improve my entry? How can I improve my exits? How can I improve my win rate? Where should I place my stops? I asked for a trade example and in almost every instance the trader was oblivious to what the market was doing. I will try to do an article on all 4 of these questions in the next few weeks, but the most important one is, "How do I improve my win rate?"

If you get your win rate above 75%, the rest is fine tuning. You will only get to that level if you are hawking the market. In previous articles I have written about context and the importance of getting your market bearings before the open. Market analysis is 65% of the puzzle, but it takes time to develop this skill so let me give you something you can use tomorrow.

Do not place a trade until the market pulls back. That means on a gap up you sit on your hands until you get a market drop. On a dull open you sit and wait for a dip. On a gap down you can trade earlier, but you have to make sure that support has formed. Most of you will dismiss this suggestion Monday morning. You won't have the patience to wait and you will think the concept is so basic that it's silly. Some of you might last an hour without a trade and you will get sick of watching "winners" shoot by and you will start trading.

Even during this incredible market rally there has been a dip almost every day and you can see that in the first chart below. Here are the benefits of waiting for that drop.

As the market drops, relative strength will be easier to spot. No bottom fishing weak stocks! I want stocks that are strong as @#$% that are breaking through D1 technical resistance on heavy volume and that are above the prior day's high. From this list look for stocks that have held strong during the market dip. Most stocks follow the market and when they don't drop, the strength is revealed.

The market drop will provide a better entry point because the stock has pulled back.

The dip will allow us to join the longer term market uptrend (this is a very important point because we would short stocks on rallies if the long term market trend was down).

Once the market finds support, the market bounce will provide a strong tailwind and the stock will slingshot higher.

When the market is drifting lower, you need to stalk the stock tick-for-tick vs the SPY. SPY has a red M5 bar and the stock has a green M5 bar – excellent. Now you know you have the right prey in your sights, you just have to wait for the market to find support. When the market finds support the stock will release like a coiled spring and you will have an instant winner on your hands. If the stock does not release immediately (and it should) you can give it 10 minutes, but you want to see those same aggressive buyers step up on that market bounce. If they do not, you should be prepared to stop the trade out. In most cases the stock will jump (even before the market finds support) and then you are in profit management mode.

Entries are critically important. If you are constantly getting stopped out, your entry is $H!T. If you use this method you will find that stops are no longer an issue because the stock lifts off right away and you can place your stop at your entry price. If the market did NOT find support and it has another leg lower, the stock should hold up relatively well, but you should be on high alert to stop out (especially on a long red SPY candle). It means that you were wrong and that the market did not find support.

When I trade I have my main chart up in Option Stalker so that I can flip charts quickly using searches. Tucked behind the main screen is the last 40 minutes of the SPY so that I can constantly monitor what the market is doing. If I have a stock on my radar I will not pull the trigger right away. I will watch a few bars and compare it to the SPY. The second screen shot below is my set-up. SBUX is the entire day so that you can see what happened. In the SPY chart I went back to the support level where we had a bullish engulfing pattern after a bullish 1OP cross (which is predictive/early).

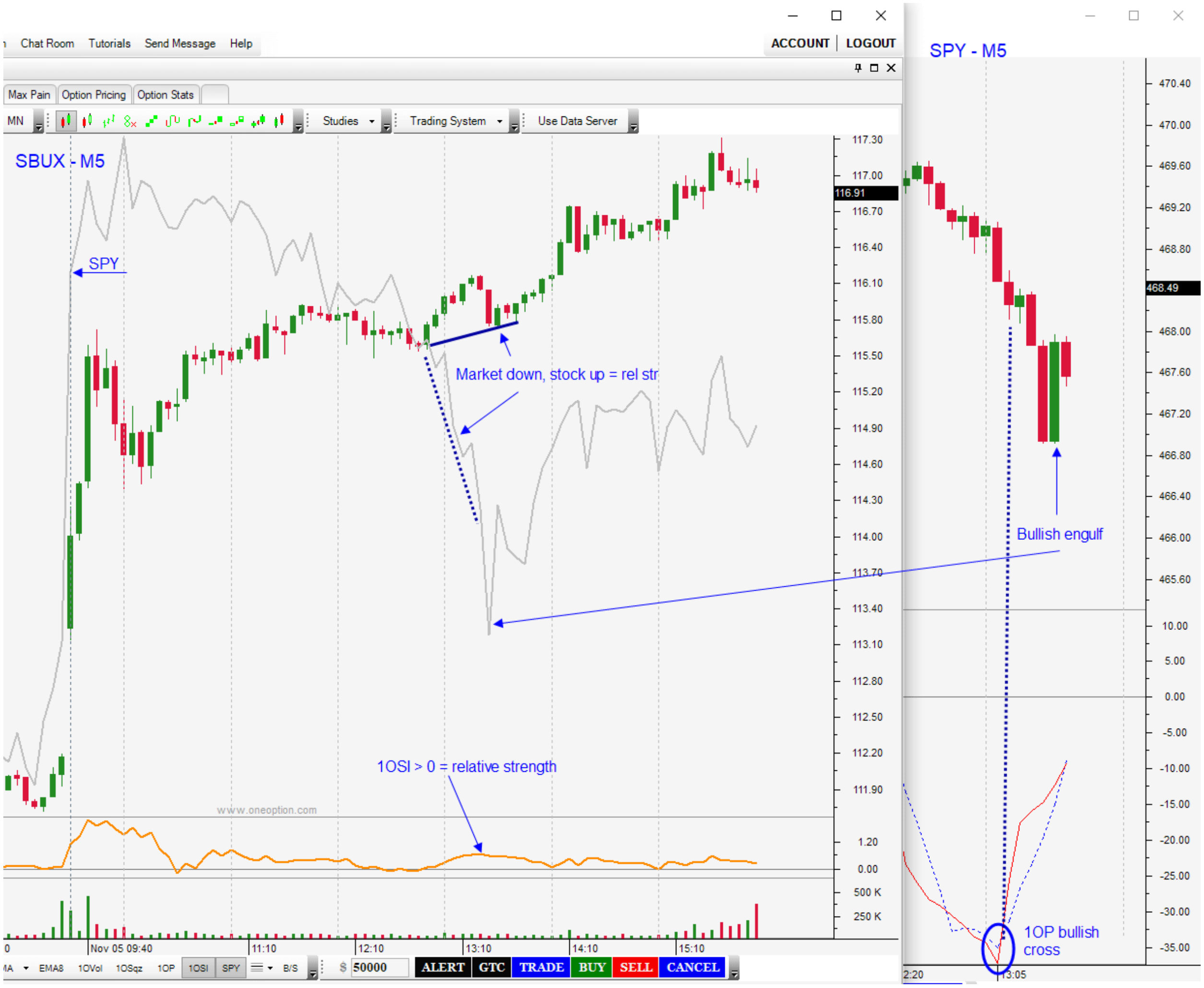
Most novice traders do not know how to short and they do not want to short. That is OK especially in a bull market like this. If you are a "long only" trader it means that you have to patiently wait for those market drops. No market drop, no trades.

Stop thinking that you have to do 10-20 trades a day to make money. If you waited patiently for SBUX to set up, that one trade is all you need.

There are more than 100 variables to a good golf swing. When people seek advice from golf pro (myself included) they usually have some pre-conceived notion of what is wrong and they want the pro to fix it. The pro has you take a few swings and the very first thing they look at is your grip. If you have a bad grip, you will not improve your game. No matter what you think is wrong, you have to fix your grip. In trading you have to start with the market. Market first, market first, market first.

Trade well.

There is a dip almost every day



How To Read the Market - An Exercise

I was recently asked a question by [u/daytraderSandi]() which I felt deserved its' own post as an answer.

Last week I was able to *read the market* - in the midst of what seemed like a never-ending selloff I narrated what was happening between buyers and sellers, and what was likely to happen. And despite some after-hours anxiety with an extended drop in S&P Futures, the market followed the outline I laid out to everyone.

The question was simply - outside of simply saying "*experience*", how can one learn to effectively read the market?

All I can do is tell you what worked for me as I was learning how to trade:

Every day/week I would look at the market, and write out the overall story I felt was being told to me.

For example, right now I look at the market, and see how it did not get below major support, however it remains extremely volatile intraday (despite really going nowhere). What that tells me is that on one side you have Bears concerned about the unpredictability of the FED, the fact that the FED was wrong about inflation being transitory, and the *still* overvaluation of equities, and I am thinking - I need to get my money *out* of equities for now. If I am Bulls I am thinking, the economy is *very* strong, earnings are *very* strong, and interest rate increases do *not* kill a 13-Year Bull market (only a Credit Crisis can do that).

So the massive swings you are seeing is a combination of genuine indecision, and each side testing the other. *That is the story I read in the current market.* I feel that Bulls will win out here, simply because there really isn't enough to drag us into Bear territory. But I still approach with some caution as this battle is not yet settled.

However, in the beginning of my trading journey, I was not nearly as accurate, as you might imagine.

So I would write down my read of the market each day/week, and my reasons why. Then I would compare it to the reality of what wound up happening, noting how often was I right. When I was wrong, I would go back see what signs I missed. I began to realize I was better at reading Bullish market dynamics than Bearish, and immediately worked on fixing that problem.

At first I would notice I was missing basic things, which makes sense, since I was just learning. I would miss bounces off major support lines, or clear bid-checks. Over time I improved on the basics, and moved on to more advanced interactions.

You first need to figure out how good you are *innately,* as some people are just quite good at reading the market with very little training. Each day, as you write out your story, and then see what happens, you will see pretty quickly how often you are right or wrong.

Making this a practice allows you to fine-tune your skill in this area, and eventually you will get to the point where misses are rare. It is important not to let any of your positions bias your analysis. You might have a number bullish trades on and therefore reluctant to read anything but a bullish story into the market. It is also important to keep this analysis separate from your trading until you know you are becoming *accurate*.

Just always remember, at the end of the day there are Buyers and there are Sellers. There are Institutions and there are Retail Investors. Retails Investors do not move markets because they do not act in unison (they did on **GME** and **AMC** but it is very difficult beyond that), so you are left with the buying and selling of Institutions. The charts show what they did and what they are doing - the story you create comes from those charts.

How To Tell the Story

I have been saying that reading the charts is like reading a story - a story of Institutional buying and selling. Not exactly a page turner, but at least there are pictures!

Let's look at **MSFT:**

Since late November **MSFT** has been trying to establish a new all-time high, and each time Institutions clearly said, "I am not going above $345 for this damn stock no matter what…" I also see on each of those dates volume was strong - so right off the bat I know that unless **MSFT** has some sort of event (news, earnings, etc.) it is going to be really difficult to get Institutions interested in driving the price above that level.

I also see that right after the third attempt (which at that point seemed kind of thirsty to me), Institutions started unloading the stock a bit. And why not, if there is a natural cap at $345, and the stock is right around $345, what the hell am I holding it for, right?

So down it tumbles, right through the SMA50, and then it continues falling until it hits the SMA100 - finally closing on its' low of the day. At this point, one wonders if buyers would re-engage - I mean you sold it around $340 and now it is $315....not a bad deal. But nope, the next day it gapped down below the SMA100 - but then it ran **smack into the upward trend algo line** - And for two days pretty much formed two *doji* candles, with very high volume.

High volume days where the price barely moves tells you that buyers and sellers are faced-off. Here you have a bunch of algos kicking in, it sees the line, the line is hit, that algo is gonna buy the damn line. But you also have sellers because this stock just dropped through two SMA's and they don't want to get trapped on a day it decides to visit the lonely SMA 200 - that would suck for them.

Speaking of trapped - that is where the stock is now - trapped, between the *Algo line* as support and the SMA100 as resistance. Between $312.75 and $316 is where the stock lives.

So what do you do? If you are short, you get out of the short, because this thing might just bounce. If you are long, well if you are long then you aren't too bright and it doesn't matter what you do.

If on Monday **MSFT** opens below that line and the market is bearish - **MSFT** becomes and excellent short, as it means that sellers overwhelmed the buyers and **MSFT** is probably headed to the SMA200. However, if it opens above the SMA100 ($316) - you don't do shit - you wait. Not until the stock clears $325 (the downward trendline and top of the 1/5 candle) does it start to become bullish again, and even then you have the SMA50 right above it that might still provide resistance.

In other words, **MSFT** is either a short or an ignore.

And that is the story of **MSFT**. When you look at a chart you need to be able to see the story it is telling you and then judge the price action accordingly. Once you know the story the issue of what is noise and what is real, the question of when to get out and when to stay in, all become much more clear - as it either fits with the story or it doesn't.

If you don't know the story then you are looking at numbers without context, and that is always a dangerous way to reach the wrong conclusions.

The Psychology of the Market

As short-term traders we focus a lot of technical analysis - as we should. Technical analysis is sort of a Rosetta Stone for telling the story behind these charts. However, as we layer indicator after indicator on to our green & red candlesticks it is easy to forget that they represent - *Buyers* and *Sellers*.

Now granted trying to understand the motivations of *Buyers* and *Sellers* is difficult when they are primarily algorithms (as u/onewyse points out in his recent post) -but algorithms are still written by people with goals in mind (at least for the moment they are....AI isn't that advanced....yet).

Let's look at SPY:

Look at each dip - back in July SPY tested the SMA 50, but it wasn't a serious attempt - one quick little touch and buyers were convinced the price will hold. **SPY** proceeds to climb 6% until 8/17-8/19 where in what can only be described as a "bless their hearts" attempt, SPY doesn't even get to the SMA 50. Everything is fine for awhile and then 9/9 to 9/17 sellers take over and begin to build confidence. With a running start of five red trading days they crash right through the SMA 50 as if it wasn't there. Bolstered by their unobstructed run, Sellers get a bit cocky and head to the SMA 100, hitting it and going below it. At this point people are talking about the SMA 200 being next, and alarm bells are going off - remember? It wasn't that long ago. A sigh of relief was taken when buyers jumped SPY back to the SMA 50 and on 9/24 it seems that Bears will foiled again! But before Admiral Akbar could say, "It's a Trap!", BAM - Bulls are holding the bag! You can see Bears trying to climb out of the fetal position they've been in these 10+ years. It wouldn't be until 10/19 that it became clear things were back on track. SPY then goes on a huge run, breaking all-time highs every week. And then....we stall, with a low volume compression, and finally on 11/26 Bears try again.

What does this all tell you? It is clear that right now one would expect SPY to be establishing a new ATH, but it isn't yet....

What about Christmas you say? Or Holidays? Or whatever the hell you want to call this time of good will....well historically SPY goes up, because...Santa. But these days things don't seem to fit historical trends, probably because of these damn kids with their iPods and their fancy Nintendo 64's playing with Robinhood on some old flip phone; however, you want to look at it - you can't depend on the past like you used to - it *should* go up, it's *supposed* go up, doesn't mean it *will* go up.

Still what you can depend on is- *human psychology* - when you look back at the dip in September it took quite a lot to convince Sellers to throw in the towel. But if you look closely at it there is something there that gave them that confidence to keep trying to drive the market down - ***Bulls couldn't get above the SMA 50 and stay there***. If you notice, every time Buyers bring the price over the SMA 50 and manage to keep it above, Sellers give up.

On 12/7 that is exactly what happened - and then yesterday and today we stayed above it. I believe what we are looking at is not Sellers in control, but rather a well-defined Bull Flag. In fact, I feel that Bulls are confident enough to engage in Bear traps, which you see several times on the 5 minute intra-day charts. You probably fell for a few, you know the moment you say, "I am going to short stocks now..." and then the door is slammed in your face? Yeah, those.

Now, like always, the market can stay irrational longer than we can stay solvent, as the saying goes - but I am interpreting the current set-up as bullish. I believe we go up tomorrow, and then surge over the All-time-High next week.

We shall see.....$464.50 is the gap, if SPY goes into that gap, then I am obviously wrong.

How Having an Early Thesis Impacts Your Trading & Learn How to Average Up

One of the great things about *Short-term Trading* is that every day is different. Some days are *bullish,* some are *bearish* and some don't know what the hell they are - but we trade what's in front of us.

As some of you may remember from my previous posts, one of my areas of specialty in Social Science/Statistics was that of Taxonomy - which is the science of categorization. If you properly categorize things, whether it is people, situations, ideas, etc… you can better understand and respond to them.

Given that, we can categorize each trading day into one of the following:

Bullish Trend - this is pretty much everyone's favorite type of market. Whether it *gapped up* and continued to go, or just stacked green candles in an orderly climb throughout the day you can be fairly confident that the trend will continue throughout the day.

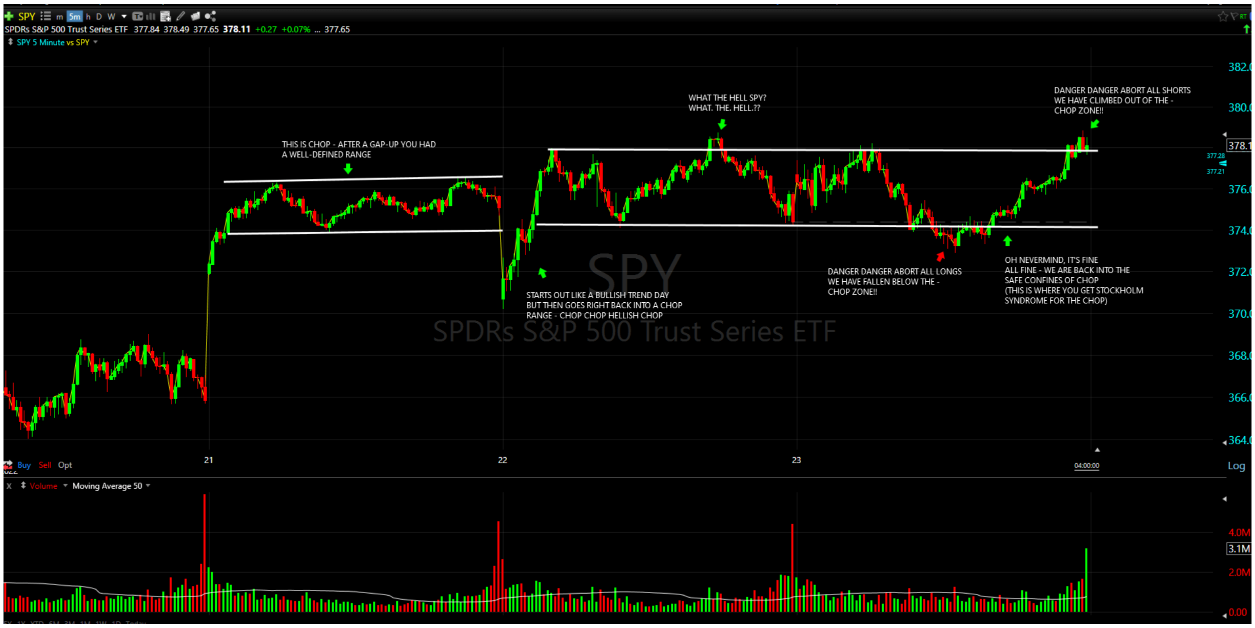
Bearish Trend - fairly obvious, this is the reverse of the *Bullish Trend* days.

Chop - total pain-in-the-ass market conditions that offers *low probability* trading. The market establishes a High and Low range early on and then stays within this range. Sometimes these are *Inside Days* meaning the range on **SPY** is *within* the range of the previous day and sometimes they are outside the previous day, but still contained (this tends to happen when you *gap up/down* and then start to *Chop*).

Dangerous Chop - this is a tag of my own creation and to me represents the worst possible trading day - this is a day that has all the characteristics of *Chop*, but due to high volume or high volatility (e.g. Economic numbers about to be released, Fed speaking, etc.) there is a constant danger that **SPY** can break out of that range at any time.

There are other potential categories, but those are the primary ones.

Here is a visual representation of the past few days:



As you can see, even though there is some well-defined zones for **SPY**, several times it looked to break out of those areas, on both sides. Those attempts to break through, for me, would put this into the category of *Dangerous Chop.*

So - how does this help you?

Well, the first question you might be asking is - "Like so many other things, those zones are clear in hindsight, but how do you recognize them while they are occurring?"

And **that** is a damn good question.

You initially have to realize that you are in fact in - *Chop*. That is easy enough, the damn thing goes up, and then it reverses, and then reverses again. Shorts look good, then Longs look good, and then nothing looks good. Chop is easy enough to know when you are in it. *Bullish/Bearish* Trend days have a distinct lack of stress with them (unless you are still being idiotic by trying to counter-trend trade, in which case you need to seriously stop and just read the damn Wiki), whereas *Chop* days rarely have a *stress-free* trade.

Once you ascertain that you are in fact in, Chop - it is just a matter of looking back on the 5-minute chart to see where the High and Low is - draw your lines across the top and bottom. The longer the lines, the more established the zone becomes.

See? Easy.

Ok - after you identify the type of market you are in - that become your *thesis* for the trading day. That thesis then impacts how you should trade. Here are some examples:

Example A: You go long on a stock at $50, it is a clear *Bullish Trend Day*. After moving up to $50.15, the market pulls back and so does your stock - it drops to $49.55, even losing its' *Relative Strength* in the process. However, you can be confident, based on your *thesis,* that **SPY** will resume its' upward climb and so will your stock, so you hold the trade.

Example B: Same stock, and you go long at $50, but it is a *Chop Day* - however, this stock has really good *Relative Strength* and the market is currently moving up. Still, after you enter the trade the market reverses and the stock drops to $49.55. In this scenario you have two options: **1)** hold the position knowing that eventually SPY will come back up to the higher end of the range again, or **2)** cut the position because the stock may not recover its' *Relative Strength* and even if **SPY** does come back up, the stock may not recover enough to be profitable. ***Unless there are really compelling reasons to hold the position, you should generally choose the second option.***

Example C: Yes, same shitty stock, same damn price at $50 - same trade, and of course the same thing happens - it drops to $49.55, the market drops, and it loses its' *Relative Strength*, except now you are in a *Dangerous Chop* day. In this case, you get the hell out of the trade.

Obviously the prices here are arbitrary for the sake of an example, and your stop of the trade might have been at $49.25 or $48.30, but in this illustration a drop of .35 cents is enough to make you consider exiting the trade.

Your decision on whether or not to exit the trade depends on how you have categorized the market and how confident you are in that *thesis*.

As a further example of this - I classify the last two days as being in *Dangerous Chop,* and you can see from my trades posted that I gave the trades I was in very little wiggle room. I cut many trades quickly the moment they turned against me, and took profits just as quick. Rarely did I let a trade run for more than 10-minutes and only once did I add to my winning position.

Much like your overall view of the market impacts whether or not you have enough comfort to swing any positions, the same applies to your intraday view as well.

It is also worthwhile to identify days with these tags in your trading journal and look at your corresponding stats. On days that you classify as being *Chop* or *Dangerous Chop* I would suggest that win-rate matters less and profit factor should be the main calculation you look at. On days with *Chop* it is ok to have a higher number of losses, because you are exiting trades much quicker than normal. This requires a very different mindset as it can be difficult to rack up several losses in a row, even though they might be small losses.

However, on days that are *Trend Days* I strongly suggest you practice *Averaging Up*. Adding to winners is one of the single most important skills a trader can learn, and definitely one of the most profitable. Still, it is mentally very difficult to add money into a trade at a point where you would normally close it and take profits. Particularly since one of the reasons you are taking profits is because you feel (or are afraid) that the position will reverse on you. To help overcome that mindset, try this exercise ***on trend days***:

Use 1/4th of your usual position size to open up your next trade - so if you normally buy 100 shares of a $100 stock, this time buy 25 shares instead. Then establish two clear benchmarks - these benchmarks should be based on the price action, the market, the stock, etc. Make the first benchmark the halfway point from where you normally would have taken profits - let's say in this example it is at $100.25, at this point you will double your position size to 50. Then the next benchmark should be where you would normally have taken profits which in this case would be $100.50 - here you will double your position again - to 100 shares. Now you are at your normal position size but you have *averaged up* into that position. At this point set a reasonable profit target (which can be just adding the first benchmark - which in this example was .25 - so, $100.75).

The goal of this exercise is to rewire your mindset to get used to *adding* to your winners. Eventually you will be able to open the position with your normal size (100), and then add from there - but until then, use this exercise to practice seeing doing this impacts your overall results.

Every day is different but as long as you are able to identify which day you are in, you can trade accordingly.

Analyzing The Markets (Using Futures)

First - Get the Market Right

Second - Get the Stock Right

If you do those two things you are 90% there - at that point it is just a matter of maximizing your profits with the right trade (stock, options, spreads), and of course exit/entry. But if you get the first two steps correct - you're going to have a profitable trade.

However, that is easier said than done. For the second step it is all about having the right scanners, setting alerts, and picking the best stocks from those lists. But what about the first step?

Reading the market and correctly identifying both the immediate trend and short-term direction is, as many of you know, *extremely* difficult.

The Wiki (**RTDW!**) provides a guide on how to analyze trends in **SPY**, and there are various indicators that can help - but in the end there is no substitute for pure *experience.*

So this "*challenge*" is meant to help you build that experience - here's what you do (I am using the Ameritrade ticker of /ES and /MES to refer to S&P Future contracts):

Start with $3,500 - the /MES or micro-mini's on S&P futures are worth 1/10th per contract of the regular /ES contract.

The regular /ES contract gives you +/- $12.50 per tick up or down, four ticks ($50) equal 1 point. As a general rule, for every 10 cents **SPY** moves, that will equal 1 point on /ES. So, if you are long /ES Futures, and **SPY** goes up a dollar, that is 10 points on /ES or $500 per contract. If you trade 4 contracts, than 10 points a day ($2,000) can provide enough income to make a decent living off alone.

However, it is not easy to get 10 points a day on /ES, and it takes a *lot of practice*. Fortunately, they have /MES. Being worth 1/10th of /ES, one tick on /MES is worth $1.25 - with one point equaling $5.

The margin requirement for /ES is $16,600 per contract - so if you wanted to play 2 contracts you would need at least $33,200 in your account. With /MES you need $1,660 per contract.

Futures trading does not abide by PDT rules, meaning you can Day Trade them all you want.

Keep in mind, there are fees associated with these trades, so if you start trading 7 /MES contracts, which gives you $8.75 per tick, you'll be paying around $13 in fees, meaning you need at least 2 ticks just cover it. Whereas the fees for just 1 /ES contract is roughly $3.50.

So now that is explained, here is the challenge:

Starting with $3,500 - you can trade 2 /MES contracts. Your goal? Work your way up to being able to trade 1 /ES contract - or $16,600 in the account.

Every time you add $1,660 to your account, you increase your /MES size by 1 contract. So when you hit $4,980 for example, you can use 3 /MES and $6,640 will give you the ability to go to 4 /MES contracts, etc. Every time you "level up" you are getting a higher return per tick. You are also risking more as well.

The goal is to learn how to anticipate **SPY** , you are not "scalping" here, and should be very careful with your *stops* as the current volatility will certainly trigger them. You will need to learn patience with these trades, but also not let them get away from you (you do not want to be sitting on an /MES trade that is down 50 Points and would take a week to recover). You also do not want to end the day with an /MES trade on while your Option Buying Power is negative - that will result in a Futures Margin Call and they *will* call you and charge you fees.

The idea of this exercise is to learn how to read **SPY.** Doing this on a Paper account is an even safer bet.

A pro-trader can take a $3,500 account and get it to $16,600 using only /MES trades in about 1-2 months time. So you can use that as a benchmark to see how well you are *reading the market*. Completing this challenge in less than 2 month is *extremely impressive* and indicates your skills on reading the market are very much on point.

There are lots of posts on *how to read the market*, so I figured I would make one on how to test your ability to do just that.

Traders See What They Want To See – BEWARE (u/OptionStalker)

Let's face it, the vast majority of traders across the spectrum prefer to trade rallies. The price action is more consistent and it puts everyone in a great mood. The economy is doing well, portfolio values are up and people have jobs. After a nasty start to the year we would like to think that the worst is behind us. Technically, the market looks great and we have been nailing bullish trades left and right. This is like the first warm day in Chicago after a cold winter and it feels really good.

Some of you will be tempted to start taking overnight longs aggressively. It is still too early and I suggest you stick with very short term trades and wait for confirmation (follow through). Here's why.

Lots of technical reasons to be bullish

On a day trading basis, we don't have to worry about fundamentals. We trade what is in front of us and we keep our overnight risk at a minimum. When you lengthen your trade duration, fundamentals do become more important. There will be some of you who are tempted to "back up the truck" and load up on bullish overnight positions based on what you see right now. I wrote this post to shed light and hopefully to keep you from making a devastating mistake.

Has the Fed stopped raising rates? No. In fact, they are going to raise rates next week. Some projections are as high as 100 basis points (75 likely). Yesterday the ECB hiked rates by 50 basis points and that was more than expected.

Have we felt the impact of the rate hikes to this point? No. We will not know the impact of higher interest rates for a few months. The economic data points will be very important in Aug/Sept.

Has inflation subsided? No. There are some signs (mainly energy) that we might have climaxed, but that is a far cry from seeing a decline in prices. We just came off of the highest readings in 40 years. For the last year we've heard that inflation is temporary and it continues to surprise the Fed.

Is China strong? No. The second largest economy in the world and the global growth engine the last two decades is "on the ropes". They are still in shutdown mode because of Covid-19 and we can expect more supply disruptions. Property developers are defaulting, people are not able to access deposits at rural banks, home owners are not paying mortgages on new construction at the risk of ruining "social credit" and funds have been selling Chinese bonds for a record 5th month in a row. After decades of hyper growth, China is my biggest market concern long term. I smell a rat and I suspect credit issues will surface.

The list is long, and I could continue, but I won't. These issues need to be resolved and it will take time. It is typical for the market to rally into earnings season. Big tech companies will announce earnings next week and after that, "the air will be let out of the balloon". The Fed will hike rates and they will vanish until September when another rate hike is expected. The rat population will decline in DC as politicians take recess. The country will be on "auto pilot" and the issues I have outlined will fester without anyone at the helm. Trading volume will dry up and we will be in a news vacuum for weeks.

So I must be bearish - right? I do believe that the market will test the low of the year. Depending on how things play out, we might even take it out. I am not positioning myself for a big drop, but I am very ready to trade it if the price action deteriorates. I am certainly NOT loading up on longer term bullish positions and that is what I want to discourage you from doing. This is how accounts "blow up".

The strong technicals we are currently seeing were also present in March. Look at how similar the chart below is to the first chart I posted. All of the same technical breakouts were present (I copied and pasted the blue box). From that peak to the next low the SPY dropped more than 15%. Longer term swing traders who bought on those strong technicals took a beating and they fueled the market drop when they bailed on their positions.

The recent market rally came on low volume, just like the bounce in March. These moves look great on the surface, but buyers have a low level of conviction and this bounce can easily be reversed.

DON'T LOAD UP ON LONGER TERM BULLISH SWING TRADES.

To complete my metaphor, it is only March in Chicago and we can still expect cold weather. I hope this posts helps you avoid a costly mistake. Stay short term with your trades. The time for longer term bullish swings will come, be patient. These issues need to be resolved and we do not know the outcome. When we see stacked green candles consecutively on heavy volume, we can start taking longer term bullish trades.

The technical back drop in March looked great. The SPY fell more than 15% after that

Overall Market Analysis

If you go back four months exactly (1/21) you will see that SPY is in the same position as it is today. It may not seem like it, given the roller-coaster feel day-to-day, but when you zoom out a bit, it is clear - we haven't moved. So, what does that mean? The answer is equal parts psychological as it is financial.

Clearly it tells you that the market is in a holding pattern, that much is obvious. Given that the natural tendency of all markets is to go up, holding patterns reflect uncertainty. But uncertainty is bearish, right? Yes, it is - but in degrees. There is uncertainty, but not *enough* to cause a rise in fearful trading. Due to being in an unprecedented decade-plus long Bull Market, a *lot* of capital is invested into equities. So much money has poured into the market since 2009 that it is baked into the very fabric of Institutional business plans. Trillions of dollars do not suddenly go up and leave without good reason, meaning it needs a significant event (i.e. Credit crisis) to cause a fundamental shift in mindset. Consider that we had a *pandemic, historical levels of inflation, meteoric rise in the* *deficit (which is only now being lowered), and some of the tensest international conditions since WWII,* and none of those qualified as a *significant event*.

In essence the market is waiting for a sign to be comfortable again, whether that is lowering inflation, easing of those international tensions, anything, before resuming its climb upwards. However, it is also not straying too far from the lower end of the range, as while a *significant event* has not occurred, the market is clearly not discounting the possibility that it *could*.
Imagine that on any given day there is a "Chance the World will go to Shit" meter on the wall of every major investment firm. Further imagine that on average that meter says 1% - meaning there is a 1% chance that at some point that year, the world will indeed - go to shit. 1% is low enough for the Risk profile to remain bullish. Now let's say that if that number hits 10% that would be far too high for anyone's taste resulting in a mass exodus from equity positions. What the market is telling us right now is that somewhat fictional meter stands at around 5% - right in the middle. Not high enough to bail, but not low enough to start buying.

This causes macro-level Chop in SPY, which may have directional periods of time where it seems like it is rebounding for a few days or dropping, but it is still chop. It also means that unless we see a strong stimulus in either direction, we will remain in that chop. This provides an excellent environment for Day Trading (and I am taking full advantage), but a very challenging one for short-term positions.

How To Tell If This Breakout Is Real or Fake (/u/OptionStalker)

Good morning traders. I just posted this article in the chat room. This is a great lesson on reading price action so I thought I would share it here.

On November 10th the market had a breakout above a downward sloping trendline, above the 100-day MA and above a horizontal resistance level. This was a reaction to a “lighter than expected” CPI and the breakout came on heavy volume. The market has been in a longer term bearish trend. That context is very important because the move could have been caused by short covering.

Not all breakouts are real. Here's what to watch for.

Why do we care if it was short covering? Short term traders do not have staying power. They are in and out of positions and they are trying to capture short term moves. If this was short covering, the breakout could easily fail as that buying dries up. For a sustained move higher we want long term buyers. If Asset Managers feel that the market will be trading higher than this level a year from now, they will start to scale in on the notion that seasonal strength with fuel a year-end rally. Under-allocated Asset Managers will get nervous (FOMO) that they missed a nice entry point and they will buy this breakout.

How will we know if Asset Managers are buying? After a nice breakout through multiple resistance levels we will see small dips and increasing volume on rallies. The mid-point of the long green November 10th candle could be tested, but that retest will be gobbled up immediately. Then we will see follow through buying on good volume and the bounce will have follow through immediately (2-3 days).

Why does the follow through have to happen immediately? It is a sign that buyers are aggressive. They do NOT believe they will have a better opportunity to enter and they do NOT want to miss this entry point. They will layer bids at lower levels, but when they are not filled they will start to raise the bid. That process fuels the move higher and the feeding frenzy is on.

What happens if we do not see follow through buying and the volume dries up? If the market can't add to the gains it will be a sign that the November 10th breakout was just a short covering bounce to squeeze short term traders (this includes trading institutions). It would be a sign that Asset Managers are NOT aggressive and that they do NOT feel like this is the last chance to buy stocks at this level. Traders will recognize that there is no follow through and that the volume is light. They will recognize this as a short covering bounce and they will get more aggressive with their shorts.

We did not see follow through buying. Instead we had tight ranges on light volume with a bearish bias. This tells us that Asset Managers are not buying aggressively and that the chance for follow through is unlikely. The breakout was likely just short covering and traders/institutions will get more aggressive trading from the short side.

There is no follow through to the breakout and no volume. That is a warning sign.

How will we trade this information? This morning the SPY will open just above major technical support at $390. That support will be tested. Buyers want to see a heavy volume bounce off of that level and they want to fill the gap quickly this morning. The SPY needs to close above the close from Wednesday. Shorts want to see a wimpy, light volume bounce on the open with mixed overlapping candles. That will be a sign that the bounce is going to reverse quickly and that the move is weak. A gap and go lower with stacked red candles through $390 would be bearish.

Swing traders were stopped out of the long position yesterday for no gain when the SPY closed below $396. If you sold bullish put spreads, we need to see the bullish scenario above play out to stick with the positions. If the SPY closes below $390 today you need to close those spreads out.

Day traders should watch $390 this morning. Given the price action the last week, I suspect that this breakout is going to fail. If it does and the volume starts to increase, focus on the short side.

Support is at $390. Resistance is the close from Wednesday.

Big Market Breakout! Should I Buy the Open Today? (/u/OptionStalker)

I thought my pre-open market comments might help you so I am sharing them.

PRE-OPEN MARKET COMMENTS THURSDAY – The market was trapped in a tight range and the volume was extremely light the last 3 weeks. Traders were looking for news that might spark a breakout in either direction and the speech from Fed Chairman Powell yesterday had the potential to do that. The reaction was bullish and the S&P 500 rallied 130 points during his speech. From a technical standpoint, the market is resting just below a major trend line.

So what did we learn yesterday? Powell said that we will see a reduced tightening pace as soon as the December FOMC meeting. That is not new! A 50 basis point rate hike is expected in 2weeks and that is less than 75 basis points (June, July, September and November). Rate hikes of 25 basis points are expected in January and February. Those are also less than 75 basis points. If this news was already priced in, why did the market rally?

I believe that traders were positioned for another "Jackson Hole" beat down where Powell stated that the Fed will remain vigilant in taming inflation and that the market reaction would be negative. When the market started to rally on the news, shorts were forced to cover and that fueled the rally. This is similar to the price action we saw on the slightly lighter than expected CPI on November 10th. Traders were expecting a market drop on a "hot" number and they were short. When the reaction was positive they got squeezed and the market shot higher.

What evidence do I have that this is just short covering? First of all, the speech from Powell yesterday and the CPI reading in November did not materially change the landscape. This news was already in the marketplace. Secondly, there was no follow through buying after the November 10th spike. The volume remained extremely low and the market compressed. If buyers were genuinely interested, we would have seen immediate follow through on heavy volume. If I do not see that in the next few days, I will deem yesterday's move to be short covering.

I've mentioned that I do not swing from the short side in November and December. Now you know why. Seasonal strength is incredibly strong. We have record levels of cash on the sidelines and corporate buybacks are at a brisk pace of $10B per day. That is keeping a bid to the market.

What else did we learn this week? PMIs in Europe and Asia are well into contraction territory. This morning the PCE came in at .3% (.4% expected) and this is inflation metric is used by the Fed. The Beige Book yesterday also showed that apartment rents have declined and that real wages are starting to decline. ADP was a little light, but initial jobless claims have been low and that bodes well for Friday's jobs report.

The S&P 500 rallied above the 200-day MA yesterday. That breakout in and of itself is not meaningful. We need follow through on heavy volume to confirm the breakout is real. The market could just as easily fall right back through that level flushing bullish speculators out of their longs. There is a major D1 downward sloping trend line that will provide resistance at this level. If I see follow through on heavy volume this week I will embrace the breakout. If not, I will view this as a year-end short covering bounce.

The big pops on volume and ensuing light volume compressions have me doubting the move higher. I still can't embrace longer term bullish swing trades so we will stay sidelined.

Day traders should look for follow through buying early this morning. The "light" PCE will attract bulls and overseas markets were positive. 1OP is spiking and I would NOT chase the opening rally this morning. There is major overhead resistance. Bullish speculators will rush in this morning and they will get flushed out. I want to see a wimpy rally with mixed overlapping candles. That will tell me that the first move is vulnerable to profit taking. On a pullback I want to see the close from Wednesday preserved. Organized selling with stacked red candles would suggest heavy profit taking. I am not expecting that after the rally yesterday, but I am mindful of what that pattern represents. Once the bearish 1OP cycle runs, I believe we will have an excellent opportunity to buy. Early buyers today will be flushed out and that will provide us with time to find stocks with relative strength.

If only there was an example of a similar set-up. I have included a M15 chart from November 10-11th.

Support is at the 200-day MA and resistance is at SPY $414.

Two hours after the open I also recorded this video and it includes and options trade. The link is in a comment I posted below.

Wait for the newbies to get flushed out… then buy.

When Will the Market Be Good for Trading? (/u/OptionStalker)

This is in response to the somber comments I'm seeing traders posting. I am not going to "pump sunshine up your ass". For many of you, the day of easy trading profits will never come. Paul Tutor Jones himself could stand over you and tell you what to buy and when to sell it and you would still figure out a way to fuck it up. Most of the traders in that camp have already been washed out and [I warned you of this a year ago.]() This article is for the traders who have rolled up their sleeves and who have spent every waking hour studying and learning and who are hanging on by a thread.

The easy answer to the title is, when the 50-day moving average crosses the 200-day moving average on the S&P 500. That is a "golden cross" and it will only happen when market support has been established. Is this some kind of magic formula? No, bull markets are easier to trade than bear markets for many reasons.

Why are bull markets easier to trade? There is less volatility and the price action is much more orderly (predictable). In a bear market the price action is largely news driven. There are giant drops and violent bounces. We are always at the mercy of the Fed or an economic release. One little word change in the FOMC statement can produce wild swings. When the market is trending higher, the mood is more encouraging. People have jobs, the economy is doing better and 401(k)s are on the rise. In general, people are less inclined to short and they are less inclined to play the "Don't Pass" line in craps.

If the market takes the stairs higher and the elevator down, that means it spends much more time grinding higher than it does dropping. If you are long and you enter poorly, you can ride the trade out if the market is in a normal uptrend and eventually you will recover your losses. Bull markets mask poor trading habits and they are much more forgiving. In the chart below, you can see that it is much more dangerous to be short than long. When you're short and the market/stock lifts off, there is always the risk that this rally is the "real deal" and that you had better take your losses. The game is always tilted towards the bullish side and I have seen the Fed ease (unannounced) before the open on expiration Friday to screw as many shorts as possible (2008).

The market spends a lot more time going up than down.

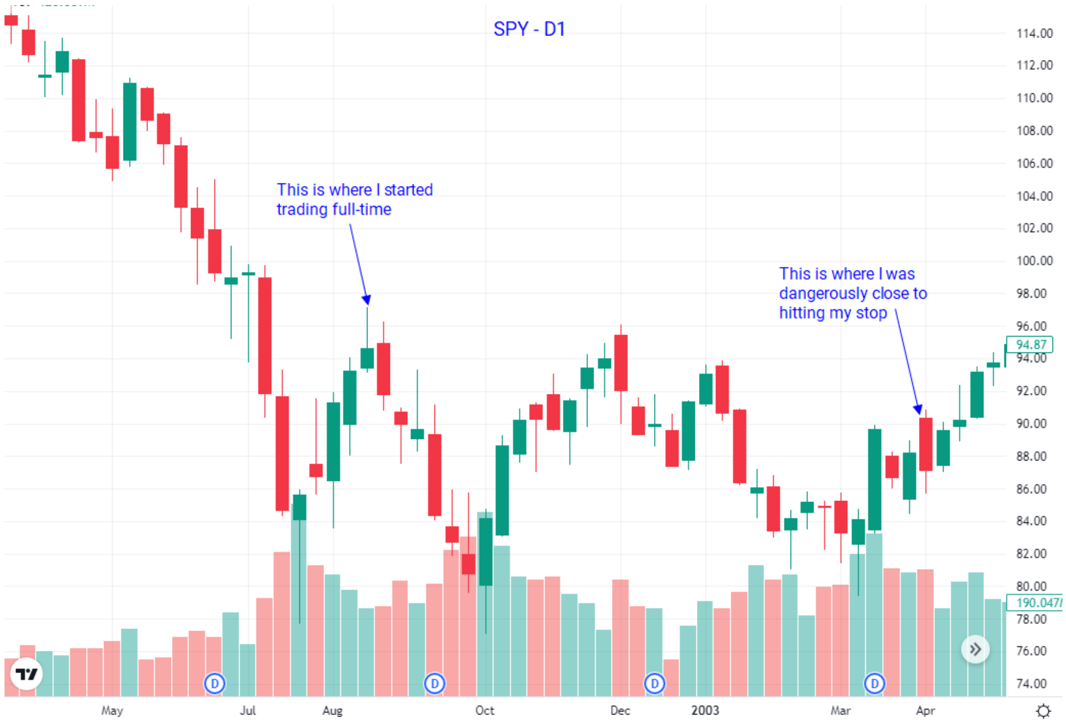
Right now, some of you are thinking, “Thank you so much Pete, I will just wait for that golden cross.” Tom Brady did not become the GOAT by showing up a few minutes before game time. The countless hours of work and preparation made it possible for him to perform at the highest level on Sunday.

The lessons you have learned this last year will last a lifetime.

1. You have complete respect for the market and you realize you don’t know shit. Instead of trying to predict what the market is going to do, you trade what is in front of you.
2. You have learned to trade both sides of the market and that will help you to identify longer term trend reversals. This helped me make a killing in 2008 and 2022. That skill will also help you to exit trades because you are always aware of the warning signs when a trend is starting to weaken.
3. You learned to trade under volatile conditions where moves come out of nowhere. That experience has taught you to adapt to changing market conditions.
4. You’ve had to persevere losing days/weeks/months where there is little to no progress. That demonstrates that you love trading and that you have the mental toughness needed to be successful.
5. You’ve learned to cut your losses even when they have been devastating and you have clawed your way back. Taking losses is a cleansing process where you learn a lot about yourself.

Your time will come in 2023 and all of your training will pay off. There are record levels of cash sitting on the sidelines. When Asset Managers are satisfied that the Fed is done tightening, that a credit crisis has been averted and that economic activity is poised to rebound, you are going to see a massive market rally that lasts for many years. That time is **NOT** now. The market still has some work to do on the downside and the technicals are telling me this.

I know your pain because I have gone through it. I have traded since 1989, but in 2002 I left my corner office to trade full-time. By March of 2003, I was on the ropes. Those market conditions were similar to what we are seeing now. I wrote about my tough start and it was the cover story for Active Trader.



The US was preparing for war and the market was volatile/bearish like it is now.

The US invaded Iraq, the market rallied, I made back my losses and my trading took off.

You've made it through the toughest of markets and many of you are on the brink of busting this wide open. I see it in my chat room and I know who you are. To your surprise, you won't have to change much. Your picks are solid and you've learned the system.

I am often approached by enthusiastic traders and I ask them when they started trading. If there has not been a bear market since their start date, this thought clicks in my brain - "they might not make it". Until you've survived a bear market, I can't tell if you are going to be a good trader. In a few years, many of you will wear 2022 like a badge of honor.

Keep your spirits up, stay very disciplined for another six months and know that better trading conditions are just around the corner.

[If you are new to trading, you should watch this video.] I am brutally honest about what you are up against.

Why We Pick Bottoms/Tops and How to Stop

Perception is a funny thing.

Our decisions in life are, in large part, based not on how things actually are, but on how we perceive them to be.

One of the most common "perception" issues that most of you will be intimately familiar, is aptly called, *"The Grass is Always Greener"*. Just as those with an average salary, house, car, etc. look with envy upon someone in a 6,000 sq ft home that drives an Aston Martin, the mirror image exist on the opposite side. The struggling parents, working 2-3 jobs to just pay rent on a cramped apartment wishes they had that average salary, house, car, etc.

Again, it is all a matter of perception.

Let's tie that in to how we view stocks -

There are four ways one can view the price of a stock:

1) Fair Value - Based on the fundamentals of the company, a stock has a "fair value", which essentially is a calculation of "What is this company *actually worth today?"* If you opened *Traders Lemonade Stand* and put $100 into it to buy the ingredients you need, but haven't even opened for business yet - that company is worth - $100. If you issued 10 shares out to friends, those shares would be worth, at *fair value* $10 a share.

2) Future Value - Now of course, let's say you have a history of opening successful Lemonade Stands around the country, and the last three (each also started with only $100) all wound up selling for $100,000 after 2 years. That is a 100X return on the initial investment. Now if you offer out those 10 shares, but instead to just friends you open it up to 100 people, they'll start bidding on it. Based on the successful history there will be a strong prospect of future growth. Considering the valuations on the previous companies, they might bid up the price of that stock to over $100+ a share, before the business even opens. That price is based on *Future Value (*many Tech stocks are inflated from their "fair value" due to this idea).

Thus, if the stock of that Lemonade Stand was worth $50 - someone with the perspective of "Fair Value" would think it is way over-priced, but someone that looks at it from the view of "Future Value" might consider the current price underpriced.

3) Past Value - This is how most traders look at the current price - through the lens of *Past Value.* It is undoubtedly the worst point-of-view one can take, but it is also the most *natural*. We look at stocks like **ADBE**, or **MSFT** or just about any stock that isn't in the *Energy* sector and think of them as being ***down.*** They are ***"on sale"***. That perception is based on their past pricing. **ADBE** is currently at $394, but we can remember when it was over $650 not to long ago. Our perception of the stock is that it is at a *low point* and thus likely to bounce back up. This is where the notion of "picking a bottom" comes from - because surely a stock that used to be ***that*** strong cannot continue to drop. We think, "Eventually it will get so cheap investors will pile in and drive it up again". ***The issue with looking at price based on "Past Value" is the immediacy you expect the price to revert.***

4) Current Value - This final point-of-view is the one most rarely taken, but may in fact be the stance that prevents one from predicting *bottoms* or *tops*. This perspective is simple - the price of the stock is what it currently is, no more and no less. Using **ADBE** as the example, the stock is worth $394 because that is what people are willing to pay for it right now. It doesn't matter that it was worth $700 a few months ago, or below $200 back in 2018 - because right now people aren't willing to buy it for more than $394. In this sense there is no "bottom" or "top" - **ADBE** can just as easily continue to drop as it could to start going back up.

Now if one looks at ADBE through each of the four perspectives you would get the following:

Fair Value - *The fair value is roughly $205 - so from that perspective the stock is still way over-priced at $394.* ***Over time, could be years, you expect the stock to eventually drop.***

Future Value - *The projected value is between $550 and $615, and from that point-of-view it is currently under-priced.* ***Over time, could be years, you expect the stock to eventually go up.***

Past Value - *The recent highs close to $700 means the stock is currently "on sale" and should bounce back up.* ***In a short period of time, you expect the price to bounce back up.***

Current Value - *You are looking only at the current price action to determine where the stock will go.* ***You have no expectation of the stock going up or down, other than that which the price-action shows you.***

Obviously we all know that at some point the market will resume going back up again, we don't know when that will occur, but we can say with almost certainty that it will. And when that happens we also know that many of these stocks will head back up with it, but again we don't know when that will happen.

If we base our trading on any of the first three perspectives we will most likely get burned by trying to time the market. Because then we aren't trading an asset based on the value we see in front of us, but rather on some value in our heads that we *think* it should be, but isn't.

For long-term investing it is fine to base your decisions off your *projected* value, as your portfolio can withstand the ebbs and flows that will occur before the market resumes its' upward climb. So you would just buy shares of **ADBE** , and in a few years, if you're right, you could double your investment.

But in trading you aren't waiting a few years, or even a few weeks - you are looking at the next few hours or days. And given that time frame, it is unreasonable to use anything other than the price of the stock within that same time-frame. It doesn't matter that **ADBE** was worth $699 back in November if you are trading it right now, all that matter is that it is currently worth $394. When you think about it that way, there is no **bottom** or **top** - there is only the current price.

Think of those people that bought *Calls* on **SPY** going into the weekend because "it has to bounce back up". **Why?** The last price people were willing to pay for the *ETF* was $389.83 - come Monday that price may seem *expensive, thus causing a drop* or *cheap*, *thus causing a rise*.

Technical Analysis can help us decipher the price action and anticipate the levels where those perceptions might change - but it ***cannot predict a bottom or a top***. When you are doing that, it is ***you and you alone that are predicting, based on nothing more than a "feeling".***

Now look at your account, look at your past performance, and ask yourself - ***how much do you trust your "feeling" to be right? How often has it been right in the past?***

So the trick is simple - ***The price of the stock is what the price of the stock is - no more, no less - that is what the stock is worth. It isn't "under or over-priced". That is how you need to think of it.***

Yes you need to look at the daily chart and look at the recent trend, but you are *trading what is in front of you*.

There are hundreds of factors that go into why **ADBE** might be worth $394 right now, very few of which you are aware. All you know is that it fell below the SMA 50 on the daily, and currently rests on horizontal support - if it falls below that Support level and **SPY** is down for the day, **ADBE** becomes a good short, if it breaks back above the SMA 50 on the daily and **SPY** is up for the day, **ADBE** becomes a good long.

And for all of those that bought calls on **ADBE** at the close on Friday, because it *has to bounce back up*, well.....good luck with that.

Predicting The Bottom Of A Bear Market

Everyone is trying to predict the bottom. Retail. Institutions. *Everyone.*

Why?

Because nailing the bottom of a Bear Market is without a doubt the single best money making opportunity for a trader/investor.

In the simplest terms - once you know the "bottom" is in, shit goes up. And usually shit goes up pretty damn fast.

Of course if you start to load up on bullish positions, and the bottom *isn't* in....well, then you're kind of fucked, aren't you?

If for example you think the *Low of the Year* (**SPY $362.17**) is going to hold, and start going Long, but instead it keeps falling, there is still a long way to go before the *actual bottom*. At that point, not only are you down a significant amount of money, but you have also missed the real opportunity.

Thus, while the end of a Bear market presents a great opportunity, is also comes with a lot of risk.

And since we are currently hanging around that Low of the Year mark, many of you might be tempted to start thinking that the next bounce up will be the start of a huge bullish run, or even the beginnings of the next Bull Market.

Let me disillusion you of that idea now -

The only things that can potentially reverse this Bear Market (and I am not referring to the occasional rally, I mean actually *reverse* it) are the following, either in some combination, or through an outstanding result in one of them:

- **Upcoming Earning Seasons** - expectations are quite low given the macro-economic environment. However, if Earnings for the major names (e.g. WMT, AAPL, GOOGL, HD, etc...) come in well above expectations - that could certainly have a bullish impact.

- **CPI or other Inflationary indicators** - If there is some clear evidence that inflation has not only peaked, but is beginning to decline.

- **FOMC** - The fear is that right now the Fed is on track to put us into a Recession, and not only that but, it may actually be their goal. However, if either due to seeing Economic contraction, a cold CPI report, etc...the Fed decides to ease off on the quantitative tightening and rate hikes, Investors would certainly start to become more eager to begin buying.

- **Elections** - not as big of a factor as the other three, but if something surprising happens like the Democrats win the House and the Senate (they are expected to lose the House and win the Senate), or Republicans win both - that will have an impact, although that impact may be additive or penalizing as a separate market driver on its own.

Until the market has any or all of the new information listed above, which doesn't really start coming in until Oct/Nov - then any bullish moves you see will be Bear Market Rallies and as such, transient.

And this doesn't even include anything on the International stage - e.g. a Recession in Europe, Escalation of the Ukrainian war, increasing tensions with China, etc.

And yes, we all have heard that Bear markets end when Fear is at its' highest - but putting aside the clichés for a moment, in order for a Bear market to end Institutional investors need to start *buying - a lot*. And that is not going to happen without substantive information from the four areas listed above.

And why would it?

Would *you* deploy a lot of capital into long-term investments right now only to get whacked with a hot CPI report, or a string of missed expectations on earnings? No, I doubt you would.

Neither would they.

So until then - keep an eye on the *Low of the Year* , if that falls then momentum and/or the lack of any Bulls (i.e., a buyers boycott), might allow the market to drop a significant amount.

On the other side, play any bullish bounces as they will no doubt occur (one of the few times when the notion of being "oversold" actually can apply), but be wary *swinging* during a rally as they can end rather abruptly.

But whatever you do - make sure you have enough cash for when this Bear market actually does end (and it will), because you are going to need it. Whether through a capitulation low, an extended bottoming process which forms support, or the spark of external news, at some point this Bear market will be finished.

And when that happens you should have your shopping list in hand, because shit will start going up - fast.

A Bearish Market Does Not Mean It Is a Bear Market

Since 2020 the number of retails traders have doubled, representing close to 30% of all the liquidity in the market. This represents a huge influx of inexperience money pouring into equities.

Unfortunately, most people today are allergic to history (*which is most likely why we constantly repeat it*), and so their reactions to normal price volatility tend to be....hyperbolic to say the least.

This weekend alone just about every tweet and post I see about the market seems to imply that we have ended a 10+ year Bullish run ,and it is time to get ready to stand in line for a loaf of bread or a block of government issued cheese.

To be fair, the media is only fueling this narrative, because shockingly, headlines that foretell catastrophe, get more clicks than ones of reassurance and calm. As a result, it every rag financial publication has filled up their pages with headers such as - "***Is the Bubble About to Burst?"*** or ***"Time to Cash In? The Guy That Predicted the Crash of 2008 Say This One Will Be Worse!".***

Naturally the talking heads on CNBC, who are the human version of an unsalted pretzel, are eager to jump on the BearWagon with their prognostication of doom and gloom.

So it only makes sense that new traders that have only known two straight years of growth are worried that we are on the verge of a collapse (*although, honestly, if you know how to trade, balance and hedge, it shouldn't make a difference to you - but for those with Long Term Investments, yes entering into a Bear market **would** matter)*.

Let's inject a dose of reality into the conversation:

SPY Weekly Chart

This is a Weekly Chart on SPY, for the 10 year Bullish Run from 2012 to Present Day - Notice two key indicators:

Weekly SMA's *(Simple Moving Averages)* - The 50, 100, and 200 SMA's are acting like clear guideposts during times of regular volatility.

Algo Trendlines - The two upward sloping trendlines are more definitive borders that come into play when the price experiences movement on the extreme ends of the spectrum.

You will see that in 2014 and 2015, **SPY** got over-extended and hit the upward trendline, bouncing down off it several times, spending roughly two years between that upper-bound and the 50-Week SMA.

In late 2015 and early 2016, you will see a period of intense volatility, where **SPY** drops below the 100 Week SMA and goes down to challenge the 200 Week SMA, but never going beneath it. *Guess what articles back then were saying - Bubble About to Burst! Bear Market Coming!!* The only difference was there were far fewer retail traders around, and those that were had a lot more experience than the current lot - so those apocalyptic click-bait headlines were in large part, ignored.

After one more visit down the the 100 Week SMA at the end of 2016, **SPY** took off until 2018, where it flirted with the 50 Week SMA a few times, but never crossed it (*notice how precisely the ETF is bouncing off these SMA's and Trendlines btw?*).

The end of 2019 saw some significant profit-taking, which dropped the market down to the 200 Week SMA for the first time in three years, but it did not last long and the bounce back up was *extreme*. The summer of 2019 then saw consolidation after huge gains in the first half of the year, and the market bounced around by the 50 Week SMA, until it surged into 2020.

Notice however, that even as we have dramatic growth heading into the COVID crash, we still never came close to the upper-bound of the trendlines. And then in March 2020 the market crashed down below the all the Weekly SMA's, and for the first time in 10 years, broke through the lower-bound of the trend-line corridor. Which made sense, everyone thought we were about to reenact Stephen King's *The Stand*.

We all know what happened next, because chances are - that is where most of you entered the picture.

Constant growth that kept **SPY** well above the 50 Week SMA, with only small dips that were quickly recovered.

That bring us to today - look at the chart - where are we? Are we at the 100 Week SMA? The 200? The lower trendline? ***No - we can't even breakthrough the 50 Week SMA convincingly. We are not even close to the worse moments of the Bull run of the past 10+ years.***

Here's a closer look:

SPY Weekly

Even when you zoom in and draw a closer trendline - you can see **SPY** still respecting both the trendline and the SMA 50.

When looking at these two charts - does *anything* about them scream - *Bear Market Coming!?*

What you should see is SPY still in the upper half of its' 10-Year corridor, respecting support levels and not presenting any serious challenge to the lower range of the decade long Bull Run.

All of this is with High Inflation, raising Interest Rates, potential of War in the Ukraine, possible social disruption during the elections, and a pandemic that is STILL impacting the economy. With all that bad news currently priced in, where are we? Again, nowhere near the lower half of the corridor.

So, the next time you see someone start screaming about entering a Bear Market - remember this post. Also bear in mind (yes pun, intended, and yes, it deserves every eye-roll you are giving it), in order to turn a 10+ year Bull market into a Bear, one needs a *Credit Crisis* of significant magnitude. And I am not saying that such an occurrence is impossible or will not happen - I am simply saying - *It is not currently happening*.

Will we experience volatility for a while? Most likely. But for now, Bears can stay in hibernation.

Bear Markets Do Not Play by Your Rules!

Everyone has their charts all ready - trendlines drawn, alerts set, everything a successful trader *should* be doing.

And then Powell opens his mouth. **Support** - gone. Stock after stock follows the market down and in thirty minutes time previously bullish tickers now look like great shorts.

This happens over and over during a Bear market. Why? Why does it fuck with us like that? Why does it ruin our beautiful annotated charts we spend so long making??

Because that is what a Bear Market does!

Almost by definition Bear markets are driven by external factors that impact price action. Bull markets are all about the stocks themselves. Hell, during an almost decade long Bull run I bet most traders had no idea when the **CPI** was being released, or **jobless numbers.** Nor did we care. The **FED**? A non-issue.

Now, every day there is another potential market moving economic release or news story.

Picture this - you manage hundreds of billions of dollars and you need to somehow put it to work. Your job is to take all that money and make more of it. You certainly don't want to lose it. That would be bad.

So you move it around - one day it is Basic Materials, all the reports say that is the best place to park your money. So you sell a bunch of your Tech stock (while we sit around wondering why the hell **GOOGL** just went down for seemingly no reason) and move it over. Powell is raising rates again? Shit…what are the Treasury notes doing? Can I get 4.5% there? Damnit Banks are going under….what the fuck people, seriously, What. The. Fuck. Ok, I am short **KRE** and buying **GOLD**!

It is those billions of dollars that moves the market - and that money is waiting on any sign that there is somewhere safe (and profitable) to invest it. In a Bull market you could throw a dart hit a stock like **ZM** and go long all day. You are going to make money in a Bull market, that is a given - but are you going to make more than the other Money Managers out there? Because that is your focus - beating the other funds. In a Bear Market though it is just about survival.

That survival is dependent on all the factors that have lead to the Bear Market in the first place. Each Bear Market has its own special reason for existing. Our Bear Market is here because of - **Inflation**. Well at least at first that was the reason. But now there is a possible **Recession**, maybe **Bank Runs**, there is always threat of **war** expanding, and every now and then the **Covid** pandemic pops back up to remind us that it is still here.

Each Press Conference, News Release, Economic data drop tells them where they can best *ride out the storm*, and those decisions move the market. Sometimes they have no fucking clue and we get chop. Other times they are optimistic that this infernal Bear Market is coming to an end, and everyone wants to be the first to jump in and grab stocks on sale. Thus, we get a rally. And other times are *oh fuck* moments, and they all rush to pull their money out of what was previously thought of as "safe" and we get what you saw today - a huge drop.

Am I saying that Technical Analysis doesn't work in a Bear Market? No - it does. Just not as well. The macro-economic environment *must* be taken into account. Which means as a trader it is your job to learn everything you can about the "Why's" behind the price action you are seeing. You need to understand what the market is reacting to as well as the magnitude of that reaction.

Today I was able to take profit in my longs during the initial pop in the market after the FOMC release. I did that because looking at the summary of the report, it became clear that this statement was a lot more hawkish than investors priced in. That allowed me to not only take profit in those longs, but also increase my short positions.

While there is a lot to go through when trying to decipher the "Why's" within the socio-economic sphere, I have actually found that ChatGPT can be very helpful in this respect (asking it to explain something to you in the tone of Stephen King is particularly fun).

I know we normally say, "Just look at the Chart", but these aren't normal times, are they? Fuck no. So yes, look at the chart - but also look at the news and understand what the hell is going on.

Just think of all the entertaining knowledge you'll be able to pull out during the next social gathering? Impress your friends! Amaze your family!

Either way - Learn it.

Economic Outlook

Let's be honest here - one does not need a degree in Economics to know that things are a bit precarious right now.

There is also no shortage of "experts" out there throwing their opinions out to anyone that will listen.

Hopefully my combined expertise as a former social scientist and now, full-time trader, allows for some insights that at the very least rise to the level of a "well-informed guess". Or to put it another way - slightly better than the bullshit your drunk friend is spouting.

Let's start off with the basics - there is roughly $26 Trillion of pure equity in the stock market. Meaning if you were to take the share price of every ticker and multiply that by the number of shares that company has listed, when you add it all up you get about $26 Trillion.

That is more than the entire GDP of the U.S., and certainly more than all the money that is in circulation. How can that be? Because that $26 Trillion is *theoretical*, all on paper. I assume you have read the headlines that say things like, "$4 Trillion was wiped out in the stock market today!" Again, that is all on paper.

While retail traders can sometimes account for 20% of the total volume in the market, they really represent only a small fraction of the actual liquidity. Most of that money rests with Institutions, whether they are Hedge Funds or Asset Managers for Pensions, etc... Another large chunk of it comes from the Fed itself that bought up Mortgage-backed Securities like paroled junkie in a Meth lab. About $9 Trillion worth. That pumped a **lot** of money into the market. And the market is like a Hungry Hungry Hippo when it comes to money pouring in - the more it gets, the more it wants and the bigger it grows.

So putting aside those pesky rate hikes for a moment, one thing the Fed is doing to slow shit down (and that is their job right now, quite literally to - "hurt the economy") is selling all those securities. To whom are they selling it to you might ask? Well that's the trick really - nobody. Nobody is buying them, they are just "coming off the books". It turns out that when you make money out of thin air you can also make money disappear as well. That alone shrinks the overall market - there is quite simply less fake money sloshing around.

But now let's pretend you are one of those "asset managers" - call yourself Chet - that sounds like a good name for a Rich White male that probably spends more a year in making sexual assault charges "go away" than most of you will make at your jobs in a decade. I would say we shouldn't stereotype Chet, but let's face it - American Psycho isn't that far from the truth. Anyway, good ole' Chet needs to put a lot of money to work. What Chet really cares about is that his performance is just as good or better than the other Chet's. He might lose 3% that year, as long as all the other Chet's lost 3% or more - because then he is still the best Chet he can be, better than all the other Chet's out there.

Chet has a lot of options (pun kind of intended) and complete control over billions he's given to invest. Normally that would mean equities - because, for the past decade there was no better bang for the buck than stock. Stocks were where it was at, the place to be, and it really wasn't that hard either - you could throw a dart at a list of tech stocks, invest in the one you hit, and you are going to make bank. But now, all of a sudden, equities are no longer the hot club everyone wants to get in - instead the boring old coffee shop around the corner called 2-Year Treasury's becomes the new hot spot. Because you can get 4.6% locked in off those puppies - no stress, no worries, just printing cash. You don't even need to use the 10-year option, the 2-year will do just fine. So think about it - why the hell would Chet put that money into equities like AAPL or TSLA when 4.6% is just sitting there? The answer is - he wouldn't.

So all of that was a long-winded way of saying that everything else aside - as long as those Treasury Yields are over 4.5% - the Chet's of the world just aren't putting that money into stocks. *Unless....*those stocks become so cheap it is impossible to ignore. But we aren't there yet - that's SPY $300.

Let's back up a bit - Why is all of this happening??

Well, that part is somewhat simple. When you pour too much money into an economy - it overheats. Now whether or not it was necessary to pump-up the financial well-being of businesses/citizens during a once-in-a-century pandemic is up for debate. One thing is for certain - if nobody did anything a lot of businesses would have closed for good, and a lot of people would be out of work. And to be fair there is no "rulebook" here on exactly how much is "too much". Well, guess what? It was "too much". Combine that will "supply chain" issues, which basically means it is harder to make shit than it was before, and you have situation where prices go up and there is money out there to pay for it. Hence - Inflation. And Inflation is just plain bad. Nobody wants it.

We all know how the Fed is raising rates, making it more expensive to borrow money, meaning it is harder for businesses to expand, hire, build, etc. The idea being, the economy slows down, and inflation drops. The hope being it does this without slowing down so much that we enter into a recession. And therein lies the first big worry: **Recession**.

If you are Chet, and you want to buy AAPL because you like the fundamentals of the company and their earnings looked good - well, what will they look like in a year if we are in a Recession? Not so good anymore, are they Chet? No. Because nobody is buying the iPhone 22 when they can't even afford to feed the baby Chet's of the world. A you better believe baby Chet eats organic.

And from what it looks like right now, not only will there most likely be a Recession, but according to the IMF, it will be a Global Recession. Which means that businesses which rely on exporting their goods (and are already hurt by the strength of the U.S. dollar - I mean those Euros aren't worth as much as they used to be, are they?) can't escape bad economic conditions at home by shucking their wares over to Australia (or anywhere really).

And all of that can lead to the real killer of markets - a **credit crisis**. Basically, a lot of people/businesses are at risk of defaulting, especially with increasing rates - and banks will then have no choice but to tighten their credit belts. And when that happens, shit goes sideways. Like you see a homeless guy living under a bridge and say, "Hey wait, isn't that Chet??" That kind of sideways.

But wait....there's more - there is **war** - let's throw fuel on this dumpster fire by noting how Russia is hell-bent on subjugating Ukraine and the Ukraine is hell-bent on telling Russia to fuck-off. There really aren't many, if any, happy endings to this story. Neither side has shown any sign of giving in- which leads to just two possible outcomes: a perpetual war that not only causing untold suffering but also crushes the global supply of food/energy, or a nuclear escalation that I am going to go out on a limb here and say that SPY would probably drop if that happened. Like a lot. Perhaps there wouldn't even be a SPY. Or anyone left to trade it. Yeah, good times.

If all of this sounds pretty bad, it is because it is - and I haven't even gotten into the energy situation in Europe or OPEC's impact on oil prices, nor have I touched on the situation in China/Taiwan or the disturbing alliance between Iran and Russia. Hell, when North Korea isn't even bad enough of a problem to make the list, that should give you an idea of how fucked that list actually might be.

So how the hell are things still standing you might wonder? Well - the markets tend to act "as if", the assumption is that solutions will be found. I mean, Chet isn't 100% confident of that otherwise he would be buying shit right now, but money is still flowing into the system. And that brings us to the final calculation, quite literally. Every institution has statistical models that run the chance for every possible outcome - which ranges from Apocalyptic to Cocaine & Caviar for Everyone! Every news event, every earnings report, whenever a Fed speaker opens their mouths (which is all the damn time), all of it - gets fed into those models.

The daily chart on **SPY** is pretty much a window into what those models say on any given day. The low of the year, which was $348.11 would be the model at its' worst. Therefore you can measure where things are by how far or close we are to that benchmark. And right now we are just close enough to it that it can be breached in a single bad week, but far enough away that it can be left comfortably in the dust with a strong bullish rally. We remain below $400 which a proverbial line in the sand, and as of now there does not seem to be any indication we will be approaching that line anytime soon.

Overall sentiment remains *bearish*, and the chance we are below $348.11 by the end of the year remains greater than the odds that we are above $400.

Use this as a lens in which to view the market and formulate your thesis - separate the noise out and look at the overall trends. What is the story you're being told when you look at that daily chart? How does that impact your swing trading or long-term plays? We trade what is in front of us - but it helps to understand what we are looking at beyond just the technical methods we've been trained to view it. On a macro-level example - if this was a bull-market, after a day like today with **SPY** up over 2.5%, one would be comfortable swinging some longs. But because this is a bear-market we know that even though **SPY** was a rampage today doesn't mean we might not gap down on Monday. What are we doing when we come to that conclusion? Same chart, but it has two different meanings in two different environments. Just knowing this is a Bear Market gives you information in which you can view today's rally differently than if this was two years ago.

Everything has context and one needs to be able to decipher what the context is and how it impacts your decisions.

Hopefully this helps shed some light on a rather complex and clearly depressing topic!

What You Should and Shouldn't Do in This (Bull) Market Right Now

EDIT - this was written roughly a year ago and originally posted in r/daytrading so read it in that context.

The market is going up, up, up. and hopefully many of you were able to make money during this latest bull rush.

Let's start with what you *shouldn't* do right now - **don't try to pick tops**. You might be thinking that the market is going to take a break for a bit and it is time to get ahead of the drop and short SPY. Whenever you have the urge to do something like this just ask yourself this question -

"*Is this strategy based on anything other than my gut feeling?*" If the answer is **No**. Then **Don't Do It!.** Pretty simple. If you cannot find any technical (or even fundamental) reason to think the market is going down, than you need to wait for technical confirmation. What would that be? SPY below 401.50 would be the first technical breakdown. Do not short the market until you see that upward trendline breached.

Now it is possible that your portfolio is overly bullish right now. While Day Trades are generally in cash at the end of the day, many Day Traders also Swing Trade, and given the current market conditions you might be holding quite a few bullish positions (for most of you I am guessing - straight Calls). So what *should* you do? You could *hedge* your portfolio. You are not looking for a long-term hedge here, and you certainly don't want a 1:1 hedge on your positions either. However, VXX Calls are not a bad option (pun intended). Why? Because the rate of decay in VXX has slowed dramatically - meaning even if you are wrong and SPY continues to rise, VXX is not going to drop in equal proportion. However, in a market this strong it will take a fear-inducing catalyst (e.g. interest rates) to reverse it. You could even grab some LEAP VXX calls and sell weekly premium against them to cover the cost if you wanted.

*What else should you be doing? **Be Flexible***

To begin with, if you are not familiar with using option spreads to day trade, you need to be. The more tools you have to work with, the more successful you will be at this. For example, on Friday I wanted to trade AMZN early on, but after the initial jump up it wasn't clear which direction AMZN was going. So instead of buying the stock or calls, I used 0DTE Call Debit Spreads. I did one 3340/3345 for a $1 debit and 3320/3325 for $1.50 debit. The moment each went through, I put in an order to sell those spreads for $3 and $4.00 - which would be a 200% and 166% profit on each. Since they were 0DTE I was able to get those credits on both when AMZN took off later in the day. Would have calls been more profitable? Yes, but CDS reduced my risk and freed up capital.

I noticed throughout the day that AAPL was stronger than SPY. Even when SPY declined on the 5-minute chart, AAPL either stabilized or went up. About an hour before the close I was able to get AAPL 132 0DTE calls for .20, which I then sold for .65 about 45 minutes later - a 225% profit. These are called **Lotto** plays, and are best done on Friday's, about hour or two before close.

There are a number of strong tech stocks that I was able to do OTM Bullish Put Spreads on, with expirations 2-3 weeks from now - each spread getting a 25% credit. Because these spreads have the short strike below at least 2 major areas of support, there is a higher than 75% chance of them being successful.

Finally, throughout the day I traded stocks like DASH, FUBO, GPS, AAPL, ATNF, etc. Notice I said, *throughout the day*, meaning not just the first hour. Those stocks all had strength against SPY, so even if the market were to reverse or pause, I knew those stocks would remain strong.

Overall, I used *Call Debit Spreads, Bullish Put Spreads, Straight Calls* and *Long Stock* to take advantage of a very bullish day, I also took some VXX Calls to balance out some of my overnight bullish spreads. I waited for about 30 minutes before I even made my first trade, and finished the day with a closed trade record of 13 winners, 2 misses and 1 scratch.

You need to be **flexible**, every situation is unique and if all you know is buying and short selling than you are handcuffing yourself.

You don't *need* to be in cash at the end of every day just because that is what they say Day Traders should do - that's garbage. If a stock has a good D1 chart with significant support levels, and there is an opportunity to continue taking gains, there is no reason not to hold that stock or spread for the short term.

You don't *need* to make most of your trades in the first hour. *Gap and Go* is a fine strategy but it is not the only one. Most of my best trades actually come well into the trading day, particularly since I have a sense of where the market is going and which stocks are strong/weak relative to that market.

For those of you who are new Day Traders, try this on Monday ***if the market is up again*** (note: these are just suggestions, not financial advice, I am not a financial advisor, etc..etc..):

1) Don't trade in the first hour
2) Find 3-5 stocks that are strong relative to SPY - this means that when SPY goes down, these stocks continue to go up or remain flat. And when SPY goes up, these stocks go up even more in proportion.
3) Have the 3 & 8 EMA on your charts, and set the charts to 1M and 5M.
4) After first hour, watch these stocks - wait for them to pull back (the 8 is above the 3 on the 5M)
5) The moment the 3 crosses the 8 on the 5 minute chart (for those of you who like riskier trades, you can use the 1M), buy the stock - *make sure it is still strong relative to SPY*.
6) Sell when you see the 8 cross back over the 3 (if you are on the 5M you make want to take profit before the cross happens and you see a downward trend occurring).

Also - On stocks priced over $100 that are up over 5% on the day, do an ATM Call Debit Spread where the debit you are paying is less than half the distance in strikes (*so if you are doing a 125/130 CDS, there is $5 between the strikes meaning you want to pay a debit less than $2.50*). Set your sell order the moment it goes through to take 10-15% profit (*on Monday's that is the best movement you can expect on CDS'). So if you paid $1.20 for a spread, put in an order to close it for around $1.35 credit*.

Hopefully these two suggestions alone will help show you different ways to take advantage of a bullish day.

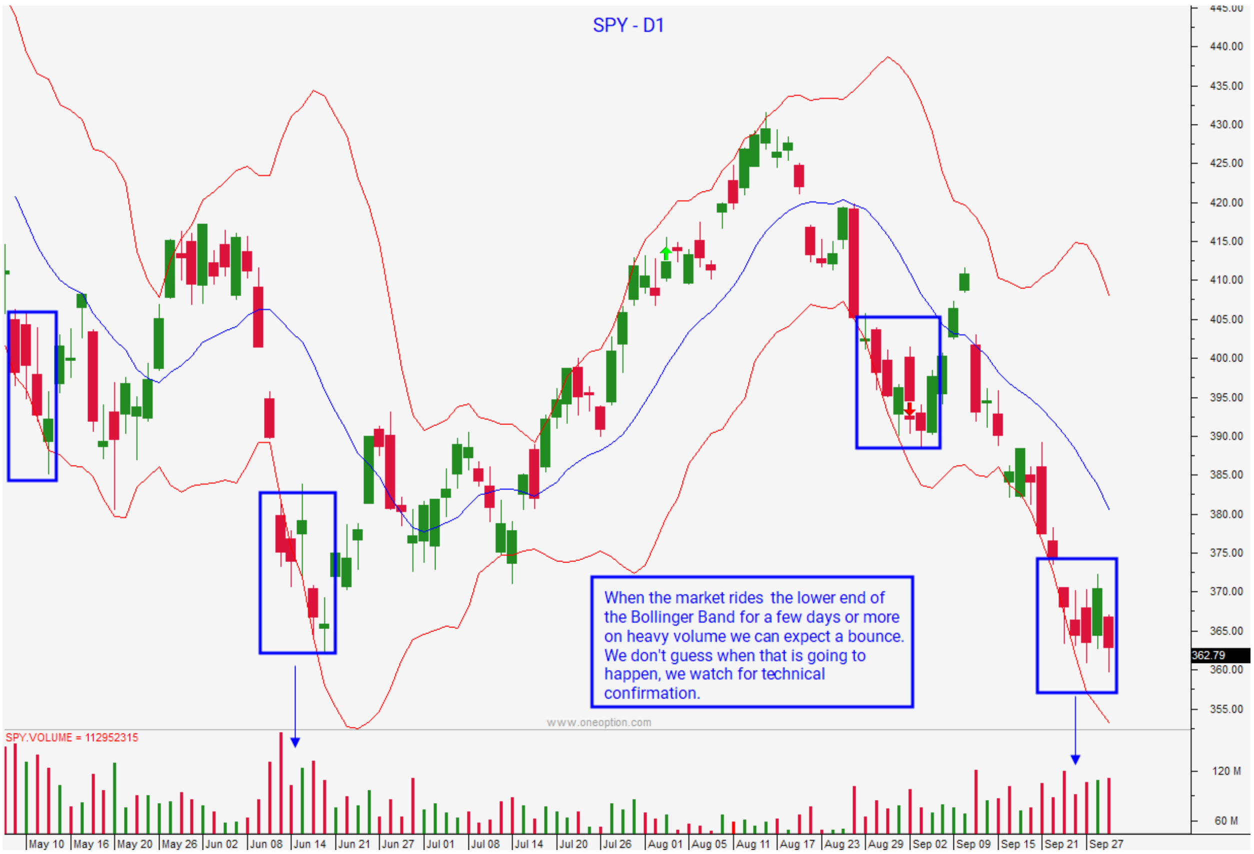
Good luck this week!

Signs That A Market Bounce Is Coming (/u/OptionStalker)

The market does not go straight up or straight down. I realize that we are mostly day traders, but it helps to day trade in the direction of the longer term trend. Many of us hold short-term swings as well.

We are in a bearish trend and right when the profits start stacking up, violent snap back rallies strip those swing gains away. The key is to take gains on big drops and then to reloaded on failed bounces. Here is a sign that a bounce is coming.

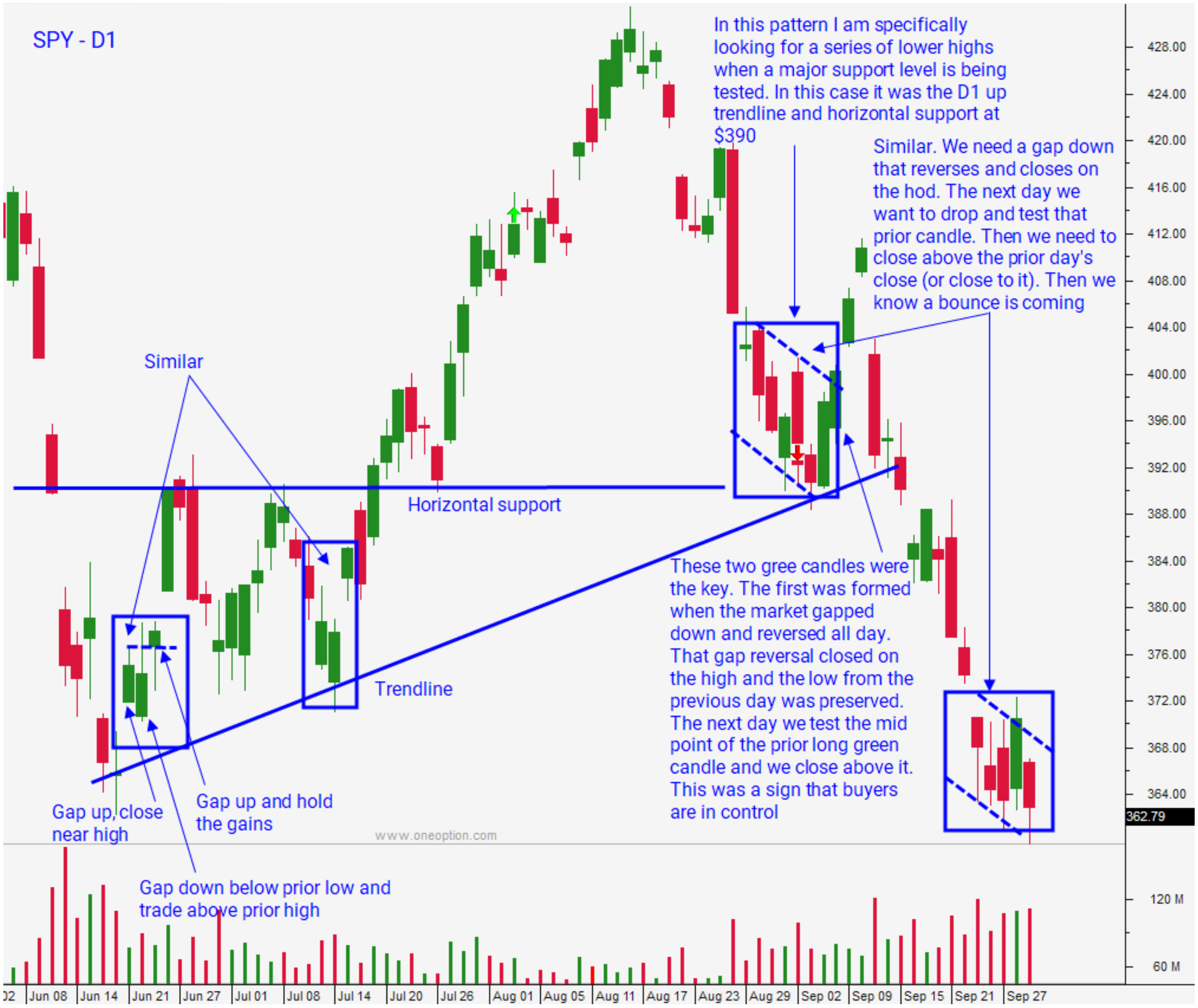
Add Bollinger Bands (BB) to a daily chart. When the S&P 500 touches the lower band the market is oversold. That is **NOT** a reason to take gains on shorts. The market can stay oversold for long periods of time and it can keep dropping. When the S&P 500 rides the lower BB for at least a few days and it is making lower lows, watch the price action very carefully. If the candles start to overlap and you see mixed candles, it is a sign that support is forming. If the S&P 500 rides the lower end of the BB and it continues to stack red candles or to make substantial new lows, stick with your short positions.



When the market rides the lower end of the BB for a few days or more and the candles are mixed and overlapping, you can prepare for a bounce (take gains on swing shorts)

Since we are day traders we can trade the long side on these bounces. I suggest using smaller size because it is just a matter of time before the sellers return. When you trade the long side you will also be very aware when resistance is starting to form because you are watching the action tick-by-tick. When the bounce starts to stall and the selling pressure builds, you will know it is time to start shorting again and to take some bearish swings.

In a bear trend there will be a constant “bid check”. Sellers will try to pound the bid. Every time the market bounces in a bearish trend, the sellers will test the bid to see how aggressive buyers are. Eventually, gaps down will be bought and they will form green candles on the chart. Those gap reversals will close on the high and that produces the green candles. When we get a second gap down that bites into prior gap down reversal and then it also recovers, you know the bid is strengthening. Next you want to see a nice green candle that closes above the high from those prior green candles. If you see this pattern, you can expect a decent bounce.



Watch for down gap reversals that close near the high. Those are the "tell" for bounces off off the D1 BB.

I believe that we are setting up for a bounce here. I am not going to guess when it is going to happen, I will wait for technical confirmation. It might last a few days or a few weeks. The height and duration of that bounce will tell us how aggressive/passive buyers are.

We are still not seeing those gap down reversals and green candles, but we could see them very soon. Now you know what to look for and what to do.

Trade well

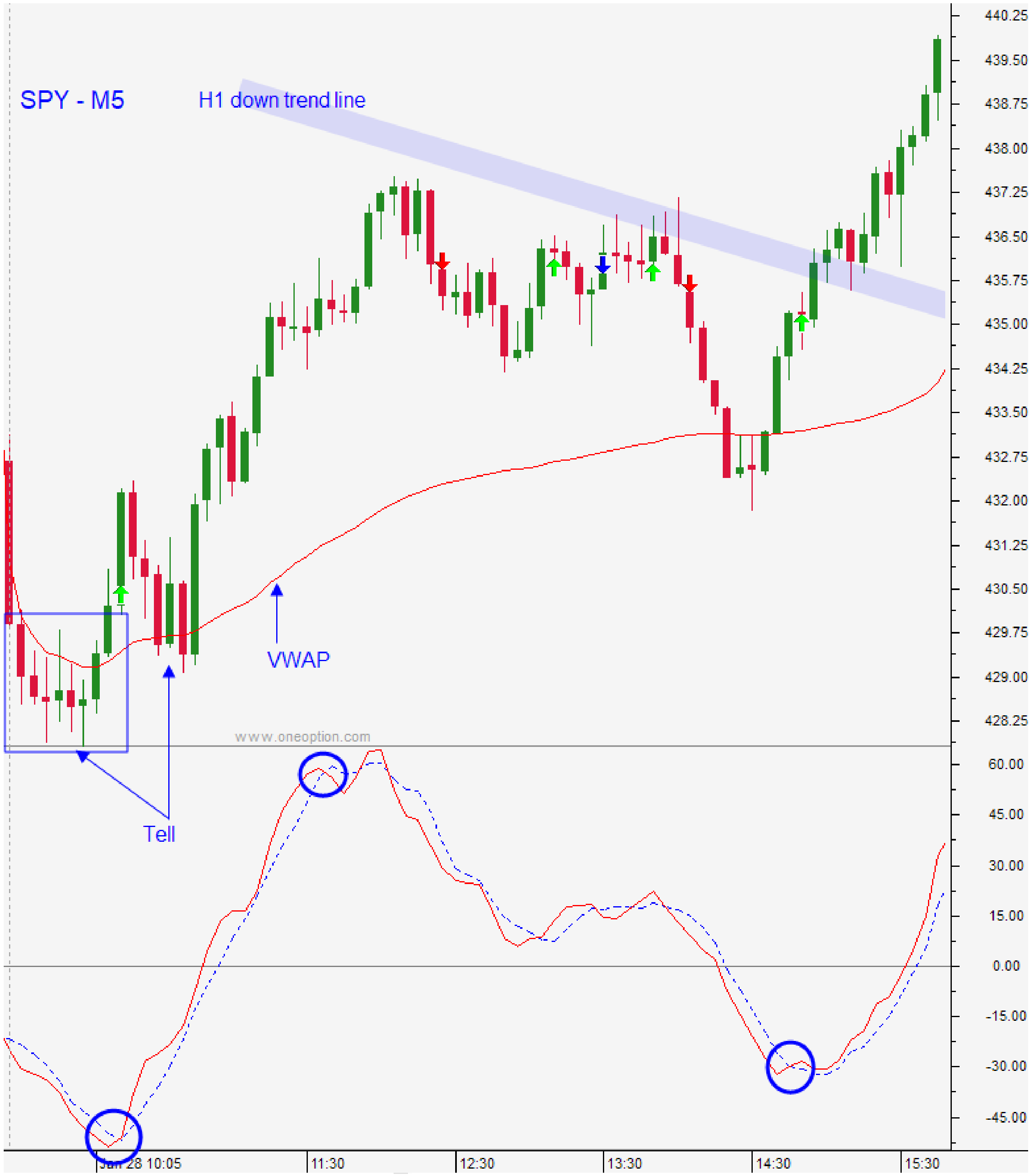
The Best 30 Minutes You Can Spend Right Now! (/u/OptionStalker)

This video will help 99% of you and I promise you it will not be a waste of time. I've recorded over 700 of these and this is one of my best.

A few hours into trading yesterday I described all of the market influences that were pointing to a breakout. It is comprehensive and it will help you with your market analysis.

Please share what you learned from video - I will reply.

[CLICK HERE TO WATCH THE VIDEO]



My Market Forecast For 2023 (/u/OptionStalker)

Written on December 28, 2022

I record a video at the end of each year and it's time for this year's prediction. As short term-traders we really do not need to look beyond the next two months, but it is critical for us to get that right. I am bearish and I explain why in the video.

I included a link to last year's market forecast so that you can see if I'm full of crap. It has good technical analysis and it is a worthy watch.

In today's video I described each of the bear markets since Y2K so that you will know the price action to watch for next year. It is a long video so grab some popcorn.

[Click here to watch the video for 2023]

[Click here to watch the video for 2022]

Congratulations, you made it through a very tough year! The lessons you've learned this year will last a lifetime.

Happy New Year!

The Market Is Transitioning - You Need to Adapt (/u/OptionStalker)

I wanted to share my pre-open market comments with you this morning because they have more of a macro flair to them. The market dynamics are changing. That means you should be picking up on these subtleties and adjusting your trading. I hope this perspective helps you.

PRE-OPEN MARKET COMMENTS MONDAY – If you watched the video I recorded last night, you know my market opinion. This is a major technical support level with significant trendlines and SMAs coming into play. The price action in the last few months has been very choppy without much in the way of momentum. The recent decline has not stacked any "reds" and I don't believe it has the power to breach significant support. I am neutral to slightly bullish just because we've spent more than a month above these technical levels and that is a sign of support. This has not been a poke above them and then a fail a few days later. Last year we spent most of the year below these levels and they served as resistance. That is a sign that the down trend is transitioning into more of a horizontal range and that is part of the bottoming process.

If the market drifts down to technical support, I like selling OTM bullish put spreads on strong stocks. If it floats back up to technical resistance I like selling OTM bearish call spreads on weak stocks. This swing strategy is balanced and fairly neutral. It will be important to incorporate swing trading into your game plan this year.

Day trading will get a little more challenging as intraday ranges compress. In the last few months the 20-day ATR on the SPY has declined from over $9 to $6. When the market opens flat we need to get through the prior day's high or prior day's low on good volume early in the day. The longer we stay in that range, the greater the likelihood that we will have a dull day. "Inside Days" after a big move the previous day are also likely to be compressed and dull. You need to trim your size and trade count on days like this. Gaps up or down that eclipse the prior high or prior low respectively have the chance to become good trading days. Gap Reversals provide the greatest opportunity for movement and they are likely to attract the 0DTE crowd. Thursday was a good example of that. Once the momentum was set, we saw nice movement both ways. Friday we had a Gap and Go. These are more difficult. Typically, the "move" is quickly exhausted in the first hour and it has run its course. Then the price action remains dull the rest of the day. The exception to this would be a Gap and Go Up when the market is near major support (now) or a Gap and Go Down when the market is near resistance. Those could gain traction and result in trend days.

The economic calendar is fairly light this week. We've heard plenty of "Fed speak" and the inflation data points are behind us. The market has largely shouldered bad news and that means the market is likely to find support above major technical levels this week. Am I "go-go" bullish because of this overnight bounce? No. Sellers took a shot last week and now buyers have the ball. Remember, I am market neutral.

Support is at the low from Friday and resistance is at $400 and $405.

The market is transitioning from a down trend to more of a horizontal range. This is a typical bottoming process.

Your Mental Adjustment For These Market Conditions (/u/OptionStalker)

Market conditions have changed and this is the day trading mindset you need. **The market is NOT going anywhere!** Here's how I know and here's how I will trade this information.

The 100 point /ES days of 2022 are gone and the market is settling into a tight range. Buyers and sellers are paired off and I can make equally compelling arguments why the market could move higher or lower in the next few months. Traders are searching for information that could change the landscape one way or the other.

In the last two weeks we had Q1 earnings, the FOMC statement, the jobs report and the CPI. This was a "window" where we might have seen sustained directional movement and a breakout. That moment passed and the market is still trapped in a tight range below major horizontal resistance and above the major moving averages.

The market is trapped. Your mind should be telling you that we are not going anywhere. Any decent intraday move is likely to reverse.

There are 3 basic patterns that we will see. Unfortunately, the most common one is a light volume "Inside Day" where we are trapped between the high and low of the prior day. You should expect these after a big range (like yesterday) or ahead of a major news release. Monday and Tuesday this week were classic examples and traders were waiting for the CPI. On these days you need to expect horrible market action and choppy mixed candles. The market is not going to help or hinder you so the stock will have to do all of the work. You MUST find stocks with heavy volume and D1 technical breakouts. The good news is that the market is not likely to hurt your positions either. That means you might try trading early in the day if you find the right stock. Look for that steady grind higher and that D1 breakout. Do not chase long green candles that can retrace. There is no market tailwind during an "Inside Day". Ahead of a major news release, if your intent is to day trade and NOT to take overnight risk into the news, you need to error on the side of not trading. Your entries need to be perfect (buy dips and pauses) and you need to wait for your opportunities to set up. Enter poorly and you will take a loss or hold overnight and increase your risk into an event. Look for stocks that are on a mission and that are oblivious to the market. Trim your size and your trade count and focus on a handful of stocks (the best of the best).

Light volume "Inside Days" mean that you have to focus on a handful of high volume stocks that are breaking through D1 technical levels and that have consistent price action.

The second kind of day is the gradual drift higher/lower on light volume. The market is able to test the prior day's high or prior day's low and get through that level early in the day. The price action will be OK, but there will be mixed candles and retracement. On the initial breakout to a new high of the day, don't bite on the first candle through. Remember, your mindset is that the market is NOT going anywhere. You need proof. If you see a bearish engulfing candle after a new high of the day, you should be preparing for a reversal. If that breakout holds for a few bars and it starts gaining traction, the move is likely to hold. The volume is light so your mind is going to tell you to be cautious. These moves often have tiny bodied candles of a single color and much of this is program driven. On a bullish breakout, sellers will never be too far away and that keeps these candles tiny. As long as the retracements are minor (no long red candles) and the market stays near the high of the day, it will continue to float higher. When there are signs of selling and it looks like the market is going to roll over, you can expect a bear trap. Short sellers will recognize the light volume wimpy rally and they will be looking for an opportunity to short. A move down to the VWAP would be a classic trap. That dip attracts short sellers and a bounce forces them to cover. When they do so, the shorts cover and the market stages the next leg higher. At some point late in the day, sellers will get more aggressive and they will keep a lid on the move. Day traders who are long will take gains. The chart below is from last week and it provides a good example. The early gap up is going to attract sellers. Remember, no one expects the market to do anything and buyers and sellers are paired off. A big gap up is going to be faded. In this instance the overnight catalyst was good enough to fend off sellers. When the market was able to advance in an orderly fashion and when sellers were not able to knock it down, it was a sign that buyers were in control. The retracement was minor and eventually a bear trap surfaced mid-day when the VWAP was tested. Notice how that test gave the appearance that the market could roll over? That is what attracts short sellers and it makes the trap more effective. As long as you do not see long red candles or a bearish engulf/bearish hammer off of the high of the day, there is no threat to your positions. You should be in the strongest of the strong stocks anyway and they will hold up well.

Very quick note on "Gap and Go" vs "Gap Reversals". Gap Reversals provide much better odds. In a gap up during a sideways market sellers will be anxious. When the open of the first M5 bar fails, that is the first crack in the dam. That reversal has plenty of room to gain momentum and programs feed on momentum. On the other hand, the initial gap up consumes most of the upside potential. Any advance from that point on will be limited. We also run the risk of having the rug pulled out in the first hour and that increases the risk profile for buying a bullish Gap and Go . Know that Gap Reversals are preferred over Gap and Go's for this reason. That means on a Gap Up, your searches should start with bearish candidates. That is where you stand to make the most money. It doesn't mean you will get a reversal, but why not prepare for your most lucrative scenario? If the gap up gains traction you need proof and that time will give you an opportunity to find the best longs. The reversals happen quickly so you need to be ready. Weak stocks that are tanking during a gap up will also be easier to spot because they have relative weakness.

Most gaps will try to fill during the first hour especially if there was not much overnight news. Gap Reversals provide much higher odds for us than Gap N Go's.

The third pattern to watch for is heavy volume with long mixed candles. This is a sign of volatility and both sides are active. There is overnight news and both sides view the release differently. As good as the move in either direction looks during a high volume day, know that it is temporary. The heavy volume bullish and bearish trend days of old are gone. When we do finally get that big move, the news driving the market will be undeniable. It will be unexpected and it will result in a massive directional move with very little retracement and a breakout above horizontal resistance or below the major MAs. Anything less is going to reverse. This article will help you identify the prevailing patterns to look for, but there is a more important message. Your brain needs to know that THE MARKET IS NOT GOING ANYWHERE.

Yesterday the CPI came in at 4.9% vs 5%. Big deal. Inflation is still hot and that is inline with expectations. That was the news everyone was waiting for and it was a "nothing burger". The urge to pound the opening gap up was going to be strong. Why? Because the market is not going anywhere. The second bar was a giant bearish engulfing candle well into the gap and that was your cue to favor the short side. The gap filled quickly. The first bounce was big and it retraced substantially (buyers are still active). The volume was excellent so we knew right away that both sides were going to be active and we would get movement. Bears took their shot and here is another moment where this lesson is going to pay off for you. The drop in the middle of the day looked very convincing. Nice organized red candles and the low of the day failed easily culminating with with a long red candle. This is where your brain needed to kick in. This is NOT going to be like the bearish trend days of 2022. Why not? Because the market is NOT going anywhere! Was the CPI that good or bad? No. Have buyers been active? Yes and we can tell that from the big bounces. Might the new low of the day attract short sellers? Yes. This was a selling climax and because you were in the right mindset you did not add to your shorts. You took gains and you looked for opportunities on the long side. If you do not understand the importance of the previous sentence you will always be wondering, "How do I know when to take profits and when to add? How do I know when to pivot?" It is all about the context that has been set up by the D1 SPY chart.

We knew from the heavy volume and long mixed candles that buyers and sellers were going to be active. Eventually, buyers would take their shot and we should not expected a market melt-down and a bearish trend day.

This is a particularly tough market to trade because it is trapped in a range and the intraday price movement is compressed. Be very suspicious of gaps up or down and know that the tendency will be to reverse that move early (especially if the news is not that material). Trading in the direction of a Gap and Go is risky and you have to make sure that the gap is going to hold. Consecutive tiny bodied candles of a single color on light volume have a tendency to continue (programs). "Inside Days" are very challenging. The market won't help of hinder and you need to focus on a few really strong stocks that have major D1 technical breakouts on heavy volume. When we get heavy volume and long mixed candles, expect nice movement. One side will dominate the early action and then there will be a nice reversal when the other side takes a shot.

The market is trapped in a D1 range and it is not going anywhere. The potential catalyst for a breakout has passed and we are likely to be right here until June. Watch for these days and set up your game plan accordingly. I wrote mainly using bullish price action, but know the same concepts apply to bearish price action. I am market neutral and it was easier to write from one market view point.

I have lots of irons in the fire right now, so I have not been able to post much. I hope this article gets you in the right mindset for the summer. Trade well.

MARKET FIRST - Conditions Have Changed - Recognize and Adapt (/u/OptionStalker)

The market broke through a major horizontal resistance level last week. This changes the backdrop and you need to adjust.

I don't consider this a powerful breakout because we do not have heavy volume. When the market broke through this technical resistance last week we were looking for follow through. It was going to take time for the market to digest gains and even though we did not scream higher, the breakout had been holding. That was a bullish sign and I have been encouraging you to wait for support each day and to focus on the long side. Bullish markets establish the low of the day early and they close near the high.

Since this horizontal breakout you should have been focusing on the long side.

Good shorts are very hard to find and bearish search results are lean. That is by design. When you are flipping charts and you can't find a good short, it's a sign to focus on the long side. Before the breakout we had mixed red and green candles on the SPY D1 chart and we did not know if the market was going to reverse off of resistance or breakout. At that time it was fine to day trade either side.

There are a dozen reasons to be bearish longer-term and I would have liked much better volume during this breakout, but the fact remains that we have a bullish breakout. Buyers have demonstrated that they are in control. Since the volume is light, we keep our trades shorter-term.

We are seeing rotation into small cap stocks and out of consumer staples. That is a sign of "risk on". VIX/VXX has also been tanking and that is a sign that uncertainty is declining.

Swing traders can get more aggressive with overnight longs. Don't "load up" on bullish positions, but have a few positions on. You can be fairly confident that the bottom is not going to drop out overnight and that the odds favor a move up overnight. Two weeks ago, we did not have this backdrop and there were plenty of overnight gaps down that sucked the life out of bullish overnight positions. If you get a big overnight gap up, take gains on the swings knowing that the bid is going to be tested. This is not a "go-go" rally on heavy volume where you can ride longer term bullish swing trades.

Day traders need to avoid chasing stocks when the market gaps up. Be patient and know that the bid is going to be tested early in the day. That will give you time to evaluate the market and to find the strongest stocks. Once the market finds support, buy those stocks. Since the market breakout I've been telling you to watch for those early bid checks. This is one of those moments where your day trading strategy is one-sided. We have a nice bullish breakout so you should only be focusing on the long side. Until we see a long red D1 candle on SPY, we stick with bullish trades. When you start your day and you find strong stocks, start setting alerts and buy dips. I like using the Strong vs SPY M5 variable that is true and that needs to go false. When it goes true, the alert is triggered. Typically, the first move lower during the day is going to be your best opportunity to buy those stocks. If the market opens flat, there might not be much of a bid check. There are not any "oversize" overnight gains to digest, and the market just starts grinding higher. Since the market did not gap up, we don't have to worry that there are a lot of "fakes" in our bullish searches. You need to be cautious with stocks that have big overnight gaps up. Absolutely set the Strong vs SPY M5 alerts on these. You want to buy dips and you do not want to get trapped on a gap reversal. When the stock does dip, you want most of the gains to be preserved and ideally it does not retrace much below the VWAP. Anything more than that and the risk of the gap up reversing farther is high. Know that a SPY gap down is our best scenario. We have to wait for support. If overseas markets have been flat, the move lower is going to get gobbled up especially if it is less than 20 S&P 500 points. Buyers will aggressively scoop that dip and you will have to take action early in the day. If the S&P 500 is down more than 20 points and overseas markets are down considerably (-1%) we have to tread cautiously and wait for the market to find support. Once it does, there should be a nice reversal into the gap. These early drops make it easy to spot relative strength because the ones that institutions are buying will tread water. They will be good for that day and they are likely good bullish swing candidates.

Be patient and wait for dips. Expect early bid checks. Once support is confirmed - buy.

It doesn't matter that we don't like Fed tightening or softening global economic conditions or the threat of a regional bank crisis. We trade what is in front of us. The breakout is not ideal because the volume is light. That means we keep our trades short term and we don't go "gonzo" with our longs. We focus on bullish trades until the market has a nasty long red candle that takes back days of gains.

This is a fairly high odds trading environment and you need to treat it as such.

Today the FOMC statement will be released. Traders are expecting a pause. Know that the action is going to be fairly dull after a few hours of trading. If the reaction is muted or bullish, stick with the instructions provided above. If the reaction is bearish, the breakout could be tested at $430. If it holds, we will have a nice entry point for longs. Only nimble pros should consider shorting. Most of you should be in a mindset that any drop is going to be a buying opportunity as long as SPY $430 holds.

I hope this helps all of you. Trade well.

Keep Your Perspective - Don't Chase This Gap Up (/u/OptionStalker)

I am sharing my pre-open market comments because I feel that many of you will give in to FOMO.

PRE-OPEN MARKET COMMENTS WEDNESDAY – The CPI came out and the S&P 500 rallied 25 points to a new relative high. The number was lighter than expected.

Let’s keep our perspective this morning. It is easy to get excited about a breakout when we have been trapped in a light volume range.

1. Core inflation is coming down, but VERY slowly. This is not going to prompt the Fed to take their foot off of the brake.

2. The probability of a rate hike in two weeks has dropped from 88% to 86%. That means we can still expect a 25 basis point rate hike. This is likely to decrease the chances for a rate hike in September, but that is a long time from now with many data points in the meantime.

3. Buyers and sellers have been active. The market has been searching for direction and both sides have been engaged. Sellers are not just going to abandon ship.

4. Gaps up to a new relative high have often been faded. How the @#$% do we know that? Just look at all of the relative highs on the D1 chart where you see a red candle. The market opened on the high and it closed on the low… that is why the candle is red.

5. Our worst case scenario from a day trading perspective is a “Gap and Go” rally. Why? Because much of the gain has already happened on the opening move. The upside is fairly contained and at best we see a gradual grind higher. At worst, the rug gets pulled out and we have our ass handed to us.

Our game plan should be to take gains on our swing longs near the open. This market is not going to run away and you will have a chance to reload if the breakout is legitimate. As far as new trades, this is one of those times where you do not want to chase stocks on the open. Our best case scenario is that we get a wimpy pullback that preserves most of the gap. Look for mixed overlapping candles. We want to see the previous high of $444 preserved during the bearish cycle. When support forms, we can buy knowing that we are joining the longer term up trend and that the breakout is holding. YOU MUST BE WILLING TO LET A GAP AND GO RUN WITHOUT YOU!!! Another possible scenario is a compression for an hour and then a gradual drift higher. This is also bullish and it is a sign that buyers are interested. They have been able to offset selling from profit takers. If we see consecutive long red candles stacked in the first 30 minutes on heavy volume, we are likely to have a gap fill and possibly a bearish trend day. I suggest that only professional traders attempt shorting and I would not encourage any swing shorts.

Support is at SPY $444 and at yesterday’s close.

Don’t Overthink This – The Pattern Is Clear (/u/OptionStalker)

For those of you who have been at this for more than a year, you’ve learned a lot. The tendency is to use all of your analytical skills and tools to nail every move. Here are a couple of likely scenarios you might find yourself in and a solution that will keep you on the straight and narrow. **This could be one of the most important lessons you learn from me.**

The first scenario is the FOMO trader. The market is breaking out to a new 52-week high and they are ready to buy anything that moves. They are looking for stocks that are breaking out through technical resistance on heavy volume and that have relative strength. When the market gaps up and the stock is stacking green candles, they buy the stock in the first 30 minutes of the day. After a couple of hours they regret that decision. The market and the stock have pulled back and they could have entered better. The market action dies down and the stock lost its momentum. Now they are stuck with an overnight trade that they did not plan on swing trading. After a couple of days, the stock has given back some of its gains and they take a loss. In some cases it gets back to their entry price and they scratch it. What happened? Everything looked so great and then it turned to mush right after they got in. This scenario can be very frustrating and they are left wondering what they could have done differently.

The next scenario is the contrarian trader. They wonder how the heck the market got this high when the Fed is still raising rates and when inflation is still running way above the 2% target. Two of the largest bank failures have happened this year and there could be a credit crisis. There is plenty of selling pressure and they can see that in the sluggish price action. When the market surges higher, much of the gain is erased in the next few days. They sense that the market move higher is going to run out of steam at some point and there are signs of resistance. Last Friday the market had a down day and it came after it made a 52-week high. This could be the first sign of a top so they start to take some short positions. Red candles off of a relative high often produce a pullback and we can see that on a D1 chart. As the profit taking continues, the market drifts lower and they add to short positions. Out of nowhere, the market gaps higher on the open just when the short positions were starting to gain traction. They know they are trading against the trend and they did not get the breakdown so they take a loss.

“I can’t buy and I can’t short, so what in the hell am I supposed to do?”

The first thing you have to do is to take a giant step backwards. Get the longer term market context and understand the prevailing price action. The market has a tendency to continue to do what it has been doing. You just need to figure out a game plan that will take advantage of the current price action.

In the chart below you can see the prevailing market trend. You can draw a nice upward sloping D1 trendline. When you do that the market direction is clear. We couldn’t say that at the beginning of the year because the market was still forming a base. As you draw those trendlines, you will notice lots of mixed green and red candles with overlap and there are many periods where the volume is low. This tells you that we are in a choppy trend higher. The market takes three steps forward and two steps backwards. There are plenty of opportunities to get long and there are always second chances to enter the trade. This realization allows you to take a deep breath. The next time you have the urge to chase, you need to realize that there will be a better entry point. This market is not off to the races. Chasing breakouts is nerve wracking and every time you do it, the stock pulls back and you have to take heat. You convince yourself that this is “normal” and you prepare yourself for it. You might have even conditioned yourself to expect the position to move against you. The solution to this is pretty easy and for many of you, the tactic I am about to explain could turn your trading around.

Buy dips and take gains when the bounce stalls. Repeat.

Bear markets are pretty rare and many of you honed your skills during one. That is excellent because you have respect for the market and you understand that it can move both ways. You also appreciate the importance of “Market First”. This knowledge makes you different from all of the other traders who went bust last year or those who are just getting started now and who will only know a bull market. Unfortunately, there is some “post tramatic stress disorder (PTSD)” that you have to work off. Make no mistake, the market has formed a base and it is grinding higher.

So the pattern is very easy to see on a longer-term chart. The market takes three steps forward and two steps backwards. The problem is that most breakouts happen on the third step forwards. You see the technical breakout and that relative high is what gets the stock on your radar. It has heavy volume and relative strength so you buy. Then the stock loses its momentum and you get scared. Because you are buying a breakout, the next level of support is far away once that breakout fails. You have done your “walk away” analysis and you know your picks are solid. You will just have to weather the storm… again. The drop in the stock is nerve wracking, but you stick it out. During that process you wonder why you always seem to enter trades poorly. When the stock does come back to your entry price, you are on “pins and needles” and you think to yourself, “I am not going to let it go against me again.” At the first sign of trouble, you pull the plug. Then you watch the stock stage a nice rally and you are on the sidelines fuming. So how do we solve this problem?

The key is in that D1 chart I posted above. The breakout is nice and it gets the stock on our radar, but there is no follow through. Instead of jumping on the stock during that breakout, be ready to buy dips. If you look at the vast majority of stocks on a D1 and an M5 chart, the candles are not all green. There is a mix of red and green candles. That means that stocks do not go straight up and that there are pullbacks. Now you just have to figure out a way to get alerts when the stock pulls back and it forms support.

I have a couple of favorite variables I like to use. RS/RW is one and LRSI is another. When I see a strong stock, I set an alert and I do not take a position. If I am day trading, the stock is typically strong when I spot it. M5 RS/RW is > 0 and M5 LRSI is > 80. I want to know when M5 RS/RW has gone < 0 and then >0. That is the dip I am looking for and I will be alerted when it happens. If I am using M5 LRSI and it goes < 20 and then > 20, I will get an alert. The beauty of the alert is that it did not cost me a dime to set it. I can keep searching for new prospects. I have no emotional attachment to the stock because I have no position. I am also not tying up capital, I do not have to manage the position and I retain complete control. When the alert is triggered, I can evaluate the market and the stock and then decide if I want to take the trade or if I want to reset the alert. If the market has been in a steady and organized down trend while I am waiting, I am not likely to take the trade and I will set another alert. In this situation, I would like to see the stock holding its own. That is what stocks with relative strength do and I know that it will be a great prospect when the market finds support. The dip in the stock will provide me with an excellent entry point. I will wait until I have market support and when I do buy the stock, I will know that when the market rebounds I will have a tailwind. I will also know that the stock wants to move higher. If you do not have this alert functionality in your current platform, take the Option Stalker Pro free trial. It has been a game changer for many traders and the user interface is easy to learn.

This is a time to add longer term swing trades to your trading game plan. For these trades you use a longer time frame like M30 or H1. You want the dip in the stock to be significant. That pullback will put you closer to a support level you can lean on so your stops can be tighter. You will also be able to gauge the upside potential because the stock is likely to challenge the recent high. Know that you have been able to pick great stocks. Your walk away analysis bears that out. It is just a matter of time until buyers return. When they do, you will be entering at a great price.

Your entire mental state will change if you use this approach. Instead of chasing, you will retain control at all times. You will set the alert and wait for that dip. Then you will evaluate what happened from time you set the alert until the time it was triggered. What did the stock do? What did the market do? Does everything still look good? Did the stock find support? When you take that trade you will have a very high level of confidence. You will also understand that the market and the stock are not going to go straight up. Set similar alerts for the upside. If the stock loses its relative strength M5, an alert is triggered. If it still looks good, set another alert. Set an M5 alert so that if LRSI goes > 80 and then it falls below 80 it is triggered. A triggered exit alert does not mean you have to bail on the position; you are simply evaluating the price movement. Take gains when the momentum stalls and then wait for the next dip.

How do I know if the dip still has more downside? If you see stacked red candles and heavy volume, it is a sign that there is heavy selling pressure. Then you need to expect more selling. Reset the alerts and consider using an M15 or M30 time frame. If the stock has mixed overlapping candles and light volume on the pullback and if the drop is brief and shallow, it still has buyers and support will form quickly. When you see this you know you are close to taking action.

At the very beginning of the article I mentioned a second scenario. It is the contrarian trader who is always looking for a market top. It is important to be aware of the fundamental market forces that are in play, but learn to trade what is in front of you and not what you think. The sooner you realize that you don't know shit… the better. Until we see a long red candle closing through that up trendline on very heavy volume, you have to trade as if every dip is a buying opportunity. The vast majority of you should not even think about the short side right now (shorting is only for seasoned Pros). The market is in an uptrend and the spikes higher can be violent. When they happen, you are trying to manage losses on shorts instead of focusing on new long positions. Keep it simple and don't short.

The market has regained its footing after 2022 and the price action has been bullish… so roll with it. Don't buy breakouts, set alerts instead. When the alerts are triggered, reevaluate the market and the stock. If all looks good, take the trade. You should have a market tailwind and natural strength in the stock to fuel the move higher. As you get back to the recent high, watch the price action. If the stock powers through, wait for the momentum to stall and take gains.

This is your roadmap. I hope this lesson helps. To watch a video I recorded with an example click here.

The Short of the Century Is Setting Up! (/u/OptionStalker)

Inflation is still running way above the target rate and core inflation could take years to normalize. The Fed knows this and that is why they are likely to hike interest rates a week from now. We've already seen two of the largest bank failures and there are more to come as rates move higher. Short sellers are salivating and they are certain that this is a buying climax. The title was meant to grab your attention because many of you are shorting or contemplating it here.

I have been urging traders not to short and I've had "gurus" challenging me on that. I don't even bother responding because I know they will be wiped out soon. It is critical to trade what is in front of you and not what you think is going to happen.

Brokerage firms have been wrong all year. Look at the projections they had for the end of 2022 and look at the forecasts they have for 2023. They were way too high last year and way too low this year. Now they are scrambling to adjust.

In December of 1996 Fed Chairman cited “irrational exuberance” and a dot com bubble. The next 5 years were some of the biggest market gains we have ever seen.

My point is this. Don’t trade what you read. Most analysts are wrong! Trade what you see. Price does not lie.

So here is where we currently stand. Yes, the market has staged a great rally and there are plenty of dark clouds, but that does not mean that you start shorting now. Earnings season is just starting and short sellers are passive ahead of these announcements. Mega cap tech stocks have been posting great numbers and they have been fueling this rally. We can expect higher prices for at least a few weeks. The charts below show you how strong this period is. In 2020 we were in a pandemic and the market rallied. In 2021 we were in a bull market and the market rallied. In 2022 we were in a bear market and stocks shot higher. In 2023 we are seeing similar.

Don’t chase, buy dips. Let the position run and when it hits resistance take gains. You know this from my article yesterday. Yes, there are instances where the stock keeps running and it does not dip. You have to be willing to let them go without you. Most stocks will retrace and the red candles on the D1 chart remind you of this. This strategy provides a good entry point that is close to support. If the unexpected happens and the stock has another leg lower, you will be able to observe the price action near recent support. If that support fails easily, your loss is small because you only have a starter position on and you entered close to support. Buying on the dip provides you with excellent upside. The stock has already cleared the path higher once and it should be able to get back to that relative high again. Based on how it attacks that resistance, it could blow through it and provide even more upside. When the stock hits resistance, take gains. Doing so will put you in a cash position and you will be able to gauge risk from the sidelines. If the drop has consecutive stacked red candles and heavy volume, beware. There is more downside to come. If the market breaks the up trendline and key support levels, you might have a meaningful decline that you can short.

You will also notice in the charts below that by the middle of August we see some selling pressure. We are not predicting when the breakdown will happen, we are mindful of the seasonal weakness and we wait for technical breaches.


SPY 2020
Earnings
season
starts
www.oneoption.com
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Jul 13
Jul 17
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Aug 04
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Aug 14
Aug 20
Aug 26
Sep 01
Sep 08
Sep 14
Sep 18
Sep 24

SPY 2021
Earnings season starts
www.oneoption.com
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Jul 15
Jul 21
Jul 27
Aug 02
Aug 06
Aug 12
Aug 18
Aug 24
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Sep 03
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Sep 16
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You Can Predict Price Movement If You Know What To Look For! (/u/OptionStalker)

Here is how I see the next month playing out and this is how you should plan your trading. In this article I have given you important price patterns to look for and I have explained why I believe we will see them.

PRE-OPEN MARKET COMMENTS FED-DAY – Traders will be scrutinizing today's Fed statement. In particular they will be looking for any hint that they might pause in September. That would be very bullish. Employment is strong, wages have been ticking higher, the bank stress tests showed that balance sheets can withstand a recession, core inflation is very stubborn and the market is at a 52-week high. I do NOT feel that the Fed is going to raise false hope by suggesting that a pause is possible in September. They are going to keep the rhetoric hawkish so that they can tame inflation. In their own words, “they got inflation wrong last year and they will not make that mistake again”. Most Fed officials believe that there will still be one more rate hike after today in 2023.

The market is expecting a rate hike today and it is not likely to have much of a long-term impact on the market. If a pause in September is starting to get priced in and the rhetoric is hawkish, there will be a small pullback. Earnings season is in full bloom and those releases will carry more weight the next two weeks.

GOOG and MSFT posted results yesterday. GOOG was up and MSFT was down. They negated each other. META will post after the close today and AMZN will post after the close Thursday. AAPL does not post until August 3rd.

From a seasonal standpoint, the market bid typically remains strong for most of August. After earnings season winds down, some of the optimism fades and traders get nervous when the Fed is in recess. Short sellers are passive until mega cap tech companies have reported and they will get more aggressive after next week. Towards the end of the month we are likely to see some profit taking, particularly if the Fed’s rhetoric is hawkish today.

So how do we trade this? The market bid should remain decent for a few more weeks and then it will soften. Yesterday it tested the 52-week high and it has been compressing for the last six sessions. The gains have been preserved and I believe we will see one more leg higher. If we get that breakout, we could see a move up to SPY $462. Trade what is in front of you. That breakout is likely to have a few nice strong days higher and then compress. The further we get into August, the more passive I would be with bullish swing trades that span more than a few days. August is a big vacation month for everyone. The news and the volume will dry up. Price action is always the key. If we see nice stacked green candles on heavy volume, the move is strong, and you can trust it more. If the move higher features mixed overlapping candles and light volume, you have to be very careful because those gains can easily be erased. Once a new relative high is established, a giant bearish engulfing candle on heavy volume or a bearish hammer would be a warning sign that we’ve hit resistance. That is likely to be a short-term top.

Most of you had really nice gains yesterday. Your goal is NOT to give that money back. That means you pick your spots very carefully and you do not chase. Given my comments this morning, your best scenario is a drop after the FOMC statement. You should still be in “buy the dip” mode. Instead of trying to short that move your brain should be telling you to search for the strongest stocks that are holding up well. When the market finds support, those stocks will shoot higher, and the market will have the impetus it needs to make a new 52-week high when those shorts cover. You know that you have 2-3 more weeks of decent price action. When you see gaps up to a new relative high, you do not chase them. You know the bid will be tested and you wait for support before you buy. Eventually, one of those gaps up will be a reversal and it will result in a bearish trend day. The volume will be heavy, and the candle will finish as a bearish engulf. That is when you temper your bullish bias, and you go into more of a neutral mode. Bull markets die hard. After that first pullback we are likely to see support. Traders have been conditioned to buy dips. They will try to drive the market to a new 52-week high towards the end of August. That attempt will fail, and we will see a lower high double top. Then you will know that a short-term top is in. You can day trade from the short side, but until we break the up trendline on SPY, you should not swing trade from the short side. This price action is beautifully depicted by the movement we saw yesterday on an M5 basis.

I've given you the most likely scenarios to trade for the next month. Watch for a couple more weeks of decent price action. Don't chase, buy dips once support is confirmed. As we get further into August, start watching for the warning signs I have outlined and pare back your long exposure. This is what the current D1 chart looks like and you can compare it to the M5 chart.

The futures are down slightly this morning. The euphoria over China's accommodative policies only lasted a day and their market is down slightly. Europe is down pretty significantly so I would not look for an early bounce today. Remember, a boo-hoo reaction to hawkish Fed comments is what we want when they do not signal a pause in September. That move lower should be stubborn because buyers are still engaged and we want to buy that support once it is confirmed.

Support is at $452 and resistance is at $457.

If you don't think that we can predict price movement, you should read my play-by-play market comments from yesterday. You can see the previous day's comments in the chat room in my home page. Scroll down to that section and you will be able to see everything that was posted. Click here.

This Post Will Make You A Lot of Money Now! (/u/OptionStalker)

I hope that title got your attention. We need this exact pattern today or this week. If we do not have it… no trade. We want that reversal early in the day when it happens.

PRE-OPEN MARKET COMMENTS MONDAY – The market is weak and it is down 180 S&P 500 points from the high last Tuesday. The volume has been heavy and we closed below AVWAPQ, the 200-day MA and an up trendline that dates back to October 13, 2022.

Last week, Fed Chairman Powell reiterated the "higher for longer" message and 10-year yields spiked above 5% for the first time since 2007. Inflation has been steady and the Fed believes that it will not come down until economic growth decelerates. The impact of higher interest rates is going to eventually lead to slower economic growth and we are seeing signs of it (Beige Book). Consumer debt levels are at historic highs and the cost of financing that debt is high.

This week mega cap tech stocks will report earnings. Valuations are “rich” by historic measures (forward P/E) and there is room for the market to drop.

Thursday, we get the first look at Q3 GDP and Friday the PCE deflator will be released. Since this is the first reading, the numbers will be important. Remember, this is a backwards looking number.

So given this backdrop, “Why is Pete looking for a capitulation low here?” The price action does not suggest that this is going to happen. That observation is correct and that is why we don’t trade what we think is going to happen, we trade what we see. Trading is about awareness and after 30+ years of doing this, I have “seen this movie before”.

I told you in August we were likely to see selling pressure that would last into October. Now I am telling you that we are likely to see strength into year end.

I referenced October 13, 2022. The trendline started one year ago. That was before all of the mega cap tech stocks reported earnings. The S&P 500 had also lost 300 points in a matter of a week heading into that day. The market gapped down to a new relative low and it finished on the high of the day leaving a giant bullish engulfing candle. The key is that the market gapped down and we had a reversal early in the day. Then the market spent the rest of the day recovering those losses and it rallied above a number of previous closes. That is the price action we are looking for right now. In the chart you will notice a new low on September 30th and then a gap higher on October 3rd. That is NOT how these lows form. We need the gap down and the reversal. That is a sign that buyers are aggressive and they will be looking for that price action.

No matter how dire the news is, in October we always hear, “This time is different.” The news is really, really bad and there will not be a year end rally. If you feel this way, you don’t have to buy, but I urge you not to short if you see a bullish engulfing candle or a bullish hammer off of a relative low right here.

Overseas markets were weak and the S&P 500 is gapping down overnight. I don’t know if that capitulation is going to come today, but it could. I will be looking for an early low that barely lasts an hour and that has stacked green candles on heavy volume. If you have a lot of swing shorts, you need to set buy stop orders above the current price on your shorts. When this move comes it will be fast and furious. You do not want to be scrambling to enter buy orders. Prices will rip and you will be chasing “asks”. You can use trailing stops for your shorts, but I would not use them for options because the bid/ask is too wide. On a reversal, the market makers will spread those bid/asks even more. For stocks that you want to buy, you should have alerts set at very least. You can set buy stop orders above the current price and those will get you into the trade. Only use starter size and then add on price confirmation. If the reversal does not happen, you are no worse off. You can continue to manage your shorts. This preparation costs nothing.

I am not looking for a gangbuster move higher. Once support is established, it is likely to look like the rally we had at the end of last year. Mixed overlapping candles and a grind higher.

I have been through many of these and I hope you take my advice.

Support is at SPY $420.60. Resistance is at the 200-day MA.

Chapter 4. Finding Stocks That Have Relative Strength or Weakness vs SPY

A Simple Strategy

From the poll this morning it seems the number one issue is the lack of a clear strategy, so I am going to give you one to try -

Tomorrow - Do not take any trades in the first 45 minutes. None. I don't care how good it looks. What you need to be doing is the following:

Watching the market - if we open down, are there signs of a reversal, is SPY still probing for support? If we open up, is the market hitting resistance here? Get a sense of whether it will be a Bullish, Bearish or Neutral day.

Watch which stocks are *Relatively Strong*, and by this I don't just mean the stocks that opened higher if the market is down. If you do not have TC2000 or OptionStalker, go to Finviz.com and give a look at their S&P Red/Green graphic - click on it, and look which stocks are standing out - is everything in AAPL's sector up .5% but AAPL is up 1.3%? Get a list of the strongest stocks. Now starting looking at their charts on a 5 minute basis with SPY mapped against the chart. Note the stocks you look for do not *have* to be in the S&P 500, just make sure they aren't low float gappers, or any stock under $10.

Notice the stocks that do not go down on the 5-min basis when SPY does down. Notice the ones that go up a lot on just the slightest bullish 5-min candle on SPY. Check their daily charts, make sure they are bullish and without clear resistance close by (e.g. you don't want a stock that has the 200 SMA sitting 15 cents above the current price). Make sure the stocks have good volume as well.

At this point, around 45 min into the day, you should have at least 3-5 good stocks that are relatively strong, with good volume, no resistance nearby and bullish daily charts.

4) Draw your downward trendline on SPY and wait for an indication that SPY is going higher. If SPY is very bullish then you do not need to wait. If SPY drops you will still be protected by the Relative Strength.

5) The moment SPY breaches that downward trendline to the upside, go long on the stocks in your list, as long as they have maintained their Relative Strength. Take profits when it looks like they are no longer strong than SPY.

This should give you at least 5 really good trades throughout the day with very high probabilities for success.

Keeping It Really Simple - Four Rules for Trading

This is a tough market, so let's simplify it and start with these four simple rules and leave the exceptions to these rules to those with more experience:

Rule 1: If the market is down - **No Longs** - no matter how good they look, only Relatively Weak Shorts, If the Market is Up - **No Shorts**, no matter how weak they look, only Relative Strength Longs, If the Market is Undecided, **No Trade**.

Rule 2: Do not short a stock Above VWAP on the M5, and Do not go long on a Stock Below VWAP on the M5.

Rule 3: Do not go Long or Short unless a Stock has an HA Continuation of at least 2 Days on the Daily Chart.
Rule 4: Do not go Long unless the stock is above all major SMA's on the Daily, Do not go short unless it is below all major SMA's on the Daily.
And before you do it go back to your last month or two of trades - and code them -

1 Rule Checked, 2 Rules Checked, 3 Rules Checked, or All 4 Rules Checked.

Then Look at your win-rate and profit on each category - You will see your win-rate and profit increases the more checks you have.

Stick to the Process If You're Not Consistently Profitable!

Reading many of the posts and comments, it is clear that a lot of people had a rough week. Here is what I don't understand, so perhaps someone can help explain it to me -

Traders that *are not consistently profitable* were given very explicit rules, rules that I myself wrote a long time ago, and reiterated various times throughout last week - those rules were:

- **Don't short when the market is up**
- **Don't go long when the market is down**
- **Don't short a stock that is green for the day**
- **Don't go long on a stock that is red for the day**

These rules are for those that are struggling, obviously not for those that have already become successful. Will you miss some good trades following this? Yes - but you will avoid many more bad ones. They are simple rules for a reason - they are hard to break if you just follow them to the letter.

In addition to those rules, it is also said at least once a week in this sub that until you reach set benchmarks (outlined in the Wiki) that you should be either *paper-trading or trading one share* - I know for a fact that many of you have *not* reached those benchmarks.

Did I have a Bearish thesis? Yes - in fact, I still do, and I am still holding my shorts. If the downward trendline is violated and closed to the upside, I will reconsider that thesis. Three bullish days does not counter a Bear Market. In fact, as Bear Market rallies go, this one is rather wimpy.

However, throughout the week I still had several Long Day Trades, and I noted that my Bearish trades were primarily long term, pointing out that there were either in Short Stock or Long Term Put Leaps -

So, am I to understand that right now people are upset because they *A) Shorted stocks when the market was up, and B) used positions larger than 1 share??*

If you followed the rules, and the commentary - all indications were that SPY was bouncing - so simply following - **Do not short when the market is up -** should have saved you from making any mistakes. But even if you ignored that rule, then simply following - **Paper trade or trade one share until you hit the benchmarks**, should have saved you from any real pain.

But instead, here is what happened - "Hari is super Bearish - I am going all-in on Puts!" And it seems many of you went all-in on Put that expired ***the same week!*** So even if you ignored all the other rules, if you had followed the clear guidelines to make sure your options are more than a week out - you would have been able to either salvage or keep many of those positions.

So, I am curious, and please someone explain it to me - where exactly is the breakdown in communication here?

Five Simple Rules for Trading in a Bear Market

I want to stress - unless you are a consistently profitable trader - DO NOT TRADE THIS MARKET RIGHT NOW.

Paper trade it, sure. Study it, absolutely. But do not use your money because you will lose it, and fast. If you got lucky today, don't press it.

Remember - somebody ALWAYS makes money. You are either losing that money to a more experienced trader or to an Institution.

And when you do trade (because I know some of you will) at the very least, use these five simple rules:

1) If the market is choppy - do not trade - trade Paper account instead.
2) If the market is down - do not go Long, only Short
3) If the market is up - do not go Short, only Long
4) Do not go Long on a stock that is Red for the day
5) Do not Short a stock that is Green for the day

It doesn't matter if all of a sudden a stock gets Relative Strength, if the market is down, **do not go Long**.

It doesn't matter if suddenly news hits and **AMZN** starts dropping like a rock, if the market is up, **do not Short it.**

It literally cannot get any simpler than this.

How to Use Screeners, Scanners, Watchlists to Find Stocks

I see a lot of questions about these so I figured I would try to answer them in one post for everyone.

The first thing to understand is that as Day Traders your list of potential stocks changes constantly throughout the day. The list of stocks that present good opportunities at the opening bell most likely is no longer viable in the afternoon. That is because one of the great things about being a Day Trader is that profitable set-ups appear through-out the entire trading day.

With that said there are three different kinds of "lists" that you can (and should) be using:

Watchlist: This is a static list created by *you*. Ideally you update this every evening (or pre-market) and it contains stocks that you have had your eye on for very specific reasons. They may have met your conditions for a potential trade (*i.e.*, several days in a row of bullish price action and high volume), or perhaps you read a post on a ticker that sounded convincing. Sometimes these are just stocks you like to trade and are familiar with, thus having a comfort level with their charts. Either way, it helps to categorize these lists, label them, and set alert levels on their charts for entry points. *I cannot emphasize enough the importance of setting alerts on your charts.*

Scanners: These are constantly running and updating for you, you can set them to run based on any time period you want. I typically have mine to set to scan over the past hour, whereas others update every 5 seconds constantly looking for volume burst.

Scanners should be your go to resource for opportunities.

Screeners: Screeners are custom searches that run at your request. They aren't constantly searching like a **scanner** but are still important to your Day Trading routine. Traders use this to adjust to the changing market conditions on the fly and require different filters than you might normally be seeing with your **scanners**.

The next natural question becomes: What should the setting be on **Scanners** and **Screeners**?

The answer is: it depends on the trader.

If you want **scanners** that are picking up good *momentum trades,* you want to look for stocks that are typically have:

- *Volume Increase:* You can set this to be a percent change in volume in the most recent 5-minute bar compared to the average volume of the last 2,3,5,30, etc. days. Or you can just look for a *Relative Volume* over 1.5 (meaning 150% increase). There are various settings to use here.
- *Stock Attributes:* This is a very subjective area, but most traders will look for stocks that are under $10 a share, have a small float (under 50 million or less), and a high short (10% or more).
- *Price Action:* A volume burst alone is not enough to jump in so you might want to look for the stock to have reached a new high over the past week, month, year, etc. Certainly over the previous days high.

Those three can act as your foundation for a momentum scanner and then you can build anything you want on it to filter further down (*e.g.*, patterns, trends, indicators)

For stocks that have good Relative Strength, which is what I use primarily:

- *Relative Strength* - Obviously. But this filter is very hard to find. ThinkorSwim has a RelativeStrength indicator, but it relies more on correlation than proportional strength (e.g. It is fine to identify stocks going up when **SPY** is going down, but if **SPY** is flat and the stock is going up, it won't find it). TC2000 and OptionStalker both have good RelativeStrength scanners. Essentially you want something that will look at the percent change in Stock A and compare it to the percent change in **SPY** over the same time period - however, that change has to be proportional to the stock's price and its average true range as well. *Volume* should be included in this attribute, so you don't get stocks that made a big move off very little volume showing up.

You can set scanners to constantly look for anything that fits your trading pattern. I also like to look for *Recent Runs* - Stocks that have recently gone on a run, stacking green bars with volume. These aren't necessarily momentum stocks, but rather stocks that are having a very bullish trend at the moment.

Screeners allow for a lot of creativity when looking for stocks. They are great to use after-hours to find stocks for your *watchlists*, but also really good when the market is open. Let's say **SPY** has been compressing for the past two hours, so I might look for a stock that has:

- *Relative Volume on the Daily Chart over 1.5*
- *Price above previous day High*
- *Relative Strength to SPY on the Daily Chart*
- *Currently in a Compression on the 2hr Chart*

Once I get that list, I can then go through the chart and place alert lines on top of the compressions so I will be notified when those stocks break to the upside (which they most likely will when *SPY* breaks upwards).

This is one of the reason Day Traders use more than one monitor, as these watchlists, scanners and screeners can take up an entire monitor themselves.

Each platform offers different methods to scan and search - ThinkorSwim has a decent scanner in terms of the inputs, but I constantly find the results to be unreliable. TC2000 has comprehensive features including the ability to create sequence scans (i.e. first the stock falls below VWAP, then it breaks through VWAP and creates a new high of day, then it falls below VWAP again). OptionStalker has the best scanners and screeners in my opinion because the entire platform was built around the premise of Relative Strength.

Hope this answers some of the questions!

How to Find Stocks with Relative Strength/Relative Weakness [VIDEO]

https://youtu.be/HqDGvk5C2hk (41:32)

How to Find Premium Trades [VIDEO]

Every day there are probably 20-30 justifiably good trades one can take, but usually only 2-3 *really good* trades that one *should* take.

For example, today **WMT, COST** on the Long Side and **HD** on the short side were *premium trades*.

This video helps you identify them:

https://youtu.be/MnItQ8XzWEM (24:41)

Method for Picking the Best Trades - How to Fine Tune your Choices

Every trading day you can be presented with 20 or more *quality* set-ups. Hell, if you look hard enough you can even find quality set-ups on days when SPY is putting everyone into a coma by chopping around in a narrow range.

What is a quality set-up?

Glad you asked. A quality set-up is one that ticks off most if not all your "checkboxes". You do have checkboxes, right? *If not, stop reading and get yourself some damn checkboxes.* Seriously, everyone needs checkboxes, at least mental ones.

Now, if you follow the method taught in this sub (and if you don't, you should - read the Wiki I hear it has a memorizing effect on people) your checkboxes would include stocks that have; *Relative Strength/Weakness*, good *Daily Charts,* a *market tailwind*, *volume*, etc., etc. You've heard it all before.

Now, we also know that if one ***only*** took the 2 or 3 *best* set-ups each day, especially for those under-the oppressive account screwing PDT restriction, it would result in a significantly higher win-rate and profit-factor.

The problem of course is - *which ones should you take?*

Well, there is a simple way to see how well you are able to judge the difference between a *good trade* and a *great trade.* Or, more importantly, if some of the trades you felt were *good* but are actually *really fucking terrible*.

Don't take them - Rank them!

Sort of a *Hot or Not* for trades (does anyone remember that site? I am sure it left quite a few people scarred for life).

A simple system - 1 through 5.

With 1 being a trade that looks good, all the way to 5 which is one of those trades you chase to get in and don't want to miss.

For each trade you find, simply write it down in a spreadsheet, or well, anywhere really, like this:

10:20am Long AAPL, 165 Strike Call, Expires 4/14, for $2.75 - Rank: 2

A pretty simple format, yes?

Now there are two ways you can go about this -

1) At the end of each day look at all the trades and decide if you would keep it or close it. If you would close it, then enter the *Profit* or *Loss* next to the Ranking. If you would keep it, do the same thing at the end of the following day and so on, until you close it.

or, more accurately:

2) Make the trade in a Paper Account and manage it based on your real accounts restrictions. If you have a margin based PDT-restricted account then you only have 3 Day Trades to use - if you have a Cash Account (don't get me started) then keep track of how much you have to spend, etc. If you are over $25K then Day Trade it how you normally would.

After about 100 or so trades (remember you should be able to find 20 or more good set-ups a day, and if you can't, you need to Read the Damn Wiki!), the assignment is easy - group all the trades according to their rank. You should have a bunch of trades that are ranked 1 and less trades ranked 5. Then just calculate the average profit (or loss) percentage per trade. So, if you spent $275 on getting that AAPL call (there is no point in getting more than 1 Contract or more than 1 Share), and the profit was $550, then you made 200%. Just take the average for each group.

The results should be linear. If the trades you ranked #1 have an average profit of 35% and those you ranked 5 average a loss of -42% then you have an issue in picking good trades. The trades you think are just "ok" are actually really good, and the ones you think are great are clearly shit.

At that point you need to analyze why you are overvaluing some trades and under-valuing others. Perhaps you are drawn to stocks that have sudden burst in volume/price due to news-driven events, so you give them a higher ranking, but they tend to turn against you. Or maybe you undervalue slower but more stress-free trades that just grind up.

The goal is to get the results to a nice linear step up in profit with each ranking.

This exercise (and there are various ways to do it once you get the point) will help you fine-tune your *radar* as all the rules and methods in the world won't help if you just suck at telling the difference between a decent set-up and a great one.

Method for Finding Highest Probability Trades [VIDEO]

For the sake of simplicity here is the video: https://youtu.be/E9Bn-Zffi60 (26:32)

How to Find Great Stocks to Trade [VIDEO] (/u/onewyse & /u/OptionStalker)

https://www.youtube.com/watch?v=MolEHS--IA4 (1:28:19)

Trading only Highest Probability Setup Trades - Recent Results (/u/onewyse)

I have posted a lot about trading only the highest probability trade setups. I will outline exactly what those trade setups are and my recent results trading only those setups.

The highest probability trade setups consistent of these criteria:

- Price breaking out of a dynamic compression zone (the zone is created by my software) Breakout to the upside for longs and downside for shorts.
- Breakout includes a Heiken-Ashi (HA) reversal candle.
- Stock is breaking out in the direction of its current trend (no counter trend trades).
- Trade in the direction of the market trend (if there is one) if not lean on the stock trend.
- Only take trades that have institutional involvement in the trade (again, defined by my software)
- Only take stocks with relative strength or weakness versus the SPY or QQQ
- On order to be able to hold through some pull backs the Daily Chart needs to align with the 5 Min Chart

The final point is to have patience. Remember our objective is not to trade but to make money, trades are just the vehicle to make profits

I have listed my last 44 trades that had a record of 41 wins, 1 loss, and 2 scratches. My overall win rate on these highest probability only trades setups is around 92% this year. Patience is well rewarded and trades with this high win rate can be done using larger size.

Date (2022)	Stock	Buy	Sell	Profit / Loss	Gain/Loss%
28-Jun	AXSM	$5.20	$6.20	$1.00	19.23%
28-Jun	EA	$4.55	$5.25	$0.70	15.38%
28-Jun	FTCH	$1.36	$1.44	$0.08	5.88%
28-Jun	LOW	$7.45	$7.95	$0.50	6.71%
28-Jun	LOW	$1.06	$1.20	$0.14	13.21%
28-Jun	SPOT	$6.24	$6.80	$0.56	8.97%
28-Jun	TCOM	$28.96	$29.01	$0.05	0.17%
29-Jun	BILI	$3.20	$3.20	$0.00	0%
29-Jun	CCL	$1.06	$1.36	$0.30	28.30%
29-Jun	GIS	$2.85	$3.05	$0.20	7.02%
29-Jun	LCID	$0.68	$0.73	$0.05	7.35%
29-Jun	SIGA	$11.64	$11.84	$0.20	1.72%
30-Jun	SPY	$2.46	$2.63	$0.17	6.91%
30-Jun	PFE	$2.30	$2.80	$0.50	21.74%
1-Jul	TSM	$4.28	$4.80	$0.52	12.15%
1-Jul	ETSY	$79.97	$79.75	-$0.22	-0.28%
1-Jul	HRB	$36.59	$36.61	$0.02	0.05%
1-Jul	KO	$2.26	$2.30	$0.04	1.77%
1-Jul	SIGA	$12.17	$12.40	$0.23	1.89%
5-Jul	AMZN	$4.80	$5.30	$0.50	10.42%
5-Jul	CHWY	$4.40	$4.60	$0.20	4.55%
5-Jul	DLTR	$5.90	$6.10	$0.20	3.39%
5-Jul	DLTR	$9.95	$10.95	$1.00	10.05%
5-Jul	ETSY	$7.70	$8.70	$1.00	12.99%
5-Jul	PSX	$0.86	$1.10	$0.24	27.91%
6-Jul	BRZE	$45.35	$45.85	$0.50	1.10%

6-Jul	COP	$6.95	$7.15	$0.20	2.88%
6-Jul	ILMN	$1.30	$1.40	$0.10	7.69%
6-Jul	MRNA	$9.90	$10.40	$0.50	5.05%
6-Jul	MRNA	$2.00	$2.25	$0.25	12.50%
6-Jul	RIVN	$3.35	$3.70	$0.35	10.45%
6-Jul	VERU	$13.42	$13.72	$0.30	2.24%
6-Jul	VERU	$15.20	$15.70	$0.50	3.29%
7-Jul	AAPL	$6.50	$6.80	$0.30	4.62%
7-Jul	AMD	$4.55	$4.80	$0.25	5.49%
7-Jul	CHWY	$4.30	$4.80	$0.50	11.63%
7-Jul	MRNA	$1.05	$1.35	$0.30	28.57%
7-Jul	QQQ	$2.79	$2.89	$0.10	3.58%
7-Jul	RH	$1.10	$1.30	$0.20	18.18%
7-Jul	TDOC	$4.50	$4.65	$0.15	3.33%
8-Jul	AAPL	$5.45	Still	Open	
8-Jul	AMD	$4.40	Still	Open	
8-Jul	CHWY	$5.20	$6.40	$1.20	23.08%
8-Jul	CHWY	$5.20	Still	Open	
8-Jul	HUM	$1.90	$2.90	$1.00	52.63%
8-Jul	PM	$3.30	$3.30	$0.00	0%
8-Jul	RBLX	$5.55	$6.55	$1.00	18.02%

Highest Probability Trade Setups Dec 01—23: Process and Stats (/u/OneWyse)

I thought that as we prepare to enter a new year of trading, I would share my results for trading the highest probability trade setups. It should be noted that 2022 was a bear market and the most difficult trading environment I have experienced in my 13+ years of trading. It was very important to have and use detailed criteria for taking trades or the results could be financially devastating. I know many many traders that had to call it quits in 2022, and in most cases, it was because they failed to recognize the market we were in, failed to adjust their strategies and did not tighten up their criteria to only the highest probability trades. Some years the market is forgiving, and they can survive, not 2022. Make 2023 a year to be patient, trade only the best and work on your mindset, that Hari has so eloquently laid out.

I have posted before on finding and trading the highest probability trade setups. It takes patience and focus to ignore the distractions of dozens of other trades being posted, FOMO, chasing momentum moves, magic indicators and on and on. It is critical that you have criteria for finding the highest probability trade setups and stick to them since you will be bombarded with distractions all the time. I have fine-tuned my highest probability trades setups since my last post and I will include a video I did on the process I follow, and a link to the trades I took from Dec 01 to Dec 23 (current month).

The basic selection process I use is as follows:

- Daily chart and 5 min chart of stock you are trading should align.
- Trade in the direction of the market if there is one, both the 5 min market trend and the daily market trend need to be considered, for intraday trades only the 5 min market trend is paramount, for any trade that may be a swing the daily trend must also be considered. If there is no market trend both long and short trades can be taken following the rest of the criteria.
- Trade in the direction of the stock trend, no counter trend trading.
- Only trade stocks that have institutional involvement driving them (I use Compass System for this, explained in the video)
- Enter longs near a support level and enter shorts near a resistance level. These levels can be a break of compression, (i use dynamic compression identified by the Compass software as well as standard compression breaks), a bounce and confirmation off the VWAP or moving average that the price is following closely, a break of an algo support or resistance line from your daily chart. There are others but the critical point is to enter as close to support or resistance as possible.
- A Heiken-Ashi (HA) reversal candle for your entry increases the probability of success.
- Trade stocks with relative strength or relative weakness to the market, those will be the most forgiving.
- HAVE PATIENCE! This is the most difficult criterion.

We are looking to **Trade the Best and Skip the Rest**. Skipping less than the highest probability stocks is critical, eliminating losers is more important than getting winners.

So, to recap the criteria:

- **Daily chart and 5 min chart must align**
- **Trade with the market direction**
- **Trade with the stock direction**
- **Only take trades that institutions are driving**
- **Trade stocks with relative strength or weakness**
- **Buy at Support and sell at Resistance**
- **Have Patience**

The stats for these trades from Oct 1 thru Dec 23

- Total trades: 331
- Wins: 304 (91.8%)
- Losses: 19 (5.7%)
- Scratch: 8 (2.4%)
- Profit Factor: 13.4

Below are the trades from 12-1 to 12-23 using the highest probability trades setups:

Date	Stock	Buy	Sell	Profit/Loss	Gain/Loss %	Note
1-Dec	ADM	$0.37	$0.47	$0.10	27.03%	
1-Dec	COST	$1.40	$3.00	$1.60	114.29%	Carried Overnight
1-Dec	FTCH	$1.03	$1.23	$0.20	19.42%	
1-Dec	FTCH	$1.34	$1.60	$0.26	19.40%	
1-Dec	LCID	$1.04	$1.08	$0.04	3.85%	Carried Overnight
1-Dec	NFLX	$14.60	$15.10	$0.50	3.42%	

1-Dec	RBLX	$3.70	$4.35	$0.65	17.57%	Carried Overnight
1-Dec	SNOW	$10.20	$10.70	$0.50	4.90%	
2-Dec	AMD	$1.76	$1.86	$0.10	5.68%	
2-Dec	FUTU	$5.88	$6.50	$0.62	10.54%	Carried Overnight
2-Dec	SBUX	$0.10	$0.20	$0.10	100.00%	
2-Dec	TLRY	$0.42	$0.52	$0.10	23.81%	
2-Dec	WOOF	$1.60	$0.30	-$1.30	-81.25%	Carried Overnight
2-Dec	ZIM	$2.08	$2.25	$0.17	8.17%	Carried Overnight
5-Dec	ASAN	$2.05	$2.45	$0.40	19.51%	
5-Dec	BAC	$1.41	$1.56	$0.15	10.64%	
5-Dec	CRM	$6.10	$7.10	$1.00	16.39%	
5-Dec	DAL	$1.98	$1.52	-$0.46	-23.23%	
5-Dec	SPY	$0.69	$0.79	$0.10	14.49%	
5-Dec	SPY	$7.97	$9.00	$1.03	12.92%	
5-Dec	WAL	$1.55	$1.65	$0.10	6.45%	Carried Overnight
6-Dec	CAT	$8.55	$9.05	$0.50	5.85%	
6-Dec	CAT	$1.85	$2.25	$0.40	21.62%	
6-Dec	DIS	$4.60	$5.64	$1.04	22.61%	
6-Dec	GOSS	$0.40	$0.65	$0.25	62.50%	Carried Overnight
6-Dec	LCID	$1.15	$1.55	$0.40	34.78%	
6-Dec	OXY	$3.45	$3.25	-$0.20	-5.80%	
7-Dec	AMC	$1.39	$1.50	$0.11	7.91%	
7-Dec	CPB	$0.34	$0.35	$0.01	2.94%	
7-Dec	CRM	$8.15	$9.65	$1.50	18.40%	Carried Overnight
7-Dec	CVNA	$1.05	$1.45	$0.40	38.10%	
7-Dec	CVNA	$1.15	$0.75	-$0.40	-34.78%	Carried Overnight
7-Dec	GIS	$2.70	$2.30	-$0.40	-14.81%	Carried Overnight
7-Dec	MARA	$0.90	$0.95	$0.05	5.56%	
7-Dec	ZIM	$2.67	$3.10	$0.43	16.10%	Carried Overnight
7-Dec	ZIM	$2.67	$3.20	$0.53	19.85%	Carried Overnight
8-Dec	BAC	$9.25	$9.50	$0.25	2.70%	
8-Dec	CVNA	$1.13	$1.35	$0.22	19.47%	
8-Dec	CVNA	$0.82	$1.20	$0.38	46.34%	Carried Overnight
8-Dec	CVS	$2.63	$0.68	-$1.95	-74.14%	Carried Overnight
8-Dec	PFE	$2.06	$2.28	$0.22	10.68%	
8-Dec	SPY	$3.27	$3.39	$0.12	3.67%	
9-Dec	DVN	$3.45	$4.25	$0.80	23.19%	
9-Dec	LCID	$1.06	$1.26	$0.20	18.87%	Carried Overnight
9-Dec	MARA	$0.67	$0.70	$0.03	4.48%	Carried Overnight
9-Dec	MOMO	$0.30	$0.60	$0.30	100.00%	
9-Dec	NFLX	$1.12	$1.50	$0.38	33.93%	

9-Dec	SLB	$0.24	$0.48	$0.24	100.00%	
12-Dec	BIVI	$9.86	$10.10	$0.24	2.43%	Carried Overnight
12-Dec	EH	$2.55	$2.75	$0.20	7.84%	
12-Dec	SPY	$5.46	$5.77	$0.31	5.68%	
12-Dec	SPY	$2.80	$2.98	$0.18	6.43%	
12-Dec	TEAM	$12.90	$15.30	$2.40	18.60%	Carried Overnight
12-Dec	TSLA	$12.75	$14.25	$1.50	11.76%	
12-Dec	UA	$0.65	$0.70	$0.05	7.69%	
13-Dec	CAT	$7.90	$8.00	$0.10	1.27%	
13-Dec	COIN	$4.50	$5.00	$0.50	11.11%	
13-Dec	MRNA	$15.35	$16.35	$1.00	6.51%	Carried Overnight
13-Dec	MTCH	$4.13	$4.45	$0.32	7.75%	
13-Dec	SI	$4.90	$5.00	$0.10	2.04%	Carried Overnight
13-Dec	TSLA	$10.50	$12.50	$2.00	19.05%	
13-Dec	VNDA	$8.31	$8.98	$0.67	8.06%	
14-Dec	BIVI	$10.76	$11.26	$0.50	4.65%	
14-Dec	KR	$1.34	$1.54	$0.20	14.93%	
14-Dec	PBR	$0.91	$1.11	$0.20	21.98%	
14-Dec	SPY	$3.65	$5.13	$1.48	40.55%	
14-Dec	TSLA	$11.80	$12.80	$1.00	8.47%	
15-Dec	COIN	$3.53	$4.53	$1.00	28.33%	
15-Dec	IBM	$3.50	$4.25	$0.75	21.43%	Carried Overnight
15-Dec	IBM	$0.45	$0.50	$0.05	11.11%	
15-Dec	NFLX	$12.70	$14.20	$1.50	11.81%	
15-Dec	NVAX	$12.52	$12.62	$0.10	0.80%	
15-Dec	RNA	$20.30	$21.30	$1.00	4.93%	Carried Overnight
15-Dec	SPY	$2.40	$2.49	$0.09	3.75%	
15-Dec	XMTR	$34.92	$35.12	$0.20	0.57%	
16-Dec	CCL	$0.10				Carried Overnight
16-Dec	COIN	$3.97				Carried Overnight
16-Dec	CRM	$6.45				Carried Overnight
16-Dec	CRSP	$2.60	$3.00	$0.40	15.38%	Carried Overnight
16-Dec	SE	$0.39	$0.60	$0.21	53.85%	
19-Dec	AAPL	$4.20	$4.80	$0.60	14.29%	
19-Dec	ABNB	$5.50	$5.25	$0.20	3.64%	
19-Dec	CCL	$0.21	$0.27	$0.06	28.57%	Carried Overnight
19-Dec	F	$0.87	$0.95	$0.08	9.20%	
19-Dec	FIVE	$4.08	$4.60	$0.52	12.75%	
19-Dec	ICCM	$7.00	$8.25	$1.25	17.86%	
19-Dec	TSLA	$10.95	$11.95	$1.00	9.13%	
20-Dec	TSLA	$9.80	$11.00	$1.20	12.24%	

20-Dec	ANET	$3.80	$1.55	-$2.25	-59.21%	Carried Overnight
20-Dec	ROKU	$3.30	$4.00	$0.70	21.21%	Carried Overnight
20-Dec	DIS	$3.25	$3.50	$0.25	7.69%	
20-Dec	GNRC	$5.50	$6.50	$1.00	18.18%	Carried Overnight
20-Dec	TSLA	$3.23	$3.50	$0.27	8.36%	Carried Overnight
21-Dec	BILI	$2.14	$2.34	$0.20	9.35%	
21-Dec	FL	$1.35	$1.35	$0.00	0.00%	
21-Dec	MDGL	$32.00	$34.00	$2.00	6.25%	
21-Dec	MDGL	$35.40	$40.40	$5.00	14.12%	
21-Dec	RAD	$0.07	$0.20	$0.13	185.71%	Carried Overnight
21-Dec	SHAK	$5.70	$6.50	$0.80	14.04%	Carried Overnight
21-Dec	SPY	$3.16	$3.41	$0.25	7.91%	
21-Dec	WBD	$0.40				Carried Overnight
22-Dec	MAR	$6.10	$6.60	$0.50	8.20%	
22-Dec	PLUG	$1.38	$1.57	$0.19	13.77%	
22-Dec	SPY	$2.28	$2.38	$0.10	4.39%	
22-Dec	SPY	$5.79	$5.89	$0.10	1.73%	
22-Dec	THC	$3.80	$4.00	$0.20	5.26%	Carried Overnight
22-Dec	TSLA	$4.85	$5.45	$0.60	12.37%	

Highest Probability Trades taken from 12-1 thru 12-23

Trades were all calls, puts and debit spreads (a few stock).

Here is a link to a video. I did on finding these highest probability trade setups using the criteria outlined and the Compass Software I use. (have also incorporated a new market internals software as well). It will ask for your e-mail address, I couldn't get around that, but I post this just for educational purposes.

Best of luck in 2023!

https://attendee.gotowebinar.com/recording/6628855971540611851 (28:09)

Backup link (107.5MB): https://mega.nz/file/q08xiDqK#i161W0VN_GO6yUC0Ft5uU-0seWnnoWSLcelkDDKIMo0

Trading Criteria to Use for Top-Tier Trades (/u/lilsgymdan)

This is the criteria I've been using and so far, analyzing my best trades out of 500+. It's working really nicely.

Trading this way is NOT as exciting. You will sit around a lot. You will pass up a *lot* of good trades that win. But your loss rate will absolutely plummet. You'll take 1-5 trades per day probably.

I took 23 trades only last week, maybe could have taken 30 in hindsight.

3 those trades *didn't* follow the criteria in hindsight and guess what: **Only those 3 trades were losing trades.** *Every single trade* I took that followed these criteria was a winner that netted at least a 1% move, most of which went significantly more.

Every. single. one.

MARKET TIMING

First, you obviously need market confirmation. I didn't take any trades before 10:45am. sometimes even 1200pm because I wanted clear confirmation. Take only trades in the same direction as the market. If the market is kind of choppy/going nowhere, get confirmation that it's doing it and your trades will be even easier to spot against it. WAIT. Good trades happen all day long and you will NOT miss out.

NEED ALL OF THESE

Daily Chart Quality - No gappy, choppy, or super extended candles. Gappy usually means a lot of action is happening outside market hours or in international markets. Look at DB for example. Choppy means just way too much fluctuation to mentally handle. Extended is *typically* no more than 10% from the 8EMA, but smaller priced or more volatile stocks can move more. Use your judgement. Longs seem to be less dangerous extended than shorts. Remember the goal isn't good trades, it's the cream of the cream of the crop.

"Stacked" Sector Strength/Weakness - The stock has RS/RW to its sector AND the sector has RS/RW to the market on the D1 5 day rolling relative strength. This provides some extra push and ensures that it's not just moving from some speculative news like TWTR or TLRY. Are those good trades? Sure! But they aren't the *safest possible* trades. You want to basically be at the crest of the wave of whatever institutions are doing. Are they selling Tech? You're selling the 'most selling' part of that.

High Relative Volume - You need to make sure the stock is being *PUSHED*, not just coasting. For example, a stock can go up because there's below average selling, OR if there's above average buying. The latter is better because if things go back to baseline buying/selling, the stock should just cruise instead of reverse.

Relative volume needs to be +20% OR above 0% and *clearly* rising in response to technical levels being breached. You need to make sure you're measuring volume in relation to the average volume of that stock *at that time of day.* On TC2000 this is "volume buzz" above +20%. Other platforms are different, just make sure you're measuring the right thing.

Daily Void - The stock needs room to actually move and create a decent reward. At least 1% void available before and support/resistance/algo/trendline. *This is frequently missed so double, even triple check this.*

Intraday Timing - If you can really nail the intraday void, your chances of the trade going against you initially greatly diminishes and it'll immediately profit. Make sure you have good confirmation of line breaks, AND you aren't bumping up against a 5' trendline. zoom out the chart to check. I just click my entry point and drag a line back and see if there's too many wicks touching that line.

If you miss this one it's less of a big deal with a killer D1, you just might have to hold on the trade until the next bearish/bullish cycle. Just understand that sometimes those cycles take long enough for a sector rotation or market shift to occur. That bounce off the 5' trendline might be the 5th and final one before a macro move back up.

NEED AT LEAST ONE OF THESE

This turns a solid trade into an exceptional one that has more durability. It's basically a strong tell that the stock is being moved by institutions.

All Time High/Low - doesn't always have to literally be ATH/ATL. The reason why this is strong is because there's no potential sellers or buyers beyond this point to hammer the stock back beyond profit taking. No bag holders.

D1 Event - In order of strength is Horizontal Support/Resistance breaks, then SMA breaks, then Algo line breaks is the strongest (probably of every trait period). Be very very sure of your algo lines. I find them challenging to get right. Price points will probably be the strongest, but I don't understand them, so I don't trade them.

Compression Break - if the d1 chart is in a tight range for a while then pops out of it, the move can be pretty explosive. Get confirmation. because these might not show RS/RW the same way as other stocks. These definitely need serious volume.

Heiken Ashi Continuation - I like these because they're simple and indicate a solid trend. If you are on the 3rd candle of the same color that has a flat side, that's an HA continuation.

HOW TO FIND THESE

This is a lot of criteria, so it's a lot of data to juggle. Here's the steps I've found to get a real time sweep of all the stocks that are doing this through the day.

Step 1 - Scan by event/trait. Have a scan/search that finds stocks that are doing the "at least one of these" traits. Also, by high/low of the day. Stocks are at their highest or lowest of the day are usually doing something good and tradable. If there's none, I move to the next step.

Step 2 - Sort by relative volume and/or stacked sectors. Doing this first narrows the search down so you only have to mark up a few charts instead of hundreds.

Step 3 - Check D1's. Ones that *could* be good of they break a level go on alert. Ones that *are* good go on a watchlist

Step 4 - Constantly do this all day and keep your list updated/trimmed.

Step 5 - Wait for the right market conditions and the best entries on your list. I usually take my top 2-5 on my watchlist and have them on deck in my platform ready to activate.

MANDATORY:

- D1 Chart Quality
- D1 Void Available
- Stacked Sector RS/RW
- 20%+ RVOL
- Intraday Timing

NEED AT LEAST ONE:

- ATH/ATL
- D1 Event
- Compression Break
- HA Continuation

This Criteria for Reading the Market is working good for me! (/u/lilsgymdan)

So, a few weeks ago I posted some trade criteria but I realized that was only a small help if you can't get the market right. I'm not a pro but I've been trying to work on the exact same criteria system for reading the market and this is the best thing I've got so far:

Using this little spreadsheet checkbox has helped me learn how to read price action better and internalize a lot of it so I can tell a lot about **how** price is moving. That gives clues as to how you should trade that day.

I took a look at all of the ways to read price action. Volume, candles, HA trend, *etc.*, and organized them in a way that makes more sense. **Big help from Pete over at OneOption.com.** His videos and chatroom feedback has helped me HUGE to read price action and that alone is worth the price. You should watch all his stuff.

Disclaimer

This WON'T tell you if you're having a bear/bull day or if you'll get a reversal. You'll have to look at the bigger story for that. But it WILL let you know how the price action is unfolding and help you keep your monkey brain superstitions out of your head.

How it works

It scores from -9 to +9 and ranges from trend - chop - pure chop. Using that score you can decide how big a position to risk, maybe when you should take profits or just hold etc. Also when NOT to trade. It's helped me a ton and you can do whatever you like with it.

if you don't have the OneOption indicator just ignore the top and bottom criteria and the "flat/janky 1op" criteria

https://docs.google.com/spreadsheets/d/1epLPKchww7afoVxi3-GQi-Pd_gm6ryF6VevLH5qGVfg/edit?usp=sharing

(use the opposite for bear/short)

Upward price movement - duh is it going up?

Higher pivot lows - on the 5' chart are the pullbacks ending higher than the last ones?

Bottoms wicks > top wicks? - is there more overall combined bottom "wickage" on the 5' candles?

Last 3x HA candles were green - were the last three 5' HA candles that happened in a row green?

Last defended long candle was green - was the last longer than average candle that *didn't* get defeated green? (defeated = retraced over 50% or 100%, basically negated)

Higher RVOL on green candles - look at the volume bars, is there more overall higher green ones?

Last 3 stacked candles were green - were the last 3 candles with minimal overlap in a row green?

Bullish divergence last cycle (1op only) - was the 1op indicator in a bear cross but the price action didn't really move down, and now it's back in a bull cross? This is turbo time.

Compression - if the market is in compression or not, this should push your score back 1 (maybe even back to 0) and tells you maybe don't do anything yet.

Low daily RVOL - this means that ALL of the movement today is untrustworthy and you should risk accordingly. I push the score back towards 0 by 1 point at least.

Macroeconomic Outlook

Institutions are currently determining the % chance of recession
No capitulation or improved economic data = no change in trend
Possibly no more 10b51's from blackout buyers left to absorb next drop
China showing news of potential credit crisis
Last economic report was positive

Technical Analysis -

Personal Area of Practise

NO QUITTING, PAY ATTENTION TO THE MARKET, CHECK YOUR LINES

Here's a video explaining it https://youtu.be/IaReGandAng (10:41)

I update this every few candles just to keep an OBJECTIVE bead on the price action and it's awesome. Use it however you like. You can weigh stuff more or less on the data tab or change your criteria. You can also have certain trades, exits, rules, *etc*. that are only valid in trends or chop, *etc*. and that adds more discipline to your strategy. For example, I'll only hold through a pullback if the market is +7 or above but you must make your own rules.

Hope this helps!

How to Lean on the Daily Chart (/u/AwkwardAlien85)

About a month or so ago I had a brief conversation in the Option Stalker chatroom, and it made me realize that we have not really discussed what leaning on the daily chart truly means or how to do it. I am worried that there are some traders that are holding onto their losers too long and ignoring the price action. I would feel very guilty if I was somehow responsible for people having blind faith in their trades and in the same token, I want everyone to feel very confident in their trading too.

First let's build your confidence in your stock selection using the walkaway analysis:

Step 1 review your trades

So by now you have read the wiki and are really familiar with the walkaway analysis (The Walkaway Analysis Chapter). If you are not taking the time to review it and come back to this article. I have also made a google sheet to make the walk away analysis automated so you can review your past trades (Automated Walkaway Analysis Chapter).

After doing this review you will see that a lot of times holding onto your losers for a little longer would have made you much more profitable (especially if you follow the teachings of this community). This is largely due to the fact that this trading system relies on the strength of the Daily Chart.

Step 2: Selecting Stocks w/ a strong daily chart

What is a strong Daily Chart?

There are a lot of different answers to this really simple question as there are lots of different setups that different traders look for, but I will attempt to answer this as simply as possible. *If you pretended that the Daily chart was a 5M chart, would you want to buy/short?* Things I look for in a strong daily chart is an obvious trend (sometimes I use HA candles), is the stock higher than yesterday's high, is it above its SMAs, and does it have daily relative strength to SPY (example COP).

Step 3: Entering the Trade

Enter your trades at a swingable size. For me this is half my intraday trading size *this is my arbitrary rule* but it is what I have grown comfortable swinging. This ensures that I can lean on the daily comfortably and gives me options and opportunities to further manage this position. I can add to pullbacks if I miss-timed my entry and it gets me used to adding to winners when the trend is strong.

Step 4: Managing the Position

How I used to manage my positions

So lets say I have a position that I have the chance at making a profit on. I get all excited, I'm like jo-jo the idiot circus boy with a pretty new pet. The pet is my position, my pretty little pet, I love you. So I stroke it and I pet it and I massage it. Hee, hee, I love it. I love my little naughty pet. You're naughty. Then I take my naughty pet and I go >>>

How I manage them now:

Using the Tommy Boy analogy above I give my pet a treat when it does something I like (add to the position) and when it is naughty I take from that position. I like to use several different levels (3/8 EMA cross, VWAP) to manage the position and it helps me make decisions on whether to add to the position, reduce the position (take profits), or take a loss on the position. Some of this correlates with [my other post about market context]() as well (Next Chapter).

I will use a LONG position as an example but just know the opposite is true for SHORTS. I typically enter trades long that are above VWAP and showing relative strength to SPY.

3/8 EMA Cross: These can happen above and below VWAP and there can be several crosses a day. You can see them when consolidation happens and when big moves happen. These are pretty context sensitive so judgement is required. A good cross after some consolidation could signal the next move up so it is not a bad place to add. A bad cross can signal a good time to take some profits off.

High of Day: These are difficult for me sometimes because I have not found a fool proof method of determining when a new high will be made and when it is going to make a double top and reverse. I feel it comes down to intuition and years of watching charts. Add if you are confident and there is nice volume or watch to take profits if you are not…yeah I am not a whole lot of help here.

VWAP: Also context sensitive. If the stock is strong you can see this because it will not even test the VWAP that day but if you did not enter too far away from the VWAP odds are it will test it. If the stock breaks down below the VWAP and the bar closes below it that could be your first clue that the stock is no longer bullish. It could be time to leave or reduce your exposure.

When to take a loss:

The basis of your entry into this stock was based on the strong daily chart. If the daily chart ends the day that goes against your thesis and breaks down that daily chart it is time to take the Loss.

Breach of a D1 trendline or ALGO line in the opposite direction

The Daily will close as a reversal candle w/ high volume closing below/above yesterday's high/low.

Yesterday I posted CROX: I did not swing it but if I did this is how one can interpret how to take the loss.

Would you hold or take the loss?

edit for /u/superpantz

Question (summarized): Leaning on the daily can result in larger loses as the stop tends to be larger. For example, if I win 9/10 trade risking $100 each trade and on average make $10 each trade, that 1 loss would take all the earnings.

Answer: If you are adding to your winners (increasing from swing trading size to day trading size) you should be taking more on your winners and losing less on your losers. For example, let's say that you have added to your winners and instead of making $10 a winning trade you are making $15. 9/10 trades you are now winning $135. If you continue to lose the same amount you should be netting $35.

LET ME STRESS HOW IMPORTANT MARKET CONTEXT IS AND KNOWING WHEN TO LEAN ON THE DAILY VS. IDENTIFYING YOUR THESIS IS NO LONGER VALID.

My most recent swing/ example of leaning on the daily was swinging a short for DASH. I entered a DASH short based on the break of consolidation to the short side on 26 AUG. Now I timed this entry horribly at possibly the lowest point of the day.

Dash Daily

SPY daily

26 AUG 5M CHART...did not enter back into consolidation and market context good so I swing

29 AUG DASH 5M Chart

30 SEP DASH 5M Chart

So, in this example we have a stock that stayed near the VWAP during Market Chop, then we got a bogus news pump and dump, and we were finally able to take profit.

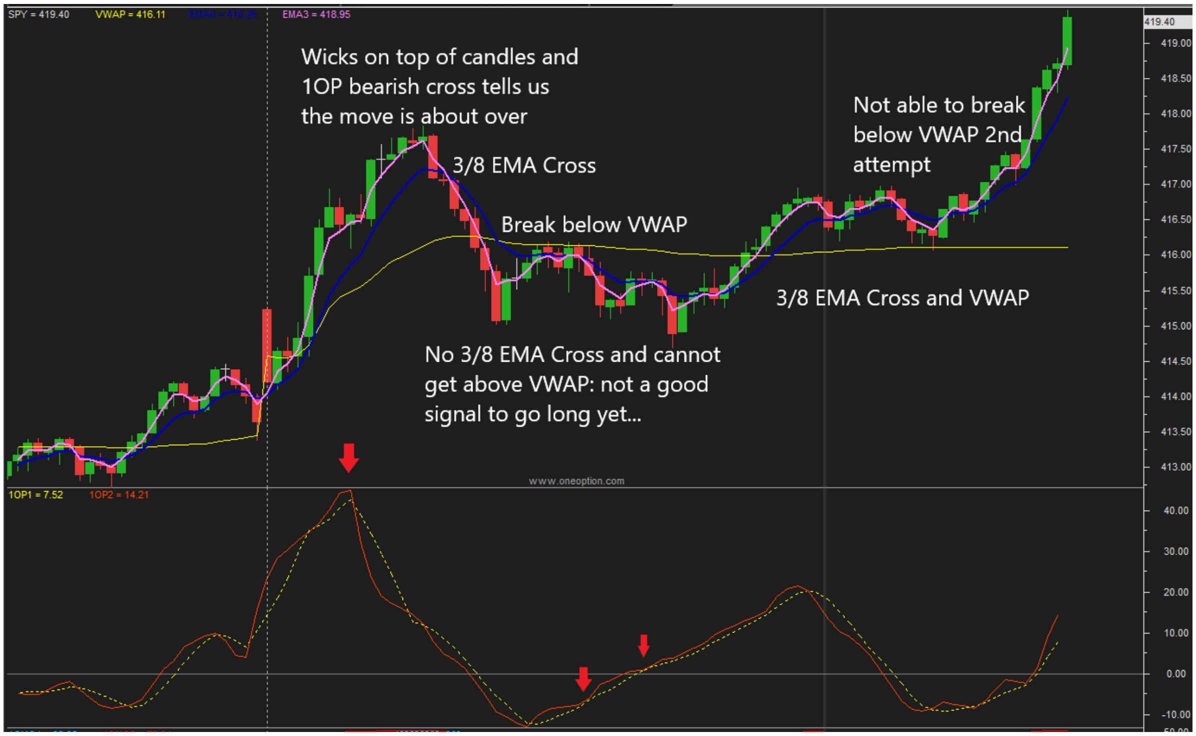
It is late so I am calling it. Keep the questions coming and I'll try my best to answer. Good luck out there.

Using Market Context to determine whether your stock has Relative Strength and write a story (/u/AwkwardAlien85)

Story Time

There are a great many indicators floating around that we can use to help us determine whether there is relative strength and honestly, I think this community and Option Stalker have the best ones. However, an over-reliance on these indicators and a lack of interpreting price action can be detrimental to our trading. So here are a few simple tricks to determine whether you are getting a false positive on your Relative Strength indicator using market context and to assist in trade selection:

Below is the 5 minute read of SPY from today 25 AUG: It was a really low volume day so it was definitely a harder day to trade but there were some hints.



Here is a link to One Option chart lessons that have nearly daily examples of this read for free and are just way better reads on the market then I can provide https://oneoption.com/general/chart-lessons/

Here is a trade I took today using market context in conjunction w/ our indicators:

Not even the best example but these were my thoughts on this today.

There were times when CROX was RW but given market context, we were are able to write a story. When there are movements in SPY, I am looking for stocks that are showing strength or weakness and these indicators are great ways to measure it, but you can quickly flip through charts and find better setups using market context.

The concept is as simple as MARKET FIRST. Identify what SPY is doing/has done. This works best if you can observe a bullish and bearish 1OP cycle. Find REFERENCE POINTS. I like using 3/8 EMA, VWAP, new highs/lows, higher lows/lower highs, double tops/bottoms, and consolidation. COMPARE this to the stocks in your scanners.

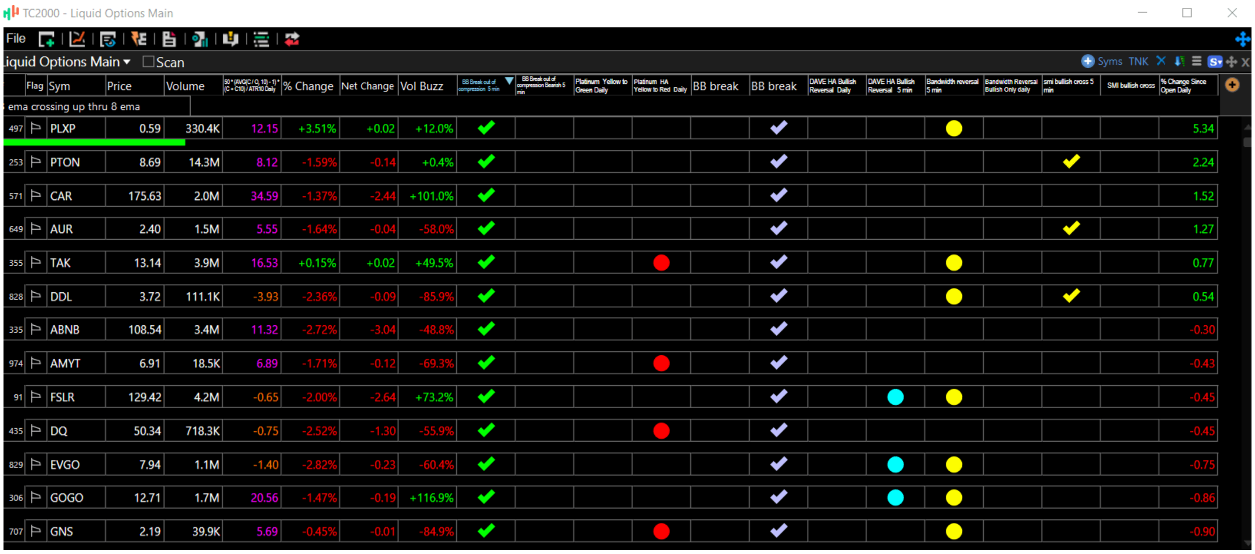
Moral of the story – Write a story using market context.

TC2000 Multiple scan results on one watch list (/u/OneWyse)

I have been using TC2000 for charting and scanning for many years and love how helpful it is in identifying high probability trade setups. I am finding that many traders using TC2000 aren't aware that many different scan results can be displayed on one watch list. TC2000 only allows 1 real time scan without paying additional fees for 4 or 10 real time scans but there is a very effective way to have many near real time scan results showing on one list.

I have my 900-stock list as my watchlist but you can use any watchlist you like, even all stocks. The watch list can have an unlimited number of columns that are usually used for volume buzz, volume, % change, *etc*. You can add columns to the list and those columns can be for any scan results you have such as HA reversals 5 min, HA reversals daily, compression breaks, volume surge last 5 minutes, *etc*. You add a column by clicking on the orange circle at the right side of the column list. That allows you to add a column for a value of a condition and the condition can be the result of any of the individual scans you have.

One the conditional scan has been set for a column go to properties on the conditional column you just added and use check marks and dots of a specific color so when your watchlist is viewed it will have all the conditions you added column for identified by a colored dot or check. Then by clicking on the column heading of the condition you want to see they will all sort to the top additionally all other conditions you selected will have colored dots or checks for those that also were currently occurring. By this method you can find stocks meeting any condition you want as well as a stock with multiple conditions being met at the same time. An example would be a HA bullish HA reversal coming out of compression with a volume surge or any combinations you want but your results will not be confined to only the specific condition or conditions you have a scan set for. It can be used in lieu of 5 or 6 separate scans that you have to keep switching between depending upon what you are looking for. I think this will simplify your search for high probability stock setups.



Sample of my TC2000 watchlist with columns for search results

Simple TC2000 scan for specific bullish and bearish daily setups (/u/OneWyse)

This is a fairly basic TC2000 scan to find some good bullish and bearish setups on the daily chart. I use the results to find good continuation trades the following day when i scan in the evening and for the current day for potential overnight trades to hold. The number of results are fairly small but effective.

The bullish scan is looking for stocks above the 50 sma, volume above the 50 day avg, price above the high of the last 50 days and price over $5. The Bearish scan results are below the 50 sma and below a 50 day low. The parameters can be modified to meet your requirements.

Bullish scan (TC2000): https://www.tc2000.com/~OrKjq7

Bearish scan (TC2000): https://www.tc2000.com/~afQGmi

Bullish scan (ThinkOrSwim): https://tos.mx/2ZKmsCG

Bearish scan (ThinkOrSwim): https://tos.mx/GVCu7TC

Chapter 5. Technical Analysis—Examining the Stock

Align Your Trades with the Market (/u/OptionStalker)

No matter how much I stress this concept, its importance is discounted by most traders. A week ago, I had a conversation with a frustrated trader. He told me that right when he thought he had figured everything out it turned to #$%^ during the last 5 days. I asked him, “What changed?”

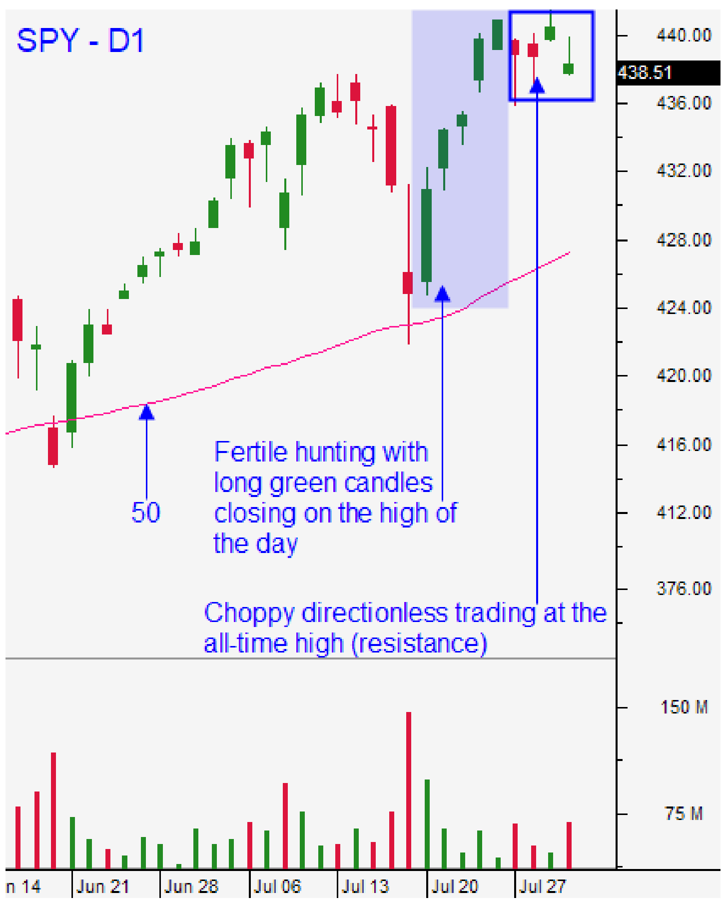
He had gone through his trade logs and after unsuccessfully taking multiple stabs at the possible problem, I pointed him in the right direction. I asked him, “What did the market do in the last week and what did it do the week before?”

The market tested the 50-day MA two weeks ago and it bounced. Once the market rebound stalled at the all-time high the trading ranges collapsed last week, and conditions became much more difficult. Traders who failed to recognize that gave back all or most of the gains from the prior week.

EVERYTHING starts with the market. This can't be a secondary thought; it has to be front and center stage. The market has been in a strong uptrend for 15 months and the best opportunities will come on market pullbacks. Those market dips give you an opportunity to easily identify stocks with relative strength on the way down and when the market finds support you will have an opportunity to join the uptrend with the best stocks on the rebound. After a drop to the 50-day MA the SPY will make sustained moves and you can ride the trades for bigger gains. This backdrop sets up for fertile hunting and trading seems so easy.

In addition to evaluating the longer-term backdrop, day traders also need to evaluate the current day's price action. That sets the table for how you will approach the day and it will determine if you are trading from the long side or the short side. Last Friday I recorded this video a few hours after the open. I predicted that the high was in for the SPY and that it would make a new low for the day. That was correct and that information was extremely useful. [CLICK HERE TO WATCH THE VIDEO NOW](https://www.youtube.com/watch?v=f8HfavUAk6Q) https://www.youtube.com/watch?v=f8HfavUAk6Q (14:04).

When you are evaluating your trades, you should note market conditions. In my opinion you need to start your daily trade analysis with the market. How well/poorly did you forecast market movement? If you are consistently getting the market wrong, focus on improving that element of your trading. When your market analysis improves everything will fall into place.



Imagine standing in the tee box of your favorite par 5 and you have a 30 mph headwind. It's obvious that you need to temper your expectations and you need to adjust your game plan for the hole. The fact that you birdied it last week has no bearing on what your score will be today. Trading is exactly the same.

Time Your Trades and Improve Your Win Rate (/u/OptionStalker)

One of the things that I can't teach traders is patience. It is critically important to wait for your windows of opportunity to set up. If you do this you will increase your win rate and a handful of trades are all you need.

Let's say you are "gnawing at the bit" to buy a stock with relative strength. "OMG, look at that baby run, I gotta get me some of that!"

Take a deep breath and look around. What is the market doing?

There is no trade that warrants chasing.

Don't buy stocks with relative strength if the market is going down. You should be looking for shorts, not longs.

Hold off on that stock purchase until you get confirmation that the market is going higher. If the market has been in rally mode, wait for a dip and support (3/8 cross). If the market has been down, wait for signs of support.

You can use price analysis (candles, trendlines…) or any indicator that you find to be reliable for the S&P 500. I use 1OP because of its predictive nature. Know that the market goes through cycles each day and your job is to time them.

I recorded this video today. I believe it will help you to improve your timing and consequently your win rate.

CLICK HERE TO WATCH THE VIDEO https://www.youtube.com/watch?v=DprKWLxVJm8 (47:03)

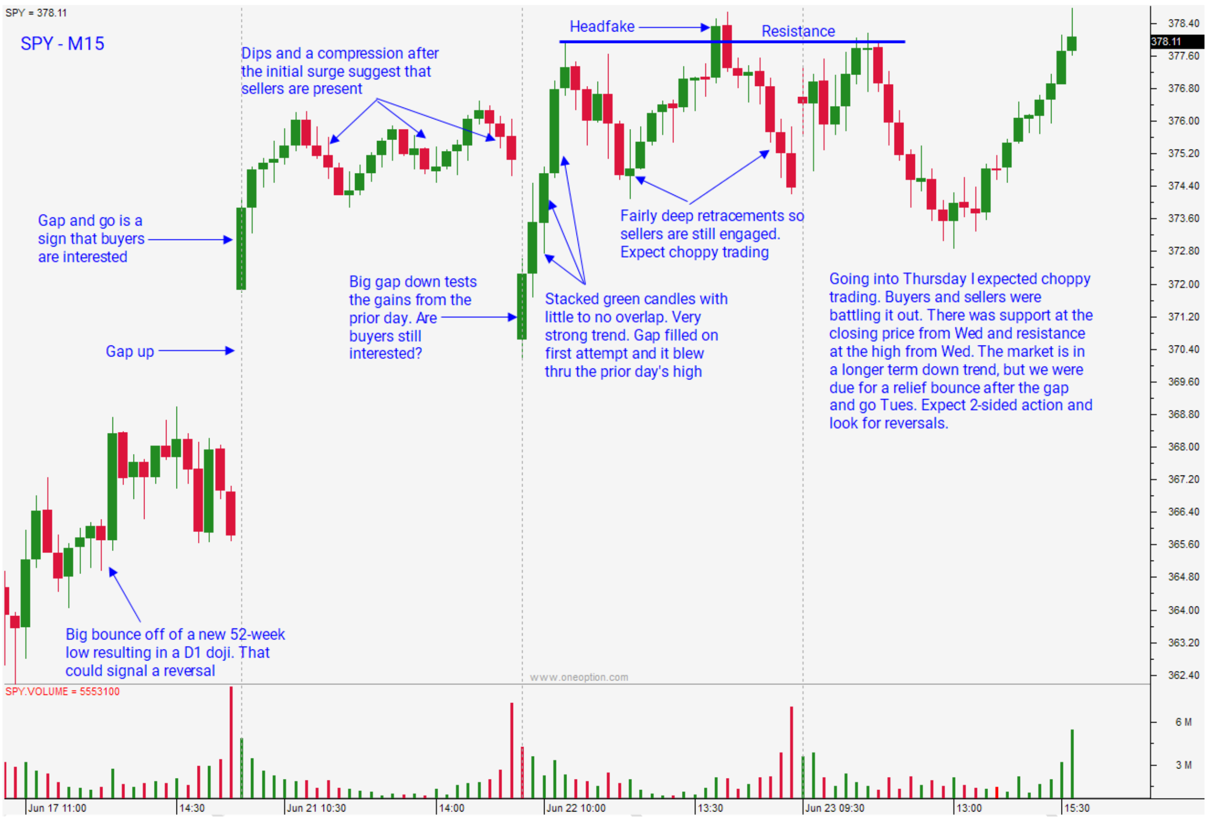
Please don't ask me how 1OP is calculated or the inputs it uses - I won't respond.

How To Read Price Action – Lesson (/u/OptionStalker)

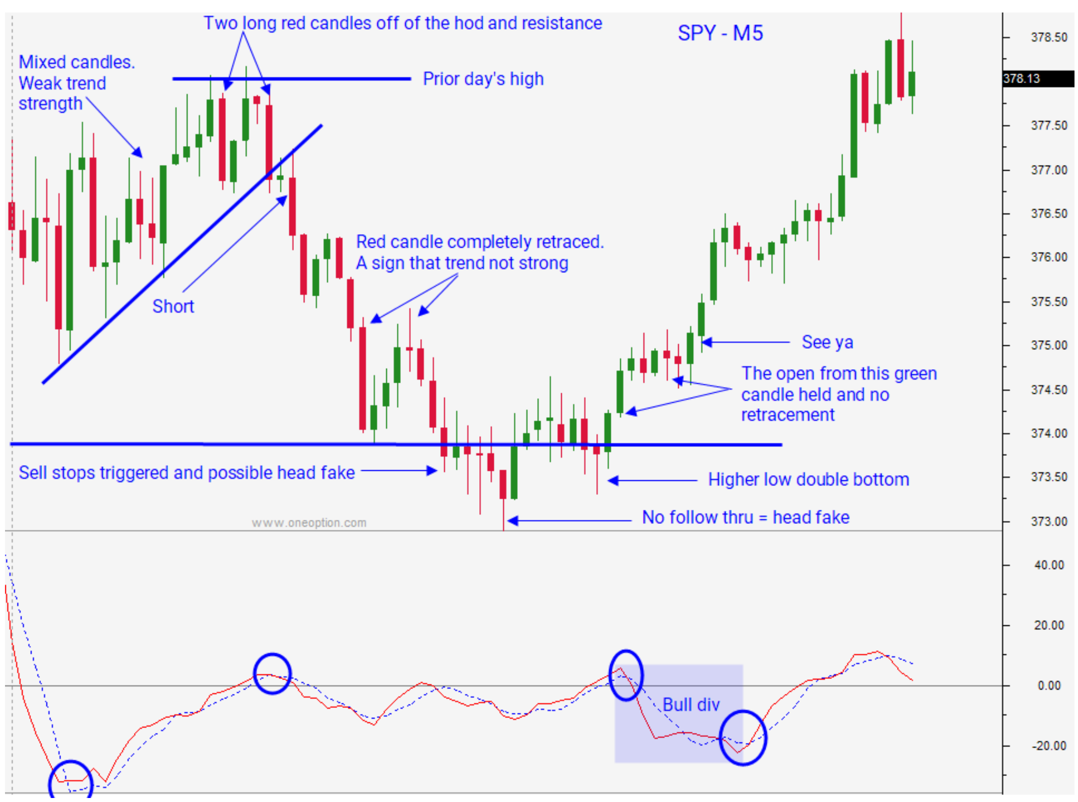
Those of you who know me often hear the mantra… market first, market first, market first. That is the starting point for every trade, so I am going to use SPY as an example in this lesson. This can be used for stocks as well, but it is critical that you get your market bearings each day before you trade stocks.

Context is critically important when you are reading price action. What do the longer-term daily charts look like? Is the market in a strong trend? Is the market trapped in a trading range longer term? Did we get to the current price with a Lamborghini or a bicycle? Are the candles mixed (weak trend) or are they of a single color (strong trend)? Is there overlap with other candles (weak trend) or are they stacked (strong trend)? All these questions need to be answered so let's start with a longer-term chart of the SPY and then let's drill down to an M15 chart and finally an M5 chart. You can see my comments in the charts below. By the way, all of these comments have been posted live in the chat room during the last week, so I am not playing "Monday morning Quarterback". Reading price action is a skill that can be learned, and it works. Below the charts you can read the scenarios I am expecting today with the probability of each. I will review the action today in a separate post.

Start with a daily chart



Next, look at a 15-minute chart



End with a 5-minute chart

Today the SPY is going to challenge a resistance level at $380 and it will open above it. Stacked green candles with little to no overlap in the first 30 minutes would be a sign of heavy buying. That scenario is unlikely because we know that sellers are present based on the recent price action. If we get that pattern the SPY will start to fill in the D1 gap and we could have a few more days of follow through. There is no reason to chase anything in this market so I will be passive if this scenario plays out (20%). A gradual drift higher on the open with mixed overlapping candles would be a sign of weak trend strength. When that move stalls, a good shorting opportunity would set up. Look for bearish hammers/bearish engulf off of the high of the day as a sign that a reversal is pending. This scenario has a 20% chance of playing out.

A more likely scenario is a bid check. The market tries to fill in some of the overnight gap up. Mixed overlapping candles will be a sign that the trend strength during the dip is weak. That will give us time to find stocks with relative strength and we can separate the fakes from the real deal. Once the market finds support, we can expect a rally and it will be time to buy these stocks. We do not want the retracement to be deep (more than half of the gap up preserved) or to last more than an hour. If that happens it would suggest decent selling pressure. This scenario has a good chance of playing out and it presents the best opportunities for us (30%).

A strong gap reversal would have long red candles and brief pauses. Half of the overnight gains would easily be stripped away. This would suggest that sellers are fairly aggressive. The gap fill would be fairly deep, and the pullback will take a couple of hours to run its course. In this scenario you would focus on shorts. We want the bounces to last less than 30 minutes. This scenario has a 20% chance of playing out. The final scenario is a complete gap reversal. Stacked long red candles consecutively in the first 30 minutes with little to no overlap would be a sign of heavy selling. We have seen decent buying, and the big down gap reversal two days ago tells us that buyers are aggressive enough to prevent that. This scenario only has a 10% chance of playing out.

It is critically important to get the longer-term context and then to drill down to the shorter time frames. Understand the possible scenarios and know the characteristics of each one. When they start to unfold, you will know what to expect and what action you plan to take. You should also know which scenario is most desirable and which one is most likely (they are not always the same). I will post a follow up chart and I will review the day after the close in another post.

Trade well.

I kept right on going with the analysis and I recorded a video right on the opening bell, and I gave you a play-by-play. Make sure to visit this post to see how it all turned out (Next Chapter).

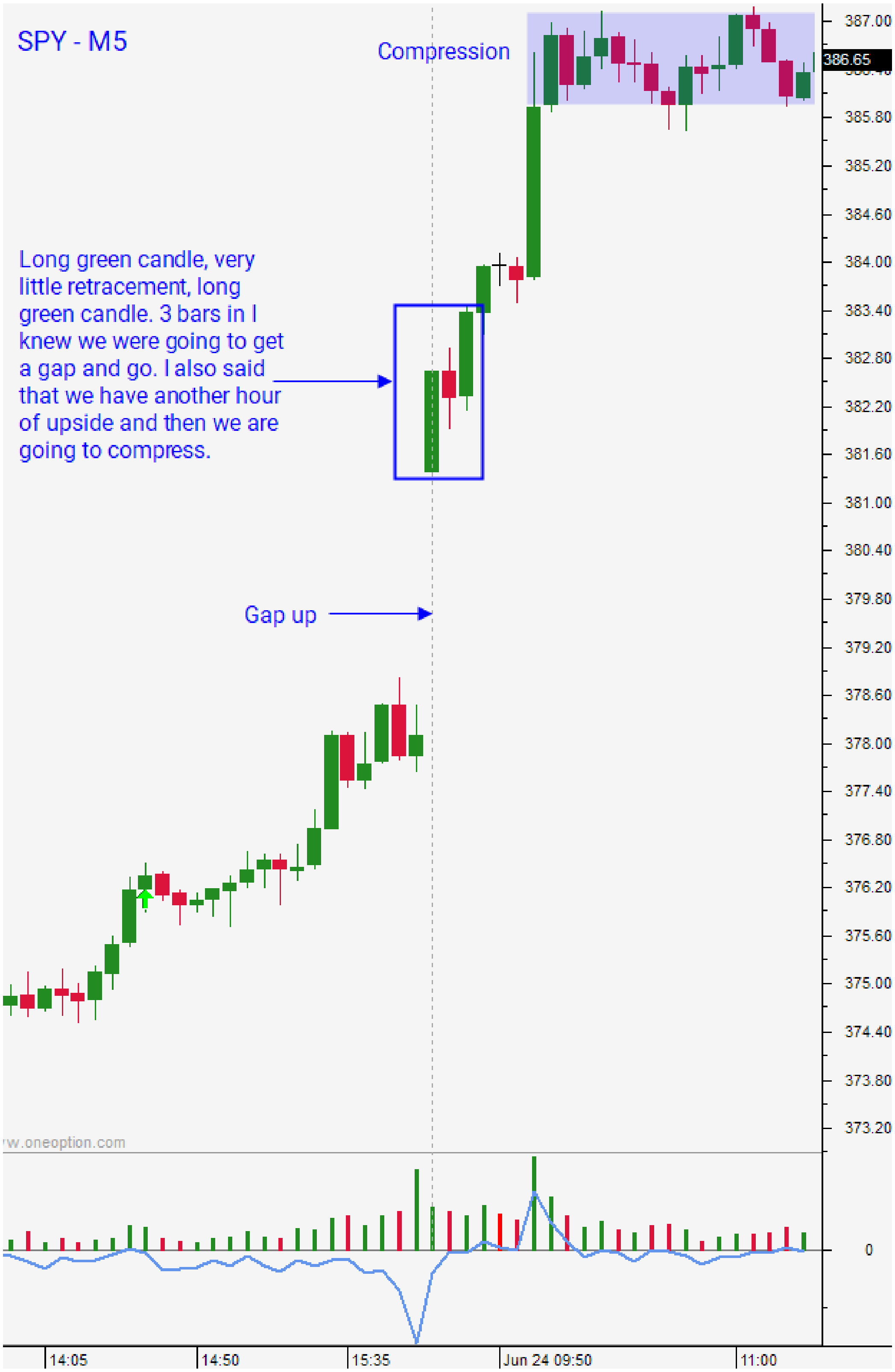
How To Read Price Action - Here's What Happened (/u/OptionStalker)

Before the open today I wrote and extensive article on the importance of context and how to read price action. Click here to read it (previous chapter).

My educational juices were flowing so I recorded this video from the opening bell today. I gave you a play-by-play read on the market. A few bars in I knew the pattern we were going to get. I could have waited until the close to post this follow up, but why wait. I already told you in the video how the day was going to play out. By getting the video out early I can show you stocks with relative strength that I am watching. Click here to watch the video https://www.youtube.com/watch?v=6GolSZTNDsg (43:27)

There are a few patterns that could play out late in the day, but those moves will be minor. We are going to be stuck here until the last 90 minutes of the day.

Have a great weekend.



We got a gap and go

Anatomy of a Trade Series

Anatomy of a Trade - Part 1 (/u/OptionStalker)

It is absolutely critical that **ALL** of your trade analysis starts with a longer-term view of the market. Your market opinion and your confidence in that opinion will drive all your trading decisions.

My opinion is that the volatility is starting to increase, and that resistance is building at an all-time high. The long-term uptrend is still intact, but the momentum is starting to wane, and we are seeing some profit-taking. Artificially low interest rates are keeping buyers engaged, but that tone is changing as the Fed starts to tighten. My market opinion is the result of hours of technical and fundamental analysis.

For swing trading this means that I need to be cautious. I can expect big dips, so I had better distance myself from the action and sell out of the money bullish put spreads on strong stocks when the market dips to major support. I can tell from the price patterns over the last two years that these dips do not last long so I need to act quickly on those drops. Once the positions are established, I can expect a market bounce and then time decay will work in my favor. Those spreads will expire and then I need to wait for the next dip.

For day trading right here, I can see that the SPY formed a bullish hammer after it tested the 100-day MA. The next day the market had another bullish hammer and it closed on its high of the day and above the 50-day MA. This was a short-term bullish pattern and if I wanted to hold some of my day trades overnight I could. We are in a pre-holiday mode so the volume will be light. There is a strong seasonal bias to the upside so I should favor the long side for my day trades.

These are my market opinions, and you need to conduct this type of analysis so that you can develop your own opinions. Sometimes you might not have a market opinion and that is OK. It tells you that the market could go either way and that you should error on the side of caution.

When experienced traders ask me to review a losing trade, I can usually trace the issue back to market analysis. Do you remember your little league days when your coach would instruct you to "keep your eye on the ball"? The market is "the ball". Never take your eye off of it.

I will post Part 2 on Christmas and the last two parts Sunday and Monday.


SPY - D1
Resistance
Wide range with long candles. Expect two-side action. Poor for swings
Support
50
100
200
Quad Witch
Light holiday volume
www.oneoption.com
470.60
472.50
467.50
465.00
462.50
460.00
457.50
455.00
452.50
450.00
447.50
445.00
442.50
440.00
437.50
435.00
432.50
430.00
427.50
425.00
422.50
420.00
417.50
120 M
60 M
Oct 07
Oct 13
Oct 19
Oct 25
Oct 29
Nov 04
Nov 10
Nov 16
Nov 22
Nov 29
Dec 03
Dec 09
Dec 15
Dec 21

Anatomy of a Trade - Part 2 (/u/OptionStalker)

In Part 1 of this article, I started with a longer term view of the market. Now it is time to shift your focus to short-term market analysis. Day traders need to form a market opinion for the day. The first step is to put the current day's price movement into the longer-term context and the next step is to interpret the intraday price action for the SPY.

When we talk about context it is the macro back drop and the pre-open market move that come into play. Here are some recent examples:

The market is gapping higher, am I inclined to chase this move if I see stacked green candles? If I was asking myself that question 10 days ago (SPY at all-time high) the answer would be - no. Gaps up to the all-time high have typically been faded and I can expect a gap reversal. If I was asking myself that question Tuesday (SPY near major support) the answer would be – yes. The market had bounced off of the 100-day MA the day before and it closed on the high of the day. Buyers have consistently bought these dips in the past and seasonal strength is working in my favor along with the long-term market up trend.

The market is gapping down, am I going to look for shorting opportunities on the open? First of all, shorting has been very difficult because of the strong seasonal bias and the long term (12 years) market up trend. Bull markets die hard, and these drops typically find support. Is the market going to open below the prior day's low? Is the market going to test a major D1 technical support level? How did overseas markets perform? Was there some type of news that could be sparking profit taking overnight? These are the questions you have to answer. I would be more inclined to short near the all-time high (resistance) than I would be at the 100-day MA (support). My conclusion might be to wait for dip buyers to come in and to wait for that bounce to stall. If it falls way short of filling the gap and the bounce is brief, I will know that the selling pressure is strong and that dip buyers will be flushed out. That initial bounce will provide an excellent entry point for shorts (example below).

Most days I want to watch the open and I want to let the price action unfold. Buyers and sellers will test each other and after 30 minutes of trading I will be able to form a market opinion for the day.

Consecutive long green candles stacked with little to no overlap is very bullish and the opposite (red candles) is very bearish. Long candles that retrace are a sign of uncertainty and volatility. A good move is likely, but it will take time to determine direction. Tiny mixed green candles are a sign of equilibrium, and a dull day is likely. These are the keys that unlock your trading day.

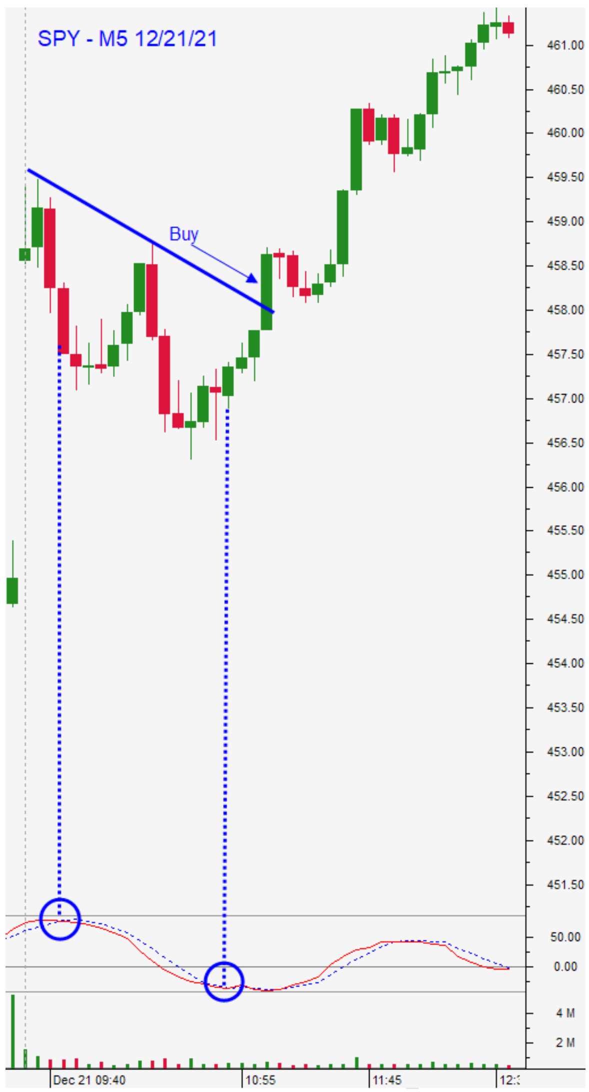
Position sizing is a common topic. I use a constant dollar amount so that I buy fewer shares of expensive stocks and I buy more shares of less expensive stocks. There are many books written on the topic and not one of the methods resonated with me, so I have my own method. My size is based on my market opinion and my confidence in it. I will try to write more about this in the future, but the concept is pretty simple. If the SPY is trapped inside the prior day's range ("inside day") and we are inside of the first hour's range with mixed candles and light volume, I am going to trade smaller size. If the market is gapping higher on heavy volume after confirming major D1 support (like 12/21/21) and it is above the prior day's high and a major D1 resistance level during seasonal strength, I am going to trade larger size. Please don't ask me a bunch of questions on position sizing, I keep it quite basic, and I do NOT consider a stock's volatility (although you might). My sizing ranges from 1/4 of what I consider to be a full position to a full position. If your long-term win ratio is greater than 75% for day trades you can use a part or all of your account. If you do not have that win ratio you should trade 1 share until you get there.

I rarely like to trade during the first half hour. Those first 30 minutes are filled with noise and programs are testing the bid and the ask to see who has the upper hand. There is valuable information in those first bars and they will help me confirm/reject my game plan. Last Thursday (12/24/21) I saw two stacked green candles with no overlap. That is bullish, but I needed proof that this was not going to be a gap reversal. Over the next 30 minutes of trading I could see that the open from the second green candle had held and that buyers were supporting the move higher. How do I know this? You can see that the opening gap was holding. If this move was a giant head fake we would have seen profit taking and red candles. We did not see that and even the gains from the opening print were holding. Now we were seeing some tails under body (another sign of support). The final confirmation was that 1OP was declining while the market compressed near the high of the day. This is something we call a bullish divergence and it was a sign that the market was going higher.

Here is another example of the opening price action (Tuesday 12/21/21). The market had tested the 100-day MA the previous day and we had an opening gap higher during a seasonally strong period. These dips to support have been bought aggressively the last two years.

YOLO bullish specs bought the opening gap higher and were flushed out when it looked like the opening gap would fill. The first two long red bars suggested heavy selling because there was no overlap. This told me that we still needed to probe deeper (or that we needed to spend more time) to find support. Those early red candles were almost erased by the next candles, and we rallied above the open for the first red candle. This is a sign that buyers are engaged, we just had to wait. The next two red candles made a new low of the day, but it was a marginal new low (not substantially lower than the previous low of the day). That was a sign that support was forming.

The next series of green candles confirmed that the market was going higher. Much of the opening gap higher was preserved and buyers stepped in before the gap was filled. That is because they did not feel like they would have a chance to enter that law and they were aggressive. The long green candle that appeared 90 minutes after the open accomplished two things. 1. It broke the downward sloping M5 trendline 2. It cleared the open from the prior two red candles. It came on a bullish 1OP cross and it was time to buy.



Here is another example of how the long term and short-term market analysis helped me game plan my day. On December 13th the SPY sold off hard after testing the all-time high resulting in a long red candle. A closer look at the daily chart reveals that the market typically has follow through selling after this pattern. Buyers are less aggressive after that price action and there will not be a sustained rally until support is confirmed. The next morning the market was gapping lower. Dips have been bought indiscriminately by novices and I was waiting for a bounce that would stall. This was the optimal "set-up" and I wrote about it before the open. I was going to let bullish speculators rush in and I expected that the door would be slammed and that the bounce would easily fail. The opening bounce (long green candles) was brisk, and the move looked legitimate to those who did not consider the longer-term context I outlined. The "tell" was that the gap did not fill, and that the retracement was equally brisk. The open from the last long green candle failed easily and we were stacking red candles. The next red bar retraced almost all the green candles and that was a great entry for shorts. After a brief and tiny bounce, the SPY took out the low of the day and that was an entry point where you could safely add to shorts. Bounces that are brief (20 minutes) and shallow are a sign of heavy selling. We also had a bearish 1OP divergence to confirm that the market was going lower.


SPY - M5 12/14/21
Gap unfilled
Easily reversed gains
Very strong
Short
Short
468.40
468.00
467.60
467.20
466.80
466.40
466.00
465.60
465.20
464.80
464.40
464.00
463.60
463.20
462.80
462.40
462.00
461.60
461.20
460.80
0.00
-50.00
4 M
2 M
15:20
Dec 14 09:40
10:55
11:45
12:35

One final example from December 8th. The context is that the market was bumping up against resistance at an all-time high. The market was in a holding pattern ahead of a critical FOMC statement in a few days. The early action was random chop. We had long red candles and long green candles mixed and the market was inside of the prior day's range and inside of the first hour range. This is a warning sign that there will not be a sustained directional move and that you need to trim your size and trade count.

I don't post these examples to brag, this analysis actually happened in real-time and we did these trades in the chat room. I want you to know that this analysis works and it is not a bunch of BS.

Many members of this sub also belong to my chat room and they will confirm my posts or reject them if I start posting crap (never). This is the type of analysis you need to conduct if you want to become a good trader.

The first two parts of the decision-making process are market centric. Your long-term and short-term market opinion are so critical that I would consider the first two steps to be 70% of the entire day trading puzzle. Get this piece right and your odds of success increase exponentially. Get the market wrong and your chances of success are slim.

Click here to read Part 1

Merry Christmas!

Anatomy of a Trade - Part 3 (/u/OptionStalker)

In Part 1 and Part 2 I completed the most critical part of my analysis and I now have my longer term and shorter-term market bias for Thursday December 23rd. I feel that seasonal strength and a bounce off of the 100-day MA fueled a rally through the 50-day MA. The market closed on the high of the day yesterday and we will have follow-through buying today. The SPY is gapping higher, and the volume will be light ahead of an exchange holiday. I need to tread cautiously on the open and I need to make sure that the gains are holding. While I wait for market confirmation, I will look for stocks that have great D1 charts. During that time, I do not want to see long red candles stacked consecutively with little to no overlap. That would indicate a gap reversal and heavy selling. A slight dip would be fine as long as most of the gap higher is preserved.


SPY - M5
Long green candles
with little to no overlap
Compression. Buyers are engaged. We know that because profit takers have not been able to knock the market down. That selling has been negated by buyers and the market is likely to release once the gains have been digested. We are above the prior high, seasonal strength, strong momentum the prior day and above the 50-day MA. Buy now.
Prior day's high
Bullish divergence. Market compressing near high of day with 1OP falling
www.oneoption.com
470.58
471.20
470.80
470.40
470.00
469.60
469.20
468.80
468.40
468.00
467.60
467.20
466.80
466.40
466.00
465.60
465.20
464.80
464.40
464.00
463.60
463.20
0.00
-40.00
2 M
1 M
:55
14:45
15:35
Dec 23 09:55
11:10

The stock I am looking for will have D1 relative strength, a technical breakout and heavy volume. It is also likely to have other characteristics I like, but this is the minimum. Longer term strength is important because it tells me that I have a strong tailwind. If my entry is less than ideal, I have the staying power to weather a dip in the stock or an adverse market move. My intention is not to turn a day trade into a swing trade, but I could if I wanted to (this notion will help you take some of the emotion out of the trade and you will be more confident in the trade).

In general, you want to buy stocks that are closer to the 120-day high (upper right corner of the chart) and short stocks that are closer to the 120-day low (lower right corner of the chart). You want as many desirable characteristics (checkboxes) as possible.

December 23rd: I found TSLA. To be honest, TSLA is always on my radar because it moves well and it has great option liquidity. It was in a downward sloping channel and the lower end of that channel had been breached. This typically results in a selling climax and these reversals often retrace back to the top of the channel. The 100-day MA was preserved and a bullish hammer resulted. Off of that bounce, TSLA opened on the low and closed on the high (long green candle) with heavy volume. It was through a downward sloping D1 trend line and it was likely to challenge the 50-day MA. While I was waiting for the market to confirm support (gapped higher on the open) I was going to track TSLA. If the market pulled back, I wanted to see TSLA tick higher. If the market compressed, I wanted to see TSLA tick higher. This would confirm that buyers were still engaged and that TSLA was strong relative to the market.

The trade was shaping up, but I had to be patient – Part 4.

Anatomy of a Trade - Part 4 (/u/OptionStalker)

In Part 1, I developed my longer term market opinion. The market had bounced off of major technical support and this dip was being bought aggressively into year end. The market gapped up Thursday December 23rd and I needed to make sure that the gains were holding. In Part 2, I identified that buyers were still engaged and that a market breakout was pending. While I waited for market confirmation I searched for stocks with relative strength, heavy volume and technical breakouts on a D1 chart. TSLA looked strong and I described why I liked it in Part 3. At this juncture of the decision making process I am confident that the market has a strong bid and I am watching the gap higher to make sure the gains hold. I don't mind a small retracement, but I do not want to see organized selling and I do not want much of the gap to be tested. If that happened it would give me more time to find my trades because it would take longer to confirm market support. The market was compressing, and all the gains were holding. I also had a bullish 1OP divergence forming for the SPY and it was just a matter of time until the market made a new high of the day.

TSLA was on my radar. In Part 3, I mentioned all the desirable characteristics for TSLA D1. Now I was comparing TSLA to the SPY on an M5 basis. I wanted to see relative strength, heavy volume and a technical breakout on a M5 basis as well. As you can see in the chart below, TSLA was showing signs of strength. The stock was able to hold the prior day's gains. It easily moved through the high of the day and the prior day's high. It had relative strength and strong volume. The trend was strong and that could be seen by the green candles it was stacking. It was going to test the 50-day MA and I wanted to see it move through with little to no resistance on the first attempt (another sign of aggressive buying). As the stock was testing the 50-day MA, the SPY dipped for a few bars. During that time TSLA made higher lows and the stock did not budge. If there was going to be profit taking, it would have happened at that resistance level and it would have happened on that tiny market dip. Instead, the stock prepared for its next leg higher. This was the "tell" that buyers had the upper hand, and it was time to buy.

Once I entered the trade I wanted to see follow through buying for the market and the stock. The greatest threat to the position was light pre-holiday trading and the chance for dull trading the rest of the day. If the stock was going to make a move, it had to be now. I could lean on the 50-day MA and use that for my stop, but that is not how I manage my trades. I will write a future article about stops so let me keep this brief. If you are having problems with your stops, you are looking in the wrong place. Your entry is poor and that needs to be your focus. Most of my trades take off immediately and I place my stop above my entry once I am in. Then I just have to manage profits.

TSLA continued to show great relative strength and I scaled out of the position on the way up. I watched the market dips very carefully and I still had half of the position on when the market dipped in the middle of the chart. TSLA continued to move higher during that market dip and that told me it still had another leg higher in it. When we got that long green candle I took the remaining gains on the position. Not because I was bearish, but because I was very happy with the gains on what was likely to be a lackluster pre-holiday trading session. The market was showing signs of resistance and I needed to respect that.

I did try another TSLA trade later in the day. The stock remained strong, and the market showed signs of strength. The SPY had a nice long green candle that retraced slightly (right hand side of the chart below, the last 7 candles). TSLA had remained close to the high of the day and it looked ready to release. TSLA did not dip with the market when that SPY long green candle was challenged, and I liked that. However, when the SPY had two nice green bars (bullish flag) and TSLA did not move higher, I placed an order to exit TSLA for a scratch and I was filled. If TSLA had a delayed response and it rallied, I could have re-entered. My mindset was to keep the gains from earlier in the day and not to give them back. It was a light volume session and I needed to error on the side of caution. I got the market move I wanted, and the stock did not “behave”. Why would I wait for TSLA to stop me out of a pre-determined price level? I wouldn’t do that. The stock did not do what I expected, and I needed to get out now.

If you get Part 1 - Part 4 right, you can trade any options strategy you want and make money. On an expensive stock like TSLA with great option liquidity I prefer to day trade deep ITM options that have at least a week of life. Why don't you trade near term weeklies? Time decay. Why don't you go father out in time? I don't plan to be in the trade for more than a few hours. Why do you buy ITM options? High delta. TSLA moves like the wind, and I can usually bid just below the current bid and get filled in a few minutes on these "deeps" so I try not to chase. If I need to be more aggressive splitting the bid/ask usually works. Some traders might prefer call-debit spreads and some might prefer put credit spreads. Some traders might choose to trade stocks and I do this for most of my day trades because the liquidity is better. I really don't want to answer... "can you do this"... and "can you do that"... options strategy questions. The answer is yes. Get the market right and get the stock right and your odds of success are great no matter what you do.

If you are just starting out, you have no business trading options. You have to focus on the first four parts of the process. The market is 70% of the puzzle and the stock is 25% of the puzzle. Until your win rate is greater than 75% you should not trade options and it could take you years to get there. Options will simply exaggerate your mistakes and you will lose your capital faster.

In Part 5 of this series, I am going to wrap this up by addressing entries, stops and targets.

Anatomy of a Trade - Part 5 (/u/OptionStalker)

In this article I want to do a quick recap of Part 1, Part 2, Part 3 and Part 4. All your analysis starts with your D1 opinion of the market and your confidence in that analysis. When your confidence is high you trade larger size and when your confidence is low you trim your activity. The opening market move might fit the longer-term market narrative as it did in Parts 1-4. However, if the two time frames are not aligned, you need to wait patiently for them to align intraday. For instance, if the market had continued to fill in more of the gap Thursday I would have waited longer before entering TSLA.

The intraday price action in the first 30 minutes will help you identify the directional bias and the trend strength. Sometimes the market will have great strength (consecutive long candles stacked with little to no overlap) and sometimes the trend strength will be weak (mixed green and red candles on light volume). It is critical that you determine the type of trading day that is setting up. Use the first 30 minutes to get your market bearings and to find stocks with relative strength, heavy volume, and technical breakouts on an M5 and D1 basis. If you follow this process and you wait patiently for the trades to set up, your odds of success will be high. Here are some common trade questions. Books have been written on each of these trade questions, but I will give you simple answers.

How do I know when to enter a trade? If the market is bullish on D1 and the intraday price action indicates a market move higher, buy stocks that are technically strong on D1 and M5. Relative strength, breakouts and heavy volume confirm that the stock wants to lead the charge. Scale in and add if the position is working. If you do not have all these elements in alignment, be patient and keep stalking. They will line up and don’t settle for anything less than perfection!

How do I know when to take profits? When you entered the trade all the elements should have been present. The market should continue to move in the way you expected. If you expected a rally and the market drops, you need to be ready to take gains on the stock. If the stock maintained its relative strength and if the market dip looks benign, you can try to ride out the market dip knowing that when the market regains the bid the stock will shoot higher. If the market is moving higher and the stock is losing its relative strength, take some profits. If the stock has tiny-bodied candles at the high of the day, it is a sign of resistance, and you should take some gains. If the market is trapped inside of the first hour range you should set passive targets on the stock knowing that there is no tail wind and that most stocks will not go on a long tear. Your position management needs to be fluid and it needs to constantly evaluating the market (D1 and M5) and the stock (D1 and M5).

How should I size my positions? The market determines how aggressively I am going to trade in any given day. If the market has a strong D1 chart and a heavy volume technical breakout, I will look for that continuation during the day. I would like to see the market blow through the prior day’s high and I would like to see long green candles stacked consecutively on the open with heavy volume. If I get this backdrop I will be trading size. If the market has been choppy and directionless on D1 with recent dojis and tight low volume intraday ranges, I will size down. If the market is trapped inside of the prior day's range ("inside day") I will trade smaller size. I like to use a constant dollar allocation and I change that amount daily based on market conditions, my market forecast and my confidence in that forecast.

Where should I place my stops? If you are having problems with your stops, you need to focus on your entries. Chances are you are forcing trades, and you need to be more patient and wait for the trade to really line up. Most of my trades perform within 5-10 minutes and I am looking for instant cushions. Are there times when I get the stock or the market wrong? Yes, and I need to identify whether the situation is temporary (stick with the position) or if I was wrong (exit). Price is important, but it is not the only consideration. For bullish day trades I like to use the open from the last long green candle (there were buyers at that price before) as a stop. I also like to see the halfway point of long candles hold. Time is also a stop parameter I use. If I am in a trade, I am looking for instant movement. If the stock stalls and the market stalls, I am likely to exit the trade and wait. This is a time stop and the longer I sit in a position the closer my odds get to 50% (I want 75%). Relative strength is another stop I use. If the market is heading higher and the stock is not participating, I will stop out. I provided an example of this in Part 4 with TSLA. If I am long a stock and the market starts to lose the bid (long red candles, double top lower high, bearish 1OP cross) I will exit longs. The stock will hold its relative strength, but only for a little while if the market is dropping. The process for entering and exiting trades is fluid and it requires constant evaluation of the market and the stock.

Why am I so nervous? There could be a few issues in play. The most obvious is you are overtrading. Scared money never wins, trim your size. You might also be nervous because your win rate is poor and trades always seem to get stopped out for a loss. If this is the case, you need to work on your patience and you need to wait for those windows to set up. If you go through the process I outlined, you will have confidence on a longer-term basis for the market and for the stock. A structured decision-making process will reduce anxiety. When you enter a trade, you should be confident, not wishy washy. The stock needs to perform in less than 15 minutes. Scaling in is another way to reduce anxiety. The smaller exposure will help you remove the emotion. Sometimes you will add to a winner and sometimes you will exit before you build the position. In either case, know that you control what happens and there is no need to fret.

What is the best options trading strategy? Your opinion of the direction, duration and magnitude of the move and your confidence in that opinion determines the best options trading strategy. First you have to apply this to the market on a daily and intraday basis and then you need to do the same for individual stocks. Sounds easy – right? Unfortunately, there are many variables that you need to quantify before you can get to the best strategy. My experience is that the strategy that allows me to get in and out with ease and minimum slippage (bid/ask spreads and commissions) is the best one for day trading. Remember, options are only 5% of the decision-making process. If you get Parts 1-4 right, you can trade just about any options strategy and do well. Experiment with different options strategies until you find a few that work for you.

I hope this series of articles improves your trading in 2022.

Day Trading the S&P 500 and the Importance of Context – Part 1 (/u/OptionStalker)

How does the current day fit into the longer-term picture? Answer this question and you will know the context of the current move. In the screenshot below I numbered 5 time frames and I will describe the context for each period.

1) If I were day trading futures in this time frame the first thing, I would notice is that we are trading in a longer term up trend and that we are near the all-time high. That means that I can expect resistance and selling pressure. The red candles are created because the market opens near the high of the day and then it gradually drifts lower during the day. If I am day trading futures, I need to be aware of this pattern. I will be watching for signs of strain, and I will favor the short side when I get an opening gap higher.
2) During this time frame a few things stick out. First of all, we are poking through resistance at the all-time high on extremely light volume. You can see that the bodies of the candles are tiny (dojis). That means that the ranges are tight and that the closing price is likely to be very close to the opening price. These choppy little days are filled with noise, and it is best not to trade futures in this environment. If I were going to trade these moves, I would look for large moves away from the opening price and I would try to scalp futures as they return to that price.
3) During this time frame I can see that the previous day the SPY closed below the 50-day MA. The previous times (many of which you can't see on this chart) have resulted in snapback rallies. Once we are back above the 50-day MA the buying pressure is steady and the move typically lasts all day with the market closing on its high of the day.
4) In this period, I can see that the previous day the market had a decent range. The tails are fairly long, and the market closed right where it opened. That doji signals a potential trend reversal. The market gapped higher the next day and it resulted in a gap reversal. We know that because there is a long bearish engulfing candle. Off of a new all-time high this bearish engulfing candle will frequently result in follow through selling the next day. That means that I should favor the short side the next day.
5) The previous day the market tested the 50-day MA. We know that buyers have scooped stocks when that has happened previously. At the start of the day, I will be looking for strength and a bullish trend day is likely.

Before you attempt to day-trade the S&P 500 you need to put the current day into context. Look at previous price movement and try to visualize how the day might unfold. Try to define the various scenarios that might play out and determine how you will react to each. We never try to guess what the market is going to do. We evaluate price movement and then we react.


SPY - D1
1.
2
3
4
5
50
436.00
432.00
431.06
428.00
424.00
420.00
416.00
412.00
408.00
404.00
400.00
396.00
392.00
388.00
384.00
380.00
376.00
372.00
368.00
364.00
360.00
www.oneoption.com
100 M
50 M
Apr 23
Apr 30
May 07
May 14
May 21
May 28
Jun 07
Jun 14
Jun 21
Jun 28
Jul 06
Jul 13
Jul 20

Day Trading the S&P 500 and the Importance of Context – Part 2 (/u/OptionStalker)

How does the current day fit into the longer-term picture? Answer this question and you will know the context of the current move. In Part 1 of this article I focused on the longer term picture and now it is time to zero in to what I thought was going to happen today.

I post my pre-open market comments each morning (free) and I referenced the tendency for the market to rally hard off of the 50-day MA. Earnings season is heating up and that typically provides a very strong market bid. I did NOT jump on the first print. I prudently waited for the price action to confirm what I believed was the most likely scenario. If it played out, I planned to “size up” (I traded 3X my normal size) and I planned to ride the moves as long as possible. It was critically important not to get trapped in a gap reversal. Here is how the day progressed and you can reference the numbers on the chart.

1) The market gapped higher, and the first bar had a decent range. The gains held for the first two bars and that was a sign that buyers are overpowering profit takers. If the SPY could take out the prior day’s high on the first shot with a long green candle it would be a sign that the market bid was strong, and I would not hesitate to buy.
2) Two long green candles stacked with very little overlap blow through the prior day’s high and now we are set to fill in some of the gap from Monday. My entry was good and now I want/expect all the gains from the second candle to hold. The doji is fine since it is at the top of the second green candle and now, I am expecting another long green candle. When I get that candle, I know that this has been a large move for the SPY and I want to gauge any retracement.
3) We get a tiny retracement, and the half-way point of the most recent long green candle is preserved (that would have been my stop if it was breached). Remember, I was expecting a strong day and I wanted to stick with the position as long as possible. The dip only lasted two bars and then we got another long green candle. This is an extremely powerful move.
4) I had big gains, and I took profits with the intention of re-entering. I knew that after a strong move like this the dips would be brief. The long red candle was a “one off” and it was followed by two dojis that traded below the close of the red bar. They were followed by a green candle that almost recovered the red bar and I bought futures.
5) The tiny bodied candles here told me that resistance was building and I took gains. This is also when I record a daily video, so I wanted to be flat. I don’t like to have futures positions on when I am recording.
6) The tiny bodied candles are a sign of resistance and there is an indicator that is telling me to be very careful. You can see the giant red bar and I consider this to be a key bar. It tells me that there is selling pressure at that level. If buyers were still super aggressive there would never have been a long red bar like that because their buy orders at lower levels would have gobbled up all of that sell order. You can see how the open from that red bar was very close to the high of the day.
7) This is a classic set up and it really drives home the concept of context. After such a massive rally most indicators are way overbought. Traders are always looking for big reversals and that red candle got everyone excited to short. The market can’t recover and it compresses. In time the lower end of the compression is breached and this is when shorts get really excited because it looks like the market is ready to roll over. This is a classic trap. Remember the initial context of the day was for a big rally that closes near the high of the

day. To this point we had all of the patterns that suggest massive buying. We had stacked green candles with little or no overlap, tiny little dips that only lasted a few bars. Did those buyers all of a sudden disappear? No. That small drop through the lower end of the compression lured in shorts. The buyers were back and they slammed the door in their face. I bought right at the arrow and I knew we were going higher because those shorts were about to get squeezed. I took gains when I saw the tiny bodied candles. That was a sign of resistance near the high of the day so it was prudent to take those gains.

A. I use a proprietary indicator to trade S&P 500. If you feel I am going to sell you some crap, stop reading now. If you are interested in how it works, keep reading. It is optimized for the SPY for a 5 minute interval. It is predictive and consequently it is early. That means it needs technical price confirmation. From the opening bell it was on a buy signal.

B. When the indicator spikes and the red line crosses below the blue line, it generates a sell signal. Typically, the market goes down when this happens, but price confirmation is needed. The market never rolled over (half of the green candle referenced above was preserved) so you would never have taken the short. In fact, when the indicator is falling and the market is rising there is a bullish divergence. This indicates that there is an incredibly strong trend that you can ride. We only see these divergences about 20% of the time and the candles to this point told us to watch for a divergence.

C. When the indicator falls below zero and the red line crosses the blue line it generates a buy signal. This means that you can continue to ride the momentum and as you can see the market staged another leg higher.

D. Notice how the red line crossed the blue line well before the long red bar appeared. This is a bearish cross and the tiny bodied candles near the high of the day were a sign that there was resistance. You could have taken that short after the red candle, but after a bullish divergence and a massive rally you should be extremely cautious on the short side (trade smaller size and use tighter stops).

E. This is a typical bullish cross and it was where I bought the futures. This was the set up I reference in #7 above.

F. The last two bearish signals would have panned out, but I did not trade them. It was getting late in the day.

My reason for posting such details on the S&P 500 is that it dictates all of your trading. It is important to put the current move into long term and short-term context. Many traders are tempted to trade the S&P 500. It is super liquid, and the leverage is incredible. Unfortunately, it is one of the hardest instruments to trade and there are only certain days when you should trade it. The good news is that there is a much better alternative to trading S&P 500 and I will discuss it in a future article.

Trade well.

How To Trade Relative Strength - Video with Real-time Examples (/u/OptionStalker)

I just recorded this video, and it explains the entire process of trading relative strength. It is about 15 minutes long. Please post comments.

CLICK HERE TO WATCH THE VIDEO (17:24)

How To Day Trade Relative Strength - Step-By-Step Guide Video (/u/OptionStalker)

I recorded this video with examples of how we traded relative strength during the rally early in the day and as I was recording the conditions reversed so I showed you how members were taking bearish trades. Today's price action illustrates the advantages of trading relative strength and weakness.

I do use Option Stalker in the video because the searches and indicators are designed for trading relative strength and weakness. If you feel this is "shilling" please don't watch the video.

[CLICK HERE TO WATCH THE VIDEO](#) (26:09)

Great D1 and Great M5 – Should I Buy the Breakout? (/u/OptionStalker)

A question came up in the chat room Friday and it is a good one. "*I had a strong D1 breakout and a good M5 so I bought the stock for a day trade. It pulled back during the day. Do I stick with the position and lean on the D1 chart and make it a swing trade or should I take the loss on the day trade?"* Does this dilemma sound familiar? There are many moving parts to the answer so I will try to hit them.

Your decision to take a day trade or a swing trade is based on your market analysis and your confidence in that analysis. The same holds true for the stock on a D1 basis and an M5 basis. Your percentage of day trades that turn into swing trades should be very small (< 5%). If that number is higher, you are making poor trading decisions and you need to work on your entry. The only reason you are "holding the bag" is because you entered poorly, and the stock instantly went against you. If your entry was good and the stock took off, you would set your stop above your entry price and manage the gains. When this happens, I don't get this question. So, let's address the problem.

My first suggestion is that if your win rate is less than 75%, you should work on that first. When you are day trading you need to have that fantastic D1 and M5 chart. Look for technical breakouts, relative strength, heavy volume, stacked consecutive green candles, no nearby resistance, nice orderly price action… you know the drill. Even then, you should not buy breakouts near the high of the day. Set multiple alerts below the current price. When the alerts are triggered, what did the pullback look like? Was it brief, shallow and unorganized where the VWAP held? Did that dip coincide with a market dip where the stock actually held strong? If yes, this is going to be a good candidate for a day trading long. If the pullback has stacked red candles and it is organized, it has more downside. Set additional alerts at lower prices. Each time an alert is triggered, check the price action. If all of the alerts are triggered and the stock has a big pullback, you need to do more work on your D1 and M5 analysis. You missed something and your stock selection is poor. Big pullbacks in longs you are considering should not happen often (when the market is stable). If the dip is reasonable and it is above the VWAP, when the stock finds support, set upside alerts and buy when they are triggered. This will force you to buy dips and you can evaluate the stock's strength/weakness during the pullback. Wouldn't it be nice to have a platform feature that automates this process and that generates an alert?

"But Pete, if I wait for dips, sometimes I miss great stock moves." That is true, but you will also avoid having the rug pulled out from under you and you will avoid the overnight risk of holding a "day trade gone bad". Here's the deal, if you have a win rate that is greater than 75%, you can buy all of the day trading breakouts to a new high of the day that you want. You have the skills to distinguish good breakouts from bad ones. Those trades carry higher risk and reward. To the novice trader, every breakout looks the same, but they are not. If you have ever watched Hari trade real-time, he is like Tom Brady surveying the field and making a throw two seconds after the snap. He has the awareness to digest all of the information real-time. This skill comes from experience, and you are not there… yet.

So, let's look at couple of stocks and let's look at some charts. These are the things you need to be aware of. First of all, market first. I don't want to get heavy into the market analysis, but this is the cornerstone. The backdrop was that the SPY bounced off of the 200-day MA Thursday. It closed on its high and above the 50-day MA. The market gapped up Friday and it held the gap during the first hour of trading. We have a bullish backdrop for day trading!!! Again, if we had market chop and an "inside" light volume day, we would have to adjust our game plan. Friday we were in buying mode.

This is a very important first step. Armed with a bullish market bias we need to find strong stocks to day trade.

You start searching for stocks and … oh baby did I find a nice one! This stock has a great D1. It is above all of the major moving averages, so it is fairly strong, it is breaking out through multiple trendlines, it has relative strength and the volume has been pretty decent. The M5 looks great too. It filled the overnight gap and bounced, it is above the prior day's high, it has relative strength, the volume is heavy, and it is stacking green candles. It marks all the checkboxes—BUY!

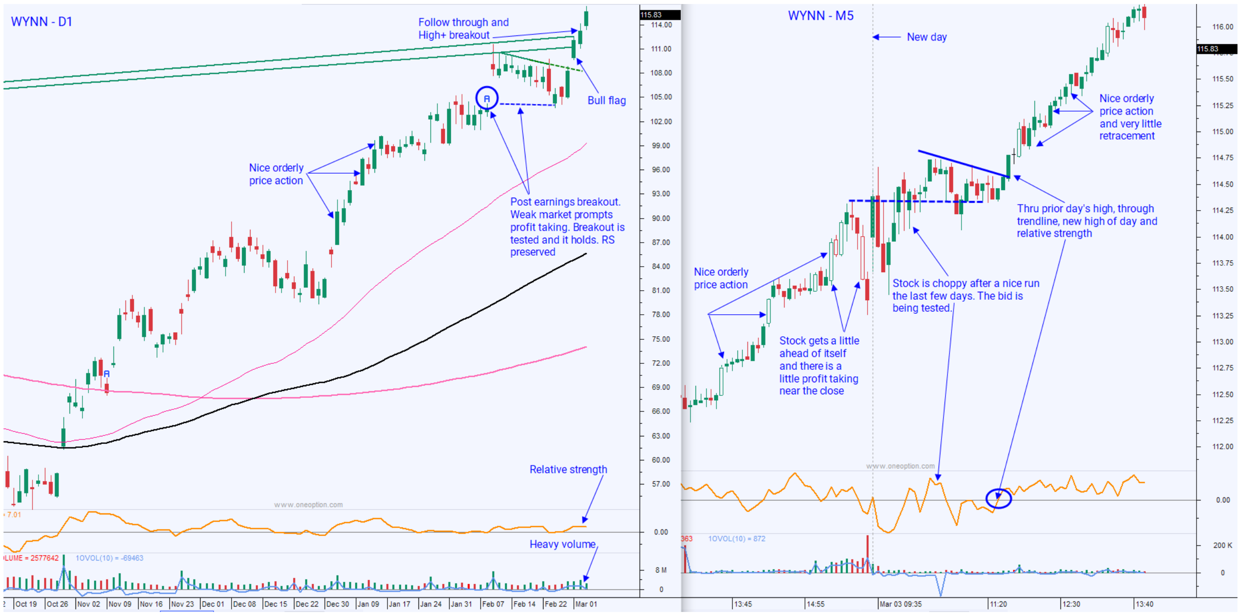
AMR marks many D1 and M5 checkboxes, but not all of them.

Now you are long the stock. You start thinking, *"This is going to be a great day trade. Look at that relative strength M5 and that heavy volume. I also have a market tailwind."* A few minutes later you are swearing up a storm and thinking, *"This system sucks."* Trust me, it doesn't. You missed some important clues. You do not yet have the skills needed to pick up on all of the nuances of price action. That is why you need to buy dips and set alerts. The dotted lines in the chart below are where I would place alerts. You want the open from those long green candles to hold. When they are violated with ease (a bar or two later), that is a warning that the stock is not that strong. When the stock gives back all of its gains and all of your alerts have been triggered it is weak and you should look for a stock that has better strength. Here are some of the clues you should have picked up on and missed.

You missed some very important clues and now you are frustrated.

The clues were that the D1 chart for AMR and the stock is as turbulent as a [Lufthansa flight to Frankfurt](). It has mixed overlapping candles with tons of retracement. Consequently, this is not a strong trend. The technical breakout is nice, but it has to get through multiple trendlines. The overnight gap fill, *"What the hell was that all about?"* You realize, *"The market rallied the day before and AMR barely made a gain. There should not be a bid check."* The market was strong. If buyers were lined up for AMR, there never would have been a gap fill and the stock would have been climbing from the open. Intraday gaps are not common. *What the hell was that?* Heavy volume and stacked green candles. We look for this, but why would I need to rush in and buy a stock like AMR? *"Did they discover a new peanut that will make them the preferred airline?"* Of course not, this stock is choppy as heck and the "seasoned eye" knows this. The novice checks what they think are all of the boxes. They buy the high of the day, the bottom drops out and then they complain that this system does not work and that they do not "get it". By the way, the stock did recover, and it did eventually make a new high of the day. "Bag holders" rejoice and the lesson they learned is, *"I just have to weather some storms and stick to my guns"*. That is one of many lessons.

So, let's find a nice example of where you would buy a breakout to a new high. Again, remember you had an excellent market backdrop Friday so that makes this entry viable. We do not always have that. This stock is a good pick for buying a breakout. WYNN has a super strong D1 chart and it is well above all of the major MAs. It has been moving higher during a market drop in the last few weeks (relative strength). It had a post earnings breakout to a new relative high. Market weakness kept a lid on it, but buyers were interested at the breakout, so it held. The stock bounced while the market was weak, and it broke out (bull flag). It broke out through two additional D1 trendlines on heavy volume. The price action has been very orderly. That is a sign that buyers are engaged. The stock can't pullback because any selling is instantly gobbled up (tiny dips). The price action Thursday was very steady (super tight and orderly). It got a little ahead of itself Thursday and there was a little profit taking near the end of the day (nothing too dramatic, just gave back late gains). Friday the market was strong. The stock has nice gains in the last week and sellers were going to test the bid. That took place in the first hour and the bid held. In this case, the gap fill was fine. WYNN had big gains previously. WYNN buyers were still there. The stock regained its footing, and it rallied above the prior day's high and it broke a small M5 down trendline. It had relative strength. You would buy some here and add on follow through. You don't have to enter the trade all at once – scale in on confirmation. The volume picked up after the new high of the day and it was better than average the rest of the day (confirmation of trend strength).



WYNN has all the qualities I look for and it is a much better pick than AMR.

"But Pete, you are cherry-picking examples." Hell yes I am. That is what you have to do every day. Pick the best stocks. What just took me 4 hours to write and annotate I can do in about 5 seconds of chart reading.

The market is different every day. If it opens inside of the prior day's range on light volume, you do not have the same backdrop. If it opens outside of that range and the volume is heavy, you have a good market backdrop. If the market has a strong D1 trend and stacked M5 candles, great. Then we have the right ingredients to buy breakouts. Then it is time to find the **best** stock.

Let me know how this lesson helped you. What did you learn? I will reply to your questions and comments Sunday night.

Trade well.

How I Knew the Gap Up Today Was Going to Fail [VIDEO] (/u/OptionStalker)

For those of you who follow my FREE pre-open market comments you know I was looking for the gap up to fail today. There were some "tells" before the open and I discussed them in the video I recorded. It includes play-by-play analysis with lots of chart reading. If you like the content, then subscribe to my YouTube channel and turn on your notifications. I post videos most days. If you think I am getting rich off of my YouTube channel, my check last month was $400. I am doing this to help traders!

Trade well.

CLICK HERE TO WATCH THE VIDEO (20:24)

Technical Analysis Lessons for Day Trading [VIDEO] (/u/OptionStalker)

This video was recorded this morning before the jobs report. It is important to visualize how the market might respond to events and how you will trade each scenario. As the early action unfolds, you will know exactly what to do.

I conducted extensive market analysis, and I showed you the searches I used to find today's picks. I went through all of the search results, and I posted which stocks I liked the best and why.

Please post your comments, I will reply.

CLICK HERE TO WATCH THE VIDEO (25:08)

When Technical Analysis No Longer Applies

Technical Analysis is the bedrock of what we do as traders.

Many people think of Technical Analysis as using the past to predict the present and/or future - but that would not be accurate. If it was then Technical Analysis would be a series of prediction equations, with various models for different situations.

In fact, statisticians and data scientists have tried to "model the market", and found it to be extraordinarily difficult, if not, impossible.

Take **AAPL** for example - yesterday the market was down, the sector was down, yet **AAPL** was up. Any prediction model, whether it be a regression, random forest, or agent-based modelling (essentially from *Traditional* to *A.I.*), would most likely have assumed **AAPL** would have declined yesterday. However, external factors (in particular the sales data on the new iPhones), combined with a need for a "safe haven" stock, resulted in a Bullish day for the stock.

As for why it is so difficult, the question isn't one of data, there is plenty of data - it is just that there is an almost infinite number of factors and combination of factors that can explain the variance for why a stock goes up or down on any given day.

Instead, what Technical Analysis really is, at its' heart, is a series of assumptions based on group consensus.

We can all look at the same chart and note where levels of **Support** and **Resistance** are, and we can all agree that those levels exist, and that to some degree, the stock abides by those invisible price barriers. For example, if I see a stock approaching its' SMA 100 on the daily chart, I am not going to go long unless it convincingly breaches that level. And guess what? Most other traders aren't going to go long either.

So, what happens?

Nobody is buying.

As a result, the stock retreats downward - thus confirming our own self-fulfilling prophecy.

Additionally, Institutions respect those same levels, so much in fact that their algorithms are programmed using them as guideposts. *And that is what really matters as we will see in a moment what happens when they don't.*

While Retail Trading represents roughly 25% of the liquidity in the market, we rarely act in unison (**GME** and **AMC** were rare exceptions when this occurred) and thus, the impact of our buying power is greatly diminished. In other words, I might be buying **AAPL,** and other traders may be as well, but in order to truly move the needle we would need billions of dollars in transactions on the stock. That amount of money requires the kind of group action that retail traders are simply not capable of pulling off. **However, Institutions *do not* need anyone else to move the market - they alone can initiate orders large enough to affect the price.**

But here is where it gets tricky:

First off - are all levels of **Support** and **Resistance** equal? We certainly treat them as such. You will frequently hear something like, "Resistance is right above at $100". *But what kind of resistance?*

Some of you are looking at the Cloud, others are guided by Fib lines (hard to even type that with a straight face), in fact, there are plenty of lines to go around with; horizontal levels, downward and upward sloping trendlines, Algo lines, EMA's and SMA's, Pivot points, Buy and Sell Zones, etc.

Do they **all** matter? Do some matter more than others?

Now add to that different time periods - you might have those lines on the daily chart, but what about the weekly? The 4 hour? The 15 minute? The 5 minute? Or even the 1 minute??

And then there aren't even "lines" so much as a plain ole' price range - whether it is a channel, or just a temporary compression.

Seems like a lot, doesn't it? But wait....there's more! For just $19.99, if you act now, you can also get this nice set of ***patterns!***

It's a Bull Flag! There is a Cup and Handle forming on the 4-Hour Chart! Wait....is that an Inverted Head and Shoulders I see there on the Weekly chart? By golly gee it is!!

Ok, so now I am sure you get the point - Clearly not all levels are created equal. But some have enough general consensus that gives you enough confidence in using them. For example, **Simple Moving Averages** - notably the 50, 100 and 200 on the daily chart, are widely assumed to have enough universal agreement as to provide fairly decent goal-posts to guide our decisions.

However, as we all know, those levels are broken every day - and it is a good thing they are or trading would be rather boring and unprofitable. *As traders, we look for breaks of key levels - they are significant and meaningful.*

Why are they so meaningful? Because a stock doesn't simply break a major level for no reason (I have the Boromir LOTR meme in my head) - there is *cause*. It could be earnings, news, an extremely bullish/bearish market, *something* caused the price to breach that boundary.

It also stands to reason that the stronger the level, the bigger the reason required to get the stock to break through. This question alone would require a monumental effort to solve. You would first have to rank all the different forms of **Support** and **Resistance** in terms of their likelihood to "hold" or be "breached". And then you would have to also rank all the various catalysts (earnings, news, etc.) by their impact on either the market or stock specifically. Finally, I suspect you would then need to divide them up into "tiers" with the end result looking something like: "That is a Tier 2 level of Support, and it would require a Tier 3 or higher Catalyst to be breached". But alas, nobody has done this yet.

Anyway - the question for the moment is - *What happens when the catalyst becomes more important than the levels of **Support** or **Resistance***. In fact, this *just* happened. FOMC released and the market lost its' damn mind. Huge candles down, huge candles up - back and forth, and then finally down down down down.

I was short **AMZN** and the SMA 100 was at $121.41 - however, the strangest thing happened....**AMZN** broke that level, and went back up again, and then broke it again, etc...but that's not the strange thing - the strange thing was - ***it did not even pause when the price hit that level.*** It was as if it wasn't even there at all. If you look through a bunch of chart from 2pm (est) on, you will see many stocks breaking through what would be considered *major lines of **Support** or **Resistance*** without even a bounce or test of the price point.

And **that** causes a problem.

Because most traders are still playing by the traditional rules. Still using Technical Analysis to make their decisions. But the market doesn't care - the market is playing by its' own rules.

How does this happen? Well, I will tell you! Because at times like today *Institutions* take over. Our shorts or Put Debit Spreads don't even register. At this point Institutions are driving the market and only they know where they are going. Not only that but many times individual stocks aren't even on their radar - they are just dumping entire sectors. As the market dropped today it seems only the closing bell stopped it from falling even further. So was $375 a pre-set stopping point? Perhaps due to the close of the 6/20 candle being used as a natural resting point before it continues down to the *Low of the Year*? Or did time just run out? Hard to know. The point is - they may be using an area for **Support** that is well below the **Support** levels you were looking at for the stock or market. **AAPL** seemed to respect the SMA 100 on the daily, but **META** looks like it is using the low it registered at the height of the pandemic crash.

In other words, a trader **must** learn to recognize when external factors are overriding the rules of the game.

The higher the volatility the more the traditional rules go out the window.

And right now, we are at a very volatile moment for the market.

So, what do you do?

Well - not trading is always an acceptable answer. But that is hard - markets like this is like FOMO on Meth. Shit is moving - fast! You see people taking $3 here, $5 there and sitting on your hands, while probably the smarter choice, is also not the one most of you will make.

So how do you trade when TA becomes less effective? *Price Action*.

During times like today we all become *Price Action* traders. When I was short **AMZN**, I was watching the trading ladder and the volume. Was it moving up with more speed than when it was dropping? How closely was it following **SPY**? My thesis was that after the Algos and Short Squeeze was done, the hawkish nature of Powell's speech would settle in and the market was going to drop. So, I was also watching **SPY** very closely - in particular the volume on the red bars compared to green. Was it attacking the high of the day as if Investors were finally let loose after the FOMC? For a moment, it looked possible, but then the upward movement slowed. If the reaction was truly bullish green bars would have started stacking after that initial long red candle was erased. Once I saw that wasn't happening, I knew we were going to reverse - then it was just a matter of how weak was **AMZN** and how much would it drop with **SPY**?

You know what I did not care about?

The SMA on **AMZN**.

The Rules Have Changed but Day Traders Aren't Changing (Technical Analysis)

Technical Analysis is the bread and butter of Day Trading. *Real* Day Traders scoff at those who use the WSB-YOLO method of Day Trading, for many reasons, but the main one being - **it is not consistent**. For those that want Day Trading as a career the most important thing is *consistency*. Without that you don't have a career, as you do not have a guaranteed source of income. Technical Analysis provides that consistency.

For the purposes of this post let's assume that when I say Technical Analysis I mean **anything** that has to do with price-action. All indicators, chart analysis (support, resistance, moving averages, *etc*.), volume considerations, price fluctuations (including Level II interpretation) and algorithmic models ***all*** will fall under the umbrella of technical analysis.

The problem is that in the past two years Technical Analysis has been *breaking down*. Why?

Well to begin with I believe that what we are experiencing in 2020-2021 is a once in a generation market event. Yes, the market is irrational, but these past two years have gone from irrational to insanity. The virus, the Fed pumping unprecedented cash with low rates, all while making the Bond market unattractive, unsustainable P/E ratios, have combined to artificially push this 10-year bull market way past its expiration date. We *should* be in a bear market right now.

Now it is important to note that technical analysis works insofar as others follow it as well - Support works because other traders and institutions also know where that support is and respect it. In other words, the basis of this type of analysis is really that everyone else is looking at the same setup you are, and they are making their decisions the same way you are - so when you see a stock approaching resistance you sell it (or short it), and so is everyone else - and then, surprise-surprise, the stock goes down. Because both institutions (those algos are based off those technical indicators, most simply follow the algo trendlines) and retail traders tend to act with a groupthink psychology, ***unless*** there is a mitigating event that overcomes those technical indicators; a news event, a short squeeze, earnings, and then you are momentum trading.

But now things have changed a bit and I think there are two reasons:

1) There have been a huge influx of new retail traders into the market this past 18 months and they don't care one bit about technical analysis, there are more WSB type traders than true Day Traders now, and they are buying or selling based off a different criteria (some strange combination of Gut and Fundamental Analysis of the float), and

2) Institutions which make up most of the volume are now playing by different rules. Sure a stock may have support at a certain price, but if those institutions suddenly feel like inflation is going to increase they are going to dump their holdings and fast. Suddenly your reliance on that support-level as a retail trader is no longer as safe as it once was. And why are institutions so jumpy, so prone to violating those sacred rules of technical indicators? Because look at the market - they know full well that at any moment it can jump up to SPY 430 or crash so hard that 1929 would say, "Damnnnnn". They don't trust it.

As Day Traders there is one solution this to - ***expand your toolkit***.

Let's say Stock XYZ is up $14 going from $250 to $264, and it continues to grind higher. Well perhaps a Call Debit Spread of 265/267.5 for a debit of .95 cents that expires that week is the best option, and you get a credit of $1.20 by the EOD. Perhaps selling the $23 put for .40 cents is the best bet for the Stock that is at $24.30 and rising, and then buying it back for .25 cents. Try combining Day Trading with Swing Trading by only Day Trading stocks that look good on a daily chart, that way you can hold it overnight if you need to without much worry.

Buying or Shorting Stock. Buying or selling Options. Buying or selling Spreads. Each of these have pros/cons and each can be tailored to fit the situation.

Now more than ever a successful Day Trader needs a deep bench of strategies, and a flexibility in how they trade. You need to learn how to trade in down markets and flat markets. If the market crashed on Monday, do you have a plan on how you would best take advantage of that?

The market is more dynamic than it has ever been, so you need to be as well. One thing is for certain - if all you are doing is looking at pre-market and seeing a stock like EYES up 65% and grabbing it after the first pullback, you are eventually going to get burned, badly.

Trade Smart!

Edit: In terms of holding a day trade overnight. I am not talking about morning gappers. I also day trade stocks like BILI or FUTU, MSFT or FB, etc… all the time. For example, on Friday I scalped DKNG but would not hold it overnight if it turned against me, because the Daily chart is ugly as hell. But TMUS on the other hand, was a safer play, the daily chart is so strong that even if someone got in at 142 and is now down about 50 cents a share, the daily chart is such that they could hold it over the weekend if they wanted. I would **never** suggest holding a high volume gapper that is under $10 a share overnight, *that* is insanity.

Traditional technical analysis is becoming less effective. Why? (/u/onewyse)

Ever had what looks like a perfect technical setup and it starts to work then fails miserably. You do another, same result then a third and bang, it works like a charm. Ever wonder why some work so beautifully and others fail. As far as your technicals were concerned they lined up perfectly, what happened. I believe traditional technical analysis is failing more often and not producing the results it has in the past for one main reason. Institutions (hedge funds, big banks, *etc*.) are controlling more and more of the market and with their algos they can push stock price wherever they want regardless of fib levels, MACD crossovers, Ichimoku cloud and on and on. These institutions have access to retail traders' habits and how they are likely to trade at certain levels and they can take advantage of that.

Because of this, when a technical setup is occurring it is critical to know if the institutions are buying and you are joining them or if you are joining a setup being created by retail traders that institutions are waiting to pounce on and take the money from the retail traders. This is why counter trend trading is so risky, the institutions (through algos) have created the trend and backed off. In come the retail traders picking the top or the bottom with no institutional participation. The stock briefly goes in your direction, then here come the institutions creating a continuation of the original trend and the retail traders are left holding the bag.

One thing that helps to see if institutions are driving the trend is looking at relative strength and weakness, most times consistent relative strength or weakness is a sign of institutional buying or selling. This is why trading stocks with relative strength or weakness is so important. It helps but it is not enough. There needs to be better ways to identify and quantify the level of institutional participation. Looking at volume or time and sales on your current time frame is not enough, it needs to be more in depth with multiple time frames in sync with each other. By the way, scalping works well against this because of the short time of the trade, however, scalping is probably the most difficult strategy for newer and even somewhat experienced traders to trade successfully. I will go into this further in another post.

Traditional Technical Analysis is becoming less effective - What to do about it [VIDEO] (/u/onewyse)

I did a post a couple of months ago (Last Section) on how traditional technical analysis has become much less effective over the last few years and went into the reasons why.

The main points were that institutional trading (Banks, Hedge Funds, *etc*.) with their algos is what determines price movement and trends, both when they are driving a trend and when they back off and let the retail traders come in. The algo knows what the retail traders are most likely to do at specific levels and indicator movements. I have found that technical setups that appear the same will sometimes work and many times fail (failing more frequently in recent years). The presence of institutions being in the trend make the trade much more likely to succeed and their absence make it more likely to fail.

I have been a successful technical trader for 12 years using traditional technical analysis and I love the trading community I am in, but I wanted to find a solution to this increasing failure of indicators and traditional technical analysis. I spent several months looking for a way to quantify the presence or absence of institutions in a trend and found software from Right Line Trading that did quantify institutional buying and selling. The way it achieves that is fairly complex. as you can imagine, but it is presented on a chart (in this case Think or Swim) in an easily identifiable format that is easy to interpret. I bought the software and began using it in conjunction with my usual technical analysis and it has been extremely effective both in identifying the best setups to trade. but more importantly, keeping me out of trades lacking institutional participation.

I have been trading with the "The Right Line Compass System" for about 6 months and was so impressed on its effectiveness I joined their team on January 3rd. I certainly would not mention or recommend this software if I didn't believe in it effectiveness and use it myself.

Since I believe this will add value and improve one's trading, I am including a link where I will go over the Compass System in a webinar on Saturday Feb 5th at 1pm for anyone who would like to check it out. The webinar will be recorded for anyone who would like to see it but won't be available on Saturday.

https://register.gotowebinar.com/register/3092651751827323664?source=reddit (1:37:48)

Backup link (206.5MB): https://mega.nz/file/2oFTHaqL#cAHisINIi9X80Nf-7WGNHbNkKlFVByNlfZQEbw_LyDQ

How to Use Laguerre RSI or LRSI [VIDEO] (/u/OptionStalker)

Video: https://www.youtube.com/watch?v=vDn37rK5C0s (13:43)

How the Stock Gets from Point A to Point B Matters! [VIDEO] (/u/OptionStalker)

I recorded this video almost two weeks ago on August 4th and it is almost an hour long. This was just before I took time off, so I wanted to give traders a short-term and a long term market outlook. The technical analysis was detailed, and I described what the candles were telling me. Then I zeroed in on individual stocks (long and short) and I provided the same technical analysis. The beauty of watching this video now is that the lessons are still valid, and you can see if I was able to predict price movement.

[Watch the video now.](#) (50:56)

For those of you who think I get rich on my YouTube videos, Google pays me less than $20 per video and that does not even cover the cost of the thumbnail. I am recording them to help you!

Scenario Analysis and the Mindset of a trader! (/u/OptionStalker)

This is the mindset of a trader, and this is the type of scenario analysis I conduct on a daily basis. Trading is not mechanical; it is fluid and you have to account for all of the moving pieces just as a chess player would do. This is my current view of the market and how I will trade it.

This month we've seen selling pressure and the market fell below major technical support levels. We can expect seasonal weakness through September and the news was "heavy". The market does not go straight up or down, and we have been expecting a bounce.

Buyers needed signs of support and they have it. The drop on Friday reversed and the market closed near its high of the day. Yesterday an early gap-up was quickly faded and the bid was tested. We had a higher low (Monday vs Friday) and that was the sign buyers were looking for. As the day unfolded the market continued to grind higher and it closed on its high yesterday. Overseas markets were generally positive, and the S&P 500 is up 20 points before the open.

So, what should we expect today? "Gap and Go" patterns are difficult to trade because much of the energy behind the move has been exhausted right on the open. Our risk is greater buying gaps up because there is a chance for a gap reversal and support is much farther below, so we don't have much to lean on. Since the SPY is at the low end of the 60-day range, buyers will be more aggressive now that support has been confirmed and the odds of a "Gap and Go" are greater.

For day traders, I suggest waiting for the first 30 minutes before buying. Make sure the open has been preserved and look for tails under body. That is a sign that buyers are supporting the gap up and that attempts to knock the market down have failed. Only trade small starter positions early and buy stocks that have remained strong during the recent market decline and that are rallying through technical resistance on heavy volume. The longer the market is able to hold that opening price, the greater the chances that the market will advance. Ideally, the market holds the gains, and it compresses near the high of the day during a bearish 1OP cycle. If you see this, you can add to winning positions on the notion that the next bullish cross will send the market to a new hod.

If the market drifts into the gap in the first 30 minutes, hold off on buying. Wait to see how much of the gap is preserved. At the low end of the 60-day range with support being confirmed, I would expect more than half of the gap to be preserved. This would be a sign that buyers are going to defend the move higher. This is our best-case scenario for buying. That pullback will provide us with an excellent entry point and the best stocks will stay near the high of the day (and even tick higher) during this market bid check.

What if we see stacked red candles in the first 30 minutes? That is a sign of a gap reversal, and you should wait to see if the gap fills. This is a sign of selling pressure and it could result in a bearish trend day (very unlikely today). It would also be a sign that any bounce over the next few days is temporary and that sellers are aggressive.

What if we see stacked green candles with little to no overlap and heavy volume in the first 30 minutes? That is a sign that buyers are aggressive and that we are likely to challenge the 50-day MA very soon. You would have to chase the move and since we don't like to do that (because our risk is greater) you trade smaller size. The majority of the move will unfold in the first 90 minutes and then we will compress.

What should swing traders look for? As I have been telling you, the selling pressure has been fairly steady this month and the news has been rather "heavy". Interest rates are spiking and there are credit concerns in China. The Fed is steadfast in tightening and Powel l will remind us of that Friday. Your trading mindset is to take gains on shorts when we have big drops and then go to the sidelines. Wait for the bounce to stall and then reload shorts. I have been expecting a bounce here and I want to see a gradual, light volume float higher with mixed overlapping candles and stubborn price action. Those mixed candles will be a sign that sellers are still nearby, and the light volume is a sign that buyers do not have a lot of conviction. I would like to see SPY $445 resistance hold. If this bounce has lots of pops and drops with a general upward bias, it would keep my bearish thesis intact.

What if the market blows through the 50-day MA? This is possible and that is why we take gains on shorts during the big drops. We need to see the bounce. How strong was it? What did the candles look like? Did it come on heavy volume? How long did it last? All of this information tells us how to position ourselves. If we blow through the 50-day MA, it becomes support. Then we have to adjust our expectations. We wait for a dip and if that low is well above the 50-day MA, we know we are back in buying mode.

What do I believe is going to happen? It really does not matter; I trade price action, not what I believe. The drop this month does tell me that there is selling pressure. The big news this week is Nvidia earnings tomorrow after the close. If the reaction is negative and we stay below the 50-day MA, Powell's speech Friday is likely to attract sellers and we are likely to drift down to the 100-day MA next week. This is what I believe is the most likely scenario, but I am going to trade what is in front of me.

I plan to day trade today and watch for the patterns I have outlined above. Then I will know how to position myself.

Support is at the 100-day MA and resistance is at the 50-day MA.

If you post comments, please tell me what you learned.

Chapter 6. Options Trading

Options Trading - Explain It Like I Am Five Years Old

I have been asked by several people to explain the basics of Options Trading (and to do so in a way that is *easy to understand)*.

While I am not sure it is entirely possible to cover all the complexity inherent in this subject in one post, hopefully this will give you a solid fundamental understanding of *Option Trading*. I will try to keep it as simple to understand as possible.

Nevertheless, I still urge you to check out the tutorial videos your broker most likely provides - for example, Ameritrade has an excellent Options training "course".

Also - please know that reading this does *not mean* you should start trading Options. Until you have practiced using them with consistent success, I caution against trading them with real money.

Options:

The concept/theory of *option contracts* have been around for a long time, probably since the conception of trading goods/commodities began. In a way, the entire Insurance industry is based on the same principles. For the stock market, Option trading has been open to traders since 1973 (so they are as old as I am). And that is what *Options* are - a contract.

Just as with any contract you can either be the person who is writing the contract, or the one that is buying it.

All contracts are based on two things - the *current* and the *future* price of an *underlying* (in this case, *Underlying* refers to stocks, commodities, *ETF's* - like SPY). For the purposes of this post, I will be using *stocks* as the *underlying* example.

The difference between buying an option contract and buying the actual *underlying* is when you buy a stock, you actually own that stock - it is an asset; however, when you buy an *Options* contract you own the *contract*. You are paying for the *right to buy (or sell) a 100 shares of a stock.* Essentially you have not *yet* paid for the stock, you have simply paid for the right to act on that stock at a future date.

Now one might think that only institutions can write (i.e. *sell*) Option contracts, but actually anyone can sell them - you just need to have the money in your account to back it up.

Still confusing? Here's an example:

The housing market is currently going up, a lot. But you are afraid if you buy a house now, the market might crash. You are also afraid that if you don't buy now, it will keep going up. After looking at different properties you finally find one that you love - it is listed for $1 million. You feel that you will know either way what the market will do within the next two months, but you don't want to risk buying the house now.

So how much would you pay the owner of the house to lock in the price of $1 million for you? So that if in two months the house is now worth $1.5 million, you can still buy it for a million, but if it drops to $800,000 you don't have to buy it at all? Let's say the owner offers you a deal - if you pay them $25,000 now - they will guarantee you the house at $1 million and you can buy it for that at any time in the next two months. They also tell you that this contract *is transferrable,* meaning you can sell it to someone else for whatever amount the market will bear. So you pay the owner $25K. And the house goes down to $900K after 1 month. Now you can either wait and hope the price goes back up. You can sell your contract to someone else, but it would be worth much less than 25K now (i.e. why would someone pay $25K for the right to buy a house for $1 million when they can buy it right now for $900K?). The person taking that deal would have to be extremely bullish on housing to agree to *pay you* for a contract that gives them to right to buy the house for $100K over asking price (if you think this sounds like a bad deal, it is exactly what you are doing when you buy an Out-Of-The-Money Option). Maybe if they are very optimistic on the housing marketing still, and think in the next month that house is going to go to $1.4 million *and* they have no intention of buying the house but know they can sell that contract again for more than they paid you for it, they might being willing to do a deal, but it is going to be for less than $25,000. Now, if the price of the house goes up to $1.2 million, you just made a lot of money. You can either *exercise* your contract and buy the house for $1 million - you lose the 25K it cost for the contract, but made $200K on the house. If you wanted you could turn right around and sell the house for $1.2 million and make $175,000. Or you can sell your contract to someone else - the right to buy a $1.2 million house for $1 million, with a month left to go on the contract would be worth more than $200K. Or you can hold the contract and wait to see if the house keeps going up in price (thus, increasing the value of your contract).

Notice that unless you *exercised* the contract, you did not buy the house - you just bought the *right* to lock in a price.

So now with stocks:

Stock A - current price is $100.

If you are bullish on **Stock A**, you can buy the stock. So, you buy 10 shares for $1,000. You now **own** that stock. If it goes up you can sell it for a profit, if it goes down you can sell it for a loss, or you can hold it. As long as the company is listed on the exchange, you can hold your shares indefinitely.

If you are bearish on **Stock A,** you can short the stock. So, you borrow 10 shares from the broker for $1,000 and immediately sell them - collecting the $1,000. But you still owe your broker 10 shares of **Stock A**. If the price goes down to $95, you can buy back the 10 shares for $950 and give those shares back to your broker, keeping the $50 difference. If the price goes up to $105, you now have to buy back those shares for $10,500 and give the shares back to the broker, losing $500.

However, let's say that you think the amount of profit you can expect from owning (or shorting) 10 shares of **Stock A** simply isn't worth it. Well options allow you to use *leverage*.

There are two types of Options - **Calls** and **Puts**. And remember, a single contract of either a **Call** or **Put** *always* refers to 100 shares of the *underlying*. As such, the price of an option contract is multiplied by 100 - so if it costs $1, that is saying it costs $1 per share, meaning the actual cost is - $100.

A **Call** option contract gives the buyer of the contract the right (but *not the obligation*) to purchase a stock at a set price on a set date.

A **Put** option contract gives the buyer of the contract the right (but *not the obligation*) to sell a stock at a set price on a set date.

What is important to note here is that you do not need the money in your account to actually buy 100 shares of **Stock A** ($100 * 100 = $10,000), nor do you need to actually *have* 100 shares of **Stock A** to sell to somebody. All you need to have is enough Option Buying Power to pay for the cost of the contract itself. *However, if the contract is about to expire you will be warned that you could be in a margin call soon (meaning you might be forced to buy 100 shares of a stock you can't afford or sell 100 shares of a stock you do not have).*

So, let's look at four scenarios on the same Stock:

Scenario 1 - Buying a Call: Stock A is currently going for $100 per share. You think it is going to go much higher in the next couple of weeks. So, you buy a contract that says you have the *right but not the obligation* to purchase 100 shares of **Stock A** at a price of $95 a share (**this is known as the strike price**) in two weeks' time (**known as the expiration date**). This is called an **In-The-Money** Option. Given that the price of the Stock is $100, one would think the person selling you that contract that lets you buy the stock at $95 would charge $5 per share, or $500 per contract for this transaction - as this is the *intrinsic value* of the option. Options that have *intrinsic value* are **In-the-Money**. However, what would be the benefit to the seller of the contract in that case? They are getting no benefit from selling you that contract. Because they would be selling Stock A to you for $95 a share, which is cheaper than the going rate (i.e. they could just sell Stock A themselves for $100 a share), so the $5 charge would just be to make up the difference. Since they want to make a profit, they are going to charge you a *premium* on top of that *intrinsic value* to get some benefit. That premium is calculated using various factors and set by the market-makers (explained later); however, you are primarily going to be charged for **time** (*this is called Theta - time decay)* and for how **volatile the stock** is (*Vega - volatility).* The more time on the contract, and higher the volatility in the stock, the more *premium* you will pay for it. For this example, let's say in this case to buy a **Call** for **Stock A** with a strike price of $95, when **Stock A** is worth $100 will cost you $6 for this contract, or $600. Obviously, if you bought this option and then immediately *exercised* it, you would be able to buy 100 shares at $95, and then you could sell it for $100 - thus, making $5 a share - but it cost you $6 a share to have the right to do that, so in the end you have lost $1 a share. Hence, why you are hoping for the price to go up - but now you know the amount you *need* it to go up to - which is to $101 by expiration. You need **Stock A** to be at least $101 at the expiration date to break-even. Anything over $101 and you are in profit. However, this is if you intend to *exercise* your contract. And here is the other important note about options - **Most traders never intend to exercise their contracts.**

Essentially what you are trading **are the contracts themselves.**

If after one week since you bought the call option at a strike of $95, for $6 a contract, **Stock A** was at $102 - an increase of $2 per share, the contract would now have an *intrinsic value of $7* ($102 - $95) and then when you add on the remaining time decay and increased volatility (since it just moved 2% in a week, from $100 to $102), the current value would be around $8.50 per share, at 100 shares = $850. Since you paid $6 per share ($600), you could now sell this contract to someone for a profit of $2.50 or $250.

Scenario 2 - Buying a Put. Now let's say you are bearish on **Stock A**, and not just bearish, but *very bearish*. You think it is going to fall a lot. So you buy a **Put** Option that expires in two weeks, at $97. This means you have the right, but not the obligation, to sell **Stock A** at $97. However, at the time you bought this **Put** if it were *exercised* you would have to buy 100 shares at the current rate ($100) and then turn around and sell it at the contracted rate ($97) - meaning you would lose money. Since the Option is currently in a *losing position* it is known as an **Out-of-the-Money** Option. And guess, what? You still have to pay a *premium* to own something that is currently in a *losing position*. However, since there is no *intrinsic value* to add to the price of the Option, you are paying *all premium*, which is cheaper than an option that does has *intrinsic value (*people are drawn to **Out-of-the-Money** *Options* because they are *cheap)*. Let's say you pay .50 cents ($50) for the right to sell **Stock A** for $97. When you buy the contract, you currently hold a contract that has $50 of value. However, if **Stock A** stays the same price or goes up, your contract will be worth less and less, eventually down to $0 (meaning you lose the entire $50). However, if **Stock A** drops and goes to $98 in the first week your contract might be worth .90 ($90), at which point you could either sell it and make $40 profit, or hold it, hoping the stock goes down more. However, as time ticks on, the value of your contract declines based on **Theta.** With your contract **Out-Of-The-Money** you are constantly fighting against time, hoping the stock drops in price (with a **Put**) which raises the value of the contract, faster than *Time Decay* decreases the value.

Both of these scenarios involve you **Buying** contracts. As mentioned, you can also **sell contracts**.

Scenario 3 - Selling a Put. Selling **Puts** are considered a bullish strategy (**Note:** Selling Options requires a higher margin balance). So, let's go back to **Stock A**. You like it and want to buy the stock, but feel it is a bit overpriced at the moment. But you will be happy to buy it at $95. So, you *sell Puts at the strike of $95* with an *expiration date of one month*. And let's say you collect, .35 ($35) per contract that you sell.

If **Stock A** closes above $95 on expiration day, you keep the $35, and move on to the next trade. However, if **Stock A** closes below $95, you now have to buy 100 shares of **Stock A** for the agreed upon price of $95. If the stock falls to $93, clearly you have lost money on the deal, but since you got .35 cents per share, you really only paid $94.65 per share, meaning you are down $1.65 per share on the trade. However, if you had just bought the stock at $100, you would be down $7 per share. So yay for you?

Just like with contracts you bought; you can also trade the ones you sell. Let's say **Stock A** dropped to $97 and there is 3 days left. But you are afraid it is going to keep dropping and you do not want to risk it falling below your strike price of $95. You no longer want to own it at $95, and your contract is now worth .15 cents (even though the stock dropped in price, *Time Decay* lowered the price of the contract faster than the price decreased helped it). You can buy back that contract you sold for .35 cents for .15 cents and make .20 cents ($20) on the deal.

If you have the money is your account to buy 100 shares of **Stock A** at $95 ($9,500), this is called a *Cash-Secured Put.* Your broker will require you to put up a share of that $9,500 in margin to protect themselves.

As you can see, selling Options can be very dangerous. When you buy options, your loss is maxed out at the price your paid for it (i.e. if you paid $4 ($400) for a Put, and the stock didn't go down, and you just let the contract expire, you could only lose $400), but when you sell Options, your loss can be much greater. Selling Puts, your loss is theoretically the price of the stock times 100 - meaning if you sold a $95 Put, and the stock went down to $0 (never happens really), you would still be forced to buy 100 shares at $95 for a stock now worth $0, meaning you lose $9,500 (minus the .35 cents ($35) you received for selling the Put).

Scenario 4 - Selling a Call. Selling a **Call** is technically a Bearish strategy. If you sold a call on **Stock A** (worth $100 per share) with the strike price of $100 (since the strike price is equal to the actual price, this is known as **At-The-Money**) this means you are agreeing to sell the other person 100 shares of **Stock A** at the price of $100. Now there are two ways to do this - **Covered** and **Naked**.

Covered Calls means you already own 100 shares of **Stock A**. Maybe you bought them a long time ago, or perhaps you just bought them now for the purpose of doing a *Covered Call*. Either way, if the stock goes up to $105 by the expiration date, you must give away your shares at $100 per share. You would have received some *premium* for selling the call, and since it was **At-the-Money** the premium you received would be somewhat higher than if it was **Out-of-the-Money**. Basically, if you are selling a **Call** on **Stock A** at the strike price of $105 with an expiration of 2 weeks, while the stock is currently $100, the person buying that call is only going to make money if **Stock A** goes up by a lot. So, let's say they pay .25 cents ($25). You have a high chance of not only keeping that $25 but also keeping **Stock A** since it would have to go up beyond $105 before anyone could *call* your shares away (hence the name **Call** Option). Whereas, an **At-the-Money Call** would be worth more, perhaps around $1 ($100). Most people use *Covered Calls* to generate income off stocks they own. For example, if I own 500 shares of **AAPL**, and each week I sell an **Out-of-the-Money *Covered Call*** on it, it will go something like this:

AAPL - currently at $148.97. I sell the call expiring 9/17 with the strike of 160 for .25 cents ($25). Since I have 500 shares, I sell 5 contracts, netting me $125.

If AAPL goes up to $159.99 by expiration, I not only collected $11.02 from the stocks I own, but all the additional $125 from selling the calls. And I get to keep all my shares.

If AAPL goes up to $150 by expiration, it is the same thing, except I collected $1.03 from the shares, and $125 from the Call I sold. And I get to keep all my shares.

If AAPL goes up to $160, I collected $11.03 from the shares and the $125 from selling the Calls, but would have lost the shares for the price of $160.

If AAPL goes up to $165, I collect $11.03 from the shares and the $125 from selling the Calls, but I lost any gains over $160 as I had to sell the shares to the person who bought the contract.

If AAPL goes down to $147 by expiration, I lose $1.97 per share (which I would have lost any way since I own the shares), but made .25 per share from selling the Calls, so it cushioned the loss by roughly 13%. However, as I saw AAPL dropping it now became difficult to sell my shares and avoid further loss until I close out the Calls I sold (if I sell my shares, I would be left with a Naked Call which is very dangerous).

Naked Calls are when you sell **Calls** on an *underlying* without owning the required 100 shares per contract to cover it. This is one of the most dangerous trades you can make and requires the highest level of trading approval from your broker. Why? Because if you sold those $105 strike calls on **Stock A** and did not own them, and suddenly **Stock A** announced it is releasing an innovative new product - sending their stock to $175, you now owe $70 per share ($7,000).

A few other things to take note:

Greeks - Other than the *intrinsic value* of an option, there are various components that go into the pricing of the contract. These components are known as the **Greeks**. Throughout the post I mentioned *time-decay* and *volatility* - known as *Theta* and *Vega* respectively. There are also two other major *Greeks* known as *Delta* and *Gamma*.

Delta - Back to good ole' **Stock A** (price currently - $100) and you bought an **In-The-Money Call** with a strike price of $98 for $3 ($300). You would expect that as the stock goes up $1, the value of your Option contract would also go up by $1, right? Not exactly. It will go up $1 times *Delta*. So if *Delta* is .6, that means, that when the stock goes up by $1, from $100 to $101, your $3 Option would now be worth $3.60 - going up by .60 cents. *Delta* also tells you the markets belief of the likelihood that Option will be **In-The-Money** at expiration, and a *Delta* of .6 is saying that consensus is there is a 60% chance **Stock A** will be above $98 at expiration.

Gamma - So let's say **Stock A** did go up by $1, and your Option value increased by 60 cents. That means your $98 strike **Call** Option is even deeper **In-The-Money** now than it was when you bought it. So the *Delta* should be higher. Another way to think about it is - if the stock went from $100 to $101, the chance that **Stock A** will finish above $98 by expiration should now be higher than 60%, so the *Delta* should have increased. How much will the *Delta* now be worth? How much of an increase in value in the Option should you expect if it goes from $101 to $102? *Gamma* tells you that. If *Gamma* was .07 when you bought the Option, than *Delta* will increase by .60 + .07 =.67 after it went from $100 to $101. Now that it is at $101, *Gamma* will also change as well.

Remember, the deeper In-The-Money your Calls/Puts are, the higher the Delta will be and the more leverage you will have. In other words, you want your Option contract to increase in value penny for penny with the underlying. If you have a Call and the underlying goes up 50 cents, you want your Option contract to also increase in value by 50 cents. Deep In-The-Money Calls give you the best 1 to 1 leverage. Whereas far Out-of-the-Money calls might only have a Delta of .1, meaning the underlying could go up $1 and the value of your contract only increases by 10 cents.

Vega - This *Greek* reacts to changes in *implied volatility.* Higher levels of *implied volatility* tell you that the *underlying* is subject to larger swings in price. For example, as earnings for a stock approach, *implied volatility* will be high, as there is an expectation of larger than normal movement in the stock. *Vega* measures the impact on the price each percentage point change in *implied volatility* will have - which is why buying Options and holding them over earnings subjects you to an *IV Crush* (and is generally a bad idea overall). Example:

Stock A (price of $100 per share) has earnings coming up on 9/14 and the option expires on 9/17 - the Implied Volatility is 145%. An **Out-Of-The-Money Call** at the strike price of $102 goes for $3.50 ($350). This means that **Stock A** needs to get above $105.50 for you to be in profit at expiration (if you do not understand why that is, go back an reread this post from the beginning). Let's say **Stock A** does well on earnings and the next day is at $104, meaning it went up $4 in price, or 4% - which is a pretty big increase. But your **Call** Options are now worth $2.75 ($275) - with $2 ($200) of it being *intrinsic value* and only .75 cents ($75) in premium. You actually lost .75 ($75) on the trade even though the stock went up 4% in value. Why? Because *implied volatility* dropped from 145% down to 30%, since there is no longer an event coming up that could cause a huge swing in the price. The big change that was expected has already occurred, and thus the stock is no longer seen as volatile as it was before.

Theta - Finally you have *Time Decay*. When you buy an Option, *Time Decay* is not your friend. The clock starts to tick the moment you buy the stock, and it accelerates as you get closer to expiration. Every day you hold that Option (including weekends) the value of your contract is decreasing by *Theta*. If *Theta* is .74 cents ($74), you are losing 74 cents ($74) per day in the value of that contract. However, if you sold the Option, then you are on the other side of *Theta* and you want to see *Time Decay* tick away at the value. When you sell an Option, you ideally want it to be worth $0 at expiration.

Options can be used for *Day Trading*, *Swing Trading* and even long-term *Investments*. I have other posts that deal with Option Strategies, but this one is primarily for those that wanted to get a base understanding of the instrument from the beginning.

These are the basics of *Option Trading*. There are various combinations you can do with these options, which are called *spreads* and that is for another post. Before you even consider doing spreads, you need to make sure you understand the basics laid out in this post.

Hopefully this answered some of your questions.

10 Tips on Using Options - You Won't Believe What People Are Saying About #9!

Sorry about the title, couldn't resist (although I bet you will check #9)

I have been asked about this a lot recently - And I will try to keep this as basic as possible.

1) Know How much premium are you really paying:

For In-The-Money Options: (*Strike Price + Option Price) - Stock Price = Premium being paid over real value.*

For Out-Of-The-Money Options: *Option Price = Premium being paid*

2) Stop thinking of Delta as "Probability":

You will often hear that a stock with a Delta of .85 (arbitrary) has an 85% likelihood of finishing In-The-Money.

Yes, this may be true historically, but it also has little pragmatic value for you, as it is no way references the chance you will be in *profit* and while your platform can run a profit probability analysis, it subject to an ever changing market. Instead, just think of Delta as this: *For every dollar the stock moves, this option will move .85 cents (again arbitrary).*

3) Stop Buying Out-Of-The-Money Options:

Let's say you find the daily chart for **AMD** Bullish (it is btw) and want to buy call options on it now that earnings have past. The first thing you want to do is give yourself some breathing room. Look for an expiration of Aug 13th at the *earliest.* Next you want to look for a Delta of *at least* .7 or higher. Remember, the higher the Delta, the lower the Theta, and when buying options, Theta is not your friend. And since you are most likely using the options for leverage you want to mirror the stock price moves as close as possible.

Yes, I know the Out-Of-The-Money options are cheaper, and you can get many more contracts - *they are cheap for a reason.* **You aren't getting a deal here, what you are doing is gambling.**

Some notable exceptions to it would be the rare times you can find an ATM option running at parity - meaning the stock price is $100.50 and the $100 strike is going for .50 cents. This gives you 100% leverage. Another exception is Lotto Friday's and I have another post dedicated to that.

4) Make Sure Your Option Has Volume:

If you buy an option that has extremely low volume you are most likely paying the penalty of a wide bid-ask spread. There is also a reason that option has low volume - nobody wants it.

5) Don't Sell A Put Unless You Want To Own The Stock:

Selling Premium is one of the smarter moves you can make when using options. Whenever possible you want to be the "house", and writing option contracts makes you just that. However, too many people get burned with the Wheel Strategy which is akin to Martingale strategy in gambling (keep doubling your bet until you win) - it works until it doesn't and when it doesn't you get burned, badly. Still, if you sell Puts, always have the attitude that you *want* the stock at that price - if you just keep the credit, great - but that is not the goal.

6) For The Love of God Stop Buying Options Over Earnings

Yes, there is always that one person that is going to post that gain-porn about how they had 200 OTM Puts on AMZN, but the *overwhelming majority* who try this play - lose. There is one thing you absolutely know for certain - the IV is going to drop (crush) and drag down the over-inflated contract price with it - which means that not only do you have to guess correctly on the stocks reaction to earnings (e.g. beating earnings expectations does not always lead to an increase in stock price), but you also have to get the magnitude of that move correct. Since IV is dragging down the price of the option, the change in stock price has to be strong enough to overcome that.

There are some exceptions here, and if you are experienced enough then you know them and do not need this post.

7) Spreads Are Good - Get to Know Them

It is not always as simple as thinking the stock is going up or going down. There are degrees of magnitude, degrees of uncertainty, the overall market, the overall sector, etc.

I will give a few situations -

Situation 1: Stock XYZ is at $100, it has strong support at $97 in the SMA 50, $96.50 in the SMA 100 and $95.75 in horizontal support. You are bullish on the stock but want a safe play -

Use an Out-of-the-Money Put Credit Spread around 95/94 and make sure you get a 25% ROI (this translates into making you sure get 20 cents credit for the spread for every $1 between the strikes). To get this credit you will most likely have to go out 3-4 weeks out in expiration, but you really do not want to go out further than that. The stock can go up, stay the same or even go down some and this spread will still maintain maximum profit as long as XYZ stays above $95.

Situation 2: Stock XYZ is at $350, opening up $8 that day on a bullish market - you believe it will continue to go up but the premium to buy calls is high.

Use a Call Debit Spread of $350/$355 for a debit of less than $2.50 (50% of the strike price difference) that expires this week. Immediately put in an order for a Credit (roughly 10-20% higher on Monday-Tuesday, 20%-40% higher on Wednesday-Thursday, and 40%+ on Friday).

Maybe you are neutral on a stock and want to use an Iron Condor/Butterfly? In other words, no matter what your outlook there are typically spreads that accommodate it. I highly recommend going here to learn about all of them:

https://www.optionsplaybook.com/option-strategies/

Personally, I think the Poor Man's Covered Call or Fig Leaf is an underused strategy - an example of that would be buying the Sept 2022 AMZN 2950 Call at $625 and then every week selling a .10 Delta call for $10. I would not advocate for this until AMZN finds support btw.

8) Learn ATR - Average True Range and Bollinger Bandwidth:

Basically, you want to know how much the stock moves over a given time period. The ATR will tell you how much +/- the stock moves over X number of periods. Bollinger Bandwidth will indicate how wide or narrow the stock's volatility currently is, recognizing that as the distance between the bands gets more narrow, the higher likelihood that volatility will soon increase.

Why is this important? Well, say you want to do a covered call on your stock that you own 500 shares of at $200 a share. The 5-day ATR on this stock is +/- $2.50, which means that by the end of the week the stock will be within a range of $197.5 and $202.50 - so you would probably want to sell your call at the very least over $202.50.

9) Stocks vs Options:

In general, stock is better - you can buy at the bid, sell at the ask, and do not have to worry about price decay. And if you have unlimited funds, you will probably always use the stock as your instrument of choice if you have a clear directional bias.

Generally, though, the decision to use an option over stocks comes down to two things: **Leverage** or **Strategy**. Strategy we already discussed in the section on spreads. There are sometimes where you are bullish on a stock but unsure about the magnitude or you may believe the stock will not move much overall and the high volatility is not justified. All of these analytical findings have a home in a corresponding spread that are better fits than just going long or shorting the stock. However, most people buy options for the **Leverage**.

Actually, most people are buying OTM options on volatile stocks hoping for a payday (e.g. the $60 strike Calls on AMC for Aug 13th are only .50 cents?? To. The. Moon.!! 200 Contracts (e.g. $10,000).

It should go without saying, but I will say it anyway - Don't do that. Honestly. Go to a casino instead with that money.

The rest of you are looking at a stock like **HD,** you like the technical setup and are bullish on the stock (this is just an example, **HD** really should break through $330 before you go long). However, you can't buy many shares of a stock valued at $328, so how would you play this? Here are some ways:

*A) Buy **Straight Calls** at the 320 strike that expire on 8/13 for $10. The current price of **HD** is $328.19, meaning you are only paying $1.81 in premium. **HD** reports earnings on 8/17 meaning the calls will retain their value as the IV is likely to increase as you get closer to expiration compensating somewhat for time decay. And the Delta is .74, meaning you will get decent leverage for every $1 move up in the price of the underlying. Plus, the theta of -.16 is fairly modest, showing a daily decrease of 16 cents a day.*

*B) Do a **Put Credit Spread** of $225.50/$220 for .56, which gives you a 28.86% ROI. This is a fairly risky play as you are only relying on the horizontal support at $324, and the benefit of the first option (holding the value) becomes the detriment of this one as this spread is likely to drop in value much slower. However, a drop in **HD** below this support level most likely would be a serious breakdown in the sector which would allow you to leg out. The reduced amount of time (only two weeks) is also in your favor here - however, this is a **risky** play.*

*C) Do a **Call Debit Spread** of $330/$335 that expires 8/6 for a debit of $1.50. If **HD** opens higher on Monday, I doubt you will get this price, and if it opens lower you most likely would not want to use this strategy. But if **HD** opens up $3, and you can get this spread for less than $2.50 debit, it is still a decent option (pun intended and unavoidable at the same time). This allows you to basically buy the ATM call for a reduced price and limits your risk. However, it also caps your upside.*

Out of these three options, I would choose A. Once again, **HD** has not yet shown confirmation of a bullish trend, so I am just using it as an example. But this is the thought process you should use when deciding between buying a stock and an option, particularly if you are Day Trading.

10) The Market

While this list is not in any particular order, the **Market** should be of primary concern. Just like with stocks, you need always be cognizant of what the market is doing and if your position is running *with* or *counter* to the market. You also should be looking at the sector (Finviz.com has an excellent graphic that shows the S&P 500 stocks by sector, color coded for the day, and adjustable by time frame), and how the underlying is performing relative to other stocks in the same arena. Keep an eye on VXX as well, as that is a reflection on option pricing. Overall, though, much like stocks, you only want to choose options on underlying properties that have strong *Relative Strength* or *Weakness* to **SPY**, irrespective of whether that stock is in that index or not. If on Monday **SPY** opens flat and **HD** is up $3, that is an earlier indication that **HD** has strong *RS*. However, if on Monday **SPY** opens up $2 and **HD** is up $3, **HD** may not have good *RS* and may only be reflecting the bullish conditions on the day. Watch how the stock moves relative to **SPY** and get a good sense of its' *RS/RW* before deciding on an option strategy. *Remember - Relative Strength/Weakness **is not** RSI or Beta*.

I hope this was helpful. Obviously, they assume a certainly underlying (pun again) knowledge on options (the Greeks, spreads, *etc*.).

Options - Day Trading

I went back and forth on how to write a post on Day Trading Options. One can get very granular on this topic but ultimately it seemed to me that what most people wanted was a general guide.

I am going to assume that people here have a general understanding of what Options are, including the Greeks (*if not than this post will be of limited use to you as you* ***should not*** *be trading options unless you understand them)*. Thus, if the extent of your understanding is, "Use a Call when you think it is going up and a Put when you think it will go down..." you should probably skip the rest of this and learn the mechanics of Option Trading first.

While Options have many purposes, the ***primary purpose of using Options to Day Trade is - leverage.*** Otherwise, you would simply use the stock directly, which is far easier, and tends not to be subject to issues in liquidity.

Given this, the closer to parity with the underlying that you get on option pricing, the better (if you are buying options rather than selling them) - ideally a stock worth $120 would have $100 Calls worth $20. But since you are paying for time and volatility as well (not going to get into *Rho* here), you are getting charged a premium.

Also, as a general rule, I do not hold Options over an earnings date. Many people buy Calls or Puts on a stock right before earnings, and even when they get the move they were expecting their options did not increase in value - usually due to an **IV Crush**. Option pricing is higher before earnings because there is more volatility around the predicted future range of pricing for that stock. If you add the price of the ATM Calls + Puts together you will get a rough idea of the +/- expected $ move post-earnings. The larger that move is in proportion to the stock price, the higher the volatility. Once those earnings are released, that volatility deflates, taking down the Option premium with it. Earnings and the stocks response to earnings is simply too unpredictable, and also well outside the purview of Day Trading (as these occur pre or post-market).

This is how I Day Trade Options, it isn't the only way, it may not even be the *best* way, but it has worked for me - as always you need to explore what works best for yourself:

1) High Delta - 1-3 WTE : I have a decent account balance but not 5,000 shares of NVDA "decent" and certainly not 5,000 shares of AMZN level. So it is on stocks like these (usually priced over $500) that I will use to Options to Day Trade. However, my NVDA may be your AAPL - so essentially, I am using Options when I cannot afford to get enough shares of the stock to make the trade worth it. The temptation here is to go for the cheaper options which are going to be OTM or ATM - but I recommend against this. The underlying position has to make a larger move to get those options close enough to parity to start overcoming what you paid in premium. In the end your Risk/Reward is much better on the ITM options.

For example: You want to go long AAPL using Options - You can either use the 2 weeks out options with a Delta of .8 or the ATM options that expire this week.

Choice 1 - On Monday 6/21 you buy 5 123 Strike Calls on AAPL that expire 7/09 for $8.15 each, costing you $4,075. Assuming the stock is at $130.46, you are paying .69 cent extra (123+8.15= $131.15-$130.46 = .69) in premium ($345). The Delta is .8 and Gamma is .03.

Scenario A - The stock goes up $1.50 on Monday. At the end of the day your option would now be worth (not using an Option Calculator so this is a rough estimate) - + $1.20 (Delta) + .015 (Gamma) - .01 (Theta) = $9.36 (roughly). You made about $1.21 per contract, or roughly $605.

Scenario B - The stock stays the same - since the Theta on these options is only .06 you can hold them overnight with minimal loss ($30 total).

Scenario C - The stock declined $1.50 - as the stock declines you have room on the Delta to weather the decrease. With the stock now at $128.96, your options would be worth roughly $6.85 (although a decline like this would most like increase volatility, further cushioning the drop) a loss of $1.30 per option, which
is roughly $650 total. However, you can still hold this option if you believe AAPL will recover enough in the next 2-3 weeks.

Choice 2 - On Monday 6/21 you buy ATM (130 strike) options on AAPL for $1.80. Because they are cheaper, you get 23 of them for $4,140 (roughly the same cost as 5 options in Choice 1). Assuming the stock is at $130.46 you are paying an extra $1.34 (130+1.80 = 131.80-130.46 = $1.34) in premium ($3,082).

Scenario A - The stock goes up $1.50 on Monday. At the end of the day your option would now be worth (not using an Option Calculator so this is a rough estimate) - + .78 (Delta) + .04 (Gamma) - .09 (Theta) = $2.53 (roughly). You made about $.73 per contract, or roughly $1,679.

Scenario B - The stock stays the same - since the Theta on these options is .15 it now cost you $330 (roughly) to hold these overnight in additional time decay.

Scenario C - The stock declined $1.50 - and you are now screwed. Your options are worth about .75 cents each, you've lost roughly $2,415 on them, and if you hold them overnight, they will continue to decline rapidly with time decay kicking in faster.

Compare the Risk/Reward on both of these choices (*Choice 1 - $650/$605, Choice 2 - $2,415/1679)* - and while these are rough guesses, they aren't too far off from what would happen (a good Option Calculator can help here).

Choice 1 is better.

Less contracts - Higher Delta - More Time to Expiration.

Naturally this applies to Puts as well.

You are looking for the following attributes in the stock you are want to Day Trade with Options:

Strong Intra-Day Chart - Ideally you want a stock that is strong vs the market (SPY) or weak vs the market (SPY), depending on if you are doing calls or puts. The stock should be through any significant support/resistance (e.g. you do not want to do calls on a stock that is at 119.75 if their SMA 100 on the daily chart is at 120, you need to see it go through that and hold, first). Relative volume usually needs to be above 1.5, and you should using VWAP to guide you as well.

Strong Daily Chart - Obviously the Daily chart will be important in telling you where significant support/resistance lies, but you also want to see an overall strong directional trend (bullish or bearish depending on your desired position). I like to see HA candles in a continuation (e.g. flat bottomed) at least two in a row, and orderly trends without parabolic moves. If you choose the right options and the stock hasn't violated any major areas of S/R, you can hold them overnight.

Your exit should be similar to the exit you would have used if you were trading the stock - the same principles apply.

2) **Selling Premium -** This is rarely used a Day Trading method and for good reason, you are usually not going to get much bang for the margin you are spending if you only plan to flip them within the same day. As a general rule I only sell Put on a stock I wouldn't mind owning at that price. If I get assigned, I am perfectly happy with it, and if I keep the credit, I am also happy with that. Overall, I would not recommend this strategy for Day Trading as you are removing the primary benefit of selling premium - *theta decay.*

3) Debit Spreads - Call Debit Spreads (CDS') are an acceptable and widely used method to Day Trade Options, particularly among those that are risk adverse. Here are some simple rules to follow that will help increase your odds:

A) Find stocks that are making significant moves on that day - note, I am not talking about low float cheap morning gappers - rather I am referring to stocks like ROKU, ZM, ABNB or stocks like SNAP or NIO (these stocks are examples as they are capable of making and sustaining big daily moves, but there are many like these). Basically, you want a stock that is up more than 3-5% and holding those gains after an hour into trading. They should be strong against the market, meaning if the market (SPY) is going down, this stock is staying strong either still going up or compressing. There is usually at least one stock a day that qualifies, sometimes two or three. Volume will of course taper off, but you do want to see Relative Volume over 1.5.

*B) You are looking for the ATM Options to do the CDS' and they expire **this** week - so on Friday a stock like ROKU would have been perfect. Around 10:25 SPY started to drop and ROKU continued to build on already strong gains. In this case you would want something like the 360/365 or 360/362.5 spread. You **never** want to pay more than 50% of the distance between the strikes. If you were doing the 360/365 Spread, you want to pay less than $2.50 for that spread - obviously, the lower the better.*

C) The moment you put the spread in, you put in your order to receive your credit. The day of the week matters here - On a Monday put in an order to get 10% profit, Tuesday would 15% profit, Wednesday - 20-25% profit, Thursday - 25%-40% profit, and Friday - 40% - 75% profit. Rarely do I keep these until expiration unless the stock just blows through the strikes. The reason the day matters is that these spreads only start to really move when you are close to expiration, it is difficult to get more than these percentages on those days. If you took that ROKU spread on a Monday (360/365) and paid a $2.00 debit, you should look to get a $2.20 credit, but on Friday (since it is expiring that day) you could have gotten at least a $3.00 credit.

I see traders that do this type of spread as their primary trade type, and by the end of the week they would have executed roughly 20-25 of them, with over a 95% win rate. These are usually very safe spreads, but of course with low risk also comes low returns; however, they are consistent. The stock doesn't have to make much more of an upward move to hit your target, and considering how strong they were to begin with it is very rare to miss with these. Obviously, there is always a stock like NVDA which on Friday if you did a 765/770 spread in the morning, it would have made perfect sense, but quickly reversed. In those cases, you should recognize the reversal and take the loss (e.g. if you paid $2.00 for NVDA, you should accept a $1.50 credit, do not let the stock drop to where the credit is lower than that, just take the loss).

4) Lotto Trades - These are the most fun and are specific to Friday. What you are looking for are stocks that have options expiring that day. In the final hour of trading, the ATM options are going to be very close to parity. So, a stock that is $119.80 cents, will have $120 call options worth roughly .05-.10 cents with an hour left. What you are looking for are stocks that are either relatively strong (or weak if you are doing this with Puts) to the market and a market tailwind (in the direction of your options). You are looking for these options to get into the money, but even if they don't you can still do quite well with them. On Friday for example, back to NVDA, it began dropping and the 750 Puts were worth roughly .20 cents with 25 minutes remaining and NVDA at around 755. The stock was weak compared to the market (on the 5-minute chart when SPY went up, NVDA went down), and SPY began to drop with volume (tailwind). If you bought 25 of those Puts ($500), within 10 minutes they would have been worth $3.60 an 1,800% increase. Your $500 would now be worth $9000. You won't find a better Risk/Reward play than lotto options. However, note, you shouldn't be making large financial plays here as many of these won't work, but the ones that do more than pay for the ones that did not. Many times, I take max loss on these; however, since these can turn very quickly, I have also taken that smaller loss only to see the stock soar or plummet in those final ten minutes. Either way, these are really fun (I have a more detailed post on this).

So, there you have it, like I said, there are many other ways to Day Trade Options (would like to hear them), but this is how I like to do it and it has worked well for me over the years.

How To Setup Charts (And Buy Options) [VIDEO]

Hello all -

I've been requested to do some quick tutorial videos, so I just made this one which covers:

- **How to set up your charts**
- **How to buy Options**
- **What the hell are Options**
- **Option Spreads**

https://youtu.be/R55uddohLDw (19:30)

Enjoy!

Option Spreads I Like to Use and Why

For those of you that still haven't wrapped your head around the concept of "options", please read this post first (Options Trading - Explain It Like I Am Five Years Old Section)

For everyone else, here is a quick guide to some of my favorite Option Spreads -

Options, by design, give you the ability to create various combinations, which when executed properly can give you an edge in different trading scenarios.

Every spread is either done for a **Credit** or a **Debit** - neither of which are inherently bullish or bearish but rather dependent on the combination you choose.

Note: All these spreads require a corresponding daily chart that supports the direction of the position (except for the Bracketed Butterflies).

While I tend to use straight calls or puts, spreads can be *very effective* in specific situations. When buying straight calls or puts, I tend to buy ones that are *In-The-Money* (delta of .65 or higher), and at least 1 to 2 weeks out from expiration (i.e. not the same week). If you are hung up on Out-of-the-Money Options, please read this (Stop Gambling with OTM Options Section).

*Also note - I only do Naked Puts (i.e. selling a cash-secured Put) if **I want to own the stock***. For example, if I really want to buy **PFE** because I like the long-term prospects of the stock, but I am only willing to buy it at $50, I will sell the $50 Puts and ***hope they get assigned.***

Here are some of the most common spreads I use:

ATM Call Debit Spread:

This spread offsets the cost of a bullish Call by selling another Call option at a higher strike for the same expiration date. The range between the two strikes represents your potential upside, while the debit is your maximum loss. For example:

Let's say you are bullish on stock XYZ which is currently at $200, and you want to buy a call option. You don't want to buy a call expiring this week because if the trade turns against you then it would be difficult to hold the Call overnight with time decay rapidly accelerating. However, the In-The-Money calls for next week and further out are really expensive. The IV on the stock is somewhat high, and you also don't want to be paying a lot of additional premium. By now you should know that using Out-Of-The-Money Calls is an ill-advised strategy - so what should you do?

In this case you can do a **Call Debit Spread**. Call-Debit-Spreads typically expire the same week because it difficult to collect any real gains on them otherwise (I will explain why).

I prefer doing ATM CDS' (Call-Debit-Spreads), but once you get the concept you can choose how you want to use it. Sticking with the example, you buy the $200 Call Option that expires this week and sell the $205 Call (also expiring this week). The $200 Call costs you $5.50, and you get a credit of $3.25 for selling the $205 call - meaning the entire spread costs you $2.25.

Just imagine it as a transaction at a store, you walk in and take the $200 strike call off the shelf, and it is going to cost you $550. But in your pocket, you have a $205 call option. So you go to the register, they say you owe $550, and you first sell them the $205 call you have. They offer $325 for it and tell you that your remaining balance for the $200 call is now $225.

Important: *You want the overall debit to be no more than 50% of the distance between strikes, in this case there is $5 between the strikes ($200 & $205), so you shouldn't pay more than $2.50.*

Essentially you are offsetting the cost of the $200 strike with the $205 strike. If the stock moved to $207, at expiration the $205 strike you sold would be worth $2 and the $200 strike worth $7. Since you are short the $205 strike, that is $7-$2 = $5 profit, minus the original debit of $2.25 for a total profit of $2.75.

ATM Call Debit Spreads - That Expire Same Week for less than 50% of the difference in strikes is an effective strategy to use for either *Day Trading* or *Swing Trading*. This method allows you to participate in the upside of a bullish stock, while having a degree of protection against your potential loss contained to the debit you paid.

As these spreads get closer to expiration, the differential in premium between the two strikes will reduce and potential ROI increases. This is why it isn't advisable to do these spreads with more than a week to go on expiration.

Now if you are *very* bullish on a stock, you would want to take ITM Calls that are more than a week out in expiration, and so you don't cap your upside with a **Call Debit Spread**.

ATM Put Debit Spread:

These are the opposite of **Call Debit Spreads** but very similar in intention and execution. You are buying a Put option, and then selling a Put at a lower strike, which results in an overall debit (as you pay more for the Put then you get for the one you sell).

This is a *bearish* play, much like a **Call Debit Spread** is a *bullish* one. Also, much like a **CDS** these work well when you do them *At-the-Money*, with the expiration *that week*.

For stocks that you have a *strong bearish* outlook you may favor straight Long Puts as not to cap your upside, but many times it is far safer to do a **PDS** which will cap your loss.

For both Put Debit Spreads and Call Debit Spreads you can widen the distance between the strikes to increase your upside based on your level of directional bias. So, if you are looking at a $300 stock, and you are very bearish, you could do a $300/$280 PDS which gives you $20 of potential upside, minus the debit - which, as always, should be less than half the distance (in this case, it would need to be under $10).

These spreads can be Day Traded with the following rule - On Monday look for 10-15% return, so if you paid $2 debit, you want to get a credit back between $2.20 / $2.30, Tuesday you want a 15-25% return, Wednesday should be 25-35%, Thursday is around 35-50% and Friday is 50% and higher. You can put the order in at these levels right after executing the trade, and you will find that many times you'll hit your target within the same day.

Bracketed Butterflies:

By far this is the most complex and difficult play to make, probably in all of options. As far as I know, I am one of the only traders that uses this strategy.

To begin with I will explain **Butterflies** - in this strategy you are choosing a price you believe the stock will be at on expiration date. Let's take **TSLA**, and you think that **TSLA** will finish next week at a price of $1,200, with a +/- of $30, meaning you believe the stock will be somewhere in the range of $1,170 and $1,230, with $1,200 as the midpoint.

Usually **Butterflies** are executed At-the-Money as a neutral play with a high pay-off, but that is *not* how I am using them.

In this case, I would buy one $1,170 call, sell 2 $1,200 calls, and buy 1 $1,230 call - for a 1170/1200/1230 Call Butterfly. This entire trade would cost you $3 right now. If I bought 5 Butterflies, it would be $15 (or $1,500). If **TSLA** finished at $1,199.99, the spread would be worth $2,699 - a 9 to 1 return. Why? Because at $1,199.99 - the $1,230 call would expire worthless, the 2 $1,200 calls you sold would expire worthless, but the $1,170 call would be worth $29.99 = $2,999. Minus the $300 you spent on the spread, and your profit is $2,699. The closer you are to $1,200, either up or down, the more you make.

But what if you don't know if **TSLA** will go up or down? But you *do feel it will move a lot in one direction or another?*

In that case, you would add *another* **Butterfly**, except this time a bearish one.

Buying the $1,110 Put, selling 2 $1,080 Puts and buying the $1,050 Put, gives you a 1110/1080/1050 Put Butterfly, which would cost a debit of $2.88. If **TSLA** finished the week at $1080.01, you would get $2,711. Why? Because the $1,050 Puts would be worthless, the two $1080 Puts you sold would be worthless, and the $1,110 Puts would be worth $29.99. $2,999 minus the debit of $288 = $2,711, which is 9.4 to 1.

Doing both of these **Butterflies** together would cost $5.88 ($588 per contract).

If either **Butterfly** comes close to the target number, either on the Puts or the Calls, you will make a significant profit per contract. Many times, when I do these the stock is so volatile that I can take profit on one Butterfly, and then let the other ride as the stock reverses.

*You need to monitor these closely. I will usually put in an order for 200-300% profit for each right after I make the trade. This type of play works best on stocks like **TSLA, GOOG, AMZN** that tend to move a lot in both directions depending on the market, which allows you to profit on both sides. They always expire the same week as Butterflies do not generally pay off until the final week anyway.*

Fig Leaf (Leveraged Covered Calls):

This is when you buy **LEAP** calls (meaning they expire at least one year out) on a stock you have a long-term bullish outlook for, and then sell calls against it each week or month.

As an example, if I think **NVDA** is going to continue going up over the next year, I would buy the January 2023 300 Strike Calls (Delta of .67) for $79 ($7,900), and then each week I would sell the call with a delta of around .10 (for 11/26 that would be the $360 calls), which for this week would net me roughly $100.

Essentially this spread would bring in roughly $100 a week in income, plus whatever profit I would be getting from the increase in value on the LEAP call.

This type of spread is most effective with stocks that offer higher premium, but that also comes with downside of volatility.

If **NVDA** ever finishes the week over the value of the short call (i.e. finishes this coming week over $360), the two calls would be exercised against each other - I would buy **NVDA** at $300 and sell it at $360. Because the $300 call would have increased in value significantly by the $30 gain this week, the spread would be highly profitable.

The risk on these plays would be if **NVDA** dropped significantly and then did not recover.

Fig Leafs are best used after a market dip, and then confirmation that SPY has found support and is beginning to rebound.

Stocks like **AMZN, GOOG, NVDA, HD, etc.** are best for this strategy, and offer excellent opportunities for passive income.

OTM Put Credit Spread:

I have written on these before, but for the sake of having everything in one place:

A *Bullish Put Spread* by definition is executed when you sell a Put option and then Buy a Put Option at a lower strike price for the same expiration date. An example:

Stock: XYZ

Current Price: $200

You Sell the $200 Put (expiring 11/5) and Receive $10 in Credit

You Buy the $195 Put (expiring 11/5) and Pay $9

Total credit = $1 (i.e. $100) per contract

Simple enough - you received more money than you spent, so you get a credit for the trade. Also if you were to just Sell the $200 Put Contracts naked, not only would that be very risky, but it would take up a significant amount of margin. By adding the long of the $195 Puts, you have capped your loss to $5 a share (minus the credit received).

There are three potential outcomes to the trade:

Stock XYZ finishes the week above $200: In this case, both the 200 Put you sold and the 195 Put you bought expire worthless. Thus, you keep the entire $100 credit per contract.

Stock XYZ finishes the week below $200 but above $195 - Let's say $196: This is the riskiest outcome with these spreads, as your $195 Put expires worthless, but your $200 Put is worth -$4.

You would owe $400 per contract minus the $100 your received in credit = net loss is $300 per contract. The risky part is if you do not close the $200 Put before expiration it will get assigned.

Stock XYZ finishes the week below $195 - Let's say $190: This represents a max loss scenario for the trade. Your $200 Puts are worth -$10 and your $195 Puts are worth $5. The broker uses one contract to cancel out the other (i.e. exercising $200 Puts means you are buying 100 shares of **XYZ** at $200 a share, exercising the $195 Put means you are selling **XYZ** at $195 a share - total loss of $5 a share, minus the $1 credit = net loss is $400 a contract (which is your max loss here).

Now that you get the idea behind it (hopefully), here is the twist on this method:

Under certain market conditions you can create these spreads with the right combination of *probability of success* and *ROI* on the trade to execute a strategy that has the highest chance of building your account.

What are those market conditions? You need a pullback in **SPY** to begin with - much like we had at the end of September/Early October. Next you need to see **SPY** recover to the point that you have confidence we have returned to a bullish pattern - October 18th would be a good example of this, second day in a row where **SPY** opened and closed above the SMA 50.

Next you need to find strong stocks, with bullish daily charts that doesn't have earnings for the next 3-4 weeks. Look for stocks that are above their SMA's 50, 100 and 200, and have HA continuation candles on the Daily chart. *I stress again - make sure there are no earnings announcements for at least 3-4 weeks*.

Now you want to find your short strike price (this is price you will be selling your short Put). You are looking for a price that has at least two major areas of support above it. You are trying to get as close as you can to the current price, but still far enough away that you would need a significant drop to occur in order to endanger your spread.

Stocks do not just drop below their major support lines without a significant technical breakdown in either the market or the stock itself, and the likelihood of that happening within a 3-4 week timeframe is very slim.

Next up is the credit you need to receive for the trade. You are looking for 20 cents credit for every dollar between the strikes (or 10 cents for every 50 cents between the strikes). You will find there is not much difference between doing a $210/$205 *Bullish Put Spread* for a $1 Credit or a $210/$207.5 *Spread* for a .50 cent credit. Both scenarios give you a ***25% ROI*** on your money. Meaning in the $210/$205 Spread you are putting up $4 in Risk to make $1 in Profit. Normally, this is not a good deal for you, right?

Here's the kicker: as long as your spread has a win probability of more than 80% you will make money. If you did this trade 100 times and it worked 80 times - you made $80 (+$1 per win), and it didn't work 20 times (-$4 per loss), you lost $80 - breakeven. So you need to be successful more than 80% for this play to be worth it. The 20 cents credit per dollar in the spread figure is calculated because if done correctly these plays work 95% of the time, more than enough to be very successful with the method.

In order to get that type of credit that far out-of-the-money you will usually need to go 3 to 4 weeks out.

Remember, time decay is key to these spreads - every day that passes where the stock price stays above the short strike price, these options are losing value (which is a good thing in a credit spread). The closer you get to the expiration date the faster Theta does its job.

MU is a perfect candidate here - the stock is currently at $83.03. Earnings are on 12/20, so you want a spread that expires before that. Looking at the chart, anything below $78.90 offers to really good areas of support - the gap up and the SMA 200. The 77.5/75 spread would give you even more of a cushion. Right now, the 12/17 expiration gives you a .50 credit for this spread, which is exactly what you need to reach your target ROI. In order for **MU** to fall below the SMA 200 and the head into the gap, and then even fill the gap - there would need to be a significant breakdown in the either the market or the stock or both. **Very unlikely**.

In 2020, we did over 300 of these spreads with a win rate above 96.5%.

Let's say you took the **MU** spread. The stock can drop $5 a share and your spread still makes full value. The stock can stay right at $83 and your spread still gets full value. Or the stock can go up and your spread still gets full value.

The only way your spread gets into danger is if it dropped more than $5 a share, broke through two levels of support, and remained below $77.50 on expiration day. However, even if that happens, this method is designed with a parachute - *legging out*.

Keep in mind, *legging out* of *Bullish Put Spreads* is dangerous, and need to be done correctly - if you are new to this, or somewhat unsure of how to *leg out,* it is better just to take the loss, but for the sake of being comprehensive, here is how:

Let's say you get unlucky, and it is one of those 5-10% of the times that the stock or the market has a major technical breakdown before your expiration date and **MU** is experiencing a significant drop. If **SPY** is in the red and your stock is falling below your short strike, you can buy back the short strike and let the Long Put run until you match the price you bought back the Short Put. What would that look like? Something like this:

On the week of expiration, **MU** drops to $80. You are getting a bit worried, but it is Monday and you are still $2.50 above the short strike. On Tuesday the market opens lower again, and **MU** remains weak, now dropping to $79. You are hoping support holds - but suddenly you see **MU** break support and fall below $77.50.

In that case, you can either close the trade for a loss (most likely of roughly $1) This means even though you took a loss, you did not take the full loss of $2 that you could have taken.

Or you can buy back your short strike of $77.5 for probably around $3 and now your Long Put of $75 which is worth most likely worth $1.50 should continue to go up in value as **MU** drops. This is why it is important that you have both a weak market and weak stock. Because if the market and/or stock reverses, and **MU** stops dropping, you risk losing both the $3 you spent to buy back the Short Put and the $1.50 in value of the Long Put taking your max loss from $2 to now $4.50. However, if you time it right - you can put in a sell order of the Long Put ($75) for the same price you bought back the Short Put - $3. If you hit that target, then the two will cancel each other out and you get the full value of the trade - $.50 per contract. Obviously, you need to monitor this closely - if you see **MU** (in this example) drop more and the $75 Puts are worth $2.50 now, but the stock finds support and begins to rebound, you might want to close the trade, take the .50 cent loss on the difference.

Calendar Spread with Calls

In this spread, you would sell an OTM call and then buy the same strike call that expires further out in time.

For example, let's say that I am bullish on **PFE** long term, but I am either bearish or neutral in the short term. In that case I might sell the 52 call that expires this week and buy the 52 call that 12/3 and buy the 52 call that expires on 12/31. The idea here is that the 12/3 call will expire worthless with **PFE** remaining below 52, and then stock will start rallying into the end of the year, thus increasing the value of my 52 calls on 12/31.

You can also buy a call at a higher strike than the call you sold, which indicates a short-term bearish/neutral and longer term stronger bullish position. This play also works with stocks that are subject to sector rotation. For example, a stock like **PLUG** or **BLNK**, when the sector is cooled off, you could do this type of spread with some confidence that the underlying will heat back up before your long call expires.

Hope these help your trading!

How to Exit a Losing Spread Trade (/u/OptionStalker)

Yesterday I recorded a video on how to leg out of a bullish put spread that went bad and today I recorded the follow-up. These are tricky maneuvers and consequently, novices should exit the spread as a spread. Originally this trade was based on bullish price action in the stock, relative strength, technical support and a strong market. The thesis was that we might see a market pullback in the next week or two, but that the stock should be able to maintain support. The spread was sold below technical support, it was well out of the money and it was a neutral to slightly bullish position. The goal was to take advantage of time decay as the holiday was approaching and it was in a video a couple of weeks ago.

The character of the market changed Friday after Powell's statement in Jackson Hole. We saw heavy selling and that was a warning sign. The stock (LOW) broke the technical support level I was leaning on and I needed to exit the trade.

Keep in mind that when these swing trades go bad, I am still day trading. The gains from shorts last Friday more than offset the loss on the spread. Friday was the day to leg out of the spread because we could identify the selling pressure early in the day and that momentum was likely to continue. There was another chance to leg out this morning and I described it in the video.

The difficulty with legging out of bullish put spreads is that you originally had a neutral to slightly bullish position with limited risk. To a large degree, it was a non-directional trade. When we buy back the short put, we have a trade that is outright bearish and it is a directional trade. That means I need immediate follow through now!

Your opinion of the market and/or the stock must have changed substantially to justify legging out. It is critically important that you wait for a bearish market set-up and you need to make sure the stock is weak relative to the market.

In the video I recorded today I recapped the process of legging out and I reviewed the trade. I also provided market analysis and how we knew that a gap reversal this morning was likely.

CLICK HERE TO WATCH THE VIDEO. (28:28)

Trade well.

Long red SPY candles like the one Friday are a major warning sign.

Bracketing Butterflies

This strategy seems to work consistently enough so I thought I would share it.

Critique away, I have not backtested it and my success could be purely anecdotal. However, the math seems to work fairly well.

First find a range bound but volatile stock. TSLA is a decent example so I'll use that. On average TSLA tends to move +/- $15 a week (earnings week aside).

For the ease of the example let's assume TSLA opens on Monday at 385. Let's also assume that next week won't be apocalyptically unpredictable. In other words, I would probably wait a week before doing this again, but the last five weeks have paid off.

In this case I would do the first butterfly of 355/370/385, which right now is a debit of $3.65 per contract and max gain of $11.35. Meaning anything over a 24% success rate makes this trade profitable.

Next, I do a 385/400/415 for a debit of $5.55 and a max gain of $9.45 per contract. Meaning anything over a 37% success rate makes this trade profitable.

I am paying a total of $9.20 for both trades.

Obviously if I let both trades run down until closing on Friday, I would need one of these two to come in.

However, I am not letting them both run down. Butterflies stay fairly neutral until roughly 2 days before expiration barring some massive move outside the range.

So, this is what I have been doing - if by Wednesday TSLA has started to edge towards the upper butterfly, I shut down the middle of the middle of the 355/370/385 and let the 355 & 385 calls run, while keeping the 385/400/415 running intact.

If TSLA starts edging toward the lower butterfly I keep the middle of the 385/400/415 and drop the calls on the wings.

Thus, unless there is some significant reversal on Thursday or Friday, I have one fully intact butterfly working and the stock heading towards it directionally, and one broken butterfly becoming increasingly profitable.

With a total risk of $920 the chance of hitting maximum loss in minimal given the mid-week adjustment.

Five weeks in a row and this strategy had paid off every time.

Thoughts?

Friday Lotto Options - How they work

I realized that I had not actually devoted a post to this -

Concept:

If a $100 stock has a call option at the strike price of $99, it should be worth $1 - however, since options are almost never at perfect parity, you will have to pay a premium. That premium is a combination of **Time** and **Volatility** (and other elements that aren't significant enough to warrant mention). The more time left before expiration and/or the higher the volatility, the more you will pay in premium. Thus, if you were to buy that $99 strike Call for the $100 stock on a Monday (with expiration that Friday), it might cost $1.95 as an example.

However, if you were buying that option 20 minutes before expiration, there would be almost no time, or volatility (less uncertainty with little time left) and the price of the option would be very close to $1.

Thus, on Friday's, roughly an hour before expiration ATM or just OTM options are extremely cheap. If AAPL was at $149.80, with 50 minutes before the market closes, the AAPL 150 Strike Calls would most likely be offered for around .05-.10 cents each.

Execution:

The first thing to keep in mind is that these are called *Lottos* for a reason - they are low probability/high reward plays. As such, you *should not* be committing a large amount of your account balance towards this method. They are fun and can be profitable, but they can also be costly if you get too carried away with it. While *Lottos* are usually played from the Long side, you can also reverse these instructions and do Put *Lottos* as well.

The following conditions are needed:

1) You need a market pullback of some sort. Nothing major, just a dip in **SPY.** Preferably this happens about 60 minutes before close. During this dip you need to look for the stocks that have been strong throughout the day and hold up well as **SPY** is dropping. Can you do *Lottos* without this pullback - yes - but it is very difficult and creates an even lower probability of success.

2) Once you have those stocks that held up, look up the available *Lottos* - so sticking with the example, let's say **AAPL** is up $1.25 on the day, and currently sits at $149.80. **SPY** drops from $467.80 to $467.20 and during that drop, **AAPL** goes from $149.80 to $149.75, which shows a good level of *Relative Strength Against SPY*. You see that with 50 minutes left, the **AAPL** $150 calls are going for .06 cents.

3) Once you see **SPY** begin to rebound, **AAPL** should surge stronger proportionally to **SPY**. This is when you buy those $150 Strike calls - for the sake of the example, you get them for .07 cents, and you buy 10 of them (which is $70).

4) These options will move quickly, so you need to base your decision on when to sell on the price action of the stock. You are also racing against time decay as well - every second the price of the stock remains below the strike of your option, it is decreasing towards $0. However, if you see **AAPL** quickly climbing, the options are now worth .14 cents with the stock at $149.98. You can take the 100% gain here. Or, if you feel based on the chart that **AAPL** is going to continue, then you can hold the *Lottos* as the stock goes past $150. Once the *Lotto* goes ITM, the Option will move with the price of the stock.

*You can imagine with a stock like **TSLA** how an option can go from .45 cents to $4.50 in a matter of minutes - giving you a 10X profit.*

Note:

Be Patient. You will be tempted to jump in early on these, which is almost always a bad idea. Obviously, there are times when you will catch a stock with a lot of momentum, but it is almost always best to wait until the final hour.

Tell your broker! Most brokers will sell your positions around 30 minutes before the market closes if you are holding options that *could* expire in-the-money. If you are hold 10 TSLA calls for a $1050 strike, and TSLA is currently at $1048, your broker is not going to take the chance that you will be assigned 1,000 shares of TSLA - so they'll close the position. However, if you tell them you are monitoring your Options, they *will* give you more time.

Have fun!

Fig Leaf Strategy Explained

This doesn't fit "Day Trading", but it does qualify as "Swing Trading" and a lot of you have asked for an explanation.

Essentially this is a *Leveraged Covered Call*.

If you were simply executing *Covered Calls,* you would be selling an OTM Call on your current holdings. So, if you held 100 shares of AAPL, you would be able to sell a 170 call against those 100 shares and receive a $65 credit (*note: prices are currently inflated due to upcoming earnings, and you should not do either the **Fig Leaf** or **Covered Calls** that cross over an earnings date)*.

If by the end of the week AAPL finishes below 170, you keep the entire $65 in credit. If AAPL finished at $171, you would get the $11.22 increase in the stock price from your 100 shares (so $112.22), plus the $65 from the call you sold, but you would have to sell your shares at that $170 price to whomever holds the call you sold. You would not get the additional $1 increase (from $170 to $171).

Fig Leafs are a bit different - it entails the following:

1) Buy a LEAP call (which by definition means it is at least a year out from the current date but some use 6-month mini LEAPS) on a stock you have a long-term Bullish outlook that has a Delta of .75 or higher. For example, **NVDA** - the 150 Calls that expire in January 2023, currently have a Delta of .78 and are going for roughly $82 (or $8,200). $73 of that price is in *intrinsic value* since **NVDA** is currently at $223.24 and that price minus the strike of $150 equals $73. Which means you are paying $9 (or $900 in premium).
2) Each week sell a call with a Delta of .10 or lower against that LEAP. Thus, for this week on Monday you could have gotten the $250 Strike calls that expire Friday for a credit of around $150.
3) If **NVDA** finishes the week below $250, you keep the $150 and do the same thing the following week.
4) If **NVDA** finishes the week above $250 at let's say $255, your January 2023 call will have increased in value by roughly $25 (or $2,500). Your broker will auto-execute the trade by activating the January 2023 call, meaning you buy 100 shares of **NVDA** at $150, and then sell those calls to the owner of the $250 call you sold them for $250 (check with them). You will get $10K for that sale, minus the $8,200 it cost for the LEAP and plus the $150 in credit for the call you sold - you profit, $1,950. And then do it again the next week by buying another LEAP.
5) After receiving over $900 in Premium from your *covered calls* you sold each week (roughly 6 weeks), you have now covered the cost of your *LEAP* and own it free and clear. You can continue to profit from it through more *covered calls* or hold it and let it increase (*hopefully*) in value.

Sounds too good to be true, right?

Here is the danger - if the stock drops significantly, while you will collect the premium each week from your short calls it won't be enough to cover the loss in value from the LEAP call which will be dropping with the stock.

However, since the LEAP is a year out, you can weather most drops, as long as it isn't a technical breach.

It is best to wait for SPY to breakdown (like it currently is), then wait for it to find support (jury is still out as to whether it did, but we will know soon enough), and then enter into various **Fig Leafs** across different sectors. So you wouldn't want to do both **AAPL** and **MSFT**, you would want something like **NVDA, HD, MRNA, AMZN** - stocks that have a lot of premium from IV are best.

Obviously, the more LEAPS you buy the more calls you can sell. If you buy two **NVDA** Leaps you can sell 2 OTM **NVDA** calls each week.

Cheaper stocks like **PFE** may be more stable, but that very stability means you will not be getting much from selling those calls each week.

If you find that you have a lot of bullish exposure through these, then you can buy insurance - grab something like **SPY** $350 Puts that expire January 2023 for $16, or **VXX** $15 Calls that expire January 2023 for $12.

I hope this helps explain the strategy!

Hedging

Nobody likes to talk about *hedging*. It's like insurance, and not many people are *excited* about the topic of insurance.

Here is the general idea - since the market (i.e. **SPY**) is such a huge determining factor in how your trades will perform, then having a portfolio that is heavily biased in one direction is subject to serious damage if the market goes counter to that bias.

In other words, if you were Long **ABBV, PFE, MSFT,** and **TSLA** - and even if all four of them are strong against **SPY**, you would be pretty screwed if the market tanked overnight.

Sometimes this isn't much of a concern - the market has periods of stability, and while anything can happen, you can be fairly confident during those periods, that there won't be any significant swings in **SPY.** And even if the market was to go down the next day, your stocks should be strong enough to weather the storm until **SPY** bounces back.

I am not going to go too much into the notion of "reducing your exposure" except to say that you should use your common sense. If you are loaded up with all bullish positions and 100% of your account is tied up into those positions.... that is not a very safe thing to do. However, I caution about going down the other road as well - one could have easily spent the entire past year worried about carrying any positions at all. And guess what? The market continued to go up. Yes, there were some dips, but they were all temporary. Being *too cautious* is not a great model for producing income either. So just don't be a total idiot in this regard, and you should be fine.

Hedges are for when **SPY** is more volatile. The last two days were an excellent example - at the end of yesterday (12/15) one would have been bullish, and rightfully so. But there was also the possibility of a pullback, or even reversal. So yes, you can sit on the sidelines during that time. However, you'll pretty much be sitting there watching the rest of us play.

Hedges allow you carry positions into a somewhat volatile market. There are different types of *Hedges:*

Overall Hedge - this is your no bullshit, straight up hedge. **SPY** puts, Short S&P futures, **VXX** calls, etc. If your portfolio is bullish (if it is bearish just reverse everything), you can just hedge against the market. If the market goes down, so do your positions (most likely), but these hedges will go up. I prefer **VXX** calls when using this type of *hedge*. The beginning of December is an example of where SPY dropped 3% but VXX went up 43%. An even better example of this would be the **VXX** calls I took last night - I bought them around 5-10 minutes before the market closed and sold them this morning for an 18% profit. If I had bought SPY puts instead, at the exact same time, and sold them today also at the exact same time, my profit would have been only 6%. VXX calls were 300% more effective than SPY Puts.

Individual Position Hedge - there are various ways you can use options to hedge your *individual* positions:

- If you were holding **ROKU** 215 calls that expired this Friday, worth $7, and you are worried (rightfully) that ROKU might open in the red tomorrow, you could sell the 225 calls against them for $2.30. If ROKU dropped, you would collect that premium. However, this caps your potential earnings at $225.

- If you were holding 500 shares of **PFE** you could sell the 63 calls against them for .35, as a covered call, giving you some downside protection, but once again capping your upside on the stock.

Balancing Hedge - your portfolio is bullish, so you can add some bearish positions to it. Using Relatively Weak stocks allow you to potentially be in profit in *all* your positions. For example, **UPST** has been Relatively Weak and has a bearish daily chart - so if you were to buy **UPST** Puts, there is a chance even if the market were to open strong tomorrow, **UPST** would still be in the red. However, if the market opened down, **UPST** would be *really* in the red.

Now comes the question of *How Much* do you hedge? And the answer is.....up to you! Seriously, it is up to you. How concerned are you?

If you had $5,000 worth of bullish positions, perhaps some calls on **ABBV** and **PFE** worth $2,500, and a Call Debit Spread on **AMGN** worth $1,000, and then throw in some stock with $1,500 worth of **CAG**.

Now are you risking $5,000? No... There is no real scenario where those calls with be worthless and the stock goes to zero. But if SPY dropped $4 in the morning, it is reasonable to assume that you might be in danger of losing around $2,000. A perfect hedge would protect the entire $5K, which you don't need - you just want to mitigate against potentially losing $2,000.

So let's look at **VXX** calls - the at-the-money 21 strike calls go for about .70 cents (or $70). Today for example, SPY was down .88% and VXX was up 4.21%. So if SPY dropped $4, VXX would most likely go up $1. What would happen to those VXX calls? You would get roughly a $90 gain per call (increase in volatility is going to impact you VXX pricing as well). If you got 10 calls for $700, you would protect roughly 1/2 your potential losses.

But what happens if SPY opens higher, do you lose the $700? No - your worst case scenario on these would be too lose half the hedge - or $350.

That is the type of calculation you can do for any hedge. Like with the **PFE** covered calls - You are protecting 35 cents of your $61.07 stock. If **PFE** opened down $1 tomorrow, that call would drop to roughly 17 cents, meaning you mitigated against 18% of the drop. But if PFE opened up $1 tomorrow, you would be giving up a lot more than 18% of the upside.

Overall - hedges are a matter of personal preference and risk tolerance. I tend to carry swing trades often, and I will generally balance my portfolio accordingly. I have found that stocks like **TSLA** make great counter-hedges - if I have a lot of bullish position, and **TSLA** was relatively weak to SPY, then it doesn't take many **TSLA** puts to act as a significant enough hedge. Using Relative Strength and Relative Weakness gives you an additional edge and allows for the potential of being profitable in both your hedge and your original positions.

If you are a new trader, it is also best to make sure your position sizes are small, and that you are never carrying too much risk. However, at some point you may find yourself swinging a large number of positions, and hedges can be an essential way to stave off any significant loss.

The Option Trap and Solution

We all love Options...new traders, bad traders, pro traders, everyone loves to trade Call and Puts.

Some traders are able to construct Option Spreads, and others swear by selling premium - but most traders simply Buy Call or Puts - because, let's face - it's easy. And people like easy.

The Wiki contains some pretty compelling arguments against using OTM Options (I say it is compelling because I wrote it....) and I won't rehash those here.

What I do want to talk about is what I like to call, **The Option Trap** (I say I like to call it that, but the truth is, I just made it up).

Let's see if this scenario is familiar -

Last week **SPY** was looking fairly bearish and on Thursday (1/19) it gapped down below the SMA 50 - and **AAPL** catches your eye as being Relatively Weak, it is at $133 dollars and dropping. So, you grab the $145 Puts that expire a week away (1/27) for $6. So far, so good - you are doing everything right. Market is weak - stock is weak, you took an ITM Option at a delta higher than .65, you're following the rules damnit!

Now let's imagine some potential outcomes:

1) AAPL continues to drop and by the end of the day it is at $131.20 which means your Put Option is now worth $7. So what do you do? You take profit, right? Hard to trust this market and nobody ever went broke taking a profit, did they? So you exit the position, perhaps even posting - **Exit AAPL with $1 Profit**. Maybe you took 5 contracts and made $500 on the trade. Bully for you! Yay! You are a winner and don't let anyone tell you different.

Orrrrrr...

2) The market starts going up because **SPY** is a big ole fuckwaffle of an ETF that likes to screw with you, and **AAPL,** while still weak, starts to inch up with it. By the end of the day **AAPL** is at $133.90 and your Put Options are now worth $4.90. But...the daily chart on **AAPL** still looks bearish and the SMA 50 is above it with some strong resistance. So you hold. The next day **SPY** gaps up (because that is what fuckwaffles do) and **AAPL** pops with it, opening at $135.40. Your Put Option is now worth $3. But wait! There is a pullback and **AAPL** is dropping! So you wait. And wait. All day the market just chops around, back and forth - **AAPL** hits the SMA 50 and can't break through. Whew. I mean you aren't going to close your short when the stock just got rejected at the SMA, are you?? Sigh....the next morning **AAPL** gaps up over the SMA, is at $137.90 and your Put Option is now worth $1.10. You're about to take the loss but then remember all the times you closed a depleted option only to see it roaring back to life. Is it really worth it to close it now when it is only worth $1.10? I mean what if the market starts to drop? It has been known to do that, especially in the past year. Well, as you probably can imagine, because it is all too real - that option winds up expiring worthless.

Now, let's look at the math:

Let's say there are two outcomes when you buy an Option - you either take $1 Profit or you hold it until it goes to $0. Let's also say that the average price of the Option contracts you buy is $5.

In this case you need to take profit (of $1) **83.3%** of the time just to breakeven.

But what if you don't let the contract go to $0, what if you either make $1 or you sell the contract for a loss when it is worth $1 (thus, losing $4) - then you need to win **80%** of the time to breakeven.

And if you are a bit more conservative you can either take $1 in profit or close the position when the Option is worth $2 (thus, losing $3) - then you need to take that $1 in profit **75%** of the time in order to breakeven.

In this scenario, even if you decide to close the position with a $3 loss rather than a $5 loss - which is a 40% improvement - your required win-rate only goes from **83.3%** to **75%** which is a just 10% improvement. That hardly seems fair!

*The problem is this - **While your maximum loss is finite (defined by how much you paid for the option), your potential profit is theoretically - infinite; however, we almost never take advantage of that edge.***

If, for example, on average we took $2 profit instead of $1, and allowed for maximum loss of $5, we would need to be successful **71.5%** of the time. Compare that to the **83.3%** when only taking $1 profit.

Now imagine instead of saying, "What's the point of closing this when it is only worth $1" you actually reduced your maximum loss to $4 ,while averaging $2 when you win, now your needed win-rate is **66.75%**.

Which brings us to how to avoid this trap of needing an insanely high win-rate to actually make money using Options.

If you are buying a $5 Option, then you need to be taking only *High Probability Trades* that can produce at least a $3 profit on the position (adjust proportionally for higher or lower priced Options). If you are using a .65 Delta, then on average (considering Gamma and IV as well) you need the stock to go up (or down if it is a Put) by at least $4 and sometimes $5.

Why? Because look what happens when you take $3 profit from a $5 Option - you need to be successful **62.5%** even if you let the Option go to $0 when you lose.

Finally, if you actually closed the Option when it hit only $1 in value, and took $3 in profit on average - now your needed win-rate is only - **57.25%.**

And there is your solution - being more selective and choosing set-ups that gives you the confidence to hold a profitable position longer - not only reduces the focus on letting the Option lose all of its' value, but it also drops the needed win-rate to just above 50%.

So often the focus is on learning how to let go of losing positions - and as you see above, taking a $4 loss rather than the full $5 does have an impact - but the real impact comes from raising the average amount of profit each trade produces.

This is especially true when trading Option which is an asset that loses value over time, and has a finite loss built-in - *you have to take better advantage of your winning positions*.

In essence, have more faith in your winners than in your losers. When your position is up, and the market/stock continues to give you no reason to exit, then...don't. Because contrary to popular belief, people go broke taking a profit all the time.

CPI Tomorrow and OTM Strangles for the Current Market

Let me start off by saying **I hate Strangles**. I am a directional trader and by their nature Strangles are essentially your way of saying, "I know it is going to move, but I have no fucking clue which way it will go!"

Well - tomorrow the CPI number comes out - so we know **SPY** is going to move, which just have no idea in which direction it will head.

Now you could look at the *very atypical* price action today with confusion, and rightfully so - usually the market tends to stay in a consolidated state of low volume chop before the release of a significant economic indicator. Most traders associate this with the release of the FOMC, as the period before that is sometimes referred to as being "*Dead until the Fed*".

Basically, Asset Managers do not want to commit to any direction until they know what they are dealing with on a macro level.

Tomorrow, we have the release of the CPI which is the primary indicator being used to gauge whether *Inflation* is continuing, pausing or declining. The market has priced in the notion that by now *Inflation* would have at least peaked - meaning that while the number might still be high, it is roughly the same as the previous month. If the CPI shows *Inflation* going up that would have Institutions making the following assumptions:

1) The Fed will be even more aggressive with their policies - which could remove the hoped for *soft-landing* and result in....

2) A higher probability of a Recession

The market doesn't like Recessions (and neither do we!) and if the CPI comes in hot, you could see **SPY** sink well below 400.

However, if the CPI shows a decline in Inflation that would alleviate pressure on the FED and push them towards more dovish policies.

The market likes a Dovish FED and if that happens you could see **SPY** head well over 410.

The *atypical* part of today is that Asset Managers *did not wait* for the CPI - they already started pricing in bad news. This anticipatory selling is unusual. Imagine having a million shares of **FB** (or **META** which just sounds weird) at $186 and you decide to sell them today. Why would you do that? Obviously because you think tomorrow, they are going to be much lower.

So how would you play this?

Well - you could get OTM Calls on SPY @ $412 for .32 and OTM Puts on SPY @$392 for .32

Let's say you got 10 each, so $320 for the Calls and $320 for the Puts

Tomorrow the CPI comes in high and **SPY** drops down sharply on the open to $397. The first thing you do is sell those Calls for about .03, meaning you lost $290. Now all you need to do is sell the Puts for more than .61 to make a profit. With **SPY** at $397 those puts would most likely be worth around $1.10, meaning you made .49 profit on the trade. And of course, the reverse applies if **SPY** gaps up tomorrow.

I will rarely suggest trades like this - but in these scenarios those are the types of strategies you should consider (obviously it is too late for this time, but to keep in mind for the next one).

Using a Balanced Portfolio to Swing Trade (/u/anonymousrussb)

When I first learned about day trading, one of the things that drew me to it was being able to close down for the day with no open trades, no exposure to the market. Sounds great, and stress free, right?

So, when I read many of u/HSeldon2020's post where swing trading kept coming up again and again, my thoughts were along the lines of *"Yeah, but I don't have to. I can just day trade and close them down at the end of the day, then completely disconnect from the market".* And I was right – I could.

But by doing so, I was severely limiting both my development as a trader and my P&L. It took me awhile to learn this, and so I am posting this in the hopes that others in this community can go through this part of the learning curve faster by leveraging my experience. Also from a selfish perspective writing down my strategy and reflecting on individual trades further helps my development. Keep in mind that while there are many aspects to the overall strategy taught here, it can really be boiled down to three main components, with everything else feeding into them:

Market first – trade in the same direction as your market bias

Go long on stocks that have Relative Strength (RS) to ***SPY*** and short stocks that have Relative Weakness (RW) to ***SPY***

Go long stocks with a strong daily chart and go short stocks with a weak daily chart.

If you only day trade, you miss the benefits of the daily chart. You will inevitably have to take losses on trades that would have turned out to be winners simply because of an irrational fear of overnight exposure.

In the OneOption chat room, I would often notice that I would trade the same stock as u/HSeldon2020 or u/onewyse and it would trade against me initially, and I would take the loss. The next day (or sometimes the next week), Hari and Dave were taking profits on the same stock – it was clear I was missing out. Then Hari made his post on hedging, linked here (if you haven't read it yet, stop reading this post and come back after you've read it). This really clicked for me.

Because I do not trade options, the strategy of hedging long positions on RS stocks with short positions RW stocks overnight made the most sense to me. There is also an edge in trading relative weakness, so in addition to providing a hedge, shorting these RW stocks has the ability to generate profits on its own.

So, how do I approach this in my own trading?

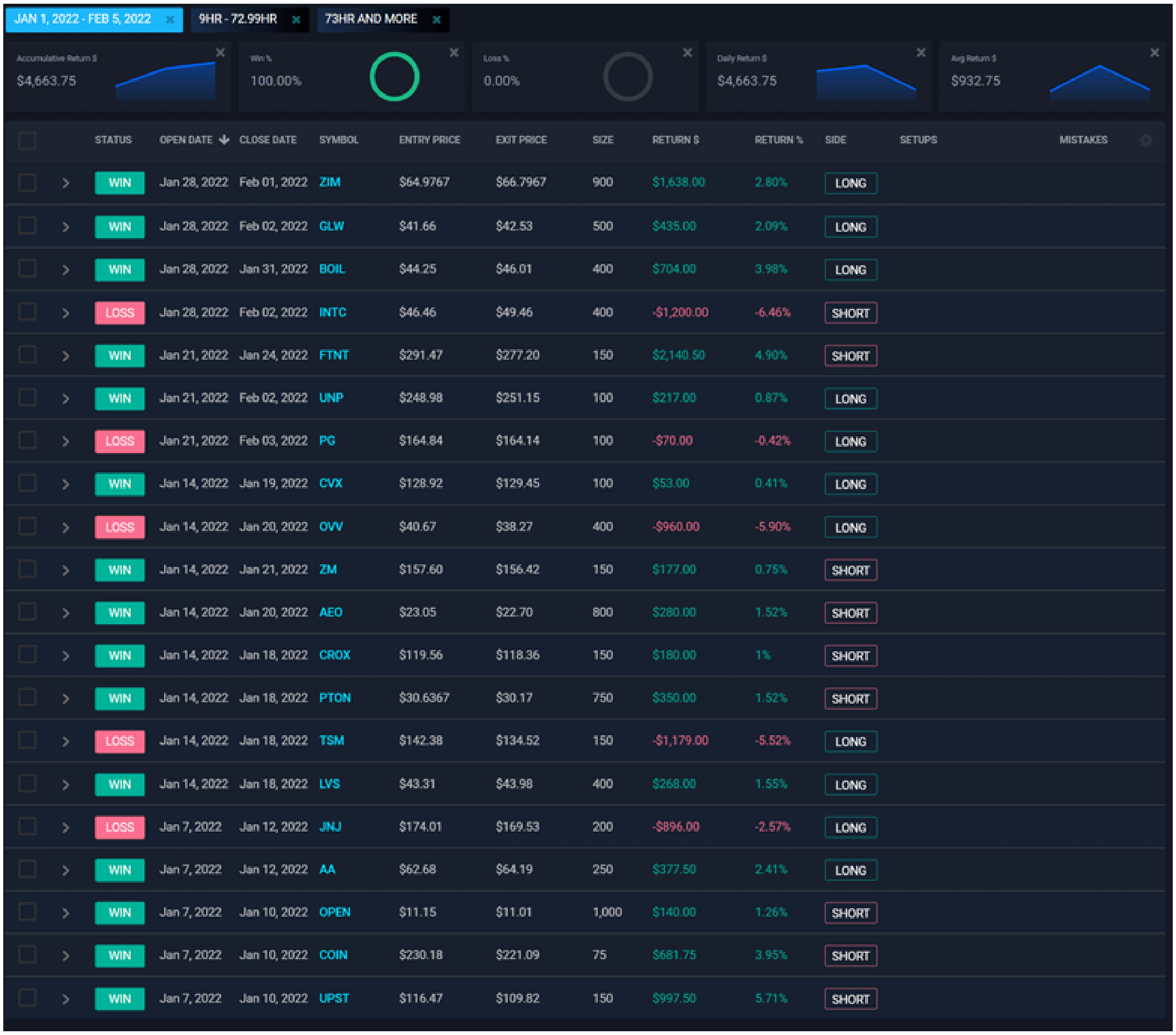
I generally do not open new trades after 2:30 PM (CST) or 30 minutes before the close – at this time, I shift focus to managing my existing positions and determine which ones I want to exit before the close and which ones I will swing.

I then look at the trades I am going to swing – how do those positions compare to my market bias?

Let's say I am bullish, and I have two short trades but no longs overnight, that means I would be trading against my market bias overnight which violates the "Market First" premise. So, I will either cut those positions, or more likely if I have confidence in them (after all, if I'm short, they have a weak daily chart and are RW relative to ***SPY***), then I will enter long trades to offset them and ideally tilt my portfolio slightly long since that is my market bias.

If I have four long trades on and only one short but have a neutral market bias, I would probably try to cut at least one of my long trades and add one or two more short positions to balance my portfolio. For me, I generally trade similar sized positions, but I can also enter a 1.5x or 2x sized position if that's what needed to provide the right balance.

Let's look at how this works in practice. Here is a view from TraderSync of all the positions I've swung in my day trading account since the start of the year. I only trade (open new positions) on Fridays, so you'll see they are all opened on Fridays and then closed throughout the following week, sometimes the week after that if needed.



STATUS	OPEN DATE	CLOSE DATE	SYMBOL	ENTRY PRICE	EXIT PRICE	SIZE	RETURN $	RETURN %	SIDE	SETUPS	MISTAKES
WIN	Jan 28, 2022	Feb 01, 2022	ZIM	$64.9767	$66.7967	900	$1,638.00	2.80%	LONG		
WIN	Jan 28, 2022	Feb 02, 2022	GLW	$41.66	$42.53	500	$435.00	2.09%	LONG		
WIN	Jan 28, 2022	Jan 31, 2022	BOIL	$44.25	$46.01	400	$704.00	3.98%	LONG		
LOSS	Jan 28, 2022	Feb 02, 2022	INTC	$46.46	$49.46	400	-$1,200.00	-6.46%	SHORT		
WIN	Jan 21, 2022	Jan 24, 2022	FTNT	$291.47	$277.20	150	$2,140.50	4.90%	SHORT		
WIN	Jan 21, 2022	Feb 02, 2022	UNP	$248.98	$251.15	100	$217.00	0.87%	LONG		
LOSS	Jan 21, 2022	Feb 03, 2022	PG	$164.84	$164.14	100	-$70.00	-0.42%	LONG		
WIN	Jan 14, 2022	Jan 19, 2022	CVX	$128.92	$129.45	100	$53.00	0.41%	LONG		
LOSS	Jan 14, 2022	Jan 20, 2022	OVV	$40.67	$38.27	400	-$960.00	-5.90%	LONG		
WIN	Jan 14, 2022	Jan 21, 2022	ZM	$157.60	$156.42	150	$177.00	0.75%	SHORT		
WIN	Jan 14, 2022	Jan 20, 2022	AEO	$23.05	$22.70	800	$280.00	1.52%	SHORT		
WIN	Jan 14, 2022	Jan 18, 2022	CROX	$119.56	$118.36	150	$180.00	1%	SHORT		
WIN	Jan 14, 2022	Jan 18, 2022	PTON	$30.6367	$30.17	750	$350.00	1.52%	SHORT		
LOSS	Jan 14, 2022	Jan 18, 2022	TSM	$142.38	$134.52	150	-$1,179.00	-5.52%	LONG		
WIN	Jan 14, 2022	Jan 18, 2022	LVS	$43.31	$43.98	400	$268.00	1.55%	LONG		
LOSS	Jan 7, 2022	Jan 12, 2022	JNJ	$174.01	$169.53	200	-$896.00	-2.57%	LONG		
WIN	Jan 7, 2022	Jan 12, 2022	AA	$62.68	$64.19	250	$377.50	2.41%	LONG		
WIN	Jan 7, 2022	Jan 10, 2022	OPEN	$11.15	$11.01	1,000	$140.00	1.26%	SHORT		
WIN	Jan 7, 2022	Jan 10, 2022	COIN	$230.18	$221.09	75	$681.75	3.95%	SHORT		
WIN	Jan 7, 2022	Jan 10, 2022	UPST	$116.47	$109.82	150	$997.50	5.71%	SHORT		

While this is a limited sample size, you can see win rate is 75%.

At face value this sounds solid but not great. However, if you go into the charts for these trades and compare their entry price vs. the closing price on the day they were entered, if they were all exited at the close, the **win rate would have been 25%** - only ***OVV, CVX, FTNT, GLW*** and ***ZIM*** were in profit. And out of those five, ***OVV, CVX*** and ***FTNT*** were actually traded specifically to hedge that I entered just prior to the close– so you could argue the real win rate if these trades were exited at the close would be more like 12% (2 of 17)...

Now what does this say about my trading? Well, a couple things – some good, some bad.

On the good end – I am picking the right stocks, particularly ones with good longer-term trends in the direction of my trade. Given enough time, my trades are becoming profitable, and I am patient enough to realize these profits.

On the bad end, I need to improve my entries. To do so, I need to double down on my market focus and do a better job at using bullish/bearish 1OP cycles and trendline alerts to guide my entries – something I do now but can certainly improve on – but back to topic.

Let's look at an example day. On January 21st, we had a very bearish day. All of my short positions worked really well, kept hitting profits targets, but I was still in ***PG*** & ***UNP*** long as we approached the close (despite being strong, these stocks never got going due to the market weakness). So I entered ***FTNT*** short around 2:30 PM CST, and shortly after my entry the market began to confirm my ***FTNT*** position. I spent the last 30 minutes scanning for RW stocks, and nothing was sticking out. So, I elected to add to ***FTNT*** at 2x my normal size (add to your winners), and went into the weekend short ***FTNT*** 2x size and long ***PG & UNP*** – perfectly balanced.

On Monday, the market sold off at the open and took ***FTN***T with it, and I was able to take profits on ***FTNT*** for my biggest win since starting trading. Because ***PG & UNP*** were RS, they weathered the drop very well. However, they seemingly lost RS throughout the following weak and actually lagged ***SPY*** during this recent rebound. Despite this, there was never a significant technical violation on either of the daily charts. I held both positions over the entire next week and into the next, and eventually was able to close out ***UNP*** for a win on Wednesday this week and came close to scratching ***PG***, eventually closing for a small loss.

Had I closed out these positions at the close that Friday, I would have taken +$423, -$222, -$265 on ***FTNT, PG*** and ***UNP*** respectively. Swinging ***FTNT*** short both allowed me to profit on its weak daily chart and also avoid taking premature losses in ***PG & UNP*** that turned out to be a net winning combined position.

Here are the trades (the two entries on ***FTNT*** are really close to each other):

PG swing state

UNP swing state

FTNT swing state

To be fair though, you are taking more risk with this strategy. Look at ***OVV***, a position I was in profit on but kept on as a swing to balance out shorts in my portfolio. This turned into a big loser. However, when you do this, don't focus on one trade – focus on your portfolio as a whole. ***OVV*** allowed me to stay in several underwater short positions, all of which eventually came around as winners – it was a net benefit when you consider that.

Here are the tips I would have to limit your risk:

Only tilt your overnight portfolio in one direction (bullish or bearish) when you have strong market conviction – otherwise try to stay balanced.

Honor your personal risk profile and size appropriately – swing trades will move more than day trades and if you are trading too big, your emotions will take over.

Try to hedge with similar industries if you can (for example, going long a RS financials stock to hedge your short on a RW financials stock). The reason for this is that you can avoid the impacts of sector rotation in the market on your trades. For example, if you go long a RS tech stock and short a RW financials stock, and news come out over the weekend that suggests the Fed may hike rates, both positions may be underwater come Monday. Note – this strategy also works well if you want to maintain positions over FOMC events.

Pre-define your mental stop and only change it if market conditions warrant doing so. If your stock breaks down on the daily chart, you need to recognize this and exit. Keep your size small until you've proven to yourself you can take the loss on these trades.

To hold myself accountable, I'll respond to this post at the end of this week with how swinging works out for me from this past trading day. I am currently:

Long ***AA, NET, U, CME*** (2x)

Short ***AGNC, TXN, GILD*** (entered right before close to hedge portfolio)

Congratulations on reaching the end of my essay. Hopefully this is helpful to you, best of luck!

Please let me know what questions you have or any feedback.

Edit - Fixed FTNT chart.

Using Debit Spreads a profitable day trading Strategy (/u/onewyse)

Many traders trade debit spreads but generally using expiration dates a few weeks or more in the future.

There is a very effective strategy for trading debit spreads using the current week's expiration.

There are just a few criteria that need to be followed to make the debit spreads a profitable strategy for day trading.

For call debit spreads the stock selected must have relative strength versus the SPY on a 5 min basis (this is not RSI but a stock that outperforming the SPY index on a 5 min basis)

Stock should be bullish technically on the daily chart.

Buy a call close to at the money or slightly in the money and sell a higher strike call and the spread MUST be purchased for less than 50% of the spread. IE a spread with a $5 spread should be bought for less than $2.50 per spread contract, the lower the better.

Immediately place a sell order for a profit of from 10% to 50% depending on the number of days to expiration. On Monday and Tuesday 10% to 20% is reasonable and scale the profit target up the closer to Friday the trade is put on.

This strategy can be used on some stocks with fairly wide bid ask spreads (such as AMZN, GOOGL, TSLA, *etc*.)

Because of the structure of the spread the downside risk is mitigated by having a short call that will time decay faster than the long call thus a sideways move will reduce the premium on the short call faster than on the long call. Because of this it allows you to stay in the trade longer than if you were using straight calls.

You are capping your profits if the stock goes parabolic but this s more than offset by the % of times you will be profitable on marginal stock moves.

Put debit spreads work the same except for the stock setup has to be bearish.

If you try this strategy, use 1 or 2 contracts until you are comfortable with the strategy.

Remember, to be a successful and consistently profitable trader you need to have several strategies in your tool belt and must always be always aware of the market movement and use that as a guide as to when to enter any strategy you use.

Profiting from Time Spreads (calendar spreads) over earnings (/u/onewyse)

The only strategy I use over earnings is a time spread on stocks reporting earnings after the close or prior to the open on the following day so the trade is put on just prior to earnings being released. The trade is meant to capture the difference between the IV crush and the time decay between this week's options and next week's options. The trade works best on stocks that generally don't beat expectation so harvesting premiums from the options can be profitable.

Outsize moves up or down make it more difficult but can still be profitable. These time spreads are put on for a debit and that is your total risk but going to zero won't happen because of the structure of the trade. Time Spreads are initiated on a stock reporting earnings tonight or the next morning and consists of selling this week at the money call (or put) and buying next week's at the money call (or put) for a debit. After earnings are released the IV (implied volatility) will drain for both this week's and next week's options but the IV for this week is generally higher than next weeks.

Additionally, the time decay will impact this week's option more than next week's so more time decay will come out of this week's options versus next week's options. This will likely allow you to buy back this week's option and sell next week's options for a larger credit than the debit you paid for the time spread. Additionally, next week's options will retain some time value so the trade will always have some value regardless of the stock movement. Mt strategy is to place an order to close out the trade prior to the open since the option premiums take time to have the IV come out of them and the bid ask spread can remain fairly wide giving you a good chance to get the trade filled for a profit. I try for 20% to 30% profit on the trade and may have to reduce it if I don't get filled. This is the safest way I know to trade earnings that is directionally neutral We are in the heart of earnings season so there are a lot of opportunities using time spreads right now.

When I use weekly debit spreads vs straight calls or puts (/u/onewyse)

I have done a post on using debit spreads using weekly expiration dates as effective day trades or short-term overnight trades. [Using Debit Spreads as a Profitable Day Trading Strategy](#) - [u/onewyse](#)

I have had several traders ask me when I use debit spreads vs straight calls or puts. I use a couple of criteria to make that determination, keeping mind for a debit spread you must have a bullish bias on the stock both on the 5 min and daily charts.

1) If I want to reduce the cost of the trade due to the premiums being very high (on stocks like TSLA, AMZN, GOOGL, *etc*.) Those straight calls or puts can cost $2000 or more per contract and may create too much risk for a trader so a debit spread expiring the current week is a great alternative.

2) On stocks with wide bid ask spreads. Wide bid ask spreads while most traders consider these to be too risky and difficult to get out of I have found that if you enter an order with a price well below 50% of the spread between your long option and your short option (IE 1.90 - 2.00 for a $5 wise spread) many times you will get a great fill and can immediately enter a sell order .25 to .30 higher and get filled on any move up. If you think about what happens with wide bid-ask spreads, if a trader enters a market order for one of the legs included in your order the chance of then getting a great fill on the order is very good. This is also what helps you get a good fill on your exit if a market order is entered for one of the legs of your exit order. I usually just put an order out there and wait. You may not get filled so no loss and look for another. Of course, stock selection is critical and your bias on the stock needs to be correct.

3) On slower moving stocks that are grinding up and aren't likely to push through your short strike very quickly so that the time decay is working in your favor more quickly.

I generally use straight calls or puts with deltas of .65 to .75 if:

1) I want to have more time for the trade and will go out 2 or 3 weeks or more on the expiration.

2) A stock with tight bid-ask spreads and low volatility. These options usually have a lot of intrinsic value in the options and will give you more profit than a debit spread may on those stocks.

Credit spreads are also an option, but they fall into a different category and can be used in addition to the debit spread or straight calls or puts.

This is a general overview of what I look for before taking a debit spread or straight call or put trade but remember to also take market trend and action into consideration and try to take trades that correspond to the current market trend and have relative strength or weakness to the indexes so you will have the greatest chance for follow through.

Updated WATM Trading Strategy (Weekly ATM) (/u/onewyse)

I have posted this strategy in the past, but I don't believe it is in the WIKI and I promised I would post it so here it is.

Most traders who have read my posts know I love strategies with defined risk and capture premium by selling options as part of the trade. These include credit spreads (puts or calls) debit spreads (puts or calls) and time spreads (a specific calendar spread strategy).

One I have not posted before is what I call the WATM, or weekly ATM, where ATM stands for At The Money (I prefer Automatic Teller Machine because of how effective this strategy is if structured correctly on the correct stocks).

The strategy requires stocks that have weekly options and have 6 weeks or more until earnings. The stock needs a neutral to bullish bias and needs to have a bullish catalyst to have occurred on its last earnings report that produced heavier than normal volume. With these elements in place, we can then analyze the current week's options to determine how much credit we can receive on the current weeks at the money puts. To justify putting the trade on for the stock the premium collected for the weekly puts being sold must be 1% or more of the stock price. So, selling puts on a $100 atm strike must produce a premium of at least $1.00.

Now we are ready to initiate the trade. This is done by selling this week's atm puts and buying lower strike puts out at least 8 weeks and preferably just beyond the next earnings date. The spread between the strike of the short puts and the strike of the long puts is your risk on the trade plus the debit you paid to put the spread on. So short $100 puts and long $95 puts (8 to 12 weeks out) creates a risk of $5 plus the debit to put the trade on.

Now the trade is initiated, and the normal strategy will be to keep rolling the weekly puts out week after week. If the stock moves up, you would sell higher strike puts the next week. If it is flat, you would sell the same strike puts as you did the first week. If the stock price drops and you technical bias is still neutral to bullish you would buy back this week's puts at a loss and roll them out to the same strike for next week and keep doing this as long as the stock does not break below your technical support level, this approach allows you to recapture the loss and capture puts premium for the next week that would put you back in profits.

Should the stock fall below your support level and your bias becomes bearish, you buy back the current week's short puts and let you longer dated long puts run, so the long puts become a protective position for the trade.

As said the difference between your long and short puts is your risk so if the stock moves up parabolically it is best to take profits since keeping your risk near what it was when you put the trade on would require selling the long put at a loss and buying another long put at a higher strike to control your risk. That can be done effectively if you have enough time to earnings to continue selling current weeks puts but my preference is to take profits after a big up move.

You can probably see that the best candidates are stocks that move sideways for a time so you can keep harvesting the short put premium week after week.

One note about buying long puts that expire after earnings, you will initially pay more for the spread but those puts will retain more value because of the extra premium that is in them due to earnings volatility, so when you close the trade you will receive more premium than if the long puts expired prior to earnings. thus, reducing you loss on the long protective puts.

It is best to close the trade down once you get within 3 weeks of earnings or if you can't receive the 1% premium on your short at the money put. Generally, after 2 weeks you will be in profits and they will increase from there if the stock price remains flat or bullish.

There are more nuances to the strategy but I have used it effectively over the years. and just closed a nicely profitable WATM on WYNN that I held for only 2 weeks due to the oversized premiums in the puts.

I know this may sound complex, but it really is just selling time each week with a protective put to limit your risk as well as limiting the margin needed.

New Type of Trade! OTM CDS – Earnings

Ok, bear with me as I am working out a new kind of trade here - one that is based more in pure statistical odds than Technical Analysis.

Let's start with some basics:

Before any stock has quarterly earnings, market makers have an expected range of movement baked into the option prices. A rough estimate on what that range can be derived by simply adding the ATM Call and Put prices - or better known as the cost of a straddle.

For example - **MSFT** reports tonight. The ATM Calls are $9.40 and ATM Puts are $9.10 - that gives a total expected range of +/- $18.50.

Next, we look at the likelihood of hitting the upper end of that range.

Roughly 70% of all stock go up after earnings (doesn't seem like it, but it is right around there), but not all of them hit the upper range of their estimate move.

For example, $MSFT may go up tonight, but it may only go up $7 overall, which is within the projected range, but towards lower middle between $0 and $18.50.

Again, rough estimate here would be that by the Friday expiration of those ATM Options, roughly 50% of the stocks that report earnings will be close to the upper end of the range (which makes sense as that is the reason for those option prices).

Stick with me here - this will *all* make sense in the end.

Now think of an OTM Call Debit Spread - you buy the lower call and sell the upper call for a debit. So for **MSFT** buying the $357.5 Call and selling the $367.5 Call that expires this Friday would cost you roughly $2.70.

What that means is if **MSFT** is at or over $367.5 come the expiration on Friday, the spread would be worth $10. Why? Because imagine it came in at $367.5 exactly - then the $357.5 Call would be worth $10 and the $367.5 Call would be worth $0 = $10. Every dollar you go up from there you just add a $1 to the $357.5 Calls you are Long on and subtract $1 from the $367.5 Calls you have sold = i.e., it stays worth $10.

Since you spent $2.70 on it, your profit (if this occurs) would be $7.30. That is a 2.7X ROI.

If after earnings **MSFT** has only a 27% chance of going over $167.5, you would break even because let's say you did this trade 100 times.

27 times you made $7.30 profit which is $197.10 * 100 = $19,710

73 times you lost $2.70 which is $197.10 *100 = $19,710

(it is actually more favorable than this as many times even though it doesn't hit the upper end of the range you won't lose the entire $2.70 on the spread, but for the purposes of this example I am assuming the worst)

Thus, in this case you would just need better than a 27% chance that **MSFT** goes above $167.5 by Friday - and given that 70% of stocks go up after earnings, and the range here is $18.50 (which put it above $367.50), it would seem that just based on pure odds alone this becomes a profitable play to make.

You could even do the $355/$365 for $3.30 and you would just need a 33% chance for **MSFT** to go above $365 (a lower bar) to break even.

MSFT is only an example here, but this would work with any stock that has a high enough range to allow for an OTM CDS that is in the range of $3.50 or lower.

I am sure one could back-test this method somehow, but I am going to be trying it live in the meantime.

Edit: A key statistic here will be the historical likelihood of a stock hitting the upper end of its projected range on earnings by the Friday expiration.

Trade Management

Chapter 7. Timing Your Trade

Trading Process Explained - From Day Trading to DCA to Fig Leafs

As I have mentioned, like most full-time traders, I have several different trading accounts.

One is for **Day Trading** (obviously), one is for using the **Fig Leaf** strategy, and one is for **Stocks/Long-Term Investments**.

While the **Fig** account stands separate - the other two feed into each other which allows for a very high win-rate and profit-factor.

As an example - let's say I go long 500 shares of **TGT** at $225 with a profit target of $227 - so I am looking to make $1,000 on the trade. **TGT** is strong, has *Relative Strength* and is currently in the strongest sector (Consumer Defensive) - any rebound in SPY will take **TGT** with it and secure my profits, while any drop in SPY will buffer **TGT** due to its' *Relative Strength*.

I am bullish overall on the stock given the daily chart and would remain bullish unless it dropped below $205 (which is filling the gap from March 1st).

Let's say the market continues to drop and **TGT** closes at $223.25, meaning I am down $1.75 on the trade. Then the next day the market continues to drop even more and/or the sector rotates out, meaning **TGT** drops again, this time to $221, right above its' 100 SMA.

At this point, as long as the stock remains above $205, I set a DCA schedule for **TGT** at every two weeks, buying an additional 100 shares at whatever the price is at that time. **TGT** is now part of the **Stocks/Long-Term Investment** account with the caveat - the moment the price of **TGT** returns a $1,000 profit, I sell it. Until then, I DCA every two weeks - unless it falls below $205, in which case I take the loss.

There is also an exception here - at a certain point, if I am holding a stock for an extended period of time (i.e. **MU**), the calculation of where my "stop" would be now includes an element of Fundamental analysis as well. What is the guidance? Forward P/E? PEG? Etc. In these cases the "stop" may be widened out to beyond that Technical break.

This then divides the stocks in the **Long Term Investment** portfolio in the following categories:

Absolute Holds - these are stocks I simply want to hold long-term, barring any significant, impactful event. Premium and market depending I will usually sell far OTM Calls on these holdings. I never had **PTON** but that is the type of *impactful event* that would remove a stock in this category from my portfolio.

Technical/Fundamental Holds - these stocks were originally Day Trades but I have continued to accumulate shares given positive Fundamental information. The profit target on these remains, but has been raised above the original goal. Thus, if **TGT** were to fall into this category, the profit target may be raised to $3,000. Given the potential of the stock hitting the target on any given week, Calls are rarely sold against these positions.

Target-Based Holds - Recent Day-Trades that now have a lower cost-basis and maintain the original profit target - these stocks tend to rotate out of the **LTI** holdings within 1 to 2 weeks (i.e. **GIS** today).

Keep in mind roughly 90% of all my Day Trades are closed either the same day or within 48 hours. This process is for the 10% that weren't closed for a profit (or a loss).

Note: *This is not a process one can do without appropriately sized accounts across the board.*

Overall, this method has returns between a 90-95% win-rate - however, part of that is due to the length of time I am able to *Dollar Cost Average* these shares and hold them.

The other group of the stocks within the **LTI** portion of my trading portfolio comes from *selling Puts* - and ***I never sell a Put unless I want the stock***. ***When I sell a Put I am hoping to get assigned!*** If for example, I sell the $165 Puts on **NVDA** for $5, expiring this Friday, and **NVDA** finishes the week at $168 - I bank $5 into **NVDA.** The next week I try it again, this time with higher premium and get $7, and again **NVDA** stays above - I now have $12 banked. Finally, the third week I sell the $165 for $6, and **NVDA** finishes the week at $160, thus, I am assigned. Well, I now have $18 in profit on that stock, so my cost-basis is $147 - and I own it at $160, meaning I am up $13. If I want this as a Long-Term Investment, then I will sell calls against it. If I put it into the middle category I might set a target of $25 profit, and therefore have a sell order in for $172.

With the **Fig Leaf** account, it is very market dependent - for example, if I were to buy LEAPs on Tech stocks right now, I would need to sell the calls very close to ATM given the current market. However, if I were to buy a LEAP on **TGT** I would sell the calls at roughly .10 Delta given the sector strength. The general rule is you want to pay for your LEAP using the short calls within 6 months. After that whatever is remaining in the LEAP, either above or below the price you bought it, becomes your profit.

Obviously, it is useful to have a partner (my wife) helping me manage all of these accounts, as I am also managing the *challenge accounts* as well.

Anyway, I thought I would explain this with a bit more clarity as I tend to get questions like, "Wait, aren't you averaging down?" or "Why are you still holding that position?". So, now you know!

IMPORTANT - Experimentation - Findings - Process - And How to Use It

There are some methods that we know work - they are tested, used, and evidenced through the repeatable consistent profit they produce. *Those methods are detailed out in the Wiki.*

However, there are also some areas of trading that are not nearly as solidified (and others that remain unsolved).

For example - Being successful under PDT rules is one of those areas. Swing trading in a choppy market is another (this overlaps with PDT). Various strategies on trading earnings are successful (we know time spreads work), but other strategies are less consistent. The leverage of using Options vs. the flexibility of time you get with stocks when in a non-directional market. *These are all relatively unanswered questions.*

In other words, while there is a lot we do know, there is also a large area of inconsistent danger. In particular those grey areas are concentrated in situations that impact those without much money in their accounts. I assume it comes as no surprise that the rich get richer, does it? Despite the toll the $5K Challenge has taken on my regular trading account it remains very profitable. Which means simply due to the virtue of that account having money in it, I am able to make money.

As most of you know (although clearly some do not), the nature of experimentation is to try various methods, new methods, combinations of methods and over time rule out what doesn't work.

Normally one would use a paper trading account to do this - but that can only go so far as any result obtained through paper trading would understandably be in question. There is a clear psychological difference between paper trading and real money. That difference can mitigate any findings. If I did the $5K Challenge in a paper account, any results I got would be in question - as they should be. Thankfully I can afford to experiment with real money and the benefit of that will be the veracity of the findings.

The goal in experimenting is to not only find what *does work* but to *rule out* what doesn't - only through doing both sides of the equation will you be able to truly nail down a useable strategy.

For example - *Spec Plays.* I have continued to devote a small percentage of the $5K account to *Spec Plays* (roughly 5%). Currently it seems that overall, this strategy is profitable. What that tells me is to now focus on coming up with the best scans and criteria for those Spec Plays. This is a finding one would not achieve *without experimentation*.

I have also found that the *balancing* that works with non-PDT account, does not work well with ones under-PDT rules. Because balancing gives you small edge (again, think of the 1.5% edge a casino has), anything that reduces that edge can make this method a poor choice. The lack of flexibility in a PDT account reduces that edge just enough to make *balancing* an undesirable method for small account. However, straight *hedges* still seem to have benefit. How much? Undetermined.

Algos Price Points, which is an expansion on [u/onewyse]'s ALGO line method, clearly seems to work - however, it continues to be a work-in-progress and needs refinement with a number of open questions remaining. Still it remains one of the more promising findings of this process.

Position Sizing and Risk Management - despite what one might think, this remains up-in-the-air. I am still not convinced that one does not need a Sortino ratio that is strong enough to lift small account to the levels they need to be - however, there clearly does need to be a balance. Finding that balance is the trick, and it is only through experimentation that one can find it.

For those of you that are constantly saying, "Why are you making that trade????" or "That's not in the Wiki!" you clearly do not get the meaning of the word - "Experiment".

Another common question/complaint is:

"Yes, but if all of that is the case then why are making the same mistakes over and over in the $5K account?"

The answer is - Sample Size. Before I rule something out I need to be *sure* it doesn't work.

You will also notice I took risks in this account, such as some OTM Options, and the beforementioned Spec plays. Those risks are heavily discouraged in this sub - so why am I taking them?

Because I also need to know - how much of the method in increasing a PDT-restricted account is rooted in low-probability/high-reward plays and how much of it needs to be based in high-probability/low-reward trades. I know there is a balance there, what I don't know is *what that balance might be?*

Another question is:

"Why not just play SPY futures?"

The answer to that is the same as before - because you need to have a high level of experience to successfully trade SPY futures consistently and I am trying to come up with a method that works for new and struggling traders. Simple as that.

I took 30 pts off S&P futures on Friday from the $5K account and regret it. Yes, SPY was ripe for those trades, but again, it is not the answer I am looking to find.

Hopefully when this is done not only will you have a successful method for PDT, but also learn how to *experiment* with trading.

However, despite the knowledge some will gain from learning how to experiment, I am quickly finding that my main regret is in doing any experiment publicly and my mistake was assuming everyone would understand what that meant. It is not something I will do again. The self-righteous minority that revels in "Ha! Gotcha!!" type posts and comments are simply too distracting. In the future all experiments and attempts to find new methods will be done privately, and only when I am finished will I release the results and then trade the strategy in real-time.

Thankfully there does seem to be some that "get it" and are getting value out of watching an iterative process in real-time. So I hope you soak it up as much as possible while I am doing this one, as I committed to continuing it publicly. In a sense you are witnessing someone learn a new method as-it-happens, except the method I am trying to learn does not yet exist.

As for the critique that well....one cannot "critique" what I am doing. Or the always fun, "There is a cult-like mentality". The answer is of course you can criticize - but do it in the context of what I am doing and in the service of furthering knowledge. What seems "cult-like" to you is just a community that has higher standards than you are clearly used to seeing.

For example - If someone has asked: "Why buy back the short side of TSLA when you did? At that point if it turned around the CDS itself would be in a position to be profitable, and if it did not turn around you could have bought it back for much cheaper than you did. If you are experimenting with buying back the short side on a CDS, it would seem the better experiment in that scenario is - waiting." **That is a valid critique.** However, incorrectly saying I bought a bunch of OTM calls on TSLA, when I actually only spent less than $450 on those calls to change the R|R profile is **not a valid critique**. What bothers me about that particular criticism is that is shows a fundamental lack of understanding of the entire process.

The purpose of this sub is to *convey knowledge* - some of the knowledge is proven and invaluable. Some of it is being created in real-time. Unfortunately, the latter part of that discovery appears to be causing confusion. If that confusion is due to a lack of clarity on my part, then I apologize.

Build Your Patience at The Open (For Any Market)

The S&P futures market opens in about an hour and will give a pretty good indication if the selling pressure has abated or plans to continue.

Key here is *patience*. *Buyer and Sellers are both going to be looking for signs of a definitive direction before committing*.

This means that gaps up can be reversed and gaps down could potentially look to tested the SMA 50 (if that is breached in a meaningful way - ***look out below***).

The temptation might be to rush in and go long **MRNA** or short the market. If we gap up you might want to jump in and go long **NVDA** or **AAPL**.

Wait.

Yes, you may miss a big move. But this is a dangerous environment right now, one that will be filled with both *bull* and *bear* traps. Do not find yourself getting caught in one.

There will be plenty of opportunities throughout the day - your best bet is to wait for at least thirty minutes before making a play. Do not let FOMO drive your trading!

I will be watching the S&P futures market and will give my thoughts if I see anything noteworthy.

Otherwise - I will see you on the battlefield tomorrow morning!

5 Rules on How Long to Wait to Trade the Market Open

There are so many damn theories on trading the open.

Some people say they *only* trade the open and first hour, and they won't trade the rest of the day. Let's ignore those people. Are there some that can do that? Sure....a few - *very few.* Not advice you want to listen to.

Some say they love trading the open, and they also trade the whole day, but the open gives them great opportunities.

Others will tell you to wait 15 minutes. Others still will say wait 30 minutes. And there are some that advise holding off on trading for the first hour.

So....who is right?

Well...all of them, except for the first person, the first person is never right, but the rest are all correct.

Because - it depends on:

1) *Your trading style*
2) *Your level of experience*

Let's start with this -

> ***Rule 1***: ***Unless you are a consistently profitable trader do not trade the first 15 minutes.***
>
> ***Rule 2: If you are a consistently losing trader do not trade the first hour.***
>
> ***Rule 3: If you are a good trader, but not yet consistently profitable, wait at least 15 minutes.***
>
> ***Rule 4: If you are a new trader or still learning trader, and not consistently profitable, wait 30 minutes.***
>
> ***Rule 5: If you are a consistently profitable trader - trade whenever the hell you want.***

Now you might think....*"I don't wanna wait to trade, I wanna trade right away! If I wait, I will miss all the price action! And what about the morning gappers?"* (yes, I know that sounds really "whiny"). And you're right, you *will* miss all of that, and you *will* get FOMO as you see people jump in and take trades. But here's the thing - the first 30 minutes (and really the first hour) is very dangerous - because it is extremely volatile and the indicators one would normally use to find order amongst that chaos are not as reliable.

For example, I see people referencing VWAP after 15 minutes. Really?? You are going to depend on a weighted average by volume after just 15 minutes of price action? These indicators and averages need time to settle.

In a sense, you are going in blind, with only the candlestick patterns to truly guide you. Reversals are sudden and without warning. In particular, the market overall is prone to immediate reversals, which will dramatically impact your trade.

In other words, it is not a time that non-experienced traders should be trying to ride momentum stocks for a profit. Instead, you should be observing the market, observing which stocks and sectors are moving and how, looking for the best set-ups.

If you look at my trades in this 100-trade challenge, you will see a few of them made early on, but most of them are made throughout the day - *there are plenty of opportunities after the first hour*.

"GAP and Go" or "Gap and Gag"? (Why Momentum Gap-Up Trading is Extremely Risky/Difficult) – (/u/OptionStalker)

In my previous posts I have mentioned the importance of market analysis and context. How does the current market move fit into the longer term picture? Knowing this puzzle piece will help you plan your trading day before the open.

Let's say that the S&P 500 is up 30 points before the open. Everything is flying and it looks like the action is going to be hot. The problem with buying an opening gap higher is that we do not know if profit taking will lead to a gap reversal or if buyers are so aggressive that the opening price will also be the low of the day.

Currently the market momentum is very strong and the pattern on a daily chart can be described as a gradual drift higher with brief dips and snapback rallies that lead to a new high. After these drops and bounces the market falls back into the drift higher. The candles compress and there are many doji formations (closing price is equal to the opening price).

If the market has dropped to the 50-day MA and it has found support the next day we often see an overnight gap up. Many of those have resulted in "Gap and Go" days. Buyers are aggressive now that support has been confirmed and they are anxious to join the longer-term market uptrend. You can be more aggressive with your buys in this scenario. In the chart you can see how even on these days most of these candles still have a tail under body so there is a chance to get in better than the opening.

If the market is gapping up to a new all-time high, you have to be careful. That move will excite bullish speculators and they will load up on the open. In the first 30 minutes we often see profit taking and those buyers are trapped ("Gap and Gag"). They are going to choke on their longs, and they will accelerate the reversal as they bail on their trades. Also know that if the market had a "Gap and Go" to a new all-time high the previous day, know that a second "Gap and Go" is less likely.

If the market gaps up and it is in the middle of the 20-day range, look at previous candles. Chances are you will see candlesticks that have tails under the body. That tells you that you are likely to see a price during the day that is lower than the opening price and you will have a chance to buy. You do not have to chase.

It is always best to error on the side of caution when you are trading in the first 30-45 minutes of the day (even if there is no gap). You don't know what the market is going to do. When you have a gap up you also have a lot of "fakes". All ships rise with the tide and some of these stocks will reverse easily. After 30-45 minutes you can identify stocks with relative strength, and you have a much better sense for market direction/momentum.

Trade well.

Avoid Trading the First 30 Minutes - Here's Why (/u/OptionStalker)

You've done your research and you've found the next great trade. You can't wait for the opening bell to enter the order and the stock looks like it wants to move higher. After a few minutes of trading the market also looks good and the stock is running so you hit the buy button. We've all been in this situation and here's why you should wait for at least 30 minutes.

During early trading buyers and sellers are jousting to see who has the upper hand. Much of the price action is program driven and the price action tells us how the day is going to unfold. All of your day trades and swing trades need to start with the market. Let's take a look at the last 3 days of trading and what we learned from the early action in the SPY.

Wednesday the market opened with tiny mixed candles. That is a sign that neither side has much of an advantage. Dojis and long wicks/tails are also an indication that the price action is balanced and that neither side has an advantage. The trading volume was also very light. After an hour of trading you would conclude that if you were day trading you should expect a tight range and that you should trim your size and set passive targets.

SPY 5 Minute

Thursday the market gapped higher. Gaps to a new relative high have been faded and you should expect the bid to be tested. You need to be careful of a gap reversal and you can see from the green candles in the first 30 minutes that there is some buying. That tells me that a big drop and a gap reversal is unlikely. If there were going to be a gap reversal those green candles would not have been as big and they would not have come so soon. On the next drop we can see that the market almost filled the gap and that the new low of the day was barely below the prior low (marginal new low). The next series of green candles confirms that buyers are still engaged and that provides you with a better entry point. If you bought the open, you overpaid for your position and you were exposed to a possible gap reversal. If you were day trading, you might have been stopped out for a loss.

SPY 5 Minute

Friday the market started off with a series on nice green candles. That move was orderly, but the candles were tiny and that is a sign of resistance. That move lured in bullish speculators and the market was making a new high. After that initial push higher the market tested the low of the day. If you bought too early you overpaid. The market dip had tiny candles indicating that the retracement was also weak. On the low of the day, you can see a long green candle (bullish engulf). That is a sign that support is strong at the low of the day.

SPY 5 Minute

The information that we get in the first 30-45 minutes helps us gauge the market. It tells us how aggressive buyers and sellers are. During that early action we can also gauge how the stocks we want to buy are behaving. If the market is going down and the stock is going up, I know the bid is strong and that the stock is ready to fly. If I buy the stock right on the open, I do not have that information.

Let's use an example from last Friday. CRM looked great. The stock had formed a base on a daily chart, the stock had heavy volume and we can see on a daily chart that it was testing the 100-day and the 200-day MAs. Would the stock blow through that resistance or would it pullback? The market was strong, but the tiny candles suggested that there was resistance and that we did not need to chase.

CRM Daily

In this next chart you can see how the market pulled back and CRM stayed very close to the high of the day. This is a sign of relative strength. As soon as the market found support CRM blew through the major moving averages and you had confirmation that you had an excellent entry point. You can also see the relative strength later in the day. Relative strength is my edge and I search for it every day for my day trades and swing trades.

CRM 5 Minute

Some of you will look at the CRM chart and say… I would have entered even better if I had bought the open for CRM. In this case that is true. However, you did not know that the market was going to do or if CRM was going to retreat after testing the major MAs.

FB has been strong recently as well. It opened a little soft Friday and it shot higher with the market. However, look what happened after that. The stock gave back all of the gains when the market retraced. That is bearish and it is a sign that there is selling pressure. If you bought this stock early in the day you overpaid. By the end of the day, you might have decided to stop out for a loss. Luckily, the market had a strong day, or the stock would have been down a lot more.

FB 5 Minute

Trading the open presents greater risk and greater reward. I have found that by waiting at least 30 minutes I can improve my trade entry. The market action tells me what type of trading day we are going to have and who has the upper hand (buyers or sellers). I can also gauge the stock's price movement and I can identify relative strength. I hope this post helps you with your entry. Trade well.

Should "News" Influence Your Trading?

As many of you know, I have been knocked out of commission recently. While I hope to return to trading soon (going a bit stir crazy actually), my amazing wife is doing a phenomenal job of taking over while I am laid up. Hopefully at some point it will no longer feel like there is jackhammer going off inside my head and I will be back in action. Still, since I can't sit still, I figured I would jump into a debate.

Looking through the past few days I noticed a very interesting discussion was had in the OneOption chat room. Even though I was unable to participate then, I figured I would write up my thoughts now.

The question posed was fairly straightforward - *How much should we, as traders, take the news into account when making decisions?*

Thoughts on the matter range from;
“Not at all - only the price action matters” to “A lot - the ‘Why’ matters just as much as the ‘What’”.

And for the sake of this discussion lets qualify news as actual "news", not what some talking head is saying, or what is currently getting buzz on social media. I am referring to actual news releases that have a material impact on the market or a stock.

From the perspective of a *Chart Purist* the resulting Price Action is all you need to know in order to make the right decisions. In a way, you could theoretically not know the name of the stock, and just look at the candles. This position has a lot of merit. As traders our job is a constant undertaking in trying to isolate Institutional buying/selling in order to “Follow the smart money”. That can be difficult to do when you take the catalyst for a price move into account as you invariably also introduce your own bias into the analysis.

As a quick aside, there is a parallel to this in my past life when I was predicting opening weekend Box-Office on a film. I would always have the data in front me (what % of moviegoers were aware of the title, what % were interested in seeing it, and what % made it their top choice), broken down by demographics and every other category you can imagine. I would also have the results of the prediction model as well. But in the end, the actual prediction - the number that would go out to the world (i.e., when you see a headline that says, "**Black Panther** beat expectations!" - those expectations come from that prediction) would be my decision. I could choose to go with the model and the data, or I could also ignore it and put out what I felt would be the result. The issue was - *knowing what the movie was always influenced the decision*. The data might say one thing, but looking at the title I might think, "There is no way that **Batman** is only going to open to $70 million!" I actually explored this and had people on the team make the predictions without knowing the title and when the title is revealed. It turns out, as expected, that the more experience someone has, the better they were able to improve on the model when they knew the title. However, those with less experience would invariably fuck it up when the knew what movie they were predicting.

Anyway, back to stocks - now we have all seen stock prices (or the market in general) move in the opposite direction we would assume given the news. Whether it is a stock tanking on good earnings or the market going up after a hot CPI number - at one point, every single one of us has watched the price action, and said, “What the fuck??”

That is our bias at play, and it can negatively impact our decisions. Whereas if we had ignored the news and simply watched the Price Action our trades would be based solely on what we see in front of us.

But is it as simple as that? Just look at the chart?

To answer that question, let’s examine this from a few angles. To begin with we need to start with a very basic premise - When we are trading off Price Action, we aren’t trading where a stock is at that moment, *but rather where we think it will go after the trade goes through*. If we see a stock dropping and we short it, we are shorting it because we believe it will continue to go down. *I think we can all agree on this idea, yes?*

So, if our trades are based on some prognostication of where the price will go, the next question is that of timeframe. By definition, as traders we are looking at significantly lower timeframes than someone investing in the company. An investor needs to take Fundamentals into account, as well as a macro-level thesis on the market overall. Clearly for anyone investing, the “news” could be very significant.

Traders on the other hand are looking at much lower timeframes. We want to know where the stock might go from the next minute to the next couple of weeks, but certainly no longer. Therefore, we can further narrow things down by saying that when a trader is looking at a chart they are trying to predict the direction (**and magnitude, which is key**) of the move over the more immediate future. Again, I assume we can all agree on this as well.

In order to do this, we use Technical, rather than Fundamental analysis. Does it really matter what **Pepsi's** P/E ratio is if we are buying it at 9am and selling it at 11am on the same day? Of course not. Although here arises the one major drawback with Technical Analysis that we have all experienced:

One of the most important questions to answer when trading of - ***When do you exit? When do you hold?***

Sure, technical analysis can inform this decision, but when you are short a stock at $141.34 and it pops up to $142.45 - the question of *Should I hold? Should I exit?* becomes of paramount importance. That pop may be temporary, it could be because of the market, or it could be quite real and continue. For example, right now I am long **MRNA**, but in the last thirty minutes of the day **MRNA** dropped $5 - is that real? Is that profit taking?

And for this, traders look at *context*. That context may be the Daily Chart, which is not *live price action* but rather historical information. It is also the market itself to see if you are trading with the trend, how strong that trend may be and of course, how strong/weak the stock is relative to **SPY**.

In a sense, *all of this* is context that goes outside the immediate price action of the ticker.

The reason that *context* is applicable to your analysis is due to its *objective* nature. There is widespread agreement on what a *bullish* daily chart or *bearish* daily chart looks like. It should also be noted that while the quality of one's interpretation still lies in part with their level of expertise, even a rudimentary level of knowledge would get the overall gist correct. Or to put another way, even a dumbass can look at a chart and see whether it looks good or bad.

Now let's look at the larger issue at hand - *External Stimuli*, typically - **news**. Before we go into the difficulty of being able to accurately predict the impact a piece of news will have, let's look briefly at the issues that can arise even if you get it *right*.

Let's say a piece news drops - e.g. *Apple is revising its forward guidance down.* Off that news you are confident that **AAPL** is going to drop, and sure enough there is a huge red bar. So, you enter the short. But here is what you *don't know* - ***What is the magnitude of the impact?*** Will that revised guidance absolutely crush **AAPL,** allowing you to ride that short all the way down? Or will it bounce? You have no fucking clue - and if you become too convinced of the bearish result, you might ignore obvious signs that it has found support and is reversing.

News reports, if one were to use them to provide context in their trading, need to be broken out into two categories:

- **Strength -** Here one is not only looking at the *magnitude* of the impact, but also whether the news is strong enough to bypass levels of *Support/Resistance*. For example, we know that a **Fed Announcement (*e.g.*, FOMC)** can have an oversized move on the entire market and also have the strength to break through major levels of S/R. However, we have also seen those announcement wind up have a very tame impact overall. Still - in terms of *potential*, this type of news has the potential to render your *Technical Analysis* useless.
- **Objectivity -** Of equal importance is how confidently one can interpret the news and its resulting impact on the stock/market.

Here is an example where knowing the news might lead you to a better choice than being blind of the reason- let's say you are *Short AMZN* - you shorted the stock at $92.40 and are currently in profit (it is at $91.64). All of a sudden there is a substantial green bar that takes the price up to your entry.

If you had no knowledge of why it was going up - since the stock did not break through any line of resistance, and this was just one 5-minute candle, you would most likely hold (one cannot exit positions because of one or two 5-min candles).

If you knew it was going up because it released revised guidance that was positive - knowing this, you might exit that short at break-even as the stock now has a catalyst to go higher, with a lot of room until major Resistance ($101).

Knowing the news allowed you to exit sooner than you might have if you waited for technical confirmation.

As mentioned earlier the use of **news** to someone that is *trading* (i.e., not investing) is in its ability to give you more context so you can better predict if a move in the price will continue. Price action alone will show you what the stock is doing, but we all know that the trick to being profitable is to know when to get out, when to hold and when to double down (*and the best you can hope for is to die in your sleep - Kenny Rogers*) We also know that the charts are constantly filled with *noise* that can either shake us out of good positions or give us false confidence. Knowing whether or not a move is *real* is essential to being a successful trader.

Going back to those categories let's first dig a bit deeper into each. Under **Strength** we can break that tag into the following by how bound the price remains to technical levels:

Extremely Strong - This type of news can cause a stock (or the market) to ignore all levels of *Support* or *Resistance*. Thus, even a moving average that has been tested many times can be rendered toothless by this type of release. An extreme earnings report might fall into this category. This can also have a lasting effect on the price.

Strong - This will move the stock/market outside its typical ATR and may even breakthrough minor levels of S/R (i.e. basic horizontal resistance), but it doesn't result in enough volume or intensity to break any major barriers. It may push price further in any direction but that result will most likely be temporary. A product update qualifies here (unless it is major).

Moderate - These are your temporary boosts (or drops) to a price that tend to quickly fade. An afterhours *Insider Buy* might jump a $10 stock to $12 really fast, but then anyone trying to get in at that level might quickly find themselves trapped.

The other category of **Objectivity** is far more difficult to break down. To begin with one must differentiate between *Expected* and *Unexpected* news. If news is *Expected* on a stock (e.g., upcoming earnings), Market Makers will take that news into account and price the options accordingly. That means as traders we are really trading *against the MM's*. Our bet here is that they got the potential range incorrect. It is important to keep in mind here that the *MM*'s have an immense amount of resources at their disposal and their models tend to be extremely accurate. For example, if **Stock A** is worth $100 and they have earnings that evening, the $100 Call might go for $3.50 which is primarily due to the higher IV. Therefore, you need to not only get the direction correct, but also have the stock *exceed* the projected range the *MM*'s assigned to it.

It goes even deeper than that - stock may be at $100, but that may be because investors anticipated a strong earnings report and were already pricing that in. The current price level may very well be due to well over a month of investor activity that increased the price of the stock due to anticipation of good news. Hence when the news finally drops, the price goes down.

Unexpected news is a very different story, as that information was *not* priced in. However, due to its *unexpected* nature it also means that the interpretation of how it will impact the stock and by how much, rests entirely on you - the trader.

This gives us the following:

Fully Objective - This is very rare. A piece of news that has a clear and predictable impact on either the market or a stock. The key part of this is that the news *must* be *unexpected*. Here is an exaggerated example of what this type of news might look like: "**Shocking new data reveals that iPhone use causes cancer!"** (and that the news comes from a reputable source). As outrageous as that sounds (as well as impossible), news like that would definitely indicate a drop for **AAPL**. What you wouldn't know is by how much. Obviously if you were Long **AAPL** and saw this news you would close your position. If you were short **AAPL** you might even decide to double down. As stated earlier, this shit doesn't happen very often and usually by the time you see it, it may well be too late. Would you enter the short here? What if **AAPL** dropped from $143.37 down $138.40 in one candle, breaking support. You might decide to enter a short position here whether you knew the news or not - just based off the chart. But if you *knew* the reason, would you enter with a larger position than normal? You might - and it would be fairly well justified.

Somewhat Objective - Sticking with **AAPL** (because why not), imagine that there was an internal leak, which is very rare for that company, which showed that the **Apple Car** is much further along than previously thought. As a result, **AAPL** stock jumps up $149 in one candle, breaking through the SMA 50 and the downward sloping Algo Resistance line. However, you have the SMA 100 and SMA 200 right ahead at $152 and $153 respectively. Is this news strong enough to break through those? This is where it goes into a grey area. If you did not know the reason behind the jump you might place an alert at $153 and wait it out. If you did know the reason you might interpret the initial response as being extremely positive, and jump into a long position assuming that the news is strong enough to breakthrough. However, this may well be the wrong choice and many times it is.

And so on and so on.... you can figure out what the remaining groupings would be here.

As you can see it isn't entirely black and white. Chart purists have a point, as clearly there are many pitfalls in trying to figure out what impact the news will have on a stock/market. Many times you can let what you *think* the impact should be cloud your judgement. News that looks very positive may cause you to get bullish on a position only to find out (because you fucked around) that it was already priced in. Sometimes that jump in price is due to a bunch of retail traders jumping in, and then finding there is no Institutional support behind their enthusiasm. All that happened was you gave Institutions a great place to go short.

However, there are other times when knowing the driver of a move can correctly influence your decision in exiting a position, or opening a new trade, a decision you might not have made if you were just looking at the chart alone.

In my experience inexperienced traders have a very difficult time with the concepts of something being "priced in". Whether it is from their own convoluted theory (e.g., "Consumer debt is rising and soon people will begin to default on their credit card payments causing a crisis for those lenders - I am going enter into Puts on **V** and **AXP**!" - as if the current prices of those assets do not already take the likelihood of that occurring into account), or straight out misinterpretation (e.g., **"Tesla** broke a sales record in Asia for the fourth quarter, and the stock is going up, I am taking Calls on it!" only to find out that even though they broke the record they were expected to break it by even more than they did, and the price quickly reverses). New traders tend to think in very linear ways - if earnings are good, the price should go up, if a product tanks the price should go down, etc. And of course the stock market doesn't exactly work that way.

Thus, unless it is one of those rare **Fully Objective Extremely Strong** and *Unexpected* news releases - most traders are better off focusing on the charts themselves. Which isn't to say that one should never take the news into account, but rather every trader needs to be aware of their own shortcomings in this area. Basically, if you tend to fuck it up more often than not, then do not use the news to influence your decisions. However, if you are able to correctly integrate it into your analysis as context, then it can obviously be an asset.

Like everything else, experience matters here. Ok, now I am going to actually lie back down...maybe.

Chapter 8. Trading Techniques

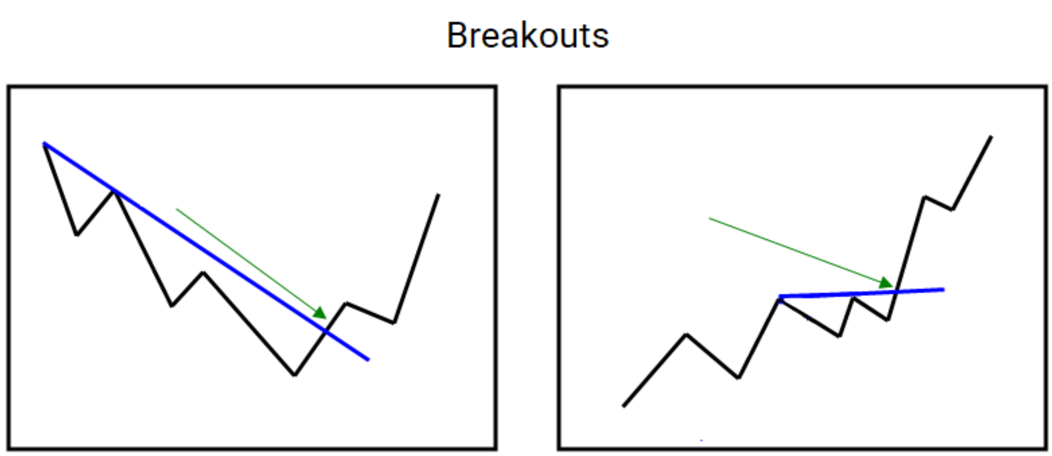
Trendline Terms and Basics (/u/OptionStalker)

Happy New Year Traders!

I hope your trading is off to a good start this year. I've been playing "mad scientist" for the last month so I have not been able to post. My quest to automate trendlines started 10 years ago. For every two points on a chart, there is a trendline. There are thousands of them and the hard part is finding the good ones. If the trendline breach is not reliable, there is no reason to search for it. My goal has always been to identify the best ones so that we can search for them. We can only draw so many alert lines and we miss some of the great ones.

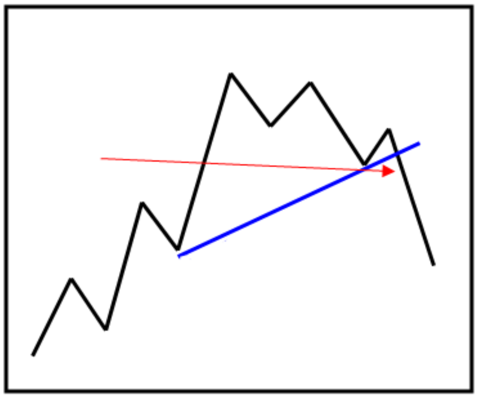
Trendlines are the most common form of technical analysis and all it takes is a pencil. That makes them relevant. I plan on writing future articles on trendlines so let's cover some basics.

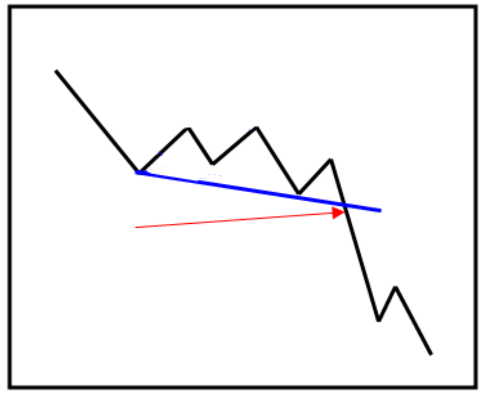
Let's start with a few terms I use. Trendlines can either connect **highs** or **lows** and they are either ascending **(+)** or descending **(-)**. That means we have **High-**, **High+**, **Low+** and **Low-** trendlines. High+ and High- breaches produce **breakouts** (bullish), and Low+ and Low- trendlines produce **breakdowns** (bearish). These terms allow us to efficiently reference them in the chat room and we can instantly visualize them without even looking at a chart.



Breakouts are bullish and they happen on High- (left chart) and High+ (right chart) breaches.

Breakdowns





Breakdowns are bearish and they happen on Low+ (left chart) and Low- (right chart) breaches.

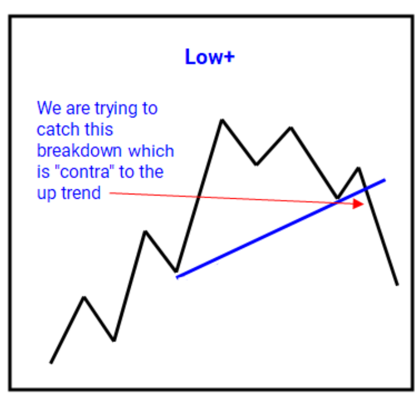
Contra trendlines (**High-** and **Low+**) search for trend reversals and they are going "against the grain". They are on a constant collision course with price and that makes them very common. When they produce steep angles that are greater than 45 degrees we have to be extremely careful. The trend is strong and we want to join it, not fade it. Shallow long term angles that are less than 45 degrees indicate the the trend is tired. It is losing its power and it could be ready to reverse.

High-

These trendlines connect the “highs” and the trendline slopes downward (descending). When that trendline is broken it will often signal that a trend reversal is likely. Breakouts above the trendline are “contra” to the prevailing trend. If the breakout was just a little “dead cat” bounce and the stock continues lower we would call that a “**High- Fake**” when the stock drops back below the trendline.

Low+

These trendlines connect the “lows” and the trendline slopes upwards (ascending). When the trendline is broken it will often signal that a trend reversal is likely. Breakouts below the trendline are “contra” to the prevailing trend. If the stock breaches the trendline on a little profit taking and then resumes the uptrend, we call it a “**Low+ Fake**” when it gets back above the trendline.



High- and Low+ breaches often signal a trend reversal

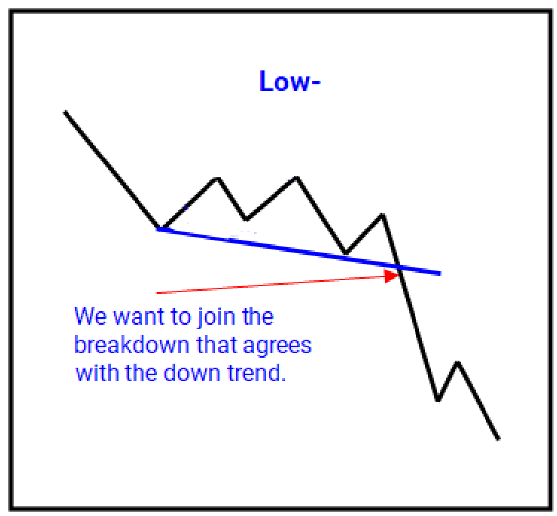
Continuation trendlines (**High+** and **Low-**) trendlines search for opportunities to join the trend. The train has left the station and these trendlines are waiting for a pause or a dip so that they can climb aboard.

High+

These trendlines connect the "highs" and the trendline slopes upwards (ascending). They are less common than a **High-** because they are chasing after an uptrend. When the highs are connected, the line is often moving away from price, not towards it like **High-**. In general, these upside breakouts tend to be a little less reliable because the breaches often happen near the end of the move (buying climax). For that reason, we want to watch for "**High+ Tops**" as a possible sign of a top and a trend reversal.

Low-

These trendlines connect the "lows" and the trendline slopes downwards (descending). They are less common than a **Low+** because they are chasing after an downtrend. When the lows are connected, the line is often moving away from price, not towards it like **Low+**. In general, these downside breakouts tend to be a little less reliable because the breaches often happen near the end of the move (selling climax). For that reason, we want to watch for failed breakdowns as a possible sign of a trend reversal. If the stock breaksdown and then crosses back above the trendline we call this a "**Low- Bottom**".



High+ and Low- breaches follow the prevailing trend.

Now that we have covered the terms, I can write some trendline articles and teach you some high probability patterns. I think I will write one now.

Trade well.

Descending Wedge Pattern - How to Trade It (/u/OptionStalker)

Picking bottoms is a nasty habit when it comes to personal hygiene or trading. When the drop is particularly steep it is a massive warning sign. Sellers are aggressive and they are pounding every bid in sight. Buyers see their orders getting filled and they cancel their bids (buy orders) on the notion that they will be able to enter at a lower price. The rout is on and the red candles start stacking on heavy volume.

Before we get started, familiarize yourself with some of the [terms I will be using](#).

As this move unfolds, support levels are obliterated. From a shorting standpoint, that is exactly what we want. We don't want to play "patty cake" at these levels and poke at them, we want to destroy them. Initially, the stock will breach **Low+** trendlines and they will give us an excellent entry point. Notice that the **Low+** had a gradual slope (< 45 degrees). If it was steep, we know not to fade the up trend.

Next, horizontal trendlines fail along with gradual sloping **Low-** trendlines. As you can see in the chart below, each new trendline breach provides confirmation. Eventually, older Low- trendlines will be revealed and they will be triggered all the way down.

These are excellent patterns for shorting. The speed and ferocity of the move (stacked red candles on volume) are the "tells" to watch for early on. The obliteration of support levels is another clue. The **High-** trendlines are close to 90 degrees and that is another sign to watch for. Moves like this tell us that there will be a lot more downside.

This descending wedge is extremely steep.

As the move unfolds the **Low-** trendline (blue shaded trendline connecting the lows) will also be very steep. As these Low- and **High-** trendlines (blue shaded trendline connecting the highs) converge, a wedge forms. When the angle of the **Low-** is greater than 60 degrees and the angle of the **High-** is greater than 75 degrees, a bounce is likely. Remember, we do not want to pick bottoms. We need to have some signs of support. In this case you can see that a **High-** trendline with a gradual slope forms. More than a month of trading formed that trendline and you should avoid buying "V" bottom bounces. They can easily fail. That breakout above is tradeable for pros, but you have to use smaller size relative to the shorts you took on the way down, and you do not want to overstay your welcome. It's just a matter of time until "Papa Bear" comes home.

Here's where most traders get into trouble. They start playing fundamental analyst. *"But company XYZ has been around for 20 years, and they make the best "gizmo" on the planet. This is a gross over-reaction to the problem, and it is a bargain at this level."* Know that the sellers are smarter than you are. They have better information than you do and they have infinitely more money than you do. They are the reason the chart looks like shit. When you see a chart like this the red warning signs should be flashing for many months and your mindset should always be to short breakdowns.

Towards the end of the chart, you will see another wedge formation. This one is fairly balanced unlike the descending wedge earlier. The **High-** trendline signals a breakout and bottom pickers rejoice. *"Finally, everyone else understands what a great bargain this stock is at this level."* They entertain thoughts of how much money they are going to make when the stock gets back to its high. That little **High-** breakout lured them in and now they are going to get the door slammed in their face - it was a fake. When the stock dropped back below the **High-** trendline the bottom pickers were left with a stinky finger and a loss. Then the **Low+** trendline failed and then a **Low-** trendline failed. This was added confirmation that another great short was underway.

When you see steep declines like this, know that there will be many shorting opportunities along the way. If the initial drop is extreme (close to 90 degrees) there will be a bounce. For most of you, don't trade it. If you do trade it, watch for signs of support and a **High-** breach. Trade smaller size and exit at the first sign that the bounce has stalled. For most of you, keep drawing those **Low+** and horizontal trendlines. Wait for the second shoe to drop. A plunge like this is going to take a long time to resolve and there will be a very long bottoming process.

I hope this post helps you this year.

Trade well.

So You Want To Learn About Trendlines.... [VIDEO]

https://www.youtube.com/watch?v=-cZ8k44_Zrw (23:38)

Trendlines [VIDEO]

I was asked to do a quick video on Trendlines, so here it is, around 8 minutes long, so please watch it if you have any confusions at all about making trendlines on your charts:

[Trendlines Explained]() (8:58)

Trading Both Sides of The Market (/u/OptionStalker)

A.K.A.: The Unfortunate Truth I Hope You Never Experience

I've been at this a VERY long time, and I am going to share an unfortunate truth. The S&P 500 has rallied more than 100% in less than two years (March 2020). Long term rallies lure many traders into the market, and they mask someone's true skill as a trader. There is room for error during these powerful trends and the market forgives mistakes. Poor entry, no problem, the market will come back (and it does). Put credit spreads going against you, no problem, roll it down and out (ha, they expired). They also build a false sense of confidence.

When the corrections come (and they will) they wipe out a huge number of traders. Those who only see the long side of the market are lost. They only know how to buy, and they keep trying to buy dips like they have successfully done so many times before. Unfortunately, the bounces never come and they lose all of their money. If you do not know how to short, you need to learn. It is an uncomfortable feeling, and it takes time to get used to it. Start with 1 share if you have to, but do it. You need to be able to see both sides of the coin. That perspective will help you with all of your trading. We are going to see two-sided action this year and it is unreasonable to expect performance like we have seen in the last two years.

Why We Hate to Short (or How I Learned to Stop Worrying and Love the Red Bar)

Let's face it - most people hate to short. The market gives us two ways to make money, but most of us only take advantage of one - why?

When the market is down the first thing a lot of people do is look for those stocks that are up, and when the market is up the first thing most people do is look for those stocks that are *really* up.

Now sure, there are some PermaBears out there - and let's face it, they're annoying. Always predicting doom and gloom, raining on your parade. If you are one of those people just know that you suck the joy out of every room.

Some could argue that one reason we are "short-adverse" is that people simply do not like to root for companies to fail. But I don't buy it (get it? I don't "buy it"? Clever, no?). You can't rail against corporate profits in one breath, and then be sad that their stock price is dropping in another. Virtue signal all you want, but we all know, you don't give shit.

Let's look at the psychological angle of this first - our whole lives we tend to root for things to *go up*. We want our favorite sport team to score *more* runs, not less. People ask for a *raise,* not a salary decrease. Our brains are hard-wired to want to add things, not subtract them. **More is better**.

We are also used to prices *going up*. Things are always more expensive today than they were yesterday - and that is certainly true in today's inflationary environment. So our seemingly biological imperative to *add things* tends to be reinforced by a cultural one as well.

And then there is the stock market itself - **It. Goes. Up.** Over time, as a whole, the market rises. There may be dips, sometimes even crashes, but in the end, if you wait long enough, the market always goes higher. Now while that isn't true for individual stocks, we know that if we went along a random stock and came back in a year, there is a good chance we would have made money. *But* if we short a random stock and come back a year later, there is an equally good chance that we would be in a world of hurt.

Which means everything we know from everyday life seems to conform with the way the market operates - shit goes up (except at your job where I am sure shit rolls downhill, which probably why many of you want to become traders to begin with!), and generally, we want shit to go up.

But here's the problem. *Trading is short-term*. And *in the short-term* these rules do not apply. And still, we apply them. It feels unnatural to short because it goes against our very nature to do so.

And that is how one begins to get comfortable doing it - by recognizing why so many avoid it and/or do not like it. Once you realize you're applying a long-term view to a short-term situation, you can begin to push away that feeling of discomfort and truly operate in the moment. Because operating *in the moment* is what successful traders do, and only one thing matters in that moment - ***How can I make the most money in this situation?***

Here is a simple exercise to try (use Paper Trading if you want):

Every day **SPY** is in the *red* after the first hour, find a stock that is down percentage-wise at least 3 times more than SPY and its' own sector. So if SPY is down .5% you want a stock that is down at least 1.5%.

Once you have that list - find the stocks that are below all three major SMA's on the Daily chart (50, 100, and 200).

Finally - choose only 1 among the ones remaining in the list that have an HA (Heiken Ashi) continuation of at least two flat-topped Red bars in a row.

Now - *Short that stock*. Either short the stock itself, or use a Put Option that has a Delta of .65 or higher and is at least 1 week away from expiration (so not same week).

Do this 10 times and look at your results.

How to Spot a Trend and How to Know When That Trend is Over [VIDEO]

Here is a quick video for you explaining how to spot trends on a stock/etf and to know where it is over/ turns into chop - this is also useful on figuring out where to put your "stop".

How to Spot a Trend (13:03)

How To Trade the Open (/u/OptionStalker)

One of the biggest mistakes novice day traders make is they turn on their computer screens like a child opens presents on Christmas morning. They are barely awake, and the adrenaline is pulsing through their bodies. The excitement has been building since the previous close. FOMO sets in and they're afraid that they are going to miss the next big move. They recall that the market closed above a resistance level yesterday and they see that it is gapping higher this morning. They "know" it's heading higher, so they start buying right away. After 30 minutes they regretted that decision because they could have entered all of the positions at a better price. Now the market looks rather weak, and they're frustrated with themselves... "I did it again". They know it's going to take all day to recover from this mistake. They take their lumps, and they step away from their screens. Sound familiar?

Your trading day should start at least two hours before the open. Read the overnight headlines and assess the overnight price action in global markets (Europe and Asia) and the S&P 500. This is your backdrop. Is it bullish or bearish? Is there any economic news that is going to be released an hour before the open? If there is, watch the market reaction right after it hits. You'll know instantly if it is going to have an impact on the action. Is the market going to open above or below any key technical levels? What might that breach look like on a daily chart? Does the market have a full head of steam in that direction or are we just going to poke at that level? Is the market going to gap higher/lower? Is the gap going to clear the prior day's high or low? How will I know if this is a "Gap and Go" or a "Gap Reversal"? Which of the two scenarios is most likely and which one presents the best trading opportunities? Is this a pre-holiday session with a flat open inside of the prior day's range? Has the trading volume been light recently? All of these questions need to be answered. They are going to lay the foundation for your trading day. You will NOT have this information on the opening bell.

Develop resources for your news. Reuters, Bloomberg, CNBC, Yahoo Finance, Seeking Alpha, Fox Business News, Marketwatch, Wall Street Journal, ForexFactory, Benzinga, and Investors Business Daily are major media outlets. Bookmark the sites you like and develop a research routine.

Next, you should review your positions. Are any of your stocks moving before the open? What is the surrounding news? How will you manage those positions? Which stocks are making big overnight moves? Are they breaking through major technical levels? What is driving that stock? Could there be tangent plays for stocks that belong to that group? How does the stock normally behave? Does it have a habit of surging higher on the open and then giving the gains back or does it have steady price action? What has the volume been like recently? Is this stock move related to an earnings release? If yes, what has the stock done after previous earnings releases (look for previous earnings releases on a D1 chart).

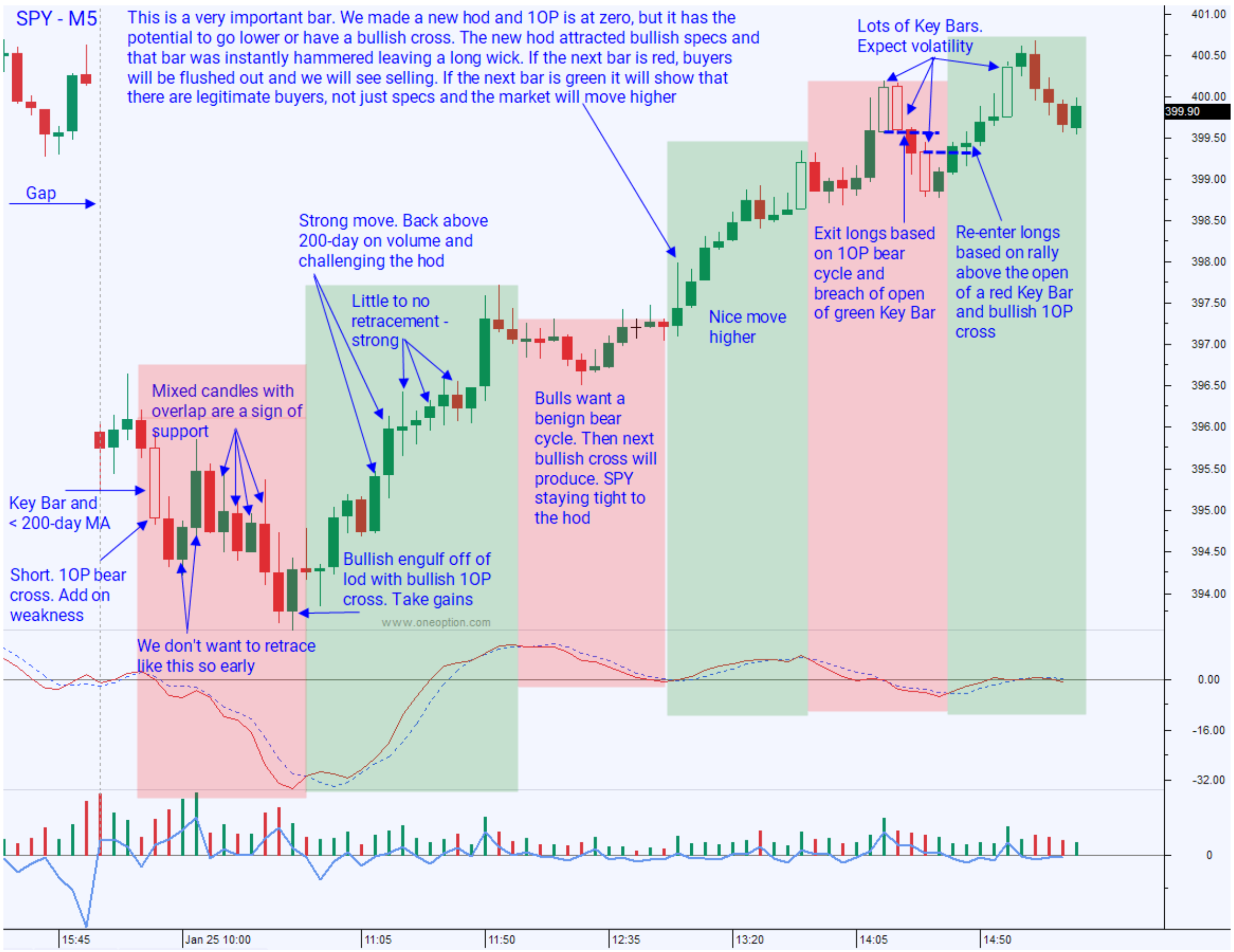
Now you are starting to get a feel for how the market might open and you have your list of stocks that might be of interest. Draw your trendlines and drop your alert lines. If those price points are breached, you can review the stock at that moment and the trades will be delivered to you on a "silver platter".

If you put your time in before the open, you have time to devise a game plan. You will be observing and stalking instead of running around with your head cut off. Your preparation will greatly reduce your anxiety. When the opening bell rings you can take gains on winning positions if that is part of your game plan. Once you've done that, get out of your chair and calmly get yourself a cup of coffee. Take a deep breath and stretch. You deserve it since you've already been at this for a couple of hours. You are prepared and you can use a little break. You don't plan on trading the first 30 minutes anyway… right!? When you come back to your screen you will have price data that you can analyze. Did the breakout hold? Are you seeing stacked candles or are they mixed and overlapping? What does the SPY volume look like? Are the stocks you highlighted performing? Do they have relative strength and heavy volume?

After doing this for decades I can tell you with confidence that you do not EVER have to chase the open. That is "amateur hour" and it is a time for evaluation. You need data to make good day trading decisions. Sure, you might have to pay more for a stock 45 minutes after the open, but your odds of success will be much higher, and you will avoid costly errors. You will have confirmation that there's a strong market tailwind on good volume. You will see the orderly grind higher in the stocks you are tracking, and you can see the relative strength. Some of your picks will be performing better than others and you will know where to focus your attention. You might also find some new prospects that you had not considered before the open. Instead of managing losing positions from your impulse buying, you will calmly be evaluating and entering attractive trades.

I can give you countless examples of how waiting would have helped you this year, but let's look at the action from Wednesday (1/25/23). The market had been testing the D1 downtrend line from January 2022. We've seen resistance at that level during the last two months. MSFT tanked after releasing earnings (Tuesday after the close) and the S&P 500 was down 45 points before the open. It was going to test the 200-day MA. In the first 30 minutes, the SPY made a new low of the day and the 200-day MA was breached on a long red candle. Many traders "bit" on that move. At best it was worthy of a small initial short, we needed confirmation (follow through). Instead, there was an instant bounce (2 green candles). Bears did not want to see that so early in the breakdown. Within 15 minutes we started to see mixed candles with overlap. That was a sign of support, and it was time to take gains on the small bearish starter positions. It was also a time to consider longs. Bearish traders who aggressively shorted the open were vulnerable. When the bounce came, they were scrambling to cover their mistakes instead of entering long positions. The trap was set for the amateurs. The market instantly took out the high of the day and it went into the gap. The annotated chart below reflects my real-time comments from the chat room.

Start your day two hours before the open. Devise your game plan and adjust any open positions that need to be addressed. Don't enter any new trades on the open. Instead, take a break and relax for 30 minutes. When you come back you will have avoided temptation and you will have new information to analyze. Now you can see which scenarios are playing out and you can execute your game plan.



Traders who patiently evaluated the early action were not trapped and they caught the bounce.

How to Use this Sector Rotation to your Advantage

We all know the market is volatile right now and we all know why - there is no reason to rehash it.

However, there is also a somewhat rare phenomenon occurring - *a severe imbalance across sectors*. Typically, when the market is up, some sectors are stronger than others, but on the whole, it is atypical to find an entire sector in the red when the market itself is bullish. Conversely, when the market is down, it is equally unusual to see an entire sector showing increases overall.

Right now, we are seeing several sectors that are *extremely bullish* - ***Industrials, Basic Materials, Energy.*** And also witnessing other sectors-indexes that is showing extreme weakness - ***Technology - Gaming, Technology - Health Information Services, Consumer Cyclical - Auto Manufactures, etc.*** .

Within each of these bullish sectors/indexes you will see stocks that have great *Relative Strength*, just as you will find stocks with really good levels of *Relative Weakness*.

This allows you to not only build a balanced short-term trading portfolio, but also one that is protected. If **SPY** continues to go up, your shorts should continue to head into profit due to the corresponding sector/index weakness, and the reverse applies as well.

Here is the sector breakdown, and their proportional contribution to the S&P 500:

- Information technology - 28.7%
- Healthcare - 13.1%
- Consumer Discretionary - 12%
- Financials - 11.3%
- Communication Services - 10%
- Industrials - 7.8%
- Consumer Staples - 6.1%
- Energy - 3.4%
- Real Estate - 2.7%
- Materials - 2.5%
- Utilities - 2.5%

And within each are the Indexes - for example, in **Technology** while *Data-Storage* is up today, *Electronic Gaming* is way down.

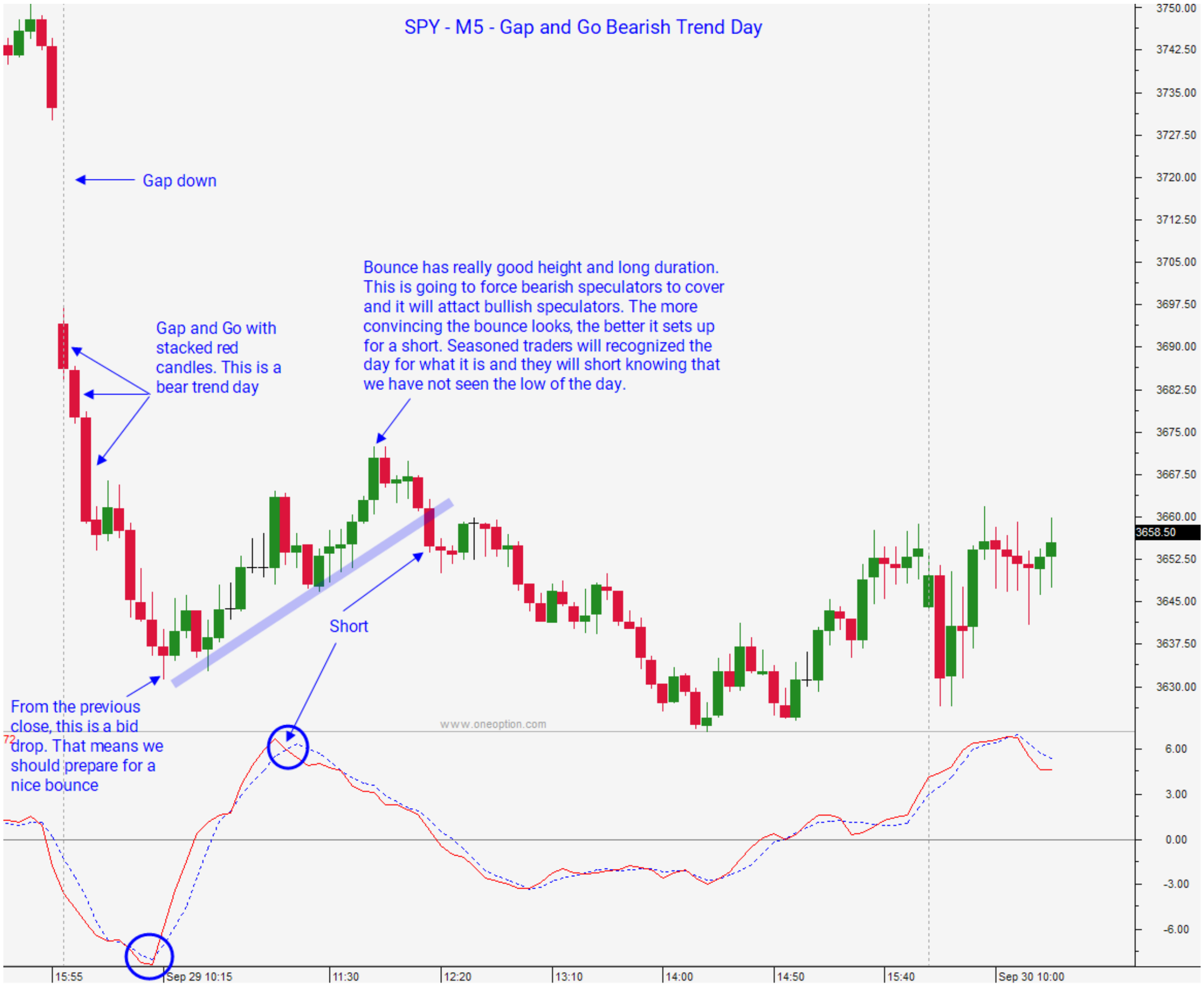
Take advantage of this disparity and create a combination of positions that leave you not only protected, but highly profitable.

Bearish Trend Days. How to Spot Them and How to Trade Them (/u/OptionStalker)

I am often asked, "How do I know when to let my profits run and when to set passive targets?" Market context has a huge impact on your trading game plan and it dictates when you should be entering and exiting trades. When the market is trapped inside of the prior day's range ("Inside Day") or it is trapped inside of the first hour range with choppy price action, you should set passive targets. When the market has a trend day, you approach it differently and you can let your trades run. In addition to this article, I recorded a video this morning. CLICK HERE (28:14) to watch it.

Here's how to identify a trend day. The market is currently in a longer term bear trend and we have a bearish trend day so let's focus on that set up. A bearish trend day will have **at least 3 long consecutive stacked red candles with little to no overlap on heavy volume.** They can come off of a up gap reversal (really great set-up) or a down "Gap and Go" (not as attractive). Those candles need to come in the first 45 minutes of trading and they are a sign of aggressive selling. It is critical that you have this EXACT pattern. Accept no substitutes.

Why is an up-gap reversal better than a down "gap and go"? In a down "gap and go" much of the downside has been realized so the move lower is likely to be choppier and the bounces tend to be bigger. If you are nervous about shorting these moves, don't worry. Be patient and you will get your chance. In "Gap and Go" bearish trend days a great short will come when a bounce looks legitimate. You want bearish speculators to regret not taking gains near the low of the day as the market is bouncing. They start lamenting about the money they could have made, and they take gains on shorts while they still have them. Bullish speculators get excited because they see lots of upside and limited downside because support is nearby. They start to pile in on an M5 trendline breach to the upside or a rally above the VWAP. “Will you walk into my parlor?” said the spider to the fly. The more real this bounce looks, the more attractive this shorting opportunity becomes. When those bullish speculators get flushed out, they will create selling pressure and they will fuel the next leg lower. For those of you who do not like to chase “Gap and Go” patterns, this is your opportunity!



Make sure you have these consecutive stacked red candles. Since the losses are great relative to the prior day's close, you can expect bounces.

In an up-gap reversal, there is lots of room on the downside and the momentum builds very quickly. The price action is very orderly because there is plenty of room on the downside. The bounces only last 10-15 minutes and you want to stick with your positions as long as possible. The red candles are longer and more plentiful, so it is easy to stick with the position. Don’t cover until you hit a major support level or until you see a bullish hammer off of the low of the day or a long bullish engulfing candle off of the low of the day.

An up-gap reversal in a longer-term bearish trend is one of the best trades you can have. The momentum builds quickly, and the bounces are brief and shallow so the trade is easy to ride.

Let's talk a little about the mental mindset for these days and the notion of being able to let trades "run".

An up-gap reversal that agrees with the longer-term bearish trend is easy so let's start there. The downside is incredible. Once the opening price and the low of the day (sometimes they are the same) are breached, we can expect that some of the up gap will be filled. If we do NOT have stacked red candles consecutively in the first 30 minutes, it might not be a gap reversal. Mixed overlapping candles and tiny bodies are a sign of support, and the gap might not fill. Only stacked consecutive candles on heavy volume will do. Once that selling pressure starts, the momentum builds quickly. The drop accelerates as bullish speculators who bought the opening bounce are flushed out. The bounces are brief and shallow, so these moves are easy to ride. There are very few if any “gut checks” along the way.

A down “Gap and Go” in a longer-term bear trend is also a great pattern, but it is a little trickier because the market has already dropped considerably and there is less downside potential. Again, we need those consecutive stacked long red candles with little to no overlap very early in the day. Seasoned traders who know this pattern can “short stupid” knowing that there is more downside. Most novice traders will not have the “guts” to and they will probably give into temptation and short near the low of the day. They will get FOMO and they will regret not pulling the trigger earlier. They missed a great opportunity in their eyes. In the early going, they will wait for the bounce that never comes and then they will eventually cave in. If this sounds familiar and you are a “Nervous Nellie”, don’t trade early in the day.

The “Nervous Nellie” is typically a novice trader who is undercapitalized/overleveraged and who has a marginal win rate. They take a position, and they have no confidence in their skills. They want desperately to hit a home run and they promise themselves that they are going to ride the trade out. This time they had the nerve to “short stupid” after they saw those stacked red candles. On the bounce they keep ringing their hands and they think about what could have been if they had just exited on the low of the day. As the market rallies and their position still has a tiny gain and they puke it. Then the S&P 500 starts to slip lower and it falls apart. They don't have the "nerve" to get back in so they miss the move lower. My advice to these traders (if they get in on the initial move lower) is to take gains when they see a bullish hammer/bullish engulfing candle off of the low of the day or if the candles bodies are small. Is this the ultimate exit, no. These are signs of support and we are talking about “Nervous Nellies”.

Better advice for these traders is two-fold. Let the first wave us selling run its course and do not fret that you missed a great move. Convince yourself that you will get another chance to short. My second word of advice is that by no means should you consider buying dips NO MATTER HOW GOOD THEY LOOK. You are either short or in cash on bearish trend days. When you spot resistance during the bounce (tiny bodied candles, tall wicks, bearish hammers, bearish engulfing candles or a broken M5 up trendline), take the short with confidence knowing that the low of the day is NOT in. Even if you did not enter perfectly, you will have a chance to exit for a gain. When you patiently wait for your short to set up you are able to gather information and to watch the price action.

The second type of trader has "nerves of steel" and a ton of confidence. They recognize that this move is going to continue and that this is a bearish trend day. The market has a nice technical breakdown and stacked red candles. They know that if they get "cute" and close all of the short positions early, they will have to time the re-entry and they might miss a bigger move lower. A large number of short positions make it harder to get in and out. They know how much heat they are willing to take, and they will add to positions on the bounce knowing that "the low of the day is not in". They will ride the trades hard and long because they are confident. They are well capitalized, and they have a good win rate, so they are not sweating bounces. These are the two extremes and most of you fall somewhere in between.

With an hour of trading left today, here is how the action played out on October 7th. If you like this article, please give it an upvote so that others will see it.

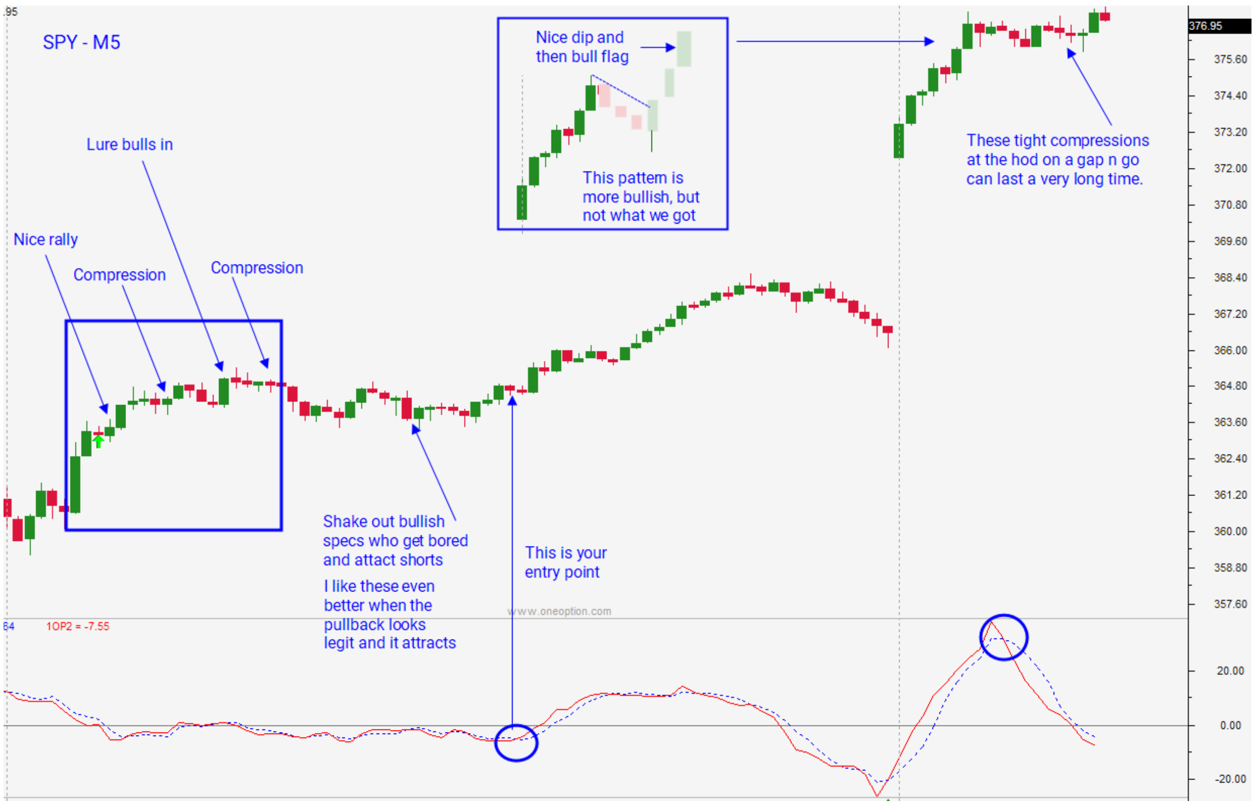
This is how the day played out. Please watch the video I recorded early in the day. The link is in the first paragraph of the article.

Trading A Gap Up in A Bear Market [VIDEO] (/u/OptionStalker)

The market has been in a strong down trend. We have been expecting a bounce, but trading a "Gap N Go" up is risky. How can you have the confidence to chase a move like this in a bear market? I address that issue in the video I recorded today.

First of all, the gap up leaves plenty of room for retracement on the opening bell. That increases the risk for buyers. Secondly, "Gap N Go" formations have had a tendency to run hard and play out in the first hour. If you do not get onboard quickly you miss most of the move. If you join late, there is little upside.

In the chart below you can see how the market ran hard yesterday and then it compressed.



Gap N Go formations are difficult to trade because they force us to take action early

I address these issues and many more in the video. There is very little if any promotion in this video and a ton of technical analysis.

I hope this technical analysis helps your trading.

CLICK HERE TO WATCH THE VIDEO (28:10)

How to Trade Earnings Season

The next earning season is upon us and like anything else in the market it provides an opportunity to make a lot money, and also a chance to blow up your account - unfortunately, a lot of people wind up doing the latter.

Let's start with this - ***Don't try to predict earnings, and definitely do not try to predict an earnings reaction.***

I constantly see people trying to guess at whether a company is going to *crush* their earnings or not simply based on their anecdotal observations. Just because you really liked *Witcher Season 2* and so did all your friends, does not mean that **NFLX** is going to have good earnings.

Also, often it is the future outlook that is just as important, if not more important, than the earnings themselves. And no, this also doesn't mean that just because you think we are all going to be living in a *Ready Player One* world soon that **FB** is going to have great guidance going forward.

You know what else you don't know? How much is actually baked into the stock price. **PFE** looks like it is about to get FDA approval? Great - chances are that has already been priced in. This is why you often see companies blow away expectations, and then watch as their stock price falls off a cliff.

Price movement from earnings is dictated by Institutional buying, selling or inaction. You will see what they are doing *after* the earnings are announced. Is there a way to scalp a reaction in *After Hours*, yes - but unless you are very experienced in scalping, do not try it.

Next - ***Definitely do not buy straight Options and hold them over earnings.***

It works like this - Stock ABC has earnings after the close on a Tuesday - their stock is at $250 right now. Normally the ATM Call Options ($250 strike) with three days until expiration would go for $2. But right now, they are going for $5.25 - and that is because of **IV** (Implied Volatility). If the market feels the stock is expected to have a wide range of movement in the price, IV increases. It is common to see IV over 100% as the earnings date approaches. IV plays a large role in determining the price of the option. So that extra $3.25 you are paying for that call? That is due to IV.

If you bought that call, not only would you have to get the direction of the move correct (which is a total crapshoot when it comes to earnings), but the move would have to exceed that of the expectations. In other words, Stock ABC would need to move up more than $5.25 in order for you to make a profit. Now you may be thinking - what is Stock ABC moved up $4 - now it is $254, wouldn't the $250 calls be worth more than $5.25 if they were worth that when the stock was at $250? No - because once the earnings are announced and the reaction is assessed IV drops like a rock, known as *IV Crush*. This depresses the price of the Options and puts increased pressure on the price to drive the premium.

In other words, you will have several things going against you:

- *Coin-flip on getting the directional move correct*
- *IV going down and depressing the Option price*
- *Stock could go up and you still lose money*

It is just not smart play. And if you look historically at Stock ABC, you will most likely find that the typical move after earnings is going to be lower than what you need to make a profit - Market Makers aren't stupid.

However - there are two Option plays you can do over earnings:

1) Time Spread - u/onewyse described this quite well here: https://www.reddit.com/r/RealDayTrading/comments/qhdoy9/profiting_from_time_spreads_calendar_spreads_over/?utm_source=share&utm_medium=web2x&context=3

2) Bracketed Butterflies - Let's say **AMZN** which is at $3330 typically moves +/-$80 after earnings. You don't know which way it will go, but it is reasonable to assume it will move one way or another (i.e. it is not going to stay at $3330 after the announcement). So you do a Call Butterfly $3380/$3410/$3440 and a Put Butterfly $3280/$3250/$3220. Each of these should give you roughly 7 to 1 all the way to 12 to 1 on your money.

It should also be noted that you don't need to play *over* earnings to make money *because* of earnings.

Historically some stocks tend to rally into their earnings date. *OptionStalker* has a search for this where it gives you all the stocks that tend to go up in price as the earnings date approaches more than 75% of the time. So over the past 12 earnings announcements, it would give you stocks that had bullish runs more than 9 times out of 12 as the date approached. You can also look for yourself - it is fairly easy - create a list of all the stocks you have traded over the past year or six months and just look at their charts - do they tend to increase in price before each earnings date?

For these stocks you want to catch them right as they go on their run - so you go to their charts and place alerts - you are looking for points of a bullish breakout. If they are in consolidation, then put the alerts right above the horizontal resistance. If they are below SMA's on the daily chart, put alerts for when they breach those lines.

When you get an alert triggered, you want to make sure the market is in your favor and then you are looking to buy Calls that have a Delta of .65 or higher. *You are not holding these over earnings even if the expiration date is after the announcement.* Because of earnings, the IV will continue to increase as it approaches, meaning your Options will hold their value with Theta being negated. Even a small move upwards in the stock price will produce a decent profit on these calls.

So, there you have it - if you want to play earnings season - use one of the methods described here, but please stop with the OTM Calls that almost *always* get destroyed.

Trading Compression Breakouts (/u/OptionStalker)

Compressions are a sign of price consolidation, and we search for them on longer term and short-term time frames. These stocks are coiled springs waiting to be released. The longer and tighter the compression, the bigger and more sustained the breakout. Unlike other searches that look for momentum or breakouts, these compression breakouts have not happened yet, and we can catch them early. **The key is to set alert lines above the compression for bullish prospects.**

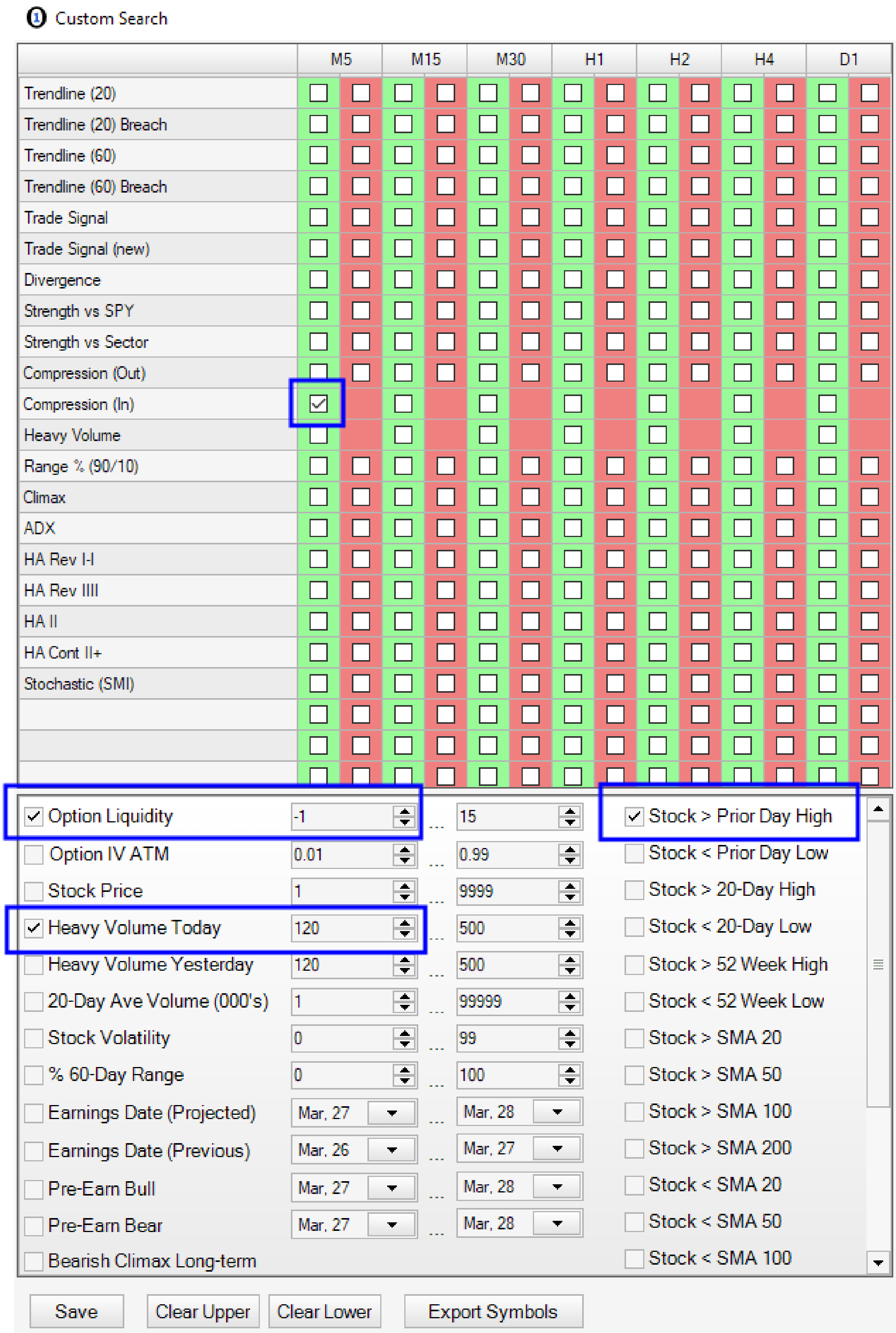
I can’t speak for ThinkorSwim , TradingView or FinViz searches, but if they offer these search variables you should use them. Here’s how we do it.

In Option Stalker Pro we are able to search for compressions in any time frame. On Friday we had a nice market rally early in the day followed by a heavy round of selling. We wanted to join the upward market momentum during the last week. When the market was dropping, we looked for stocks that were in a short term compression, were above the prior day’s high, that had liquid options and heavy volume. The compression is another way of finding relative strength. If the market is going down, the typical stock will go down. If the stock is compressing, that is a sign that it has buyers. Again, the key is to set a horizontal alert at the top of the compression. When the market finds support, the stock will release, and we will get an alert at the perfect moment.

Here is a Custom Search we use. As we go through the search results we drop alert lines on all of them. Some of them might breakout, some of them might not. If the alert is triggered, we check the stock and the market. If the alert is not triggered, we are not in a trade so there is no concern. If the market keeps going down, we run the search and drop alert lines at a lower levels.

Never be sitting idle during the trading day. Run searches and drop alert lines.

I hope this lesson helps you find trades.


Custom Search
M5
M15
M30
H1
H2
H4
D1
Trendline (20)
Trendline (20) Breach
Trendline (60)
Trendline (60) Breach
Trade Signal
Trade Signal (new)
Divergence
Strength vs SPY
Strength vs Sector
Compression (Out)
Compression (In)
Heavy Volume
Range % (90/10)
Climax
ADX
HA Rev I-I
HA Rev IIII
HA II
HA Cont II+
Stochastic (SMI)
Option Liquidity -1 ... 15
Option IV ATM 0.01 ... 0.99
Stock Price 1 ... 9999
Heavy Volume Today 120 ... 500
Heavy Volume Yesterday 120 ... 500
20-Day Ave Volume (000's) 1 ... 99999
Stock Volatility 0 ... 99
% 60-Day Range 0 ... 100
Earnings Date (Projected) Mar, 27 ... Mar, 28
Earnings Date (Previous) Mar, 26 ... Mar, 27
Pre-Earn Bull Mar, 27 ... Mar, 28
Pre-Earn Bear Mar, 27 ... Mar, 28
Bearish Climax Long-term
Stock > Prior Day High
Stock < Prior Day Low
Stock > 20-Day High
Stock < 20-Day Low
Stock > 52 Week High
Stock < 52 Week Low
Stock > SMA 20
Stock > SMA 50
Stock > SMA 100
Stock > SMA 200
Stock < SMA 20
Stock < SMA 50
Stock < SMA 100
Save
Clear Upper
Clear Lower
Export Symbols

Option Stalker Pro Custom Search

RIG 5 Minute Chart

How To Trade "Solos". What Are They and Why Are They So Important? (/u/OptionStalker)

I just completed an article, and I thought I would share it with you. "Solos" can really mess you up mentally and financially. Here's what they are, how to identify them and how to trade them.

"Solos" are single long candles (typically engulfing candles) that often shake traders out of a position. They are critically important to identify, and we see them at relative highs and relative lows. We can also see them around trendlines, but I will cover that in a future article. They are common during a strong trend and particularly after a big move within a strong trend and in the direction of the trend.

Let's focus on the short side knowing that the same concept applies on the long side. Big moves down will eventually attract buyers. Sellers will be less aggressive at those lower levels and shorts will be a little more anxious to lock in gains. The candles start to compress, and the bodies become tiny. This is a classic sign that we might see a green "Solo". These candles look like the "real deal" and they are long.

As long as we only see one candle (hence the term solo), we have to patiently wait to see what happens next. If we see two stacked green candles consecutively, it is a sign of support, and we need to prepare to take gains on shorts. This is more than a short covering bounce and buyers are interested. How the @#$% do we know that? If sellers were aggressive, there would be offers layered higher and you would never stack two "greens" consecutively. If you have a "Solo" followed by a doji and then you get another green candle, you also need to take gains on shorts. Buyers are aggressive enough to lift the "ask". It is a sign that sellers are not that aggressive and that buyers are. The key to a green solo in a strong down trend is that it will be hammered down in the next 3-5 bars (or less).

The novice trader assumes that all bullish engulfing candles at a relatively low are a sign of a trend reversal. They panic out of their shorts because they just "lost" a nice chunk of their gains on that "stupid green candle". The "seasoned novice" knows better than to get long. They know to wait for confirmation, so they avoid the pending bull trap. The novice trader makes a classic error. They start believing that this green candle is the start of a trend reversal and they get long. "Buy low and sell high. I am going to make a killing when this market recovers." In a matter of 2-3 bars, that "Solo" gets hammered down like a nail through balsa wood. The novice trader gets their head handed to them. As the down trend resumes with a vengeance, they puke their long position along with every other novice and the next leg lower accelerates. The "seasoned novice" complains that they need to "be more patient" and that they need to "let their trades run". **WRONG!** Many of these will lead to reversals. They need to be more proficient at recognizing trend strength. They got completely whipsawed out of a great short position and they left a ton of money on the table.

So how do we know? The price action heading into the "Solo" is critical. If the selling has been steady with stacked red candles like the ones in the chart above, sellers are aggressive. We need to look for all of the signs I've been teaching you with regards to trend strength. In the chart above, notice how the retracements are minor and the volume is good. When we have a strong trend lower, put your "big boy" pants on and welcome these "Solos". They will confirm that you are on the right side and they will lead to the next leg lower. Often, you won't get that next move lower until you see a "Solo". As long as it is only one candle, you can add to shorts when that long green candle is quickly hammered down in the next few bars. Dip buyers are going to get crushed and bail. Profit takers who covered their shorts on that "Solo" are going to regret getting out and they are going to re-establish short positions. Both of these actions are bearish and you can rejoice knowing that you recognized the trend strength and that you stayed the course. This is next level stuff and when you hit this point you are on your way to becoming a good trader.

If the trend strength has featured mixed overlapping candles on light volume, we should expect that an engulfing candle is **NOT** a "Solo". It is imperative that you know the characteristics of a strong trend and a weak trend. In the example below we have a weak rally. That "Bearish Engulfing" candle off of the high of the day is **NOT** likely to be a "Solo". It is likely warning us of a trend reversal and a move down.

I hope this lesson helps you.

How To Trade Light Volume Rallies Like This One (/u/OptionStalker)

The market has moved through the major moving averages and the down trendlines. On the surface, everything looks great. Unfortunately, the volume is horribly light and that is a sign of low conviction. The big money is not participating to a large degree. They have what they want "on". That is why the volume is light. There is no material change in the backdrop, so they are not going to trade wiggles and jiggles. They have a battleship to move.

When the light volume move starts there is a tendency for retail traders to fade the move (short the rally). The thought is that this is fake, and it will reverse at various resistance levels. When it continues to move higher, those shorts have to cover (fueling the move higher) and it continues longer than people expect. Eventually, bullish speculators will join the party. They are in "plug your nose and buy mode". They waited patiently on the sidelines and now they just can't take it any longer. They have "missed such a nice move". Their plan is to bail on the longs at the first sign of trouble. No problem with this strategy, just be nimble and don't overstay your welcome (don't wait for the top).

The point is that these are "weak hands". As soon as the move stalls there will be a swift move lower. The bullish specs get flushed out and the short sellers looking to fade the move will pile in. The big money did not participate in the move higher, and they are not aggressive buyers looking to support the drop. The light volume moves higher reverses quickly. If it has reached sufficient heights, there might be some bigger money that comes in and smacks the move down. They would view this as a fairly attractive level for shorting. They would also recognize that "weak hands" can easily be flushed out.

How do you trade it?

1) Buy the stocks that are leading the charge higher. Right now, mega cap tech stocks are strong and that is why the QQQ is strong relative to the SPY.
2) Focus on day trading. Swing trading requires overnights and one bad headline from the banking sector could result in a big overnight drop.
3) Don't spread yourself out across too many symbols. Focus on the strongest stocks with relative strength, heavy volume and technical breakouts D1. If you have to exit you will be able to do so quickly because you are not spread out across a dozen stocks.
4) Set passive targets. If you see bearish hammers or bearish engulfing candles at the high of the day, take your gains and don't look back. Tiny bodied candles and many wicks at the high of the day are also signs of resistance.

I hope this insight helps you.

Trade well.

What Is a Good Swing Trade

How can you tell a stock is a good candidate to swing? It is a common question - so here is the answer:

First thing - forget about the stock - look at the market. The best time to swing trade (bullish swing trades) is after a market dip, and you see SPY has formed support. October 18th for example - SPY had just gapped up twice, and when the market closed on 10/18 it was the second day in a row (after a significant dip that started on 9/20) that it finished over its SMA 50 on the daily chart.

Currently we are hovering around the all-time high, and normally this wouldn't be a great environment for swing trading. However, the market shrugged off less than stellar earnings reports, and continues to be bolstered by the Fed. We are clearly a bit over-extended, and I would not be surprised to see a pullback next week, but I do not expect anything major.

In other words we are currently in a situation where if you wait for a strong pullback you could be waiting for awhile. Is there some risk involved in swing trading right now? Yes - definitely more risk than if you were to do it back on 10/18, but there would be signs of the rug getting pulled out from under you - enough signs with enough time, that should allow you to get out of your swings.

Now - the stocks. Look at these two charts:

First - **LCID** - I am using the HA candles on the daily chart here to show the perfect HA reversal - you have a nice gap up on 10/28, some consolidation and then on Friday the stock surges even higher. Going into earnings (11/16), **LCID** looks to continue this upward trend. The Relative Strength against SPY (the orange line on the chart) is well above the 0 line, and the stock is also well above its' major SMA's (50,100, 200). Plus, all of this is on significantly high Relative Volume.

Next you have **ABNB**, I am using regular candles here to show how the post earnings reaction takes the stock out of compression. If you drew an Algo trendline you would also see that **ABNB** breached that price point as well (roughly $186.50). This is a great candidate to enter on a slight pullback (as long as half of that green candle holds). I would use the top of Friday's green candle as your entry after a pullback, and also as your mental stop on the trade. If there is no pullback and the stock continues a strong move upwards, I would even consider buying straight calls on it (probably the $190 or $195 calls for 11/26).

Either way, this isn't meant to give specific trade suggestions (I made another post for that) but rather to show you what you should be looking for - recent signs of bullish patterns that take the stock above resistance on heavy volume. These stocks should show they can hold their position, thus making previous resistance, support, all while continuing to aim higher. Best case scenario is you have a stock at an all-time high with nothing but clear skies ahead.

Do not go back months in your analysis and stop looking for complicated patterns - keep it simple. You also do not want choppy stocks, nor do you want stocks that have just gone parabolic. You are looking for nice, smooth, continuous bullish trends.

Swing Trading Must Be a Part of Your Game Plan (/u/OptionStalker)

There's a reason why everything I teach starts with - MARKET FIRST. It is the single most important influence on your success and I believe it is 65% of the puzzle. Yes, getting market direction is critically important, but sometimes there is no market direction and that is equally important to recognize. Let me provide you with some examples.

Before Covid-19 the Fed was in money printing mode and they were supporting a 0% interest rate policy (ZIRP). Bonds were not yielding any return so you had to own stocks. That provided a safety net and the market was in a steady float higher. The intraday ranges were minuscule and it was almost impossible to make money day trading. Sure, there were strong stocks that we could trade, but you had to have longer term swing exposure. The majority of the moves came overnight and swing trades were the money makers. If you only day traded, you went hungry and you forced trades. Your focus had to be on swing trades.

At the end of 2021, we recognized that the rally was running out of steam. The typical year-end rally did not materialize. During a time when we don't normally see dips, we were seeing many. In fact, dips in the prior year had been very minor and we would rarely visit the 50-day MA. That year-end price action was a clear sign that conditions were changing. The first step was to trim long swing exposure and to go to cash (check out my posts in this sub at that time). In January and February of 2022 we started to see technical confirmation that we were headed into a bear market. The intraday ranges were gigantic. In the early stages of a bear market, the bid will remain stubborn. Sellers will be aggressive and buyers who were trained to buy dips the last decade are still engaged. We had massive reversals from one day to the next. This was a day traders dream. The moves were so big that I could not justify taking overnight risk, I didn't need to. Swing trading was almost impossible. What looked good one day (or one week) looked horrible the next.

If you strip out the high from last August and the low from October, the market has compressed in a fairly wide range from $375 to $415. We are not seeing those giant drops and rebounds. From it's peak last year, the 20-day ATR has fallen from $11 to $6 on the SPY. This is a sign that the ranges are collapsing and we are not seeing the type of volatility we had 8 months ago. The SPY also has a higher low double bottom, it has broken the down trend that started in January 2022, it is above all of the major MAs and we have a "Golden Cross".

"Does this mean we are off to the races?" No! There are still plenty of dark clouds on the horizon. The Fed will continue to hike, inflation is still "hot", valuations are still rich, the yield curve is inverted and the economy is likely to contract. Cool. "Does that mean the market is going to hell in a handbasket?" No. Trillions of dollars (record levels) of cash are sitting on the sidelines and I believe some of that is being put to work right now. That explains why the market has been able to shoulder all of the bad headlines. Asset Managers only care if the market is higher than this level a year from now. If they feel that is likely, they will buy dips.

I mention the fundamental backdrop, but I did not start making serious money trading until I erased all of that MBA crap from my brain. If you think you are smart, do yourself a favor and ignore the headlines. Don't try to rationalize "good news is bad news" and do not try to explain every wiggle and jiggle with some headline. Let the talking heads on CNBC do that. Instead, realize that you do not know shit about fundamental analysis and that price is all you need. Price is truth.

Two weeks ago the market was in a D1 wedge formation. We had the FOMC, earnings from AAPL, GOOG and AMZN and the jobs report all in a 3 day span. Surely, this was going to spark a breakout in one direction or the other. Since those releases, the market has not done "Jack". Sure, we've had some intraday movement and we've also had some trend days. Let me summarize what we have seen. Day 1 the market rallies on good volume. Day 2 buyers try to rally the market but resistance is strong and the market compresses in a range. Day 3, sellers are in control and we have a choppy bear trend day. Day 4 sellers can't push the market lower and it compresses in a tight range. Day 5 the market has a big range on heavy volume with nice moves higher and nice moves lower but no net change. Day 7 we have an "Inside day" on light volume. Where have we gone? Nowhere! This price action is sending us a clear message. We are in a stalemate. Buyers and sellers are paired off. These are the signs you need to be picking up on.

Bear markets do not always have a "V" bottom. During the financial crisis, there was the threat of a financial collapse. Stocks retreated farther than anyone expected and the threat was real. When that threat passed, we had a huge rebound. In 2019, we had never seen anything like Covid-19. It was a global pandemic. People were dying and the whole world shut down. That drop was severe (some of that drop was caused by over-exposure to the long side because of ZIRP, no hedges and a crowded short volatility trade) and the low came quickly after a couple of months of selling. Those are the most recent bear markets, so those are the ones we remember. Many bear markets transition from a down trend to a horizontal trading range. Yes we will move within that range and we should expect that. In time, the Fed will stop hiking, inflation will subside and companies will grow into their valuations. That is where I believe we are right now.

This is a day trading sub and I appreciate that. If you are a day trader, you have the screen time to do swing trading research. I believe that day trading is much harder than swing trading because it requires precision. The same skills you have developed as a day trader (the same patterns, risk management and concepts) can be transferred over to swing trading. The only difference is that you have to get used to taking overnight risk. Like everything, start small and get used to it. For some of you, this will come as a relief because you will not be forced to day trade. You won't be handcuffed by PDT and you won't have to worry about monster overnight reversals.

If you are going to be a successful trader you have to be able to adapt to changing market conditions. If you are only day trading, you are going to find that the things that worked a few months ago are not working. When we string a number of tight "Inside Days" together you are going to force bad trades. Having some swing trades will take some of the pressure off and they will generate nice income for you.

I am going to suggest two very basic swing trading options strategies that you can use. One is selling naked puts on stocks that you want to own and I provided an example in a video I recorded today (29:50). The other is selling OTM vertical credit spreads. These are generally neutral, but you can add a bullish bias (bullish put spread) or a bearish bias (bearish call spread) to reflect your market opinion. If you are unfamiliar with these strategies, you can learn more about them on my channel or through the Options Industry Council's website. This is a great free resource.

I hope my article encourages you to start adding some swing trades to your game plan. Conditions are changing - MARKET FIRST! Trade well.

Using 1OP directly on stocks [VIDEO] (/u/lilsgymdan)

This market has been brutal, and I know a lot of other intermediate traders that are working on additional ways to increase the amount of quality trades they can take in a day.

I started experimenting using the 1OP indicator with speculative high rvol momentum trades. It worked really well for a while until small cap/IWM stocks started providing less opportunities. Apparently, it’s legitimately dry out there based on what a lot of pros are saying.
So I just started using what I learned with the 1OP indicator on regular RS/RW wiki style trades with stocks instead of just on SPY and it works.

1OP indicator is a proprietary indicator on the Optional Stalker platform. Pete won’t disclose exactly how it works but I believe it uses buying/selling patterns with volume to make reasonable predictions of the bearish/bullish cycles that naturally occur in the market. I have no idea what it's actually measuring, only that it definitely tells you legitimately useful information about the market. Some voodoo order book/TICK/volume stuff but I have no real idea.
You have to work on mindset, reading SPY, finding high probability criteria trades (See Trading Criteria to Use for Top-Tier Trades Section), sizing strategy, reading price action, AND know some macroeconomics to trade well. But it’s the 1OP timing as a cherry on top that’s probably the only reason my profit factor above 2.0 these last 6 weeks.

I would estimate it’s added about 10% to my win rate and maybe 0.3-0.5 to my profit factor. It’s made my entries and exits sharper and kept me out of those trades that immediately rip against me (no, it’s not just you haha). All those timed entries that look like witchcraft in the live chat are from me using it.
It’s NOT a magic win indicator and adds complexity to your trading. You need to learn how to read it right and when it is and isn’t useful
Here’s two videos explaining how I use it:

How to use it (12:54)

Where it doesn't work (6:38)

The Story of SPY (Using the OBV Indicator)

No matter what **SPY** does, somebody is going to be unhappy. It goes up and *Bears* complain, it goes down and *Bulls* are sad. It must be tough being **SPY**. But does **SPY** care? Hell, no. It just does its' thing, knowing that while you might love it today, you're probably going to be cursing it tomorrow. It's gotta wear on the poor bastard, don't you think?

Either way, our job is to read the story **SPY** is telling us - and in doing so, we form our *thesis*.

So here is my thesis on **SPY** as it currently stands - and I do not think this particular story has a happy ending.

The Story of SPY

To begin with you can see that **SPY** is pretty much at a decision point and it is going to have to make up its' mind.... fast.

The current price of $427.83 is resting right on the upward sloping trend from 7/14. How strong is that support? Well, it hasn't broken it in over a month. In fact, if you create the upward sloping channel (drawing the top end starting at 7/8) you will see that the market has gone up roughly 14% during that time.

Right above the current price is both the SMA 200 ($431.24) and Horizontal Resistance ($429.50), levels that the market hasn't surpassed since April.

However, with the exception of one day (7/29), this entire rally has taken place on days with below average volume. Ah, but it is summer you say? Volume is generally lower, right? Then why were there 15 days of above average volume during the same period in 2020? And why was the volume in August 2019 almost double what it is now? Huh? What about that?? Yeah, that's what I thought!

Not only has the volume been crap - **but** the *ATR* of **SPY** declined almost 50%! That means tiny-ass candles - and that is exactly what we got - tiny ass, low volume candles. And don't give me the whole, "but it is Summer!" garbage - because if I go back to previous summers that ass is most definitely bigger. In fact, there are some big ass high volume candles in the previous summers. So much for the "Tiny-ass is normal during the summer" theory!

But wait, there's more... The OBV has been declining. How can that be? How can **SPY** be going up, while the On-Balance Volume is going down? Because ***that*** is a **divergence**. And not the Shailene Woodley teen flick that I know you all watched and loved - nope.... This is technical divergence. What does it mean? It means that when those tiny-ass candles were green, volume wasn't just low, it was *super low*.

So now we have **SPY**, two significant levels of Resistance above it, currently sitting on Support and nary $1.61 between the two. In other words - ***it's trapped. Torn asunder. At a fork in the road.***

Without a catalyst to push it forward, the poor thing only has one way to go.... right where the *divergence* says it will - ***down***.

Will it have volume when it finally drops? Hell yeah it will.

But when? When will this awful thing happen?? End of August - Jackson Hole Economic Conference - where *Cool meets Cash*.

So, expect some chop, tight ranges, and low volume for a few more days and then when a bunch of old white men that are just bursting with charisma meet on 8/25-8/27, **the selling will begin**.

Anyway, that's my thesis - who the hell knows?

RSI - Fibonacci - Level 2: Why They Don't Work

Every day I hear traders talk about these three indicators and every day I work to hopefully remove them from their charts.

For one thing - the method here works. We prove it every single day with trades in real time that are consistently profitable. One can also see how members progress after joining this community - it is truly remarkable. I constantly watch as member after member goes from being on the verge of giving up trading altogether to now being on the verge of quitting their jobs to trade full-time.

This method does not employ RSI, Level 2 or Fibonacci Indicators for a reason - they quite simply do not work.

Is there an argument to be made for Ichimoku Clouds or Bollinger Band? Sure - both have their uses. Are there certain Oscillators that can provide additional information that helps your decision-making? Again, yes. However, until you have mastered the core method taught here, and start becoming consistently profitable, I would not recommend using them. Once you are consistently bringing in a profit, and by that I mean, you can depend on it - week after week - then I absolutely suggest you start looking at ways to refine and improve your approach. But not before that point.

However, at no point will RSI, Fibonacci Indicators or Level 2 data be of use to you. And yes, I speak in absolute terms for a reason - so miss me with your anecdotal examples. And yes, you might see larger institutions firms, or even prop firms use some combination of these three metrics - and there is a reason for that. They can afford to purchase the *real* data that gets fed into sophisticated algorithms, which take advantage of your predictable trading decisions. We, however, are focused on the uses for the *Retail Trader* and the average *Retail Trader* is not spending a small fortune buying the information from brokers, and then giving that information to their team of data scientists. At least not any Retail Trader I know.

Indicators need to be dependable, or they need to convey accurate information. Moving averages, for example, are simply conveying information - an average price point over a set period of time. That is useful to know. The True Strength Index, which is an oscillator, looks at price changes compared to price average to create a metric of momentum - this is a consistent indicator, albeit a lagging one. Some are more useful than others, but they are consistent and do provide information.

Here are the basic problems with the three:

RSI: This is almost a counter-trend indicator - the idea being that when a stock is over-sold, it is about to bounce up, and conversely when it is over-bought it will soon sell-off. Off the bat you are trying to justify picking tops and/or bottoms, which is generally a very bad idea when trading. However, the main issue here is that stocks can stay "over-bought" or "over-sold" for a long time. Look at **PYPL** - that stock has been in oversold territory for weeks now. Back when it was at $230, the RSI of the stock was below 20 - it has since dropped another $40. Yes, most stocks eventually bounce, but the question is - when? RSI does not answer that question, and thus at best is useless, and at worst has you entering a trade and then watching the trend continue against you.

Fibonacci Indicators: 161.8, 61.8, 31.2 - on and on ....61.8% being the magic number. 0,1,1,2,3,5,8,13,21...on and on and on...yes, they appear in nature, and yes people put them on their charts and some trade off those levels (which become a self-fulfilling prophecy - which most of technical analysis relies on), but in reality they are meaningless when it comes to a stock's price action. Look at any chart and put Fib Retracement lines on it - you will see sometimes the price hits those lines and pulls back, and other times it ignores them. Now put five random horizontal lines on your chart, spread evenly apart - and guess what? You will see sometimes the price hits your random lines, and pulls back, and sometimes it does not. There are just enough traders out there using Fib levels to make them slightly beat out your random ones, but not by much. What happens is people ignore all the time these lines don't work, and focus on the instances where they do - creating a Survivorship Bias. They are not *dependable or consistent*. Sometimes they seem to work and others they don't. When they don't a trader that uses Fib levels will find every excuse in the book for why the Fib Level was ignored, but the reality is there is no consistent way to know when they will work and when they won't - most likely because they are not much better than random chance.

Level II: Everyone's favorite buzz words to throw around, "I am looking at the tape...." Or even better is when a trader says, "I have a friend who has access to Dark Pool data" - sure you do buddy, sure you do. In theory, Level II data should give a trader valuable information about where levels of support and resistance lie based on the orders coming in, and the actions taken by the Market Makers. You can see where people are hitting the ask (like Sweeps for stocks) and where the large orders are coming in and from whom. The reality is that Level II data is *filled with manipulation*. False orders, orders that are spread across prices and times. Hiding the real size of their orders and then updating them after you already made the wrong decision. Market Makers are constantly using different tactics to trap retail traders by introducing false signals into the Level II data. Think you can identify those tactics? You can't. *That is their job*. And they are good at it. The real information that you need is on the charts - that will tell you what really is happening and if you read the story correctly, you will see where it is going. When trying to identify and understand a story being told there is nothing worse than an *unreliable narrator* and that is exactly what Level II data is, an *unreliable narrator*.

I always argue for simplicity: understand the market (**SPY**), understand the stock in relation to the market, and then chose the best instrument (stock, options, spreads, futures) to exploit your edge. There are some indicators that help you in that process (moving averages - simple and exponential, relative strength against SPY, volume and relative volume, the 1OP, and VWAP), and there are many scanners that can filter out stocks which qualify for the method you are using.

Adding indicators generally does not help as you learn to master these skills, but adding **RSI, Fibonacci** and/or **Level II** very often winds up doing the opposite - hurting your chances.

Playing The Extremes [VIDEO]

Wanted to get something out while the market was still live: https://youtu.be/3Prd_MAZaZA (5:46)

Trade well everyone!

Answering Your Questions [VIDEO]

You asked, and I answered...in my own special way I suppose, but answered nonetheless!

Here they are...and there are still more to come!

https://youtu.be/uo66-r9JD8M (42:11)

Chapter 9. Trading in a Bear Market

Introduction to New Section: Trading in a Bear Market

Like most of you, when January 2022 officially put us into a **Bear Market** it was the first time I ever traded under that designation.

For those of you with the misfortune of having got to know a bit about me, then you won't be surprised to hear that I do not like unfamiliar situations.

Given that there was no choice but to trade the market as it is, not as we wish it to be, I put in the time to try to familiarize myself with the new environment. How bad could it be? I mean, it is the opposite of a *Bull Market*, right? Instead of going up, it goes down. Simple.

Still, just to make sure I was as prepared as possible I looked at previous Bear Markets, read up on their characteristics, looked at the charts and noted how they differ from a **Bull Market**, then I spoke to some of the older traders that can remember 2008-2009 (some even recall the dot-com bubble of 2000) to get a first-hand perspective.

Looking back, those conversations really should have been the first hint that something wasn't quite right. It felt as if I was asking a Vet about their time in 'Nam and any minute I was going to get some admonishment like, "Son, War is Hell....and some of us just don't make it out alive". Which is a bit strange considering the topic was trading Bear markets not hiding out in the jungle waiting to kill someone.

Despite that retrospective red flag, I felt I was ready. I certainly never had an issue shorting, and I navigated my share of "chop" days before, so bring it on Bear!

What a naïve little bastard I was…

After a year and a half, I get it now…Bear Markets are pure hell. You either adapt or go broke.

Was I losing?

Let's not get carried away (although I did have my first *Red* month in several years this past fall, not an experience I wish to repeat).

Still I could see that my average results were being impacted. For one they were lower, which is never a good thing. Even more concerning was the Standard Deviation around my average profit….was getting bigger. In essence I was making less money *and* there was less consistency to it. That is a dangerous combination for any business (*and this **is** a business).* It became obvious that at this pace, it would be come unsustainable pretty fast.

So why? What was happening?

Let's start with the foundation of what we do - **Technical Analysis**. You know, all those lines, *Support* here, *Resistance* there, etc. You can knock TA all you want, but without it, there is no Day or Swing Trading.

Now, don't get me wrong, it's not that it doesn't work in a Bear Market, it does. It just doesn't work, consistently.

Imagine driving and along your route are Stop Lights. They are still work and cars come to a stop when they see a Red Light, they go when it is Green, and so on. *Except* every now and then, those Stop Lights become meaningless. You can look for an answer as to why a bunch of cars are saying "fuck it" and just driving through a Red Light, you can ask around to see why you weren't told about this whole Red, Green, Yellow…Who Cares, just Go mentality? Maybe you missed the memo? Nope. No memo. You didn't miss shit, because there is no rhyme or reason for when and where those lights will simply become irrelevant. Those conditions would make driving really difficult, right?

I am sure there are better analogies out there, but the point remains. Sometimes a level of *Support* or *Resistance* acts exactly as it should - rejecting buyers/sellers attempt to drive the price past that barrier. Other times, those lines are breached - not *attacked with volume* as you might expect, but simply breached as if they weren't there.

Bear Markets are also *far more **News Driven*** than Bull Markets. In fact, a majority of the overall *Price Action* in a Bear Market is the result of some external socio/economic event.

To put it in perspective, imagine once again you are in that world of optional Stop lights and now you are shopping at a grocery store. Somehow you made it to the store with just a few dents on your car, but it still works. You have your list, and your cart, things are good. Hell, maybe you will grab that Ice Cream. *You deserve it!*

However, at random intervals a voice comes on speakers in the store, saying something like, "**This might be the LAST time you can EVER get fruits and vegetables!"** Which is of course then followed by a mad dash to the produce section, where previously normal, peaceful shoppers are ready to fight to the death for an Orange.

So now there you are - holding a bag of busted up Plums, looking at your dented car and wondering why you even bothered leaving the house. I feel you, I do....I would be more than happy to never leave the house.

But that's not all -

Bear Markets Do Not Trend - You would think they would, right? I mean, at least one would assume they trend down, right? Bear. Bear equals down. Right??

As it turns out, in a Bear market a trending day, up or down, is very rare. Most days consist of mind-numbing compressions where **SPY** goes absolutely nowhere, and then suddenly it either spikes up or falls through the floor. Sometimes it will just *melt up*, but you won't trust it, so you just sit there and watch it like some Stock Market Cuckold. Everyone else is going long, but you're being prudent, *you know better*. So you wait, you and your bruised Plum, because you are going to get the jump on this melt-up when it reverses! Yeah....no reverse. Eat your plum.

Oh, and while we are at it, as an added treat, all of a sudden the Economic Calendar that nobody gave a shit about becomes *extremely* important. In a Bull Market we didn't care when the **CPI** came out, hell, most of us didn't even know what it was, and we were more than happy not knowing. Now not only do we have to know *and care*, but we also need to know what the hell all of it means.

Why? Because who knows when some guy wearing tweed is going to start talking about an inverted yield curve and throw the market into a tailspin! And that's that thing! There are countless guys in tweed out there and they all have shit to say. Tweed guy (and it is almost always a guy) says the 10 yr Auction came in high - apparently that means it is time for **SPY** to drop! Oh, but wait...FED Speaker #1 is saying something, FED Speaker #1 beats Tweed Guy! FED #1 says maybe it is time to pause rates! That means the market is going up!! Wait! No! Another FED Speaker pops up, Fed Speaker #2 and she just said more hikes are needed, and this is a voting FED Speaker, so that means we are going down! Great, time to short, right? Nope! I mean Fed Speaker #2 is voting member, nothing beats that! Unless you are some people in Michigan that want you to know they just ran some models and it says that Inflation is going to be lower than expected in a year. Well, hell - if that ain't a reason to pop the market up, I don't know what is! And all of this can happen in the span of 30 minutes. On any given day. At random.

Through it all sectors are rotating intraday, stocks that were strong in the morning are now weak, volume is non-existent until it all comes back in a single candle, and by the end of the day you feel like you just finished playing poker against some drunk college student who thinks they are Phil Ivey because they went all-in with 7-2 off-suit and won the damn pot.

One thing is clear - this market is **very** different to the one we just came out of for the last ten years.

So, what does that mean for us as traders?

1) It is a great time to *learn* how to trade. You will be exposed to just about every scenario imaginable and master invaluable skills to use for when sanity finally returns. Will a Bull Market be easy? Yes - in comparison. Sure, trading is never easy, but it will be a hell of a lot *easier* than this crap.

2) It is a terrible time to be *learning* how to trade with *real* money. As the Wiki (WIKI) points out many times, you need to start with paper trading and continue until you hit the milestones laid out. Only then should you progress to a *single share*. If you have been following this than you have been able to take advantage of not only training in this environment,but doing so with minimal risk.

3) Sometimes it is better *not to trade*. There are some days where the market is going to be so choppy and unreliable that your best move is, no move at all. Does that mean you get up and come back another day? No, you lazy fucker, it doesn't. It means you take that time to study, mark up charts, set alerts, ask questions, etc. Remember, *this is a job and the sooner you treat it like one the sooner it will actually become your real job*.

4) Know when to Adapt. And here we come to the segue into what will become a new section of the Wiki. First let's address the primary question - *Does the method taught here still work in this market?* And the answer is - YES. All of the strategies and methods taught in this sub continue to produce repeatable profitability. However, I have found there is about a 15-20% decline in the expected results. Like any business, if you see a 15-20% decline in revenue, you need to address it. Which is exactly what I noticed - the amount of money I take out of my account each month has, on average, declined by 15-20% since the beginning of the Bear Market. Much of this is due to the reasons already discussed above. So I had a choice, I could either just accept the lower amount, or find a way to make up for the losses by looking for additional edges.

Given the changed landscape and the mercurial nature of the market I put everything on the table, most notably, the following three:

1) **Earnings trades**
2) **Counter-Trend**
3) **Scalping**

The idea here was to find something that was *repeatable* while still using the methods taught here as a foundational starting point.

I can tell you what **did not** work - *Scalping*.

While I have found some success in this area, it is not repeatable. It is extremely unfortunate that this method is the one that most new traders use. This is due to a PR problem with short-term trading. Basically, most people believe that *scalping* **IS** short-term trading. Can you blame them (well, yeah, I guess you can....)? It is due to getting served one moronic YouTube video after another when you search "Day Trading". Some guy, and again, it is almost always a guy, is sitting by a bank of monitors, each one looking very busy with a lot of charts, numbers and tables, and he tells you how if you just have a few thousand dollars in your account that is ***all*** you need to get started! Typically, it ends with our hero trader in some audacious car he rented (almost always a Lambo). The comment section is filled with bots and his family members all gushing about how much money they made thanks to him and his super system! In fact, it is **SO** good, Institutions **hate** that you can learn it!!

Anyway, it doesn't work - it is not consistent in a Bull market, and it is not consistent in a Bear market. Fun? Hell yeah. But not profitable.

However, I WAS able to identify several strategies that are able to not only produce consistently profitable results and were able to make up for the 15-20% decline in my monthly average, they also managed to boost that average by roughly 20% (a 35-40% swing).

Caveats:

As far as I know - these only work in the current *Bear Market* and the conditions we have all traded in over the past six months. Would they work once this market starts trending, either up or down? Unknown. The results I have experienced over a significant number of trades have all been compiled within the context of *this* market. Therefore, while I can confidently say that these methods are verified, I cannot vouch for their ability in a Bull Market.

It is also important to note that these strategies diverge from the ones taught in the Wiki, sometimes directly contradicting them. ***This does not mean those methods do not work, in fact they DO work most of the time. As such, these methods that I will outline should be seen as supplemental NOT as a replacement.*** Don't forget I started this exploration because of a 15-20% reduction in profits, which means I was *still profitable* using the methods taught.

Finally - my biggest hesitation is this:

YOU SHOULD NOT BE DOING THESE STRATEGIES UNTIL YOU HAVE MASTERED THE ONES IN THE WIKI FIRST.

Now I know what you are thinking, and....stop thinking it!

"Well, I am losing right now with the strategy in the Wiki, so I might as well try this one just to see if it works". If you are thinking anything close to that then smack yourself in the face. After that, look in the mirror. If you do not see a big red mark, you did not smack yourself hard enough. Repeat this until you can clearly see the hand print.

YOU ARE SUPPOSED TO BE LOSING RIGHT NOW! Nobody consistently makes a profit until they put in a ton of time and work. And if you *did* put in the two years of time and work, following everything and still aren't consistently profitable - then definitely do not try these supplemental methods! Trading is clearly not for you.

Ok - now that those caveats, that nobody will listen to, are out of the way - I will start a series of posts that outlines the following three *supplemental* methods:

1) **Earnings trades**
2) **Countertrend trades**
3) **Rule Subversion**

Onward we go!

Chapter 10. Algo Lines

What are algo lines? (/u/onewyse)

Algo lines are basically trend lines that are drawn by algos to identify support and resistance. They connect top of a candle that doesn't have any candles around it at the same level (so it indicates a recent high) to tops of other candles without going through any candles (there is an exception which I will cover) The more candle tops that are touched by the algo line and the longer the line the stronger the resistance is (using bottoms of candles would create a support line.) The candle that initiates the beginning of the algo line should not have massive volume such as a candle produced by earnings or news.

Algo lines can be either ascending or descending. The strongest resistance would be descending algo line, where an ascending algo line is resistance but much less so since the price can follow the algo line up without breaking it and still be at a higher price.

On the other hand, ascending support lines are the strongest support while descending support lines are not as important for the same reason as ascending resistance lines.

The exception to an algo line not cutting through wicks or tails is based on volume. If the volume on the candle that has a wick or tail that the algo line would cut through, cutting through the wick or tail is ok if the volume is very high but if the volume is low or close to average the top of the wick or bottom of the tail should be used and the wick or tail should not be cut through.

So, you can see algo lines are simply trend lines with some specific rules that the algos follow when drawing these lines. They can have very strong support and resistance and should be considered when entering a trade or deciding whether to exit a trade.

I have had several traders ask me about these and I hope this clears up those questions.

Algo Lines Explained [VIDEO]

Today's video reviews the market, some of the trades from today and a visual explanation on how to draw an algo line.

https://www.youtube.com/watch?v=Ed9QZ5p01h4 (15:54)

Algo Price Point Analysis - Could this be the answer? [VIDEO]

Here is your video where I go through the trades and the analysis on them using the Algo Price Point Method to identify premium trades for PDT account:

https://youtu.be/YiDRI-NK6Zw (27:38)

Drawing Algo Lines - Internal Range Price Points

To start with - if you haven't read u/onewyse's post on the subject, I suggest you start there ().

Next, watch the two videos I just did on the new use of the method:

https://youtu.be/YiDRI-NK6Zw (27:38)

Cracking the PDT Restriction and Becoming Consistently Profitable! (31:50)

Let's go through the different types of methods. To begin with, realize that these are not typical trendline and do not abide the requirements of trendlines, just as trendlines do not abide by the requirements of Algo Lines. However, there are of course some similarities in their construction which I am sure you will notice.

At times these may seem subjective, I assure you that they are not - in fact, I can set up Algo lines on 100 stocks and u/onewyse can set them up independently and we would match up 99 out of 100. That is an objective method. It just takes time and practice to learn it. Hopefully these videos help.

Since there are various set-ups I wanted to be able rank them in terms of probability for success. I believe I have found the set-up that results in the highest probability for success.

At the top of that list would be the **Upper - Lower Algo Bounds - Confirmed by Internal Lines** (I really have to come up with better names, I know):

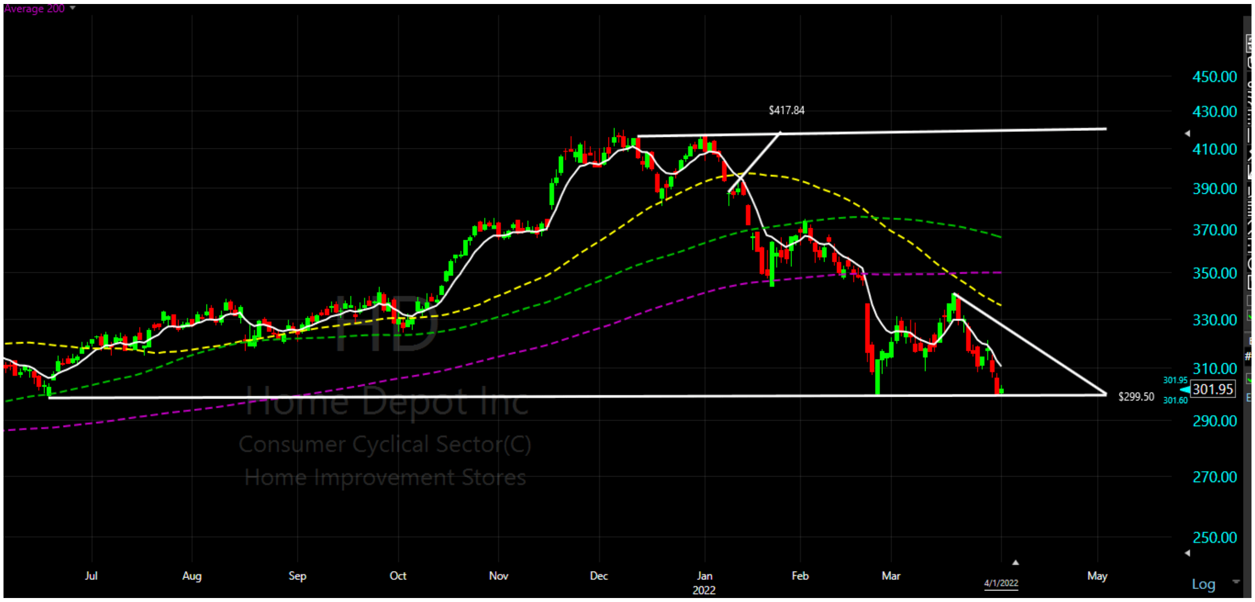
Here is an example of that:

AAPL Range

And here is another:

NVDA Range

And yet another:



[HD Range]()

You can see within each first the upper and lower range is created with two Algo lines. Then *within* that range, new Algo lines are formed which connect to the Upper and Lower Lines - Once that connection is made, the further extrapolation of the line is no longer necessary or relevant, you now have your two price points (notice with **AAPL** and **NVDA** they just continue on?).

If you went through 50 stocks and created these two price points for each, setting alerts on all 50 - when those are triggered you will have *extremely high probability trades*.

I went back and set up these upper and lower bounds on various stocks up until January, identified the price points they would have given and then looked to see what happened when those points were breached.

In every case they resulted in extremely profitable trades.

Here is the new video where I walk through this specific method of finding the ***highest probability*** trades:

[The Highest Probability Trade You Can Find]() (26:32)

Have a great weekend everyone!

Relative Strength/Relative Weakness (RS/RW) & ALGO Price Points

Since I posted about the identification of a method to find the highest probability trades, I have gotten a number of questions that can be summed up as; "What happened to Relative Strength/Relative Weakness? Are we no longer using that??"

So, let's clarify a few things -

1) You currently set alerts on your charts (or you should be) based on Technically derived prices. For example, you might set an alert on **UPST** at $114.29, as that is where the SMA50 sits on the daily chart. This is a smart alert as you would want to know when that stock breaches the moving average resistance level. Does setting this alert negate the usage of RS/RW in doing analysis on the stock?

Does it negate doing analysis on the market conditions before making any trade? No - it simply alerts you to a fact - **UPST** broke through a commonly agreed upon level of resistance.

2) We all know that breaks of support/resistance are effective but *not 100% effective* at predicting directional continuation. In other words, we have all seen a stock break through its' SMA, even confirm that breach the following day, only to fall/rise back to its' previous levels. **UPST** for example, broke through the SMA50 on 3/17, hovered above it for five days and then promptly dropped back down again. Thus, the goal is to find alerts that give the *highest probability* of directional continuation.

3) Stocks can break through traditional levels of S/R (horizontal trend lines, technical patterns, moving averages) but not have Relative Strength or Weakness. The market may be exceptionally strong or weak on that day and simply bring the ticker with it. Therefore, you may get an alert but that doesn't mean it would be a good trade. Thus, what would make an alert have a *high probability* of success would be if it *also* ticked off all the checkboxes at the same time. If by virtue of breaking a price point it inherently meant the stock also needed RS/RW that would certainly increase the edge one gets in their trade. That would require price points that offer Support or Resistance with sufficient strength that it takes more than just a market move to breach them. It would require strength/weakness in the stock *independent* of the market.

That brings us to the Algo price points. Understand that you will not find Algo price points on any search - the best you will come up with is *trendlines*.

And while Algo Lines are technically Trendlines, not all Trendlines are Algo Lines

The reason you will not find anything is that the discovery of Algo lines comes from Institutional practices that they do not advertise, and with good reason. Institutions make a great deal of money off retail investors by knowing exactly where they intend to *buy/sell* based on traditional technical analysis. They are so familiar with *Retail* behavior that they are able to trap them quite easily (as some of you are intimately familiar).

Every retail trader should be striving towards the goal of trying to understand *exactly where Institutions will buy or sell a stock*.

Algo lines give one a strong insight into where those levels are, and once you learn to draw them you can see firsthand how well they work in predicting points stocks cannot seem to get through.

Algo Price Points goes one level deeper and gives retail traders the precision needed to place effective alerts.

The triggering of those alerts then provides extremely high probability set-ups, which is the ultimate goal. And the amount of capital deployment/removal required to trigger an alert of such high standards would indicate RS/RW by default. Does this mean you still do not look to see confirm the RS/RW, of course not, but a much higher percent of alert based off these price-points will qualify.

Hope this makes things easier to understand.

Algo Lines on SPY

Since some of you are attempting this, hopefully this helps:

As Requested: How Draw Algo Lines and Set Price Points [VIDEO]

In this video I go through exactly how to draw the lines and how to find the price points to set your alerts on. Everything you need to know on the topic is in this video:

https://youtu.be/hBpaKSQDdw0 (36:11)

Open Questions on Algo Lines

As many of you know I am exploring and building up the method of Algo Price Points.

Previously the method of identifying Algo Lines, pioneered by u/onewyse from his direct experience with Institutional traders, had a very clear set of rules. These rules not only differentiated these lines from basic trendlines, but also gave clarity as to their placement and longevity.

For example, we knew that when an Algo line was "breached" it was no longer in play.

However, the advent of Algo Price point has generated some of the questions, some of which carry-over from the previous Algo line instructions.

Here are some that I am currently working on, and I will use the daily chart for **MCD** to illustrate. On the chart I have 5 numbers, each corresponding to a question that needs to be answered:

MCD Algo Line Chart

1) On 4/7 we have a clear breach of not only the Algo line from 3/3 but it also broke through the price point establish by the crossover (#2), as well as through the SMA100. But on 4/8 there was some profit-taking which pushed the stock below the Algo line and the SMA 100 - however it did bounce off the price point. ***Question*** - **Given that the Algo line was breached the previous day, is it no longer active? Or additionally, does the 3/3 candle remain a starting candle and the line is now adjusted connecting to the top of 4/7?**
2) This is the most recent price-point ($251) and while MCD retraced on Friday it seemed to bounce off it almost to the penny - and it seems to have acted more like support than the SMA100 provided. ***Question* - What is the staying power of the price point?**
3) Two price-points were created here at $245.19 and $240.76 - ***Question* - are they still in effect as possible areas of support, or do they begin to lose their meaning with time?** $245.19 acted as support from 3/29 to 4/6.
4) This is the longest Algo line on the chart, originating from 1/6 - **iQuestion - does an Algo line increase in strength with the length of the line?**
5) And finally - ***Question* - Is there any significance when Algo Price Points also coincide with SMA's? Does the combination of the two add increased relevance?**

Also -

A) **We know the Slope of the line matters but at what point is the Slope too severe to be considered a valid line? (*this is a leftover question*)**

B) **What constitutes a "breach" - does the candle have close above the line? If it is wick, meaning the price breached the line but then retraced in the same day - is the line still valid? (*this is a leftover question*)**

u/onewyse - please chime in if you have any insights!

Anyway, these are the open questions I am currently working on, which requires going back through a lot of stocks and looking at the impact of these instances and their corresponding results. I will keep everyone posted as to the findings!

FB and AAPL - OBV Divergence and Algo Breaks

Let's get one thing out of the way off the bat - this is not an easy or even good market to swing any positions.

Will this bullish run continue (if one can even call it a "run")? Is this just a temporary Bear Market Bounce (even though we aren't technically in a "Bear Market")?

There is no absolute answer to either question - probability favors the notion that this bounce is temporary. The macro-socioeconomic conditions that caused the market decline have not change. Nor has there been a market capitulation. The chance of this market returning to a consistent run of bullish days without either of those factors present is very low.

However, these rallies can last for some time, and the temptation is always there to ride them while the going is good. Should you choose to give in to that temptation just be aware that you need to be nimble - take profit quicker than you might normally, and believe bearish reversal sooner than usual.

With that said, here are two stocks I like: **AAPL** and **FB.**

FB:

After establishing a higher low on 5/24 of $181.28, with a daily doji, **FB** has enjoyed three straight days of gains. The daily chart now shows a nice HA continuation with a clean ALGO break of the downward sloping line starting from 5/4, as well as a divergence with On Balance Volume.

AAPL:

You can see a similar pattern with **AAPL** - the stock consolidates from 5/19 - 5/26 and then yesterday breaks-out to the upside, creating HA continuation candles and going through the downward sloping ALGO line from 5/4 with a similar OBV divergence.

I also like the ALGO break in **MU,** the gap-entry by **NKE**, and the move through the SMA and upward sloping ALGO of **ALLY** - albeit on lighter volume. Finally, I would suggest keeping an eye on **PDD**, which broke through horizontal resistance and its' 50/100 SMAs, on strong volume.

There are a lot of strong stocks coming off of Friday's bullish price action and Futures are currently up - make sure you check to see what sectors are showing strength Monday morning and be patient. Any gap up on SPY has a decent chance at a reversal in the first hour, so trade accordingly. And naturally there is always the chance (high chance these days) that **SPY** futures will reverse overnight, so this post is based on the *current* conditions.

Chapter 11. Trade Planning & Execution

One Question to Ask Yourself Before Making a Trade

"Can I Defend This Trade?"

Seems like a very basic question, right? If another trader asked you why you took the trade, can you defend your position?

If your defense is not based in any form of analysis, the answer is - no.

So many traders lose money consistently because they are constantly trying to anticipate a move before waiting for confirmation. Guessing at bottoms and tops, attempting to 'stay ahead of the market', and wanting to capture a move from the very beginning are some of the top reasons why new traders wind up in the red. Asking yourself this question before making a trade will help you filter out these *gut* decisions.

Let's say you bought calls on **ZM** at the close of market on Friday, and when asked why, your answer is, "I think it has hit bottom, it has to start reversing soon" - *that is not a defense.*

Or perhaps you bought puts on **CRM** at the close of market on Friday, with the defense of, "It think it will pull back on Monday" - *once again, that is not a defense.*

Defensible trades are ones that you can offer clear analysis that support your decision.

It doesn't mean your trade will work, but it does mean that you had understandable reasons for making the play you did.

For example - on Friday I made the following trade, which I am still holding:

Put Debit Spread, expiring on 10/1 for **AMZN** where I bought the 3400 Puts and sold the 3350 Puts. This costs me a debit of $16.25.

Here is my defense -

1) I am getting a 68% ROI on this trade, with $33.75 per contract of upside - meaning, if I am right more than 35% of the time, this trade is profitable.
2) **AMZN** has been weak to the market on a daily basis. **SPY** has filled the gap from its' drop on 9/20, while **AMZN** has not.
3) **AMZN** is struggling to stay above its' SMA 50 right now, with low volume these past three days (compared to the high Relative Volume when it dropped).
4) My bias on the market is somewhat bearish - while **SPY** has filled the gap, selling pressure remains strong and it has not been able to rebound as previous patterns on the ETF suggested it might.
5) The rest of my portfolio is somewhat bullish, and given my slight bearish bias on the market, the **AMZN** trade acts as a strong hedge for me as well.
6) If **AMZN** manages to say above it's SMA 50 I still have some time close the trade for a loss, but not max loss.

Admittedly this is a riskier trade than what I usually do - but it is still *defensible*.

There are also many arguments *against* this trade as well - **AMZN** has shown a HA reversal on the daily chart, it closed above its' SMA 50, with an ATR of 60 it could move up significantly on Monday and thus leaving me with little chance to close the trade without taking a huge loss. Just because there are arguments against a trade, does not mean it is not *defensible*.

Go through your trades in the past week/month and ask yourself, could I have defended this trade? Be honest about it, and just mark the trades you could have defended with a Y and the ones you couldn't with a N. Now look at the profit/loss for the trades marked with a Y vs. those with a N. I absolutely guarantee that you performed significantly better on the trades you could defend.

While there are many different things one should do in order to be a successful trader, just asking yourself this question before making a trade will save you a significant amount of losing positions. It is a very simple litmus test, and quick to apply.

My 5 Step-By-Step Process Before Entering into a Trade

Non-Momentum Trades -

This post is focused on *Non-Momentum* trades - Momentum trades are an integral part of trading, but unfortunately they have become the gateway in which new traders enter the market. Usually through some video of a guy in a rented Lambo telling you that you can get rich quick. Variations of the *Gap n' Go* strategy are very difficult to do and only an experienced trader should be doing these types of trades - usually low float, high short, cheap stock. I set up the sub r/RealDayTrading in order to show traders that one can make a living Day Trading/Swing Trading. I am focused on helping people with consistently profitable non-momentum trading.

Note: I am not selling, pushing or working for any service, product or resource. Don't want your money, don't need your money.

Ok, so how do I find the stocks I trade? Many of you follow along on my public Tradersync and ask where I found those trades, and what process I use, so here it is:

I am generally alerted to a stock because it either appeared on a constantly running scanner, appeared on a custom scan I just ran or an alert line I had put on the chart was set off - every scanner uses Relative Strength vs. SPY (**Note: This is not RSI or BETA**) as a foundation.

Step 1: Everything starts with the market - so that is where I look first. What is SPY doing? Is it in a low volume consolidated range, meaning the stock will have to do most of the heavy lifting? Has it broken any upward or downward trendlines? Is my trade going with or against the market? If I am against the market it adds exponentially to the requirements (e.g. shorting against a strong market means the stock needs to be *extremely* weak). *This is a step I am constantly monitoring and generally already know how the market is doing when I see a stock I like, but it is extremely important, so I am putting it here as the first step.*

Step 2: I check the daily chart on the stock I was alerted towards - where is major support and resistance levels? Is it approaching an algo line? Does the stock have a clear bullish or bearish bias on the daily chart - using HA candles and pattern analysis (including how far removed the stock is from its' 8EMA). What is the relative volume on a daily basis? *I am looking for a stock with relative volume on the day over 1.5, I want to see two flat bottomed green HA candles on the daily chart, and there should not be any significant resistant (or support if I am shorting) close enough to cause an issue. Why is the daily chart important? Because if my Day Trade turns against me, but doesn't violate any of the technical patterns that caused me to enter the trade to begin with, I want to be able to hold the stock until either I hit my target or my thesis for entering is no longer valid.*

Step 3: Assuming there is a strong daily chart (meaning this is a stock I wouldn't mind swinging) I am now looking at the 5-minute chart next, with SPY as an overlay. What is the stock doing compared to SPY? Is there a cross on the TrueStrengthIndex? Is the 3 EMA over the 8EMA? Is it over VWAP? Do I need to wait for a pullback or get in now? *I tend to worry less about entry and more about what my thesis on the stock is based on the technical analysis. If it is a $100 stock and I believe it is going to $102, then I don't care as much to wait for a pullback - I would rather not risk missing the $2 gain from $100 to $102 if it continues upward. The 3 over the 8 EMA on the 5 minutes chart is fairly standard, and over VWAP is preferable but not 100% necessary (depending on what it did that morning). If I have all those things the TSI should confirm it anyway.*

Step 4: Is there any catalyst for the stock to be moving right now? This is usually more important with momentum trading, but it’s still something I want to know. A quick check of various news sites (and sometimes even Twitter is useful, just put a $ in front of the stock symbol and search for latest posts). How is the sector doing (Finviz is great for a quick visual representation of this). *This information isn't as important as the first three steps, but if I notice that stock is moving in sympathy with another stock in its sector (for example), I might be more cautious with the trade.*

Step 5: What is the best strategy for the trade? I usually trade the stock directly, but what if it is AMZN? My portfolio is strong, but it is not "grab a few hundred shares of AMZN" strong. If it is options, which options are giving me the best value right now? Should I use a spread (I Day Trade Call Debit Spreads all the time). For example on Friday I noticed that **SKIN** was moving up with a strong daily chart, so I bought the stock and sold it for a profit - however, I also saw that next weeks

$20 calls were running at parity (i.e. the stock was at $23 and the $20 calls were going for $3), so I bought a bunch of those which I am currently holding.

For Momentum Trades, the volume, the catalyst, float, short %, recent history is all extremely important to know. If you have your scanners set up properly you should be picking up on many of these pre-market and already have this info. If one pops up during the day, take a breath and still look into each of these pieces of information.

Everyone has their own process and looks at different pieces of information, this is mine - however, all traders should have a process like this to act as a buffer before you jump into a trade. This process is also a great way to dampen down FOMO, as going through these steps forces you to slow down and take an objective look at trade.

Trade Well!

Entries - Exits - Stops - Position Size

I get a lot of questions about these four topics, so I figured I would address them in one post.

To begin with there is one crucial point that every trader needs to understand -

Get the market right, get the stock right.

If you do these two things you have already accomplished the most important aspect of your trade.

There are many great books, articles and videos out there on **Entries, Exits, Stops** and **Position Size,** that go into the technical aspects you need to know, so I am only going to touch on that aspect briefly.

Look at this chart:

This is a textbook Entry/Exit situation - **GS** gaps up, and an hour after the market opens the 3EMA remains solidly above the 8EMA - the stock has Relative Strength, and you can see on the chart where **SPY** begins to drops and **GS** starts to go up again - this is your *entry.* About 2 hours later, the

3EMA and 8EMA meet, with the 8EMA moving on top, **SPY** begins to go up and **GS** remains flat - this is your exit. This trade would have been a $4 winner.

Is it always this easy? No. But there are some traders who will wait all day, staring at charts and watching the market to find 1 or 2 of these setups. They are high probability trades, and thus with a strong enough position size (either in shares or options) it only takes a couple of them a day to hit your daily goal. However, most people do not have the patience to do sit on their hands for hours until they find the perfect trade (or the skill to recognize it when it happens).

An important question to ask yourself when making a trade is - ***What is my thesis?***

By this I mean, if you are entering a stock like **GS** at $393.90, and you think based on the market, the stocks strength, the historical ATR for **GS**, that it is at its' all-time high (i.e. no resistance above, no bag-holders looking to sell) etc. that you can get $2 out of this trade, your thesis is that **GS** will get to $395.90.

At that point, that is *all that matters*. **GS** may dip back down to $393.50, it may consolidate, but all you care about is making $2 profit on the trade. You shouldn't care that you could have gotten in cheaper at $393.50, because if **GS** did not violate any of the premises behind the trade (e.g. Relative Strength, 3/8 cross), nothing will have changed. The entry doesn't matter here as much as your thesis does - because if you entered at $393.50, your thesis wouldn't have changed to making a profit of $2.40, it should now be a profit target at $395.50 (rather than the $395.90). Either way your plan is to take $2 on this trade.

For some trades your thesis may be based on the daily chart, in which case the stock has even more leeway, as now you need to see a technical breakdown on the Daily chart rather than the 5 minute candles.

You cannot take the mindset of **entry** and **exit** that you have on momentum trades and use that on your other day trades.

As for position size, I have a post on this (as well as a worksheet) but let's dispel a few things you might currently believe:

- The notion of only allocating a certain percent of your portfolio towards a trade is riddled with issues. To begin with if you have $50,000, and thus $200,000 in buying power, and you want to buy 2,000 shares of a $100 stock, *you are not risking the entire $200,000*. You are only risking as much as the nearest technical breakdown. If on that $100 stock you plan on exiting around $99.40 as that is just under *VWAP* (for example), then you are only risking 60 cents * 2,000 = $1,200.
- Your level of risk should be determined by the technical charts, not by your P&L. If instead of using the technicals in the above example, you set your limit at a $1,000 loss, then you would be exiting at $99.50 and very likely missing that bounce off VWAP which was just a bid-check for the stock.
- For the same reason, you should not be looking at Risk | Reward unless you are determining the appropriate debit or credit on a spread. Your "reward" should be based on the technicals. Again, in the above example, if that stocks loses Relative Strength at $100.30, you should exit. So, what does that mean? It means that you were risking $1,200 to make $600. Which means that trade would need to be successful more than 66% of the time.
- This now goes back to your journaling of your trades and making sure you enter in the setups you are using on each trade. If you have been doing that, it should be fairly easy to check how often the particular set up you are using is successful.

On position size just ask yourself:

- Am I using too much of my buying power on this one trade? If you are then you are going to be far more likely to exit the trade before hitting your profit target just to free up that BP to making another trade.
- Is my position so large that I will be making decisions based on emotion and not on the chart? If so, you may find yourself leaving a trade too early out of fear, or staying in too long because you don't want to take the loss.

Overall, your position size should be based on the your daily goal, the setups you like to trade, and how often those setups come along each day. If you make 10 trades a day, and your daily goal is $1,000, than you need to make $100 per trade. However, if your win percentage is 60%, then you need to make $500 per trade ($3,000 in winnings) and lose $500 per loss ($2,000 in losses) = $1,000. As you can see the higher your win percentage, the less pressure there is on any single trade. But here is the catch-22 = the lower the amount you are willing to lose, the lower the winning percentage. Why? Because if you are only willing to lose $100 per trade you would be using very tight stops, which reduces the win rate.

As for stops, the goal should be to get the point where you can use mental stops. Almost every professional Day Trader I know uses mental stops on their trades. It allows one to be flexible and truly let the price-action guide your decisions. However, unless you are an experienced trader it is always recommended to use stops - but make sure they are placed according to the appropriate price that would correspond to a technical breakdown.

Overall, your entry and exit should be based on your thesis for the trade, which in turn is based on the technical analysis of the charts. If you are having difficulty with entries and exits that means you are having difficulties with technical analysis.

The benefit of trading stocks with Relative Strength/Weakness, with directionally sound daily charts is that even if you do not get the best entry (or exit), you still got the market and the stock correct. That alone should be enough to secure a profitable trade.

How To Size Your Positions (/u/OptionStalker)

This is one of the most common questions I get. Novice traders believe that there is a secret formula that spits out the magic number. If they just had that formula their trading performance will reach new heights. Some books suggest to never put more than 5% of your capital at risk on any single trade and to use a constant dollar allocation. Other books suggest that you should leverage your account to the maximum because your stops will contain the risk per position and that to generate worthy returns you need to go full tilt. It's no wonder there is so much confusion on the topic. In this article I will answer this question completely and the next time someone asks, I will point them here.

Let's start with the two extremes I mentioned above. A constant dollar allocation per trade is not the way to go. That might work for portfolio managers who are looking to diversify based on sector correlation, but we're not investors, we are traders. Does a professional Black Jack player use the same dollar allocation when they bet? Of course not, they count cards and they increase their bet when the odds are in their favor. Market conditions are constantly changing and every minute of every day is different. Yesterday you might have had a trend day where you could ride your trades, size up and set high targets. Today you might have a light volume "inside day" with low probability conditions. Do you think you should be allocating the same amount of capital per trade in both situations? Trading an account “full tilt” might be the right thing to do in rare situations for some traders, but I’m not one of them. I will discuss this later.

Novice traders have been led to believe that there is a mechanical answer to the position sizing question. “Never put more than 5% of your account into a trade and place your stop 2% below the current price and your target 4% above the current price”. This is complete garbage, and you’ll find this canned solution in many books.

Novice traders have an unrealistic perception of trading and what it takes to be successful. “All I have to do is figure out how to read these wiggles and jiggles on a chart and I will make money.” Trading is one of the toughest ways to make a living. To become a “professional” at anything takes years so let me draw a comparison.

An NFL quarterback has to assess risk and reward constantly. Mr. Brady, “Do you always throw 10 yard passes?” No. Mr. Brady, “Do you always throw bombs?” No. "Mr. Brady, at what point do you decide that it is best to throw the ball out of bounds or to squeeze the ball into tight coverage and risk an interception?" Who are we playing? Are we winning? How much time is left? Is a defensive lineman in my face? Who is the receiver? Who is the corner? What are the field conditions? How well have I been throwing the ball? What down is it? Are we in field goal range? Are we backed up in our end zone? The list goes on and on. The answer is dependent on the situation and the situation changes constantly. Tom Brady is aware of all of these factors and he processes them in an instant. At the very end, he weighs the risks and rewards and that is when he makes a decision. Come on Pete, “Are you comparing trading to being an NFL quarterback?” Yes! It took Tom Brady a hundred thousand snaps to get to that level and it is going to take you thousands of trades to answer the position sizing question.

But where can I read about this? You can't find this in a book. Reading about Tom Brady is not going to make you a good QB. This you learn by doing. If you look at Hari's trade log, some days he trades a lot, sometimes he does not, sometimes he trades ITM options, sometimes he trades CDS, sometimes he trades straddles, sometimes he trades stock. Sometimes he trades size, sometimes he pares back. Experience is what gets you to that level and it takes years. Each person is different, and they have their own style. This is also where the mental part of trading comes into play. Should I click the buy button, or should I wait?

So, my first goal in this article is to get you to think about position sizing in a different way. It is a continual assessment of risk and reward, and size is dynamic (not static or mechanical). My answer is not going to be what you expected, so let’s get to it.

Most position sizing questions imply that everything would have been fine if they had just sized the trade properly. “I took the loss, but if I had correctly sized the trade, I could have taken the heat, and it would have eventually turned into a winner. Pete, what is that magic number?”

The reality is that position sizing might not be the issue. If you are constantly getting stopped out, the issue is your trade selection. If you have to ask what your position size should be, the answer is 1 share. Work on every other aspect of trading, get your win rate above 75% and during that process you will develop the awareness you need. Your position sizing and risk management will become automatic in time. The best risk management/position sizing method in the world is not going to make any difference if you are making poor trading decisions.

Position sizing is way, way… way down on the decision-making flow chart. What is the market doing D1? What is the market doing M5? What is the stock doing D1? What is the stock doing M5? This is the decision-making process and these are the priorities! Your opinion on each of these and your confidence in your analysis takes you to the next step. That is where you start determining your game plan. If you can consistently get to this stage of the process your win rate will be greater than 75%. If you get the market right and the stock right, your odds of success increase dramatically. What is the trade duration? Should I trade stock or options? How will I size this? What is the likelihood I will make money? How much am I willing to risk? At what point will I know if I am wrong? These decisions are at the end of the process. The pros have done it so often they don't even think twice about it. They know based on the conditions what feels right, and they know what has worked in the past.

This frustrates the hell out of novice traders and the pros who are trying to help them. The novice trader thinks that the pro is holding back. "There must be a method to their madness; they just don't want to share it." The pros get frustrated because this question comes up every @#$% day and the answer usually include the phrase "it depends". The novice trader feels cheated out of an answer. "There's that old 'it depends' answer again."

"Hari, why did you trade 100 OTM SPY put lottos?" The answer: He evaluated all of the inputs and based on the information at that time; the risk and reward for the trade were favorable.

Pre-snap, Tom Brady does not know what he is going to do. He knows what he would like to do, but the right circumstances have to present themselves. He is aware of the macro backdrop (score, weather, down and distance and field position...) and he evaluates the post-snap coverage. Then he weighs the risk and reward, and he makes his decision. He does not step up to the line of scrimmage and decides that he is going to throw a 20-yard pass no matter what. A 20-yard pass is a position sizing risk/reward decision. Maybe a screen pass to the running back is the best decision.

Position sizing and risk management are the final brush strokes. Should you trade size? Should you scale in? Should you trade stocks? Should you sell bullish put spreads? Should you buy OTM calls? They are game time decisions and the trader processes all the other information and then they make a decision. The end result is personal. For every professional trader who is presented with an identical set of circumstances, the position sizing and risk management answer is different. This is where you make it your own. It is also where the mental/emotional aspect of trading comes into play. Consequently, we can't answer your position sizing question. Only you can answer it.

If you start out with 1 share and you focus on getting your win rate to 75%, you can focus on the really important aspects of trading. Reading the market correctly and finding the best stocks is critically important. Until you get to that point, you are not ready to take on the mental aspects of trading and with 1 share you won't have to. Getting your win rate to that 75% level is going to take time and there is no substitute for experience. You will be faced with many different situations and you will learn to identify changing conditions. You will learn when to adjust your positions and when to let them run. It might only be 1 share, but you are learning. These lessons will be very important when you start to increase your size. The lessons Tom Brady learned during High School football practices were important.

There is no way Hari would be able to flow in and out of all of positions the way he does if he did not have this skill. He would constantly be plugging in formulas to determine the "optimal size". He doesn't do this. He reads the market and the stock, and he knows when to take a loss, when to enter a trade, when add to it and when to take profits.

Position sizing is the final brush stroke. Focus on everything that comes before it and when you get your win rate above 75% for a few consecutive months it will start to come naturally. You will experiment and you will define what feels right for you. This is when you start to define your trading personality.

How To Size Your Positions - Examples From Friday (u/OptionStalker)

Yesterday I posted an article on position sizing. Please read that article first (Previous Section). The lesson was that position sizing comes at the very end of the decision-making process. It is the final brush stroke, and this is the culmination of all of your trading skills right up to the point where you click the trade button. Your position sizing and strategic approach are dynamic, and they adjust to changing market conditions. In this article I will provide you with an example from a video I recorded Friday on the open and from my comments in the chat room Friday. I will breakdown all of the components to illustrate my point.

First of all, most novices never make it to the point where position sizing matters. I'm just being honest. They won't paper trade and they won't trade one share until they get their win rate up. They will just dive in, lose their money, and blame someone/something else for their mistakes. Those who are trading with 1 share might not put the hours in "at the gym" or spend time "watching film" or "studying the playbook" like Tom Brady does. These are the thankless hours of preparation where you put everything you have into learning and training. Only faith and determination keep you engaged because there are no visible signs that all this effort is going to pay off. Consequently, many aspiring traders quit before they ever reach the 75% win rate. This is a weeding out process and it is common to any high paying profession.

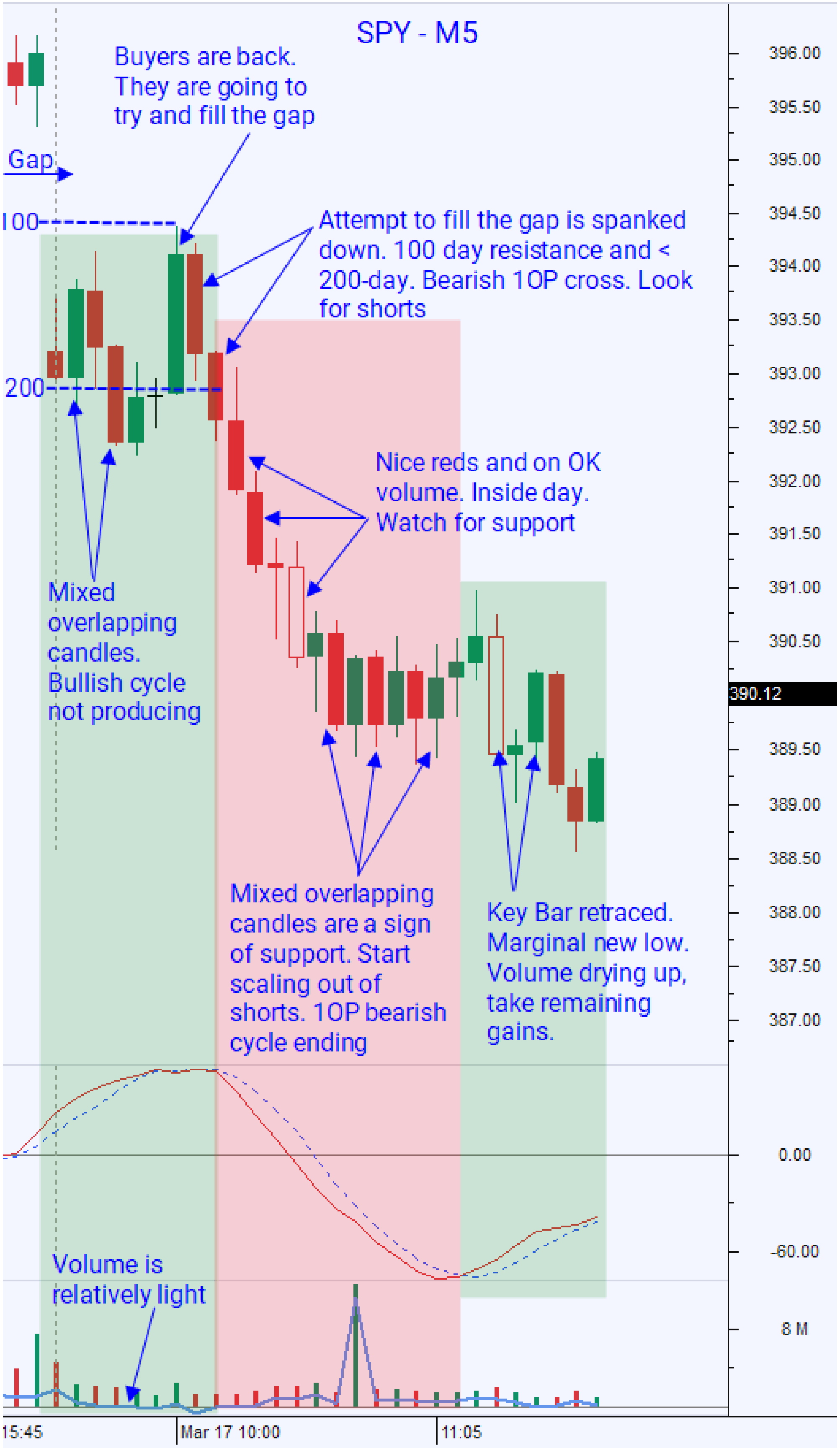
This article is for those of you who have reached that 75% win rate for a few consecutive months. As much as I'd like to tell you that your learning has ended, it has not, and it never will. The good news is that there is "light" and you are seeing progress. This is also the stage where you can actually start making a little money. It is like the years you put into a college degree and now you are going to get paid for that knowledge. This is where the mental aspect of trading comes into play, and this is also where you define your trading personality. What I am about to describe is unique to me. It is how I processed all of the information and how it culminated with trades that suited my style. I gave the play-by-play in a video and in the chat room Friday, so this is NOT backwards engineered, "cherry picked" trades that I pulled out of thin air. This was my thought process from the beginning.

Market first (Long-term Fundamental) – Credit concerns have surfaced with the SIVB failure. Credit Suisse and others are on the ropes. Asset Managers who might have been buying near the major MAs are going to hold off for a few months. The bid will soften until they are confident that banks are stable, and that credit is not going to be an issue. Stock valuations are relatively high (forward P/E of 18) so there is no rush for them to buy aggressively. FOMC next week, swings are risky, and the market could go either way. Stick to day trading and be in cash before the FOMC statement Wednesday.

Market first (Long-term Technical) – The intraday ranges are expanding, and the major MAs have failed. The market has been making lower highs and lower lows for the last few weeks and the down days have come on heavy volume. Two major D1 trendlines have been breached in the last two weeks on long red candles and heavy volume. This is neutral to bearish.

The market has breached major support levels, the volatility is increasing and the drops have come on heavy volume. The long-term technicals are neutral to slightly bearish.

Market first (Short-term technical) – The market staged a big rally Thursday. Stacked green candles on heavy volume and a close through the major MAs. Could have been short covering and triple witch related. Are buyers still there? The market gapped down below the 100-day MA. The 200-day is going to provide some support at $392.77. Mixed overlapping candles on lower volume to start the day - lack of direction early. Buyers are trying to push the SPY into the gap. That attempt failed instantly, and two red candles erased the move. 1OP bearish cross, look for shorts.



SPY - M5
Buyers are back. They are going to try and fill the gap
Gap
100
200
Attempt to fill the gap is spanked down. 100 day resistance and < 200-day. Bearish 10P cross. Look for shorts
Nice reds and on OK volume. Inside day. Watch for support
Mixed overlapping candles. Bullish cycle not producing
Mixed overlapping candles are a sign of support. Start scaling out of shorts. 10P bearish cycle ending
Key Bar retraced. Marginal new low. Volume drying up, take remaining gains.
Volume is relatively light
396.00
395.50
395.00
394.50
394.00
393.50
393.00
392.50
392.00
391.50
391.00
390.50
390.12
389.50
389.00
388.50
388.00
387.50
387.00
0.00
-60.00
8 M
15:45
Mar 17 10:00
11:05

The buyers from Thursday are gone. They did not support the market early and the market easily fell back below the major MAs. This was going to set up a short. The tone is set, and this is going to be an "inside day".

Stock second (Long-term Technical) - I want to find a stock that has relative weakness and long red candles through a major technical support level on heavy volume. Ideally, the stock has been down during the recent market bounce, and it finished lower during the market bounce yesterday. ENPH is a short I mentioned Thursday and the alerts I set have been triggered this morning. It is also at the top of Heavy Selling search this morning. It breached a Low+ two days ago and today it is breaching multiple Low- lines. This video was recorded 50 minutes after the open and the link takes you right to that moment. [Click here to watch me do this analysis real-time in a video as it is unfolding](#) (40:07)

This stock has been setting up for a breakdown and it is weak relative to the market.

ENPH easily breached the prior day's low. The D1 is weak, and the volume is super heavy. It took out the prior day's low with ease and it did not retrace any of that first long red candle even though the market tried to bounce. The stock tried to get off the deck on the market hod, but it was instantly spanked down. This is a good short and I have a market tailwind.

This stock is weak and sellers are in control. This is the point where I need to game plan.

To this point, position sizing has not even remotely been considered. If you are trading 1 share, take the trade. It is going to be one that gets you closer to your 75% win rate. As the trade unfolds, you look for signs of confirmation and you imagine where you might have added and where you might take gains. What are the signs you will look for that tell you if it is a good trade or a bad one? What is the market doing? Is the stock preserving its relative weakness? When I decided to exit, how did I do? Record the trade in the log with your observations. Then review your trades after the close. You are going to get blindsided by market moves and wild stock bounces. At this stage of the learning process, you are going to make mistakes. It is critically important to keep them small. When you are trading 1 share, you are not worried about those mistakes because they are not going to impact you financially. Your complete focus is on reading the market and finding the best stocks. Your observations of what happened to the trade are going to be critical to your future growth.

So how would I have approached the trade? Again, this is my personality, and this is my style. It is not going to be anyone else's style. Our experience level is different, our capital base is different, and our risk tolerance is different. Our long-term and short-term market bias is different, our long-term and short-term opinion of the stock is different and our confidence in our analysis is different. My approach is optimal for me at this exact time and for this specific stock and it will not be the same for anyone else.

The market is giving back the gains from yesterday, but the volume is lighter on a relative basis. We are still early in the day and this move should be decent because the range for the day is still being established. We are in the "sweet spot" (45 min after the open + 2 hours), the 1OP bearish cycle just started so I have the entire cycle to work with. The SPY low of the day failed easily, and it is below the major MAs. ENPH is extremely weak. The ATR is $12 so it should be able to get to $185 with this market tailwind. I should be able to conservatively make $3 on this move with a 90% probability and a very small chance of losing money given the backdrop. Short shares, you don't need to mess with options. You do not plan on swing trading, so you need to be able to get in and out quickly. Start with a half position and add quickly if the SPY stacks another red. If it does, you will have a market tailwind for an hour and you should be able to make a few grand. If the SPY stalls quickly, don't add to ENPH. Stick with the original. That would be a sign of market support. We already know the SPY volume is not great and this is a triple witch. This is also likely to be an "inside day" so once the SPY low is in the price action will die down. OK. SPY stacked another red, short the other half of ENPH. The stock is weak, and it can't get off the deck. It is leaking oil. This is a volatile stock, so I am going to take partial gains if I see a long red candle. OK. Took partial gains on that long red candle and I did better than expected. The SPY bearish cycle is ending, and the SPY is starting to find support. I've already taken partial gains so just watching to see what the SPY does here. 1OP bullish cross and mixed overlapping candles for SPY. The market is finding support here. The stock continues to drift lower so I can still ride the position. SPY made a marginal new low and the 1OP bullish cycle is starting to produce green candles. The stock is compressing at the Low of Day (LOD). This is going to be an "inside day" and this was probably the move of the day. Take remaining gains on ENPH.

This is the thought process. The position size and trade management happened during the trade. Based on all of the information that was presented at that time, I made a decision to short ENPH. I set my expectations and the degree of certainty. That did not mean that the trade was going to unfold in the best possible manner, so I scaled in and waited for confirmation. My game plan included where I would add and under what conditions. It also included when I would take partial profits and when I would eventually exit the trade. If you showed me this exact same stock just a few hours later, my approach would have been (and was) completely different. In the spirit of the Tom Brady analogy, this is the first half of the game. We are constantly evaluating during the day, and we are basing our decisions on the current information.

Are we done? No, the trading day is not over so let's keep going. What have I learned to this point? The market is weak, support has been established, the heavier volume has come on the drops and the SPY is back below all the major moving averages, this is going to be an "inside day" and we have probably seen the move of the day. I prefer trading from the short side given this backdrop. I have too much shit to do so I don't have time to highlight longs in the chat room. If I did, they would be in the tech sector and they would only be scalps. For most members, the better lesson would be to teach them patience on a day like this. Highlighting longs will only encourage them to trade them. They should only focus on the short side and they should patiently wait for the next set-up. When the next window of opportunity surfaces, I will start to post again.

Note: The beauty of all of this is that you can go to the home page and scroll down to the Chat Room. You don't have to log in, it is free. These are all of the posts during trading hours Friday. Some of you will be pissed that I am just shilling my shit. This is all free information. I want you to know that what I am teaching you is real and you can verify it.

The market bounce was wimpy, and sellers are keeping a lid on the action. We will get another shorting opportunity.

Two hours before the close our next window of opportunity surfaced. The SPY bounce hit resistance at the VWAP and the first attempt to get through it culminated with a bearish hammer. This told me that sellers were in control. During the next hour the price action dried up and the candles were tiny. 1OP had been grinding higher and it finally got back to zero. This was slightly bearish. We started to see more wicks on attempts to get the SPY above the VWAP. It was time to look for a weak stock. It was late in the day, and this was going to be a small trade. There was no reason to get aggressive during compressed light volume price action. I have no intention of holding anything overnight, so I have to be extra selective and respect my stop. I am going to enter all at once with smaller size than the ENPH trade and I want a set-up where I can make $1000 without pressing too hard. The market LOD should hold so I will take gains on signs of support. ENPH is dead so I will check the RelSWeak30 search for stocks that have been weak during the market bounce.

DG has broken trendlines on heavy volume. It is below all of the major moving averages, and it has relative weakness. Let's see what the M5 looks like.

DG was a nice candidate. The D1 chart was weak. The stock was already below all of the major MAs. It was breaking major Low+ and Low- trendlines on heavy volume and it had a long red candle the previous day. So what? That was the day the SPY surged higher on heavy volume and the stock did not participate (sign of selling pressure and relative weakness). Upon closer inspection DG had earnings before the open Thursday ("B" on the chart) and the reaction was negative. The M5 chart for DG was also weak. When the market bounced, the stock was barely able to get off of the low of the day. This was a sign that sellers were keeping a lid on it. Any market weakness and this stock should crumble. Now I just have to wait for confirmation that the market is going to roll over. Bearish 1OP cross for SPY M5 and a couple of red candles. Stock dropped. Short the LOD for DG. The ATR is $4.7 and we should still have a buck in this trade. The market has been compressing and the volume is light. There is no reason to think that there is enough fire power for the market to make a new low this late in the day. If the SPY stalls at the LOD I am going to take gains on DG and call it a week. SPY has tiny bodied candles at the LOD, SPY bearish cycle ending and no SPY volume spike on the drop. The SPY LOD is going to hold. DG is at its ATR, take gains on the DG short.

During the market bounce, DG was not able to distance itself from the lod. This is a good short, but I want confirmation. When the SPY drops, I want to see the stock drop. There it is. SPY dipped and the stock made a new LOD - short.

This is how position sizing and trade management work. They are dynamic and they happen in real-time. We don't have a machine that cranks out the optimal position size before the open and the perfect entry and exit points for any trade are not known. You are constantly evaluating the market and the stocks you might trade. During the trade you are deciding if you should add or take profits. You are revising your expectations and your game plan as the action unfolds. Although I used day trades to illustrate the point, the same concepts apply to swing trading.

Belicheck and Brady devised game plans ahead of time and they knew the match-ups they wanted to exploit. However, the game does not always go according to plan. They watch and they gather information. Then they adapted during the game. Every game is different and so is every market day.

I was perfectly willing to go into Friday with a long mindset. The previous day was strong, and the rally took place at heavy volume. The SPY closed above all the major moving averages. After 30 minutes of trading, it was obvious that I needed to look for shorts. Would this turn into a bearish Gap and Go? I didn't know so I evaluated along the way. What took hours to write took me seconds to recognize. Click, click, click… there's a nice short. You know instantly from looking at the set up how much you can make and with what degree of likelihood. All the input tells you how aggressive you can be or how passive you should be. Where to add, where to set targets and when to bail on the trade are determined by your analysis, your level of confidence in that analysis and the price action as the trade unfolds. Every trader has their own risk tolerance, and this is where you will develop your trading personality. You will use various methods for scaling in or out and you will have your favorite options strategies. These are the final brush strokes to the trade. Before you start worrying about position sizing, get your win rate to 75% for a few months straight trading one share. Focus on getting the market right D1 and M5 and on finding the best stocks D1 and M5. This is going to take a couple of years and without even knowing it, you will be developing the skills you will need for trade management and position sizing.

Reasons to Exit a Trade

"When do I exit??"

This is one of the most common questions traders have - and one of the most important. There is a fine line between being a "bag holder" and correctly waiting for the stock to continue its' trend.

I always encourage people to choose stocks with a strong daily chart as this gives you a lot more flexibility with your trades. If a stock turns against you but their daily chart is very strong (or very weak if you are shorting) then you have the ability to hold it overnight with a higher probability of success.

Still, that doesn't answer the question of - when do you get out of a trade, whether in profit or in loss?

So here are ten reasons (simply because people love lists of 10) - in no particular order:

1) **You want to** - simple as that. You made profit and you are happy with that. Or you have a loss, it still has a decent chance to come around, but you are sick of looking at it. The issue is *Why do you want to exit? Is it because you are down too much money? Well that means your position size was most likely too big. Is it because it is taking too long? That usually means you are too impatient. Still, this is a reason we all have used, so it belongs on the list.*
2) **Sell into Strength** - there are many traders that buy into strength and sell into strength - they don't wait for the reversal, and while they may miss some gains, they never miss taking profit. Stock is strong, you are in profit, it is continuing to give you gains - selling into strength is a perfectly legitimate reason to exit a trade. *I would suggest that you start off by only closing part of the position first, and then let the rest ride.*
3) **You need the buying power.** Trade takes up resources, and you need those resources. If your money is tied up in a trade and it is not doing what you expected, perhaps not losing but still not giving you the gains you want - your money may be better spent elsewhere. *However, once again if this is a common problem you are probably trading with too large of a position.*
4) **Thesis no longer applies**. Maybe you entered the trade because the stock was strong against SPY and now it no longer is, or you entered due to heavy volume and that has dried up, maybe you were playing the 3/8 cross and the 8 crossed back below the 3 - all of these

are good reasons to exit. *If the reason you entered no longer exists, this is one of the single biggest indications you should exit a trade.*

5) **Major Technical Violation** - This is a no-brainer - if the stock broke through support, fell below a major SMA, etc. in other words it reversed - a stock that was bullish is now bearish or visa-versa. *Do not fool yourself into thinking that the stock can recover. If there is a technical violation and it holds, you should exit the trade. These violations are usually seen on the daily chart, not the intraday chart.*
6) **Target Acquired** - you put in a profit target and the trade hit that number. *Do not get greedy, take the profit and move on.*
7) **Scratch** - the trade was a loser and now you are happy to just break-even, the trade hasn't gone anywhere, and you had a time-stop in your head, so you scratch it (i.e. breakeven). *Psychologically people hate scratching trades, it is like watching a sports game and it ends in a tie. Feels like a waste of time. But breakeven is a hell of a lot better than losing.*
8) **Market changes** - maybe you shorted a stock in a weak market, and even though the stock is Relatively Weak when the market starts going up that doesn't mean the stock will stay down, it just means it won't go up as fast as other stocks might. It is hard to short in a strong market and hard to go long in a weak one. *Always always always always keep an eye on the market. If market conditions change and it is impacting your trade, you need to take that into account. Note - this doesn't mean a small market drop or bounce, I am talking about a situation where SPY gapped up, was strong for most the morning, you went long on several stocks and then mid-day SPY begins to drop - eventually going red. That is when you need to start reducing your long exposure (as an example).*
9) **Earnings or an event is coming up** - you do not want to hold the trade over an event as it is unpredictable.
10) **Price Action -** It is no longer what it was when you entered. This applies mainly to momentum trading, and you are noticing bigger volume spike on red bars than on green ones, or the stock compressed and has now broken to the downside. Perhaps the stock fell below VWAP and the daily chart isn't strong enough to justify holding through the current drop. These aren't technical violations, but if you entered based on the price action you were seeing, and it no longer fits your thesis, you should exit.

Exits - Entries - Thought Process - 3 Trade Examples

EDIT - this was written roughly a year ago and originally posted in r/daytrading so read it in that context.

Since I am constantly asked to post about entry and exit, I figured I would use some actual trades from Friday as examples. Overall, I did 24 trades that day, so these are just a sample to help illustrate the points. For each trade, I will give you my thought process on the method, entry, and exit:

Even though I am on the West Coast all times will be in EST:

NEGG - 9:47am & 9:51am - off the bullish hammer and developing bull flag on the five-minute chart, I went long **NEGG** at $50.80 (average price on the two trades).

Type of Trade: Momentum - Low float: Obviously **NEGG** is a crap stock that is way over-valued, but given the float, actual value doesn't really apply here. I liked the continuation and volume - clearly buyers were not done with this stock.

Exit Plan: I also had a very clear mental stop at around $50.36 (bottom of the 9:45am candle). The real question for me on this stock was - would I let it go all the way to $43.50 (the support formed on the daily chart)? I liked the volume and the bull flag on the daily chart, but I would rather treat this stock like a *scalp* than anything else, it is far too volatile. As you can see the question for me was - am I willing to take a $7 loss on this stock to see if the daily bull flag holds, or the smaller more immediate mental stop of a .50 loss? I decided I didn't trust the stock enough for the extended Stop (unlike **CARV** where I did use an extended stop down at $9.50, which worked out quite well), so I went with .50 cents - and since this stock can jump that much in a single tick, I started out with a lower number of shares. *Note: all my stops are mental stops so I can quickly adjust to the price action and the market.*

Result: As **NEGG** started to go up, I added shares along the way - finally averaging out to $52.78. At around 10am when I saw **NEGG** get rejected at the previous day's high, I took profits at $57.84, for $5.06 per share/over $7 win from my initial price - a great way to start the day.

SNOW - 11:41am - I was watching **SNOW** all morning - and even though the stock was strong, I needed confirmation that it was *strong against the market*. There was a nice steady grind up since 10:10am with decent volume, but the market was also rising at the same time and **SNOW** wasn't outpacing **SPY**. That meant if the market was to suddenly drop (not uncommon with these small low volume candles on **SPY,** it might take **SNOW** with it). Finally, at around 11:40am, **SPY** pulled back and **SNOW** remained strong - which gave me the confirmation I needed, so I took the trade with **SNOW** at 261.94. **SNOW** also had an extremely bullish daily chart, with the stock going through its' SMA 200 with ease and staying above its' 50 & 100 SMA's respectively. The Heiken Ashi candles on the daily chart also showed a nice upward continuation off the reversal from 7/7 as well. Overall, **SNOW** has a classic bullish pattern on the Daily chart.

Type of Trade - Relative Strength - Options: I briefly considered using a *Call Debit Spread* expiring that day for 260/265, which was going for roughly $1.90 debit at the time, but I decided against it as I did not want to cap my gains. So instead, I opted for straight calls and took the 7/23 Calls - the 245 Strike for $19.90 each. The delta was .85, which meant I was getting a pretty decent 1-to-1 move with the stock.

Exit Plan: I wanted to see **SNOW** hold the 200 SMA at 260.09, and that gave me a clear stopping point for the trade. If I was using the stock, I would most likely have waited to see if **SNOW** was staying above the SMA 200 at the close, and if it did, I would carry through to Monday (that is the benefit of Day Trading stocks with a good daily chart, you can turn them into *swing trades* with a high degree of confidence, giving you more leeway). However, since these were Call Options and I had no intention of holding them over the weekend, I was prepared to cut the trade if **SNOW** had two 5-minute candles in a row below the SMA 200. I also looked at the closing price on 3/3 of 270 as the area I would take profit (particularly if **SNOW** hit that mark and got rejected).

Result: I do not like to be holding straight calls and puts over the weekend - it is like burning money. I sold the options when **SNOW** hit 270 (the high from 3/3) for $26.43 each, a profit of $6.53 per contract. As you can see from the chart, even though **SPY** remained unchanged from 11:40 to roughly 2pm, **SNOW** continued to increase, a major benefit to choosing stocks with *relative strength to SPY* (note: this isn't RSI or Beta).

While I had several others good winners (including ***SGOC*****), those two are good examples of two different types of trades and the thought process behind each. However, this wouldn't be instructional unless I also gave an example of a failed trade.

WKHS - 1:31pm - **WKHS** seemed to be gaining strength throughout the day and filled the gap from that morning. And this is where I made several very preventable mistakes. First, I bought the stock near the HOD (High-Of-Day), at 13.13, which was moronic. I have seen **WKHS** start to run before and I was convinced, despite any reason or logic, that it was going to run again. It wasn't completely without merit, the stock had been gathering steam all day and volume was starting to build, but that is not enough to take a trade. Also the daily chart is extremely ugly on this stock - it barely got above its' SMA 50 the day before, has serious resistance right above with the SMA 100 (14.06) which caps the upside, and looks like it is forming a pretty textbook Bear Flag (on the Daily Chart).

Type of Trade - Stupid - Stock - There was no reason to take this trade, none - but I was on a hot streak and I took it, which is yet another idiotic reason to do a trade.

Exit Plan - After I executed the trade, I immediately knew that my tolerance for it was going to be low. Two bars later it lost *Relative Strength* to **SPY** and that gave me all the excuses I needed to get out of the trade. Even without that indication of weakness, 12.95 also reflected the bottom range of the previous consolidation on the five-minute chart.

Result - As I deserved, I took the loss on **WKHS** getting out at 12.94, for a loss of .19 cents a share. The damage was minimal, but this is a perfect example of a trade that might "look" good at the moment, but in retrospect, really wasn't.

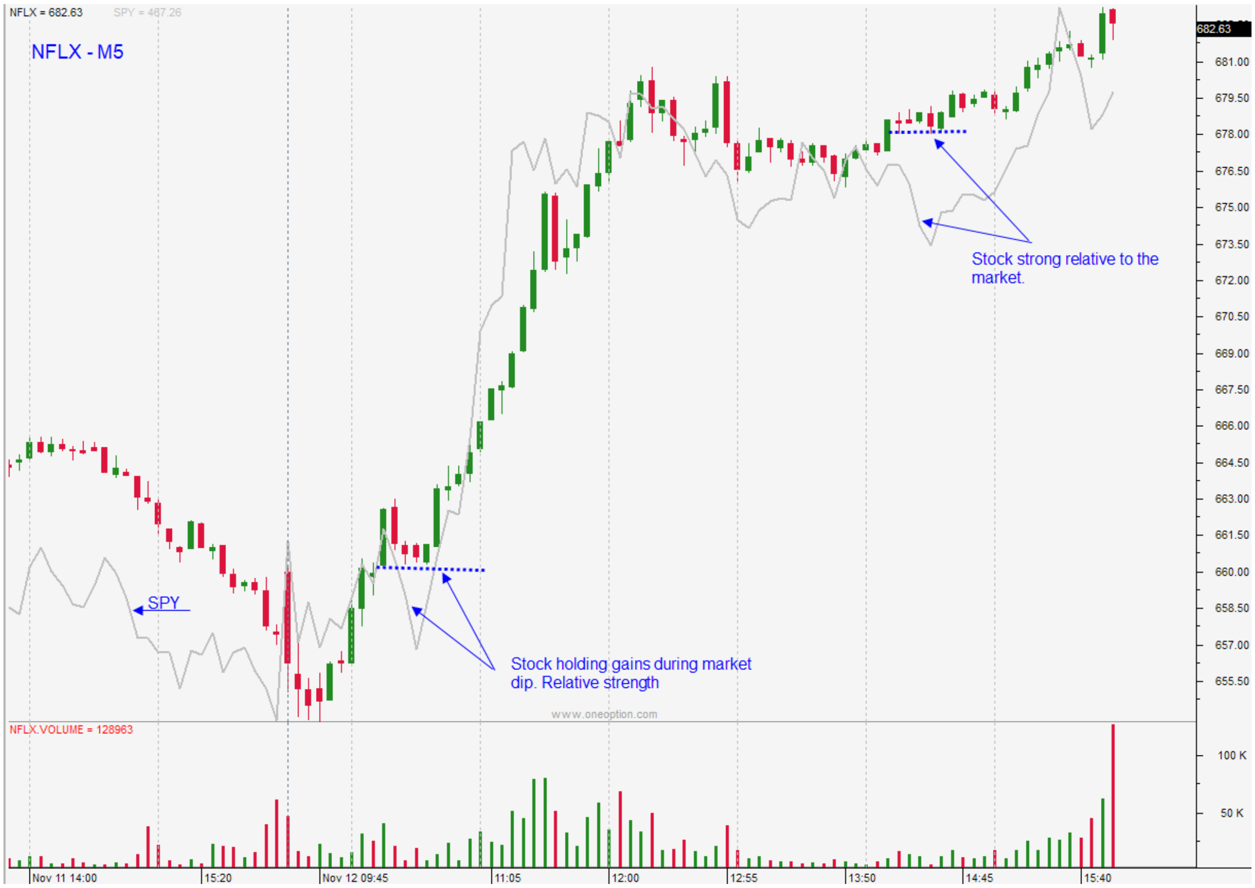
These three trades, a sample from this past Friday, are meant to illustrate some of the thinking that went into each and how I planned to exit them, which I hope partly answers some of the questions around this aspect of Day Trading.

5 Tips for Exiting Trades (/u/OptionStalker)

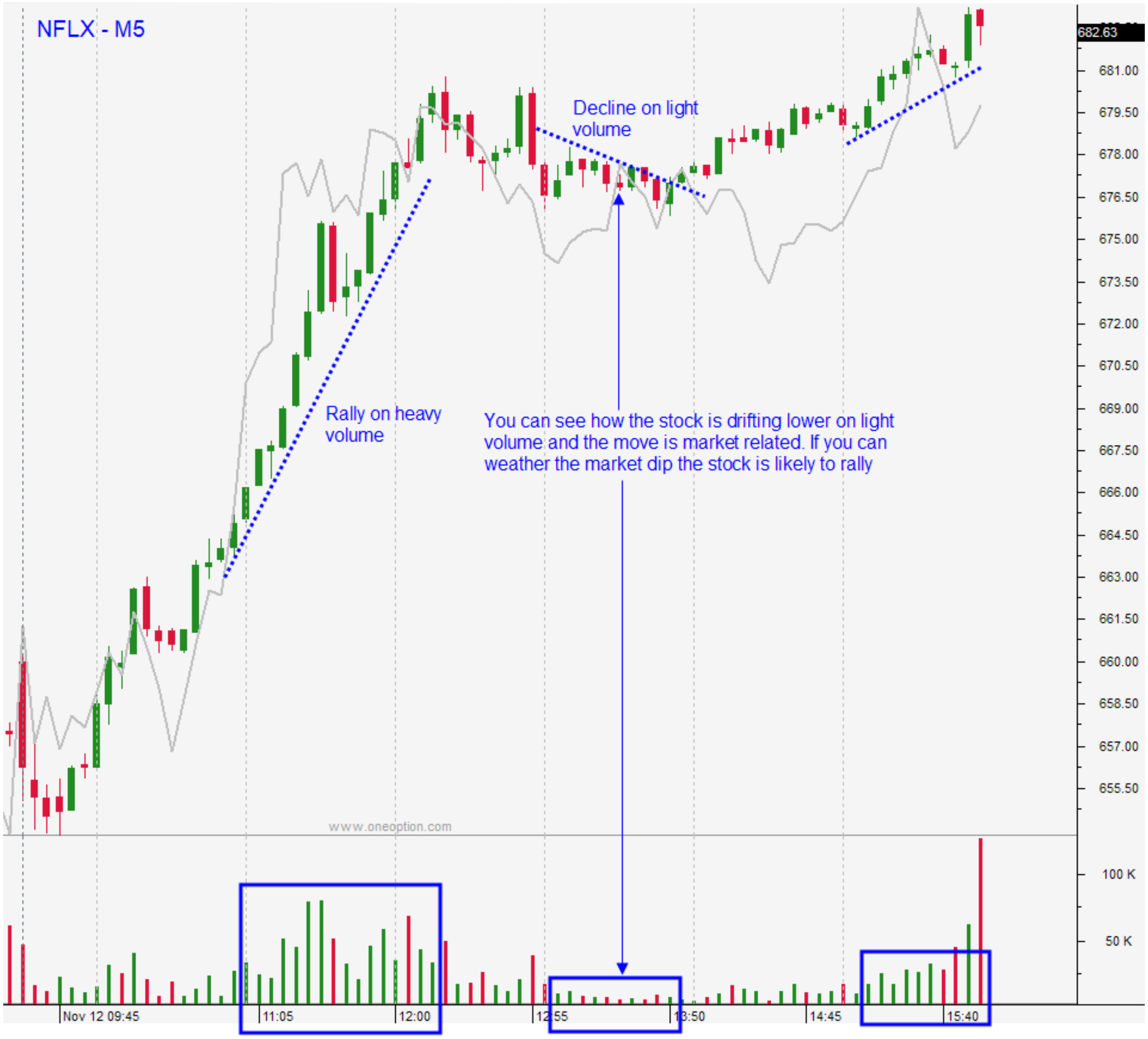
Most novice traders are taught to think about their exits in one dimension. For instance, the stop should be 1% lower and the target should be 2% higher. This mechanical process does not account for other factors that are impacting the stock. Here are 5 things you should include in your exit strategy.

1. Market conditions. Every trade needs to start and end with the market. I always start with the daily chart to get a feel for the momentum. In the chart below you would be more aggressive buying the bounces off of major moving averages. These dips have been buying opportunities the last few years and once support is established, we get a series of bullish trend days (long green candles). That means that you can let your trades run longer because you have a strong market trend working in your favor and the stock is likely to keep grinding higher. When the market makes a new high, you can see how the candles compress and the volume drops off. This means you have little to no market tailwind and you need to set passive targets. During the day you should be aware of key support and resistance levels across multiple time frames.

2. Relative strength – Is the stock maintaining its relative strength to the SPY? I compare the stock tick-for-tick with the SPY. If the SPY is up, then I want to see the stock move higher. If the SPY is flat, I want to see the stock move higher. If the SPY is down, I don't mind if the stock is down a little, but it has to be holding the bid well. If the stock maintains its relative strength, you should stay in the trade as long as the market dip is not organized and as long as market support is intact. If the stock starts to soften on a market dip, it is a sign to take profits. In the chart below you can see how the market was testing support (dips) and how well the stock held up during those periods. This is a sign that you are on the right side of the trade and as soon as the market regains its footing, the stock will shoot higher.

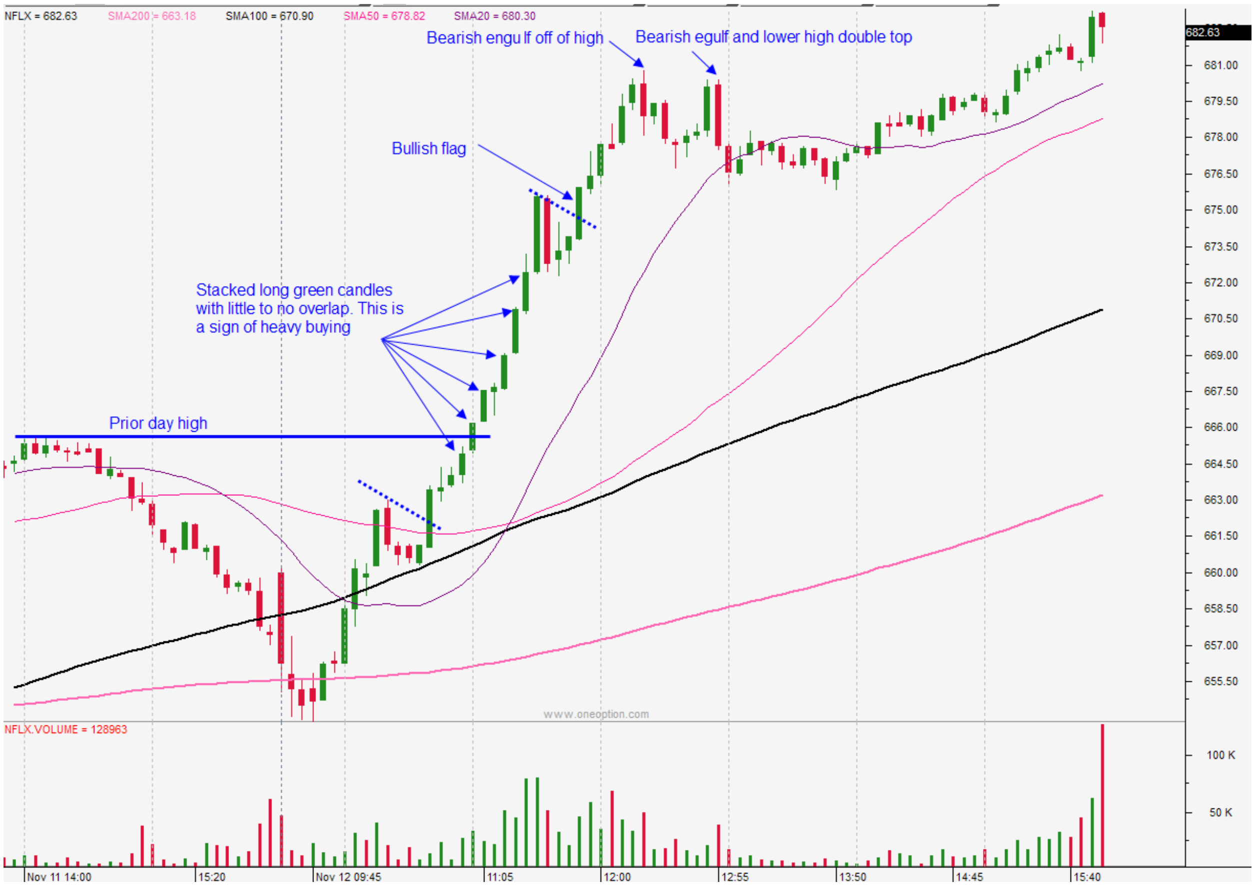


3. Heavy volume – Volume tells you that the current move is gaining traction. If the stock is rising on heavy volume you want to ride that move longer than a stock that has normal volume during a rally. You also want to see declining volume when the stock retreats and you do not want large retracements. Small dips with higher lows are a sign that buyers are still engaged.



4. Technical breakouts – I like to start with a longer-term view. If the market is breaking through technical resistance on a daily basis, I will be more aggressive with my longs and I will expect a bullish trend day. If a stock is also breaking through technical resistance, I will be more aggressive with my longs. I prefer nice clean breaks through that resistance with little to no retracement. Those moves tend to produce nice, orderly price movement and follow through. In the chart below, the stock rallied above the 20-day Moving Average (MA), and it also had a bullish flag formation on a daily chart working in its favor. You will also note that it is in a strong trend on a longer-term basis and it was also able to blow through the prior day's high.

5. Price action – This applies to the price action of the market and the price action of the stock. If the market has lots of mixed green and red candles you know the trend strength is weak. If the market has tiny bodied candles it means the current trend is starting to run out of steam. The same holds true for the stock. In the chart below you will notice consecutive long green candles with little to no overlap. This is a sign of incredible trend strength. It is very important to watch for these patterns because they will determine if you should ride the trade longer or if you should take gains. In the case below, you want to hold the stock as long as you can and you should expect a couple of tiny dips along the way (bullish flags). We also want stocks with nice orderly price action. Avoid stocks with random, choppy price action. Bearish engulfing candles off of the high of the day and bearish engulfing candles are signs to take profits. Double top lower highs also a sign to take profits.



If you factor these elements into your exit strategy, you will know when to let the trade run and when to take set passive targets. The market is dynamic, and your exit strategy should be as well.

Trade well.

Is There Ever a Time When You Should Average Down?

One of the first things you learn when you start trading is - **Don't Average Down!**

You have probably heard this so often that it probably seems like gospel. It also *feels* like a good rule, doesn't it? I mean, why throw good money after bad? Do you really want to add to an already losing position?

Hell, no you don't! That would just be plum stupid!

Still, let's be honest - we all know that we do it, but we don't admit it. It is a bit like Coldplay - sure I like the songs, but if anyone asked me if I were a fan I would say, "Fuck no! I hate Coldplay!" (Then again, I was probably the only kid in my High School that listened to Barry Manilow....I mean, Mandy....come on, it doesn't get better than that!)

Anyway, the point is that *Averaging Down* is like a dirty little secret.

The funny thing is that when Investors do it, they call it "**Dollar Cost Averaging"** - a big ole fancy term that generally just means they are averaging down (Investors rarely seem to use the DCA strategy when their positions are up, which is moronic because that is *exactly* when you should do it). Sure, they will say they are simply adding X number of shares no matter the cost at the same time each month/week/whatever. But most of the time - they are just *averaging down*.

However, in the world of trading, we have collectively rushed to demonize the strategy. In fact, traders were so adamant that *averaging down* was a bad bad thing, that we seem to have forgotten that there are times when *it can also be a very effective technique*.

I will caveat this by saying I was/am very hesitant to write this post. Why? To be blunt - because most of you will fuck it up. There is probably an entire Wiki's worth of material I could write on "Advanced Trading Techniques", but I know that the moment I post something on that topic, everyone will attempt strategies they aren't remotely ready to implement. Traders that do not do this for a living and/or are not consistently profitable *always* think they are farther ahead than reality (or their account balance) would dictate.

Still, this one seemed fun, and I wanted to write it - just, please - practice this, use it sparingly, and do not fall down the money-draining rabbit hole with it.

So - when does it make sense to *average down*? We will focus on one scenario - **Right idea, wrong time**.

Here's an example: Let's say on some random Monday you have a well-formed thesis on the market and based on all your analysis you feel that **SPY** is going to drop, perhaps even test the SMA 100 on the daily. There you are, wearing your "Bearish AF" T-Shirt and ready trade. **SPY** gaps down and after patiently waiting for the first thirty minutes to pass, you are ready to Buy some Puts. You grab the ITM $395 SPY Puts that expire that Friday and you got 5 of them for $6.75 each. That's $3,375 you just spent on your thesis. **SPY** is at $392.10 when you got the options.

Then, **SPY** being the little mindfuck of an ETF that it is, winds up chopping around in a narrow range for the next four days. All the while, your Puts are bleeding Theta. By the time Friday comes along those $395 Puts are now worth $1 each with **SPY** sitting at $394.50. Over the past four days **SPY** chopped around between $390 and $395. Currently sitting at the upper end of that range, you are down $2,875, you're hurt, wounded, and wondering how to move on from this betrayal.

At this point, in order for you to even think about breaking even you need **SPY** to hit $388.50 - and it is Friday morning, day of expiration.

Should you have closed the trade earlier in the week? Yeah, probably - but we all know what happens - it is a slow death, not immediate. Each day takes away just a little bit more, but also teases that it can come back and make everything right with the world again. So, you sit there, like Charlie Bucket without a golden ticket. Grandpa Joe, that knucklefuck, is dancing around without a care in the world - like he always could - but did he help out? Did he get a job? NO! The lazy shit just lied there in that rank bed pretending like he can't do a damn thing except chew that tobacco while the family ate water soup for dinner.

Anyway - here's the thing, it finally looks like **SPY** is going to drop like you thought it would (**you had the right idea, just the wrong time for it) -** it just go rejected off resistance again, some FED speaker came out and said, "Hell yeah we are raising rates - and we're gonna keep raising them! You hear me? We're gonna KEEP RAISING THEM and there is not a damn thing you can do about it!! Powell ain't here to save you now, he got the 'Vid so its me now motherfuckers!" Needless to say you are pretty certain **SPY** is gonna come down hard.

If you bought 10 more of those Put Contracts at $1 each, you would have 15 $395 **SPY** Puts at an average cost of $2.91 and a total cost of $4,375. That means you would be spending 29.6% more money ($1,000 more than your original $3,375), but in doing so, you reduced your average cost by 56.8% ($6.75 to $2.91). On top of that, you now need **SPY** to just get to $392.50 by mid-day for those Options to be worth $2.91, which is entirely doable.

That long story is meant to illustrate a few things -

- **Context** : you may have had the right thesis on a stock or the market, but your timing was off. However, your standard for maintaining that thesis needs to get higher for each day it does not come to fruition. If in the above example **SPY** became bullish and went over $395 (or through some technical line of Resistance) the thesis becomes invalidated. At that point you take the loss. But, if the underlying does not violate any technical level and you have good reason to hold, then you need to consider....
- **Math:** in the case above you increased your investment by roughly 30% and got a 57% improvement on your average cost. That is an exchange that works well in your favor. Although that is only the case when....
- **Probability**: just because something is possible does not mean it is probable. Is it possible that **AAPL** could go to $300 a share tomorrow? Yes, it is possible. Is it probable? Fuck no. In the example above, before averaging down you needed **SPY** to hit $389 to have a chance at breaking even on the trade. That would have been a drop of $5.50 - certainly possible, but not very probable. After averaging down, you need **SPY** to get to $392.50, a drop of $2 - which is not only possible, but also probable given the setup.

If you did not average down, and sold your Options when they hit $2.91, you would have lost $3.83 per contract, or $1,917 - which is 50% of your money. However, because you invested an additional $1,000, now when **SPY** hits $392.50 and those contracts are worth $2.91, you are able to break-even. In fact, you even have a chance at making a profit.

Again - this is not something that should be a habit, nor is it an acceptable solution every time you are down in a position - in fact, it is *rarely* an acceptable solution. However, there are times when it *does* make sense and if you find yourself in one of those times you **can** *average down* without shame. In fact, you can now proudly state to the world, *"I fucked up, I'm losing money - but I am so confident in my screw-up that I am going to put in more money and double down! "*

Actually, when you say it like that it sounds pretty bad, doesn't it?

So yeah, don't *average down* mmmmkay? Or do...

Take the Loss or Stay in the Trade - The Eternal Question

"Cut your losers early"!

"Lean on the daily chart and don't get shaken out of a good trade!"

Well, which is it? Because it seems pretty damn confusing to me.

How does one know which trade they should hold and which ones they should take the loss on?

Many out there believe that cutting losers quickly is the key to a winning strategy. *Trade doesn't go their way almost immediately?* Cut. Done. Almost a zero tolerance for even a mid-sized loss. As you can imagine they have a low win-rate, but a high profit-factor. Tom Hougaard trades like this.

If you are scalping, then this philosophy of quickly cutting losers can make sense - *but* in order for it to work you need a ***trending*** stock and a ***trending*** market. Why? Because - if you are in a ***chop*** situation you will almost always get knocked out of a trade as it is pretty much guaranteed to go against you at some point (by definition this is what ***chop*** does). However, the dilemma then becomes - if you have a ***trending*** stock and market, why are you scalping? In a ***trending*** market you can get far more profit from holding the position longer and not scalping.

It's *almost* a catch-22.

So, what does one do? For example, on Friday I shorted **BILL** around $100 and within an hour the stock was at $108. That was at 1,000 shares - so I was $8K in the hole. However, the **BILL** daily chart is bearish, my market thesis is bearish, so I held it. Two hours later I took a small profit. Now obviously that is not a good R|R, as I would need a roughly 98% win-rate on that set-up to be profitable - but in this case, by the time I was in profit I did not trust the market enough to continue holding. It was a bad trade, but it would have been significantly worse if I took the loss.

But first let's start at the heart of the problem here - every now and then you most likely have a ***huge loss***, right? However, you do not have an equal number of ***huge wins***, do you? As I have explained in posts on mindset this is due to misplaced emotions. We tend to ***hope*** our losers turn around and are ***afraid*** our winners will turn against us. So we wind up having little faith when we are right, and blind faith when we were clearly wrong. That is kind of messed up.

But again, there is that contradiction…. aren't we also told that we need to *lean on the daily chart* and *give the trade room to breathe*? So, in a sense aren't we trained to have faith in our losers?

The entire thing is a psychological mine field that can mess with even the most experienced traders. In fact, this issue would qualify as one of the central most important obstacles facing traders - ***When do you know you should cut your loss and when should you hold?***

In order to address this, we need to look at three potential solutions:

1) Balance, 2) Math, 3) Parameters

Hopefully by the end of this post all three will make sense.

Balance:

Starting with the first one **Balance** - and no, I do not mean this in the Karate Kid sense where you'll have to go start trimming a bonsai tree as you reach a state of peaceful enlightenment (although I am sure that couldn't hurt). Instead, I am talking about it in the literal meaning of the word - if you are going to have ***faith*** in your losers you need to have ***equal faith*** in your winners. Let's assume you continue to have the occasional big loss. I mean it would be great if you could get rid of those glaring reminders of a total lapse in judgement, but let's be honest - you're gonna fuck up again, and you know it. So, let's work on balancing it out instead.

Look at this hypothetical trade, completely fictional but one some of you might relate to:

PYPL Short Gone Bad

This type of set-up isn't that unusual - you get trapped in a short and then find a million reasons to justify why you should stay in it. *Excuses like - The market was going up and dragging up PYPL with it, so it is just a matter of waiting for the market to reverse, right? (**btw - you should have been saying to yourself, PYPL has clearly lost its' Relative Weakness to SPY - I should exit**).* You think about the daily chart and how bearish it is, especially after earnings, which gives you even more confidence in the short. But eventually the trade hits your pain tolerance limit - it enters the gap.

So here is a situation where a trade of 500 shares results in a loss of roughly $1,950. Now in retrospect a trader in this situation might notice that there was a clear ALGO line on the daily chart descending from 8/4/22 that provided decent resistance at $75.25 and in fact, PYPL bounced down off that ALGO line. There are countless arguments about whether one should have cut this trade or stayed in it. You could certainly make the case that by the third green candle you had an HA reversal and that would have been a good time to take the loss. By the fifth green candle PYPL moved north of VWAP which is another intraday indication that you might want to close the trade. Conversely there are plenty of arguments for holding this trade overnight as well. Still, whether it be shares or Puts, a lot of traders would have held this position when they should have cut, and then cut it when they should have held. But like I said, for the moment we're just going to own the fact that shit like this is going to happen. you're going to take these types of losses. The real problem is that there isn't an equally large win on the other side of the ledger to balance it out.

And here is why:

CRWD Short that worked?

This is the chart for CRWD on Friday and what might have been a typical trade - shorting it at $136.35 and getting out at $135.35, making $1 profit on the trade. Nice, right! But what if instead of exiting at $136.35 you *added* to this trade instead? Imagine you started with 250 shares short and then doubled it when you were up $1 and brought your average to $135.85, but now at 500 shares. Then you could have exited just four candles later at $131.85, making $4 per share profit. And yes, you could have stayed in and gotten even more as the chart shows, but realistically you probably wouldn't hold during that slight run-up. So, $4 profit with 500 shares would be $2,000 in profit - that profit would have neutralized the loss from the PYPL trade.

All it would have taken would have been to stay in the trade that was working for exactly half the time you remained in a short that was going against you. In other words, if a trader had half the faith in this **CRWD** trade working as they did in the **PYPL** trade turning around they would cancel each other out. It took an hour of watching PYPL go up before most traders would have finally said, "Enough", so surely one can handle watching a trade go in their favor for 30 more minutes? Why is that so hard? Or rather why is it so much easier to watch the loss get bigger than the win?

In terms of fixing the immediate problem you will find it will be much easier to increase your average win size than it will be to eliminate the occasional large loss.

The next time you are planning to exit a profitable position ask yourself:

- **Is there a reason to exit other than hitting an arbitrary target? (i.e., there is nothing special about $1 or .50 as a target)**
- **If I wasn't in this trade, would I still enter it now?**
- **Are the conditions from the market and/or the stock the same as they were when I entered the trade?**

If your answers to these questions are: *No, Yes, Yes.* As in, **No** there is no reason to exit, **Yes** if I wasn't in this trade I would enter it now and **Yes** the conditions are the same as when I entered. Then instead of exiting the position, add to it. You don't need to double the size, but if you have 500 shares than add 250 more, if you have 200 shares than add 100 more. Every time you want to exit ask yourself those three questions.

If the answers are *No, Yes, Yes* - ***add,*** if it is - *No, No, Yes* - ***stay in trade****, any other combination -* ***Exit.***

Doing this will help you Balance out your tendency towards bigger losses than wins.

Math:

I know... everyone's favorite topic. But let's see if one can indeed "Math" their way out of this problem. And do that let's use an example - shorting **AAPL** at $138.11. Here is the chart with four potential points of resistance. The first point is at $138.75 and represents the low from Thursday (you can see several touches on this line when you look to the left), the second point is right at the halfway mark up the previous two candles at $140.27, the 3rd point is right before **AAPL** would enter the "gap" at $142.67 (which is also the high from Thursday/Friday, representing somewhat strong resistance), the 4th is the "gap fill" at $145 which is also the low from last Wednesday, and then finally the 5th point of Resistance is the SMA 50 which also connect with the upward sloping ALGO line giving this price point the strongest level of Resistance. Here's the chart:

AAPL Resistance

If you shorted 500 shares of $AAPL at $138.11 and used the 1st point of Resistance as your stop that would be a .64 cent loss, representing -$320. If you used the 2nd point of Resistance (halfway up the candle) as your stop that would be a loss of $2.16, representing -$1,080. If you used the 3rd point of Resistance as your stop that would be a loss of $4.56, representing -$2,280. The 4th point of $145 is a $6.89 loss, representing $3,445 and finally the 5th point is $149.44 which would be a massive $11.33 loss, representing -$5,665.

Let's say on these shorts you typically have a profit target of 50 cents. So let's see how often you would need to be right using a 50 cents profit target for you to be profitable, based on each of these Resistance levels.

Using the 1st level of $138.78, which is a .64 loss, you would need to be right **56.15%** of the time in order to break even on this trade with a target of .50 cents profit. That certainly doable if you have the market and stock conditions in your favor.

Using the 2nd level of $140.27, which is a $2.16 loss, you would need to be right **81.2%** of the time in order to break-even on this trade with a target of .50 cents profit. Well, we can stop right here. Is it reasonable to expect this trade to hit your target of .50 cents profit more than 81.2% of the time? Not really, no.

So, what does this tell us? ***It tells us that if you want to keep your profit target at 50 cents than you have to use the 1st level of resistance as your stop - otherwise it would not be a successful & repeatable set-up.***

But what if we raised our profit target to $1? Then what happens?

At a $1 profit target - if you kept your stop at the 1st level of Resistance you would only need to be successful more than **39%** of the time to be profitable.

At the 2nd level of resistance, you would need to be successful more than **68.4%** of the time. If you think about, with the conditions in your favor you would just need **AAPL** to drop $1 instead of going up $2.16 more than 68.4% of the time. This is not unreasonable and argues for using this higher profit target.

What if you raised your profit target to $2? **AAPL** certainly has room to drop another 2 dollars, so it's not crazy to think you could get this much on a short. This would be a profit of $1,000 with a position size of 500 shares.

With a $2 profit target if you used the 1st level of resistance as your stop, you would need to be right more than **24.3%** of the time. If you used the 2nd level of resistance, you would need to be right more than **51.9%** of the time. And now let's bring in the 3rd level of resistance, which is a loss of $4.56 per share. In this case, you would need to be correct for more than **69.5%** of the time.

The higher your profit target the more runway you can give the trade.

As you can hopefully see from the mathematical exercise above - the issue isn't holding on to your "losers" for too long, but rather having profit targets that are too small. For example, if you kept your 50 cent profit target but allowed the trade to go all the way to the SMA 50 before taking the loss you would need to have a **95.8%** win-rate just to break-even on that set-up. Even if you had a $4 profit target you would still need more than a **73.9%** win-rate on this set-up in order to justify letting **AAPL** go all the way to the SMA 50 before saying, "No more…mercy…". That is just not a reasonable expectation.

And therein lies the mathematical problem - it is not reasonable to expect the win-rates needed in order to justify how long we are letting our losers run.

Therefore, one either needs to either increase their profit target or decrease their tolerance for a stop.

And finally, we have **Parameters -**

Because naturally one might ask - "what is considered Reasonable?" Fair question.

So, let's go back to **AAPL:**

AAPL Support

So, what is a reasonable profit target here for a short on **AAPL**? Is it $137.06? The low from June 10th that seems to provide some decent horizontal support except under extreme circumstances? That is roughly $1.05 away from the current price. In the absence of any extreme circumstance (i.e., huge market drop, company news) this certainly seems obtainable. With a $1.05 profit target one could use the first point of resistance and only need to be right more than **37.9%** of the time to make money. You could even use the farther away level of Resistance (which would be a potential loss of $2.16) and need to be right more than **67.3%** of the time.

Have you found a reasonable compromise? It would seem so - A $1.05 profit target using the first point of Resistance gives you the best chance at being profitable as it combines a low percentage of needing to be right (below 50% at 37.9%) with a higher level of profitability ($525 at $1.05 profit).

Tying all this together -

First off - No you do not need to do all this math before making a trade. You could of course put together a simple Google Sheet (or Excel) that can calculate everything for you, but overall, it is the concept that one needs to embrace.

You need to lean into your winners (use the three questions from above). You cannot hold on to losers and let them run if you do not also have equally strong profit targets intended for the trade. And you must know where levels of Resistance and Support are in order to come up with reasonable *parameters*. If Resistance is $3 away from the current price, that means at 500 shares you are willing to lose $1,500. Thus, any profit target that gives you less than $1,500 means you need to have a higher than 50% win-rate on that set-up.

Or rather - if you keep letting your losers run you better be making enough money when you win to justify it!

But wait… what about leaning on the daily chart? How does that come into it?

Simple - you know that whole - win-rate you need in order to be profitable? Well, the stronger the daily chart, the more likely you are to have a higher win-rate. **Think of the following list for taking a short:**

- Stock is Relatively Weak Intraday
- Stock is Relatively Weak on the Daily Chart
- Market is Bearish
- Stock has a weak Daily Chart (below SMA's, downward trend)
- Stock broke compression to the downside on the Daily Chart
- Stock has high Relative Volume

The more of these that are checked off - the higher your win-rate will become.

Are each equally as important? No....but that is for another post.

Should I Take My Loss or Pivot? (/u/OptionStalker)

When you enter a trade, you do so based on sound analysis (marked checkboxes). Normally (90% of the time) you should not pivot. If you do it more often than that, your original analysis is weak and it needs improvement or market conditions are so volatile that you should only be day trading.

When your original analysis is sound, you should take your lumps and move on. If you are trading stock, it is hard for the stock to instantly flip from bullish to bearish and even if you are forced to stop out, chances are you can find a better stock to short than the one you were in.

This morning, I recorded a video two hours before the open. I mentioned that I am only day trading because I have no clue of what the market is going to do a week out and there are plenty of intraday opportunities so I can't justify taking overnight risk.

I outlined all the reasons why I wanted to favor the long side today and I found my "pick of the day". By the time I had rendered the video and uploaded it to YouTube the S&P 500 had staged a 70-point reversal. The market had not even opened, and it was reacting to the CPI. All of the reasons I was bullish vaporized and I had to adjust my bias.

The SPY had broken the major MAs I was leaning on right on the open and the price action confirmed that we were going to have a bearish trend day. It was going to take a massive move to change all the things that originally made me bullish going into the day and we got that big move.

You should not pivot often. It is a sign that your original analysis was weak. Secondly, know when you are wrong and take your lumps. Lastly, in the event that conditions change materially, take the other side and lick your wounds later. This will be hard to do, but if all the reasons for your bias just left the room and you can now justify taking the other side with confidence - do it.

I hope this helps some of you in these volatile times and there is a nice bearish pick in the video that is setting up well.

CLICK HERE TO WATCH THE SECOND VIDEO (10:20)

This is a major support level, and we are within striking distance.

When To Let Your Trades Run! (/u/OptionStalker)

Traders are always complaining about something. I guess it's our nature. One of the biggest complaints I hear is, "I always exit too early, and I leave a lot of money on the table." There are a number of issues that could be in play. Your position is too large, your confidence is low, or you have the unrealistic notion that you are going to exit perfectly. Each of those deserves a separate article, but I am not going to address those today. Here is an angle that you might not have considered. Is the market in a trend day?

If you've read my posts, you know my chant - Market First! We don't often get trend days, but when we do, you want to let your profits run.

[This morning I recorded a video and you can watch it now.]() (53:17)

I described how we identified Monday and Tuesday as trend days very early in the day. This video has a lot of technical analysis and a bullish and bearish pick in it.

Here are some of the key elements to trend days.

1. Major technical D1 breach.
2. Heavy volume.
3. Candles of a single color.
4. Little to no retracement.
5. Easily through prior day's high/low

If the market and the stock exhibit these characteristics, all the checkboxes are marked. Ride that trade like a rented mule and have the confidence to weather some speedbumps along the way.

Trade well.

Stop focusing on the Noise - Find the Signal (Exiting Trades)

I probably got asked around 15 times today if I am still in **ON** or in **MU.** Aside from having to repeat, "I will always post an exit" over and over, it seems the concern behind those questions is universal enough to cover in one post.

Here is the first things to understand:

Stocks do not just keep going up - they pause, they retreat.

You will never get the perfect entry, which means there are times the stock will pause or retreat after you go into the trade.

There is a difference between a pullback and when a stock is in trouble.

And now I can hear all of you in unison saying, "That is where I am having a problem - when is it time to bail and when do I give it space? How do I know??"

Well, you can never know 100% of the time - but you can know a vast majority of the time - and therein lies the power of the daily chart.

If you are Day Trading a stock, and you're currently up, or have no intention of holding the stock if you are down, then indicators like *VWAP* and the *8EMA* are your guides. But if you enter a stock with a really strong daily chart, the benefit is that you can stop worrying about intraday **noise**. Because that is what you are seeing, **noise.**

Look at the daily charts for **MU** and **ON** - **MU** gapped up today with strong relative strength against SPY, it has Algo line resistance at $88.50 (roughly), which gives it $2 to run before it hits. **ON** is even stronger, with clear skies above it and no bag-holders. The market is extremely bullish - putting in one of its strongest days of the past year - and if your mind immediately goes to, "Well it will probably go down now, right?" Stop it. Stop thinking that way - Bullish means Bullish.

Unless the intraday movement does something to fundamentally change the daily outlook, I honestly don't care...over the week it will most likely continue up...when it does, I will take profits.

I was in **DDOG** last week, it dropped $9, I held it and took profit this morning. **MSFT** I held it after the drop, and now it is one of my best positions.

Stop looking for reasons to exit a position - if you traded the correct set-up then have faith in that set-up.

I keep harping on looking at the *story*, and I know it takes time, but so many of you continue to focus on one page and not the whole book. Make sure you are using the right position size for your trades, the right set-up and then let the trade work.

Just imagine the total number of $ on any given trading day that is lost because trades hit a tight "stop", or you just "felt" it was going down too much and you wanted to cut your losses. *Billions upon Billions*. Don't add to that. If you exit a trade, have a reason - a real reason. Freaking out because it is currently down *is not a real reason*.

Staying Focused in Chop

Let's face it - the past few months have been grueling.

For experienced Day Traders the volatility is exactly what one wants - but most people *aren't* experienced Day Traders - they are either Swing Traders, or those trying to Day Trade - either just starting out or struggling.

But let's first define what we are talking about when I say, "Chop". Look at Friday's price action on **SPY:**

That is chop. Constant directional changes but in reality, you really go.... *nowhere*. There is a well-defined ranged after a point; however, this is also *volatile chop* (yes I just made that term up). *Volatile Chop* is Chop you can't trust - meaning that because the overall market conditions are so erratic, **SPY** could break out of that range at any time, for any reason (especially when there is volume, but more on that in a bit).

Typically, with Chop you can play the range, meaning that if you are agile enough, you can day trade either:

- **A)** Top of the range, wait for a reversal and short.
- **B)** Bottom of the range, wait for a reversal and long.
- **C)** Middle of the range, err on the side of your slight bias, go long or short and just wait (this is particularly effective on **S&P** Futures), you will eventually be in profit.

But here is the more infuriating part of Chop - it can wear you down. You begin to feel like the market is attacking ***you*** personally. Every trade you make quickly turns against you and then it is a painstaking waiting game for it to come back around - and sometimes, even though the market might reverse your stock doesn't.

So, you hear the refrain of - "Sit on your hands", "Wait for better conditions". And that is all well and good, except - what happens when every damn day is Chop? At some point you need to learn how to trade it or you will be sitting out half the time.

To begin with, even if you have successfully passed the two benchmarks on paper trading and 1-Share trading, if you haven't successfully traded "Chop" you should start again with at least 1-Share. That way it may still be frustrating, but you won't have the added pressure of your account being chopped up as well (see what I did there? "Chopped up...", Yeah...Dad joke on Father's Day...sorry).

In order to focus your mindset, you need to understand the story that you are seeing in front of you. What is Chop?

It is a market that is in a waiting period. There is no reason for it to go lower than it's current level, nor is there a spark to take it higher. So instead, it forms its' own mini-zones of *Support* and *Resistance*, and moves back and forth within that range. Just imagine buyers and sellers simply exchanging back and forth, with neither having the upper hand. In the Wiki I talked about the *Signal* and the *Noise* - well, Chop is pure *Noise,* there is no signal.

One thing to note - **Chop with no Volume** is basically Institutions sitting out, and retail traders doing the equivalent of a neighborhood poker game where every week they just exchange the same money back and forth. **Chop with Volume** means that you have an Institutional stand-off, with each side having a reason to be either *bullish or bearish*. When you see **Chop with Volume,** that is where a breakout from the range is more likely to occur.

Knowing what is happening can help keep you focused - because trading Chop requires patience. In a way, when there is a Choppy market, it is a good time to find stocks with *Relative Strength* and *Relative Weakness*, as they are getting no help from the market. Now those stocks may be prone to losing their RS/RW intraday, but if you have read the daily chart correctly, and have faith in your thesis - then patience becomes the number one factor that will differentiate a winning trade from a losing one.

If you did the Walk-Away Analysis of trades you made in a Choppy market I am sure you will find a *much higher* profit-factor if you had waited 1-hr and EOD than in non-Choppy markets.

This again comes back to *confidence*, because to have patience in your trade, it means you need to be confident in your thesis, and in order to have that you need to be able to look back at your trading history to see the statistics that should give you that confidence.

What you **do not want to do** is stare at your trade(s) all day - you need to place alerts on the trades you have on for when to take profit and when to close them, and then move on to look at other trades. Your position size should be low, and thus your current trades should not be taking up so much of your buying power that you can't make other trades if they present themselves.

During chop what you are looking for are **small wins**, you do not want to *average up*, you want small bunt-singles throughout the day. Conversely your losses should be small as well - so look at the trading range, look at the RS/RW of the Stock - if **AAPL** is at $130, and **SPY** has a wide-range of $360-$370, and you see AAPL moving $1.50 up for every $1 up on SPY, and down .50 for every $1 down on SPY, that still means that AAPL can drop $5 which might not be a drawdown you are willing to hold through. But if SPY has a narrow range of $363-$367, now you know you can withstand the $2 drop should SPY head to the lower bound for the day.

Days of Chop should have *less trades, smaller position sizes* and your time should be spent creating lists of stocks that should give great set-ups once SPY breaks out either to the upper or lower end of its range. They are perfect days for you to prep during live market conditions - so use the time! Otherwise, you are just staring at SPY going nowhere which is the market equivalent of taking a cold shower.

And let's all hope that we see less Choppy days in the future, because volatility or not, they are annoying as hell.

How to Trade a Choppy Market [VIDEO]

How to Trade a Choppy Market and a Recap:

https://youtu.be/u6_Wqtw_1DY (22:17)

Here is the TraderSync Log:

https://shared.tradersync.com/hariseldon2021

Using Volume in Your Analysis

By now members here are used to hearing me say, "Read the Wiki" to most questions. I say that because the Wiki contains the answers to just about any inquiry. However, it was pointed out to me that there was a glaring omission - **Volume**.

This post hopefully corrects that omission.

To begin with, when you think of **Volume** you should think of it as *money going in and out of the underlying ticker.*

Knowing the **Volume** of a stock by itself does not give you any usable information - because *selling* and *buying* **Volume** is all counted the same in the total number.

So, we rely on the charts themselves - we can see the volume of any given bar, and if the price of the ticker ended the bar lower than it started, the bar on volume shows up as *red* and in the reverse, it is *green*.

Simple enough. But again, there is no order of magnitude there. A $100 stock could have dropped $2 in one 5-min bar and the volume would be red, or it could have dropped 1 cent, and it would still be red.

Therefore, it gives you *direction* but not the magnitude of that direction. Which is why we look at the price movement *and* the volume to discern the difference. In other words, we can see how much the ticker dropped or gained and thus, know the magnitude.

In general, for traders, *high* volume is good and *low* volume is bad. *High* volume provides liquidity (tighter bid/ask spreads because there are constantly buyers and sellers engaged) and organized directional movement (usually). *Low* volume generally results in choppy and unpredictable price movements with wide bid/ask spreads, which creates a low probability trading environment.

But what does *high* volume mean? A volume of 10 million is great for a stock like **DBX** but would be very anemic for **MSFT** - so *high* and *low* is *Relative*. Hence the importance of *Relative Volume* - essentially, how much higher or lower than average is the volume on any particular bar. If a ticker has a Relative Volume of 1.7 that means there is 1.7X's the average or 170%. If you don't have *Relative Volume* on your charts, you should - it is a basic equation Current Volume/Average Volume. Standard is to use the moving average of 50 periods on the daily chart. And personally, I use 78 periods on the 5 min chart.

Finally, the last piece of the puzzle is an overall trend of whether the volume is more weighted to sellers or to buyers. For this you can use **On Balance Volume** - a very simple indicator that either adds or subtracts the volume from the total based on whether the stock went up or not.

So, let's put it all together and see how it tells a story on **SPY:**

Here you can see a clear divergence before the price history on **SPY** and the **OBV** - the overall price kept climbing towards the end of the year, but the **OBV** indicates that the volume is getting increasingly bearish - how is that possible?

Well, look at the Relative Volume - on the days **SPY** went up, volume was *lower* than average, and on the days, it went down volume was *higher* on average. And what happened? **SPY** dropped.

Let's check it on stock this time and revisit the story of **MSFT**:

Once again, we see **OBV** in a clear downward trend, but **MSFT** remains flat with no change. Another divergence. But look at the **RV**, see that dip on the right-hand side with the green line dropping into a trough? That dip in *Relative Volume* below 1 is when **MSFT** was stacking green bars, but every time there is a red bar on **MSFT** look at **RV** grow.

We see a similar pattern here - the volume is much stronger on the days the stock declines than when it goes up. And what happens? **MSFT** drops.

Now there are many other indicators for volume - *Volume Profile* is very popular; however, what that indicator really does (other than clutter the shit out of your chart) is give you a good indication of where lines of *Support/Resistance* lie. Useful, yes - but you can ascertain that without *Volume Profile*. And yes, there are pivot points, and buy/sell zones, which in my view are all redundant to information you already get using SMA's, EMA's, trend/algo lines and horizontal Support/Resistance.

One exception is **VWAP**, which is useful on the 5-min chart, i.e. if a $100 goes to $104 on heavy volume and then drops on lower volume, the average price of the stock is going to be weighted more towards the price changes that had volume behind it.

My advice? Do not over-complicate your analysis - if you have **volume**, then you see the *direction*, the *magnitude* of that direction, and the *relative* nature of the volume itself - and with that information you can add to the story the chart is telling you. Are the price increases happening on lower-than-average volume and the decreases on higher - is the OBV dropping even the stock is going up? Well, it may not be time to short (you need confirmation first), but one should definitely consider exiting any longs.

As always, I hope this helps.

Don't Overthink - Know When to Keep It Simple (Use HA Candles)

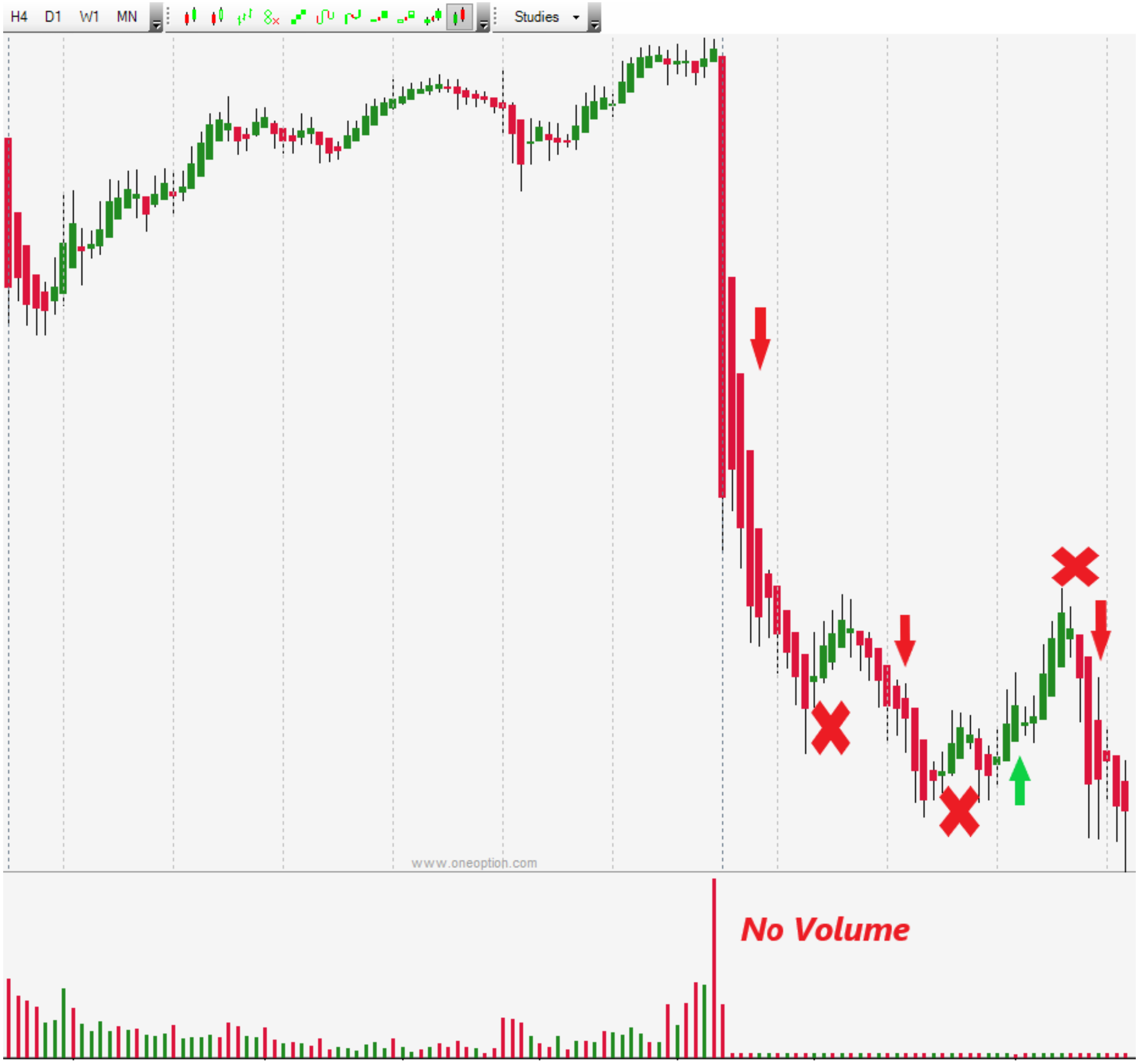
I took 100 points out of /ES - S&P Futures today (picture below from 45 minutes before the market closed), and throughout the day I got many questions about various support levels, the 8EMA, even Fib retracements.

Here's the thing - this was low volume, panic selling due to an external piece of news that freaked out investors.

There are times when technical analysis is not going to give you guidance - this was one of them. Why? Because technical analysis is based on a group consensus of various price points that are buy or sell signals. However:

*When there is low volume and panic selling (or buying), there **is no group consensus.***

At that point it is just about the price action - simply using Heiken Ashi candles gave me all the information I needed. Look at the chart from today using HA candles on the M5:



You have your short at the beginning and the at 10:25am you take profits, you have a short again at 10:55am and you take profits at 11:30am, you go long at 12:05pm, take profits at 12:15pm and then go long again at 12:25pm, take profits at 12:40pm, and then short at 12:45pm.

Look at where I was at roughly 12:15pm today, trading **only one** contract of /ES:

Know when to stop looking at a million indicators, and just following the trend (which is what HA candles do). There was nothing particularly difficult, or requiring a lot of experience, in what I did today with SPY Futures - in fact, it was the opposite - clean and simple.

Using Heiken-Ashi (HA) candles to identify trends and stay in a trade longer (/u/onewyse)

If you have not used Heiken-Ashi candles in your technical analysis, you may want to try using them to improve your trading.

Heiken-Ashi candles (means average bar in Japanese) smooth out price action so identifying trends and reversals is clearer since they eliminate a lot of noise and make it easier to see trends and stay in a trade throughout the trend allowing for improved profits.

Bullish HA candles have flat bottoms and bearish HA candles have flat tops. Bullish trends will have flat bottomed HA one after another and bearish trends will have flat topped HA candles one after the other. Generally, you can stay with a bullish trend as long as no flat-topped HA candles appear indicating a lull or reversal in the trend. (vice versa for bearish trends).

Reversal in a bullish trend will have flat bottomed HA candles followed by smaller doji HA candles (having both wicks and tails) followed by flat topped bearish HA candle or candles. The doji candles indicate momentum is slowing and time to be prepared to take profit when a bearish HA candle appears. If the trend that is ending had many long bullish HA candles the reversal will require long bearish HA candles (more than 1) confirm the reversal otherwise it may just be a small pullback in the bullish trend which may continue.

One thing to be aware of is the price of a stock on the HA chart won't reflect the actual current price because of the way HA candles are calculated so be sure to refer to your normal candlestick chart for the current price.

There are other nuances to using HA candles in trading but try looking at some charts using HA candles and I think you will find them very helpful in your trading, helping to identify trends and trend reversals.

How I trade Heiken-Ashi Reversals - with criteria detail (/u/onewyse)

I trade a lot of Heiken-Ashi reversal setups with great success (currently over 95% win rate). The reversal is identified after the current HA candle closes (on whatever time frame you are using I use 5 min generally)

Once you have a valid HA reversal the first thing that needs to be true is that the HA candle height must be at least as large (preferably larger) than the prior candles that occurred prior to the reversal. You don't want to be entering a reversal trade on a small HA reversal candle after several much larger candles that occurred prior. If that is the case, you need to wait for at least one more HA candle that is bullish (flat bottom) or bearish (flat top) that corresponds to the direction of your trade.

Then check for any nearby support or resistance levels that may limit your potential gains.

Next, the trade should be taken in the direction of the current market trend for maximum probability of success.

The trade should also be on a stock with relative strength or relative weakness (if trading indexes stick with trading with the market trend.

Another key element is the Bollinger bandwidth should be expanding (indicating a move out of compression)

My final criteria, which is critical, is assuring that institutional traders are supporting the reversal. I use the Right Line Compass system indicators for this since it is so accurate at identifying institutions being in the trade. (full disclosure I run an options trading room for Right Line using the Compass System which I started after using the Compass System for 6 months to determine its effectiveness)

The last step is after you are in the trade switch to standard candles since you will be able to identify when momentum is waning more quickly using regular candles.

I think you will find trading HA reversals will be a very profitable strategy if done correctly.

How I Scalp (/u/Professor1970)

The stocks that I scalp are mostly momentum plays, but they MUST have the following Characteristics:

1) The stock MUST have relative strength to the SPY on the 5M chart. I use Oneoption.com to track that.
2) The stock must be trading at a minimum of 1.2 Relative Volume, but the higher the better.

3) I like stocks that have gapped up out of the block on momentum (use various custom scanners), then pulled back to a 8 day EMA on the 5M. I will enter half around the 8 day EMA (on a green candle once the 8 day has been tested) and will add on a test of HOD, and then look to sell into a big green candle. my mental stop is a negative cross of the 3/8-day EMA (so size accordingly) or a print below VWAP (whichever occurs first). I have been trading LEXX, CEMI MEDS, today and traded NURO yesterday doing that.
4) Stocks should be trading ABOVE the VWAP on the 5 days when scalping.
5) I DO NOT CARRY any low float Momentum stocks over night as I worry about dilution. I missed on NURO yesterday as I bought it 8.15 (8-day ema on a pull back from 12), but then called a test of the HOD $12.90 which it did at 25 min later for a nice $4.50 gain. too bad it is trading at $30+ today.
6) Scalping is a BIG MENTAL game, and you have to be willing to take a loss, most scalpers (or traders) fail because they can't take the loss. I can't say it enough - SIZE ACCORDINGLY!
7) I get 10 emails a day on When do you take the profit? If I could give you a solid answer, I would be a BILLIONAIRE. I like selling into strength (big green candles), I have learned how to read the candles (and this is one of the first things you should learn). I also position my size that allows me to scale in or out, and I size it, so that if I take a max loss (negative 3/8 cross or below VWAP), I am comfortable with it.
8) Some misc: The key to a profitable scalp is a good entry, which is an obvious statement - but so many people chase and get burned. Remember with a SCALP, you are only in the trade short term, and you don't allow the trade to work as much as you would a swing trade. Use your technical (*i.e.*, a pull back to the day EMA) or whatever else works for you. Point being: don't throw a dart. Force yourself to use Rules on an entry and then the profits will increase. Keep an eye on the volume, if you see diminishing volume then the stock is most likely going to go down.

Here is an example of a trade today:

LEXX popped up on a momentum scanner. stock had RS vs the SPY right out of the gate. waited on a pull back to the 8 day EMA which occurred at 9.57 around 10:15 Am (5M chart) limped in at 1/4 position at 9:60, . waited for a green candle which was the next candle; entered another 3/4 at 10.17, added another 1/4 the high of day 11:08 at 10:15. Sold into strength at 11.80.

One more thing: once a momentum stock has traded below the VWAP for the day, I take it off my watch list. This keeps me from chasing stock and FOMO in the event it gets a second run (most times a second run are dead cat bounces. For example, I traded MEDS successfully this morning, but is now trading under the 5m VWAP (thus off my watch list).

Q: 8EMA: Do you mean 8-period EMA or 8-day EMA.

A: 8-period EMA

8 EMA Pullback Trade Example (Follow Up to "How I Scalp") (/u/Professor1970)

I plan to do a live trade soon when I have the time. This morning IPA and WISA were on my scanner and called out in our chat group at oneoption.com. I watched both get out of the gate hot but waited for a pull back to the 8 EMA on a 5-minute chart. WISA never got there, but IPA did. at 10:04 am entered IPA at the 8 EMA filled at 7.33, the trade was below VWAP which is a rule I broke. As soon as I entered the trade, I set a target for +.50 (VWAP) and was filled on the next candle for a nice quick gain.

I also entered EYES out of the gate, but limped in at $5.00 FOR 1/4 position (for some reason I thought it was going to run) - mistake #1 ("I thought".....Stick to your technical, Richard!!!), watched it sell off to the 8 ema on the 5 minute and entered another 3/4 trade at 4.62 at 9:49 am, sold half at 4.75 on the next candle, and the remainder at 4.58 for a small net loss. This trade was also below the VWAP.

10:27 AM IPA is running now as I type this. and WISA has traded down to the 8EMA but not taking the trade as it looks like a negative 3/8 cross is commencing.

Don't Be "Chicken Little". Get Ready to Buy (/u/OptionStalker)

There's not much to drive the market during this holiday-shortened week. The third look at GDP is not going to move the needle. We want a market pullback!

Since the FOMC spike last week, the market has been slowly retracing and yesterday it closed right where it was before the Fed statement. Good! That's right where it should be. That announcement was a great big "nothing burger". Rates are going to stay "higher for longer" just as Fed officials have been saying. Why should the market rally on that news?

The fact that the market didn't drop on that "hawkish Fed statement" is bullish. If there was a reason to sell, that was it. Instead, buyers who have been waiting for a dip got nervous. They jumped the gun thinking that we might not get a dip and that the next leg higher is starting.

In my Sunday video I told you to be patient. I told you this is going to be a very dull week, so keep it light. I also said that towards the end of the week, we should start to see the bid strengthen. If you are day trading, you have to buy dips. Do not chase breakouts. We have not seen any signs that the market wants to move higher and instead we've gotten a slow drift lower. This is not unexpected. Remember... I said towards the end of the week.

The market rally is maturing and the easy gains have been made. Now we are going to see a more normal stair-step pattern. The market surges higher and then it leaks lower and it tests the bid. Once the programs confirm that buyers are still interested, we start to grind higher. Right now, we are testing the bid and we need to let that process play out.

If you are dying by a thousand cuts, why have you been trading the last few days? You are pissing away your hard earned money and you will need that leg higher just to offset your losses. Here's what happens. You get frustrated and you are losing money on your longs. Then you start thinking, "Hey, this market looks really weak. I think it's ready to roll over. Maybe it's time to try some shorts, they seem to be performing well." So you start taking a few day trading shorts and then BLAM! a market rally out of no where. Instead of focusing on the longs that you should be buying on this dip, you are scrambling to cover your shorts and to minimize the damage. The next leg of the rally unfolds and you took a beating. What's even worse is you missed the train you were waiting for.

WE ARE WAITING FOR A #$%^ DIP.

When we finally get the dip we are waiting for, you are going to get scared. "Maybe Pete is wrong this time. Maybe he missed something." Pete didn't miss anything. Look at the #$%$ chart since November. Does it look weak to you?

The problem is you. You can't stop yourself from trading. You have no patience. You are trading from the long side when you shouldn't be and then you convince yourself to trade from the short side. Then we get the rally we've been waiting for and you lose even more money. The stocks you were trying to buy earlier in the week scream higher and you think…"gee if I had only held on to those a few more days I would have made a lot of money".

Bull markets like this do not roll over and "play dead". There has to be a buying climax and a sharp reversal. That is typically profit taking because valuations are getting stretched. The other reason for a major drop is a macro change. We don't have any news this week. We heard from the Fed last week so that is out of the way. Economic releases have been strong and the bottom is NOT going to fall out. Earnings season will start in two weeks and that typically attracts buyers.

I see this happen all the time and I saw it in January. I gave you my Q1 forecast in December and the first four days of the year I heard rumblings. "This looks weak, maybe Pete is wrong."

Stop shorting and do not buy until we have signs of support! That could happen today or in a couple of days. Be patient and stop pissing your money away in a low probability trading environment. Set alerts to buy dips. Don't be afraid when we get one, be glad. The deeper it is, the better our entry.

We will get one more push higher in April and then we will watch for signs of strain or confirmation of strength. I don't need to know what is going to happen in June, I just have to know what is going to happen in April. That is the beauty of short-term trading.

Wait for support and buy the dip… wait for support and buy the dip… wait for support and buy the dip.

The article was posted before the open and this chart was added after the close. I warned you this was going to happen.

Is This a Market Top (/u/OptionStalker)

Last week I posted an article (Chicken Little) that told you to prepare for an upside breakout. We were starting to sell some bullish put spreads in the chat room in preparation for that breakout, but the mood soured in the middle of the day yesterday. When we use price action to guide us, we stick with the current information we have and we look for clues along the way. The heavy selling pressure was a warning sign so I wanted to share my market comments with you today.

PRE-OPEN MARKET COMMENTS FRIDAY – The market has been compressing in a horizontal range for a month. The upward momentum has been waning and I thought the chances for an upside breakout were greater than the chances for a drop. Buyers have been supporting this move higher and that is why we have not seen any dips. The jobs report had the potential to be a catalyst and we have been selling out of the money bullish put spreads on strong stocks in anticipation that the market could rally after the news. The employment numbers have been good all week. This morning we learned that 303K jobs were created in March and that is better than the 200K that were projected. Hourly wages rose .3% and that was also in line. No one was worried about the jobs report. It has been exceeding expectations for over a year and it was not the cause for the decline.

Perhaps it was the war in the Middle East or in the Ukraine. No. That news has been out there and wars don't typically have much of a market impact after the conflict starts.

Oil prices spiked and perhaps that was the reason for the market decline. No. I have seen market rallies with sky high oil prices and they are no where near those levels.

So why did the market drop so far yesterday? It's because institutions decided to sell. The volume was very heavy and from the high to the low, the SPY moved $12.00 (20-day ATR is $4.00). This was a big move and it was a warning sign. You would NOT get a move like this if buyers were aggressive.

There wasn't any new to justify the move, but there were some technicals in play and sentiment has been bullish. Gaps up to a new relative high often spark heavy selling. This time we did not see that move early, it took a few hours to play out. Bullish speculators liked that the market was close to breaking out to a new all-time high ahead of a big number. That made them vulnerable. When the bottom fell out, they took losses (sold longs) and they fueled the move lower. This created some of the downward momentum. In the last few months we've seen some red bars off of a relative high and they were quickly recaptured the next few days. During those declines, the price action on the way down was choppy with lots of mixed overlapping candles. The range was not nearly as large and that was a sign that it was just technically based selling to chase out bullish speculators. The move we got yesterday was different. These were stacked red candles and there was little to no retracement. That tells us that this is some legitimate selling pressure and that we need to respect it.

Institutions are reducing risk here. They might feel that at these levels valuations are too high and that expectations for Q1 earnings are too high. That doesn't necessarily mean that earnings won't be good, they view the upside potential as limited. It could be that soft economic conditions in the EU and China are going to weigh on earnings. They could feel that elevated interest rates for a prolonged period of time are going to reduce consumption. Perhaps it is all of these things. We don't really care what has them concerned, we just care that yesterday they were aggressive sellers. That tells us that the mood is changing.

So now what? Are we bearish? How can we go from bullish to bearish that quickly? When we are trading, we are constantly looking for "tells". The price action the last few months has been very bullish. There have not been any dips and that is a sign that buyers are aggressive. We ride that trend until we see warnings signs. The momentum the last month has started to wane and that was a very subtle warning sign. It was certainly not bearish, but we were less bullish and we were waiting for an upside breakout. Yesterday we got a more substantial warning sign. That was a very hard smack down so we adjust our expectations. At very least, we reduce our upside expectations. We have new information in the form of price action and we are on high alert.

So, what would keep me bullish? First of all, know that bull markets die hard. If you are long (you should not have a lot on here), you will get a bounce to try to get back to the high. Earnings season is a week away and that usually keeps buyers engaged. You need to look for opportunities to reduce your long exposure. A warning has been served. We want to see the long red candle from yesterday erased in the next few days. The sooner, the more bullish. Then we want to make a new all-time high during earnings season. I would embrace that move, but NOT to the extent that I would have without that red candle. I would be more guarded/cautious and I would keep my trades shorter-term.

What would get me bearish? If the market struggles to recover the long red candle from yesterday and is we leak lower next week, that would be a sign that the selling pressure is building. During mega cap earnings if the market makes a lower high double top and if I see another long red candle off of that lower high, I will start looking for shorting opportunities.

At this stage, yesterday was a shot across the bow. It is not something that we have to react to immediately. This is when we have to be on high alert and we need to watch the price action very carefully. If we quickly erase the long red candle from yesterday, the market will get back on track, but any gains from here will be hard fought. If the market can't recover that bar in the next few weeks, we will see some profit taking. Let's see which scenario plays out and then let's be ready to trade that outcome.

Trading Market Transitions (/u/OptionStalker)

I am currently writing my book and I am describing the process that traders go through when market conditions are changing. We have to constantly adapt to what the price action is telling us. These are not just green and red rectangles on a chart, they are signals that tell us if buyers or sellers are in control and to what degree. I've been giving you a road map and I have been teaching you all of the "tells".

I told you to watch for a market rally in October.

I told you to watch for continued strength in Q1.

Be patient. Wait for a dip. (Don't Be Chicken Little Section)

Signs that a dip is coming. (Is This a Market Top Section)

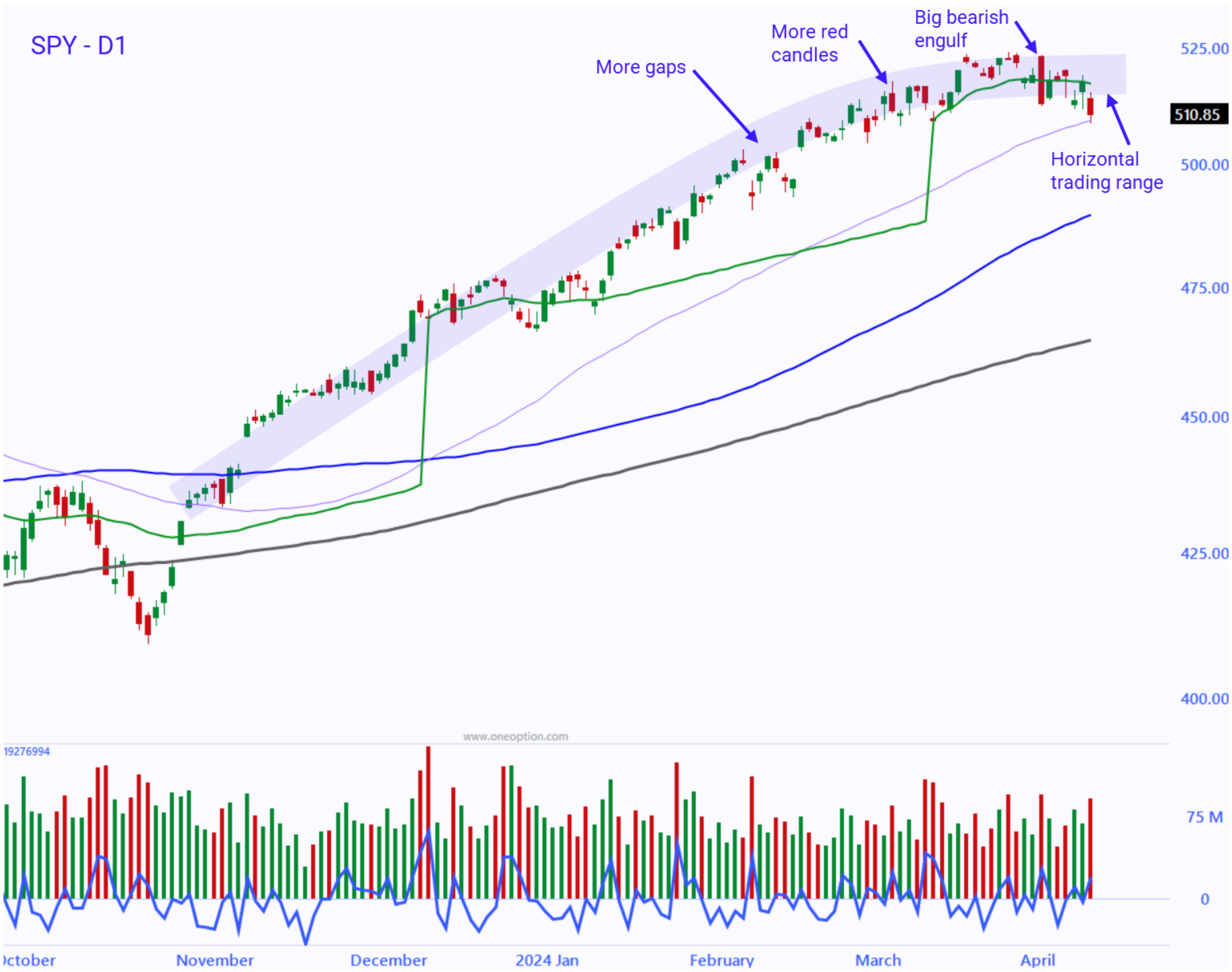
So where do we go now? What are the signs I am looking for? What would get me bullish and what would get me bearish? Here are the two scenarios I am watching for and this is an excerpt from a longer article I am writing.

The transition in the fall of 2023 was not an easy one for most traders. We had just endured a bear market and then prolonged, low probability choppy conditions. When the time came to enter longs aggressively and to ride them, many traders did what they had been doing for the last year. When they had nice profits, they took them. Unfortunately, the market kept going higher and they would have to re-enter at a higher price. There were no dips so at least they did not have to weather those pullbacks. When the market released, they would take gains. This was more of a swing scalping approach. They made money, but not as much as they could have if they would have stayed the course and added to positions. It was very difficult mentally for them to shift gears because they had been "conditioned" to use a "hit and run" approach. The key was to recognize that the strength in the first half of 2023 would set up an excellent trading opportunity. Any dip was going to provide a fantastic entry for longer-term bullish swing trades and we would be able to ride them. The super tight price action in November and December and the lack of dips signaled strong trend strength and this was a move you could ride and add to. It's not easy to "flip the switch" from neutral to extremely bullish. It takes years of experience and a high level of confidence in your analysis to do it. This skill is where traders take their game to the next level.

So now we have a nice strong bull market. We are on "easy street" - right? Trading is tough… always. We have to constantly adapt and adjust. There are stretches where the profits come easily, but they are few and far between. Most of them come off of trend reversals. We have to wait for the early signs and we have to wait for technical confirmation. In the early stages of that reversal, the price action is very strong. I will admit that the bear market of 2022 was very challenging. The price action on the way down was very choppy and it remained that way during the rebound. Traders had to exercise a great deal of patience. This was an incredible learning environment and only those with discipline survived. When the tide finally shifted in the fall of 2023, traders made a lot of money. Their first reaction was, "So this is what it's like to trade a bull market. This is like shooting fish in a barrel." I know this from comments in my chat room and from comments in Reddit and Discord. Traders made a lot of money and they were able to ride trades for a much longer period of time. Most of them didn't make as much as they should have on the way up because they were scalping in and out, but they did very well. The had very high win rates for a few months and this was a big emotional lift for them after a couple of challenging years.

Trading bullish markets is generally less difficult, but it is not easy. As I write this lesson, the market rally is starting to mature. The upward momentum is starting to stall and the price action is "patchy". We are seeing more red candles and small gaps up and down. The price action is not nearly as tight and orderly as it was and it was time to take profits on longer-term swings. Big market moves need time to digest gains and strong trends typically transition into horizontal trading ranges.

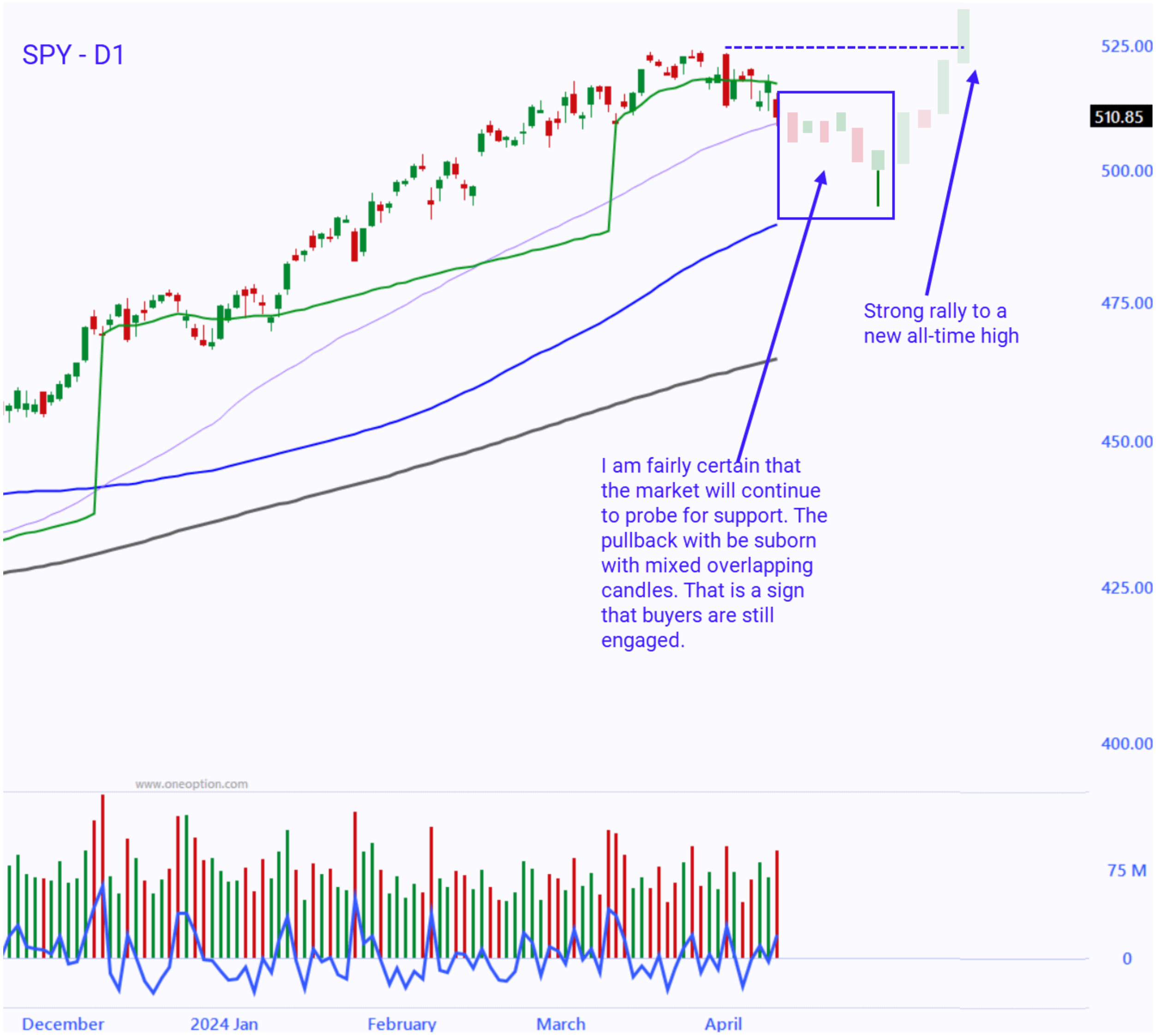
The long red bearish engulfing candle in the chart below was a warning sign and traders needed to adopt a neutral bias. You will only see a long red candle that is 200% of the average true range on very heavy volume if sellers are aggressive. If buyers were aggressive, the market would never have dropped like that. The fact that there were no major dips and no long red candles to that point told us that buyers were aggressive and that we needed to favor the long side. Now we have new information in the form of price action.



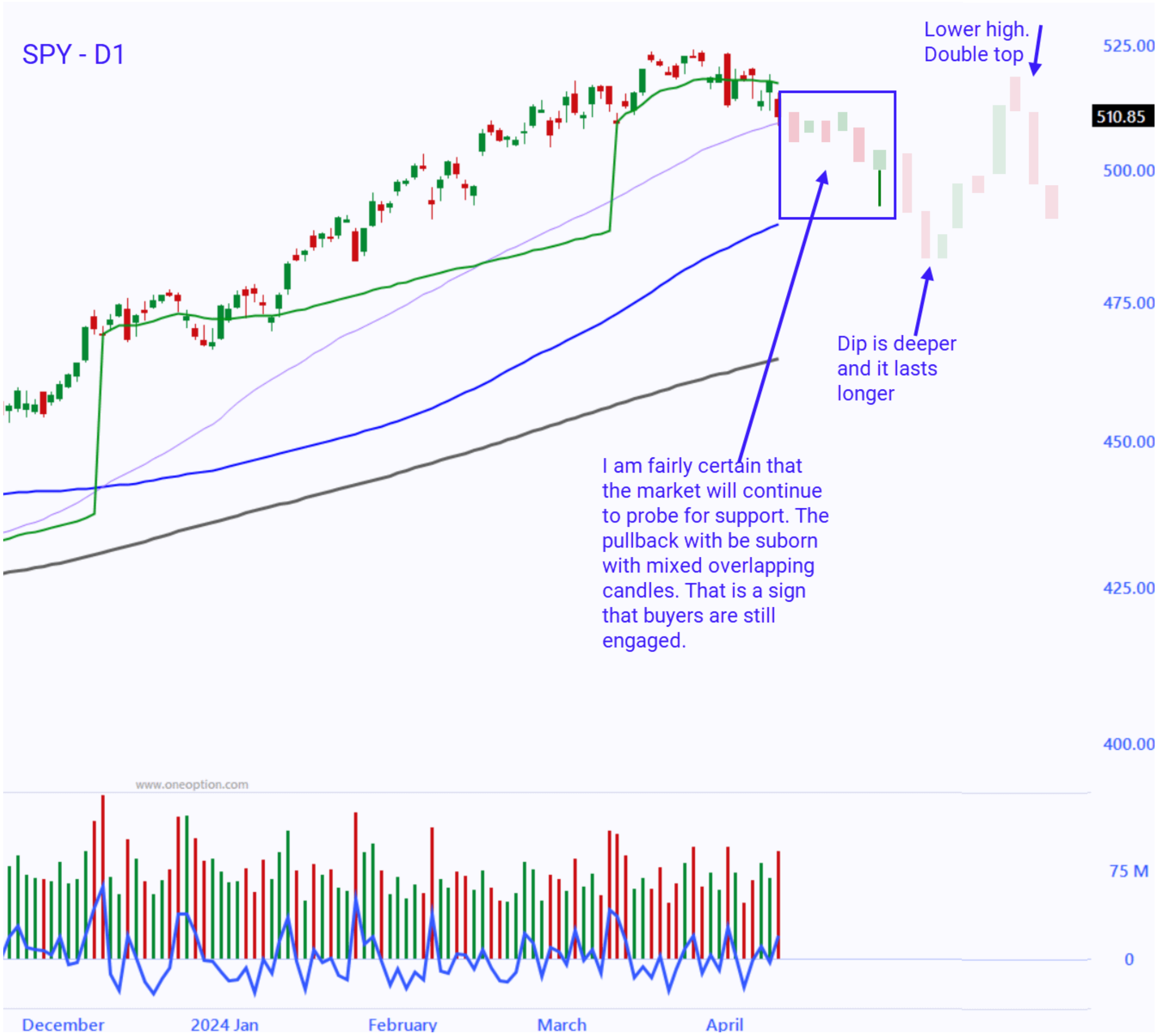
As soon as the long red bearish engulfing candle above surfaced, we understood that intraday ranges would expand. How did we know that? First of all, the price action was starting to "loosen". We no longer had a nice, tight, orderly march higher. The momentum had waned and we were seeing gaps up and down and more red candles. The market was trading in a horizontal range. Buyers and sellers were batting and that meant that both sides would be flexing their muscles. When one side was able to move the market, a nice intraday trend would result. When that move lost its momentum, we could expect that the other side was going to take their turn. This means that we focus more on day trading and a little less on swing trading. Given the recent trend strength, if the market did have a dip, it would be brief and shallow. Bull markets die hard and at very least the market would bounce and it would make another effort at getting back to the high. This sets up well for selling out of the money bullish put spreads on strong stocks. This is a neutral to slightly bullish strategy. Stock traders needed to wait for a dip and they needed to wait for technical confirmation of support before buying. They should NOT expect that the market is going to breakout to a new all-time high. That long red candle was massive and it is a sign of stiff resistance. Off of any bounce, swing traders need to take short-term gains if the market shows resistance at the prior high. They would only hold if the market was able to blow through that horizontal resistance on the first attempt and if it approached that level with nice stacked green candles.

In the current environment, we are keeping our positions relatively small and the trade duration has been reduced. We are taking bullish and bearish positions on stocks that have relative strength and relative weakness respectively. Our market risk is reduced if we decide to take short-term overnight positions because we have a balance of longs and shorts. Our confidence on market direction is low at this juncture. We are clearly in a holding pattern and we are waiting for technical signs of a breakout one way or the other.

I am fairly confident that the dip will continue for a few days and it will be fairly short-term in duration. The long red engulfing candle tells me that there will be more selling pressure. Buyers will be a bit more passive and this is the dip they have been waiting for. The probe for support will be brief and shallow with mixed overlapping candles. Why? Because buyers will still be engaged. The 20% rally from November through February was not a fluke and that strong price action tells us that at very least, we will see one more move towards the all-time high. While I wait for this dip to unfold, I keep my trade duration short-term and I keep my trades balanced. If I get the dip I am looking for, it will tell me that buyers are still interested and that we should see an attempt to get through to the all-time high. I will be a buyer when support is confirmed! **I am not guessing which outcome we will get.** I am waiting and watching for a brief, shallow, stubborn dip and I want to buy.



If the dip lasts more than a couple of weeks and if it tests the 100-day MA (blue), it will be a sign that sellers are fairly aggressive. The dip was deeper and it lasted longer than bulls wanted to see. This is a warning sign that the selling pressure is building. The rally to this point was nice, but the move is over-extended. If I see this pattern it will tell me that a lower high double top is setting up and that would shift my bias to bearish. It would be a clear sign that resistance is building and the threat of a market breakout to a new all-time high is less likely than a pullback below the recent low. I would start taking starter bearish positions off of the lower high double top and I will add on technical confirmation in the form of a broken up trendline or a major SMA breach like the 100-day MA.



In summary, I will be watching this dip. If it is brief and shallow as I suspect, I will buy on the notion that we could challenge the high. I don't want this dip to last more than a week and I don't want it to go much lower. This is very important because it is a sign that buyers are still aggressive. I will hold bullish positions and I will expect that at very least, we test the all-time high. When we test it, I want nice long green candles and heavy volume. I will hold longs and I want to see an immediate breakout with follow through. I will be very cautious at the all-time high because we've seen resistance there. If the market can't breakout immediately, we could stay trapped in a range. The bid is still fairly strong and so is resistance. In that event, I take gains on my longs and I stay neutral (balanced) and I reduce my trade size.

If the current dip lasts two weeks and we drop down to the 100-day MA, I will be less bullish. We will see a bounce, but I will not trade it as aggressively. I will be watching for signs of exhaustion and I will be looking for a lower high double top. Then my bias will shift to bearish.

This is how traders adapt to changing market conditions. The previous price action tells us what to expect and we look for "tells" along the way. We are aware of the price action that would get us more bullish or more bearish and we are proactively looking for technical confirmation.

This is where my mind is at currently and I will trade based on the outcomes above. None of what I have posted in RealDayTrading is hindsight. I post all the articles to tell you what is going to happen and why it is going to happen. This can be learned.

Chapter 12. Risk Management - How to Be Consistently Profitable

A High Win Rate and Why It Is Essential

Within the world of *short-term* trading there is a constant divide between two schools of thought.

On the one hand there are those that feel a high *win rate* is a lower priority when it comes to being a profitable trader, and what matters more is your profit ratio.

On the other side of the coin are those that put a high *win rate* as a top of requirement for being successful.

I fall squarely on the side of needing a high *win rate* - particularly given the goal of using trading as your primary source of income. But let's explore both views:

Let's say you have a $50,000 account and need to make $500 a day to live (roughly a salary of $120,000 a year before taxes). Obviously, since the following scenarios will be expressed in terms of statistical probability, you can raise or lower the account balance to better reflect your personal circumstances - $50K is just a nice even number to work off.

So, let's create some stats for this person:

Win Rate: 50%

Average Trades Per Day: 20

Goal: $500 a day

In order to make $500 a day, with that win rate, they need to make $100 per winning trade, and lose $50 on the losing trades (10 winning trades at $100 = $1,000, 10 losing trades at $50 = $500, Total Profit = $500).

That requires a 2 to 1 profit ratio.

This is a a good time to introduce an important concept - the higher your required profit ratio, the lower the number of potential setups there are that will meet that requirement.

In this scenario you would need to find **20** trades that can potentially give you a 2 to 1 return. If you are buying a $5 option, you need it to go to $6 as your target, and $4.50 is your stop. If you are buying 100 shares of a $100 stock, you need that stock to hit $101 and have a $99.50 as your stop.

Since price action should dictate your stops (whether mental or hard), you must now hunt for opportunities that allow for this ratio.

What if you reduced your number of average trades to 10? Now you need to find 5 trades that you make $200 on, while only losing $100 on the other 5 trades. Now that $100 stock needs to go to $102, with a stop at $99.

You could increase your number of shares on the trade, to 500, in which case you would be looking for the $100 stock to hit $100.40, but now your stop is also tighter and rests at $99.80.

This is doable, but because your stop is going to be tight on a stock that is moving with some volume, you will also be shutting down trades that do not violate any technical exit points. Your mediocre *win rate* does not allow for your trades to mature and breathe.

So, what happens if your raised your win rate to 80%?

Win Rate: 80%

Average Trades Per Day: 20

Everything changes.

If you stayed at 20 trades a day, you are now winning 16 of them (*btw - I hope by now I have shown that an 80% win rate is definitely doable. While the 53 winning trades in a row like I had last week is not going to be the norm for anyone, 8 out of 10 definitely is obtainable)*.

Now you only need to make $50 per winning trade, and you can stand to lose $75 on the ones that don't work out. *Or* you could make $40 per winning trade, and lose $35 on the ones that don't work.

On a $100 stock, your target would only need to be $100.50, while your stop could be at $99.25. Having that disparity, with your need for profit lower than your tolerance for loss also serves to increase the win rate, thus the two concepts support each other.

Another possibility is you can now lower the average number of trades, allowing you to be more selective. Let's say you cut the number of trades in half to 10, and with an 80% win rate you are winning 8 and losing 2. In this scenario you need to make $75 per winning trade and can tolerate a loss of $50 per losing trade.

Increasing the *win rate* allows you to:

- **Lower the average number of trades needed per day, allowing you to be more selective**
- **Lowers the amount of profit needed per trade**
- **Increases the amount of loss you can withstand per trade**

These three adjustments give you, the trader, a ***huge*** *amount of flexibility and opportunities to succeed.*

The higher the win rate - the easier it is to hit your target, find good trades and tolerate higher volatility within a trade.

It also has a immeasurable psychological impact. I can remember one of my first jobs in college, it was for a telemarketer, selling businesses an "800 number". As you can imagine, being a telemarketer means you are rejected - **a lot**. I was pretty good at it (although my methods at the time might be considered somewhat immoral I imagine), but many people could not stand the constant negative feedback. In a job where you are told "no" 99 times out of a 100, it gets to a person. Most people quit because they couldn't deal with constant failure - even though that failure was the norm.

It is the same with trading - the higher the *win rate* the higher your confidence will be - and *confidence* is **extremely** important in this line of work. The psychological impact of having a low *win rate* is real and takes a toll on even the best traders out there.

Now let's reverse the scenario:

Same person, same account balance, and same need for a profit of $500 a day - but:

Win Rate: 20%

Average Trades Per Day: 20

You now need to average $500 per win (4 wins out of 20 = $2,000) and only withstand a loss of $93.75 (16 losses out of 20 = $1,500). That is a profit ratio of 5.33 to 1.

Now for that $100 stock, you need to hit $105 as your profit target, while only allowing for a loss that has a stop at $99.06.

And you need to find **4** setups a day that give you this return. On most days, the only situation that allows for this are low-float gappers, or news-based catalysts on cheap stocks.

If a stock was at $10, and you bought 1,000 shares (same cost as the 100-share trade of the $100 stock), you need it to hit $10.50 before it hits $9.91. However, by the very nature of these types of trades, there is a huge amount of volatility - meaning, you are now dealing with needing a tight stop on a stock that is experiencing huge swings in price. And yet, you absolutely must succeed 20% of the time without that stop being triggered.

The chances of finding **20** of these trades a day, where **4** will be successful, is almost nil.

You could reduce the average number of trades to **10**, but then what happens? You need to make $1,000 per winning trade, while only tolerating a loss of $187.50 on the 8 you lose.

Now the $10 stock would have to hit $11, before you stopped out at $9.81. And you must find **10** of these trades a day, to have a chance of being successful at two of them.

However, it gets even worse -

The chance of going two days in a row without having a winning trade, with a *win rate* of 20% is - 10.89%. That means 11% of the time you are now losing on average, $1,875 each day.

Imagine you are doing this for a living, and depending on the income to support yourself and your family - and the first two days of the month has you down $3,750. This is going to happen 11% of the time. Your goal of $10,000 profit a month, just became $13,750 needed - and you have two less days to do it. Which means you need to now make $764 a day for the rest of the month; however, your strategy still only provides a win rate of 20% - i.e. - you are in trouble.

The huge Standard Deviation that is inherent with a low *win rate* creates immense instability. It also means you must find very specific set-ups that allow for a 5.3 to 1 return, and you need to find at least 10 of them a day.

See the problem?

That is no way to make a living.

So yes, people will say - win rate is crap, you can have a 10% win rate and still be really profitable. Sure, it is true - but it is not as simple as it sounds. In fact, it is highly unlikely. There are only a rare few out there that can successfully pull-off the type of trading that is profitable with a low *win rate*, and it took them a very long time to get to that point.

Remember, the goal is to get to the point where you are *trading for a living*. And trading for a living, demands *consistency,* which means - a high *win rate is essential*.

Target Price and Position Size Calculator

This is mainly to help new traders that have issues with position sizing and/or target price.

What you need:

You need to know your win rate% - you should be using Tradervue or some other service (Edgewonk is good) to calculate your stats.

You also need to know the average number of trades per day your do (i.e. I do 20.4 trades per day on average).

Finally enter what your daily goal is for profit, this differs for everyone. These should updated constantly.

On the top part of the sheet is the Position Sizer - you enter in the Stock, Stock Price and the Price in which you would exit the trade at a loss (based on the technicals - this varies for every stock and should not be auto-calculated). The sheet will give you the suggest position size you need based on your win rate and your number of trades a day.

On the bottom part of these sheet, you enter in the Stock, Stock Price and number of Shares you want to take and it will give you the target profit price you need to hit your daily goal of profit.

You will notice a few things - Increasing your win rate drastically reduces the number of shares needed and lower the price target required for any trade. *The sheet should emphasize the importance of win rate in your Day Trading*.

You should also use this to see if the suggested target price is outside the range of an acceptable trade. For instance, if you need to hit a target of $10.55 on a $10.10 stock in order to hit your daily goal, and $10.55 is above major resistance, you either need to increase the number of shares to lower the target or rethink the trade.

You should copy this over to your own Sheets document to use it.

https://docs.google.com/spreadsheets/d/1TFJh1zNNZpzWlDTPkP9GCqgGS2rAZXw3EG7drGFixFo/edit?usp=sharing

Position Sizer		
Historical Win %	85.0%	*This is entered from your trading journal and should be updated at least once a month. These numbers are place-holders until you put in your actual data.*
Trades Per Day	20.4	
Daily Goal	$2,000	
Daily Goal Per Trade	$98	
Stock Ticker	COIN	*This is manually entered for any trade. Your stop price should be based on the technicals.*
Stock Price	$244.49	
Stop Price	$241.62	
Target Price	$247.70	
Potential Loss Per Share	-$2.87	*This is auto-calculated*
Potential Profit Per Share	$3.21	
Suggested Shares	43	
Average Profit Per Trade	$98.04	

Target Pricer		
Historical Win %	85.0%	*This is entered from your trading journal and should be updated at least once a month. These numbers are place-holders until you put in your actual data.*
Trades Per Day	20.4	
Daily Goal	$2,000	
Daily Goal Per Trade	$98	
Stock Ticker	AAPL	*This is manually entered for any trade. Your stop price should be based on the technicals.*
Stock Price	$139.96	
Stop Price	$137.74	
Shares	500	
Potential Loss Per Share	-$2.22	*This is auto-calculated*
Needed Profit Per Share	$0.62	
Suggest Target Price	$140.58	
Average Profit Per Trade	$98.04	

Day Trading Buying Power and Position Sizing - A Guide

To begin with - if you have over $25,000 in your Margin enabled account, and you are a Pattern Day Trader (**PDT**) you are given **Day Trading Buying Power** (DTBP) which is four times multiple on your **Option Buying Power** (OBP). Your *OBP* is pretty much your capital. So, if you have $40,000 in your account, your *OBP* is $40K and your *DTBP* is $160,000.

Next thing to know is that there are marginable and non-marginable assets you can trade. Margin is essentially a loan from your broker.

Options are **not-marginable**. What that means is that you need to have the cash available to purchase them. There are also some stocks, which due to their volatility or float that are also non-marginable. For example - **TSLA** is a non-marginable stock, but you can use your DTBP on it. However, if you are *Selling Options* you can use margin, but not in the same way you would use it to buy stocks (each broker is different on how much margin they require for non-cash secured option sales).

So, for example if I were to have $40,000 in *OBP* and $160,000 in *DTBP* and decided to buy 500 shares of **AAPL** at $140, that would $70K. I would have $90,000 remaining in *DTBP*, and I would have about $5,000 remaining in *OBP* (because margin would cover 50% of the trade). But if I decide to buy 100 shares of **TSLA** at $700, I would have a negative *OBP* because the entire $40,000 would need to be used, even though I would still have $90,000 in *DTBP* left. It can get very complicated, and sometimes it isn't even correct (I have had to call Ameritrade many times to fix miscalculated amounts)

The main thing to know is - if your *OBP* is negative at the close of the day you will be in a margin call the next morning, so always watch out for this. Also, your *DTBP* for the next day is calculated off your *OBP* at the close of trading (depending on the broker this can be as late as 8pm est) - which means even if in the morning you close your positions and restore your *OBP*, you will have no *DTBP* to use (as it is 4X the *OBP* at the close of the day).

There are far more complex calculations that go into it but suffice to say one of the good things about the *PDT* rules (among all the bad crap) is *Day Trading Buying Power*. This works like an intra-day loan allowing you to have position sizes far larger than you would otherwise be able to obtain. Without *DTBP* it would be very difficult to Day Trade anything other than Options.

Ok - so back to the original question - *How Much?* First let's get something out of the way - even if you used the entire $160,000 in a trade (i.e. 1,000 shares of a $160 stock) ***you are not risking $160,000***. Unless you think there is a chance that a $160 stock suddenly goes to $0 in the blink of an eye, you are *only risking what you decide to lose.*

If I go long 1,000 shares of a $160 stock, but my stop (mental or hard) is at $159 - my risk in that trade is $1,000. However, there are some issues that can arise, far more often than you might think. As I have said many times, the "rules" of trading provide a foundation, but when in the heat of battle, context is everything. Here are some issues that come up when you have used *all* your *DTBP* on a trade:

- **A)** Let's say you start out the trade with a stop of $159, but because of changing conditions (i.e. increased volatility) you may decide to expand that stop out to $158 - however, since your position size is 1,000, you are not willing to lose $2,000. At this point you are making a decision based on your P&L and not your analysis.
- **B)** You chose the $160 stock partly because you liked the daily chart and felt that based on the market/stock you could swing if it temporarily turned against you. Although now, due to the size of your position, swinging the stock poses a much larger risk (e.g. the market goes down on news overnight), a risk you might not be willing to take. Additionally, swinging a stock when you have used all your *DTBP*, leaves you with no *OBP,* which as noted above, means your *DTBP* the following day will be negligible.
- **C)** You are in the trade but the stock is moving slowly - grinding up. Suddenly an alert goes off on a $25 stock, and you notice it has broken through several lines of significant resistance. A perfect set-up, except there is one problem - you have no buying power left to use. So now you have to decide whether or not to prematurely exit your current position and jump into the new trade, cut your position size, or just ignore the alert.

In other words, when you use all your *DTBP* on a single trade you can start making decisions based on your P&L and not the analysis.

Those caveats aside, there are so much attention paid to *position sizing* that I feel traders sometimes miss the forest for the trees (so to speak). Let's look at this another way - you have $50,000 (and thus, $200,000 in *Day Trading Buying Power*) and your daily goal is to make $1,000 a day. Put aside for a moment whether or not that goal is reasonable, because there are arguments on both sides of that debate.

With a goal of 2% a day in profit, your sample size would need to be much larger than if your goal was $250 a day (.5%). And this is where your trading journal comes into play, particularly three measures:

Win-Rate, Profit Per Trade, Average Trades Per Day

If you had a win rate of 80% and you made 10 trades a day, in order to make $1,000 you would need to make $150 per win and $100 per loss. If you are trading a $160 stock, and you feel you can get 50 cents profit from the trade, you would need a position size of 300 shares ($48,000). You also can't lose (on average) more than 33 cents per trade.

One way to reduce the position size here is to increase your average number of trades per day. If for example you made 20 trades per day, you would need to make $75 in profit (losing only $50 per trade). In that example, your position size would go to 150, not 300.

Another way to reduce the position with this goal in mind would be to increase your win rate. If it were 90% and you average 10 trades per day, you would need to make $125 per trade (and can lose

$125 as well) and a position size of 250 is needed. If it were 90% and you average 20 trades per day, you would need to make $62.50 in profit per trade, and your position size goes down to 125.

However, let's say a deeper examination of your trading stats shows that for 90% of your wins you average $100 in profit, but for 10% of them you average $500 in profit. Now you need to look at the set-ups and see which set-ups are most common with the larger wins (generally momentum-based trades), and also note if those set-ups carry a higher potential loss as well.

Then you need to consider the market itself as it is a huge factor. Remember the third caveat above? Where a really good trade come along but all of your buying power is tied up? On some days it seems the market is trending so strongly that one good trade after another is coming in your direction. On days like that you want to have the flexibility to jump into a good trade with the right position size. Other times the market is so dead that finding a good trade is like finding a needle in a haystack (I imagine needles would be pretty easy to find in haystacks but whatever....) and on those days you want to capitalize on a rare good trade when you see it.

Finally, your *mindset*. If you take 2,000 shares of **SIGA** are you prepared for the volatility? If you got in at $11.50 and the technical stop is $10.50, are you going to freak out if it drops to $11 and you are down $1,000? Are you prepared to close the trade if it hits the stop and take a $2,000 loss?

All of this information combines with the size of your account to inform how large or small of a position you should take in a trade.

So to recap, how much *buying power* to use to size your positions need to consider:

A) Your goals - is it a daily goal? Weekly? How aggressive is it compared to your total account. This will define your level of risk tolerance.

B) Your account size - will you have buying power left? Are you risking having negative *OBP*?

C) Your stats - how likely are you to be profitable in the trade? How many trades do you make? What is your average profit? Average loss? What type of set-up are you trading?

D) The stock itself - is it moving on momentum, a slow grinder (there is something euphemistic about that....), volatile, are the natural stops wide or narrow?

E) The market - are you in a high probability trading environment? Is it all chop?

F) Can you handle the potential drawdown and stay with the position if it hasn't violated your initial trade thesis?

As usual, all these factors combine to form the context for the trade - and there is no "set rule" about using a certain percentage of your *buying power* for a trade.

Can You Help Me with Position Sizing? (/u/OptionStalker)

Many books teach techniques on position sizing so that you can control your risk and maximize your profit. They teach very mechanical techniques like constant dollar allocation per trade and adjusting for stock volatility. These are helpful suggestions, but I have a suggestion for traders who lack experience. Your position size is 1 share of stock.

When you are starting out you should only be trading 1 share of stock, and you should not trade options. Trade 1 share of stock until you win 75% of your trades each day for a month. You will make many mistakes along the way and the key is to keep your “tuition” (losses from bad trades) very low. Sounds easy – right?

Unfortunately, this journey is going to take time and when you reach that benchmark you are going to be patient, disciplined, and experienced. You will have become proficient at analyzing market conditions and you will know the types of set-ups that work well for you. Along the way there will be plenty of refinements that get you to that 75% win rate. Once you are consistently winning, your position size will be obvious.

Most of you will lose money very gradually while you learn. Some of you will pull the plug because you have been leaking oil and there is no light in sight. That is OK because you will have tried trading and you will still have some of your hard earned money when you end the journey. Some of you will have gradual drawdowns and then the bleeding will stop. Things will start to fall into place, and you will start making strides. The timeline is different for everyone, and you need to realize that most people will never get there.

If you are not winning 75% of your trades, your position sizing is not the problem. You need to work on a systematic approach, and you need to trade 1 share while you define it.

I know this solution is boring and most of you will not take this advice. You want to make a killing now, not two years from now. This is also the reason that most people who try to trade – fail. Be different, work on your win rate and keep your "tuition" low.

Q: I am most concerned about holding a trade going against me but the technicals still support. I've heard u/HSeldon2020 talk about this a lot but I'm really wondering what the difference is, chart-wise, between a good trade which broke the other way on low probability, and a good trade currently going the other way while technicals still support the initial hypothesis. For that *second option, I'm really confused on how that looks and where to find examples of it.

A: Your question has more to do with stop losses vs position sizing.

How close to the technical support was your stock when you entered the trade? Was the stock way above it? If so you have a lot of risk using that technical support and chances are you are chasing a move. You would size down given the wide stop and you should respect it given that the stock had to travel a long way to reach it.

Was the technical support closed when you put the trade on? Why is the stock down? If the market is down and the market is holding technical support and looking like it was a temporary dip, you must take this into consideration. If the stock is still strong relative to the market it will get right back above the technical support level when the market stops going down and you can try to weather the storm.

Did the stock drop below technical support and is it weak relative to the market? In these instances, it is important to exit the trade. You can place an alert above technical resistance (used to be support) and get back in when that alert triggers, but you must treat it as a new trade and go through the entire buying thought process.

There are several variables to consider when placing your stops.

In general, when a support level that you identified before the trade was entered is breached, you should respect it and exit the trade.

How Much Should I Risk Per Trade?

All of it. Some of it. Just a small amount.

What should the risk/reward be?

Don't know. Don't care. Never used it.

In other words - Stop It.

Yes, I know you read all the books, and they all say you should only risk 1-2% per trade.

And yes, you read all about the risk/reward ratio and how you need to be aware of it to set your stops accordingly.

Guess what?

Everyone else has also read those books or been told those rules. Everyone else tries to implement them. Everyone else also loses their money.

*Institutions are also aware of where you are putting that stop, and their algorithms are specifically designed to trigger them. And no, they aren't targeting **you** specifically, it is just that "you" are acting just like "everyone else", so when they trigger your stop, they are triggering **a lot** of stops.*

Let's start with: **How much should you risk per trade?**

To begin with, most people get this wrong - *You are only risking what you are willing to lose.* If I have an account with $40,000 in it and I buy 1,000 shares of AAPL at $160, am I risking $160,000 (including my 4X buying power) **NO.** Am I risking the original $40,000? **NO.** I am only risking up to my stop (hard or mental) - so if my stop is at $159, then I am risking $1,000.

It always has me shaking my head when I hear someone say, "So you risked $160,000 to make $1,000? That's a terrible deal, why would you do that??" As if I am willing to let the stock go to $0, as if the stock *could* actually go to $0. But, alas, some people actually believe this to be the case.

I am going to safely assume you all get the concept that you are only risking what you are willing to lose - the question remains: what is the acceptable level to risk?

The answer doesn't lie in your account balance. It is in the charts, and constantly changing. Let's take **HPQ** - Hewlett Packard (for some reason whenever I hear this company's name, I think of shit you used to buy at Radio Shack) as an example, let's say you bought 1,000 shares today at $38.25.

And for the sake of this example, you have a $50,000 account and you don't risk more than 2% per trade. Which means once **HPQ** hit $37.25 today, you are out of the trade - down $1,000.

However, let's look at the daily chart:

And now the daily chart using Heiken-Ashi candles:

In other words - other than your risk tolerance, there is no reason to drop this trade. Even though the market was extremely bearish today the stock still finished up .12 cents overall, has no resistance above, and over the last week **SPY** declined roughly 2.1% while **HPQ** increased 11%.

Given that sellers could not drive **SPY** below $450 today, and the market finished with a bullish flourish, you can feel fairly safe in swinging a strong stock, and that is exactly what **HPQ** is - a strong stock.

You cannot let your P&L dictate your trading strategy.

Exiting this trade because of an arbitrary "loss tolerance" completely removes whatever edge you might have in trading, as half of your success depends on when you exit a trade. Think of all the thought you put into finding the stock, and then making sure you made the right entry (or perhaps you put in no thought at all and just saw some go long **HPQ**) - all of that is negated when you exit a trade simply for financial reasons.

You need to size your positions so you can focus solely on the technical signals that tell you when to exit. The catch-22 of course is that if your position is too small, while you're able to focus solely on the charts, the resulting profit (or loss) isn't enough to matter. However, if your position is too large, even though the result can have a significant impact, it is that very impact that prevents you from properly trading.

So, what do you do? How can you stop this insidious behavior that throws away your money and leaves you feeling hollow inside?

Glad you asked - because I have an answer for you:

Every day you should be uploading your trades into your online journal and tagging each one with the set-up you used (i.e. *Good Daily Chart, Relative Strength, Strong Volume, Bullish Market, Break of Consolidation to the Upside on the Daily*).

Over time, you will be able to see what percent of time those set-ups produce a profit. Furthermore, you can annotate them with whether or not they fell into negative territory (i.e. *Down 30%* at one point) - this is your Max Drawdown metric if you will. You can use this to see how often trades that were in the negative bounced back to become profitable.

What if you knew that over 80% of the time positions that dropped because of a steep market decline, but still remained strong to the market overall, or stocks that are on a upward bullish trend and at the all-time-high - wound up not only recovering, but hitting your profit target? And 10% of the time, you broke even?

If you knew that swinging this stock resulted in a loss only 10% of the time, would you close the trade?

The more faith you have in your set-ups, the easier it will be to ignore your P&L. And there isn't a successful trader out there that bases their decisions on how much they are willing risk.

But wait... how can you figure out what your Risk:Reward ratio will be before entering the trade?

You can't.

And you shouldn't.

Your set-ups determine your Risk:Reward, not your entry and stops. Once again, look at your journal - the set-ups that do not result in a profitable outcome should either be refined or removed from your trading method.

Going into a trade thinking: I need to get a 1 to 2 Risk-Reward, so I am going to put a stop at .50 cents loss and target at $1 profit, is quite possibly of the most the inane methods of trading imaginable. At this point why even bother looking at the chart or price action?

Master a winning strategy, refine the strategy to increase your win rate - your profit ratio is a by-product of that.

If you have a winning strategy, but you find that you are not making enough profit per trade, then it is a matter of analyzing why you are exiting the trade too soon. Because if there is no possible way to exit trades later when implementing your strategy (i.e. you always exit close to the top) then it is *not a good method.* Simple as that.

Trying to force a profit ratio into the trade is like putting the cart before the horse.

So basically, what I am trying to tell you, in a long-winded kind of way - *Stop focusing on your account balance!*

Risk - Reward: Should You Be Using It?

New traders ***love*** to talk about **Risk-Reward** ratios. And I get it - it is simple and, on the surface, it makes sense.

In Poker, players look at something called **Pot Odds**. For example, if there is $200 in the pot and the Bet comes to you at $50, you are putting in $50 to win $200, a 4 to 1 return. However, that only makes sense for you if your hand can win more than 20% of the time. So, let's say you have two pairs on the flop, and you know your opponent has a Flush. So, the only chance you have of winning is if you either get a full house or Four of a kind. If you play enough, you know your odds of that full-house hitting by the river card is roughly 17%, which is lower than the 20% you need for the bet to worth it. So, you fold.

However, there is also something called **Implied Pot Odds.** In the example above let's also say your opponent has about $1,000 in chips behind them and they have been an aggressive player all night. You know that if you hit your full-house and go all-in, they will call with their flush. So you **Implied Odds** changes your calculation because you know that on the 17% of the time you hit your hand, you will be able to get that $1,000 as well.

There is some subjectivity to these calculations because you need to guess at the chance is you will win the hand if you hit your card, which means you are guessing at what your opponent has or whether you can get them to fold. But there no subjectivity to the odds of getting the card you need, that is an absolute, and easy to figure out.

But now let's look at a stock - let's say you went long on **OXY** at $68 - and you got 500 shares, costing you $34,000. Off the bat, let's be clear - **you are not risking $34,000**. You are only risking the amount you are willing to lose on the trade.

The high of the previous day is $64.50, which would be a stop, either mental or hard, $3.50 below your entry - a pretty steep drop. However, VWAP is $66.87, so you decide to put your stop at $66.50 (to give it some room), which is $1.50 below your entry. Sounds fairly reasonable. So, does that mean you need to put your target at $69.50 to at least make it a 1 to 1 Risk-Reward?

Well, that would only make sense if you believe there is a 50% of either event occurring. What if I had my target at $68.50 which is 50 cents above my entry, and my stop at $66.50, meaning I am aiming to win .50 cents and willing to lose $1.50 - that seems like a bad play, right?

Let's say you made that play and walked away, and 75% of the time you hit your target - 25% of the time you hit your stop - what would happen? You would break-even. So now, all you need to know is if you have better than a 75% chance of hitting your target. If you do, then the play is worth it.

But wait - if you feel have a 75% of hitting your target, why not just place the stop closer? That way you would lose less during the 25% of the time it is triggered. Because the closer your stop gets to your entry, the lower the chance you have of hitting your target before hitting your stop. Another way to think about it is to just expand it out to the extremes - if you entered at $68 and your stop was $67.99, it would probably trigger around 99% of the time. If it was $67.95, it would probably trigger around 98% of the time, and so on. Conversely, the chance that OXY goes up another 50 cents is significantly higher than it is going up another $1 on the day, and certainly a higher likelihood of it going up another $1.50. So, the higher your target is, the lower your chance of hitting it.

Now in poker, you have the benefit of playing against the players for a length of time and a good player will be able to recognize their betting patterns, their tells, etc. So, you can make an educated guess about what type of hand they may be holding (and thus, what hand you would need to beat them). But in trading you do not have that benefit - what you do have is the history of the stock, the current market, and the history of the set-up you are using to enter the trade.

As a full-time trader I have a pretty good sense of what my chance of success is entering a stock that just broke through ALGO resistance, with heavy volume, having Relative Strength against the market on a day where the sector is hot. I also have a decent read on the market and whether or not it will reverse, and if it does how much that might impact the stock I am trading. I also know the stock and what the rough chance is of **OXY** pushing up another 50 cents compared to another $1 or $1.50. Particularly since it has been slowly drifting up all day, so for it to hit $69.50 it would need a fairly bullish run in the last few hours - which is unlikely given the stock's history. All those things combined will give me a decent sense of what my mental stop should be on that trade, or even if the daily chart indicates the possibility of swinging it to the next day.

However, a newer trader knows none of these things - they have not traded a set-up thousands of times, journaled them and calculated the likelihood of it working. They have little experience in being able to predict whether or not SPY will reverse, or if intra-day sector rotation will occur.

In other words - unless you are an experienced trader you have very little idea of what your risk-reward might be and how to use it in figuring out your stops. ***Which is why you shouldn't do it.***

Instead, you have something else - you have technical indicators that tell you whether your thesis is still valid and that is what you should be using.

You do not need years of experience to calculate Relative Strength to the market or sector, or to note the volume levels. You do not years of experience to see a break of Resistance and whether the stock fell back below it. ***This is what should tell you when to exit, not Risk-Reward***.

And let's all tell the truth here, what "**Risk-Reward**" really winds up meaning is that you are watching your **P&L** and seeing how much you are down. **OXY** drops $1 and all you are looking at is that you are now down $500 and you don't want to lose more. All the math goes out the window and you are just freaking out thinking how this one trade wiped out all your gains on the day.

And here's the kicker - by the time you become experienced enough, you are not using **Risk-Reward** at all, even though you are far more equipped to do it. Why? Because let's say in that **OXY** trade it dropped to $66, and I am down $2 on the trade. Now I ask myself - based on the daily chart, the sector, and the market, what is the chance that **OXY** will not only recover the $2 it lost, but get to my target if I swing the stock? If I feel the dip was temporary, or news-related, I might hold it. If I saw that the sector was still strong but only **OXY** was dropping I might close the trade. At that point I am making my decision based on a Yes-No scenario - will it recover for a break-even or profit? If I think it will, I do not close the trade.

Notice how it is now down to a 1 or 0 choice? Will it, or won't it? Yes or no?

I also know based on the technical chart that unless it can get back over that line of Resistance, I won't swing the stock. Again, a **yes** or **no** decision.

Why would I let it drop $2 and go below resistance? Because simply breaching resistance is not confirmation. Perhaps the market dropped during that time and **OXY** dropped proportionally less than **SPY** did? In that case I would want to see how **OXY** reacts to any market bounce and if it can close above $66.50.

Risk-Reward makes sense when you are doing Option Spreads - or Butterflies. For example, if I am doing an Out-of-the-Money Put Credit Spread, and I get a $1 Credit for a $5 distance between the strikes, I know I am getting a 25% ROI on my money and I need to win that trade more than 80% of the time. The more credit I receive the closer to the money my short-strike needs to be and thus the lower my odds of winning. It also makes sense with a Butterfly if I pay $2 for a 330/350/370 Butterfly, I am getting 10 to 1 on my money. My max win is $20 and my max loss in $2. I only need to win 10% of the time. Do I feel that there is a 10% chance of the stock hitting $350 on expiration? In those cases, Risk/Reward informs me exactly how much I am either willing to receive in credit or pay in a debit. I won't take less than 20 cents per every dollar between strikes for an OTM Bullish Put Spread that has at least 2 layers of support above the short strike. Why do I know this? Because out of over 500 OTM BPS' I know exactly what the projected win-rate would be if the set-up is correct.

So, the next time you think about **Risk-Reward** consider this post and then stop fooling yourself that you are doing a statistical calculation when you don't even know the probability of either event occurring. Realize you are actually just trading your **P&L** which is exactly what you shouldn't be doing and start trading the chart instead.

Keep in mind I am 84% sure this philosophy is correct, but that is only the case half the time.

Three Most Important Rules I Have Followed to Become Consistently Profitable

EDIT - this was written roughly a year ago and originally posted in r/daytrading so read it in that context.

My goal here is simple - I don't want to see people lose money.

Unless you are shilling something (which I am not and never will) there literally is no other reason for someone who does this for a living to come to this Mos Eisley Cantina of Day Trading known as Reddit. I dedicate a certain number of hours a week to helping traders because I know how difficult and overwhelming all this can be for someone. The recent 'gold rush' into Day Trading has left a lot of casualties in its path. Every YouTube video and many posts here on Reddit or elsewhere are designed to convince you that Day Trading is easy - it is not. It requires years of hard work to get it right.

While I have a lot of posts on Getting Started, Day Trading for a Living, Strategies, Resources, etc... I was asked if I could outline what I feel are the three most important rules for beginners to learn.

These three should be taken in combination with all the other posts I have made - they are in no way the *only three* things you need to know. However, with so much out there to sift through, I do see the value in quantifying the three most important (in my opinion).

So here they are:

1) **Don't Anticipate - Confirm** - This is one of the most common issues I have seen. Everyone wants to catch the move before it happens - i.e. you think SPY is *due* for reversal, so you buy Puts or you believe CLOV is going to start going up soon, so you go long. Even more damaging to your portfolio are the amateur economic prognostications such as, "Now that people are going back out to eat, I am going to short DASH". You may well be right, but you need to let the chart confirm those moves before you act. Set alerts, draw trendlines. You

think SPY is going to drop? Draw an upward sloping trendline (it will cross around 418.50) and put an alert on it. When SPY drops below that line, then you can look to short it. Chances are not only did you not miss the majority of the move you were looking for, but it most likely just began.

2) **Trade the Chart Not the P&L -** This one is hard, really hard. We are hardwired to focus on how much we are "up" or "down" in a trade. Even if you turn off the P&L, you still know roughly how much money you are making or losing on any particular trade. You need to trade as if you have one share or one contract - make decisions based on your analysis of the price action. This also goes towards position size - if you are exiting a position based on fear than you have too large of a position. If you are just starting out - you need to use *small position sizes until you are consistently profitable.*
3) **Market First, Stock Second -** Always know what the market is doing (SPY/QQQ), are you shorting into a bullish day? Going long into a red day? Is SPY ready to take out the sell stops? Is there a chop or a steady trend with volume? Then you need to ask - how the stock is performing compared to the market? Is this stock going up while SPY drops? (it doesn't matter if the stock is in the ETF or not) Are both the market and the stock going up but the market is proportionally going up stronger than the stock? The only time these questions aren't as relevant is when you are trading a low float momentum stock that is moving on a catalyst - these equities tend to be independent from the market, but these types of stocks/trades should be a small percentage of your overall trading.

Remember your overall goal is Consistency.

You want an effective strategy that you confidently project out each month. I know if I do 400 trades a month, I will make profit on roughly 340-345 of them. I also know what my average amount of profit is per trade (I use rolling annual averages, but others go with shorter time frames). Knowing those things means I can confidently project how much money I will make each month within +/- 3.4% (my current error range around the mean). This allows me to depend on this income the same as I would a salary. At the end of each month I take out the profit and leave the base amount, and every six months I increase the base by roughly 15% (thus, also increasing my month profits). This is only possible if you have an identifiable and repeatable strategy.

Day Trading for a living isn't about how much you made on any one particular day, or trade. It's also not about how much you are "up". It is being able to say you know how much money you will make every month (and thus annually) and being able to count on that amount. If you want to do this for a living everything should be geared towards reaching this goal.

These three rules aren't all you need to reach it - but in my experience you can't reach this goal without them.

Also, if there is something in particular you want me to post or elaborate on please let me know. The previous request was a post on Day Trading Options, which I hope was helpful.

Top 10 Lessons Learned from a Profitable Day Trader

EDIT - this was written roughly a year ago and originally posted in [r/daytrading]() so read it in that context.

I'll start out by saying that I am a profitable Day Trader. I aim to increase my account value by at least 1% each day - a target I hit around 80% of the time. I'm starting out with this because you shouldn't take advice from someone who can't manage to make a consistent profit.

However, I've learned some basic lessons that might help some of you, in no particular order:

1) Do not trade SPY futures (/ES) after-hours. There is no advantage to it, and more often than not you will lose money.
2) Do not hold a position, either in stock or options, through earnings. The result is too unpredictable with the stock, and the options will lose tremendous value through IV reduction.
3) Stop chasing losses and/or prematurely taking profits. Traders tend to stay in losing trades longer than they should, and exit profitable ones too early to lock in their gain out of fear. This also goes for averaging down - don't do it. Averaging up works a lot better, but it's harder to do psychologically.
4) Understand your trade before you enter it. If you buy a Stock at $50, do you know what your stop will be? Do you have the right entry? And with options, what is your exit strategy if it goes against you? Know what percent of your account you are willing to take as a maximum loss (1-2%), where is support/resistance, VWAP, etc. And most important - what is the market doing?
5) Learn and understand the various options strategies and when you should use them. Some stocks have incredibly strong support - Great! Use an OTM Bullish Put Spread below support, and make sure you get 25% ROI ($5 spread between strikes = $1 credit for example). Other stocks have very little movement? Consider a Butterfly. Choose the right strategy for the situation.
6) Very Important - when day trading you want to be going long on stocks that have Relative Strength against SPY and short on those that have Relative Weakness. When SPY drops during the day, notice which stocks held up. Those are the ones you want to buy when SPY rebounds. I cannot stress enough how important and central this is to your success.
7) Don't chase someone else's day trade unless you analyze it yourself. You may miss some opportunities doing this, but you'll also prevent yourself from being trapped in a trade you didn't understand.
8) The idea you "missed the big move" has no basis in reality. ZM is up $20 so you figure you already missed the action and move on, this is a mistake. Look at the technicals. Chances are this is still a good opportunity, especially if there is relative strength against SPY.
9) You're not smarter than the market. You haven't thought of something that others haven't already considered. This type of thinking leads you to make decisions before you have technical confirmation that you're correct.
10) Day Traders trade what is in front of them - price action, technicals on the D1 and M5 (mainly), market conditions of that day, volume, etc. A great trade at 10am could be a terrible idea an hour later. You need to be nimble, to move quickly and to trade what you see at that moment.

Good luck!

My Top 15 Day Trading Tips for Consistency

EDIT - this was written roughly a year ago and originally posted in r/daytrading so read it in that context.

I am a consistently profitable Day Trader. I say this because you should not take advice from someone that isn't successful enough to make a living at it. Of course anyone could say this, so judge the quality of the advice for yourself.

I’ll also note that I’m an asshole. Not to everyone though. If you really need help and you’re clearly putting in the effort, I’ll give you my time and energy to help improve your trading. But if your lazy and just want to make quick $$, I’m going to call you out.

As I’ve said before in other posts - Day Trading is NOT easy. Anyone that tells you otherwise is either an idiot or trying to sell you something (or both).

I’ve also said that even though it is difficult, it is very doable. If you put in the time and effort there is no reason you can’t be a profitable Day Trader.

Around six months ago I wrote out some tips on here, these can be added to those, although some are repeated given how important they are.

So, in no particular order:

1. Do not restrict yourself to just “Day Trading”. Every great Day Trader is also a great Swing Trader. Anyone who tells you that Day Traders never hold positions overnight immediately disqualifies themselves from saying anything else, as they are a moron. In fact, I typically won’t Day Trade a stock unless I like the Daily chart. Why? Because let’s say I buy a stock and the market reversed. Now if I picked the right stock (more on that in a bit), it won’t drop as much as the market does, but I’m still down on it. For this example, I buy 2,000 shares of stock XYZ at 50 and SPY goes from 390 to 388.20. The stock might drop to 49.60. I know the stock is strong, the technicals are all in line, and it’s well above its Daily support indicators. I also know SPY hasn’t had a technical breakdown. Rather than take the $800 loss, I can hold XYZ confident that on the next bounce for the market that it will go above $50.

   The point is - be flexible.

2. Speaking of being flexible, have many different tools in your trading repertoire. You don’t have to just go Long or Short. Sometimes a better play might be a Call Debit Spread for instance. Many mornings I’ll see a volatile stock up a lot (Boeing for example). So instead of buying the stock, I’ll do a CDS instead. On BA I did a 255/260 CDS for a $1.20 debit, and sold it later for a $3.60 credit - a 200% return (gave $120 per contract, got $360 per contract, for a net gain of $240 per contract). I might have made more just buying the stock, but instead I took a conservative approach just in case the market reversed.

3. Do not hold a position, either in stock or options, through earnings. The result is too unpredictable with the stock, and the options will lose tremendous value through IV reduction. It’s a pure gamble.

4. Get off that one stock. Maybe you got your ass kicked by a stock early in the day. So, you keep going back to it so you can get “even”. At the end of the day your account doesn’t care if you lost $1,000 in one stock and made $1,000 in another. Choose the stocks based on the market and the technicals, not because it “beat” you earlier in the day.

5. Stop chasing losses and/or prematurely taking profits. Traders tend to stay in losing trades longer than they should and exit profitable ones too early to lock in their gain out of fear. This also goes for averaging down - don’t do it. Averaging up works a lot better.

6. Understand your trade before you enter it. If you buy a Stock at $50, do you know what your stop will be? Do you have the right entry? And with options, what is your exit strategy if it goes against you? Know where support/resistance is, VWAP, *etc*. And most importantly - what is the market doing? Note - I rarely use stops, almost all of my stops are mental, but this is an individual trader's choice. I'll just note that you should not be using stops on stocks that have huge swings. You'll get knocked out of a trade before you ever have a chance.

7. If you don't fully understand something, don't do it. For example, don't enter into an option spread unless you completely get how it works, how to leg out if it goes against you, and when to take profits. Take the time to learn it before you do it.

8. Very Important, perhaps most important (I did say these would be in no particular order) - When Day Trading you want to be going long on stocks that have Relative Strength against SPY and short on those that have Relative Weakness. I am NOT talking about RSI (a crap indicator btw). I'm talking about when SPY drops during the day, notice which stocks held up. Those are the ones you want to buy when SPY rebounds. I cannot stress enough how important and central this is to your success. A vast majority of stocks will follow the market. If on the 5 min chart SPY is down down down and stock XYZ is up up up, or even flat, you know that stock is strong. That's the one you want to have when SPY rebounds.

9. Many Day Traders trade on their own. However, I have found that trading in a solid community of traders, with a great chat room only increases your success. Especially for beginners.

10. However, if you're in that chat room, don't chase someone else's day trade unless you analyzed it yourself. You may miss some opportunities doing this, but you'll also prevent yourself from being trapped in a trade you didn't understand.

11. The idea you "missed the big move" has no basis in reality. If stock XYZ is up $20 you might figure you already missed the action and move on - this is a mistake. Look at the technicals. Chances are this is still a good opportunity, especially if there is relative strength against SPY.

12. You're not smarter than the market. You haven't thought of something that others haven't already considered. This type of thinking leads you to make decisions before you have technical confirmation that you're correct. Institutional buyers have more resources and information than you, and whatever you're thinking, they've considered. You can see the actions they took by looking at the charts. Your decisions should be based on the charts, not because you think NFLX will go down since the pandemic is ending. That's not "brilliant insight", it's just a way to go broke.

13. Day Traders trade what is in front of them - price action, technicals on the Daily and 5/1 minute (mainly), market conditions of that day, volume, etc. A great trade at 10am could be a terrible idea an hour later. You need to be nimble, to move quickly and to trade what you see at that moment.

14. If you're too anxious about any one trade your position size is too big.

15. Don't overtrade. Sometimes Day Trading is boring. Don't force a trade just because you haven't traded in a while. Wait for the right opportunity, it will come. Last Thursday, I hadn't traded for two hours, and then SPY started dropping. I noticed BHC was still going up. I bought 5,000 shares at 33.25 and exited at 33.75. 50 cent gain for $2,500. Small example, but the point is, I waited for my moment.

There are many more tips but hopefully this list is helpful.

Also, reading through this forum I see a constant stream of bad advice. I also see a never-ending army of trolls that disrupt any worthwhile post. I know many successful Day Traders that won't post on this forum specifically because of the trolls. Personally, I don't care...I'm sure they'll pop up here once again, as always. Just know that they will get ignored unless they ask a legitimate question.

Good luck!

EDIT: I've gotten so many chat requests that Reddit won't let me respond to them all. So, if I haven't responded to you, either send me a direct message or wait a bit and I'll hit you back when they open it up again.

Drawdowns

There are three types of people in this world - those that can do math and those that can't....

Every single day I see people clamor about Risk/Reward and Drawdowns - using those two ideas to criticize any trade they don't like. So, let's do a bit of math together:

Let's say you have Stock X, and it is worth $100. Support is at $92 (so $8 away), and you want to get 100 Shares and make $400 on the trade. The stock is in an upward trend, has Relative Strength, well above support, no resistance until $110, and the market is strong. So, you take the trade, which costs $10,000.

Let us further assume you are willing to hold the stock unless it breaks $92 (which again, is a support on the daily chart). So, there are your two targets, $104 and $92.

The risk/reward on this trade is $4/-$8 or $1/-$2.

Now let's look at probabilities - in order for this trade to work you need to hit $104 before breaking $92 more than 66.6% of the time. So, you look to your journal and see that this type of setup has an 80% win-rate. Extrapolate that - what would happen if you made this trade 100 times and won 80 while losing 20. The 80 times you won you made $400 each time, so $32,000. The 20 times you lost you lose $800 each time, or $16,000 - the total profit is $16,000. If you made the trade ten times your expected profit is $1,600.

This notion is foundational to the investment community - for example, when your 401K is down 30%, do you close it or do you ride the Bearish turn knowing that historically if you hold the portfolio long enough it will recover? Of course you hold.

When Investors buy a stock, it is the same idea - let's say you bought **NFLX** in Sept of 2023 for $445, within a month you are quickly down $50 a share - do you sell at the bottom? No - because you would have a fundamental argument for the company to rebound (if you didn't you would have been wrong). A trader may not have held through that drop, but most likely it is because their account wouldn't bear it.

Holding through drawdowns on Stock positions is either about technical or fundamental levels of support and the probabilities, given historical averages, that those positions will rebound.

Obviously, the calculus is different for Options because there is a ticking clock on the position and the recovery you expect may not occur within the time frame needed.

Let's talk about Capital risk for a moment. Recently I short $10,000 shares of **SMCI** at $1023 - which is $10,230,000. I closed the position at $1014 taking $90,000. So, one might ask - didn't you risk over $10,000,000 to make $90,000? That's less than a 1% return.

But the reality is you aren't risking the full capital investment, you are only risking as much as your stop (actual or mental) allows for in the trade.

If one following this reasoning they would never trade - let's say you went long **AAPL** at $171 - 100 Shares - which is $17,100 of capital. And you made $150 Profit. That is also technically less than 1% - but it is a good trade.

Risk/Reward and drawdowns need to reflect historical probabilities, whether from the back data of the market or your own journal.

This is why, much to the consternation of my trolls whose favorite critique of me is "Look at how he held on to that position through that drawdown and then only made a little bit of profit", I always tend to come out ahead. You would think with some of the drawdowns I have had to endure that eventually it would catch up to me, right? At some point I would get screwed. Yet, quarter after quarter, year after year, my profit is always in the 7-figures. (these same trolls also do not seem to understand the concept of margins for large accounts).

I am not saying that one should always hold through a pullback, or never to take a loss - obviously I have taken losses, but simply that when you **do** hold - make sure you have the probabilities on your side.

Chapter 13. Improve Your Trading

Walk Away Analysis

I came up with a different way to analyze whether or not you are picking the right stocks -

At the end of the day, open a spreadsheet:

Column 1: ***Ticker***

Column 2: ***Long or Short***

Column 3: ***Price you entered (stock or option contract)***

Column 4: ***Price at closing (stock or option contract)***

Column 5: ***Profit or Loss on trade***

Then add up the totals in ***Column 5*** for a final total of either profit or loss for the day.

Essentially, what would have happened to all your trades if after you made them you walked away from them - just let them finish out the day. For example - you went long on **IRT** at 2pm for $25.01, how much would have you made if you just let it finish the day and didn't close the trade until right before the bell.

Then do the following:

1) **Are the total profits higher (or the loss lower) from *Column 5* than your actual P&L on the day?**
2) **What is your win rate on this spreadsheet compared to your win-rate on the day? (if your win rate on this spreadsheet isn't higher than 50% you are not picking the right stock btw)**
3) **What is your average profit and average loss on this spreadsheet compared to your actual average for the day?**

If you do this each day, then at the end of each week you will have a really good sample of trades. And the question is - would you have done better if you just took the trade, didn't look at it, and then closed it right at the end.

This type of analysis can highlight for you the following:

1) How much intraday movement is really just noise.
2) Whether you are exiting too early on your trades.
3) If you are picking stocks with staying power, or just gravitate to short-lived volume spikes.

Because if the total profit in this scenario is higher than your actual profit you know you are picking good stocks but aren't patient enough. If your total profit is lower in this scenario, you know you are picking the wrong stocks that only have a short window of profitability.

Hope this helps, please let me know as I just thought of it today, but I am pretty sure it will be very useful to try.

Expanding Walk-Away Analysis

Since I first posted the idea of doing a "Walk-Away" analysis I have received constant positive feedback from members on how it has helped them with their trading.

The more I thought about it, the more it became clear that this analysis can get at the heart of any issues you may be having with your trades.

Consider this - statistically there is no reason that a majority of the people trading should lose money. Even if you choose your position through a random draw, your odds of making a profit should be 50-50 (even better if your positions were always bullish, and assuming you are not including any gambling-type OTM Option trades). But we all know the reality is far from 50-50. Also, when you consider the amount of analysis that goes into picking a trade, the actual results are even more shocking.

Which means the reason why so many people are losing, lies primarily within their exits. Taking profit too early and staying in losers too long will always add up to a net result in the negative.

The original analysis asked you to look at your closed trades and see what your P&L would have been if you had stayed in those trades until the end of the day (closing them right before the bell). I suggest an expansion to that. Create a worksheet that has the following:

Columns:

1) **Ticker**
2) **Long or Short**
3) **Debit or Credit**
4) **Stock, Option or Spread**
5) **Price Entered**

6) **Price Exited**
7) ***Total Profit or Loss***
8) **Price 5-Min After Exit**
9) ***Total Profit or Loss 5-Min***
10) **Price 1 Hour After Exit**
11) ***Total Profit or Loss 1 Hour***
12) **Price End of Day**
13) ***Total Profit or Loss End of Day***
14) **Price End of Second Day**
15) ***Total Profit or Loss Two Days***
16) **Price End of Week**
17) ***Total Profit or Loss End of Week***

At the bottom (after the last ticker) put in:

1) ***Win-Rate % - Number of winning trades divided by total number of trades***
2) ***Total Profit or Loss - Sum of profit or loss of all trades***

To begin with if you are not making a profit no matter which time-frame you are looking at then the issue is with the trades you are picking. No amount of patience or trade-management can fix a problem that lies within the very thesis itself. *This is important information to know.*

If your P&L is highest just 5-minutes or 1 hour after you exited, your issue is being faked out by a false move, typically because you are using stops that are way too tight. *Loosen them up.*

If your P&L is highest at the end of the day or end of the second day that most likely means you are not leaning enough on the daily chart and giving your trade room to breathe. The *noise* is taking up too much of your focus, rather than the *signal*.

If your P&L is highest at the end of the week, you are choosing the right stocks, but seem to be far too early, or trading against market conditions.

Obviously with Option positions the more time you wait the more they lose value outside that of intrinsic value, so if this analysis shows a higher P&L on the later time-frames for those instruments, it highlights the issue even more so than if it were just stocks.

Over 94% of my trades turn into winners - Why? Because I am picking the right stocks, it is just a matter of *when* they will become profitable. Identifying whether the issue lies in the trades you're choosing, or the manner in which you are exiting them can be *very* eye-opening.

I suggest using at least the last 50 trades to do this analysis.

Very curious to see the outcome!

Walk-Away Analysis - Partial Automated Template

EDIT: I didn't see this before but u/AwkwardAlien85 made an automated walk away analysis that will automatically do a review of up to 50 stocks that have been exported from TraderSync. Make sure to check his out (Next Section).

After working with anonymousrussb's walk away analysis template (link deleted). I was having some trouble keeping it up to date with regular life. So, I took his template and changed some to automatically update the price for the end of the day, end of the next day, and the end of the next week. You will still have to input the closing price 5-min after exit and 1-hour after exit.

I also added a few more columns to his:

- Trade Close Date
- Price 5-min after close
- P&L 5-min After Exit
- "Max Profit"

Here is a link to the Google Sheet, feel free to download it and fill it out with your trades. (to get your own copy, click File in the top left and click "Save as Google Sheets" to add a copy to your drive or click Download and Microsoft Excel for an Excel sheet)

I added the close date for those who swing trade, so if you only day trade you can just turn the close date into the open date.

I also changed how the P/L column work. Before, anonymousrussb's excel sheet would calculate your P/L just based of the entry price if you didn't have an exit price, which would throw off your P/L output data. Now it won't give you a P/L until you input your Exit Price.

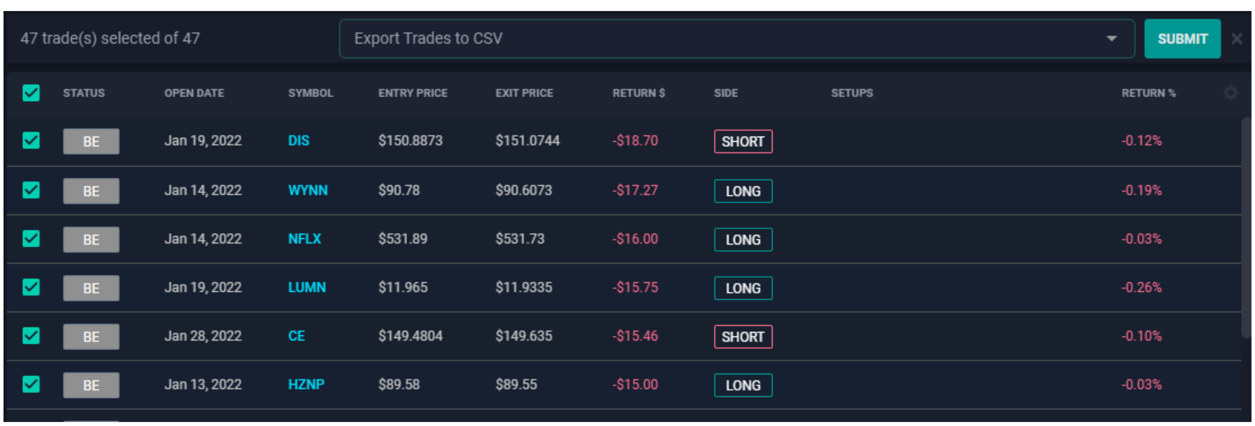
I created a "Max Profit" column that takes the largest value from all the profit and loss columns. I originally did this just to see what my P/L could be if I was 'perfect' but now I think it helps me see the overall picture of my trading plan and how effective it can be. I also use that column to identify the trades that were never profitable, and I can focus in on those and see what did I miss that made it a bad pick.

Hopefully this is helpful to you all.

Automated Walk-Away & Five-Day Trade Review

With the new Deal u/HSeldon2020 brokered with TraderSync I thought this would be a nice resource for the group. I have created a GoogleSheet that will automatically do a review of up to 50 stocks that have been exported from TraderSync.

Step 1:


47 trade(s) selected of 47 — Export Trades to CSV — SUBMIT

STATUS	OPEN DATE	SYMBOL	ENTRY PRICE	EXIT PRICE	RETURN $	SIDE	SETUPS	RETURN %
BE	Jan 19, 2022	DIS	$150.8873	$151.0744	-$18.70	SHORT		-0.12%
BE	Jan 14, 2022	WYNN	$90.78	$90.6073	-$17.27	LONG		-0.19%
BE	Jan 14, 2022	NFLX	$531.89	$531.73	-$16.00	LONG		-0.03%
BE	Jan 19, 2022	LUMN	$11.965	$11.9335	-$15.75	LONG		-0.26%
BE	Jan 28, 2022	CE	$149.4804	$149.635	-$15.46	SHORT		-0.10%
BE	Jan 13, 2022	HZNP	$89.58	$89.55	-$15.00	LONG		-0.03%

Step 2: click link here ***save your own copy please***

Step 3: Paste your trades on TraderSync Export Tab

Step 4: Review your Trade Results

Happy Review Weekend.

Walk-Away and Overall Analysis for last 25 Trades

Thanks to anonymousrussb and Gora_Brownie's amazing work putting together the Walk-Away Analysis Template which can be found here (Previous two Sections).

I did the analysis for my trades Thursday and Friday (the most recent two days when I focused solely on my regular account). I am only counting my stock trades (I had three Option trades, but they were all Lottos). It also works out well that Thursday was a bear trend day and Friday was bullish - however, both days were extremely volatile.

This is the type of analysis you should do for all your trades. Depending on how many trades you average per day you can either do this once a week or once a month (if you only average 2-3 trades a day it may be best to do it at the end of each month) - either way you want at least 25 trades.

You also will want to compare the results to the previous times to see which areas are improving and which have declined.

My results are these for the 25 trades are:

- **Wins: 22 - Losses: 2 - Break-Even: 1**
- **Overall Win-Rate: 92%**
- **Profit Factor: 2.40**

If I waited on average 5-Minutes before closing each position:

- **5-Min Later: Wins: 17 - Losses: 8**
- **5-Min Later: Win-Rate: 68%**
- **5-Min Later: Profit Factor: 2.32**

If I waited on average 1-Hour before closing each position:

- **1-Hour Later: Wins: 15 - Losses: 10**
- **1-Hour Later Win-Rate: 60%**
- **1-Hour Later Profit Factor: 2.60**

If I waited until the end of the day before closing each position:

- **EOD: Wins: 12 - Losses: 13**
- **EOD Win-Rate: 48%**
- **EOD Profit Factor: 1.49**

If I waited until the end of the next day before closing each position:

- **End of Next Day: Wins: 11 - Losses: 14**
- **End of Next Day Win-Rate: 44%**
- **End of Next Day Profit Factor: 2.20**

While it appears I would have made a bit more money if I waited for an hour longer to exit the trades, that statistic is somewhat skewed due to two trades in particular - **UPST** and **AFRM,** both of which jumped up significantly after I exited. Those two stocks also skew the **End of Day** and **End of Next Day** averages to such an extent that without them the statistics during these time-frames would be *much* worse.

Overall I am happy with my exits on these trades, particularly in a market that was very much momentum based.

My Profit Factor overall is a bit low, but this analysis is telling me that I am exiting at the right time, especially considering the skew that **UPST** and **AFRM** are causing to the numbers.

On average I held on to winners for **30 minutes** and the 2 losing trades were held on average for **90 Minutes**, the most profitable hold time was between **6 and 10 minutes.**

The two times of day I was most profitable during this period was between **7am to 8am (PST)** and **9am to 10am (PST)**

The best set-up was:

Relative Strength/Relative Weakness - In the same direction as Market - Momentum - Good Relative Volume

This set-up matches up with the shorter hold times for the winning trades.

Looking at the two losers I had **MU** and **AMD,** both were exacerbated by extended hold times and both would have, ironically, been also improved by holding on longer. Essentially, I held both of these positions for exactly the wrong length of time, I either should have cut them sooner or continued holding them as each recovered after I exited. My exits on these two were due to a distrust in the current market given its tendency to be prone towards violent shifts in direction.

When we do the **$50K - Trade for a Living Challenge**, I will do this type of analysis at the end of each week.

I hope this helps as a template for some!

Why Your Win Rate Is Your Most Important Number

To start off with - remember the ultimate goal here:

To be consistently profitable each month in a manner that allows you to pay yourself a sustainable salary.

Your job as a *Day Trader* needs to be just as dependable as any other employment. That means at the end of every month the salary you pay yourself should be a predictable number with very little variation around it.

If your lifestyle and account size has you making $120,000 a year, you can't lose $10,000 one month and make $30,000 the next month to equal out to $20,000 in two months. You need to consistently make $10,000 a month, give or take a few hundred dollars. Why? Because you have bills to pay, food to eat, a life to live, and if you start having negative months that will eat into your savings and create debt. Not what you want.

I take out profits at the end of each month and leave the base - starting the next month with the same base as the previous one. Every six months I increase the base by 15% (32.5% a year), which in turn increases the expected monthly profit (a compromise between compounding the money, which doesn't allow for any salary to live off of and not increasing the base at all which doesn't allow for you to essentially give yourself "raise")

So how can you do this? ***A High Win Rate.***

Let's take two examples using the goal of making $9,900 per month (*easier math to write out)*.

Person 1:

- **Win Rate: 80%**

- **Profit Ratio: 1.5 to 1**
- **Number of Trades Per Day: 15**

On average there are 22 trading days a month - so this would equal 330 trades a month.

You are winning 264 (80%) and losing 66 (20%)

In order to make $9,900 a month, you would need to average $45 a win and $30 a loss (1.5 to 1 ratio).

With this win rate you can be 95% confident that your average trade will produce between $26.77 and $33.23, and your average day will be between $401.55 and $498.45.

Also notice that because your win rate is so high, you are only risking $30 per trade.

Because your expected Profit ratio is low, these trades are not difficult to find (i.e. 100 shares of **AMD** going up .30 or 1,000 shares of **AMD** going up .03).

That is literally all you need to do to make $118,800 a year with a win rate of 80%. Plus, there is not much variation around this average, so you are not going to be dealing with huge swings in income every month.

But now let's look at **Person 2:**

- **Win Rate: 40%**
- **Profit Ratio: 3:1**
- **Number of Trades Per Day: 5**

Why only 5 trades a day? Because finding setups that give you a 3 to 1 potential return are rare, somedays you might go the entire day without one. There is no version that knows of that allows for an average profit ratio of 3 to 1, and doing much more than 5 trades per day.

Why a 3 to 1 Profit Ratio? Because if you are accepting a 40% win rate, your level of profit on your wins needs to be significantly higher than your average loss.

That is an average of 110 trades per month - of which you are losing 66 trades (on average) and winning 44 of them.

On average you need to make roughly $90 a trade, which, sticking to your profit ratio means that your wins need to average to roughly $450 and your losses average at $150 (*remember it is 40% win rate, so for every ten times, you are making $450 four times for $1,800 and losing $150 six time for $900, which equals $900 for every ten trades, or $90 per trade)*.

However, remember we talked about consistency? The standard error for this model is $28.02 for the $90 mean at 68% confidence.

So what do that mean?

95% of the time your daily take will be between $175 and $725.

Compare that range to **Person 1**. Also realize that on roughly 8% of the days, you will lose all five trades, which is a loss of -$750 for that day.

The advantage **Person 1** has is clear - easier setup, less risk, and more consistent returns.

Yes, of course, you could have a 5% win rate and be profitable, but that is closer to playing lottery than it is treating this like a job.

Win rate is the number one thing one needs to work on as you start their journey in Day Trading. It not only assures that you have the best strategy, which works and is repeatable, but there is an intangible mental benefit as well:

When you are winning at least 8 out of every 10 trades it has a huge positive impact on your psyche. Whereas a strategy that returns a 40% win rate is not only more difficult to execute consistently, you are also losing six out of every ten trades.

I use the strategy of Relative Strength/Weakness, combined with an equitable market direction, in a stock with a strong daily chart, one that typically exceeds the 80% bar - whereas as momentum strategy (while fun as hell) typically fall below 60%.

Last week I detailed out every trade I did, as I did them, live on this forum, and my total win rate was over 83%. Next week I plan to start the $30K challenge, with full transparency, where you can follow along with the trades, the posted results, and whatever TraderSync stats you want me to run.

Have a great weekend!

Easily Fixed Mistake I See Many Making in Their Trades

Recently I asked many of you to post trades that didn't work out for you this past week, and I said I would take a look.

One thing definitely pops out at me - most of you are picking excellent stocks. Really strong daily charts, excellent strength against the market, and good volume. *However,* you are **all** buying at the tail-end of stacking green candles on the M5, and not waiting for a pullback to the 8EMA before buying.

These are FOMO trades you are making - you see green candles stacking, and start getting worried - the price keeps going up and you keep missing it. At some point you become convinced that this stock is not going to pullback, and you go long.

It what seems like an instant reaction, the moment you go long, the stock reverses and finally pulls back.

There are four ways to play this. For this example, let's say Stock XYZ opens at $100, and after the first hour it is at $101.50 and climbing. The daily chart is very strong, and the stock has relative strength to the market. You can either:

1) Buy half a position at $101.50. If it continues to go up without a pullback (rare but it happens), then you can add the second half of your position at $102, average at $101.75.
2) Buy half a position at $101.50. Stock pulls back to the 8EMA, consolidates there, and begins to go back up - in which case you add when it starts going up, giving you an average cost of $101.30.
3) You wait for the pullback - it consolidates, and begins to go up, you go long with a full position at $101.30.
4) You wait for the pullback - it either consolidates and drops, or continues to drop, eventually going under the 8EMA, and you don't buy, saving yourself from having a losing position.

Notice what is not in these choices? A full position at the entry that is extended from the 8EMA.

A Way to Analyze (The Mistakes In) Your Trades

If you look through your trade history and examine the losing trades you will see that there are really only three reasons why a trade goes wrong:

1) **Market Misread -** You didn't read the market correctly. The stock was fine, the exit is fine, but the market tanked, taking the stock with it.
2) **Poor Exit** - This could have been a winner, but you either exited too early, or too late.
3) **Wrong Stock** - This trade was a loser from the start.

I don't really consider "wrong entry" a reason since with the right entry, every trade could theoretically be a winner.

If you go through all your losing trades and label them either 1, 2, or 3 - you may see a pattern emerge which will help you get a better feel for what you need to work on moving forward.

I Have Seen Some Of You Trade - This is the issue

So, I have seen some of you trade this past week in the live chat where I am posting for the $30K challenge. The issue I witnessed is so similar to the issues I have seen plague most new traders that I have to assume it is prevalent throughout this community. The best way to illustrate this is by an example:

You go long Stock XYZ at $100 - the stock is up $1.75 on the day and the high of the day was $100.30, it looks strong and seems to be through its' major SMA's on the daily chart. Great, nice pick

After bouncing up to $100.15, it drops quickly down to $99.95. The market is also dropping at this point, but you stick with it, VWAP is at $99.30.

Ten minutes later it is now at $99.85 and you are watching it like a hawk. Only down 15 cents, but as usual you bought way too many shares, maybe 500? maybe 1,000? maybe more.

Suddenly it is at $99.75 and now you have your finger on the sell button. You don't want to get trapped in another losing trade.

It starts to consolidate here, but it is really not moving. You are watching other trades pass you by because all your buying power is now tied up in this stock. You consider averaging down and are proud of yourself that you did not.

$99.65 now and some indicator crossed below another indicator, and you are down 35 cents. So you bail. That's it, you aren't going to sit around and wait for this thing to tank.

Twenty minutes later Stock XYZ hits a new high of day at $100.50, and you kick yourself. Repeatedly.

Sound familiar?

Here's the thing - you are **never** going to get the exact right entry and time for a trade. It is always going to be rare that you enter a stock, and it immediately goes your way without once looking back.

Stocks move around, a lot. They check the bid, they consolidate, and there can be a lot of senseless chop. When you take a trade, you aren't trying to get it right at that **exact** moment. You are analyzing the overall trend of the stock, the direction of it and the direction of the market.

Unless there is a significant technical violation (i.e. breaks VWAP ***and*** stays below it), your thesis should remain intact.

It is your mindset that is killing the trade, not your analysis. You **cannot** trade emotionally. You **cannot** trade with so much money in a position that you are on the edge of your seat watching it. If you do, *I absolutely guarantee you will fail*.

Until this issue is under control, all the knowledge in the world won't help you. So, whether you need to read **Trading in the Zone** by Mark Douglas, talk to your shrink, or go to a zen place - this should be your number one priority.

How to Improve Your Trading - An Exercise

Obviously, there is no **single** way one can improve their trading - and if you are in this sub-reddit then chances are your trading has already gotten better (it certainly could not have gotten worse!). You may not be profitable yet, but if you have read and followed the Wiki there is very little chance your overall trading has not at least started on the road to consistent success.

To help with that process, I wanted to give you all a somewhat simple exercise that should pay off quite a bit if you commit to doing this every week -

To start with - Here is a list of some of the *top ten* reasons, in no particular order, why traders lose money. While this by no means covers every reason but it definitely captures many of them (I came up with the label names, but feel free to change them to whatever is easiest for you):

1) **Over-Trading** - You take too many trades, which by default means they can't all be high probability set-ups. Most likely they *all* looked good to you at time, but in retrospect you realize that you should have passed on the trade. Fortunately, these "Good but not Great" trades are easy to identify in hindsight. ***In your trading journal label these trades OT = Over-trading***
2) **Letting Losers Run -** This is most likely the reigning champ of reasons why traders lose money. You hold on to your losers for far too long. This is made even more difficult when you are taking trades of stocks with really strong daily charts as by the time those charts begin to take on a different trend than when you entered, the position is already irretrievably down. ***In your trading journal label these trades LLR.***
3) **Cutting Winners Short -** If the impact of each of these mistakes were truly quantified I would not be surprised to see this one actually take the number one spot away from *Letting Losers Run*. It is a very strange psychological phenomenon that is particular to trading - Once our thesis begins to really work is when we most want to exit it. ***In your trading journal label these trades CWS.***
4) **Position-Size -** You should trade the chart, not your P&L - that is Trading 101. However, when you have an over-sized position on you become far more likely to make decisions based on how much money you are down or up, rather than on the technical analysis. ***In your trading journal label these trades PSP - Position Size Problem.***
5) **Misread or Ignored the Market -** Getting the market correct is a crucial part of trading successfully. If you either misread or ignored the market, your trade stands little chance of working. ***In your trading journal label these trades MM = Missed Market.***
6) **Counter-Trend Trading -** If you are still counter-trend trading after everything you have seen and read here you have bigger issues than this exercise could solve, but just to cover all bases.... if you are predicting a top or a bottom, going long a weak stock or short a strong one...this applies to you. ***In your trading journal label these trades IAADa - I Am A Dumbass***

7) **Trade Mismanagement -** You screwed up. Whether you averaged down or bought back the short side of a spread at the wrong time, you just did not manage this trade well. ***In your trading journal label these trades TM.***
8) **Did Not Understand -** If you entered a Time Spread, an OTM Bullish Put Spread or any trade, and lost money because you did not fully understand how it worked, then ***in your trading journal label these trades DNU***.
9) **Gambling -** This is very subjective so be careful how you apply it, but essentially - you know it when you do it. This is seeing a $6 stock jump up to $7 and before checking the chart or reason you just go long - this is basically trying to catch a fast-moving trend without any analysis. This is also when you are using OTM options without a valid reason - for example, you think **TSLA** is going to keep dropping, and instead of doing a Put Debit Spread you decide to grab some $750 Puts for .50 cents because they are "cheap". Lotto plays do not apply here. ***In your trading journal label these trades VEGAS.***
10) **Bad TA -** When you miss something on the chart, and we all do, it can be costly - e.g. if you go long a position but did not notice there was an ALGO line of Resistance or an SMA right above your entry. ***In your trading journal label these trades BTA.***

Obviously, there are many trades that do not work due to no fault of the trader. Not every loser is a mistake and not every winner is without fault.

First thing to do:

Go through all your trades from at least your past three months and tag them with any of the ten reasons above whenever applicable. Some trades will have more than one tag on it, and hopefully many trades will have **no** tags on them. You want enough trades tagged to be able to do the second step.

Second thing:

Run a simple count to see which of the those errors you commit the most often by percentage. And then run the average $ won/loss per tag. So, it should look like this:

- **Vegas - 24% / -$245**
- **IAADa - 17% / -$540**
- **GNG - 12% / +$121**
- **etc.**

and finally run the following:

What percent of all your trades had any of those tags on them in one form or another - so for example - **Total trades for the Month: 120, Total Trades with a Mistake - 40 = 33%**

Average Return of Trades with a Mistake vs. Non-Mistake - for example:

Non-Mistake Trades = $230 profit average, Mistake Trades = -$295

And then the total cost of all mistakes for example:

Total return of all trades with a mistake tag = **-$2,321**

Third Thing:

Now comes the actual work - each week you are going to pick **ONE** mistake - it should be one of the most committed or most costly at first - and your goal is to reduce both the number of times you commit that mistake and the amount you lose. Your focus is solely on fixing that mistake for that week - so if you choose **IAADa** then you are actively trying to reduce how often your counter-trend trade.

Each week pick a ***different*** mistake to work on, do not work on the same mistake two weeks in a row.

Finally:

At the end of each week run all the numbers from the second step again and you should see a reduction in not only the mistake you were working on, but also a reduction in the overall number of mistakes made. If you see a decrease in the mistake your were fixing, but the overall number of mistakes and losses are the same or higher that just means you replaced one mistake with another.

If you do this EVERY WEEK within six months you should be able to compare your numbers from when you started and see a DRASTIC improvement.

Also read "How to Create Tags for Your Trading Journal" Section from "General Resources" chapter.

The 8 Types of Trading Screw-ups

Let's talk for a moment about mistakes.

You know, the "fuck-ups", the "oh shit I can't believe I did that" moments. So much in trading is about rules and checklists that we rarely talk about the screw-ups, and chances are - *there are a lot of screw-ups.*

So let's go through the different ones:

1) **The "I Don't Know What the Hell I Am Doing" Mistake -** This one is far more common than it should be and strangely enough, repeatable. They start out fairly benign - someone enters a trade, usually using options. At some point they realize, "Oh shit, I don't know what the hell I am trading or how to get out of it!" and they wind up getting assigned or taking the max loss on some broken Butterfly. Now you would think this is a one-time offense, right? That the moment someone loses money because they didn't know what they were doing, they go back and try to learn. You would think that - but you would be wrong. Many people with their "Instruction manual be damned!" mentality keep coming back thinking that the lesson they just learned has them covered, only to realize there is a whole new level of "I don't know what the fuck I am doing" waiting for them.
2) **The "I Got A Feeling" Mistake -** This is probably the most common. You enter a trade not based on anything empirical, or even because you followed someone you assume had empirical reasons - no, you entered it because you had a "gut feeling". Most of the times this is predicting tops or bottoms - the ole' "It *has* to start to come down now" school of trading. Other times it manifests itself with some brilliant theory on the market or stock that you believe nobody else thought of (otherwise it would be priced-in), and you act on this brilliance. We all have a friend like this, with comments like, "I see electric cars everywhere - soon nobody is going to be driving a car that needs gas - Short OIL!" Sigh.
3) **The "Fuck it, I Am on Tilt" Mistake -** Usually seen at a casino, but often found with people that treat the stock market like a casino. Although, to be fair, nobody is immune to this mistake. *We all make it*. You just had a big loss, or maybe something else in your life is bothering you - either way, you are pissed off and damnit, only a huge win is gonna make everything ok again. So, you use way too much money and let it go down way too far until you look at that huge loss and think - "What have I done?"

4) **The "Damnit, I Forgot" Mistake -** This one sucks, because it is just from not paying attention. It is the person that totally forgot they left an /ES short on over the weekend and then on Sunday they realize - "Oh shit, I am down 30 pts!". This also happens to people who thought they cancelled a trade or completed a trade, then proceeded to get up and walk away. Only to learn - they did no such thing. Weird thing about this mistake? *It literally never works in your favor!* I mean you would think it would, right? At least some of the time. But no - it always turns out to be a *costly* mistake.
5) **The "To Hell with The Rules" Mistake -** Known in some deranged circles as "YOLO", this is someone acting like they are on tilt, but they are actually perfectly fine. They just want to throw away anything they learned and leave it up to the gods of chance. Basically, "I am going to buy 50 OTM Options on AMC and see what happens!" Wen Moon? Never. Never Moon my friend, never.
6) **The "Misread" Mistake -** One of the more respectable mistakes you can make - you simply misread the situation. You thought SPY was going to go up based on the technical analysis, but you were wrong. In retrospect you can see that you missed that line of Resistance right above the price. Now if you make this mistake often then see Mistake #1.
7) **The "Mindset" Mistake -** This is the toughest one of all - because it is so hard to fix. You sold too early because you were afraid the market was going to take away your profit, you held too long because you were hoping it would turn around, you used too big of a position size because you feel like you need the big win now, *etc., etc*. Making a trade because you are bored, overtrading, the list goes on and on. All these mistakes are because of mindset issues - and those issues generally have deep underlying causes that need to be dealt with in order to fix it. The thing that really sucks about this mistake? You always promise yourself that you will be better next time. Sadly, you make that promise often.
8) **The "I Can't Lose This Money" Mistake -** Trading with scared or desperate money is trading scared or desperate. Now I am not talking about your savings, although obviously nobody wants to lose that. I am talking about the people who trade with that month's rent money. If you are in need of cash that badly that you are risking the rent money, there is no way you will be able to trade the way you need to in order to be successful.

We all make mistakes, but it is helpful to know what kind we are making - look over this list and see if any of them apply to you more often than not. If so, each of these mistakes has a solution - but first you need to identify the problem.

Kelly Criterion [Why It Doesn't Work]

Just a quick post about this -

Some of you have mentioned using the Kelly Criterion for deciding position sizing on your trade.

Don't.

This is a formula developed to mathematically find the ideal "bet" size in gambling. Taking into account your odds of winning.

Here are the two reasons it doesn't work for trading:

1) In gambling you have a defined risk and reward. If you are playing Blackjack with perfect strategy, you have about a 48% chance of winning, if you are flipping a coin it is 50%, etc. Your chance of "winning" in a trade is *not defined*, nor is your return for that win.
2) Most importantly, this formula assumes that when you "lose" that you go to $0. So if I bet $1000 and I lose, I will lose $1000. But if use $1,000 to trade and I lose, I may lose $100 or

$200, etc. but unless I am using options *and* I am letting that option run down to being worthless, I am *not* losing the entire amount.

Kelly Criterion only works when it is a 1 or 0 result, you either win, or you lose everything you bet. It is not applicable for trading.

Market Thoughts - Futures Mistake in $30K Account

On Friday the market closed on the heels of a significant Bullish reversal. A $7 shift in 45 minutes took SPY from Bear market territory to finishing the day in the green. This violent reversal left many traders wondering - ***Why?*** It certainly caught me off guard (although in hindsight it shouldn't have, but hindsight is 20/20, etc. etc.) as I had an S&P Futures Short on at the time.

It's always an interesting educational exercise to theorize about the "what" and "why" on the market (i.e. price action on SPY). Although, as I'm sure many of you experienced, the farther down the rabbit hole you go, the more you find a counter hypothesis for every one of your theories.

So there I was, using the $30K account with an hour left to go in the trading week and the account stood at $38,400 (here is the log: https://shared.tradersync.com/hariseldon2021). That's an $8,400 in 7 trading days - a 28% increase. On that pace I was about 9 days away from hitting the $50K starting point for the Trade for a Living Challenge (probably even less as the bigger the account gets the easier it is to make a higher return).

My win rate was over 83% and Profit Factor close to 3.

In other words - everything was going perfectly. And then I made a mistake, an error in *Situational Awareness*.

But first let's go back to the market and consider what we know as an absolute:

Did anything change on the macroeconomic front? No.

The same conditions apply. So that leaves the following -

1) we briefly hit the price level that is considered a "bear" market - a somewhat arbitrary but psychologically meaningful level, and then bounced shortly afterwards,
2) short covering bounces are not uncommon after significant drops.

Couple those thoughts with the expectation of high volatility, which by definition means violent (of varying degrees) reversals. Also add in the expectation for a capitulation low required before any meaningful recovery.

All combined that tells you that this is not a good swing environment, and you should consider any reversals temporary unless either the macro conditions shift, or the market capitulates.

In the end those two conclusions are what impacts your trading as a, "thesis"

Ok, now back to my "screw up" - and I will have them, in fact you will probably learn more from the mistakes I make than the wins - although I do not intend to make them regularly. Btw, any person calling themselves a *Professional Trader* that does not ever admit to mistakes or show them, is full of shit. Someone that is only showing you their successes is either trying to sell you on something or feed their ego. And while there is no doubt I have an ego, I absolutely despise false representation. If you must feed your ego by being fake, well that is pathetic.

So - why the hell did I hold that /ES Short, turning it into a $4,000 mistake? As I said - Situational Awareness, but not on the Market, on myself. Anyone that has watched me trade S&P futures knows that I have been fine with rather large drawdowns on the position. If your market thesis is correct, it usually only a matter of time before your futures position becomes profitable, and those times where your thesis is incorrect there should be very clear signals that trigger an exit.

Except that is true when you have an account of large enough size to hold that position and then continue trading without so much of a dent to your buying power. But that is not the case with a $30K account - the margin requirement for 2 /ES Contracts is roughly $31,000 - which means that holding the position over the weekend not only risked a further drawdown, but it also meant starting Monday with reduced BP that would not be restored until the following day.

But my mind was not in that place, my mind was in the place of, "this bounce is temporary and should reverse either in the last ten minutes or on Monday morning" just like it would be if I had been trading my regular sized account. By the time I realized my mistake it was too late. I debated holding the Short over the weekend anyway, as I felt, and still feel that we were seeing a short-covering bounce off Bear Market levels, one that will be temporary in nature. But in the end, the Buying Power issue settled it for me and I closed the Short for a loss.

So, this is where no having **situational awareness** knocked out half of my gains.

Yes, I am still up over $4,000 in just 7 Days which is well ahead of the pace that would be set for even the $50K account, but still it stings. It was a preventable error and self-inflicted wound. I cannot trade S&P Futures in the $30K account the same way I do in the larger one - which means those trades need a much tighter leash on them.

Anyway, I thought I would share my self-reflection on the error.

Analysis Paralysis

I am seeing this so often I think I am going to put in place a new rule for this sub - but first let me explain -

Analysis Paralysis is an affliction on both new and struggling traders. The cure for it is the **Wiki**, but so many suffer from this horrible disease simply do not want to take the remedy.

The first symptoms involve the constant hunt for new *indicators* - it is almost a guarantee that if you looked at the browsing history of those with this disorder, aside from some really freaky shit, you will also find Google searches like, "Top 5 Best Indicators for Day Trading".

They'll burn through the major ones pretty quickly...the *Ichimoku Cloud* gets old pretty quick, so do *FIB* levels (especially when you find out they are utterly useless), and before you know it you're looking at *TTM Squeeze's* and *Volume Profiles,* charts filled with pivot points and countless lines. Although each line will be a different color, because, yeah, that really helps make sense of it all.

Shockingly they keep losing their money. Do they go for the cure then? No! That would just be too easy for our diseased brethren - *they forge forward!*

Because now they are going to create something brand new!

Before ever really having a single profitable month, before mastering any strategy (*you know, like the one in the damn Wiki*), they figure that they will come up with a *new method* that nobody has ever thought of before!

I mean who better discover the Holy Grail of Trading then a someone who hasn't yet managed to actually withdraw profit from their account?

So, they combine, and combine, and then combine some more....and then comes the signals! When this crosses that, and this goes above that, right as it enters this range right here, BAM - Buy Signal!

It is constant, almost non-stop, one trader after another, and they post these new methods, and then you never hear from them again. Care to guess why?

Let's just make this clear - *this place is a training program*. You don't come into a training program, completely untrained yourself, and then start telling the other people there that you have a better way to train.

So, unless you have mastered this method, or have proven that you have mastered another method in a consistently profitable way.... *Nobody wants to see the symptoms of your illness, which by the way is contagious!*

Four Mistakes You Can Fix (/u/lilsgymdan)

As I'm still an intermediate, I don't get too bunched up about making mistakes anymore so long as I don't make them over and over, and that I learn heavily from them.

Here's some conclusions I made that I've learned, or that I already "knew" but clearly didn't "believe" yet.

Mistake 1 - Sector Heavy

Last week Thursday there was a full menu of great d1's to short, but the day ended up bouncing. Usually that's no big deal because you have cushion on your stocks with RW/RS. But what happens if your sector bounces even harder than the market?

That's avoidable. I was short AMD, PSTG, and MSFT. All 3 were tech stocks. That means that if the reason why your shorts reverse is the sector, you are effectively **Triple Sized.** Stocks are a safer surrogate for the market direction, but also the sector which subsequently is the surrogate for the market.

I could have easily been short AMD, DOW, and XPEV. 3 separate sectors. That provides much less fragility to your buying power.

Fix - make sure your buying power isn't heavily weighed in a single sector,

Mistake 2 - Missing Market Context

5' price action can mean different things depending on the context of the last d1 candle. For example, if you see a pop at the open easily get retraced in the next few candles, that's bearish. But what if you still haven't broken yesterday’s low? It is much less significant. If you miss details like this, you can easily get caught with your pants down.

Reading the market is hard because of so many factors like this needing to come together. You need to be aware of exactly where the price is in relation to other prices on SPY, but also where in the grand scheme of things you are. Obviously, there's no end to how many things you can look at and paralyze yourself with.

Here's a checklist that should be comprehensive enough but let you still take action

Fix

- Use mental checklist of the following criteria for your market conviction:

- Macro thesis like economic reports, time of year, news, *etc*.
- D1 price action including volume, OBV, and major support/resistance points
- 5' price action including volume, previous day's levels, and major support/resistance points

Mistake 3 - Confirmation

Obviously, this is a no brainer, but I can't believe that I broke this cardinal rule on SPY. Entering shorts on 9/1 right when SPY was sitting on support and the upsloping 6/17 algo. Simply waiting for the second break to confirm below the low of the day would have saved me.

RANT INCOMING:

Can you argue for this to be okay with a strong macro thesis. YES! And I think that the overall sentiment about it should eventually ring true. In fact, things worked out just fine.

But how long can you hold your positions? Will you lose theta or expiry on your options? The bigger your account, the more big picture you can play. You can absorb the losses, send your shares away to LTI account, sell premium against them etc. But if you're new and have a smaller account that's your nest egg and lifeline to supporting your family and future.... *do you want to work every day in an environment like that? Can you survive that?*

If the answer is yes, then you'll have to get REALLY good. Mentally AND skill wise. **Because you'll have to trade like that all the time.** More risky trading = bigger losses AND bigger winners. You cannot pick and choose. You have chosen the fast lane.

It's like Formula 1. The cars NEED to be driven extremely fast for the tires and brakes to work. It's either balls to the wall or not at all. u/HSeldon2020 is a Formula 1 car.... actually more like a space shuttle. I am a Toyota Corolla.

Will you be able to handle that type of stress chronically? What is your risk of blowing up? Can you be mistake free in that environment?

That's up to you to decide but if you're serious about this being a profession, this isn't a game.

My log tells me that if I get aggressive and trade like this there's a delayed drawdown coming. Better results for a few days, then *more* than equally bad results a few days after that. But if I trade patiently, slowly, and extremely sparingly it's a steady boring stress-free profit curve up. Like a Toyota Corolla on cruise control

Fix - have levels set on SPY where it's trade/no trade. Understand what level of aggressive is your optimal zone of performance, because you have to ALWAYS trade at that level.

Mistake 4 - Thesis Switch Points

Yesterday was a perfect example. Just like you're always keeping a menu of optimal longs AND shorts regardless of your bias, you need a list of conditions where you would trade the OPPOSITE direction of your bias.

Maybe your shorts will be okay, and the market is still heading down, but yesterday you probably missed out on some profits going long because you were frozen in anticipation. A break of the previous day's high was probably a good idea to take longs but let's face it you probably just stared at your shorts.

In hindsight, you probably HAD to take longs to absorb some of the incoming losses of shorts that won't be able to make it back down. Hell, maybe even just win more.

But what if the market rug pulls while I'm long? What if my bigger picture thesis happens while my shorter time frame thesis in the opposite direction is on risk? That's personally my biggest mental roadblock and I have a fix for that:

Trading RS/RW gives you a cushion to exit market reversals. If you were in the right stock, you'll be okay or maybe take a tiny loss. It's not enough to know this. You need to believe this, and beliefs take time and repetition to form.

Fix- have decided in advance, where you would switch your thesis for at least the day, and remember that you are trading positions that are inherently forgiving.

Knowing vs Believing

This is my closing point. It's cool to have a ton of knowledge about what you should or shouldn't do but none of this is useful unless you can actually do it. Why is that so God damn hard? Because of your emotions. The difference between knowing and believing is emotional integration.

If you can't regulate your behavior about something, then you don't understand your beliefs surrounding that thing. That's why you can't DO what you KNOW yet.

When you believe something, you'll adhere to it regardless of the emotional pain. Trading requires you to break your emotions apart and rebuild them differently. You can't tear it all apart on day 1 and survive the reassembly. The only way to do that is grain by grain with deliberate repetition.

That is why it takes 2 years.

Updated Walkaway (/u/lilsgymdan)

I ran into a few issues analyzing my trades that trade logging software just couldn't do well for me:

1) Some broker platforms don't let you paper trade AND live trade at the same time, so you need to pick one. What do you do if you are live trading 1 share/super small size, but you want to include trades using contracts that are big $$$? I'll take the 5 META shares but I'm not touching a 14$ COST contract with a 10-foot pole right now.
2) Walkaway analysis just sucks on most software. In real life some trades you hold longer, some you take profits sooner. I wanted to be able to see the stats on if I held a trade waiting for another push into more profits or took profits at the previous opportunity, which means my walkway needed to be more discretionary. I wanted to imagine how I would typically manage the TA on a trade if my expectations were different.
3) I wanted to see what this looks like visually. Am I improving over time to my walkways? where during the timeline of SPY did I suck vs did good? What parts of SPY worked better with various scenarios? When was nimble better? When was patient?
4) I wanted to know how much of my mess-ups was mindset, criteria, or exit discretion. As I'm learning, pretty much *everything sucks* but what sucks the MOST? That's where you get the best improvements. Right now, it's 3-5 times where I gave too much time for a short to work, and not enough time for a long to come back. This last season if I gave my longs a little more leash and my shorts less leash my profit factor would be almost 50% higher.

So, I made my own sheet that shows me everything with 4 alternate scenarios. I'm only using two right now: Nimble and Patient. What would my trading look like if I took profits at the previous opportunity, or waiting for the next opportunity? It's not perfect but it gives me a good idea of my discretion to hold or take profits.

What it does:

You can adjust all your profits for R to see what your performance is like with a standardized % gain or lot size or # risk. up to you. This lets you paper trade and trade super small size but still get good feedback.

It shows you your rolling win rate and profit factor so you can see periods of good and bad performance.

You can see the impact on your profit factor, and profit in R for each individual trade.

You can see how wild/volatile your P/L is. You need to get it tight enough so that you have a smooth income.

You can see this all visually on a chart too and highlight each point to see what trade did what to your overall stats. For example I can see how reversing my $ABNB long absolutely decimated me and how it caused a serious struggle the rest of the month. It helps a ton to see how to align your expectations with the market.

What this doesn't do:

It doesn't fix your issue if it's mindset related or setup/criteria related. For mindset issues your tags will tell you what you did wrong, and then you'll need to address the underlying emotional issue. For setup/criteria issues you need to use your trade log tags and find similarities and correlations, *etc*. If you are taking crap trades it wont help you. If you aren't believing in your picks, it wont help you. If you can't take a loss it wont help you

Here's the sheet. I've included my results all the scars and warts using the nimble/patient walkaway starting about 1/3 in. You can see visually where each walkaway performs better than the other, and also where big deviations like mindset mistakes take a chunk out of my progress. Some of you guys are posting absolutely insane trade logs and mine does not look like that but I try to just lay it all out there including all of my entries and exits live and focus on where I'm at personally.

IF YOU ARE NOT INTERMEDIATE YET, YOU SHOULD USE THE BASIC 15m/60m/EOD *etc* walkaway. This builds faith in your picks.

*You can also see how taking profits faster AND being more patient are **both** more profitable. Things won't actually play out this perfectly in real life but that tells me that most of my picks are reasonable, and it's primarily my mindset that wrecks my ability to align better with the market*

I have one of these for every type of setup. Traditional RS/RW, Lottos, Momos, WATM, credit spreads etc. And then they are linked to a master composite sheet that tells me overall how I am doing with my stats. This tells me which strategies I can lean into more and which ones need to be overhauled.

Trade Log Analysis - Here's How I Do It [VIDEO] (/u/OptionStalker)

A couple of days ago I asked a member to send me their trade logs for the last two weeks. I wanted to see what they were missing. After reviewing a few of their trades, I decided to look at all 18 of them. It took me a couple of hours to conduct the analysis because I had to go back in time and recreate the set-up. I had the exact time stamp for the entry, the date, the symbol and the direction. What did the SPY look like D1? What did the SPY look like M5 at that exact moment? What did the stock look like D1? What did the stock look like M5 at that exact moment? Great trades are like a lock, all of the tumblers have to line up for the door to open. Not some of them… all of them.

Yesterday I recorded a video and I reviewed all 18 trades one-by-one. This video is almost two hours long. I did it because I believe it will help a lot of you. This is the process you have to go through each day. Trade log analysis will reinforce what you are doing right and it will help you identify what you are doing wrong so that you can avoid those mistakes in the future. If you leave out this critical step, you will be muddling around for years and you won't make it.

This is a detailed look at how we trade the system. Many of you say you will do anything to become a successful trader. Really? This is your chance to prove it. Are you willing to put in a couple of hours to learn this?

The audio isn't perfect, but an aspiring trader would not let that stand in their way! Please leave your comments.

CLICK HERE TO WATCH THE TRADE ANALYSIS VIDEO (1:45:43)

Stop Hunting = Liquidity. It's not what you think! (/u/ThrowDC)

Imagine you have a TSLA order to fill fairly quickly. Imagine the order size is $200,000,000. The reason doesn't matter, but that's the order you have to fill. You also have to fill that order at a fair market value, which is 1 standard deviation around VWAP (This is the subject of another article). You don't have a lot of time, perhaps hours or a day at most. A $200,000,000 order is roughly 800,000 shares at today's $250/share price for TSLA. If you send the order all at once, you may not get filled on the order book, so you keep raising your ASK price, $.10, $1, $5, $10 to get filled and you would have to drive the price that high to fill a 800,000 share order in minutes. At this point, you drove the price at least $10 above current market. Congratulations! you succeeded in driving TSLA price up, and you also lost your bonus! You bought all that you needed way above TSLA's fair market value for the day!

Such is the life of an institutional trader! They have more constraints that we all think!

Ok, that approach is a dumb move. What's the smarter move to fill this large order within 1 standard deviation of VWAP?

You must hide your large order so that you don't get targeted by other algos/traders raising price significantly on you or cause a short squeeze or gamma squeeze or a number of other ways the price could run away from you.

Dark pool trading doesn't guarantee near VWAP fill, and you don't know what the market or price will do tomorrow.

You must tranche/split you order to get filled at a reasonable price. Just look at the number of ways you can execute large orders on interactive broker for retail client (Look at VWAP -Best Effort or TWAP)

You have to figure out available liquidity to fill that order. How do you do that?

Stop-Hunting Explained

Despite the myth, institutional traders could care less about your measly 1000-10,000 shares you're sitting on Long or Short. If you look at any order book, you don't see that many shares at anyone price. You might see 100, 10, 500, 700, etc. They are all placed on a ladder on the order book! But certain levels **above and below current price** seem to have a massive waiting sell order above or a buy order below. It doesn't really matter if they are **sell to close, or buy to cover**. The orderes could be placed on the order book because they are placed at the exchange level - Limit orders, etc. But you have a **stop order waiting to trigger at the broker level**. How do they know when your order isn't even sitting on the exchange? OMG! Your broker is in on it, NOT!

Technical Analysis is a self-fulfilling prophecy

Institutional traders know what every other trader is looking at. High-Low-Close from Yesterday, 3-Days ago, Last week, etc. They know about your SMAs, Support and Resistance Levels, IC Cloud, and every other combination of technical analysis were traders may place their stops in both conservative setups, and loose setups, even if it's a mental stop. In fact, they are banking on psychological reaction to get you to personally press the button to buy and sell!

"OMG! I got stopped and then price ran back to my profit target" ~ no sh!t. That's the whole point. Grab liquidity, fill their order, move on. Why do you think u/HSeldon2020 recommends walkaway analysis? So you can study the levels at which you exit or place your stop. It is a form of training you around institutional buy/sell levels!

Here's a quick video (4:35) I posted in 1OP chat room couple of weeks ago.

Lose Small, Gain Big

An institutional trader doesn't mind dropping 10,000-50,000 shares up and down the price ladder to trigger humans, and limit orders to give up their position, which then allows them to fill a large portion of the 800,000 order. I mean, imagine if they are trying to fill an Elon Musk sell order as discreetly as possible before the market finds out and drive the price too far down!

Allow me to illustrate with few charts.

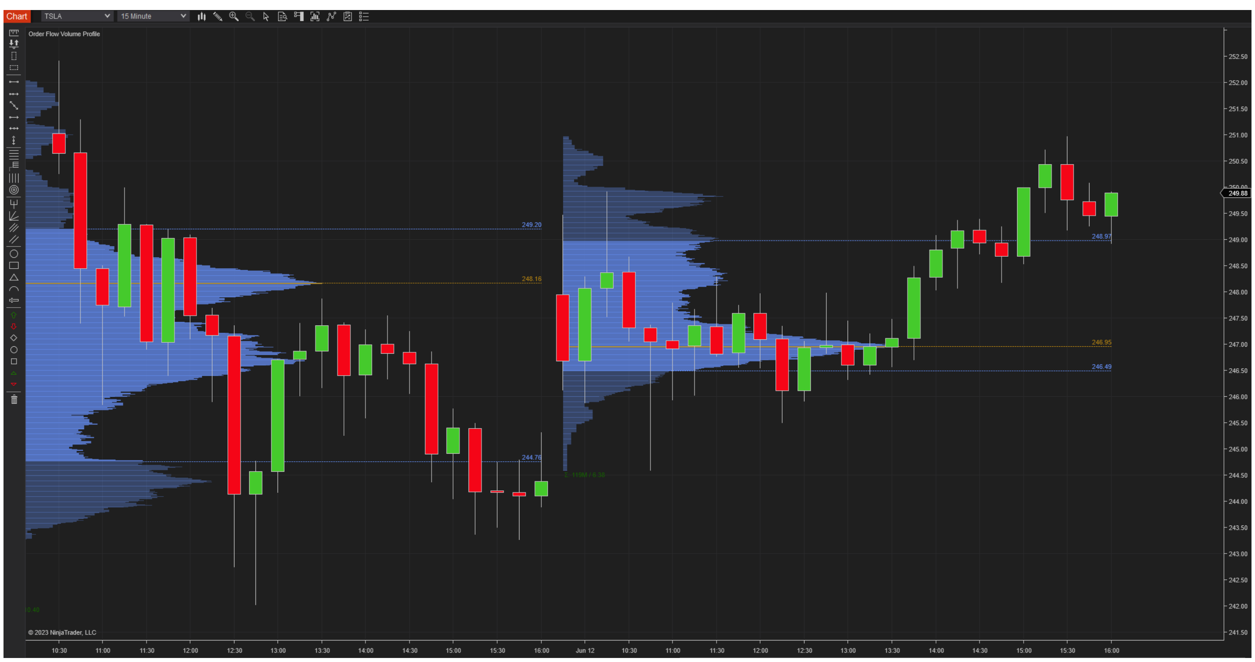
Zigzagging the order around VWAP by losing small, to fill larger order when triggering several stops at the same time only to suck liquidity out of the market!

Imagine the chart above, where and institutional trader needs to dump some (a lot of) TSLA shares. By driving price up, triggering shorts to buy-to-cover (so that they can sell into that liquidity) and rinse and repeat all day. Meanwhile, the price range for the day is roughly $10. Remember, they can't drop the price too fast or they'd be looking at selling $20-$30 below the open. Someone would be pissed if this wasn't a market panic sell order.

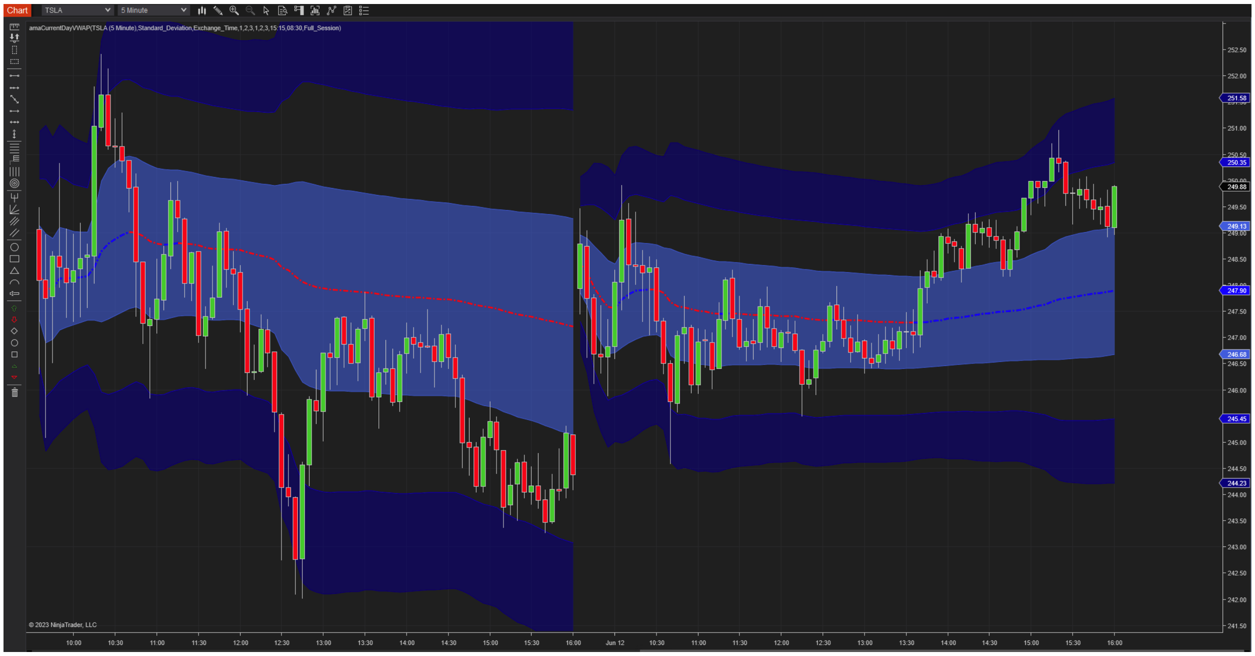
So, how do they know where to drive the price to trigger traders and orders?

Below is a small sample of tools just available to me and I just conjured up to show you quickly how they know where the levels are.

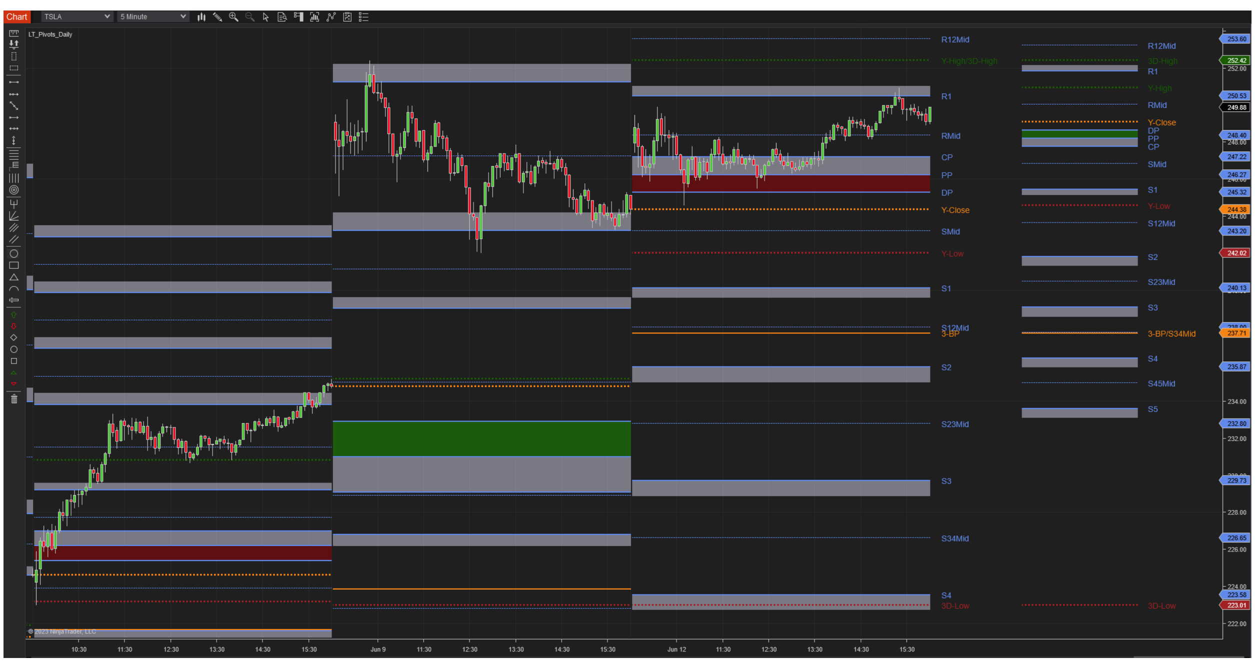
Trade Detector summarizes the Buy/Sell order at the Bid and Ask on each candle on 5 min chart. Order Flow Market Depth literally draws the order book levels on the chart. You can easily predict where the concentration of buy/sell orders are on the current candle.



Volume Profile is another way to look at where price has most reaction. Look at candle body vs candle high/low vs concentration of candles around certain high volume profile areas! the provide references to Point of Control, Range, Key Reversal and Retracement areas.



The line is the Session VWAP, the light blue is the 1SD of VWAP and is considered the Value area where institutions will always attempt to fill. Price doesn't stay too far outside the value area, which acts a magnet where institutions want to get filled. So they find liquidity to drive price there, hence stop-hunting.



Daily Pivots have been key to institutional trading for decades and date back to floor trading and paper orders. I don't display so many parameters, but this shows Yesterday HLC, Day Ranges, which creates the mid-pivot for the day, and then used to project Central Pivot (CP), Directional

Pivot (DP) as projection for next day. Just notice how price reacts around these levels. There are also weekly pivots and so many more tools to look at key inflection points. These are all valuable areas were buy-stop, sell stop, stop-loss, etc are used by traders.

Even opening range provides valuable information about price reaction areas, and day range. What you see above is the 1-minute-open price range (Orange) and the 5-minute-open price range (shaded below). Look how price reacts around these levels and how 50% of the Hi/Lo of 5-minute range is a key reversal areas. Institutional traders know these 50%, 100% and 200% computations based on open range.

These are just few examples of price levels understood by institutional traders that they use to generate liquidity for their institutional orders. They have many more tools and plenty of analysts and computers that do these calculations in seconds and mark up their charts without the need for indicators like these where they have to "Visually" inspect price levels.

I hope you found this article about stop hunting valuable. If you find any errors, please reply and I'll make sure I correct it.

Happy Trading!- Medhat

Here's another chart while I am updating the article. This is just the Open Range indicator for the Asian and European session. While futures are trading 23 hours a day and open at 6PM EST everyday (Tokyo Session), the majority of asian trading occurs when Hong Kong, Australia and others join, which is 8PM on the mark, and while European trading opens as early as midnight, the majority of volume comes in the London open at 3AM. Notice the price reaction of these open ranges on 1-minute and 5-minute basis and how how price reacts around these levels. This happens each and every day!

Open Range Asian and European session, with pre-regular session Hi/Mid/Low marked in grey/teal

Impact of Extra-Technical Factors to Your Trades (WIKI 2.0)

As short-term traders (day-trading or swing trading) we rely on technical interpretations of the charts. Generally speaking fundamental analysis has little bearing on whether a stock is going to move directionally in a short time frame (exceptions to this will be discussed in this article). Or to put another way, it doesn't fucking matter what the P/E Ratio is over a one or two day period.

The debate as to whether Technical Analysis works or not is somewhat idiotic - you can see it working. It drives me crazy to see posts like, "Does Technical Analysis Work?". Ummmm, are you blind? A stock approaches VWAP and then bounces off, another hits it SMA 50 and reverses back down, etc. The reason why levels of *support* and *resistance* (and if you break it down that is essentially what Technical Analysis really is - finding the correct levels of S & R) matter is because a majority of the liquidity in the market follows it - i.e., Institutions. The daily SMA 50, 100, 200, proper Trendlines, etc. are so hardwired into their moveable capital that it's written into the Algorithms that trade for them. I am not going to go over which indicators and methods one should use because that is all in the original WIKI.

Great - so Technical Analysis matters.

Except as we all know, it matters, until it doesn't.

This is evident in the extreme example of *Earnings* - Earnings don't give a shit about technicals. Extreme reactions to earnings (Bearish or Bullish) certainly don't care about even the strongest levels of Support or Resistance. It is why most should avoid trading over earnings - there are literally no guardrails. Earnings themselves can change the valuation of a stock and thus move those levels of S & R based on Institutional demand (or lack thereof).

Extra-Technicals

Now this is where it gets difficult - let's take **AMZN** (currently at $175 as of this writing) - on the technicals the stock looks fine - good for a long position even - but there is something else - it's inclusion in the DOW JONES. **That** additional piece of information makes **AMZN** an even *better* long.

That is an obvious example of mixing technicals with "extra-technicals" and by that I am not referring to P/E Ratios or Price to Book - rather for the purposes of this article I am talking about anything that is outside technicals, but impactful to the stock.

For example, I took a long position in **AAPL,** even though the stock is bearish across any metric and would not qualify under the guidelines listed in the WIKI 1.0. *However,* there was UOA surrounding the $195 Calls that stretched out until August (and no, I am not defining acronyms - look them up). An Institutional buy of over $2 million in OTM Call Options is significant and was enough to overcome the technical drawbacks. At the very least it should allow the stock to base support here - which is another factor.

MSTR is a Ponzi scheme - **NVDA** has a conference where it comes down to the price of the new chip vs. margins - all of these and more are external to technicals. Here is the rub - For each of these instances there is a small group of investors that have an edge. A small group that understands the intricate details of what is occurring and about to occur with these stocks. Those people are *acting* on that information - which is **not** "inside".

"Won't that show up in the price action?"

Perhaps - but more likely it will show up when it is too late to act on it. Take **MSTR** - the company sells the stock, use proceeds to buy more BTC, drive up price - issues more shares, sells those shares, buy more BTC, rinse / repeat. At some point it catches up. But when?

"Just Straddle it!"

Ah, good idea. But market makers are on to that game - they make the premium so damn high that it will take an oversized move to turn that straddle profitable. However, I *did* Straddle **MSTR** because the daily ATR is over $200 and the cost of the Straddle is underpriced when compared to the expected daily movement. So here you have an example of a trade that cost $175 ($17,500 per contract), and the stock would have to move by at least that amount in either direction by Friday to make the trade profitable. The daily movement of the stock is +/- $200 - meaning as long as it stays within its normal range, this becomes a profitable trade. There isn't any technical analysis at all that goes into that decision. As of this writing that trade *is* profitable.

Another example - I just took a CDS on **NVDA** not because it is had particular *relative strength* but rather after an attempt to *sell the news* the stock bounced back. That tells me that Institutions have begun to have faith that the stock is not going to drop further (as they had their selling chance) and all it has to do is get through the last boundary of $900.

Let's switch gears for a moment - in January I said this would be the year of rate cuts - just a matter of how many and when. Here is idea in a nutshell -

The market priced in 4 significant rate cuts for 2024 back in January - that number has now been reduced and pushed further back; however, the market has not gone down, why? Because the *reason the cuts are "delayed" is a robust economy which leads to stronger earnings and thus, valuations do not get out of control.*

It is a delicate balance but one that can only go so far. Why does this matter when Day/Swing Trading? Because it is an overall "news umbrella" that focuses the market - everything must be seen through that lens.

The Rules:

So here comes the part where I outline all the rules on how to navigate extra-technical indications, right? Yeah - not a chance. Because there are none. There are however some guidelines or questions you need to ask in any situation:

Importance: Otherwise thought of as Impact and Time.

How *impactful* was the information and how long will that impact last? For example, when doors started flying off airplanes - it was both *Impactful* and *Lasting*. Those combined to give that news on the stock (**BA**) a high degree of *Importance*.

However, never fall under the belief that some news stories are "self-evident" in their importance. The thing you do not know is -

Expected or Not: Otherwise known as "Priced In or Not"

While you may focus on trading, perhaps even full-time, you aren't nearly as in-tune as the people at Institutions who are going to be way ahead of the retail trading curve. So you might think a piece of news is important/relevant but if it was expected you might get the opposite price action you assumed would happen (i.e. Sell the News). Why didn't **NVDA** just go to $1,000 after they announced deals with just about every company on the planet? Because as JPM told me - "No surprises there - exactly what we expected, that is why the stock has been running up as much as it did."

Macro or Micro: Otherwise known as World, Country, Market, Sector, Industry or Stock

War spreading in the Middle East could impact Oil Pricing - that would be a Global issue.

The results of the election in Nov. would be a Country level concern.

SPY hitting a major level of Resistance deals primarily on the Market level.

and so on…**Note -** identifying this category of the Extra-Technical is probably the easiest because it is objective.

And then finally comes the ***Intangible*** - which is drawing logical conclusions from everything above, including future considerations. As an example, look at **NVDA** - they just had (or are still having) a rather large conference that is showcasing their newest innovations and partnerships. Almost every other minute another news headline is put out about how **NVDA** is developing some new groundbreaking tech.

The magnitude of these is at the very least *Sector* and perhaps even *Market* - the *Importance* is high, but yet the stock dropped and is now basically back where it started yesterday morning - why? Because everything announced was also *Expected*. The huge run-up in **NVDA** has in part been due to the expectation of all the announcements we are seeing now.

So why did I go long? Why am I Bullish? That is the ***Intangible*** where I am drawing a conclusion that if Institutions wanted to sell-off the stock, they had their opportunity to do so. Technicals alone would not justify this trade.

In poker there is something called *Implied Odds*. Sure, you can look at calling a $50 Bet into a $150 pot as getting 3 to 1 on your money, but what if you put the other player on a straight and you have a flush? In that case you know you can get that player to call your all-in on the river and win significantly more. The ***Intangible*** aspect is a lot like those *Implied Odds*.

Conclusion

Best case scenario is when the technicals and extra-technicals are in alignment with each other but that isn't always what happens, in fact, it rarely does. However, the entire point is these factors can override Technicals - but not in the way *Fundamentals* might for a long-term investor.

My trade in **MRNA** was an extreme example of this - my read on the stock itself was that there would be several upcoming announcements, each of which had an opportunity to boost the stock. All the vaccine-related losses were already priced-in, so any release that indicated a new revenue stream would push the price upward. Hence, I held the position through a strong downturn (overall profit on that trade was close to $900,000).

The danger here is obvious - without the experience and knowledge necessary to properly weigh the above elements one can easily misread a situation. In that case you are now ignoring technicals in favor of a thesis that may be poorly formed.

What I don't want to see is this idea being used to justify all manners of trades that shouldn't be made. Predicting a "top" or "bottom" is **not** what I am referring to here - nor is any armchair analysis that follows some logic that you imagine Institutions have not already considered (*i.e.*, **GOOGL** is going to lose ad revenue with the implementation of AI-generated results - so I am going to get LEAP Puts on it!). I am talking about reacting to real-world events and context that adds significant color to any trade you might be considering.

I chose this as the first topic of the WIKI 2.0 specifically because it should set the tone of how far beyond the original foundation I will be venturing.

Chapter 14. Growing Small Accounts

The Delicate Balance of a Small Account - 4 Different Methods to Grow

As many of you know I am in the middle of the $5K Challenge, in which I am using a $5K Margin-Enabled Account, that has 3 Day Trades every 5 Days, and attempting to double it. Previously I was able to complete this challenge in 3 Days with 21 total trades. When I did the first challenge, we had a Bullish Market that was in a strong trend which allowed me to use a very straightforward method.

However, this challenge has been very different. While the volatility is great for Day Trading, these past two weeks have created one of the most difficult Swing Trading environments of recent memory.

The entire exercise is meant to be a teaching tool, so in that respect I am using every single "trick" in the book to help people learn how to manage their positions. Everything from simply selling calls/puts over my long positions to generate buying power to exploiting the flaw in brokers that allow you to close a position even if it puts one into a negative account balance (i.e. if I wanted to get calls on *TSLA*, but did not have the buying power, one could do a *CDS*, wait for *TSLA* to dip, buy back the short call for a profit which would put the account into a "Margin Call", and then hold the long calls that I wouldn't have been able to get otherwise. You then close the position the next day to avoid the margin call).

There are many different methods one can use to increase a small account, in this post I am outlining four of the most prominent. The current environment allows for two different strategies:

Current Method - Balanced with Specs:

For this method I use every single dime of buying power.

The best way to illustrate that is to outline the current account which has $3,698 in total balance at the moment.

Positions:

Bearish:

- *FDX* - Currently representing - $1,378 in value, was purchased for $819 (which is $559 in profit)
- *FSIV* - Currently representing - $666 in value (funny), was purchased for $562 (which is $104 in profit)

Total spent on Bearish Positions = $1,381. Current Value of Bearish Positions = $2,044, which is 55.2% of the portfolio.

Bullish:

- *BKR* - Currently representing - $442 in value, was purchased for $375 (which is $67 in profit)
- *PM* - Currently representing $400 in value, was purchased for $302 (which is $98 in profit)
- *SNAP* - Currently representing $309 in value, was purchased for $636 (which is $327 in losses)
- *CFVI* - Currently representing - $210 in value, was purchased for $280 (which is $70 in losses)
- *OXY* - Currently representing - $159 in value, was purchased for $147 (which is $12 in profit)

Total spent on Bullish Positions = $1,740. Current Value of Bullish Positions = $1,520, which is 41.1% of the portfolio.

Spec:

- *BHG* - Currently representing - $163 in value, was purchased for $80 (which is $83 in profit)
- *BBIG* - Currently representing - $30 in value, was purchased for $40 (which is $10 in losses)

Total spent on Spec Positions = $120. Current value of Spec Positions = $193, which is 5.2% of the portfolio.

*****The $55.47 disparity is due to the settling of Options in the account; thus, the total adds up to 101.5%.*****

As you can see this method is one of balance - using *Relative Strength* and *Relative Weakness*. If the market opens down on Monday, the *Bullish* positions (due to their *Relative Strength*) should hold, or even increase given their concentration in the *Oil Sector*. And if the market open higher, the *Bearish* positions have a cushion, which combined with their *Relative Weakness* should be able to maintain their profitable status.

This approach, however, generally does not allow for *large gains*, but it offers protection in a volatile market. It is not *hedged* but rather *balanced*. The *Spec* trades (low risk, high potential reward) are used to allow for the chance of a large potential gain. If, for example, *BHG* were to go over $4, those calls which cost $80 total, would surge in value to well over $500.

Balanced approaches such as this require constant monitoring and updating of the account. You may notice that it is slightly tilted towards a *Bearish* edge (55.2% of the total value), which is reflective of the current market. The *Bullish* positions have options that are *sector* dependent, which may change quickly. ***In other words, you are constantly monitoring and trading this type of account!***

Throughout this challenge my positions at the end of each day generally bore little resemblance to its' composition at the open of the market. One also needs to maximize every penny of their buying power, as well as be as flexible as possible, given the restriction in Day Trades - a fine line to walk as a trader.

It is very easy to make a mistake while executing this strategy (*e.g.*, I sold *GPS Lottos* far too early as they would have paid off and brought the account close to $5K), or lose an opportunity given the market uncertainty (e.g. closing down the *ADBE* spread at the beginning of the day, which if allowed to run would have brought the account close to $5K).

However, it is *also one of the best methods in which to teach small account management*. There is no area of *short-term swing trade* that isn't covered here - from using spreads to straight options, hedging your positions and taking measured risks.

There of course, *another way,* which really is a matter of reduction and magnitude. As I mentioned in the last video, this second way is not nearly as engaging as the one currently being employed, and it requires far less active management.

Given the lack of market direction (unless *SPY* breaks through the upward sloping Algo-Trendline, in which case we will have a *Bearish* trend confirmed) - one simply maintains a balanced portfolio with less positions and higher concentration of funds.

For example - if on Monday I were to liquidate everything but the *FDX* spread and *PM* calls (using the money from the other positions to enter into 2 more calls on *PM*),and then letting both run -

The *FDX* spread has an additional profit potential of $1,621 if *FDX* were to finish the week below $227.50, which is roughly $5 away from the current price.

Four calls on *PM* is currently worth $800, a $1.50 increase in the price of *PM* would give an addition $400 in profit.

Having just those two positions and keeping the *Spec* of *BHG*, puts the account in place where it could be over $6,000 simply by having *FDX* go below $227.5, *PM* finishing about $109.50, and *BHG* climbing over $4. Three *very likely scenarios*.

The account would have roughly $1,400 in Buying Option available to make any adjustments. The idea from then would be to always have:

One Bearish Spread that can net over $1,000 in profit, finding the weakest stock in the weakest sector that is proportionally weak to SPY

A Bullish spread on the strongest stock in the strongest sector that is proportionally strong to SPY

One low cost *Spec* that can generate roughly $500 with a small move in the underlying - if you chose the right *Spec* stocks, these should pay off roughly 20% of the time.

This method, as you might imagine, is not very exciting - however, as long as you adjust your positions each day given the state of the market (i.e. if the market start to become very bearish, you would increase the position size of the the *Bearish* spread and reduce the *Bullish* one) - this method should produce between $750-$1,500 in profit each week until you reached your goal. Any pop in your *Spec* plays would cut a week off your time.

The other two methods, which are not viable in the current market, but would be if we had a shift in *SPY*, are very straightforward:

Aggressive: Once a clear trend in *SPY* is confirmed, this method involves buying straight calls or puts on stocks that qualify under the conditions outlined in the Wiki. This approach was used on the last Challenge, and resulted in a $10K account within 3 days.

Conservative: This would require a clear finding of support from *SPY* and then a confirmed bounce, at which point you would enter *OTM Bullish Put Spreads* that net $1K in profit each at first. To do this you would need to do either 10 contracts of $1 Credit, 20 Contracts of .50 Credit, or 50 Contracts of a .20 Credit - each would cost you $4,000 in margin to use and net $1,000 in profit. The plays would average to be 3 weeks away in expiration and be *very high probability trades* (typically these spreads work 90-95% of the time, and allow for one to leg-out for breakeven or profit when they do not work, 1-2% of the time). If you started with $4K (which is roughly where we are), one would reach their goal of $10K in roughly 10-12 weeks time (once you hit $6K you can do two spreads, one for $1,000 profit and one for $500, etc.).

As you follow along with this Challenge, keep these various methods in mind. You will be able to clearly see which ones I am using as we continue to navigate the most unpredictable and volatile market in many years.

Top 10 Strategies for Accounts Under $25K

It has been a while since I have posted a top ten list, and I have been getting a lot of questions about how to build accounts that are below the PDT balance.

This post is for those traders that are currently under the $25K minimum, and have the goal of getting the account to the point where they can Day Trade.

Short-term trading in non-PDT accounts can be frustrating in so many ways. You can have the perfect trade; your position is up over $1,500 and the market/stock are doing everything you expected - except you do not have any Day Trades left and can't take the profit! So, you have no choice but to hold overnight, and naturally, the next morning you awake to find your previously profitable trade is now back to break-even.

There is also that sinking feeling when you are holding a primarily bullish portfolio overnight, and you see S&P Futures dropping.... which means chances are there will be a lot of red waiting for you the next morning!

I am sure it can sometimes seem like you can spend months just going in circles and winding up right back where you started. Like I said, frustrating.

Hopefully, this will help a bit:

1) **Use Margin** - You should be using a margin-account that gives you three Day Trades every five days. To begin with Cash-Settled accounts are extremely limiting - even though they may seem like the opposite. The inability to execute option spreads is primary among those limitations, and with accounts under the PDT rule, option spreads are you best weapon. Another reason? You need to learn how to buy and sell stock - and for that, you want margin. Options are great, but when Day Trading, stock is usually better. And finally, let's say you have $5,000 - and you buy five calls @ $5 each, and then you trade 250 shares of a $10 stock. Ok, now you are done. One day for half to settle, two days for the other half. How many "day trades" are you really getting that would be of any actual value in increasing your account? Plus, once you Day Trade, you need to know how to use margin.
2) **Hedge -** You need to learn how to properly hedge your account. Using Relative Strength & Weakness gives you an edge in this regard. Most new traders tend to have a strong bullish bias in their swing-trades, and if you are under $25K than swing trades are your bread & butter. This means that you are generally looking at holding several bullish overnight positions, and also means that if SPY opens down the following day it can do significant damage to your account. Hedging correctly can take some of the sting off these occurrences without sacrificing too much downside. There are different types of hedges you can use:
    A) *Positional Hedges* - Let's say you are holding Calls on **TSLA** - Strike Price is $1030, and it cost $20. Before the market closes just turn that call into a *Call Debit Spread* and sell a higher strike against it. You can do this with all of your calls and/or, especially if they are expiring the same week. You aren't trying to cap your gains here, so you can make the spread wide - as you are just using the credit to mitigate against time decay for the original long option.
    B) *Straight Hedge* - These are the most effective as a pure hedge, but are only effective at the sacrifice of your other positions. Buying **SPY** Puts would be an example of this - if **SPY** drops, chances are your other bullish positions will suffer, but those puts would be the direct beneficiary. This strategy can sometimes be effective if you have *a lot of bullish positions*.
    C) *Conditional Hedge* - Stocks that are Relatively Weak to the market (e.g. **PATH** on Friday) are the best candidates for this method. If all of your bullish positions have Relative Strength with solid daily charts, and all of your 'hedges' have Relative Weakness with bearish daily charts, then when the market opens down the next day, your bullish stocks should hold up fairly well and your hedges will outperform.

    Learn to find the right balance in your account where you don't want your hedges to cancel out your overall positions, but you also do not want them to be so insignificant that they do not matter.
3) **Save One Day Trade For A Lotto -** Lotto Friday plays (there is a post dedicated to this) can occasionally pay off like no other type of trade. Take Friday for example - if you had played the **TLRY** Lotto Calls (I posted these on Twitter) for .04, you could have sold them for .20 - a 500% return. You need a Day Trade available to do that. Some Friday's will not produce a good lotto play, which is fine, you still have a Day Trade saved that you can use. Plus, Friday Lottos are fun and just because you are under $25K, you should learn them and partake in the opportunity.
4) **Stop With The OTM Options -** I know, they are cheaper, and you don't have much money. But with the exception of the beforementioned Lottos (and these should be ATM), they are account-killers. Trust me, 1 ITM Call is better than 4 OTM calls. There is also a post dedicated to this as well (and yes, you should look in the Wiki). I get what you are trying to

do, and cognitively it makes sense - you want to buy a bunch of $.80 calls on a strong stock and have it turn into a huge winner. However, you are most likely buying those options that expire the same week (because...cheaper), and when the stock doesn't move do you sell them for a loss? No. You keep them, and more times than not they whittle away to nothing. Don't use them. They don't work, haven't worked and won't work.

5) **Use Every Tool & Method -** Your positions should be a mix of bullish and bearish, spreads and straight options, longs and shorts on stock. Many times you see people with these accounts, and all they have are a bunch of Call Options, which is a recipe for disaster. You want some conservative Bullish Put Spreads, some Put Debit Spreads, straight Calls, Short Stock - a mix of different strategies based on the market and the stock. If all you are doing is looking for "strong" stocks and then buying calls, you are never going to grow your account that way. Spreads, in particular, are your best friend for growing an account. An account with just $5K in it could have done a Bullish Put Spread on **RBLX** last week (89/88 for .25 cents, expiring 11/19) and within a day made 50% on it. A Put Debit Spread on **TSLA** would have brought in an even higher amount of profit. Plus, they are safer and give you more avenues to "fix" the trade if it turns against you.
6) **Daily Chart -** The intraday chart may be what turned you on to a stock, but it is the daily chart that should determine whether or not you take the trade. You are swinging this position and you want to make sure the stock has a decisively good daily direction. You don't want stock in consolidation or stuck below moving averages, you are looking for stocks that are making strong moves. Also, you need to put the notion that just because a stock is *up a lot* that it can't continue. **Go with the trend, not against it.**
7) **Market First -** The majority of your positions should be in line with the market. If **SPY** is bullish, you should not be shorting (unless you are hedging). If the market is undecided, and has low volume, you should be keeping your portfolio to a small size. Unlike Day Trading you are at the mercy of the overnight market, so keep the odds in your favor.
8) **Ride/Add Strength -** Every morning, the market opens and some of your positions will be up, others will be down. So what do you do? Most people are taking profit on their winners, and quickly. Then they hold on to their losers and watch them all day. You should be doing the opposite - cut most of those losers and ride the winners. This is one of the biggest mistakes short-term swing traders make - getting rid of the positions that are making you money, while keeping the ones draining you of cash. Same thing with the trades you made that same day - if you have a trade that is going really well, stop looking for other trades and just add to the winner - average up. And yes, I know about the fear of the market taking away your gains, guess what? I have a post dedicated to that as well.
9) **Stop Over-Thinking It -** If you get the market right, and then get the stock right - you will make money. Stop filling up your charts with hundreds of indicators, looking at LVL2 info, volume profiles, RSI, and the rest of that crap. Use the method here to look for strong stocks with relative strength or weakness, and use the right strategy. Do not worry too much about the intraday action unless it violates a significant thesis of your trade. And do not take a major position unless you have a Day Trade left to use in case it goes against you.
10) **Make Sure You Are Ready -** The one thing you do not want is to finally get above $25K, and then you proceed to blow all your profit. If you are not ready to Day Trade you will find yourself right back below PDT status and trying to build your account back again. When you are swing trading your way up you have plenty of time to practice with a paper account - use that to Day Trade. If you can't make a profit in a paper account when there are not emotions at play, it is going to be really hard to do it with real money. Day Trading is *very* different from

Swing Trading, and so as you work towards that goal, make sure you are ready for it when you arrive.

Best Strategy to Build Account Under $25K (OTM Bullish Put Spreads Advice)

Even though this is a Day Trading sub I recognize that many of you are trying to get above $25K currently. Many of you have told me that you would like to see some more strategies for accounts that are below the PDT level, so yesterday I posted one, and now here is another:

First let me qualify this - there are many ways one can define "best". For the purposes of this post, "best" is defined as the most *consistent* method with the *highest rate of success*.

The drawback to the method I am about to outline? It is slow and definitely not "exciting". Not necessarily a "drawback", but I suppose it is to some.

For sure there are many quick ways to build an account, but all of them come with a significant level of risk. I can do other posts that detail out what those are - but first let's talk about this one:

OTM Bullish Put Spreads

A *Bullish Put Spread* by definition is executed when you sell a Put option and then Buy a Put Option at a lower strike price for the same expiration date. An example:

Stock: XYZ

Current Price: $200

You Sell the $200 Put (expiring 11/5) and Receive $10 in Credit

You Buy the $195 Put (expiring 11/5) and Pay $7

Total credit = $3 (i.e. $300) per contract

Simple enough - you received more money than you spent, so you get a credit for the trade. Also, if you were to just Sell the $200 Put Contracts naked, not only would that be very risky, but it would take up a significant amount of margin. When you go long the $195 Puts you have capped your loss to $5 a share (minus the credit received).

There are three potential outcomes to the trade:

Stock XYZ finishes the week above $200: In this case, both the 200 Put you sold and the 195 Put you bought expire worthless. Thus, you keep the entire $300 credit per contract.

Stock XYZ finishes the week below $200 but above $195 - Let's say $196: This is the riskiest outcome with these spreads, as your $195 Put expires worthless, but your $200 Put is worth -$4. You would owe $400 per contract minus the $300 your received in credit = net loss is $100 per contract. This is risky because if you do not close the $200 Put before expiration it will get assigned.

Stock XYZ finishes the week below $195 - Let's say $190: This represents a max loss scenario for the trade. Your $200 Puts are worth -$10 and your $195 Puts are worth $5. The broker uses one contract to cancel out the other (i.e. exercising $200 Puts means you are buying 100 shares of **XYZ** at $200 a share, exercising the $195 Put means you are selling **XYZ** at $195 a share - total loss of $5 a share, minus the $3 credit = net loss is $200 a contract (which is your max loss here).

Now that you get the idea behind it (hopefully), here is the twist on this method:

Under certain market conditions you can create these spreads with the right combination of *probability of success* and *ROI* on the trade to execute a strategy that has the highest chance of building your account.

What are those market conditions? You need a pullback in **SPY** to begin with - much like we had at the end of September/Early October. Next you need to see **SPY** recover to the point that you have confidence we have returned to a bullish pattern - October 18th would be a good example of this, second day in a row where **SPY** opened and closed above the SMA 50.

Next you need to find strong stocks, with bullish daily charts that doesn't have earnings for the next 3-4 weeks - look at **NVDA** on 10/18 - that would be a perfect candidate. Nice gap up two days prior, held the gap, with a convincing bounce off the SMA 50. Look for stocks that are above their SMA's 50, 100 and 200, and have HA continuation candles on the Daily chart. *I stress again - make sure there are no earnings announcements for at least 3-4 weeks*.

Now you want to find your short strike price (this is price you will be selling your short Put). You are looking for a price that has at least two major areas of support above it. You are trying to get as close as you can to the current price, but still far enough away that you would need a significant drop to occur in order to endanger your spread. For **NVDA** on 10/18 that would be a price of roughly $210. That price is below the both the 50 SMA *and* the gap up - meaning in order for **NVDA** to drop below $210, it would have to break-through both those areas of support.

Stocks do not just drop below their major support lines without a significant technical breakdown in either the market or the stock itself, and the likelihood of that happening within a 3-4 week timeframe is very slim.

So in this example (and I am not using a current day example because the market setup is not right for this play, but it may be very soon), the $210 strike would be your Short Put. Most likely this would have been a Delta of roughly -.15 to -.20 on your Option Chain.

Next up is the credit you need to receive for the trade. You are looking for 20 cents credit for every dollar between the strikes (or 10 cents for every 50 cents between the strikes). You will find there is not much difference between doing a $210/$205 *Bullish Put Spread* for a $1 Credit or a $210/$207.5 *Spread* for a .50 cent credit. Both scenarios give you a ***25% ROI*** on your money. Meaning in the $210/$205 Spread you are putting up $4 in Risk to make $1 in Profit. Normally, this is not a good deal for you, right?

Here's the kicker: as long as your spread has a win probability of more than 80% you will make money. If you did this trade 100 times and it worked 80 times - you made $80 (+$1 per win), and it didn't work 20 times (-$4 per loss), you lost $80 - breakeven. So you need to be successful more than 80% for this play to be worth it. The 20 cents credit per dollar in the spread figure is calculated because if done correctly these plays work 95% of the time, more than enough to be very successful with the method.

In order to get that type of credit that far out-of-the-money you will usually need to go 3 to 4 weeks out.

Remember, time decay is key to these spreads - every day that passes where the stock price stays above the short strike price, these options are losing value (which is a good thing in a credit spread). The closer you get to the expiration date the faster Theta does its job.

In 2020, we did over 300 of these spreads with a win rate above 96.5%. Here's why:

Let's say you took the **NVDA** spread which expired in three weeks (11/5), when the stock was at a price of $220 a share. The stock can drop $9 a share and your spread still makes full value. The stock can stay right at $220 and your spread still gets full value. Or the stock can go up and your spread still gets full value.

The only way your spread gets into danger is if it dropped more than $10 a share, broke through two levels of support, and remained below $210 on expiration day. However, even if that happens, this method is designed with a parachute - *legging out*.

Keep in mind, *legging out* of *Bullish Put Spreads* is dangerous, and need to be done correctly - if you are new to this, or somewhat unsure of how to *leg out,* it is better just to take the loss, but, for the sake of being comprehensive, here is how:

Let's say you get unlucky, and it is one of those 5-10% of the times that the stock or the market has a major technical breakdown before your expiration date and **NVDA** is experiencing a significant drop. If **SPY** is in the red and your stock is falling below your short strike, you can buy back the short strike and let the Long Put run until you match the price you bought back the Short Put. What would that look like? Something like this:

On the week of expiration, **NVDA** drops to $215. You are getting a bit worried, but it is Monday and you are still $5 above the short strike. On Tuesday the market opens lower again, and **NVDA** remains weak, now dropping to $210.50. You are hoping support holds - but suddenly you see **NVDA** break support and fall below $210.

In that case, you can either close the trade for a loss of roughly $1(at this point your $210 Put is most likely worth around $4 and your $205 Put is worth around $2 - meaning you lose $2 in the difference, but you still have your $1 credit - total loss is $1) This means even though you took a loss, you did not take the full loss of $4 that you could have taken.

Or you can buy back your short strike (for $4) and now your Long Put of $205 which is worth $2 should continue to go up in value as **NVDA** drops. This is why it is important that you have both a weak market and weak stock. Because if the market and/or stock reverses, and **NVDA** stops dropping, you risk losing both the $4 you spent to buy back the Short Put and the $2 in value of the Long Put taking your max loss from $4 to now $6. However, if you time it right - you can put in a sell order of the Long Put ($205) for the same price you bought back the Short Put ($210) - $4. If you hit that target than the two will cancel each other out and you get the full value of the trade - $1 or $100 per contract. Obviously, you need to monitor this closely - if you see **NVDA** (in this example) drop more and the $205 Puts are worth $3.50 now, but the stock finds support and begins to rebound, you might want to close the trade, take the .50 cent loss on the difference, plus the $1 credit original received = .50 cent total profit.

A $10,000 account can have 4 of these types of spreads running at the same time, each spread worth roughly $500 in profit (or 2 spreads each worth roughly $1K in profit), with $1K left over for cushion. 10 Contracts for a Profit of $1 each is worth $1K in profit and takes $4K in margin.

If you manage them correctly, than most of the time you will increase your balance to $12K in the first month. The next month you can do 3 of these for $1K each (or 6 for $500 each) with $2K in cushion and get to $15K. *Etc. Etc.*

It may take a few readings of this to fully get it, but the next time you see the market go into a sustained drop, and then find support you should start looking for good *Bullish Put Spread* candidates. Be patient and make sure SPY is bouncing back up as these spreads do not work when SPY is in a bearish stretch.

Findings - PDT Method - Update $5K Challenge

It was an interesting journey. Attempting to find a method that can *consistently* produce profitable results for small balance accounts has never been done before and I can see why it hasn't.

Obviously, the PDT rules themselves are restrictive, as are cash-only accounts but the most restrictive thing of all is actually the.... lack of cash itself. Money makes money, always has. It allows for flexibility, a wider array of actions one can take while trading (e.g. I can sell Puts on TSLA, I can buy calls on AMZN, buying back short options is never an issue, etc...) Hence the point of this entire experiment - to level the playing field.

One of the bigger issues is that it is cost-prohibitive to buy *stock* in an account that has $5,000, which pushes traders towards options. Options, however, have a ticking clock, and given the lack of financial resources traders of these accounts typically buy options that expire the same week. *This gives trades very little room to breathe*. Even a cursory analysis of the $5K journal reveals that a vast majority of the trades would have worked given additional time.

My key findings so far:

1. *One can only take the top tier set-ups.* Out of roughly 20-30 potentially good set-ups each day, only 1 or 2 would be considered "excellent". I found this early quite early on, the trick was - *identifying those trades*.
2. Those top set-ups are absolutely centered on breaches of an Algo Price Point (see previous post for the remaining open questions on this strategy) which are in the same direction as the market. **Note:** While it is assumed that these breaks of the Algo PP's encompass *relative strength/relative weakness* it is important to verify. These need to become the alerts that are set on your charts. The distinguishing factor that makes one Algo PP breach better than another is the quality of the Daily chart and the Relative Volume.
3. Looking through the Trading Journal it is also clear that the best *type* of trade to use is either a straight Call or straight Put that has a Delta of .65 or higher and *expires more than 1 week out*.

That presents us with a very straight-forward strategy to now try going forward:

Only take trades that show a clear ALGO PP breach in the same direction of the market, with strong volume, a good daily chart, and has RS or RW. Use ITM Calls or Puts (.65 or higher) that expire more than one week out.

So that is what we will do - each day I will buy either a Call or a Put that meet the criteria above on the top 1-3 trades.

While this strategy can work in a Cash account, I am keeping it margin for the moment as this continues to be an experiment. Once the method(s) have been shown to produce consistently profitable results for accounts under $25K, I will lock it in, put it in the Wiki and include the full recommendations.

I would say **BA** trade made today (182.5 Call for 4/22) would be the first of these as it checks all the boxes, including the breach of the Algo price point of $176.75, but given that it is an ATM call it does not quite qualify.

So, starting tomorrow I will close out of all positions, give an update as to the account and begin with this new strategy.

Trading with less than $25K

Day Trading as a source of income absolutely requires more than $25K in your account. Can you use a cash-only account and wait for money to settle? Yes - but you will not have enough flexibility to truly Day Trade.

However, as many of you have stated - most people do not have $25K to put into an account. In fact, most of you have less than $5K to work with at any one time. So the question is - how can you build an account of that size?

As a lot of you just witnessed, I turned a $30K account into $60K in a matter of 5 weeks, but there is something I hope some of you noticed - the last two weeks of that challenge I traded as if the account were under $25K. In other words, I only used a limited number of Day Trades a week, and primarily swing traded. The first three weeks of the challenge were meant to show that you can successfully Day Trade without chasing low-float gappers, but the final weeks were dedicated to showing you the profit potential of swing trading.

So how would you do it in a smaller account? The exact same way - the only thing that changes is the position size.

A couple of things to note when swing trading -

Whenever my portfolio becomes too bullish, I add hedges.

I diversified my holdings amongst various sectors.

I used Call Debit Spread, Diagonals, Put Debit Spreads, Put Credit Spreads as well as Straight Calls and Puts.

Every stock had a corresponding stock or weak daily chart, which allowed me to be patient with the position.

Every stock was strong (or weak) against SPY on a daily basis.

I did not rush to take profits, nor did I cut a trade unless it completely violated the technical reasons I entered.

I used less contracts for ITM options rather than more contracts for OTM options.

All of these techniques can be used in a small account as well as a large one. For example, one look at the NFLX daily chart shows that it has broken through both long-standing horizontal resistance and its downward sloping algo line (please look this up if you don't know what it is). The stock is extremely strong against the market and looks to continue its' upward trajectory.

Knowing this about NFLX I chose to use to Bullish Put Spread (i.e. Put Credit Spread) that was ATM, received a 2.70 credit for a $5 spread in strike price. I chose this method because the premiums for calls were too high and I was not getting a low enough debit for a CDS. This gives me a 54% return if NFLX stays above 560. An account with $1,000 in it could do up to 4 contracts on a spread like this, but in the interest of not risking the entire account - let's say you did 1 contract. That is a high probability trade that will return $270 (27%) on one trade alone.

Your goal should be to find trades like these and slowly build up your account each week. It requires a lot more patience, but each week should start with a higher total than the previous one. As you begin to build the account, the number of trades (and flexibility) also increases as well.

As I mentioned, at some point I will do the $5K challenge as well, but until then I wanted to give you some tips.

Chapter 15. The Mindset: Think Different, Trade Different

Top Five Mindset Issues

In most fields, if you take the time to learn a skill, and then practice that skill, you will improve.

Somethings are easier to master than others, but typically as long as you have a base level of intelligence, achieving success is combination of time and effort. **Areas that gauge success on physical performance or artistic ability, also require a certain amount of talent*.

Becoming a consistently profitable trader is no different - it takes a tremendous amount of time and dedicated effort to get to the point where you can do this full-time. However, there is one way that becoming a successful trader differs from other potential careers - the importance of ***Mindset***. Which isn't to say that "mindset" isn't important elsewhere, rather that it plays a much larger role when it comes to being a successful trader.

When it comes to the importance of mindset, trading is more comparable to playing Sports professionally. You can have all the talent and skill in the world, but in sports, if you can't perform under pressure, or in front of a crowd, you'll soon find yourself out of the game.

I know some extremely knowledgeable traders, people who could literally write books on the topic - but whenever they try to trade themselves, they fail. They just can't do it.

That is because unless you master the mindset of trading, all of the knowledge in the world won't help you make a profit. This problem is fairly well recognized; there are plenty of books and online videos on the topic. But as we all know, simply reading a book is not going to instantly solve your problem.

In order to really talk about this issue, we must first identify what we are talking about - so here are the most common mindset problems traders face - and when you read these be honest with yourself as to how much each impact your ability to be profitable:

Gambling - Let's get one thing out of the way up front - some of us are more prone to this issue than others. We all know who we are. A group of people can walk into a casino. For some in that group their eyes light up as they hear the sounds of the slot machines and the cheers at the crap table - all they can think about it breaking away and converting the cash in their pockets to chips. For others they are thinking about the shows they want to see, and where they can go to dinner. And yes, there are some that think, "This is hell, pure hell, when can we leave?" Gamblers know who they are - and live by the creed that "*money won is twice as sweet as money earned*". I should know, I am one of them. Still, even amongst the most gambling adverse it is hard not to feel like the market is one big casino. You become detached from the money in your account, as if they are chips on a blackjack table. It can almost feel like it's not real money. The problem with this? When you start treating your trading as gambling, you begin to take unnecessary risks. *Even worse, you start to think that is all luck anyway and begin rooting for your position to go up as if it was a racehorse you just bet on.* The more you see trading as simply “gambling" the father away you become from being a consistently profitable trader.

Uncharmed Life - Most of us, if not all of us, were not born into wealth. Some may have done well for themselves in life, but it is a pretty safe bet that just about everyone reading this hasn't put millions of dollars into an offshore account to avoid taxes. Which means we *worked* for a living. Nothing was handed to us, and everything we have we *earned*. And we did this in an environment that was designed to keep us from accumulating that wealth. The rules aren't fair and we all know it. What this also means is that our lives have been filled with a lot of disappointment. The other shoe is *always dropping*. Over time this mentality becomes fossilized within us, and it is this - We are constantly hoping things get better, and always afraid we are going to lose what we have. Think about it, when something good finally happens, do you enjoy it, or do you wind up worrying about when shit is about to go wrong again? And how often do you spend your time hoping for something? Whether it is a raise, a promotion, or winning the damn lottery. Now take this mindset over to trading and what happens? When you're in profit - what your first thought should be is - "I need to add to this and continue to grow my position", but what you actually think is, "I need to take profits now before it reverses". And when your position is in the red, what you should be thinking is, "Is my money better spent in a different trade than holding on to this loser", but what you wind up thinking is, "It will turn around soon, it *has* to!". See how the two mentalities cross each other? You cut off your winners out of fear, and extend your losers out of hope, because this is what you do in day-to-day life.

Counter-Trend Trading - This phenomenon is actually quite different from the others - because it *doesn't mimic real life*. In real life, we tend to go with the trend; if it was 80 degrees yesterday and 80 degrees today, we aren't expecting it to be 40 degrees tomorrow, we like to bet on the hot sport team that just won 10 of their last 11 games, if we hear on the news that relations with a country is deteriorating we think things will get worse, if we hear that the economy is improving we think it will keep getting better (usually). We live with the trends every day and go with them, trends provide order, structure and predictability to our lives. Except in trading - in trading people try to do the opposite. SPY is at an ATH, great - buy Puts. PYPL is dropping? Time to get some OTM Calls! We like to think we can outsmart the market. And there is a reason for that - when we are right, it validates our feeling that we know more than everyone else and have "figured out" something. Even though anything anyone could possibly think of is already built into the price of the stock, that doesn't seem to matter. And this type of self-delusion runs through an entire spectrum of stupidity - from "basic reasoning" like, "My kids and all their friends don't watch Netflix anymore, it is go to go down" to far more advanced DD that goes into the fundamentals of the stocks and sector. Institutions spend hundreds of millions of dollars to investigate every possible scenario, run models on all them, and act accordingly - meaning whatever theory you have is already baked into the price. More traders get burned with counter-trend trading than almost any other kind, except perhaps low-float scalping. And it all stems from the need to feel that they can "beat the market", but in reality, it is just laziness. One *can beat the market*, with a lot of hard work and effort - not through just sitting around and thinking, "Elon is selling shares, Tesla is going to drop!". *Buy High - sell Higher. The Trend is your friend*.

Lack of Confidence - And of course, the old standby - basic, straight-up confidence. Traders that trade for a living have confidence in their statistics, they know that if they make enough trades, using the right set-up, that they will be in profit at the end of the month. They have confidence during a huge drawdown in their trade that it will reverse, and equally have confidence when they add to a winning position. But even the best trader will have moments of doubt. A batter can have a .375 average in the majors, but after an 0 for 20 streak, I guarantee you that self-doubt creeps in. For new traders, or traders still trying to reach profitability, *confidence* can be a killer. After a huge loss you want to give up, and think to yourself, "What am I doing? I am just throwing away my money - I could just put that money into AAPL and leave it there instead." You begin to think that you're never going to *get it*, and every trade you make is steeped in fear. When something goes against you it is almost expected, and you are shocked when something actually works out. Even worse is when you finally think you *got it*, only to realize, *you don't have shit*. To make things worse, generally people in your life aren't supportive - which isn't exactly a boost to your self-esteem. If you talk to any former trader that has given up, you will find that at the heart of their decision to quit was a complete lack of confidence that they could do it.

Over-Confidence - Surprisingly, or maybe not so surprisingly, the opposite is also true. I see it all the time, people come into this thinking they have it *all figured out*. Everyone else is just an idiot, and if they just followed their basic method (it can truly be anything, from a three-bar system, to volume profiles and pivots, to even "gut feeling") they too can quit their job and be rich. Chances are these traders bought some OTM calls on a stock and got very lucky. Usually, I hear stories that average out to roughly turning $3,000 into $30,000 on one trade. Sometimes, they get lucky twice, and that $30,000 becomes $200,000 and they are flying high. Without fail, those traders wind up losing the money they made, and then more on top of it. *If this every happens to you, and you get this lucky - for the love of god, take that money out of your account now, put it into the bank, consider it a lottery win, and start learning how to really trade.* This problem tends to be very short-lived because the market shows no mercy to arrogance. Another way this problem manifests itself is in the belief that you do not need to put in the time and effort required to be successful at this. Many people don't want to hear that do this is like trying to excel at any other career, you need to work your ass off. So instead, they are drawn to "quick fixes", these are the people that like to believe that one can spend 30 minutes a day trading and be done. The notion of starting at the beginning and slowly building up your knowledge and strategies is a very foreign concept to them. Just consider this - trading for a living offers complete and total financial freedom. You have no boss (except yourself and maybe the market), you control your own destiny. It truly is one of the best jobs in the world. Now think about how hard one has to work just to get themselves into a middle-management position at some company that could let you go tomorrow and not miss a beat. Chances are you went to college, got entry level jobs, worked your way up with various promotions and after many years found yourself in a small office making between $100 and $250K (if you are lucky). Given that, how anyone could possibly think that a few YouTube videos and reading parts of one book is all the work they need to do in order to become a full-time trader, a far better job than just about any other out there?

So, there you have it, these are five mindset issues that plague traders. Any single one of them can supersede all the knowledge you have and make it impossible for you to become consistently profitable. They all have solutions, which will be for another post, but first thing is first - you need identify which of these you have and look at how it has impacted your trading.

I will soon post a follow-up to these, which will focus on how to deal with these mindset issues - but as I said, the first thing one must do is recognize them and come to terms with how each issue outlined above impacts their trading.

Solutions to the Top 5 Mindset Issues

In my last post, I outlined the five most common *mindset* issues that traders tend to face. In summary, they were:

- **Gambling**
- **Uncharmed Life**

- **Counter-Trend Trading**
- **Lack of Confidence**
- **Over-Confidence**

It would be a very rare trader that did not have to deal with at least one of these psychological roadblocks to success. And while these issues tend to plague *newer* traders more often, and with more intensity, than those with more experience, veterans in this field are not immune. I continuously fight the *gambling* urge myself, and suspect I will never truly be rid of the desire to just treat the market as one big casino.

The first step is recognizing which issues you have, if any, and how much it impacts your trading overall.

When thinking about how to solve them, it is easier to split them up into two buckets:

Personality - this would include *Gambling, Lack of Confidence,* and *Over-Confidence*

Worldview - this includes *Counter-Trend Trading* and *Uncharmed Life*

Considering our personalities and worldviews are pretty well set at a certain point in our lives, overcoming problems that stem from either is never an easy task.

While this post will give you tangible solutions to these issues, like just about anything you read it falls under the category of "*easier said than done*". Your ability to implement these rests on how seriously you take the issue and how much effort you put into solving it.

So, let's dive in to the first one:

Gambling

Gamblers are a very different breed of people from everyone else and unless you are one, it is very difficult to understand the mentality. It is ingrained into a person's *personality.* The drive to gamble is an irrational one. I am a Statistician (or at least I used to be, I am sure today's Statisticians can run circles around me) and I know full well what the odds are for every single casino game and how they are stacked against me. Doesn't matter. I know the more I play those games, the more likely it is I will lose money. Doesn't matter. I also know that if I get lucky enough to win, I should take that money and run. Doesn't matter - I don't.

Gambling is a form of self-sabotage that has nothing to do with rationality. We might convince ourselves that we are playing to win, but in reality, *we are playing to lose*…in every gambler is a deep, dark desire to hit rock bottom. *That* is what you must deal with when you apply this mentality to trading. The idea of *hitting singles*, and *small gains* is foreign to the gambler, especially after a big loss when they just want to try to "win" it all back. You're never going to replace the thrill of a win or the soul-crushing depression of a loss. The dopamine hits after each gamble is like heroin to the gambler, and trying to explain the virtue of consistent/steady gains is like trying to tell a teenager that a nice cup of tea by the fire is better than going out with their friends to a party.

Solution: I have learned one very simple trick though - **stop trying to justify it and just call it what it is - Gambling**. "Why did you get all those OTM calls on **TSLA**?" - the answer, "Because I am ***gambling***." You see gamblers will try to justify their irrationality, they need to have some excuse to make their actions sound reasonable, otherwise they are just degenerates. So, call it what it is - Gambling. "Why are you shorting SPY at the all-time high?" - "I'm gambling, that's why." Doesn't sound so good, does it? Keep your online journal, and label each one of these irrational plays what they are - **Gambling**. And then at the end of the month add up all the money you lost from -

Gambling. And now - here comes the hardest part of this solution - When you have the total amount you lost from Gambling at the end of each month, make a post that says - This Month I Lost $XX Because I Gambled on Stocks. You won't be able to do it, because you will be too ashamed to publicly acknowledge your issue. When you stop trying to hide behind ridiculous justification for your actions, it becomes much more difficult to… justify.

Lack of Confidence

Another *personality* characteristic - because it is an almost certainty that trading is not the only place you lack confidence. You may *project* confidence to others, in fact, you probably do - but between you, me and the candlesticks, you know that you don't have any. It is the constant second guessing yourself, and your trades - "Did I read the chart right? Did I make the right call?" Saying to yourself, "I'm never going to get this…" more times than you want to admit. Exiting trades way too early because you lost faith in the set-up. How do you know if this is you? Think of all the things you achieved in life, and there may be a few, how many of them you credit to yourself and how many do you attribute to something or someone else? If you fall into this category, you will find that you probably don't really credit much to yourself. Most likely if you were successful somewhere you think you "fooled people" into believing you knew what you were doing. I can only imagine how difficult it must be to live like this, let alone trade like it.

But trading *requires* confidence. No matter how much knowledge you have, if you do not have confidence in your trades, you will be making your decisions based on *fear* rather than *information*. Someone with this problem might say it is a catch-22, they need to be successful before they can be confident, and they need to be confident before they can be successful. *But is that true?* Think back in your life - has success given you confidence or, like in the question above, did you simply attribute that success to something other than your own efforts/skills? You could have an amazing week in the market, but if you fall into this group, you will probably just chalk it up to - luck. The solution to this problem is not easy, nor is it straightforward. To begin with you can use *external validation* - write a post that details out some of your trades for a day and put it up in the sub asking for feedback. If your trade was well executed, poorly managed or everything in-between, you will find out pretty quickly. Because sometimes, *Lack of Confidence* is well-founded. Meaning, you might actually suck at this and guess, what? *That is important to know!* That doesn't mean you can't improve, but one should know if their doubts are based in reality or self-delusion. However, the real solution lies back in that trading journal again.

Solution: Take one month and be meticulous with every single trade - after each one write down the exact set-up you used and the reason you entered (this also forces you to slow down, which is good), as well as the reason you exited. Also note the mistakes. At the end of each day upload these trades to your trading journal and enter in the set-ups & mistakes (try to make sure you keep your labelling consistent). These can even be from paper trading. At the end of the month, find the top three set-ups that have the highest win percentage, and then for the next month, *only trade those set-ups*. Also find the *top two mistakes* and work on fixing them (*i.e.*, exited without a technical reason). This may reduce your total number of trades, which is fine. But the most important thing is to *only trade the top three set-ups.* Continue to enter them into the journal and continue to enter in the mistakes. At the end of the second month see if the percent of time you commit those mistakes has declined, see if your overall win rate has gone up.

Keep refining this process over and over until you find at least one set-up that returns a 70% or higher win-rate. Yes, this may take a long time, but you are trying to solve a rather deep issue, and if you don't it will forever remain a roadblock to your success as a trader. Once you have found a set-up that works, you need to only *trade that set-up* for the next month after that. P&L is not important here, reducing mistakes and raising your win rate is the only thing that matters. If you follow those steps, you will find it will dramatically improve your self-confidence over time.

Over-Confidence

Not so ironically you are very similar to the person who *lacks confidence*, you just came up with a very obnoxious defense mechanism. As a *personality* characteristic those that fall into this group are usually that one person in your friend group that has to "top everything" someone else says or does. If they ever bother to ask about someone else's life it is just so they can guide the topic back to themselves in some way. One of the problems with these people is that they do not really know they have an issue - so here is a little guide: If you think you have come up with some new way to "beat the system" and you are not yet consistently profitable every month - you are in this category. If you think this is "easy and everyone else is idiots", you are in this category. If you think you are one "meme stock" away from being rich, you are definitely in this category. Unfortunately, there is very little this person can do themselves - they are in fact far too delusional to even imagine that anything needs to be done. You would think it should be easy, right? A simple question - "Are you consistently profitable yet? No… then what the hell are you so cocky about?" But the truth is, the only way this is overcome is by having very patient teachers/mentors slowly show them how far removed from reality their vision of trading really is, and chances are once they see the truth they will run far away.

Solution: There is none, these people are a pain in the ass. Seriously, if you are in this group, either you stop being an asshole, or you don't.

Counter-Trend Trading

This is a big one, and it is driven by - *arrogance*. I'll explain, since I am sure this is not the first descriptor that may come to mind. Essentially, *counter-trend* trading would be those people going into this current week with **SPY** Puts. **SPY** just crossed 470, which if you read the post on Market Psychology, was perfectly predicted, and there is *absolutely* nothing that would indicate one should short the market - but *counter-trend traders* believe they can predict *Tops* and *Bottoms*. Even more infuriating is if the market does happen to go down next week, they will quickly brag about how they were right (they tend to stay remarkably quiet all the times they are wrong, which is pretty much most of the time). They fall into different categories, with most embodying a combination of these:

- *What Goes Up Must Come Down….* This is the most basic of your *counter-trend traders*. *They* have a very simple philosophy - when something is up **a lot** they short it, and when something is **down a lot** they go long. Pretty straightforward and spectacularly wrong. Let's look at **NET:**

One of just many examples - of how a stock can keep going up....if I showed you the chart for **PTON** or **PYPL** you would see it in the other direction. And why do they do this? Greed and arrogance - they don't want to wait for confirmation because then they will have *missed the big move,* plus they also want to be able to tell everyone they "knew it". A *counter-trend* trader **loves** to tell people how they just *knew* they were right. There was a good short on **NET**, if they waited for the signal that came on 12/2 with the bearish doji, right after the break of the SMA 50, but by then you already missed the $220 to $170 drop and are only left with the $170 to $140 drop....poor you. *Our job as retail traders is to wait for Institutions to make their move and then follow the money (i.e. trend). We **confirm** we don't **anticipate.***

- *Anecdotal Analysis* - This form of *Counter-trend* trading has the trader believing that the anecdotal information they see in their daily lives can be applied to a larger trend across the national/worldwide marketplace. It is really quite extraordinary when you think about it, but the thought process goes a bit like this - "I haven't watched Netflix in a long time, my kids don't watch it and my friends never talk about it. I used to hear about them all the time, and lately not a peep. Makes sense with the pandemic waning that less people are using it.... I bet it is due for a big drop. Shorting it!" Which leads to the next, similar, type of thinking....
- *Common Sense Analysis* - This brilliant form of trading involves a connect-the-dots manner of thinking that so many people excel at, and looks a bit like this: During the pandemic people used their credit cards *a lot*, many people even maxed them out and now that employment is going up they are going to have to start to pay them back, with a lot of interest. The next earnings for **Visa** is going to be through the roof! Long **Visa!**"

There is a very simple solution to all this - whenever you have one of these thoughts or urges, you need to realize that in order for you to be right, that means you are *ahead* of the *Institutions*. Why? Because if the *Institutions* has already figured out what you just thought, they would have acted on it and it would be reflected in the price. For example, if the person above is right about **NFLX**, and the *Institutions* already knew about this prized piece of information, they would have sold their shares - thus, **NFLX** would have already dropped.

Solution: Before you act on these epiphanies that showcase your business acumen, imagine the following scenario - A Senior Vice-President at Goldman Sachs, let's call her Debbie, is called into the President's office, and they wants to know why the hell didn't they buy **Visa** before it started going up? And Debbie, stammering has say...."Well, even though we have hundreds of data scientists, and spend millions upon millions of dollars for consumer data, we just never figured out that people would be paying off that much debt. I mean, I know Joe, from South Carolina managed to piece it together, but our whole team was stumped!" Because **that** is what you must think is occurring in order for you to be right.

*Anything you might think of, anything you might guess, if correct, is already baked into the price. Period. You are not going to out-think or out-guess these Institutions that spend endless amount of money to figure out the most likely scenarios and then act on them. If **Visa** was truly going to have a banner quarter, and Institutions knew it, then guess what? They would be buying **Visa!** Hence, the price would be going up, and you would see it in the charts.*

So just ask yourself - *Wouldn't Institutions already know this? And if so, why haven't they acted on that information?* Unless you can answer those questions - just stick to what you can see, and what you can see is - *in the charts*.

Does this mean *Institutions* are always right, or that they sometimes don't miss things? Of course not. But assuming you can out-smart teams of data-scientists that have access to information you don't, as well as unlimited resources - falls under the mistaken notion that one's opinion is just as good as another person's expertise.

Uncharmed Life

Now we come to the final significant mindset issue. If you were born into wealth, you are used to good things happening to you. In fact, you are most likely surprised when they don't. You don't spend your time "hoping things get better" because things *always* get better. Sure, they have problems, but it is more like, "Chet lost his license from racing his Lambo again.... now how are we going to get to the party tonight?? I guess my driver will have to take us!" But for everyone else, *life is a struggle*. When something good happens, we immediately worry it is going to be taken away. Just got a raise? Great, I am sure the car will break down and that money will quickly be spent. And we are always *hoping* things get better, always thinking that things *have to turn around at some point, right??* It becomes a mindset that is so deeply embedded into one's day-to-day thinking that it is almost impossible to shake. Now transfer this mindset to trading:

When your trade finally gets into profit, what is your first thought? Most likely it is that you have to take profits! If you don't the stock will surely reverse, and you will go from green to red really fast. And when your trade is down, do you cut your losses? No! Because it just *has* to turn around at some point, doesn't it?

Think about how this mirrors your daily life - how you don't trust anything good, and always think you are "due" for something positive to happen.

Also think about the result of this mindset - when your trades actually work, you get rid of them and when they don't, you embrace them! *You have more faith in your losers than your winners!* ***This results in a huge imbalance and why retail traders lose so much money. Even if you think choosing a winning position was a coin flip, most people, over time should hover around even. But they don't, most short-term traders are losing. Partially because they jump in without the right knowledge and experience, but also because they do not lean into their winners.***

The first thing a successful trader thinks of when their trade becomes profitable is - "should I add to this?", which is 180 degrees different from how an unsuccessful trader thinks.

Solution - Cut your average trade size in half. Now, the next time your trade is in profit, and you think to yourself that you want to take your winnings off the table, you are instead going to increase your trade size to a full position. And every time your trade is on the losing end, and you think "it will turn around", you will reduce your position by half. What is essential is to trade as you normally would (except now you are using reduced trade sizes), and you only increase or decrease your positions when you have those thoughts. So, if you went long **AAPL** at $177.78 with 100 shares (and your normal trade size is 200 shares), and **AAPL** went to $178.50, and you think - I should take profits here, instead you are going to double your position to 200 shares, with an average cost now of $178.13. * Use your common sense here - obviously if the market suddenly starts crashing, or **AAPL** just hit major resistance you need to take that into account. After a month of this look at your results.

Will these solutions completely fix your problems? No, of course not - many of these issues are deeply ingrained into your personalities and worldviews. But recognizing them, and working them is an essential step towards becoming successful.

Best of luck!

Solutions to the Top 5 Mindset Issues (Updated)

This post represents the previous two posts on the topic combined and expanded upon. The hope is that this gives members a single place to go for the topic.

In most fields, if you take the time to learn a skill, and then practice that skill, you will improve. This linear progression in achievement provides the entire basis for almost any career. The more you learn and practice, the better you get. It is this promise of almost linear progression that drives people to keep "moving up" in their chosen profession.

**Areas that gauge success on physical performance or artistic ability, also requires a certain amount of inherent talent. For example, no matter how much I practice and how hard I try, I will never be able to play professional Basketball.*

Somethings are easier to master than others, but typically as long as you have a base level of intelligence, achieving success is combination of time and effort. Becoming a consistently profitable trader is no different - it takes a tremendous amount of time and dedicated effort to get to the point where you can do this full-time. Unfortunately, if that is *all* it took then there would be far more full-time traders than there are currently. In fact, I know some extremely knowledgeable traders, people who could literally write books on the topic - but whenever they try to trade themselves, they fail. They just can't do it.

That is because unless you master the mindset of trading, all of the knowledge in the world won't help you make a profit.

I am not saying anything new here - This problem is fairly well recognized; there are plenty of books and online videos on the topic. u/anonymousrussb just posted his excellent recap of "The Daily Trading Coach - 101 Lessons for Becoming Your own Trading Psychologist" by Dr. Brett Steenbarger. And most of you probably have heard of "Trading in the Zone" by Mark Douglas.

But as we all know, simply reading a book is not going to instantly solve your problem.

Issues with *mindset* plague us in various areas of life. Think about a person that is always going on a diet. Every six months or so you can count on them to come up with some new diet fad they discovered and are positive will work for them. And just like clockwork you can be sure that a few month later they will be back to square one, or even worse off than before. It is not that they don't know they have to lose weight, they do realize it. It is not even that they don't see the negative consequences of not being healthier, they do. And it is not even that they don't want to put in the effort to change, they absolutely do. But yet they fail - almost every time.

Why?

Because they haven't dealt with the root cause of their issue.

If I attach a 50lb anchor to my leg and try to win a race, I am going to lose. I can change my shoes, warm-up routine, race strategy, etc...as long as that weight is strapped to me, I cannot win.

Most people trying to fix the issue of *mindset* do not deal with the 50lb weight - instead they try to fix everything else to make it easier to run with the weight still attached. But a weight is a weight and until it is removed, nothing else will matter.

A lot of these issues have deep psychological roots and those need to be dealt with by each individual in their own way. But just know this - **We trade who we are.** If you are an anxious person, you are most likely an anxious trader, someone who is depressed will generally trade with a lot of fear, etc.

All I can do here is outline the primary issues and offer up some practical solutions that can possibly help.

So, in order to really talk about this issue, we must first identify what we are talking about when we say *Mindset*. There are so many different issues that traders face in this area, so I have grouped them into five distinct categories. When you read these be honest with yourself as to how much each impact your ability to be profitable:

Gambling - Whenever you enter a trade for any reason other than objective analysis, you are gambling. Whether you are buying **AMC** because you thought "*Top Gun"* would boost the stock, grabbing **AAPL** calls as "Tech *has* to rebound", shorting **OXY** as "Energy has run its course", or simply hopping on a fast-moving momentum stock - *you are Gambling*.

Let's get one thing out of the way up front - some of us are more prone to this issue than others. We all know who we are. A group of people can walk into a casino. For some, their eyes light up as they hear the sounds of the slot machines and the cheers at the crap table - all they can think about it breaking away so they can convert the cash in their pockets to chips. For others it is about the shows they want to see, and where they can go to dinner. And yes, there are some that think, "This is hell, pure hell, when can we leave?"

Gamblers know who they are - they live by the creed that "*money won is twice as sweet as money earned*"(credit: *The Color of Money)*. I should know, I am one of them. And let's face it, sometimes it is hard not to feel like the market is one big casino. You become detached from the money in your account, as if they are chips on a blackjack table, almost feeling like it's not real money.

The problem with this?

When you start treating your trading as gambling, you begin to take unnecessary risks. *Even worse, you start to think that it is all luck anyway and begin rooting for your position to go up as if it was a racehorse you just bet on.* **The more you see trading as simply, "gambling" the father away you become from being a consistently profitable trader.**

Gamblers are a very different breed of people from everyone else and unless you are one, it is very difficult to understand the mentality. It is ingrained into a person's *personality.* The drive to gamble is an irrational one. I am a Statistician (or at least I used to be, I am sure today's Statisticians can run circles around me) and I know full well what the odds are for every single casino game, and how they are stacked against me. Doesn't matter. I know the more I play those games, the more likely it is I will lose money. Doesn't matter. I also know that if I get lucky enough to win, I should take that money and run. Doesn't matter - I don't. **Gambling is a form of self-sabotage that has nothing to do with rationality.** We might convince ourselves that we are playing to win, but in reality, *we are playing to lose*...as in every gambler is a deep, dark desire to hit rock bottom. *That* is what you must deal with when you apply this mentality to trading. The idea of *hitting singles*, and *small gains* is foreign to the gambler, especially after a big loss when they just want to try to "win" it all back. Think about how desensitized one gets after losing $15,000 out of a $30,000 account. At that moment the idea of being satisfied with a $100 profit on a trade is laughable. The gambler would rather risk the entire $15K for a chance to double it and make back their money than slowly work their way back up one small trade at a time.

You're never going to replace the thrill of a win or the soul-crushing depression of a loss. The dopamine hits after each gamble is like heroin to the gambler, and trying to explain the virtue of consistent/steady gains is like trying to tell a teenager that a nice cup of tea by the fire is better than going out with their friends to a party.

Gamblers might be more fun to hang out with, they might even be more successful as they take more risks in life than most, but they make crappy traders.

Solution: There is a strange quirk to every gambler - a quirk that just might be the saving grace they need. You see, despite the fact that most *Gamblers* will proudly identify themselves as such, they also always try to convince themselves that, they aren't *actually Gambling*. While gamblers know who they are - they like to reframe their activities as anything but....gambling. Everyone in the casino has some *method* that they believe gives them an edge, go to a Racetrack and you will see thousands of Gamblers with their head in a racing book trying to use the information to defy the odds. The mental gymnastics that Gamblers put themselves through to believe they aren't actually gambling, provides the solution to this issue. Look at the dichotomy on the WSB sub-Reddit for the perfect illustration of this. On the one hand they claim they are Degenerate Gamblers and are proud of it. On the other they go through massive effort to write up extensive DD on their trades in order to "legitimize" them as well. Gamblers will try to justify their irrationality, they need to have some excuse to make their actions sound reasonable, otherwise they really are just a degenerate.

I have learned one very simple trick - **stop trying to justify it and just call it what it is - Gambling**.

"Why did you get all those OTM calls on **TSLA**?" - the answer, "Because I am ***gambling***."

Call it what it is.

"Why are you shorting SPY at the all-time high?" - "I'm ***gambling***, that's why."

Doesn't sound so good, does it?

Keep your online journal, and label each one of these irrational plays what they are - **Gambling**. The distinction is easy - Did you have a technical reason to enter/exit this trade or an emotional one? If it is emotional, you are Gambling. Revenge trading? Just another form of Gambling. At the end of the month add up all the money you lost from - **Gambling**.

And now - here comes the hardest part of this solution - When you have the total amount you lost from Gambling at the end of each month, make a post that says - **This Month I Lost $XX Because I Gambled on Stocks.**

You won't be able to do it, because you will be too ashamed to publicly acknowledge your issue. When you stop trying to hide behind ridiculous justification for your actions, it becomes much more difficult to....justify. And the best way you can help someone else you see with this problem - *do not let them justify their actions with anything other than "I am Gambling"*.

Another, somewhat less painful solution to use is this -

As stated above, after one loses a great deal of money the urge is to immediately get it all back. **That** becomes your goal, and it is an unreasonable one to say the least. So you need to reframe your goals before doing anything else - because whether you realize it or not, you just took a major confidence hit. Sure you can blame the market, lack of sleep, some news story that moved the stock, but deep-down you know the truth - ***you fucked up***. That is a hard truth to internalize, especially when that mistake cost you a lot of money.

So the new goal becomes this - *String together a series of small wins.* Yes, small wins aren't going to make much of a dent in the huge whole you just created. But you will find that after 4 or 5 wins in a row of profitable trades you'll start feeling more confident again. It won't be easy, you will want to YOLO the shit out of a stock to get back to even - but don't do it. Focus first on rebuilding your confidence and set that goal - The next 100 trades I will win 80 or more of them. And make them small - I am talking a few shares, because *you are not doing this for the money*.

Ok - on to the next issue in mindset:

Uncharmed Life - Most of us, if not all of us, were not born into wealth. Some may have done well for themselves in life, but it is a pretty safe bet that just about everyone reading this hasn't put millions of dollars into an off-shore account to avoid taxes. Which means we *worked* for a living. Nothing was handed to us, and everything we have we *earned*. And we did this in an environment that is designed to keep us from accumulating that wealth. The rules aren't fair and we all know it. What this also means is that our lives have been filled with a lot of disappointment. The other shoe is *always dropping*.

I go over the **Insidious Power of Wealth** here.

Suffice to say - ***Money makes Money -*** We all know this. There is a saying that sum this up pretty well:

The Golden Rule is this....the one with the most Gold makes the rules.

Over time this mentality becomes fossilized within us. We are constantly hoping things get better, and always afraid we are going to lose what we have. Think about it, when something good finally happens, do you enjoy it, or do you wind up worrying about when shit is about to go wrong again? In fact, you are most likely surprised when they don't.

When you are wealthy, you don't spend your time "hoping things get better", because things *always* get better. Sure they have problems, but it is more like, "Chet lost his license from racing his Lambo again.... now how are we going to get to the party tonight?? I guess my driver will have to take us!"

But for everyone else, *life is a struggle*. And how often do you spend you time hoping for something? Whether it is a raise, a promotion, or winning the damn lottery.

Now take this mindset over to trading and what happens? When you're in profit - what your first thought should be is - **"I need to add to this and continue to grow my position"**, but what you actually think is, **"I need to take profits now before it reverses"**. And when your position is in the red, what you should be thinking is, **"Is my money better spent in a different trade than holding on to this loser"**, but what you wind up thinking is, **"It will turn around soon, it *has* to!"**. See how the two mentalities cross each other? You cut off your winners out of fear, and extend your losers out of hope, because this is what you do in day-to-day life.

People like to say, "Nobody ever went broke taking profits". Those people are typically broke. **Yes - you can go broke taking profits - if your profits are always smaller than your losses you will become broke pretty fast!**

This results in a huge imbalance and why retails trader lose so much money. Even if you think choosing a winning position was a coin flip, most people, over time should hover around even. But they don't, most short-term traders are losing - because they have more faith in their losers than their winners.

Solutions -

1) Cut your average trade size in half. Now, the next time your trade is in profit, and you think to yourself that you want to take your winnings off the table, you are instead going to increase your trade size to a full position. And every time your trade is on the losing end, and you think "it will turn around", you will reduce your position by half. What is essential is to trade as you normally would (except now you are using reduced trade sizes), and you only increase or decrease your positions when you have those thoughts. So if you went long **AAPL** at $177.78 with 100 shares (and your normal trade size is 200 shares), and **AAPL** went to $178.50, and you think - I should take profits here, instead you are going to double your position to 200 shares, with an average cost now of $178.13. However, if **AAPL** drops to $176.78 and you start thinking, "It will bounce back", you are going to cut your position to 50 shares.

2) Trade Swapping. This is how it works. You are sitting there staring at a losing position. Let's say it is **MU** - you got 300 shares are $73 and now it is at $71.50, you are down $450 and not happy about it. You should close the position - **MU** is weak, the sector is weak, the market is no longer bullish - any number of reasons. Most importantly, **MU** no longer fits your thesis you had when you entered. And if you weren't in the trade you certainly wouldn't enter it now. But you can't - something in you doesn't want to take the loss. So this is what you do - you aren't attached to **MU,** you are attached to the $21,900 you spent on buying 300 shares of **MU**, which is now worth $21,450. So you are now just going to put that $21,450 into a better position - let's say it's **OXY**. While tech is dropping (and taking your **MU** position with it), Energy is on the rise with **OXY** leading the way - so you close **MU** and immediately buy 302 shares of **OXY** at $71. Now you have the same pile of money, it is just in a better position than before. Psychologically you did not "close" anything as that money is still in play.

Use your common sense here - obviously if the market suddenly starts crashing, or **AAPL just hit major resistance you need to take that into account. After a month of this look at your results.*

3) Do the Walk-Away Analysis:
https://www.reddit.com/r/RealDayTrading/comments/rs9x9f/walk_away_analysis/?utm_source=share&utm_medium=web2x&context=3)

I can not stress enough how essential this is for every trader to do (some members of the sub put together some automated templates for this as well). This analysis will show what would happen if you had more faith in your trades over time - and if you are picking the right set-ups as shown/taught in this sub, you will find you are leaving a *lot of money* on the table.

Counter-Trend Trading - This phenomenon is actually quite different from the others - because it *doesn't mimic real life*. In real life, we tend to go with the trend; if it was 80 degrees yesterday and 80 degrees today, we aren't expecting it to be 40 degrees tomorrow. We like to bet on the hot sport team that just won 10 of their last 11 games, if we hear on the news that relations with a country is deteriorating we think things will get worse, if we hear that the economy is improving we think it will keep getting better (usually). We live with trends every day, and go with them, trends provide order, structure and predictability to our lives. Even when gambling, we tend to ride a hot streak - we don't get up from the table, do we? In life *The Trend is our Friend*.

Except in trading - in trading people try to do the opposite. **SPY** is at an ATH, great - buy Puts. **TSLA** is dropping? Time to get some OTM Calls! ***We like to think we can outsmart the market.*** We like to think *everyone else is wrong*.

And there is a reason for that - when we are right, it validates our feeling that we know more than everyone else, and have "figured out" something.

Traders with this issue fall into different categories, with most embodying a combination of these:

- *What Goes Up Must Come Down....* This is the most basic of your *counter-trend traders,* they have a very simple philosophy - when something is up **a lot** they short it, and when something is **down a lot** they go long. Pretty straightforward and spectacularly wrong. *Our job as retail traders is to wait for Institutions to make their move and then follow the money (i.e. trend). We **confirm** we don't **anticipate.***
- *Anecdotal Analysis* - This form of *Counter-trend* trading has the trader believing that the anecdotal information they see in their daily lives can be applied to a larger trend across the national/worldwide marketplace. It is really quite extraordinary when you think about it, but the thought process goes a bit like this - "I haven't watched Netflix in a long time, my kids don't watch it and my friends never talk about it. I used to hear about them all the time, and lately not a peep. Makes sense with the pandemic waning that less people are using it....I bet it is due for a big drop. Shorting it!" Which leads to the next, similar, type of thinking....
- *Common Sense Analysis* - This brilliant form of trading involves a connect-the-dots manner of thinking that so many people excel at, and looks a bit like this: During the pandemic people used their credit cards *a lot*, many people even maxed them out and now that employment is going up they are going to have to start to pay them back, with a lot of interest. The next earnings for **Visa** is going to be through the roof! Long **Visa!**"

This is coupled with the equally incorrect assumption that it is **"Too late"** and you **"Already Missed It"**

We have all been there - you don't take a trade because you "feel" like the move is already over. And then you proceed to watch the stock continue on its' trend.

There is a very simple solution to all this - whenever you have one of these thoughts or urges, you need to realize that in order for you to be right, that means you are *ahead* of the *Institutions*. Why? Because if the *Institutions* had already figured out what you just thought, they would have acted on it and it would be reflected in the price.

Solution: Before you act on these epiphanies that showcase your business acumen, imagine the following scenario - A Senior Vice-President at Goldman Sachs, let's call her Debbie, is called into the President's office, and they want to know why the hell didn't they buy **Visa** before it started going up? And Debbie, stammering has say...."Well, even though we have hundreds of data scientists, and spend millions upon millions of dollars for consumer data, we just never figured out that people would be paying off that much debt. I mean, I know Joe, from South Carolina managed to piece it together, but our whole team was stumped!" Because **that** is what you must think is occurring in order for you to be right.

Anything you might think of, anything you might guess, if correct, is already baked into the price. Period. You are not going to out-think or out-guess these Institutions that spend endless amount of *money to figure out the most likely scenarios and then act on them. If **Visa** was truly going to have a banner quarter, and Institutions knew it, then guess what? They would be buying **Visa!** Hence, the price would be going up, and you would see it in the charts.*

So just ask yourself - *Wouldn't Institutions already know this? And if so, why haven't they acted on that information?* Unless you can answer those questions - just stick to what you can see, and what you can see is - *in the charts*.

Does this mean *Institutions* are always right, or that they sometimes don't miss things? Of course not. But assuming you can out-smart teams of data-scientists that have access to information you don't, as well as unlimited resources - falls under the mistaken notion that one's opinion is just as good as another person's expertise.

The other solution is this - **Start a Paper Trading account - and for a month every time you feel like Counter-Trend trading, do the trade there.** That account will only be used for Counter-Trend trades. Every time you want to predict a bottom or top, trade away to your heart's content in the fake account. Be honest about it, enter and exit the trades when you normally would have and use a comparable position size. At the end of the month look at your account balance - the amount you lost (and you *will* have lost) is the amount you saved yourself. That alone should give you pause.

Buy High - sell Higher. The Trend is your friend.

Lack of Confidence - This is typically a *personality* characteristic - because it is an almost certainty that trading is not the only place you lack confidence. You may *project* confidence to others, in fact, you probably do - but between you, me and the candlesticks, you know that you don't have any. It is the constant second guessing yourself, and your trades - "Did I read the chart right? Did I make the right call?" Saying to yourself, "I'm never going to get this..." more times than you want to admit. Exiting trades way too early because you lost faith in the set-up.

Traders that trade for a living have confidence in their statistics, they know that if they make enough trades, using the right set-up, that they will be in profit at the end of the month. They have confidence during a huge drawdown in their trade that it will reverse, and equally have confidence when they add to a winning position.

But even the best trader will have moments of doubt. A batter can have a .375 average in the majors, but after an 0 for 20 streak, I guarantee you that self-doubt creeps in. For new traders, or traders still trying to reach profitability, the *lack of confidence* can be a killer. After a huge loss you want to give up, and think to yourself, "What am I doing? I am just throwing away my money - I could just put that money into **AAPL** and leave it there instead." You begin to think that you're never going to *get it*, and every trade you make is steeped in fear. When something goes against you it is almost expected, and you are shocked when something actually works out. Even worse is when you finally think you *got it*, only to realize, *you don't have shit*. To make things worse, generally people in your life aren't supportive - which isn't exactly a boost to your self-esteem. If you talk to any former trader that has given up, you will find that at the heart of their decision to quit was a complete lack of confidence that they could do it.

Solution: Take one month and be meticulous with every single trade - after each one write down the exact set-up you used and the reason you entered (this also forces you to slow down, which is good), as well as the reason you exited. Also note the mistakes. At the end of each day upload these trades to your trading journal and enter in the set-ups & mistakes (try to make sure you keep your labelling consistent). These can even be from paper trading. At the end of the month, find the top three set-ups that have the highest win percentage, and then for the next month, *only trade those* *set-ups*. Also find the *top two mistakes* and work on fixing them (i.e. exited without a technical reason). This may reduce your total number of trades, which is fine. But the most important thing is to *only trade the top three set-ups*. Continue to enter them into the journal and continue to enter in the mistakes. At the end of the second month see if the percentage of time you commit those mistakes has declined, see if your overall win rate has gone up. Keep refining this process over and over until you find at least one set-up that returns a 70% or higher win-rate. Yes, this may take a long time, but you are trying to solve a rather deep issue, and if you don't it will forever remain a roadblock to your success as a trader. Once you have found a set-up that works, you need to only *trade that set-up* for the next month after that. P&L is not important here, reducing mistakes and raising your win rate is the only thing that matters.

If you follow those steps, you will find it will dramatically improve your self-confidence over time.

Obviously, there are times when this issue finds its root cause in your personal life. Much like entering a relationship - if you don't like yourself, how do you expect others to like you? Well, trading requires confidence - you need to have faith in your decisions and set-ups because the market will try every way possible to try and shake you out. If you find that you have confidence issues in your life, to the extent that they impact your day-to-day - it is best ***not*** to trade until you have a handle on them.

Over-Confidence - Not so ironically you are very similar to the person who *lacks confidence*, you just came up with a very obnoxious defense mechanism. As a *personality* characteristic those that fall into this group are usually that one person in your friend group that has to "top everything" someone else says or does. If they ever bother to ask about someone else's life it is just so they can guide the topic back to themselves in some way. One of the problems with these people is that they do not really know they have an issue - so here is a little guide: If you think you have come up with some new way to "beat the system" and you are not yet consistently profitable every month - you are in this category. If you think this is "easy and everyone else are idiots", you are in this category. If you think you are one "meme stock" away from being rich, you are definitely in this category.

A simple question to ask yourself - "Are you consistently profitable yet? No... then what the hell are you so cocky about?"

I see it all the time, people come into this thinking they have it *all figured out*. Everyone else is just an idiot, and if they just followed their basic method (it can truly be anything, from a three-bar system, to volume profiles and pivots, to even "gut feeling") they too can quit their job and be rich. Chances are these traders bought some OTM calls on a stock and got very lucky. Usually I hear stories that average out to roughly turning $3,000 into $30,000 on one trade. Sometimes, they get lucky twice, and that $30,000 becomes $200,000 and they are flying high. Without fail, those traders wind up losing the money they made, and then more on top of it. *If this ever happens to you, and you get this lucky - for the love of god, take that money out of your account now, put it into the bank, consider it a lottery win, and start learning how to really trade.*

This problem tends to be very short-lived because the market shows no mercy to arrogance. Another way this problem manifests itself is in the belief that you do not need to put in the time and effort required to be successful at this. Many people don't want to hear that do this is like trying to excel at any other career, you need to work your ass off. So instead, they are drawn to "quick fixes", these are the people that like to believe that one can spend 30 minutes a day trading and be done. The notion of starting at the beginning and slowly building up your knowledge and strategies is a very foreign concept to them. Just consider this - trading for a living offers complete and total financial freedom. You have no boss (except yourself and maybe the market), you control your own destiny. It truly is one of the best jobs in the world. Now think about how hard one has to work just to get themselves into a middle-management position at some company that could let you go tomorrow and not miss a beat. Chances are you went to college, got entry level jobs, worked your way up with various promotions and after many years found yourself in a small office making between $100 and $250K (if you are lucky). Given that, how anyone could possibly think that a few YouTube videos and reading parts of one book is all the work they need to do in order to become a full-time trader, a far better job than just about any other out there?

Solution: There is none, these people are a pain in the ass. Seriously, if you are in this group, either you stop being an asshole, or you don't. Because to fix a problem you need to recognize you have a problem - and people in this group *do not think they have a problem*.

Now to be fair - there are some that have this issue but aren't too far gone....yet. Chances are they are just starting out and want to come up with some automated Algo to trade, or think they have come up with a combination of indicators that has *cracked* the market. If you are one of these people, do yourself a favor - try to find just *one* other person that can prove they are a consistently successful trader without having put in hard work and time. Just one. When you can't you either need to believe *you are the only person in the history of trading that has found the secret way to do this or that perhaps you're wrong*.

Honestly, there isn't much else one can do in this category - these people are annoying as all hell and the only saving grace is that they do not last very long.

So there you have it, these are five mindset issues that plague traders and the solutions.

Any single one of them can supersede all the knowledge you have and make it impossible for you to become consistently profitable.

Without the right mindset (which is another post entirely) you cannot be a *consistently profitable* trader, and with the wrong mindset you will quickly find your account size dwindling down to zero.

Mindset – External

We have focused a lot here on mindset. You can have all the trading knowledge and skills in the world, but with the wrong mindset you won't reach consistent success.

Since the mindset required is in many ways the opposite of the one many of us live with every day, changing the way we think becomes one of the most difficult things a trader can do in their journey towards profitability.

But as we all know, working on mindset isn't all *internal* - there are many *external* factors each of us must deal with on a daily basis. Sometimes, these *external* issues can severely impact our psychological well-being, which of course also impacts our, trading.

I am primarily referring to *family, friends, co-workers,* and *acquaintances*.

It is one thing to tell someone you are a successful trader, as it is hard to argue with someone that is currently living off the proceeds of their profession. Although you will invariably get someone who says,

"Yeah, but what happens if the market crashes?"

The response to that is simply - *"It will suck for long-term investors, but I will be just fine - in fact one of the many benefits of short-term trading is being able to trade in both bull and bear markets, as well as being protected against any type of crash*."

But most of you aren't *yet* successful full-time traders, so instead you most likely hear some of the following:

- *"Have you made money yet?"*
- *"That's the same as gambling, you'll never be able to make a living that way"*
- *"It's all rigged - you don't stand a chance"*
- *"Just don't lose everything because at some point you'll need to get a real job"*
- Or you will get some form of frustrating commiseration, like:
- *"Yeah, I do some trading also - I like to buy cheap penny stocks...this one time....blah blah.."*
- *"I know someone that does this, and she says....blah blah"*
- *"Just buy Apple....there, I did your trading for you, you're done."*
- Some of you will face outright hostility, that might sound like this:
- *"How are we suppose to live off that? We don't have the luxury for you to screw around and lose our savings!"*
- *"That is ridiculous - you can't beat the market, don't like 95% fail?"*
- *"So basically, you're saying you're unemployed and have no intention of getting a real job?"*

Depending on the company you keep, some of these comments may be laced with quite a bit of profanity.

It gets to the point where you just don't want to tell anyone what you are doing, as it is too emotionally draining to defend yourself everyday. I am sure it also gets to your psyche, making you doubt your choice, because - what if they are right?

So what can you do?

The first thing, if you have one, you need to focus on your partner, spouse, boyfriend, girlfriend, etc. I am lucky enough to have a partner that not only understood what I was trying to do in the beginning, but took it upon herself to learn it as well (she is now a really good trader), but I get that not everyone has that.

What you need to do, first with your partner, and then with everyone else is the following:

Viability: One of the biggest concerns people have is that trading for a living is simply not *viable*. So you to show them that it is possible. You can point them to the $30K challenge here, or even show them the recent string of 53 straight profitable trades. They need to know that it *can* be done. Every thing here is shown with complete transparency for that reason - whether it is the trading journal I made public, or that every trade is posted live. You will not find some photoshopped pictures of account balances in this sub - only verifiable winning trades are used. It also isn't just me, there are several pros here that you can use as examples that the system *isn't rigged*. They need to realize this is an actual career, and not some scam or pipe dream. And if all else fails - *show them*. Let them follow the Twitter account, or watch the live trades as they happen for one day.

Strategy: You also need to point out that you are going about this with a clear head, rational expectations and with a plan. Much like a business, you should outline your strategy of getting to profitability. In the post on the 10 Steps to Getting Started I outline a multi-year step-by-step guide, which should help you in building your own plan. People need to know that you aren't just throwing money at some "get rich quick" method you watched on YouTube, but rather you are approaching this as an actual *career*. That includes studying material, resources, practice, and implementation. An actual timeline is usually most-helpful in this regard.

Reverse-It: If all else fails - reverse it. Here is what most people do, and chances are what you may have done yourself - Go to college for four years and then get a job. Maybe go from job to job for a bit, until you finally settle on a company and begin to work your way up. After five to ten years of busting your ass, perhaps you finally get promoted to V.P. or Director or some other position that your younger self would kick your ass for taking. And there you sit in a cubicle, or a small office, making just enough to stay in debt and barely pay off the bills - no real savings, and if you lost that job you would be screwed. All for what? So the moment the company decides it is time for cutbacks you are out the door? At least what you are doing doesn't require another decade of getting your life sucked out of you all to get discarded in the end. What you are doing can lead to real financial independence, actual freedom. Isn't that worth it?

And if they *still* don't get it after that - *fuck'em*. Seriously, *fuck'em*. You don't need that kind of negatively in your life, and you certainly do not need that lack of support. You can't let it impact you, because guess what? *They* have no exit plan. Chances are they hate their job, but they aren't doing anything about it. You're trying to do something to better your life, so don't let those who aren't bring you down.

The larger mission of this sub is to change the conversation around *short-term* trading, to make it the respectable and viable career choice it should be, and when we are successful (because we *will be*), the comments people will hear in the future will be much different.

You Are the Problem, But Only You Can Solve It

In the past year this sub has grown exponentially - putting us now in the top 5% of all sub-Reddits. So, thank you all for contributing to our success!

When this forum was started there was always the fear that as we grew the culture would begin to resemble that of other trading subs, which was the last thing we wanted. Most other subs are a toxic mix of Trolls and well-meaning idiots. They not only suck, but they are dangerous. People go into those communities looking for guidance and wind up getting sucked into a never-ending barrage of bad advice.

We never wanted that for this place and thanks to our incredible team of Mods we have been able to stand strong and remain just as cultish as ever! (Yes, I am aware of the comments out there referring to us as a cult, and to that I say - You can't call us a cult until we have a commune to live on! And we won't have a commune until at least 2024!).

To put it simply, I want this to be a place that is life-changing to those that embrace it. Of course, our ultimate goal is to help people obtain financial freedom and become full-time traders, but as many of you know, it is the journey towards that end, which is truly transformative.

And while this sub has also had a reputation of "tough love", we truly are a community in every sense of the word. Spend some time here and you will see member after member come through the other side of that journey to start their new careers as traders. Then you will see something even more amazing - they don't leave once reaching their goal - instead they stay and dedicate their time/experience to helping others.

I also see amazing traders like u/optionstalker and u/onewyse work tirelessly to provide people with the tools and knowledge they need to never again have to depend on a paycheck from some company that is always a "budget cut" away from letting them go.

In a space littered with con-artists, bad advice and cynics, my goal has always been to rebuild this field into one that gives people realistic goals, clear steps on how to reach them and support along the way.

Also, as many now realize, trading is 90% mindset. The methods and strategies taught here are essential, but without the right mindset they will never produce consistent profits. A large portion of the Wiki and this community in general is dedicated towards helping people readjust their mindset, which is no simple task.

It should come as no surprise that a vast majority of "New Years Resolutions" wind up failing. Gym Memberships soar right after January 1st and most people never use them (which is exactly what those establishments count on btw). Time and again people vow to improve their lives as the year starts only to quickly slide back into the habits they wind up regretting. I am sure that just about everyone reading this is intimately familiar with this phenomenon. You didn't lose the weight, quit that job, leave that partner.... we don't drink less, we never learn that new language, and the farthest you wind up travelling is to the local store. It's a well-meaning tradition but one that leaves most people feeling like shit in the end. So why am I bringing this up without any segue at all?

Good question - chalk it up to bad writing. Still....allow me to tie all together.

How many times have you started the week thinking, "Ok...I know what I have been doing wrong. From here on I am not going to make the same mistakes!" And how many times have you finished the week thinking, "God damnit! What the hell is wrong with me?? Why can't I stop making stupid trades??"

It is the same concept, same issue. Just like with your NYE resolutions, the issue is that the person trying to improve themselves is the same person that caused the problems needing improvement. And yet, *you're the only one that can solve them*. Seems like a Catch-22, right?

You are the problem, but only **you** can solve it.

Simply having the intention or desire to change is not enough, nor is knowing exactly what needs to be changed. In order to truly change, one has to figure out what caused their issues to begin with and address it at its core.

As a fictional example - let's say a young woman named Heather started trading but quickly realized that she always takes profit too quickly. It's almost like an impulse - when her position turns green her immediate thought isn't, "I should let this run" or even, "I need to add to this", instead it is, "I have to take profit before I lose it!"

Heather knows she is fucking up and even worse, she can't seem to let go of her losing positions either. She is experiencing what most traders deal with, having more faith in her losers than her winners.

Sadly, no matter how many times Heather absolutely swears to change, she goes right back to the old habits.

Why Heather, why?

A quick glimpse into Heather life would give the answer (and also probably feel very familiar to many of you):

- When she was 8, everything was great - Mom and Dad were there, lots of fun memories....that is until one day Dad up and left. And therein is the first life introduction into the mental state of - "Don't trust anything that is good, because it will soon be gone."
- Through High School and College every girlfriend Heather had (see how woke I am?) either cheated or broke up with her, usually right when she thought everything was going great.

- She thought she would get that promotion at work, but instead they gave it to that asshole Ethan. Fuck Ethan.
- Heather did not have to worry about Ethan for long though, because she was laid off a few months later.

And now Heather is a single mom with a dead-end job in an accounting office that she hates. She is absolutely conditioned to believe that whenever something good happens, that the other shoe will soon drop.

Now look at her propensity for taking profits quickly through that lens and you will see the *real problem*. That is why declarations and promises to change won't make a dent in the behavior until Heather deals with the underlying issue.

Becoming a full-time trader is like a non-stop self-help seminar.

This is even more difficult for those among us that live with mental illness. As many of you know, I have battled mental illness most of my life. It has taken several close members of my family and will most likely continue to plague anyone unlucky enough to share genetics with my family tree.

So many of you silently suffer from mental illness even as you try to take on something so strenuous as becoming a full-time trader. I commend your courage. And I hope this community provides the support you need to achieve your goals and not let anything stand in your way, including your own mind.

It is so important that this place always stays a “community". Call it cult, call it whatever you want - as long as the members here are not only dedicating themselves to making their lives better but also in helping others do the same. You never know what someone else is going through.

RealDayTrading should always be a safe haven for anyone looking to make a better life for themselves. And in this world right now, those are far and few between - so please, always keep this place special. And this holiday season I am very thankful for all of you helping do exactly that.

Over-Complicating or Over-Simplifying

I see this issue crop up more and more -

Here are the two extremes:

Over-Thinking:

The trader waits for the *perfect entry* where all indicators are green -Pullback to 8EMA, 3/8 cross, confirmation candle, bullish SPY, RS on stock, good volume, strong daily chart.

And waits for the *perfect exit* once again looking primarily at the indicators - meticulously placing their stops, waiting for a loss of RS and a decline in volume - a bearish turn on SPY, confirmation of the drop, etc.

Over-Simplifying

The trader sees a stock going down, sees the market going down, sees a weak daily chart and immediately shorts the stock.

Believe it or not - both ways have their pros and cons.

The problem with the first camp (*Over-Thinking)* is that not one size fits all. Perhaps you shorted **NVDA** and SPY bounces up, **NVDA** gets some RS and begins to climb hitting your stop. However, what if there is a general overall sector weakness for **NVDA**? What if that was just a short-covering bounce? There is a tremendous amount of *noise* that a checklist method can interpret as a real *signal*.

The issue with the second method (*Over-Simplifying)* is far more obvious - making a quick judgement call based only on looking at the current direction means you may have missed something, and perhaps several things. Perhaps there is an Algo line right above the price, but because you jumped in, you did not take the time to draw it? Maybe **SPY** is coming up against a significant SMA and the bounce is temporary?

Interestingly traders tend to gravitate to one of these two types of trading.

Over-thinking gives a new trader a sense of control - it gives order to a complex activity. *As long as you follow these clear steps, you should make profit a majority of the time* - **that** is a very appealing sentiment. So traders will make rules, list them out, even print them out - and follow them to the letter.

Over-Simplifying has its' own appeal - you don't have to do much work, you just need to look and see a bunch of red bars on the stock, and on **SPY**, see a weak daily chart and off you go. Hell, it has a better chance of dropping then going up, right?

*Obviously, the more experience you have the more you are able to just look at a chart and make your decision - you will see the trendlines and the natural progression of the stock. With experience, the **story** of the stock becomes clear with just a quick view.*

So, what is the answer?

New and struggling traders should *absolutely* err on the side of the *Over-thinking*. **However, there is a huge caveat** - *trading is a dynamic activity, conditions change, and you need to adjust with it.*

You can not be so rigid that you are unable to see where the rules you laid out no longer apply. Following an unshakable set of rules can prevent a trader from seeing the larger picture.

So, I suggest the following - you have your rules - you have your checklist - but add one thing to it - this question: *What is the story of this stock right now*.

You need to be able to answer that question and *then* apply your rules within that context.

For example - if you are short a *Tech* stock right now, you are aware earnings are coming up, and the stock typically surges into earnings, but right now it is weak, the sector is weak, and the market is weak - you short the stock. But it begins to go up, gaining RS - all your checkboxes for an exit are lighting up - **but** you also know that there is major resistance right above the price, and another stock in the sector that is similar (*e.g.*, **MRVL** & **NVDA**) just reported weak earnings. This may give you pause on your exit and thus give the stock more room to ride out the bounce.

Much like driving - the speed limit says 55, but you are in traffic and everyone else is going 65 - do you still follow the sign that says 55 and rigidly stick to the letter of the law, or do you adjust and keep up with the rest of the cars?

Why We Hold on To Losers for Too Long and Cash in Winners So Quick

Anyone can learn Day Trading - if you put in the time and effort to do it, learning how to successfully Day Trade isn't difficult. Obviously, the time and effort part is hard for some people, but overall, if you really dedicate your energy to learning this, you can do it.

If that was all there was to this, there would be many more successful Day Traders than there are right now. But that is not all there is to it.

Mindset is the other half of Day Trading. And in many ways, it is much harder than learning all the technical analysis skills you need. Because the mindset you need to be successful at Day Trading is, in large part, opposite to the one most of us have in life.

In life, most of us are used to bad shit happening. It happens all the time. When it does, we generally are hoping that maybe, just maybe this time it will turn around. Something has to go right eventually.

And then what happens when something finally does go our way? We wait for the other shoe to drop. Because it can't possibly last.

Some people might lead a charmed life, but most of us haven't. For most people, Life is Unfair and the best you can hope for is that if you try hard enough, maybe you'll catch a break.

Now combine this mindset, with another, which can be summed up by that immortal line from *The Color of Money* - "Money won is twice as sweet as money earned." Very true. When you get a paycheck you don't jump up and down screaming in excitement, but win $50 on a slot machine and people go crazy. We like winning money. It feels a little bit like we are re-balancing those scales that weigh heavily down on the "Life is Unfair" side of the ledger. I enjoy making $1,000 off a quick momentum trade much more than making $1,500 from an OTM BPS that I have had on for 3 weeks. It makes no logical sense and it never will, but I suspect I am not the only one who feels this way.

Putting these two mindsets together can be extremely costly in Day Trading, and they go to the heart of why we let our losers run and cut our winners short.

When our trade is working, we want the win. Why? Because we are still afraid of that other shoe dropping. Nobody wants to be up in a trade and wind up closing it out later as a loser - that is even more painful than if the trade was never up in the first place. So we try to avoid that by taking profits, fast. Now there are many reasons to take profits - the market turned against you, the stock hit resistance (or support if your shorting), volume dried up, or perhaps you simply reached your target. But many of us don't take profit for that reason, *we take profit because we are in profit, period*. Everyone on here can talk about Risk|Reward ratios all they want, but in reality you shouldn't even been looking at your P&L at all.

The other side of the coin is even worse - when we are down, we suddenly have incredible faith that the stock will turn around. ***In a cruel twist of ironic fate, we are hard-wired to have more confidence in the loser turning around, than in the winner to keep on winning.*** So now we are stuck in a vicious cycle - believing our losers will turn around, and our winners will stop winning. We also believe that we haven't lost until we closed the trade. Are you down $4,000? No! Because I am still in the trade, I am only down that money if I sell it!

Where does that leave you? With small wins and huge losses.

The most obvious solution is position size. Most people trade with positions so large that it not only eats up all their buying power, but causes a mental breakdown when the stock drops. You need to figure out the right position size to where it makes a difference in terms of your overall portfolio, but isn't so large that it can crush you in one candle.

Adjusting your position size is the first step, but the second is to trade as if you only have one share, because the only way to rid yourself of this mindset, is to remove emotion from the equation. Which means removing money from the equation.

All that matters are the technicals - and if you don't believe that, than you believe you are gambling, in which case just like in a casino the house will win. And you aren't the house.

I bought **CARV** all the way up at $14, and I still have it. Why? Because until **CARV** breaks support at the 50/100 SMA (right around $10) I have no reason to close the trade. However, I also had **UPST** at 126.50, and the moment it broke the SMA 50 at 124.78 I closed it. Now if this was a matter of the P&L, it would be reversed, I would still have **UPST** and would have dropped **CARV**. But I know, that if on every trade I follow where the charts lead me, at the end of the month my P&L is going to be right where I need it to be, with a predictable win rate, predictable profit per win/debit per loss, and average number of trades.

The mindset described above is very hard to get rid of - and trying to change it requires more than just the desire to do so, more than realizing it is a problem, it requires removing as much emotion-driven choices as possible.

When looking at a losing trade, ask yourself these questions:

1) *If you weren't in this trade currently, would you enter it now?*

2) *Do the reasons you entered the trade still apply (e.g. is it still strong relative to the market, is it still above support, does it still have volume?)*

3) *Is your money better spent in a different trade?*

You'll find that a lot of the time the answers to those questions are **No, No, Yes**.

At the end of the month, all that matters is that you hit your goal. There is nothing special about ***that*** trade where you ***must*** make your money back from ***that*** stock. You don't. Find a better trade.

However -

If the trade is working in your favor, you should have *more* confidence in it than if it was against you. If you are that worried about the other shoe dropping, you can always take off part of your position and let the rest ride.

This isn't a post about the technical indicators, because if that is all it took, than there wouldn't be an issue. First and foremost is to not let the desire to "have a winner" dictate your decision making. Remember, the less your emotions control your decisions in trading, the better trader you will become.

Reducing your position size will only get you part of the way there - the rest is in your head.

Reversal Syndrome - Hanging on to Losers and Cutting Winners

Reversal Syndrome:

This terrible disorder impacts so many innocent traders every year.

Symptoms typically include:

- *Large losses, small wins*
- *A constant sense of frustration*

In its most severe form, it can lead to *total emotional breakdown*, usually indicated by loudly announcing to nobody in particular - "**That is it, I'm done...fuck this!**"

It is a serious affliction that nobody ever talks about but needs to be addressed. How many more must we lose?!?!

So, what is it? What is - **Reversal Syndrome**?

Well, you will recognize it immediately. In short, **Reversal Syndrome** is the constant belief that whatever position you are in will reverse at any moment. In essence:

If you are in a winning trade you better get out because we all know that fucker is going to go down soon, right?

But if you are in a losing trade you need to stay in it because you're not going to exit right before the miracle turnaround, are you??

I am guessing by now you know exactly what I am talking about and at its' heart, **Reversal Syndrome** is the core reason why traders lose money.

What is the cause of this? Because, really, it makes no sense.

Our winning trade means we were right, our analysis paid off and the stock is doing exactly what you had thought it would do. Our inclination *should* be that it will continue to perform unless shown evidence to the contrary.

And in our losing trade it means we were wrong; our analysis was off and the stock is doing the opposite of what you thought it would do. Logically we *should* abort the effort and move on to a trade that performs as we would expect.

But instead, we throw all that out the window and simply focus on one thing - **Reversal**.

One possible reason may have to do with our selective memory. Consider - We could have ten trades, and in each trade, we set a profit target of $1. In nine of those trades the target is hit. But one time the stock comes right up to the target, within pennies, and then suddenly drops back down. Trades like that tend to wind up as large losers as we'll hold them far longer than one should. Each time that happens it leaves an *emotional scar*, such that the memory of that loss (which was so close to being a win) dwarfs any recall of the nine successful attempts.

Over time those *emotional scars* add up and we become more and more fearful.

The opposite is also true. Many times, we will have taken a loss and it turns out to be the right decision as the stock continues to fall. But that one time we took a loss and right afterwards we see green bar after green bar stacked, each one a reminder that if we had just stayed in for another minute we would have been in profit.

Again, every time that happens it also leaves a similar *emotional scar*.

Because these situations tend to occur much more frequently to those with less experience, those *scars* build up rather quickly. Eventually it becomes like a reflex. As our winning trade is going up we don't think, "I can get even more by adding to this!", instead we think, "When is it going to stop?"

Before you know it, you have - ***Reversal Syndrome***.

The solution to this is discussed at length in the mindset section of the Wiki, but there is one immediate cure you can put into place right now - ***Admit you have it***. The next time you go to take profit, or decide to stay in a losing trade, just ask yourself, "Am I doing this because I think the position is going to reverse?" If the answer is yes - then **Stop**. You need to find another viable reason to exit or remain in that trade *other than* that fear of reversal. If you can't then remain in the winning trade and exit the losing one.

Hopefully, together, we can all beat this horrible plague before it claims more victims!

Dealing with Losing Positions You Should Cut but Don't

There are several posts in the Wiki about the technical reasons you should cut a losing trade, as well as dealing with the psychological barriers to taking the loss.

Cutting winners too soon and holding losers too long is without a doubt ***the number one issue in trading***. ***Full Stop.***

This post is meant to give a simple, alternative suggestion if nothing else has worked.

The affliction of holding on to losers for too long is sometimes an issue with reading the technical landscape correctly, but it also *almost always* also has a psychological component.

As an example, let's say you took a trade and it cost you $1,000 - perhaps a $5 Call Option and you bought 2 of them. After two days the trade has gone against you and the Option is now worth $2.50. And even though stock broke through a technical line of Support/Resistance which nullified your original reason for taking the trade, you continue to hold on to the losing position.

At this point you will justify holding it in as many ways as you can find, "it's the market dragging it down, and once SPY pops back up, so will this stock!" or "it is a volatile stock and it can jump back up at any moment, I don't want to miss it!"

A trader holding a trade well past its prime can conjure up any number of reasons for staying in the position.

In reality, it isn't the trade one is emotionally attached to, it is the money. The trade itself is a vehicle for the money. So, in this case, you are looking at $500 sitting in a losing trade, hoping it turns around.

So, if all else fails, and your psychology stuck when this happens then simply - ***Swap out the Trade***.

Find the best trade you can for that $500 remaining, and then close your losing trade and immediately enter the one you found. Now you still have that $500 sitting in a trade, but it is in a much better position than before.

If you swapped out every trade that you should cut, you would be left with trades that are working *for you* and not *against you*.

Again, there are posts in the Wiki about the technical reasons to cut the trade, and if you have no psychological block in this regard that is exactly what you should do. If you do have a block, there are posts on how to overcome it as well.

But if all else fails - just ***swap them***.

Self-Sabotage

For some people the concept of self-sabotage is completely foreign. Why would anyone want to cause themselves harm? These are the people that get up at sunrise and make themselves a Kale smoothie before their morning exercise routine. **And if you are one of those people - fuck off, this post isn't for you.**

As for everyone else? We engage in some degree of self-injury on daily basis.

We all know of the various activities that cause physical damage - whether is from a poor diet, no exercise, smoking, drinking, drugs, *etc*. The list goes on. There are entire industries devoted to getting people back on a "healthier" track in life, and while self-care is important, it is also not the form of self-harm I am referring to here.

I am talking about the type of behavior that constantly gets in the way of achieving any real success, such as:

You're finally in a good relationship and found someone that clearly loves you? **Great - time to fuck it up.**

Maybe you're the self-pitying type that thinks you are doing them a favor by releasing them of the burden that is...you. Or perhaps you simply do not want to belong to any club that would have you as a member. I mean if they like you then there must be something wrong with them, right?! (*btw - this is why people are drawn to those that reject them - because those people are clearly of higher value than the ones that accept someone as fucked as yourself*).

Got a good job, maybe in line for a promotion? **Great - time to fuck it up.**

Argue with the boss. Start coming in late. Screw-up a big project.

Finally have some money saved up? **Great - time to hit the casino and fuck it up.**

Because at the heart of every gambler is not the desire to win, but rather the need to hit rock-bottom.

All of this generally comes from some form of self-hatred. Whether from familial or social rejection in youth, some traumatic event that you felt powerless to stop, or some other deep psychological injury - our psyche takes on the viewpoint of that which caused us pain. In other words, at some point people like this no longer feel themselves worthy of any success.

Think about your trading now - think about all the times you finally thought you were on the right track. **And then - BAM. One bad trading day wipes it all away.** Every single time you get your account back to where it seems like you are actually "getting it", you make a trade that in retrospect was entirely avoidable with various exit ramps, but instead you just froze to watch it implode. Almost like you have now stepped outside yourself to see the train-wreck occurring in front of your eyes. *Except you are driving that train.* At some point you snap at out of it and finally close the trade, but it is too late, the damage is done.

Usually this doesn't just happened once, but over and over again. Because the moment you get close to succeeding, it is time to......fuck it up.

You promise yourself not to do it again. Rules go into place. You know what not to do. And of course, it is just a matter of time before you are staring at your screen in disbelief.

There is no method to learn or strategy to practice that is going to fix this problem. Because the problem is - You. You do not think you deserve to be successful. Failure is your comfort zone, as horrible as it feels. It is what you know best and so that is where you go each and every time.

Obviously dealing with emotional injuries such as this goes way outside the scope of this sub and something one should seek out the help of a professional. Finding the core reasons behind your need for self-sabotage typically requires someone specifically trained to deal with the issue. Is it possible to fix these problems yourself? Sure - but not likely.

However, in terms of your trading you can better identify the problem:

First create a chart of your P&L and note the days where there are significant drops. How far apart are they from one another? Is your account increasing at a steady pace right before it falls off a cliff? Note when those declines are most likely to happen.

Next look at the trades that have caused most of the damage. Are they all similar? Label them.

If you take out your five or ten worst trades, what would your overall P&L look like? Would you be profitable?

Take all your trades - and put them in a spreadsheet and rank them from worst to best in terms of pure dollars made or lost on the trade.

Let's say you have 1,000 trades - what you should see is a tight range (i.e., Standard Deviation) between the your biggest win and biggest loss. A healthy P&L for example would look like this:

Average trade: +$85

Standard Deviation: $80

This means that 68% (or 680) of your trades are between +$5 and +$165, and 95% of your trades is between -$75 and +$245. That would also mean that 2.5% of your trades are below -$75 and 2.5% are above +$245.

And you have no results that are + or - 4 Standard deviations from that mean. Meaning there are no wins above $405 and no losses below -$320.

Obviously if you are using a bigger account, you might have a mean of +$255 and a Standard Deviation of $240.

An unhealthy P&L is either one that has **huge outliers** or looks like this (usually both):

Average trade: +$200

Standard Deviation: $500

This means that 68% (or 680) of your trades is between -$300 and +$700, and 95% of your trades is between -$800 and +$1,200. Also, with big outliers on the downside.

Those outliers are the symptom of your issue.

In the first case of the healthy P&L, it means that you are usually a solid trader with consistent results but every now and then you go off the rails and blow it up. In the second case it means you are a good trader, but one that takes large risks with bigger than necessary position sizes, which eventually leads to a huge loss.

Identify which of the two best identifies your issue.

If you fall into the first group of the consistent trader that has the occasional day where you lose your damn mind - look back on those days. You'll usually see a stark difference right off the bat, from the first trade of the day. Something will stand out that deviates from your typical style. Zero in on that moment, because that is your sign that things are about to go off the rails. Maybe you take a risky momentum trade with a larger than normal position size, or you jump in earlier than you typically would - whatever it is, you'll see it jump off the page at you. Now you know. Because the best thing you can do is stop trading when you see yourself heading in that direction. Don't try to control it, don't try to stop yourself and continue trading. Just get up and walk away for that day. It will be hard to do, you'll say to yourself, "Ok, I can pull myself back from the edge". You can't. You are fucked for the day. Come back tomorrow and you will feel much better.

If you are in the second group your task is much more difficult but also far more straightforward - cut your average position size in half. Only go to a full-sized position when you are halfway to your profit target. Your problem here is that you are constantly living on the edge of disaster. There isn't a string of nice calm days and then a huge blow up, but rather it is generally a roller coaster. Unlike people in the first group, it isn't so easy to identify the days when things will suddenly turn into a dumpster fire. For people in this category, it can happen at any time, on any trade. The only way to mitigate it is to reduce your overall risk, and the only way to do that is to reduce your average position size.

Neither of these "solutions" will take away the urge to sabotage oneself, but they do make it harder for you to hit that self-destruct button.

As Traders, we are Our Own Worst Enemy

If anything, I ever write gets through to you, I hope it will be this post.

We Are Our Own Worst Enemy

You all know I passionately dislike people, so it should come as no surprise that this post is focused on flaws within the human condition. There really just so many one can choose from one, but I will try my best to stay focused on those relevant to your trading, I promise.

Let me start with an example, one you may have heard used in some form of critique or another in the past. As a warning, this may sound a bit, "When I was a kid, I walked to school barefoot, uphill both ways, in the snow" but bear with it -

If you go back in time, just a bit, to the 1980's perhaps - information was **not** readily available. If you needed something for school, you had to go to a public library to get it. And libraries, as amazing as they were/are, could be limited in how much knowledge they held within those walls. However, most of the time you were stuck with what was geographically convenient to obtain.

And if you were having trouble with a class, you might get a tutor and hope that the limited time (and money) spent would be enough to help you pass that test.

In other words, everything was difficult - although, of course, we did not know it was difficult back then, as there was no frame of reference. Hell, we thought we were lucky! I mean it wasn't like we were living through the archaic 70's and 60's!!

But now? Everything that took so much time and effort back then is readily available in the palm of our hands. Library? No need - we have Google. Tutors? No point - there is YouTube. Almost anything we could ever want in terms of knowledge is a few clicks away.

So, you would think that the average graduation rates, test scores, etc. would have gone up, right? No. They have either stayed the same or in many cases declined.

How could that be? The answers are literally in our phones, and yet we are no better academically now than we were then.

Why? **Because our mindset is the same. Our attitude towards learning is the same.** As a result, all the added advantages in the world did not change the outcome. We remain as uneducated as ever. It stands to reason that as technology improves, and knowledge becomes even more readily available - we shall still remain as ignorant as ever. In other words, the problem lies in *how we learn* and our views towards *learning in general*.

So, what does this have to do with trading? Well, let's go back in time again, to the 1990's or even early 2000's. Traders were paying huge commissions, with extremely wide-spreads *(right now if you want to trade* ***AAPL*** *Calls that were ATM, you might have a bid of $5.10 and an ask of $5.30 - but imagine it was $5 and $6 instead - huge difference)*, they also had to depend on their broker to make the trades which was done over the phone (or by fax!), and by the time they got the information on a stock's price it was already out-of-date.

In other words, much like school, trading was a lot more difficult back then, with a ton of obstacles in their way. They didn't have access to reams of data or indicators, no minute-to-minute charts, they couldn't run instant reports for almost any comparison, and there certainly wasn't any commission-free trades or instant executions, etc.

So once again, you would think that now with all the advantages we have that the percent of traders that make money would have increased from back in the stone-age, right? I mean the average retail trader with a ThinkorSwim platform has access to more (and faster) information that the entirety of *Goldman Sachs* back in 1999. Clearly this has to have made retail traders better, right?? I'm sure you know the answer. No - it hasn't. The same percent of traders fail now as they did, the only difference being - there are just a lot more of us now. In fact, it is fair to say 90% of traders lose money, and that might be generous. ****Now to be clear - a large portion of that 90% are traders that are untrained and quit after a short period of time. There is no way of knowing what percent of traders succeed if they put in the time, energy and dedication into learning how to properly trade. But still, there is no doubt that more traders lose than win.***

Let's face it - as people - we suck.

Just like with schooling, if the problem was one of knowledge and access, then you would expect to see improvements as information becomes easily available.

It stands to reason that you want to be doing what the 10% or 5% do rather than imitate the habits of the vast majority that go broke. But that isn't what happens.

Even the method taught here, one that is proven to be successful, is not enough to make you profitable. In fact, I could teach 100 people this method front and back until they knew it by heart. They could in fact be experts - *and still most would lose money.*

And is because you need both. **Mindset** without knowledge is just as worthless as **knowledge** without mindset. Only together do the two produce profitable results. This is one of the reasons it takes two years of training - *not just to learn the method, but to fix your mindset*. It is also why such a large portion of this sub is dedicated to teaching **mindset**.

So, what is our major malfunction?

Well, the first problem we have isn't just that our mindset is faulty but also that *we don't realize it*. We always think the problem is with a lack of knowledge - that is why we are constantly on the hunt for the next new indicator, the next course/guru - whatever shiny object that promises us the gold at the end of the proverbial rainbow. Sadly, when we get there we find that there is no gold, there isn't even a leprechaun - just another YouTube video featuring some guy in a rented Lambo.

We don't want to think the problem is *us*. Blaming everything else is far easier. Many turn into those annoying trolls you see on these forums claiming the entire thing is fixed or scam. Others go down the indicator rabbit hole. Sadly, most just whimper away with bruised egos, never to be seen again.

But the problem is us and always has been.

A recent study came out and revealed that a vast majority of retail traders are *dip buyers*, which means they are counter-trend trading. We also know that a vast majority of traders lose money. Logically one would come to the conclusion that, as a trader, one should not do what the *vast majority* does. Logically.

Those that aren't *dip buyers* tend to buy *low-float gappers*, always chasing that elusive *short-squeeze*. We also know that most of those people *lose money*. Logically one would come to the conclusion that, as a trader, one should not do what everyone else is doing. Logically.

We also know that even those that avoid the temptation of *dip buying* and *low-float gappers*, are using some method of *Technical Analysis*. Whether it is the dreaded *RSI*, or *Bollinger Bands,* perhaps throw a little *Macd* in for good measure, with a dash of *Fib lines* - they have some method that if they just perfect they can finally start turning a profit. But most never do. Once again, logic should come into play here as well.

I think the follow might best illustrate what the **real** problem is:

Let's say I am short **META** - it is a decent short right now and very defensible. **META** has a horrible looking daily chart, and the market is also bearish.

So, let's say I have the $155 Strike Puts that Expire 9/30 which cost $10.75.

On Monday the market bounces up and **META** goes up with it. A few hours into trading and **META** is up $3 on the day and those Puts are now worth $7.30, you're down $3.45 a contract. But the stock is still Bearish on the daily chart and this is probably just a temporary bounce in an otherwise Bearish market. So you hold your position.

On Tuesday the market continues to bounce and is now over $400 - **META** jumped up at open and is now at $155, and those contracts are worth $3.75 - down $7. Now you are stuck. You can take a 65% loss or just hold it, hoping that when FED comes out on Wednesday the market will drop, taking **META** down with it. So that is what you do - you hold.

On Wednesday the FED announces a .75 rate hike and the market goes up! Why? Because they have been pricing in the chance of 1pt rate hike, so .75 is actually an upside surprise. **META** is now at $159 and those Puts are worth $2. Finally, out of frustration you close the position down $8.75 per contract.

*And don't give me this holier than thou crap about "They should have closed the position on Monday!" or "They were an idiot for holding and deserve to lose", as if **you** would have done it different. The fact is - the above scenario is pretty much exactly what happens to a vast majority of traders, but no I am sure **you** are the exception.*

Naturally, come Thursday the market starts to drop again and continues dropping well into the next week. By the time expiration comes up (9/30) those Puts would have been worth $20.75, almost twice what this trader originally paid.

Ok - now let's look at the reverse scenario - on Monday the market drops, taking **META** down with it - those $10.75 Puts are now worth $12 on market open. The trader immediately takes profit, very happy that they are up $1.25. As expected, **META** continues to decline and by Wednesday morning those Puts are now worth $20.75, almost twice what they paid.

And within that example lies a core mindset issue.

When the position goes against the trader, they neither shut it down immediately, nor do they stick to their thesis - instead they take a middle ground of *almost* maximum loss, with no chance of recovery.

When the position goes in favor of the trader, they have *no faith* that it will continue to do so, and immediately take profit.

The moment our positions are in profit, we tend to feel almost *lucky* - and our immediate instinct is to **lock-in** those winnings. Perhaps we remember too many times in the past where positions have reversed on us, or maybe we internalized the notion that "One never goes broke taking profits" (yeah, you do....all the time), or perhaps we just want the "win". Either way, at the moment when we are at the highest probability to continue making money we cut it off at the source. We don't hold, and we almost never add to it, **we close it**.

Name one successful person, company, or endeavor that has done well using the philosophy of "**Quit while you're ahead**". Can you imagine if a sport team suddenly gave up mid-way through the game while they were up on their opponent? Or a business that shuts down the moment they start turning a profit? Bring it down to an individual level even - imagine you finally get the nerve to ask that person you have liked, out on a date. They say yes! And then you don't show up. Quit while you're ahead, right?

In fact, there is one instance where one *should* **quit while they are ahead** - ***Gambling***. In gambling you *shouldn't be ahead* - the edge is against you. So you if you are up, then you were lucky. In that case it makes perfect sense to quit while you're ahead.

Which is deep down why we do it in trading - because most of us believe they are getting *lucky* when they are in profit. They don't have any *real confidence* that they used a repeatable & winning method, they don't truly believe it was *skill* that produced the win. That is why they think it is going to be reversed.

And this is one of the many reasons why we *suck*. When it truly is luck (i.e. in a casino), we push forward and gamble even bigger when we are up, almost never *walking away*. And when it is actually skill (i.e. when trading), we immediately take profits as fast as we can.

But that alone isn't enough. Our capacity to screw ourselves over knows no bounds, truly.

Because the parallels to gambling does not stop when we are in profit.

When a gambler is down, rather than think, "Well that makes sense, the odds are against me to begin with....", they instead go to the ole' , "I was just unlucky, and it *has* to turn around!". Which generally is followed by a trip to the ATM where they pay a ridiculously high fee and head back out into the casino ready to "win it all back".

Similarly, when a trader is down they believe it is always on the verge of "turning around". Their big fear is that the moment they close their position is also when it will finally go in their direction (n*otice that the inverse is not true - because when a trader is up and closing the position, they don't worry that it will continue to go in their direction after they take profit).*

So here we have a huge logical contradiction. When someone's skill is validated (i.e. when the position goes in the intended direction), they act as if it was luck and get out. But when someone's skill is invalidated, they act as if they are still right and hold.

In other words - *When we trade, we act like gamblers.*

This is a *Skill-based* profession, and in order to excel in a skill-based field you need to not only have that skill, but also believe in it as well.

Like most professional traders, I know what the average amount of profit I make per trade. Which means I also know that if I make a certain number of trades a day, I will hit my monthly targets.

For example, if I know on average, I make $200 per trade (which averages in the winners and losers), and I want to make $40,000 a month in profit - then as long as I average 10 trades a day, I have confidence I will hit that number. Some trades might lose a few thousand, some might make a few thousand, but with a dataset of thousands of trades that goes into that $200 average, I can be assured that it will all average out in the end.

Now, in order for that to work, my decisions have to be consistent, which means *fear* or *greed* or any other emotion has to be removed as much as possible. Each decision needs to be based on the same criteria as the decision before it, and those after it.

That is the only way one can make a living doing this. And that **mindset** is about as far from acting like a *gambler* as you can get.

So, is that it? We need to stop acting like *gamblers*? Well it is a start, but sadly, only just that.... a start.

Ask yourself -

*Sticking with **META** let's say on Monday is opens down $3.50 and immediately drops another $2. The stock is now at $141.25. Do you think:*

It already dropped a lot, I missed it

This is a good time to go long, it is going to bounce

If the answer to either of those is, Yes - then you have a **mindset** issue.

*If on Tuesday, and at the end of day **NFLX** is now on its' third straight day of increases, at $260, up from $235 just three days prior. Do you think:*

There is going to be some profit-taking here, time to short it

I can't go long, it has to be over-extended by now

Once again, if the answer to either of those is, Yes - then you have a **mindset** issue.

In fact, ask yourself, honestly - how many of the following apply to you:

- ***You are more likely to go long a stock that just dropped, rather than on one that has just gone up.***
- ***You are more likely to average-down than average-up.***
- ***You almost never average-up.***
- ***You find you either leave positions way too quickly, or way too slowly.***
- ***Your losses are far bigger than your winners.***
- ***At least once a week you have exited positions because of impatience.***
- ***At least once a week you have exited positions because you were losing too much money.***
- ***Your position sizes are clearly looking for big-wins.***
- ***You get stuck in positions where you are so far down that you can't bear to close it.***

- ***At least once a week you spend several hours staring at the same chart hoping it turns around.***
- ***At least once a week you made a trade out of FOMO, chasing a stock and/or jumping in too quickly.***
- ***More than half of your trades are against the market direction.***
- ***You're always betting on a reversal of some sort.***
- ***You're constantly adding new indicators or trying a new method.***
- ***You start out following your method/checklist, but by the time the day is done you find it has all gone out the window.***
- ***You follow the trades of others only to get stuck in them and dependent on someone else for your exit.***
- ***At least once a week you make a trade you do not fully understand how it works.***
- ***You find that all of your profits are consistently being wiped out by that one "big loss".***
- ***Your confidence is not consistent - you are either over-confident or lack-confidence.***
- ***When you are in profit your first thought is on closing the trade and taking the win.***

ALL of those above are issues with **Mindset**. You can soak up more knowledge, learn more technical analysis, immerse yourself in charts all day, and it won't fix any of the above.

You are quite simply not thinking correctly - in fact, you are thinking just like *everyone else*. And if it not clear by now, then let me say it plainly - **You can't not be a successful trader by thinking like everyone else that trades.**

You need to think like the 5-10% that are profitable, not the majority which are not.

In the Wiki are posts that go into detail about how to solve the various mindset issues people have, and this post is long enough, so I encourage you to read: Top 5 Mindset Issues and The Solutions , this post is meant to drive home a very clear point - **You DO have a mindset issue and it is why you aren't profitable**.

Once you finally realize this and actually focus on the problem, is also the moment you have a chance at overcoming it and becoming a profitable trader.

Three Examples - Three Mistakes - Three Lessons

Example 1: Betrayal!

You go long stock **FAFO** at $100.20. Stock is bullish, market is bullish, daily chart is bullish - it broke through its SMA 100 on the Daily, and has higher than average volume. Great choice by you! You're a champ.

But right after you get the shares, **FAFO** drops to $99.85, back below its SMA 100 (a breach you never confirmed). That's ok, only down .35 - not a problem. Sure, you took 500 shares in a $15,000 account (using Day Trading Buying Power), but whatever, it's fine, hell, the market is still strong!

Market drops.

FAFO had *Relative Strength* but for some reason known only to the God of **You're Fucked** it no longer does...and now **FAFO** is at $99.25, down .95. Still, support is at $98.25 and unless it breaks through that, your thesis is still intact. Besides, it is not like this stock is never going to be above $100.20 again, right??

Shit, you can't trade because all your money is tied up in this damn stock, in fact your Option Buying Power is now negative. Well, there goes the idea of "waiting it out"

Fuck. Fuck. Fuck. Fuck. Four fucks. It is at $98.50- down $1.70, and you are now down $850 on the trade. Maybe you should just cut it, but it is so close to support, I might as well wait it out.

Yes! It bounced back up! $99.25. Getting closer. Market going up too.... this is great, I've been saved!

It hits $100.20 - your entry. You exit. **Break-Even**.

Verdict: You. Fucked. Up.

In this scenario, your thesis was finally starting to work and the stock was just about to do exactly what you thought it would and you.....exited. You got so freaked out by the prospect of losing and did not want to have the position go back into the red that you took the scratch. Going through your mind is one thing - "If this stock drops again and I could have gotten out at break-even I will be beside myself with murderous rage!" (perhaps not that severe, but you get the point).

You no longer trusted the trade. It already caused you emotional pain and now you wanted out of the relationship.

In the fucked-up heads of traders, the position *betrayed your trust,* it went down when you thought it was going to go up, it made you anxious and now you're supposed to just carry on like nothing happened?? No fucking way. Gone. **FAFO** you lost out...because you lost.... E!

But just like in so many of your real life relationships, if you look back you will realize **FAFO** did nothing wrong, it acted how it is supposed to act. The stock pullback back with some profit taking, went down to test support, and then bounced right back up ready to go, but it was too late, you were gone.

At the end of the day **FAFO** was at $102.17, and enjoying life with someone else.

Example 2: Gotta have Hope!

You short **GTFO** at $43.65. The stock has fallen below all three major MA's on the daily chart. It gapped down today (as did the entire sector/industry), and broke below daily compression. Volume is good, and the stock is weak to **SPY,** and on top of that **SPY** is dropping faster than your bank balance. Another winning choice. *Madmartigan, you ARE great!*

But then Fed speaker Fucktwit says, "This feels like a good time for a pause in the hikes so we can assess any lag impacts on the economy". Well, the market certainly liked that! **SPY** goes up like a rocket and since **GFTO** is in the Tech sector, it pops as well. Within two candles the stock is at $44.30. You are down .65, but you bought 1,000 shares (because you are a greedy motherfucker), so you are down $650.

However, **GTFO** still hasn't broken it's Resistance from a downward sloping Algo line at $45.10, nor has it breached the SMA200 which is at $45.60. I mean you were smart, super smart even! You made sure this short not only ticked off every box, but that there were multiple levels of Resistance in place.

Fuck. Fuck. Fuck. Fuck. Four Fucks again. **GTFO** just smashed through that Algo line and threw its hands in the air like it just didn't care. That little bastard is now at $45.30, You are now down, $1.65. That's $1,650. Think about what you could have done with that money, You could have gotten your kid that Playstation 5 with like 10 games and still had money left over. Think about how happy your child would have been. And now you have lost that money. It's gone. Depressing isn't? All because Fed Fucktwit decided to start shit. Makes you want to pull a Will Smith and smack the shit of out him, saying, "Keep rate hikes out of your damn mouth!"

Well, you can't close it now, you just can't - if you do, that money is lost and there's no Playstation (that you weren't going to buy anyway). So now you have to hope the SMA holds.

Shit. Market just closed. I need to wait until tomorrow.

Yeah. Bad fucking idea. The next day tech is leading the way and **GTFO** gaps up to $46.25. You are now down $2.60, or $2,600. Fuck the Playstation, you could have gone on a family trip. You could have used the money to fix shit around the house. You could have bought an awesome new TV, or a new laptop. Now you are really depressed and you close the trade.

Verdict: You. Fucked. Up. Again.

You held an underwater short that was heating up with the entire sector on a News-based bounce....overnight?? What the hell is wrong with you?!?! No. No. No. No.

Fine, the first bounce up wasn't your fault. Fed Fucktwit screwed it up for everyone that was short Tech. You can't predict that. But the reason you held is because you had a position so fucking large that you could not stomach the idea of taking the loss.

You held it because at least then there is....hope. Hope that tomorrow will restore sanity to the market and **GTFO** will resume its downward spiral.

If this was 300 shares you know you would have closed it. A loss of $495 isn't fun, but you can stand it. You just could not take the idea of losing that much money when there is a chance that you can still somehow get out unscathed.

All of that analysis, all of your strategy, was reduced to - hope.

Let's please stop that shit? Ok?

Example 3: Never Went Broke Taking A Profit

Dayummmm **GFY** is looking tight! I mean, earnings were fit as shit, and **GFY** glammed up! Going from $120.35 to $134.20 overnight! Right through all Resistance levels, and now the fucker is at an all-time high. That's right. Ain't nobody holding bags above this price. Volume is strong. Market is strong. **GFY** is hella strong. You're gonna shoot your shot. Bam - Long **GFY** at $134.20 .

And sure, you only have $27,000 in the account, but you have $108,000 in buying power baby! Go big or go home right? (although, you're already home most likely....just sayin) 750 Shares!

Aight...it consolidating. Totes fine. Let it do its thing. It wants to hang between $133.90 and $134.30 that's fine with you. As long as it kicks those candles and pops soon.

It does! That's what I'm talking about! Boo-ya! $135.20. Exit. Out. Boy, Bye. $1 Profit. $750 in my pocket (or in your account and we don't think about the fact it will never make its way to your pocket).

"Nice trade" says everyone. You beam with pride. Hell yeah it was a nice trade.

Verdict: You. Dumb. Shit.

Here you have a stock that is clearly bullish off earnings. Hitting an all-time high, which is statistically where stocks are most likely to continue to run up. Breaks out of consolidation and pops up on a strong market. Literally everything you want that stock to do.

Do you add to the trade? You still have some buying power left, you could even supplement it will Call Options. Nah...you don't even think about that.

Do you just let it ride, and wait until it seems like there is actually Resistance? Nah....you briefly think about it, but why throw away a nice $750 win?

This is exactly where you hold on to the stock. It is literally the best possible scenario for that trade.

You don't see any of that because your mindset is still - "You won and managed to take money out of the market", you still see that as *beating the odds.* You didn't lose. It is like you see the market as a casino and cashing in winnings is beating the house.

What you are not realizing is that "winning" should be the norm, it is the *expectation* when you trade. You're not "getting away with something" when you make a profit. Trading is not about "take the money and run".

Are there situations where you should quickly take profit? Of course there is, but your mindset cannot differentiate between them. There is a difference between taking a profit on a trade in a choppy market with a stock that has some *Relative Strength,* and going long on a stock that is at an all-time high, breaking compression, and coming off earnings.

It is not only learning the difference, but also realizing that, yes, you should be up that $1 and not only that....you should be looking for a lot more!

Stop taking profit too damn fast!

The Biggest Mistake I Would Make Day Trading (FOMO/Momentum Trading)

EDIT - this was written roughly a year ago and originally posted in [r/daytrading]() so read it in that context.

I know....me, lose money trading?? Seems hard to believe.

Sigh, but there was a time when I was a fresh-eyed noob and thought I knew everything. Those were fun days.

Back then there were lots of ways I would screw up, but one stands out in particular. Perhaps some of you can relate?

The morning would start and I would be there for it - Adderall, check. Coffee, check. Mango Juul, check.

The moment the open bell rings I would see my list of morning gappers take off. Stock was at $3, now it’s $4, and looks to be heading to $5. It’s climbing my Active Trader ladder fast.

But wait, it’s not the only one! Several stocks are “gapping and going”!

FOMO sets in. Like a crashing wave. I’m convinced that everyone else is making a killing on these stocks. Everyone but me, that is.

So, I quickly put in orders. 2,000 shares of one stock, 4,000 shares of another. And I go green for a second and then they start dropping. No stop for me, these stocks are movers, not going to get stopped out of a winner! I would always think back to that one time I got stopped out of a stock right before it shot up.

But now they're back down to the opening price. I'm in the hole by $1 a share on one and $1.50 a share on the other. It's too late to sell now. I just have to wait. And wait. And wait. As the day wears on I realize I've been staring at these ladders for hours. Volume has dried up and the stock isn't moving.

Do I just hold them? Maybe the magic returns. It doesn't. It never does.

Ok so no more gap and go for me! Problem solved, right? Nope.

During the day other stocks are jumping, some of these are reputable companies too!

Same process - Same result.

The problem was FOMO. The single biggest killer of day trading accounts.

When you have FOMO you don't stop to check the charts, you don't look at the technicals, you just jump in. You never think it will retrace, you think - if I don't get in now I'll miss it!

So, here's the solution - take a breath. Don't take a trade until you looked at the chart and identified levels of support. Don't buy the stock until you look to see the catalyst - is it news? sector sympathy? market related? earnings reaction? Don't make the trade without doing DD on the charts. (see my other posts on the type of DD you should be doing)

Will you miss a few doing this? Sure. But you'll save yourself from many more.

Anyway, thought I would share what was my biggest issue starting out. If you can't relate, that's great, it means you're not making the same mistake many of us make/made. If you can then just know that this is a common issue, with an easy solution.

Momentum Trading - Why It Has Trapped So Many Traders

Momentum Trading - everyone's favorite way to lose money.

It looks so easy, right?

A low float, heavily shorted stocks that nobody has ever heard of until that morning is suddenly jumping on huge volume.

Yesterday it was at $4.15, but pre-market it hit $7.20! It opened to $6.10 and it is starting to go! Rocket emojis are flying, people are saying things like, "Next stop $10!" and then some weird shit about eating at Wendy's that night.

But wait - you're not just going to jump right in, no no, not you - you're smarter than that - you will look at some charts first! Maybe you check the daily chart and see a few months ago it hit $22. Great, there is room to grow! Damn, there are a lot of bag-holders too! Guess which one of those two arguments win out? Room to grow!

Next you continue the process of fooling yourself into believing that this trade is based on rationality by looking at the *price action*. The 5-min chart? The 1-min chart? Hell - both of them! Let's throw some EMA's on there, and keep an eye on that volume - because now it is all about the....***pullback***.

Perhaps it is the 3-bar method, or the 8-EMA - there are just so many to choose from! For every method there is a YouTube video of someone in a rented Lambo, with around 10 monitors behind them, and *they* are going to show you how they built their amazing fortune.

Finally, you pull trigger - 1,000 shares of Stock **IDAF** @ $6.34. BAM! Now sure, you only have $7,200 in your account - but with margin taken into account you still have more than half of your buying power left, so you are Golden, Pony Boy. Nothing to worry about.

There is a quick little pop up to $6.66 (yes, intentional), you're up $320 and thinking to yourself, that you are going to shoot for $7.10, right under the pre-market high - I mean, why get greedy right? Or perhaps you are conservative, and decide that .50 cents is nice round number, and make $6.84 the promised land.

Doesn't really matter where that target is, because we all know how this story goes from here, don't we? **IDAF** decides to back off a bit and perhaps say hello to its' old friend, VWAP. Now it is at $6.03 and you are down $310 - that's a $630 swing - What. The. Hell. Not cool. Not cool at all. But this stock is wild, *it can do anything!* No way are you getting out now only to see a long green candle mock you from your screen.

Flash forward an hour - **IDAF** has bounced off VWAP three times and once it almost got close to your breakeven, and your finger was hovering over the sell button, but you didn't do it - because *it's finally going back up!* Either way, you put your hard stop right below VWAP. Done.

Flash forward another hour - Well so much for hard stops huh? You have now invested way too much time to get knocked out of this trade now. Plus, you just read that **IDAF** had really positive results from some trial of some drug that cures some disease and everyone on Stocktwits is saying it is going to $10, and everyone on WSB's is saying "Screw $10 - $100 or nothing!". **IDAF** is now at $5.95.

Two Hours later - Remember that extra margin you had? Dollar Cost Averaging Baby! (or that is what you say, because it sounds good - but really you mean - averaging down) 1,500 shares now @ $6.19. **IDAF** is now at $5.73 - volume is almost non-existent, until....BAM, huge volume, **IDAF** is going again! It's at $5.85. It's at $5.97. It's at $6.04. Holy shit - it's coming back!!

End of the Day - **IDAF** is now at $5.23, and you are down $1,440. You sell. You're depressed. Before you head off to open that bottle, you take a last look at the chart - **IDAF** is at $8.25 and climbing.

Tears begin to fall.

Does any of this sound familiar?

Why does it happen?

The problem isn't in technical analysis, the problem is in your head.

Traders have two big mental issues (well, more than that, but for the purposes of this post, there are two) -

We take profits too quickly. Always afraid of having our gains taken away from us, we let fear guide our decisions. And why not? Whenever something good happens in our life it is only a matter of time before the other shoe drops, right? Instead, we should be *adding* to our winning trades, there are many reasons to exit a trade (e.g. stock lost Relative Strength to the market, it got rejected at strong support, volume dried up, etc.) but fear should never be one of them.

We hope our losers will turn around. Always thinking that the moment we sell, the stock will turn around, we stare at the screen, trying to get a reversal through sheer willpower. And why not? We have spent most of our lives hoping things will turn around. You're due. At some point things *have to get better, don't they??* And so instead of exiting, we do the opposite, *we double down on our mistake.* We are averaging down when instead we should be looking at the charts without emotion and asking if the reason you got into the trade still applies? If you weren't in the trade, would you enter it now given the current conditions?

These issues are difficult enough to deal with when you are trading a stock like **MCD** or **AAPL** - but when you are trying to scalp **IDAF**?? Exponentially harder. Why? Because **IDAF** *can* turn around. **IDAF** doesn't care about VWAP or EMA's, it is a piece of shit, low float, highly shorted stock that at any moment can suddenly jump from $5 to $8, and so in your mind *there is reason to hope.* Yeah, **MCD** is most likely not going to rebound when **SPY** is dropping and it fell below its 50 SMA on the daily chart, at least not on that day it won't - but **IDAF** can - and that *keeps you in the trade.*

This is why I say that momentum trading is the most difficult kind of trading there is, and unfortunately it is also the most common method used by new traders. Experienced, profitable traders know how to mentally prepare themselves to scalp **IDAF**, but it takes a long time to get there.

So, if this story resonates with you, please, do yourself a favor and stop. There are so many ways to Day Trade, and opportunities to make money every day without scalping. It is why I did the $30K challenge and doubled the account within 5 weeks *without using momentum trading*. To show everyone it can be done.

I get it. I get the allure. But the allure is gambling. So, the next time you see an **IDAF**, pass it by and move on to something you can actually make some money trading.

The Zone of Greed - One of the Most Common Mistakes

****Updated and Reposted for the Wiki****

Not Waiting for Confirmation

I get it. You want to be *ahead of the move.* If you wait you will have already missed your chance.

This isn't logic - it is greed (and yes Gordon Gekko, Greed is Good, we all know. We've all seen it).

In this case it is a very well-defined **Zone of Greed**. This is the specific part of a move that you're afraid of missing out on if you wait.

The most common way this happens is with **The Gut Call** - otherwise known as *picking tops and bottoms*. It can't go up/down forever, right? So instead of identifying where key technical levels of support/resistance are and then waiting for those to be violated, you jump early. Who wants to wait until SPY breaks 414.75 before they short it?? That's 2 1/2 points you're giving up! (if you are Day Trading a simple trendline would suffice).

About half of the trades, I hear people suggest are based on nothing more than a "due for a reversal" mentality. Remember:

Successful traders don't predict the market, they act when the market confirms a direction.

Notice I said "Traders", not "Investors". Investors try to predict long-term, but short-term retail traders are jumping on a bandwagon and going for the ride.

The moment you realize that, is the moment you start becoming consistent in your trading. With some notable exceptions (GME), retail traders **do not** move the market, institutions do, and when they do they leave breadcrumbs for us to follow. We can see the results of those plays in the price action and if we are patient enough, when those results are confirmed, we can cash in on them.

Humbling, I know.

Consider this - you are an hour into trading and see that TSLA is down $6 on the day. In your experience when TSLA starts the day down, it tends to finish even farther down. So you short it. You didn't look to see if TSLA violated any support levels or what the volume is for that day, you just don't want to miss any more of the downward move. However, perhaps SPY is down $3 on the day so far, a fairly significantly drop and compared to SPY TSLA is actually doing quite well. TSLA has Relative Strength against the market. With the market down $3 TSLA should be down much more than just $6. Thus, the moment SPY rebounds, TSLA takes off and winds up finishing up $9 while your Puts get destroyed.

If you just asked yourself one question - "Do I have technical confirmation?" before making a trade, and moved ahead ***only*** if the answer is "Yes" - your trading results would improve dramatically. Does this mean you give up a certain portion of a move up or down? Yes. But you also give up being wrong so often that it isn't nearly made up for by the times you are right.

That small range that you are giving up is not worth the chance you are taking. For SPY right now that would be a zone of roughly $2.50. Between the current price (417.20) and the support level (414.75). That is the additional profit you would generate if you shorted SPY before a technical breakdown.

It is for this same reason you shouldn't hold a position over earnings. Once again you are afraid of missing a huge move in the stock. But as we have all seen, earnings is a crap shoot - a stock could crush earnings and drop 10% the next day. Wait until you see the response and then play the response. Even worse are people who buy calls or puts right before earnings and then watch as their options get crushed by a deflating IV.

Your goal should be consistent wins every day. You can only reach that goal when you stop chasing huge moves. Ironically you are more likely to see profits when you give up the greed.

Bad Trading Habits That Are Costing You Money

****Updated and Reposted for the Wiki****

Every trader has bad habits.

And I am not talking about the over-stressed, nicotine/alcohol/junk food lifestyle many find themselves living. I am referring to actual *trading* habits.

Some of these stems from individual personality traits, while others are due to a combination of arrogance and simply being stubborn. I interact with hundreds of new traders a week, and without fail almost all of them have some, if not all, of the issues listed below.

While I try to discourage them from repeatedly making the same mistakes, it is also without fail that most do not listen. Some do, and I have watched them become consistently profitable traders over time, but others prefer to argue despite their lack of monetary reward.

As a professional Day Trader (i.e. *consistently profitable to the point I can support myself/family off the revenue)* I know how hard it is to do this. I also know that it is very doable, and those that watch me trade everyday can see the results. Given how difficult this is to master, it is made even more so when people continue to commit the same mistakes over and over again.

So, without further ado - compiled from my countless conversations - are the biggest mistakes I see being made on a regular basis:

Trading Without Knowledge - Time and again traders will enter into a trade because they read a post or followed a trade live, and they have no idea what they are doing. You would think it should be common sense that someone should know how an option spread works before committing your money towards one, but apparently not. On Friday a trader asked me what "assignment" meant after they just bought a Call Option that expired on that same day. I do not hold out much hope for that trader.

Rushing Into a Trade - Perhaps a stock is moving up quickly, or someone just posted they shorted a position, and instead of taking the time to look at the charts, looking at the best entry and exit points, deciding on position size, *etc.* - they just jump into the trade without thinking. Again, you might think this advice is obvious, but it is not.

Relying on Others - As someone who publicly posts their trades, I know full well the pressure of having many traders follow you into a trade. And while I am posting the trades for educational purposes, I also realize that some people just want to grab quick trades that someone more experienced has chosen. This is an unfortunate practice. Not only are the constant questions annoying as hell (e.g. "Are you still in?", "It's dropping, should we exit?"), but it doesn't help a trader to just blindly follow someone, in fact it can hurt them quite a bit. Because if you are relying on someone for a trade that also generally means you are relying on them to exit as well.

Position Sizing - This is a common refrain, and no list of mistakes would be complete without it. No matter how often you tell traders to work on their win rate, start slowly, find your strategy first - it doesn't matter. Someone with a $15K account is buying 30 $1 calls on a stock and using 20% of their account on one trade. Hit singles, stop swinging for the fences.

OTM Options - This warning always gets an argument, but arguments do not change facts and the facts are - OTM options are generally *not* a good idea. Sure, if you are doing Friday lottos, or an OTM Bullish Put Spread they are fine, but overall one should not be gambling with OTM options. Yes, they are cheaper, and they are cheaper for a reason - you are paying no *intrinsic* value. In fact, they aren't *really* cheaper, because you are actually paying *all* premium. Traders lose more money on OTM options than almost any other type of trade.

Anticipating - One of the absolute worst trading habits there is and it is done by both new and experienced traders. Nobody wants to *miss* a move, so people jump into trades before confirmation. This would be all of the people that went long on **SPY** a week ago (most likely using OTM options) thinking it was going to bounce back, only to see it drop even further. Traders love to try and guess the tops and bottoms of charts, a practice that they continue no matter how often it loses them money. Another version of this is trying to predict the market based on external factors - i.e. "The infrastructure bill should help stocks like **CAT**, I am going long!" *Always* confirm first - let the chart tell you what is happening - Institutions move prices, so let them go first and then follow the money.

Overthinking - Trading is hard, there is no doubt about that. It can take years to get good at it. But that does not mean it is complicated. I see traders all the time with so many indicators on their charts that you can't even see the candles. Many of them are looking at esoteric studies and rarely used analysis to help them make decisions. Remember, Technical Analysis works insomuch as other traders also are following the same guides, and trust me, not many people are looking at the 73 SMA on the 4-hour chart.

Rethinking the Wheel - So you been trading all of three months and you think you've *cracked* it with your new method? You haven't. Trust me, there isn't anything you can try that hasn't been tried already. Now if you have been trading for many years, have had consistent success and *then* come up with a new method of trading - great, that should be of interest to everyone. But way too many new traders think they can find a surefire system that can beat the market.

Decision-Making Bias - There are several that impact traders, especially newer ones - whether it is *Anchoring* which would have someone looking back at that first successful trade as an example of how to move forward, or *Survivorship* where people tend to only look at the winners and ignore all the losers (**GME** is an example of this), this type of thinking gives a shortcut to correct decision-making. And in trading, there are no short-cuts.

Trading P&L - Really hard to break-free of this. So many traders will set their stops based on a preset amount of money, or exit a trade because they are "down too much". You should be basing you exits on the charts, not your P&L. Time and again I see people jump out of trades they should have stayed in because they were afraid of "losing too much" (see - *Position Sizing*) only to have those trades turn into winners. Exit a trade when your thesis for entering no longer applies.

Believing in Losers/Scared of Winners - Unless you were born rich, you have experienced financial struggle in your life. When things go right, we are always expecting "the other shoe to drop", and when things go wrong we are always hoping they turn around soon. Unfortunately, we bring this mentality to trading. It is why we take profits too early and let our losers run too long. When we are in profit many times we are so afraid of losing our gains we exit the trade even though it is going our way. And when we are down, way past the point of the stock violating a technical level, we constantly believe it is *just about to turn around*. Because of this our losers can tend to be bigger than our winners on average - and that is not way to make a living.

Ignoring the Market - Successful Day Traders know that if you get the Market right and the Stock right, you will make money. But many traders ignore the market. Are you shorting a stock on a day the market is really strong? How is the stock performing relative to the market? One should always have the **SPY** 5-minute chart up and running in the background and constantly checking it.

Momentum Trading - I saved the biggest one for last. This is also the most argued and most difficult to get people to stop doing. The entire field of Day Trading has been corrupted by YouTube videos promising people they can *get rich quick* using *very simple methods*. All these videos are doing minor alterations to *Gap n Go* strategies, where one plays the momentum of morning gappers (most are found earlier in the day). Ironically, this is actually one of the most difficult types of trades to do with consistent success. Most professional Day Traders actively avoid them, except in rare circumstances. Yet, many new traders believe that Day Trading *is* Momentum Trading - it is not.

I can absolutely assure anyone reading this that if you stop doing these mistakes your odds of success would increase dramatically. However, I also get that it is difficult to change. Overcoming these issues is part of the reason it takes time to be a successful trader. Learning how to trade isn't that difficult, but learning how to be a successful trader can seem impossible to some.

Look through this list, try to figure out which of these causes you the most trouble and focus yourself on working on the issue(s).

Stop Gambling with OTM Options

I realized this was never posted in this sub, and it definitely should be:

There are three fairly basic ways that new traders lose money in 2021:

1) They read some elaborate post about how some piece of garbage stock is the next MEME explosion. To their newbie eyes the extensive DD looked convincing, and the stock is *only* $10 a share right now, so they they buy 1,000 shares. And then they average down another 1,000. Two months later they are being told by the same people that were wrong about their DD to begin with, to hold on to the now, $8 stock. Even worse, they now believe that selling that stock is "exactly what the evil hedge funds want you to do!". A few months after that they are questioning their life choices and stuck with a useless $4 stock.

2) Most YouTube videos are geared towards trying to sell you a method of Day Trading that is based on *Gap n Go* strategies. These methods, while real, are far more difficult than they are made to appear, but yet they are very marketable (i.e. "how to turn $5,000 into $50,000!"). Instead what happens is new traders become singularly focused on finding low float, highly shorted stocks that jump up after the open, convinced they are moments away from the next big score. Once again, months later they are questioning their life choices and stuck with an account that has dropped far below the PDT requirements

And finally, that brings us to OTM options:

3) Slightly more sophisticated than the first two methods of losing your money, this one requires actual thought and analysis.

The appeal is obvious - they are cheap. And if the stock explodes those options can double, triple, *etc.* in value.

Here's why they don't work - The options themselves have no real value other than the pure premium you are paying. When *buying* options, your goal should always be to pay as little premium as possible. Ideally you would have options at total parity (*i.e.*, Stock is at $100 and the $99 Call Option is worth - $1).

Simple formula here for ITM Options - (Strike Price + Option Price) - Stock Price = Premium you are paying.

Simpler formula for OTM Options - Option Price = Premium you are paying.

So, let's take an example -

You like **CSCO,** it is smart pick, the daily chart looks good, it is past earnings (and seriously, please stop holding options over earnings) and looks like clear skies ahead. Two choices:

> 56 Strike Call, Expires Aug 27th for $2.35.
>
> 59 Strike Call, Expires Aug 27th for .30 cents

Let's say you are going to spend $500 - so you can get 2 of the 56 Calls or 16 of the 59 Calls.

If next week CSCO hardly moves at all (current at $58.22), your 56 calls will be worth $2.22 - a loss of only 13 cents per call or $26.

However, in that same scenario, your 59 calls will expire worthless, a loss of $480.

OK, let's say CSCO goes up $1 next week, it is now at $59.22 -

> Your 56 Calls are now worth $3.22 (at expiration), a profit of .87 per call or $174.
>
> Your 59 calls are now worth .22 a loss of .08 per Call or -$128.

OTM Options place heavy lifting on the stock to get you to profitability. You are betting on a huge move in the stock that pull your options ITM faster than Theta strips away their value.

Obviously an OTM Option does not have to get ITM in order for it to become profitable, but with the low Delta, you are burning profits as your Option *slowly* gains in value.

You are almost always better off going with ITM options, that have a Delta of .6 or higher and are at least a week out, if not more.

In fact, if you just stuck to these three rules it would increase you likelihood of success a great deal:

1) **Do not trade Options over earnings, trade them before, trade them after, but do not hold them *over* the earnings announcement.**
2) **Do not go for the cheaper OTM options, instead choose Calls or Puts that have a higher Delta and are farther out in time.**
3) **Do not trade Option Spreads unless you know how to leg out of them if they do not go your way.**

(the 3rd one may seem like a small issue, but the number of people that get stuck in spreads they do not know how to exit is alarmingly high).

This advice may seem basic to some traders here, but if you look at the posts on this forum you will quickly see that the foundational rules you may have been following as a trader aren't as obvious as you think. New traders clearly do not know these basic principles and we should stop assuming they do.

Resolutions and the Trading Mindset

I type this with my fingers covered in bandages....and why? Because in order to put together toys meant for 2–3-year-old kids, it seems you also need to have hands the size of a 2–3-year-old as well! I feel like a bunch of Oompa Loompas are going to pop out and start singing about how this is what I get for spoiling my kids.

Anyway - on to my New Years Resolution - it is this - ***nothing***. I do not make them. They never work and never will. But they do provide an important lesson for trading. And I am not going to pass up the opportunity to impart a lesson in trading - especially not on Christmas!

First one needs to understand why New Years Resolutions do not work. It is the same reason *diets* almost always wind up failing.

You can't change your behavior unless you change the reasons behind it.

You can resolve to be better with your money in 2022 - but if you don't address the cause for your lack of financial discipline, it won't matter, you will just revert back to your old carefree ways. Make pledges to lose weight, be healthier and go to the gym all you want, but there is a reason you are out-of-shape to begin with and a simple pledge isn't going to fix it.

A desire to change is certainly admirable, but in the end, these pledges are more about being able to tell yourself that you are *trying* to change, without every really *having* to change.

So, what does this have to do with trading?

Many of the posts in the Wiki (yes, read the Wiki if you haven't!) speaks to how important *mindset* is in being a successful trader.

If you lack confidence in your trading, you aren't going to fix that just by saying, "I am going to be a more confident trader in 2022!", and if you take too many risks, simply declaring, "I will not YOLO in 2022" isn't going to solve your problem. There are underlying reasons why you aren't confident or why you have a tendency towards gambling. Resolutions don't make those reasons go away; it just signals that you *wish* they would.

No post on Reddit is going to solve anyone's psychological issues, and this one is not an exception to that rule. Only the process of identifying the root cause and then systematically eliminating it through action can do that. But pledging to change a behavior without first identifying the cause behind it, is like putting the proverbial cart before the horse.

I'll give a personal example - when I was younger (I am talking elementary school here), I was socially inept. I felt I was smarter than the other kids and it showed - you probably never met a more intellectually stuck-up 3rd grader in your life. But walking around thinking and acting like every other kid was a fucking moron did not do much for my social skills - not that I wanted to be invited to their stupid Bowling Alley parties anyway - I mean, what is the point if you are just going to put bumpers on the lanes?? Sorry Tyler, you didn't get a "strike", you just bounced the damn ball off the sides - it should be a gutter - you get a 0 Tyler! (you can see why they didn't want to invite me). I was the little asshole in 1st grade telling all the kids that Santa wasn't real. Yeah - *that kid*.

But as I grew older it became apparent to me that it would be difficult to be successful unless one could navigate social situations. I knew the issue - I hated them. But I also knew the value of being good at social interaction and it was clear that one could not be successful without the skill. So I spent years watching kids that were popular (creepy, I know) - how they acted, what they did, what they talked about it. Soon I began to notice something - *they were all alike*. It didn't matter what age they were, young or adult - *socially successful people all shared similar traits*. And I noticed something else - other people responded to those traits in a very predictable fashion. Socially successful people seemed to know this, if not consciously than intuitively. I found that by integrating those traits into my behavior, I could excel in any social situation. So that is what I did. I can now work the room at a party in Bel Air as easily as I can a tailgate party in the parking lot of a football stadium or a BBQ in a trailer park. I still don't like it, and would rather be home, but the point is *I can* if needed, and many times it was *very needed*.

I didn't just say to myself, "I am going to get better at being social" - I identified why I wasn't, found the right solution, and implemented it. It would have been easier to simply say, "I am an introvert" or "I lack confidence and so I am shy" - but that wouldn't have been the cause. Without knowing the cause, I couldn't figure out the solution. And now Tyler can go to hell, *he isn't invited to **my** party*, the little shit.

From what I have seen, many of you have issues of confidence, issues of impulsiveness or even problems with immaturity, and those issues are clearly obstacles to becoming a more successful trader. Each of them has causes, some of which may run very deep psychologically. So my advice to you is - don't waste another year promising yourself that you are going to "change", instead - use the year to actually figure out why you are that way to begin with, so you can truly move forward.

I also want to note that there are some issues that are outside a person's control. Some of you may feel quite alone during the holidays, and as a result - very depressed. I know this community isn't a substitute for real-life companionship - but also know that you do have a large group of people here *that will support you*. So please, if you are feeling down this holiday season, reach out to one another - I believe you will find there are many others that feel the same way you do.

We are of course here to learn a life skill, and become financial independent, but along the way we need to help each other in that journey. And if you see someone that needs help, but may not be the type to *ask for it* - take the first step and reach out to them. If only to just let them know that you are there if they need someone.

Anyway, today's *life lesson* has been brought to you by the spirit of Christmas 😊

When You Can't Seem to Change Your Perspective

Everyone enters the trading day with a bias.

Even though you constantly hear "**Trade what's in front of you!**" (*and you should*), anyone that tells you they don't have a bias before the day starts, is a lying liar face.

So how does this impact your trading? Consider this:

How often has this scenario happened to you:

Using this Friday as an example - Before the market opens you have a *Bearish* mindset (it could be a *Bullish* mindset, but for this example, let's assume it is *Bearish*), whether it is based in deep technical analysis or simply your constantly inaccurate but often listened to gut, you feel that market is going to keep going down.

The market opens and **SPY** is posting some solid red bars, confirming your thesis - an hour in and we are at $374, so naturally, you're shorting. Maybe it's **MOS** or **META**, some puts, short some shares, throw a little *Put Debit Spread* on there why don't you, and you are ready to ride the *Bear Wave*.

You are about to type, "Told you all it was going down..." and then **SPY** reverses - a little at first, and it begins to chop around - You hold on to your shorts because...this chop is obviously going to break back to the downside soon, right? It's just a little blip and your shorts aren't in that bad shape actually. In your head you begin to come up with reasons for why **SPY** isn't dropping - *Short covering, testing VWAP, low volume*.... all potentially valid, right? Either way, you said this shit is going down and you meant it!

But it doesn't drop. And around 1:30pm (EST) that little blip up becomes a big blip real fast.

It keeps climbing.

And then by the time you finally say, "Screw it - I believe", you now think you have missed the move (you didn't, but that's for another post).

So now you are sitting there - you lost money on your shorts and you're afraid to go long. Basically, you are stuck, and in a deep hole.

All because it took too long for you to change your perspective.

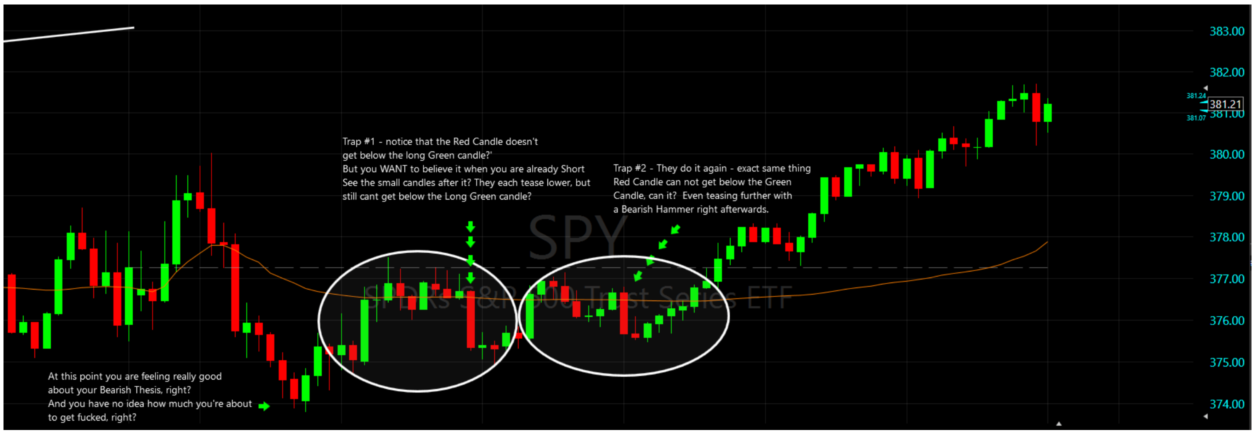
This is one of the biggest problems for traders - the inability to quickly switch from their original predisposition to one that is staring them right in the face.

So how does one solve this?

I can tell you how **not** to solve it - staring at your screen trying to will a candlestick chart to switch directions and getting overly excited when you see one candle go your way is *definitely* ***not*** it. It is also no way to spend an afternoon.

There are many "mental tricks" one can do to reframe the way you are looking at the charts. But if you are looking for that magic *confirmation* where the screen flashes, "Hey dumbass, you were wrong", you aren't going to find it (although I am sure you could program something like that, which would be rather funny). The reason you won't find the technical confirmation telling you that your bias was off? Simple - You don't believe them when you see them. When your bias is driving your decisions, Technical Confirmation gets rationalized away to keep you trading in the direction you just know, deep down, is going to be right.

This is especially true in Chop. Because that is what chop does - it screws with you. And it is filled with *Bull* and *Bear Traps* that play to those biases. Look at Friday's chart here:



In order to solve a problem, you need to first better understand it and that starts with recognizing that there are two types of bias that can cloud one's judgement.

Relative Bias:

When you see the price on a stock, it is hard not to put it into the larger perspective, right? For example, when you look at **COIN** sitting there at $46.93 - in your head that is *down*. It is hard not to remember that it used to be almost $400. So, you think of the stock/price as being ***down relative to what it once was.***

Normally this is extremely important, you need to look at any trade in the larger historical context. That is why we use technical analysis to see the chart *over time*. In fact, it is so ingrained in us, that it is difficult to see the price of any ticker outside of its' history. **TSLA** is at $670.02, but that is *down* quite a bit from $1,243.

It is also why we think of some stocks as being "on sale", and the often-used phrase, "Buy low, sell High" because it is based on a time perspective. How else is one to know that something is "low" unless you are thinking of it compared to when it was "high".

However, the truth is that a stock's price is a *subjective value* that almost never reflects the actual value of the company. It is an inflated number based on countless projections, not just for the company/brand, but the industry as a whole.

For example, the actual value of **AAPL** is around $55 to $60 a share - that is what the company is worth if it were to be broken down by real assets. **NOW** which currently goes for $483 is worth closer to $50.

The point is that a stock's price is *extremely subjective* and the market is nothing more than a macro-representation of every stock, which means the market itself is just as *subjective*.

A few months ago, you saw **SPY** at $455 as being "down"**. How would you view SPY at $455 now?** Completely the opposite.

This gets amplified even more when you are looking at shorter time-frames.

The other type is **Trend Bias:**

These days when we look at the market, the expectation, for most, is that is going to be down. You can only have so many red days in a row before you give up on your bullish dreams and flip over to the dark side. Every Green bar is just a *bounce* and a good *shorting* opportunity.

Once again, this is normally extremely important and exactly how you should trade - *Go with the trend*.

But when the market is showing you every indication that it is going up (at least for that day), it can be disastrous to continue believing we are going to reverse at some point.

And that is double-edged sword here:

On the one hand, both forms of bias are legitimate and necessary outlooks one needs to have in order to trade correctly.

On the other when that bias is proven to be incorrect one needs to know when to let go and believe what they are seeing.

For example, right now I am *Bullish* on **SPY/Market**, only short-term, but I believe this next week should see a decent bullish bounce.

But at what point on Tuesday should I relieve myself of that notion if proved otherwise?

What if **SPY** drops $4 on the open down to $378?

Well, I can certainly tell myself that $378 is support, I can further point to Friday where **SPY** dropped $4 in the morning and then rebounded.

Rational enough - so should I keep my bullish mindset?

Let's call this point the **Rational Line in the Sand**.

This is the moment where any further rationalizations become *irrational.* You actually know this moment when it happens - because this is where you start looking for anything to grab on to that proves your thesis. Every Green Bar becomes a "Finally, the reversal I was looking for!"

It is also the moment where you believe *everyone else to be wrong*.

We all remember days when the market made a surprising reversal leaving the majority the dust - so there are examples of when *everyone was wrong* before - and in your head, this is one of those times. Except is about to be wrong, except for you, the glorious genius that is you, you are going to be right. How amazing will that feel?

It will feel like crap, because it won't happen, because you aren't right, you have passed that *line in the sand*. You are now *irrational*.

Ask yourself the following questions:

1) How would your argument sound if someone else were making it? Would you not argue against it?

2) Can you point to widely used indications on the chart to support your point or are you stretching beyond the realm of everyday use? For example - ***Normal*** - *"We are still above VWAP and have bounce off major support on the Daily",* ***Not Normal*** - *"The 37 EMA was just breached" or "Volume is decreasing on the 4-Hour time-frame which historically means...."*

The more esoteric your explanations are, the more likely you are trying to justify an incorrect position.

3) Are you using the "Its Gotta" method? Any argument that relies on the "Its Gotta" logic is going to get your into trouble. It tends to sound like this, "Its gotta turn around here at some point...."
4) Am I in the minority here? And in this sense I am talking about the *small minority*. If everyone is going Long, and all the volume is on the Bullish side for that day - are you one of the only traders looking for Shorts?
5) Do I just not want to take the loss? Am I afraid to take the loss and then be proven right? **This is probably the biggest one - are you still committed to your direction because not only do you not want to take the loss, but you imagine closing the trade only to then be finally proven right.** There is nothing more frustrating than to be Long a position, it has dropped and you are down a lot, but you still believe it will go back up. You finally close it and up it goes.

If you know you would argue the point if someone else were making it, if you can't point to any regularly used form of TA to support your point, if you are relying on pure hope, if everyone else is doing the opposite and if you are simply afraid to take the loss - then you know you have passed that ***line of rationality.***

Whether you are down in a trade, or the market is doing the opposite of what you thought, there has to come a moment where you realize - "Shit - I was wrong", and it is your job as a trader to make sure you don't overstay your mistake.

"I'm Still Not Profitable - What Am I Doing Wrong??"

I am going to be blunt here - *Of course you are not profitable*.

Outlined, in the Wiki, are 10-Steps - those steps take roughly 2 years.

Unless you have completed those 10-Steps I would be *very surprised* if you were consistently profitable.

You wouldn't expect to pass the final of a course if you rarely attended the class, would you? Or maybe you would - maybe you are the type that has always been able to get away with shit like that.

Guess what? Not here.

Because here is the secret - the trick - the thing - the whatever the hell you want to call it -

It doesn't take two years to learn the method - it takes two years to change your mindset.

Hell, you can learn this method in a month. It's not rocket science. Yes, there are a million contextual things that come with experience, but overall, it doesn't take a genius to figure out *Relative Strength and Weakness*.

If you are an absolute beginner, it might take some time to learn the basics and figure out things like your platform or scanners, but even all that doesn't take more than 4 to 6 months to get down.

In other words, you can learn *how to trade* relatively quickly. You can even learn *the right way to trade* fairly quickly. But it takes at least two years to learn *how to be consistently profitable*.

The steps in the Wiki are designed to reframe your mindset, one step at a time. As you are learning and perfecting the method, what you are really doing is changing the way you think.

Almost every trading issue I see is due to psychological issues with the core concept behind buying and selling assets in the short-term.

Those issues may be masked as problems with *technical analysis* and at first they may be, but after a while, they aren't. Because unless you are a complete idiot, you know exactly **what you should be doing**. Again, this isn't a mystery here.

- *You shorted against a strong market?*
- *You tried to pick a top or a bottom and got crushed?*
- I am guessing that didn't work out for you? I am shocked.
- ***Your problem is counter-trend trading which is a mindset issue.***
- *You loaded up on OTM Calls right before earnings and they are now worthless?*
- *Decided to buy the stock right before its' earnings?*
- And now you are in the red by a lot? Go figure!
- ***Your problem is a gambling mentality, which is a mindset issue.***
- *You averaged down on a stock that kept dropping?*
- *You held on to your loser and it never turned around?*
- Just never seem to catch a break, do you? Yeah...you won't.

Your problem is a fear of loss, which is a mindset issue.

All of these issues are deeply rooted in a mindset that serves us well in regular life, but is disastrous when trading.

It takes a *long* time to finally understand that you need to look at trading very differently than you view the rest of the world.

That is what the two years is for, that is what the ten steps is meant to do for you - *Change your mindset*. And until you do - you will **not** be consistently profitable - it just won't happen.

So, if you don't have the time or patience to go through the process, or think you can take shortcuts to this, my advice is to simply stop trading and look for a better use for your money.

This is your holiday public service announcement 😊

The Downward Spiral - An Unspoken Mindset Issue

We have talked a lot in this sub about various mindset issues (all of which can be found in the Wiki) but there is one that we haven't yet touched upon - *the downward spiral*.

Most mental issues are subtle - impacting our decisions on holding a losing trade or taking profits too early. In general, though, one is still able to follow the methods/strategies they learned, apply the solutions outlined in the Wiki and hopefully stay relatively on track as they work through these mindset obstacles.

However, there comes a time in every trader's journey when they simply go on ***tilt***. We've all been there. There are three stages to these Meltdown's -

Stage 1 - The Trigger - This is what sets you off on your journey towards hell.

Stage 2 - The Insanity - You are now burning your money.

Stage 3 - The Aftermath - Some are able to rebound, some are not.

Let's start with **Stage 1: The Trigger**

There are two potential triggers for this, and the first one is obvious -

A Big Loss - As much as we try to avoid it, eventually there will come a trade that just kicks your ass. Your reasoning for entering the trade may have been sound, but somewhere along the way in that trade, you screwed up. A lot of traders report that they simply *freeze*. Sitting there watching the trade get worse and worse, knowing you should get out but you don't. Eventually the damage becomes so steep that you grit your teeth and exit. Now you are sitting there looking at this huge hole in your account - any profits from the past week/month are gone and you're stunned.

Questions begin to run through your head - *Why did I stay in? Why did I average down? Why am I an idiot?*

Eventually those questions are replaced with declarations that sound like this - *I will get it back, all of it. All I need is one good trade, and I am right back to where I was. I am not going to let this market beat me!*

And that is where the real trouble begins, because this is where you start to go into that downward spiral, making things much, much, worse.

The other trigger for a meltdown is -

A Big Win - Sounds strange right? Why would someone lose their shit after doing really well? Good question - and the best answer I can give is...*overconfidence.* You start to see the extra money you just made as money you can *play with*. This typically manifests in the form of *scalp* with a big position size. Not surprisingly your *Big Win* is soon followed up with an even *Bigger Loss*.

Either way, once you hit that downward skid, things deteriorate pretty fast. Rules and methods go out the window and the over-trading begins.

Now we go on to Stage 2: The Meltdown

The following may be familiar:

Go Long on Stock X for $4.60, big position....shit it dropped to $4.45, ok I am out....besides I should be shorting Stock Y at $68.54, another big position....great it is going down, I am out at $68.23 for a .21 profit, but Stock X is moving again...damn! Ok, back long Stock X at $4.85, even bigger position...Yes! It is at $5.02! Gonna hold....wait...fuck...no...how the hell did it just drop 60 cents in one candle!! WTF! Ok, I am out at $4.42....loss of .43 cents. Ugh I should have just stayed Short for Stock Y, it's now at $67.24!! Arghhhhh Stock X is back over $5 again, why did I get out?!?! Now I am way down.....ok, fine...no problem, just going to go back into Stock X and leave it on this time. What?? I don't have enough buying power now?? Ok, OTM Options on TSLA, if TSLA hits 900 by Friday I will have made it all back.

Obviously everyone loses their damn mind differently so there are many variations on the shitstorm I just described, but they all have one thing in common....every trade is a gamble. They are rushed, over-sized, and do not follow any method. You are just searching for anything to get back to even at that point. *All you want to do is erase your mistake.* In fact you begin praying to some made-up Trading God at this point, sounding like a college kid that drank too much and promising they will never touch another drop as long as they live. "If I can just make back this money I swear I will never screw-up again, I just have to get back to even."

To give some context to this, let's assume you have a $30,000 account that was a combination of your hard-earned savings and some good trading over the past year. For some it could be an account of $5,000 and for others it might be $500,000 - it is all relative. For this example, we'll use

$30K. And let's imagine the initial *Big Loss* knocked the account down to $24,000 and then the resulting temporary insanity took out another $6,000. So in total the mistakes you made cost you $12,000, almost half. Now you are under $25K, and shell-shocked. The mental issue you need to deal with at this point is one of *Relative Value*. The proper thing to do would be to slowly rebuild the account, re-focusing and settling for small wins. But when you are trying to get back to even, the idea of profiting $80 on a trade seems frivolous at this point, doesn't it? When you were on tilt, $80 was a few ticks in your Stock X trade, virtually meaningless, and now it is a goal?? On top of that you no longer trust yourself. Part of you feels terrible because you are thinking of all things you could have done with that $12,000. If you have kids you feel even worse, because you think of everything you could have gotten them, all the times you said "No, it's too expensive" when they wanted something. In essence, you feel like total crap. Another part of you feels obligated to make back the money, and quickly, but as mentioned, you just don't trust yourself not to fuck it up again.

This is a total mind-fuck. Reading the Wiki, focusing on methods, studying chart....none of that is going to fix the meltdown in your psyche at that moment.

Finally Stage 3: The Aftermath

How you handle coming out the other side of these downward spirals is extremely important. If you can't pull yourself out of the *I must make it all back RIGHT NOW* mindset you will soon be left with an entirely busted account.

So, what should you do?

Step 1: Step away. This is really hard because you just want to jump back in. If you can't walk away (and some can't) then only *paper trade until you completed the rest of the steps*.

Step 2: Formulate a goal. Open a spreadsheet and put in your goal, which in this case is $12,000. Select a reasonable amount of time, let's say 30 Days. That gives a daily goal of $400 per day in profit. Put a countdown on this sheet as well, so at the end of each day you can reduce the amount needed (e.g. by the end of day two, if you hit goal both days, you would have $11,200 remaining), this helps you see the progress.

Step 3: Set rules. For example - No trading any stock under $5, no trading After-hours, no trading before earnings unless it is a time-spread, etc. On the opposite side of the coin - only trade the *Highest Probability Trades* (see the post from u/onewyse for examples of these). And since there are roughly 3 of these a day, that means you need to make roughly $133.33 per trade.

Step 4: Practice steps 2 and 3 using a Paper Account until you are able to hit your goals for 5 straight days.

Step 5: Enact your plan using real money.

This entire process should take you roughly 2 to 3 weeks complete, which also gives your brain time to reset.

As much as we want to avoid these downward spirals they are going to happen, and as long as they do your focus needs to be on stopping the bleeding, resetting your mindset and then reversing the damage.

What about avoiding these meltdowns completely?

That takes a somewhat larger adjustment. Your ability to avoid **Stage 1** occurs when you finally reach the level of having a consistent trading plan that you stick with day after day. Still, even full-time Day Traders have times where they suffer an out-sized loss, or get too confident after an outsized win. The only way to truly remove these triggers from your trading is to have hard rules that you stick by no matter what.

One such rule is a **Max Loss** - after your account hits that loss for the day you immediately stop trading. Whether you get up and walk away at that point, switch to paper trading, or just spend the time going through charts depends on you, but the important thing is *stopping*. Some people ask their broker to restrict the account after a max loss level is hit so they literally *can't* trade. On the other side of the coin if you had an extraordinarily good day/trade then you immediately cut your position size in *half* for the remainder of the day.

If you are not at the point where you can entirely avoid **Stage 1** then it is a matter of recognizing the triggers for what they are - e.g. if you know that you go on tilt after you are hit with a large loss, then you *must* stop trading for the day (or two days, depending on how long it takes for you to calm the fuck down).

Avoiding these disasters is very much a rule-based regime that only works insomuch that a trader sticks to those rules.

Psychologically some people are more prone to these situations than others. The predisposition to spiral out-of-control is not something easily fixed. Odds are that this characteristic has always permeated through various aspects of your life. The key to *fixing* it is to recognize that you are prone to these meltdowns, identify the triggers that set you off, and then sticking to the rules you put in place as guardrails against it.

Familiar Pattern (In Your Thinking)

You may notice a familiar pattern in your thinking -

- SPY drops - It'll bounce, I am bullish
- SPY drops more - Yeah, not convinced, still bullish here
- SPY spirals down - Ok - still think it will reverse, but I am waiting
- SPY shockingly keeps dropping - Fine! You got me, I am bearish, happy now??
- SPY starts going up - No way I am falling for that bullshit - totally bearish
- SPY keeps going up - Nice trick there - nope, bearish all the way
- SPY begins to leap up - Ok - still think it will reverse, but I am waiting
- SPY hits all-time highs - Fine! You got me, I am bullish, happy now??
- SPY starts to drop....

Does that sound familiar?

Realize this - *those algorithms know everything about your patterns, they know your psychological limits, and exactly when you will give in to the trend, which is when the trend reverses.*

Know what they know, do what they do, recognize the trends and where they start and stop. Put yourself in the shoes of Institutions and trade that way.

Trading With Fear

This past week a very unfamiliar feeling washed over me while trading - *I was worried*. Now you might scoff at that as for many traders, "worry" is just a constant state of being. But I can't remember the last time I was actually "worried" while trading, but I do know it's been years.

I have made a lot of money trading (*if not I definitely shouldn't be running this sub*), and it would take many losing months in a row to give all that back, at least a year straight of nothing but Red.

Still - last week at this time, I broke one of my primary rules. I was *so convinced* of my thesis and so annoyed that the market was going up, I kept increasing my short position. At first it was just another **SPY Leap** here or some more shares of **AAPL** short there, but that wasn't enough - so I began adding even more. The market is screaming higher, you all remember it, right? **SPY** was a non-stop Bullish train. But I refused to believe it. Screw the market - I have my damn thesis and I am right! Technical analysis went out the window as well - my thesis overrode that silly TA!

Yeah - as bad as that sounds, it was even worse. By the time the closing bell rang on Friday I was down - **a lot**. Just so you get a sense of it - before Monday morning I was well over six-figures in the red.

And here is the rule I broke - *Never trade emotionally*. I might be wrong at times, I might misread something, but I never enter or exit a trade because I am afraid.

We can say - *Don't trade your P&L* all day long, but we all know if you have a large position, and it is down, that you are thinking about how much you are losing.

On top of that I had just told a few thousand people that I believed the market was going down and instead it started an insane bullish run! Yeah - needless to say I was not happy at all. Still convinced my thesis was right, but not happy.

Over the weekend I started thinking - "*The damn thing HAS to open down on Monday!"*. And of course, Monday comes, and not only does it not open in the red, but the little bastard goes up even more! Throwing my monitor out the window was a serious option.

At this point I start thinking about exactly how *long-term* I am willing to shoulder these shorts. Because even after Monday's bullish result, I am still confident that **SPY** is going to revisit the low of the year. There is either something very admirable in sticking to one's thesis like that or something very stubborn and stupid. Probably both.

I knew if the **CPI** came in as expected we would drop given that it was priced in, so a "sell the news" reaction would occur. It wouldn't drop enough, but as long as it got below the SMA's it would reverse the trend. Obviously if the number came in worse the drop would be severe. Although to be honest, I did not expect the number to come in hot.

So, the only thing I had to worry about is if the number came in better than expected.

Now it is important to note that even if the CPI was better than expected my outlook would have remained bearish. I still feel the impacts of Quantitative Tightening haven't been truly felt and also that a good **CPI** number would start pricing in a .5 rate hike with a FED that is determined to go .75 no matter what. So once again the question was - how long am I willing to hold?

And there was my real problem - if I had a normal position size the answer to that would have been - Until I no longer held my Bearish Thesis. But I did not have a normal position size, did I? No, I did not. Because I am a dumb ass. This put me in the position of knowing that if the market continued up, I would have to close down, or significantly reduce my positions. Solely because I no longer was willing to withstand further losses.

I have gone years trading without fear, years where every decision, right or wrong, was based on a defensible argument. And now I put myself in a position where my emotions are deciding my exits.

I had pretty much forgotten what that is like to trade like that - ***It is impossible***.

One cannot trade in a state of worry, and be consistently profitable - there is no way.

And then it occurred to me that this is the emotion that so many of you feel. Whether you are trading with money you can't afford to lose, or you took too big of a position and it went against you.

Let me emphasize this: ***If you trade out of fear there is absolutely no way you can be profitable***.

I did this **one time** and it absolutely screwed up my entire mindset. **One time** in over six years. I can't imagine trading like that every day. But some of you do.

If you are trading with money you can't afford to lose then park that money somewhere with low-risk, and learn how to trade using paper trading. If your position sizes are too large, you are most likely looking for *big wins* and need to change your mindset (I have several posts on this in the *Wiki*).

One thing is certain - you need to find a way to trade without that fear hanging over your head. **It is essential.**

Did I wind up being right? Making a profit? Yes - I did. But that is beside the point. Because what if that CPI number came in cold? I would have had to make a choice, and I know what choice I would have made - the wrong one. And why? Because of fear. And that cannot stand.

Don't let failed traders bring you down

EDIT - this was written roughly a year ago and originally posted in r/daytrading so read it in that context.

I have to admit - I avoided Reddit for a long time. This platform is notorious for the sheer number of trolls that seem drawn to any popular post.

This Day Trading Sub is clearly not immune to that phenomenon.

I see many on here ask great questions and others giving excellent advice/feedback. It's those people that make forums like this an excellent resource.

Sadly, though, I also see a number of people whose primary goal seems to be to tear down any sign of success. If you look through their comment history, you'll find a clear trend of negativity.

My theory? These are failed Day Traders, and they are angry. They've convinced themselves that it is impossible to make money Day Trading - because if others can do it, why can't they??

Unfortunately, new Day Traders are intimidated enough as it is, worried they are going to lose money and looking at a steep learning curve. It doesn't take much to push them into believing that Day Trading isn't an option (pun intended).

These past 7-8 months has attracted more people to trading than ever before - they are at home more now, perhaps they need income, or a new career. And instead of providing education and encouragement, these disgruntled failed traders stalk the subs looking to tear down any optimism in the name of "hard truth".

Well, I'm here to tell you all who are thinking of taking up Day Trading - ignore them. Yes, it's hard, and yes there is a steep learning curve. There's no "get rich quick" scheme and you shouldn't fall for the constant barrage of those claiming to have the "magic bullet". But - It is doable. Everyone has their own style, but the foundations of it can be picked up by anyone and built upon.

So don't let those that couldn't hack it due to their own failings bring you down. I'm a profitable Day Trader, I know many profitable Day Traders, and with dedication you can become one as well.

A Gamer's Mentality Can Help Your Trading (/u/OptionStalker)

Masters level statistics, finance and economics courses have not influenced my trading nearly as much as a game of skills. Gamers need to constantly assess their opponent. I play chess, but poker, video games, and most sports also require this skill.

Novice chess players only focus on their plan of attack, and they are blindsided because they are not paying attention to what their opponent is doing. They are not able to see more than a couple of moves ahead and their game is reactionary instead of anticipatory.

In chess you must constantly evaluate the board. If I make this move, the opponent is likely to respond with this. If they respond with this, then I will counter with this. The deeper your vision, the more successful you will be in chess (or trading). I am constantly planning ahead, and I watch my opponent's (the S&P 500) every move.

Before I start the day, I evaluate the overnight news (domestic and international). Sometimes there are material news events and other times there are not. The key is not to get blindsided by your opponent (the market). I analyze overseas market moves to see if they are providing a springboard or a market drag. I look at bond charts to gauge interest rates. Then I conduct technical analysis on a daily chart. What is the current momentum? Is there a strong trend? Is the volume heavy or light? What do the daily candles tell me? If the candles are compressed it tells me that I should not expect big intraday ranges. If the market is trending higher, it tells me I should favor the long side. If the candles are red it tells me the closes are lower than the open and that I do not have to chase gaps higher.

In the chart below my conclusion is that the longer term trend is higher and I should favor the long side. The market is currently compressing so the momentum has waned. The candle from two days ago reversed sharply forming a bearish hammer. That tells me that there is resistance at the all-time high. The bodies of the candles are fairly small and the volume is fairly light so I should not expect a big intraday move. The red candles tell me not to chase opening gaps higher because the close is lower than the open and if I am patient I will have a better entry point for my trades. Notice I have not even started considering the market move today, let alone zeroing in on a stock.

When I start looking at current market conditions I try to put the current move into the longer-term context. Is this an inside day? Has the market been able to stack candles in either direction? What is the volume like? Are there any longer-term moving averages or trend lines (horizontal or diagonal) that come into play on the intraday chart?

In the chart below I can see long tails and a mix of green and red candles. The volume is light, and we are in pre-holiday mode. The market is inside of the prior day's range so I should not expect big directional moves. The stacked long green candles after the test of the prior low followed by the bullish hammer tell me that there is support at the low of the day. The mixed green and red candles are overlapping and that is a sign that the trend strength is weak. If I take a position in a strong stock, I should set passive targets. I might not have to worry about the market rug getting pulled out from under me, but I should not expect much of a market tailwind. That means the stock will need to do all the heavy lifting.

The market drives your trading decisions. It tells you if you should be long or short and how passive or aggressive you should be. View the market as your opponent and apply your gaming skills. You have a new opponent every day. Analyze and adapt.

Trade well.

This is a High-Performance Career (/u/IzzyGman)

I've been thinking about this topic for weeks now, and as I continue to move forward in my trading career and experience my and other traders' successes and roadblocks, I am continuously asking myself what I need to do to 'level up', to be more consistent and more profitable. What new skills do I need to master to double my profit factor? Study more? Learn more technicals? New trading techniques? Dive further into options? Fundamentals? Better entries? Exits? Sizing? Trade management?

Well, as I look back and analyze my major mistakes, the answer is 'yea kinda' to everything. Polishing my trade management and avoiding sloppy trading will get me better results, as will better entries, better risk management, etc. But there is a clear outlier that we tend not to talk about because engaging it can be quite uncomfortable: the mental game. Stamina, confidence, emotion management… self-image. The really hard stuff. The Long Game. We work very very hard to understand the technicals of trading, but how much time are you investing in **becoming** a trader?

There will come a time in your career when your understanding of your edge and technicals is good enough that your mistakes will be mostly a result of mental 'slips': overtrading, revenge trading, going 'on tilt', FOMOing into a trade, letting losers run, etc. (Everything Hari outlines in his Top mindset issues and their solutions and other mindset posts found in the Wiki)—where your self image will be unconsciously holding you back or letting you run only to pull the rug from under you and bring you back to your mean.

And this is where other very good traders and I currently stand, some giving back a week/month's/year's profit on a bad day or a series of bad days. Traders that are very very intelligent and have worked very very hard for a long time, and who know their technicals and executions very, very well. So what gives?

I'd like to encourage you (and myself) to consider day trading as a high-performance sport, and think about what you would do to train and perform as a professional athlete at the highest level. A professional athlete in an individual sport, no less (tennis, gymnastics, golf, swimming, skiing . . .), where the outcome is entirely dependent on you. Where you can't just 'show up' and have your teammates pick up the slack during a game where you just feel 'ok'. Where not being engaged and 100% ready physically and mentally against a very well prepared opponent will most probably mean you will lose spectacularly in front of millions of people and children that want to grow up to be like you will lose all hope for their little futures.

Would you enter the arena having not slept well? Having not eaten properly? Emotionally drained or exhausted? Injured? Unprepared? Thinking you don't deserve to be there? Afraid of losing? You'd get chewed up.

I argue that for those of us that have been at this for a year or more and are beginning to be consistently profitable week after week and maybe month after month, our biggest level up will be a result of engaging our psyche, our ego, our temperament and our resolve in order to figure out which one(s) of those is/are holding us back and preventing us from breaking out.

Here is a quick personal anecdote that may drive my point home:

A big breakthrough for me was when I realized I am, inherently, a gambler. It took me 5 or 6 reads of Hari's Posts on mindset issues and a few very emotional beat downs by the market for me to invest the mental energy necessary to expose it and come to grips with it. And figuring this out was a huge turning point for me. Let me explain a little more:

I really, really, very much dislike Vegas. To be more specific, I abhor the whole atmosphere around gambling and people losing control and losing everything they have in games where the odds are very heavily stacked against them.

Yet in my life and career I've been a jump-off-and-build-the-parachute-on-the-way-down kinda guy. First one in last one out. I've opened up a few businesses (always risky) and I've never held a steady *job with a steady paycheck working for a large company. I'm 'I'll figure it out when I get there but let's go'. I enjoy skiing off stuff, parachuting, paragliding, surfing, going fast, etc. In other words, I am not really averse to risk. In other words, I enjoy the adrenaline. In other words . . . . I like to gamble? This was eye-opening. And it was so buried inside of me by my dislike of 'Vegas' that it was very very difficult to admit. I hate Vegas because I'm a gambler and I dislike that part of myself. Boom. Mind=blown. Floodgates opened.*

This single 'aha' moment completely changed my trading. Not more technicals, better executions, fancy options, better entries . . . This. Because I now know when I'm gambling and tag it as such, no longer ashamed of it but no longer controlled by it.

So as you more experienced traders are prepping for the coming week, looking at charts, analyzing futures, making a game plan, I encourage you to take a more holistic approach to your trading and consider prioritizing your time as if it were a high-level sport. Add sleep, exercise, diet, and rest to it. Add family time, game time, and distance from the markets (as u/lilsgymdan will most surely confirm, rest and diet are just as important to a training regiment than the exercises themselves. Resting after a solid base is what 'peaks' athletes before a big event). Disconnect and add time to THINK so that when you're in the arena you can act.

And for those of you just starting your journey, remember that your biggest obstacle will be yourself, and I'd encourage you to include a lot (a lot) of trading psychology and mental work into your training.

See you at the open

Some ideas to stay motivated and disciplined (/u/Draejann)

This is a discussion geared to novice traders who are still learning, and not depending on trading for an income.

Are you demotivated? Do you feel like your discipline has waned?

We've seen many faces come and go in the Live Chat. Many of them have probably read the wiki front to back, posted excellent trades for a month or two, and they slowly stop showing up. While I hope that they've 'made it' and they're just keeping their trades private, I do fear that many of them have simply burned out. This might be due to a frustrating lack of progress, account blow up, or they just aren't able to fit trading into their life anymore.

For those that feel that they aren't making any progress, I can safely assure you that it's likely not because you're lacking in any advanced chart reading techniques. Reading more books on TA is probably not the answer. While a small part of Hari's trades are 'discretionary' with price-action largely informing his trades, most of what is being traded in the Live Chat are textbook RealDayTrading setups.

As Hari said many times, it will take 2 years of hard work to do this for a living. I believe that for most of us, it would probably take longer than that -- one needs to build a thick trading journal spanning a couple of thousand trades before they can truly 'lean' on their statistics to build a trading business out of.

It's easy to say that you need to stay motivated and disciplined for a few years in order to build a robust trading experience, but we are all human. There is an ebb and flow to motivation, and this is further complicated by the various obstacles of life. Naturally, trading should take a back seat when there's a big change in our life, for the better or worse (reminder: this is a discussion for novices who are not yet trading for a living).

There is nothing more frustrating to a normally high achieving individual, when their 'perfect' life and routine slowly unravels, and before you know it, it seems as if you've fallen years behind your peers.

Getting back on track with the "swap method."

This idea comes from Hari's "swap method" -- instead of dumping a position, swap it with a better position. My idea is to apply it to trading. **If you've hit a lull in your trading, swap out some parts of your trading routine with a non-trading related discipline, instead of just burning out and continue doing poorly with your trading.**

The idea is to **prevent burn out** by **(a) taking a step back in your trading routine, (b) developing a new discipline routine outside of trading,** so that you will have accomplished something outside of trading everyday. This will complement your trading mindset and positively add to your motivation.

Instead of waking up at 0630 to stare at the futures or doing other market research, I might instead **wake up at 0700 to go to the gym** (if you're lost here, decide on a goal and find your training routine by READING THE WIKI on r/fitness) and then come back at 0915 to settle in before you start to trade. It doesn't have to be physical training for you, it might be waking up to talk a morning walk, making a nice breakfast, reading a few pages of a book, or anything else that you want to do in the morning.

Is 0700 too early for you, or do you have kids that you have to get ready to drop off for school? Yeah, I think many of us are in this situation. This is what I do: **wake up at 0700 to do some training, come back home and take my kid to school, go back to my office by 1100-1130, just review SPY and my alerts, and trade my alerts if both SPY and the stock agrees.**

I promise you that you will feel much better having accomplished something in the morning, even if it's not trading related. You don't need to look at what overseas markets have done, or comb through every gap-up/down stocks -- because you're still learning how to trade. If you have a news service like TradeXchange, you will get a convenient "Morning Mashup" newsletter that feeds you this information anyway, and you can read them while you have your morning coffee, or in between sets of workouts at the gym.

This can be applied to other parts of your trading routine too.

Instead of staying up until midnight to plug in Hari's trades into an Excel sheet or reviewing his TradeSync, going through every single stock in your scanner and map out the daily S/R levels/trendlines/other notes, AND setting a couple dozen alerts, I might instead suggest cutting back, and just **review 5 trades from Hari** (pay particular attention to trades he's adding onto)**, review 5 stocks from your scanners with the BEST daily charts, set 5 quality alerts** (not useless alerts that you'll ignore anyway)**, *and sleep 1 hour earlier***. If that's too much work for you, do **3** of each instead, or **just set alerts**, or even **just review Hari's trades,** or **just sleep earlier** (so you can wake up earlier).

Will you miss out on some stocks? Probably. Will you be accomplishing less with regards to your trading career? Yes, but the point is to develop a routine that you can consistently do without burning out.

Making your routine fun.

Writing down your accomplishments is a form of discipline. It's also fun. I suggest checking out r/journaling, r/bujo, and r/fountainpens. Write down your routine in your journal the night before, review them when you wake up, and check them off as you go along.

Writing things down is a great way to keep track of your achievements, and it can act as an extension of your trade journaling.

Prioritize and execute.

Our goal as novice traders is not to become the most skilled, disciplined trading hero that can flex on other trading communities. Our goal is to go through the first 2-4 years of trading without burning through our capital, while learning something new each day, and slowly develop our discipline and mindset.

We don't *need* to add more things to our routine, or read more books on TA and learn other strategies/methods/indicators. Not at this stage. Many of us are here are over-achievers (start something new -> be awesome -> burn out), and we like to think that doing more is achieving more.

Instead, I think we should look to cut back on the excess (great guideline written by our friend u/ZanderDogz shows you how to do this) and just focus on what matters most.

Prioritize, execute.

TL;DR, in summary

If you feel a little burned out from trading -- do you think doing the "swap method" (cutting back on some of your trading routine to incorporate a new discipline in your life outside of trading) will positively impact your trading journey?

Do you have your own discipline/routine that you might want to recommend to others?

Let me know 😊

Free Lunch Syndrome (/u/lilsgymdan)

Are you trying to get a free lunch?

If you're spinning your gears and feel like you are stuck in your progress as a trader, you might be suffering from "free lunch" syndrome.

Step 1: You make some trades, and they lose painfully for whatever reason.

Step 2: This upsets/traumatizes you so you change your position strategy to "protect" yourself from that specific way of eating shit.

Step 3: This opens up another way to eat shit.

Step 4: You eat shit that other way during a repeat of step 1.

This is what I call free lunch syndrome and it's a constant hamster wheeling through positioning strategies that ruins the forward progress of a trader.

Someone suffering from free lunch syndrome isn't "fixing their trading" they are trying to avoid the emotional pain of learning by unknowingly destroying their long-term success.

What position strategy should you use?

When trading the market, you're basically making a judgement call about the probability of a direction of a ticker. But it's not that simple.

1) Where do you see your thesis taking you at least and/or at best?
2) At what point does the probability of your thesis happening drop to the level of exit?
3) **How long** do you want to allow for this all to unfold?
4) What is the d1 and market looking like contextually?

This is *way way* more complicated and nuanced than it seems on the surface and being able to get accurate at this takes a massive amount of repetition, experience, and practice.

Here's a simple straightforward way to parse it out.

Shares

PROS - you can enter/exit whenever you like and you can take as long as you want for your thesis to unfold, trade super small to learn and bag hold forever.

CONS - getting your sizing right is ***crucial*** and your downside is infinite in a practical sense.

Straight Contracts

PROS - awesome leverage to take more trades with bigger size, and caps your downside to a max of the intrinsic value of the contract. You can use lots or # contracts for sizing and work with percent gain/loss.

CONS - you're on a clock, even the smallest contract is HUGE size for a beginner, and all sorts of theta, IV, and bullshit can make you lose even if you hit your target.

Debit Spreads

PROS - you cap your downside to the size of the spread so you can take trades that might have less room to profit and more room to lose. The time decay works in your favor, and you can scratch or profit even when it doesn't move much

CONS - you cripple your profit potential which can ***easily*** put you underwater in the long run if your overall loss rate and loss size is too big. You must use a weekly expiry, so your clock is even shorter.

Credit Spreads

PROS - you make money on this thing as long as it doesn't cross a certain price point by expiry.

CONS - needs serious market support and a killer d1. If you are wrong, you are going to lose up to 4 times what you could win.

Time Spreads

PROS - they work a lot and don't really require any active management.

CONS - if you lose, you usually lose the entire debit. At best you can roll the dice on and OTM long strike.

As you can see, NONE of these positioning strategies are bulletproof and ALL of them have a different big downside to them.

In fact, I strongly believe that you will actually *cripple* your chances of success by trying to flip flop around to emotionally protect yourself. All you do is deepen your scars and mess up the ability for you to **feel the right feelings when presented with opportunities in the market.**

You will not be able to cover up a lack of contextual decision quality by changing your positioning strategy. You will just emotionally scar yourself in new and exciting ways that cripple your ability to make good trades....

forever.

I need to stress the forever part. You are messing with the internal mechanics of your emotional feedback system in a way that ruins your ability to have a trader's mind. You'll bog yourself down in "trade trauma" and that might mean you run out of money or time before you get through it.

So, what do you do?

1) Make sure you are sized appropriately for your **emotional** level of development as a trader, otherwise you are risking scars that never heal.
2) Accept your ass kicking as part of the learning process and learn how to make the best possible decisions from it. you're supposed to suck, trading is really really hard.
3) Positioning strategies will **not** protect you from that ass kicking. If you think it will, you are forfeiting your chances of making it just to feel a little better today.
4) Expect a time frame to success that's not about learning the strategy, it's about *changing your emotional makeup*. This takes way way longer.

I fell into this trap at the start of last year. I felt like CDS and PDS were magic. and when I finally did lose it was really painful and kicked me back to the stone age emotionally.

Ask yourself, is your goal to feel good today or become a trader who is consistently profitable? Many of us don't want to admit we're in the former camp.

Scanners, Scarcity, and Mindset (/u/lilsgymdan)

I'm getting a ton of messages asking if I'm using the same scanners which got me wondering why that is. So, I tried to put myself in their shoes and imagine why scanners would be my primary focus and I think I might have an idea.

First of all, I'm not a pro trader but I'm doing pretty well. There's still going to be mistakes and speedbumps on the way, but one mindset issue is one that I believe I've conquered and that's scarcity and urgency.

The idea that there are only a small number of chances per day and if you miss them then you'll never be profitable. Or the idea that the market is so terrible these days that it's impossible to be a winning trader. I think neither is true.

u/Hanshanot turned 500$ into 30k+ in a season by taking on average less than 1 trade per day. How many trades do you think Han's scanners showed him during that?

Chances are that if you could replay the day back and scan with a fine-toothed comb there's likely 20 or even 30 good opportunities per day, if not more. The market every day is absolutely packed with opportunities. No trader can catch them all but I promise you that there's nothing magical about a scanner that will solve this issue for you.

You have a scarcity and urgency-based mindset that is causing you to have a terrible emotional connection with the market and tickers. That's why you feel like you aren't catching *any* opportunities.

You'll rush into SMA breaks (like INTC yesterday I bet) or hold on to a trade that's obviously a mistake (I could have done with SRE) or just pounce on anything that looks good because you are afraid of being left behind.

Emotionally you feel like the world of wealth and success has left you behind and so you aren't going to let that happen this time, but the irony is that's the *exact* feeling that will guarantee you never get there.

This is the magical principle.

Mindset Books (/u/lilsgymdan)

I've read a lot of books on or peripheral to trading, especially mindset related ones. I firmly believe the key from intermediate to pro is mostly about mindset development and so that has been my main focus. I had to grind through a lot of pointless waste of time books that provided me no value. These are the books that stood out and made me a better trader:

Thinking Fast and Slow *Daniel Kahneman*

Nothing specific to trading but helps to understand how the human mind actually decides, and we're basically training to become professional deciders. The least "special" book on the list but I think it's cool.

Market Mind Games - *Denise Shull*

Fascinating explanation of the emotional/physical component and how it's absolutely crucial to making high quality decisions. If you think you need to "remove emotion" from your trading, you need to read this book first.

The Hour Between Dog and Wolf *- John Coates*

The book says it gives solutions but I don't think it really did. The value came in the actual explanation with what was happening in your body when winning and losing. The hormone feedback loops etc.

Thinking in Bets - *Annie Duke*

This is a great book to understand what you're actually doing when you trade. You aren't trying to "win", you're trying to make the most high probability decisions. That completely changes how you analyze your performance and it really helped reshaped how I thought about "mistakes".

Best Loser Wins - *Tom Houggard*

This book is the best book on this list. Tom is a real deal futures trader. His strategy might not translate exactly into rs/rw stocks so don't *literally* do what he says. But he teaches you to be a fearless beast in the markets. This book inspired me to do a mindset challenge that significantly broke a plateau in my trading last December.

Trading in the Zone *Mark Douglas*, aka TITZ, the granddaddy of all trading mindset books. Not as much about specific practises or even the science behind it but think of this one as covering all the bases, and really baking in the important mindset points. Everyone says you have to read this one first, but to be honest I didn't get nearly as much value from it on the first run back in 2021. It was only until I traded RDT for a few months and read the rest of the material that coming back to this one made so much more sense.

The Mental Game of Trading *Jared Tendler*

This one is more of a "course curriculum" about how to identify what your key issues are and systematically start addressing the biggest draws on your profit factor that are mindset based. Think of it like a system to follow or what actions to actually take. I like it, but I think you need to understand the processes behind your mindset first. The Inchworm strategy is gold and how I structure what to focus on.

If you're wondering, how you can read *all* these books? Remember that trading is very hard and takes a lot of time and effort. Once you truly accept that you can feel okay putting in the time. You are capable of much more than you think if something truly urgent and meaningful is on the line. Good luck.

Luck, Skill and How You Can Go Broke Taking a Profit

The reason most traders lose money is because they cut their winners too soon and hold their losers too long.

There is nothing original about that statement - it's obvious. It's correct, but it is also super fucking obvious.

It also doesn't help when people say stupid shit like, "You'll never go broke taking a profit!" Yeah, you will, in fact many times that is *exactly* why you are going broke.

The Wiki goes into length about the reasons why this occurs, and also offers practical solutions that can help you prevent it from happening (The Damn Wiki).

Still, even when given the practical fixes, the problem remains for so many traders. While some are able to apply the solutions detailed out in the Wiki, others just cannot seem to get over this huge roadblock to becoming a successful trader. Why?

Deep down - you still believe you're gambling.

A professional trader knows the methods work, they understand the edge they have and not because they have watched someone else do it but rather because *they* have done over and over again. They know their personal statistics, and have little worry about hitting their monthly targets. In other words, they know it isn't luck. One simply cannot get consistently lucky month after month. it is a bit like how a professional poker player knows that while others may be gambling, they are not. To paraphrase the movie Rounders, there is a reason the same people dominate the leaderboards at every poker tournament.

For those that haven't reached that stage though, there is doubt. It may be doubt in their own abilities, doubt that the market isn't just "fixed against them" or doubt that being a professional trader is an actual professional one can achieve. It could be all of these (and in many cases it is exactly that).

So what happens when you do not have confidence that the results of your trading is based on skill - when part of you believes you are gambling.

In order to understand that you need to view profit-taking/bag-holding through that lens -

To borrow some terms from Tom Hougaard (and if you haven't listened to him, I highly recommend it), consider how fast your hope can turn into fear while you are in a trade.

Lets say you are holding **NVDA Puts,** and after yesterdays bullish price action you are hoping for a reversal. Today it looks like your wish has been answered and **NVDA** starts to drop. As you get closer to breakeven and possibly even profit you get more hopeful that you can actually get out of the trade without taking a loss.

Then the strangest thing happens - the closer you get to breakeven, the more worried you become. Maybe you should just exit now? Are you really going to hang in just to get another 25 cents on the Option? What if it reverses? **NVDA** can be a fucker, not like **SNOW**, nobody likes **SNOW**, but still a fucker nonetheless. Then, *BOOM*, a quick drop and now you are in profit - holy hell.

Now that you are in profit, what was simply worry quickly turns into downright anxiety. No way are you going to let this position go back into the red. So you exit with a small profit feeling quite proud of yourself.

Consider how truly extraordinary this is - when you were wrong you were hopeful that the position would reverse in your favor, and when you were right is when you became fearful it would reverse against you.

Doesn't make sense, does it? You had more faith when you were wrong than when you were right.

Except it does make sense because unlike the professional trader you have not experienced a consistent return with a method or strategy. In fact, in your experience your wins and losses look a lot like, well, gambling. Some nice wins, some big losses, and overall you are down. The more you trade to more you lose in the end. Just like a casino.

You are injecting the element of "luck" into trading which translates into thoughts like:

Rooting for losing positions to turnaround: If there is a randomness to trading, then why shouldn't it turn in your direction as well? Hell, you are **due**.

Fearful of winning positions reversing: Not only *can* the market take away your profit, it probably *will* take it away, just like it has many times.

This is where your head really screws with you. We are conditiond to have significantly better recall of negative events than positive ones (the evolutionary benefit of this is fairly obvious), so to the best of our recollection the market *does* tend to take away our winners.

Therein lies the issue - an overall lack of faith that what you are doing is guided by a statistical edge, and a biased memory. They combine to make a potent emotional deterrent to staying in and/or adding to winning trades.

Great, but how does one fix it?

Well, you never really do - I still get that nagging feeling even now. You can control it though.

This is why it is so important to:

1) **Go through the process - yes, it is two years of hard work, but it takes you from paper trading to trading one share only after you are able to achieve a 75% WR and 2+ PF for three straight months using the method each time. Do you need a 75% WR to be profitable? Hell no - but you need it to deal with all that emotional baggage.**
2) **Stop fucking around with different indicators or trying to put your own twist on the method. The method works, it is proven, and I am out here proving it every day. Yeah, I get it, nobody likes paper trading. Guess what? You're not unique in your distaste for the emotional disconnection one has when trading with fake money. Yeah, I understand you don't want to just trade 1 share, and think, "Maybe I'll use 4 or 5 shares instead, just so it can feel more "real"". Fucking, no. Just no. That isn't the point of the exercise which is to literally train your brain to realize that you DO have an edge. Remember: You can cognitively tell your brain that you aren't gambling, you can try to**

force yourself to hold on to winners longer or add to them, but in the end it will just wind up compounding the problem.

3) **Don't just read the Wiki - study it. Every single day I get asked countless questions from people that starts with, "I've read the Wiki but can't seem to find...." and pretty much every time the answer is right there. Not even buried in some section, but front and center.**

Most people spend two years losing their money, trying countless different methods and strategies, paying for scam courses, and then walk away dejected (usually mumbling something about a conspiracy against them). If you want to do that, fine, I can't stop you.

Or you can follow the ten-steps (and do not even think of asking what the 10 Steps are....it is in the damn Wiki) and this way you can spend two years learning a skill. A skill that can turn into a full-time career with complete autonomy and financial independence. All while losing almost no money, and coming out the other side ready to load up your account, with the mindset needed to be consistently profitable.

Resetting Your Mind: Part I - The Enemy

By now you should know that "mindset" is 90% of trading. If you don't then you haven't read the Wiki and/or are new here. If you are either of those, you need to stop what you are doing and go read the damn Wiki (*i.e.*, RTDW).

There certainly is not anything new about this claim, and most professional traders will tell you the same thing. While the arbitrary number of 90% may vary, the overall point will not - **Mindset is more important than method.**

In fact, without the right mindset chances are you are using a shitty method to trade. We all know who they are, some are just beginners, others have been tainted by WSB, and some are just a pure gambler at heart. How do you know if you fall into this category? Well, if you are trying to catch those low-float, high short gappers each morning, you need to look no further - because it's you.

Granted there are actually only a staggeringly few methods that consistently produce profit trading.

Unfortunately, as I, and many others have seen time and time again, a trader can know everything there is to know about those methods, and still lose money. Why? Mindset.

The Wiki (and this sub) preaches the importance of mindset, and the testimonials of those that have successfully transitioned to becoming full-time traders attest to how essential it is to get your head screwed on right - but for many, the mental art of trading remains an elusive skill to grasp.

So, I have decided to do a series of posts, each one of them covering a particular mindset issue that one needs to deal with in order to become a successful trader.

We will start off with a relatively basic one. A recent post I made showed me just how prevalent this flawed way of thinking has become amongst many of you.

The other day I posted an [Institutional Trade Idea](). I received what looked to be an interesting trade suggestion from JPM and wanted to share it with the larger group. In doing so it seems some people thought I was saying that I "worked for JPM". It appears the issue was with the phrase "having a desk". While most experienced traders know that the term, "Having a Desk" at an Institution like JPM (or GS, etc.) simply means having a large trading account with their bank, most others thought it meant I actually had a desk working at their office as an employee. *Having a Desk* means that you, the client, are assigned a number of their *Trading Advisors* to service you. In this sense, JPM is no different than Ameritrade or Robinhood, just with a lot more customer service, better rates and access to a ton of information. I trade various accounts. With TD Ameritrade (and through their ThinkorSwim platform) I have my Long-Term Positions, Regular Day-Trading and Challenge accounts. However, I use JPM to trade a far larger account (over $5 million).

Due to that confusion some people thought I went to work for, "the Enemy".

The...Enemy.

This belief is deeply engrained into many of you. In fact, the entire sub, WallStreetBets, is predicated on the notion that is "Us vs. The Hedgies", where the ultimate goal is to bring about the ruin of those dastardly hedge funds. This shared belief allowed members to feel like they were part of some larger, noble, mission. They were/are the warriors against those that would do us harm. While they will credit themselves for stocks like **GME** and **AMC**, they do not seem to realize the crucial flaw in their thinking. Billions of dollars were made through the buying and selling of those "meme" stocks. Billions. And other than a few anecdotal examples of some random people that made $1 or $2 million, the rest of the money went to the very funds they were trying to break down.

Think of the market as a giant corporation. If it were, we would be the equivalent of the employees in the mailroom. It should come as no surprise that the decisions the board of that corporation makes have nothing to do with the grunts down in the mailroom.

They make decisions to benefit *them* not to screw *us*

Do some of those decisions wind up screwing us anyway? Of course - but trust me when I say that they quite simply do not care.

I partially covered this type of thinking in the post, The Insidious Power of Wealth but it deserves more attention.

The entire idea that we matter one way or another is a fantasy constructed that serves two purposes:

1) **Absolves us of blame**. It wasn't your shitty trading, it was the *market*!
2) **Ego.** Nobody wants to think they don't matter. It is far easier to think that not only do you matter, but you are so important that those "in charge" are specifically out to get **you**.

The problem is when one indulges in this fantasy you miss the real unfairness of it all.

The rules are constructed to benefit those with wealth, and it is those rules that are inherently unfair.

They have access to information and services you don't, pay less taxes than you do, and already have the correct mindset built-in.

Also consider that if you were in their position, you would most likely act exactly as they do, which is out of self-interest.

As I have pointed out before - being someone that came from poverty, I also had a certain view of "wealth" and those that had it. It was only when I was able to travel in those same circles that I began to see that there is no conspiracy, no evil plot to cause harm - there is just a complete and total disinterest in anyone but themselves. An absolute disconnect from reality if you will. In their minds there are those that have wealth and there is everyone else. If you fall into the "everyone else" group, they expect you to act against your own interest and lose money. By and large, they are correct in this regard.

So why is this mindset a problem? Who cares if you see the Institutions as evil?

Simple - because as traders your job is to *follow the money*. We aren't trying to "beat" the "hedgies", we want to emulate them. In the long haul, when we counter-trend trade, we lose. If the Institutions are suddenly buying up **MSFT**, which we can see through *Relative Strength* as **MSFT** goes up while the market does not - we want to also *buy **MSFT***.

However, that is difficult to do if we constantly see Institutions as an enemy that we have to fight.

Does this mean that their Algos aren't programmed to take advantage of retail trading patterns? Of course they are! Retail isn't that hard to figure out. They buy the dip and sell the surge. Most use basic *Technical Analysis.* The Algos know this and take full advantage of retail driving a price up or down. However, reframe that idea for a moment - the Algos are taking advantage of bad trading habits, which also means they reward correct trading methods.

In other words, if you are the idiot that thought it was a good idea to short **NVDA** at $200, then you *should* be losing your money right now - because that is a *terrible* way to trade. However, if you are the kind of trader that went long on **NVDA** at $200, you absolutely *should* be making money - because that is the *correct* way to trade.

The trader going long **NVDA** at $200 wasn't trying to outsmart the market, they weren't trying to "beat the funds", they were simply going with the Institutional trend.

Trust me, I get it. It is hard not to look around at your life and not think that you are intentionally being fucked over.

The reality is, yes, you *are* being fucked over, but not intentionally.

You are being fucked over simply because nobody cares.

You got sick and now are under a pile of debt from health-related bills? They don't care. Why? Because the health system works just fine for them.

You're paying close to 40% in taxes? They don't care. Why? Because they never pay more than 10% (full disclosure - neither do I), you should just get yourself a better accountant. What's that? That cost money you don't have? Weird. Well, I am sure you'll figure it out.

You lost everything in the market? Well, you should just get yourself a better financial consultant. What's that? You're telling me that *also* cost money you don't have? Weird. Well, I am sure you'll just make more.

Your reality is not theirs, and they don't care to know anything more than that. Besides - they give to charity, that should cover it, right?

Imagine for one moment that you work for one of these "Institutions" and you have been put in charge of a $500 million fund. Your job is simple - By the end of the year there better be at least $525 million in that fund or you are fired. That's it - that's your job - make 5%. Do you really care if retail traders are Short **SPY** or taking a Put Debit Spread on **CAT**? No. You care about that 1.5 Billion order that was placed today on 4050 E-Mini Puts, because *that* moved the market. You care if the Treasury rate is over 4.5% for the 2yr and how close that gets you to your goal.

And you will use every resource at your disposal to hit that goal. Your competition is other $500 million funds, not retail traders - because you just have to perform better than they do. Otherwise, you will need to explain to your boss why your fund is at $530 million and the one over at Goldman Sachs is at $570 million. **That is what you care about.** And that is just the person managing that money. The people that actually put that money into the fund?? They don't even care about the fund-manager, just as long as they do their job.

Now before you all get on your high-horse to judge these people, ask yourself a question - When was the last time you cared about someone that is homeless? When is the last time you spent time with a person in total poverty? Fought for better conditions for them? Worked in a soup kitchen?

Because just as those greedy wealthy bastards are to you, you are to those people sleeping on the street. And just like you step over them pretending they aren't there, the wealthy step over you.

Is it shitty all around? Yeah. But this is one of the many reasons I hate people. Certainly not the only reason, but definitely one of them.

Anyway - this is the first mindset issue to extradite yourself away from - the only enemy here is yourself. Nobody is out to get you. But they aren't going to help you either. Instead, they leave behind a roadmap in the charts, that map tells you what they are doing and where they are going. Stop hating them and starting following the map instead.

Mindset - Personal Responsibility

Learning the method(s) that are required to be a consistently profitable trader is not terribly difficult. Don't get wrong, it is not like you can just breeze through it and load up your account ready to take on the market, you can't. It takes time and effort, but still, it is a *learned skill*. If one puts in that time and effort, there is no reason they should not be able to know the methods/strategies taught.

However, Method without Mindset will get you nowhere. In fact, if you have Method without Mindset you will just be a well-educated trader that still loses money. Having the right mindset is essential, unfortunately it is also what takes the most time and represents the biggest obstacle most people can't seem to get over.

The Wiki goes into extensive detail on the various Mindset issues traders tend to have and offers practical solutions on how to address them. The ten-steps that every trader is suggested to take is in fact designed to slowly reset your way of thinking over time.

Despite the large amount of coverage Mindset gets in the Wiki there is one issue that I have errantly glossed over and want to address here - Personal Responsibility.

In general, most of us suck at this. Even worse - we think we are pretty good at taking Personal Responsibility when we aren't, which makes it even harder to fix.

This deflection of responsibility is pervasive in our lives.

Notice how when someone gets into a car accident it is almost *never* their fault?

Lose a job? Well, the boss must have been an incompetent asshole, right? The policies there were unreasonable, I am sure!

Break-up with your partner? Clearly their fault, I mean obviously. Even if you are the one that cheated, anyone can see that they drove you to that. If they were a remotely a good partner you wouldn't have had to cheat! Makes total sense. Even better is when someone tries to assign percentages to the blame, as if they deserve a medal for taking a minority stake in fucking up (e.g., "It was like 70-30 their fault!")

Stuck in rut? Can't improve your life? Well, who can with the way the system is and "The Man" that is always trying to keep you down!!

Now, don't get me wrong, there are some legitimate obstacles that are well outside ones control. If you are living on the street screaming at shadows because you suffer from schizophrenia, you need help that you can't provide yourself.

There are also clear institutional biases that make the pursuit of life, liberty and happiness more difficult for some than for others. As someone that was homeless as a kid and grew up with absolutely none of the advantages that money brings, I obviously had a more difficult road to success than some trust-fund brat. Still, would have I been able to get where I am today if I was born a black female rather than a white male? I don't know, but I do know it would have been a fuck ton harder.

Still, putting these systemic grievances aside, most people tend to side-step taking responsibility for their lives. Like anything else, this bleeds into our trading.

On occasion there are some trades that despite doing everything right still manage to turn into a bad loss, however these are actually pretty *rare*. Most of the time we fucked up. Sometimes it is obvious and other times we have dig a bit to find it, but generally it is there - that is unless you are unwilling to see it.

I have heard every possible excuse and found that they can range from the extreme to almost reasonable.

Extreme: These people tend to think there is some huge conspiracy that for some reason, known only to them I suppose, are specifically targeting their trades. Sometimes it is the "Algos" that just know how to make sure they take your money, and at other times it is literally a person on the other end that is countering their every move (while wearing an eye-patch I guess). The slightly less extreme version of this is claiming that the "System" in general is designed to make sure that "You" lose. It can't be their fault for failing at trading when there was no way they could ever win to begin with, right?

Chaos: While not nearly as wackadoo insane as the *Extreme* group, people in this category love to blame the random and chaotic nature of the market that always seems to turn against them. Ironically by defining the randomness as always being the cause of their failure they are, in a way, saying it is not random at all. "Everything was going fine until for no reason at all the market decided to drop out of nowhere and it totally wiped my position out." Why didn't they close it? Why was their position size too large? Could they have held it and waited for the market to reverse? Did the stock have the Relative Strength to withstand the drop? Was their positions expiration far enough out to weather any "noise" intraday? Was the daily chart still bullish despite the intraday move? We will never know the answer to these questions because they all require a degree of introspection that they don't have. If it is random, it is out of their control, and if it is out of their control, it can't be their fault, right? Right! Moving on....

Gambler: I have a special place in my heart for the gambler, for I was/am one. In the immortal words of The Color of Money - Money Won *is* Twice as Sweet as Money Earned. Let's face it, gambling is fun, it gives us a rush that well-thought-out trades do not. Sometimes we even win! Most of the time we don't, but let's not think about those times, those are bad times. We are all going to gamble from time to time, although some more than others. As long as you admit it, then go ahead, say, "I feel like gambling here and am going to take some OTM NVDA Puts!" But we don't say that, do we? We call it a "Spec Trade", or try to justify it with a bunch of TA that starts to become almost surreal - "It was on an upward trend on the M30 and the EMA7 crossed the EMA34 with above average volume, and the last time I saw this pattern while SPY was chopping around, the stock dropped like a rock!" Un huh...look, just say you were gambling. You'll find that simply by taking responsibility and admitting it, the behavior itself will begin to decline.

Life: Ah, this special person has just so many things going on in their life that it is hard to trade! All of us have perfect lives of course with no interruptions or worries, but this person is different, their life is HELL. They have this job that takes up all their time, and the kids, my god the kids they just won't stop, plus did you know about all their medical issues? No? Well, they will gladly tell you! Because there are so many medical issues. With all of that, it is amazing they can manage to trade at all. So yeah, they were distracted and did not close that position when they should have, and of course they missed the fact that SPY was dropping when they went long AAPL, how could they see that when little Suzie is screaming for dinner!?!

The Unlucky Repeat Offender: Perhaps the most frustrating of them all....they fuck up, they acknowledge they fucked up, they say they learned from the fuck up, and then....yeah, you know - they fuck up again **exactly the same damn way**. This trader doesn't really believe they are at fault. Instead they pay lip service to whomever is calling them out, claiming that of course they read the Wiki, but hey, they'll read it again (Narrator: They never read it). You can't get mad at them because....they're "trying". Who wants to yell at a little trooper like this? Anyone? The problem here is you can't get through to this person because even though they say they know they are at fault, they really believe they were just "unlucky". Even though they can somehow manage to be "unlucky" so many times in a row that it is statistically impossible, they will keep on believing it, even as they say, "I know, I know, I messed up...back to the Wiki I guess!"

Edit:
The Bad Man Made Me! How can I forget this one? This is where you followed another trader into a trade, lost and then blame the other trader. First off, you should not be following a trade, but even if you do, that trade is **your** responsibility. It isn't the responsibility of the other trader to hold your hand and help you through, or to guide you on the exit - again, it is **your** trade. So stop fucking whining and start finding your own trades! Whew, there....got that one in.

Changin Times: Finally, we have the excuse that while back in the day one could use TA to trade, in todays age with all those damn Algos and 0DTE Options, and the kids out there with their Sony Walkmans and video game machines, nothing is simple anymore. It's just broken now and there is no way to fix it. They'll be damned if they are going to try to beat a broken system! They'll say this about once a week as they keep doing the same thing over and over. At some point I am sure they will tell some kids to get off their damn lawn.

Sometimes you can get a person that combines various traits from all of these categories, which is always a treat. The "It's all rigged, one big Ponzi scheme, and there is no logic to it anyway! There used to be perhaps, but not anymore!" trader.

The road to becoming a successful trader is filled with mistakes, sometimes huge mistakes. The system taught here is meant to at least have you go through that process with as little financial damage as possible, but the mistakes are part of the learning. In fact, recognizing those errors, putting them in your journal and then each month reducing how often they occur is essential to moving forward.

Until you are able to take responsibility for your mistakes, understand why they occurred, whether it is psychological or technical in nature, and then work towards fixing them, one cannot ever reach their desired destination of being a financially independent consistently profitable trader.

What's Missing – Weighting

There is no doubt in my mind that this community has a *significantly* higher success rate than any other trading method out there.

In a poll posted here (Success Rate Poll) over 86% report *improvement* in their trading, 7% have improved to the point of being full-time and close to 30% are there or within 6-months of that goal.

Even if there is a high level of exaggeration (which I never understand why in anonymous polls, but whatever, it happens), this is still *far superior* to any other place.

Add to that all the testimonials we have seen, and one can easily conclude that while this is very difficult....it works.

Still, I am concerned. Far too many continue to lose money. Not only do they lose money, but so many of them fall prey to the exact same mindset issues. Perhaps it is because they are the loudest group their number seems oversized, but it's not just that. *They continue to think they are right!* That is truly the most amazing thing. I recall teaching university Freshman and Sophomores Introduction to Statistics, and like every Intro Stats class the *Monty Hall* problem would come up. It was always those students that could barely add that argued the most vociferously that the choice was 50/50.

It may be that there is nothing to be done here - and there will always be that unreachable group of people. However, recently I took a trade on **MRNA** (on 8/9/2023) and to me this trade was obvious - the stock is sitting on two different major lines of support, it tested that support three times, rebounded on the third test with Relative Strength and high Relative Volume, it had a clear stop of $99 and huge upside. It was literally the essence of what the Wiki teaches. Despite this, there was confusion among some...not just confusion but outright anger even - "This is not in the Wiki, this is against what the Wiki teaches!"

How could there be such a disconnect? It nagged at me. And when something nags at me, I don't let it go. Not until I solve it.

Well, I am pretty sure I solved it.

It is a matter of *weighting*.

Imagine picking a partner to date - everyone has different criteria in what they look for in a person. For some, *Religion* is a deal-breaker - they could be super hot, smart, funny, nice, but if they aren't the same *Religion* as you, it isn't going to happen. In that case you can have every box checked but one, and that one box is so important or has so much *weight* it determines your choice.

For others, there aren't deal-breakers but rather different things that matter more than others. Many people will look past the lack of intelligence, job, even personality if the person is extremely attractive. In that case, *Looks* are *weighted* more than other factors.

The stronger the *weight* a variable has, the more other variables need to compensate in the absence of that variable.

Everybody on the same page with the idea of *weighting?* I hope so.

In trading and in the Wiki specifically you are told that there are various things you need to look for in order to take a trader (for the purposes of this, let's assume it is a Bullish trade).

A strong daily chart is important, with a clear upward trend through various Resistance levels.

Corresponding Market Direction and Daily Market Chart

Relative Strength on the 5-Minute and Daily Chart

Good Volume

Etc.

All of these things blend together to tell a story about the stock. Sometimes that story has external news associated with it, sometimes not, but generally if you look at the whole context you can get a sense of what Institutions are thinking.

What seems to have happened is the some of you have taken to this to mean that unless every box is checked, or unless the **major** boxes (like a strong daily chart) is checked, one should not take the trade. In this sense you are not weighting the variable but instead you are either making all of them "deal-breakers" or over-weighting a few of them to essentially make them "deal-breakers".

That is not how it works - if you do not have a strong daily chart, then you need to make sure there are other boxes checked that make up for the loss of that weighted variable.

Now let's look at $MRNA again - shitty D1:

There is no doubt that the daily chart is bearish and ugly - but look closer and you will see four bounces off support now and a clear mental stop at $99. You will also see the upside to this trade, which showed high Relative Volume and Relative Strength on 8/9. So now I have a stock already past the shock of earnings, resting on a three-year long Algo line, building up support, with huge upside and limited downside. All those variables combined are enough to overcome the crappy daily chart.

In fact, what this shows is that the daily chart is **so important** that you really need a large combination of factors to overcome its absence.

Part of the issue is that traders that are learning **love checkboxes** - if they can automate it, even better - but as noted (in the Wiki), it doesn't work like that. Each variable has different *weights,* and those weights change dependent on the situation and market environment. What might be important in a Bearish trend is not as noteworthy in a Bullish one (for example).

I get the desire for things to be neat and replicable - if that was the case then it would not take so long to master this profession. But it does, it takes time, it takes years…and there simply is no way around that.

Break out of the mindset that things can fit into a neat set of boxes - each trade is a story. You may not always read it correctly, but you need to be learning how to put the pieces together to see what it is trying to tell you and not every piece is of equal importance.

Trading With a Full Time Job (/u/Isidore94)

I, like many of you, have a full time job. I work to sustain myself while I transition to becoming a professional day trader. I work about 45 hours a week at my job, and pull in another 50 hours a week on average with day trading. Throw in 56 hours a week of sleep, and that leaves just 17 hours a week for non-trading/work/sleep related activities. That's not a lot, especially those with other responsibilities. Here are some tips I have collected over the last year doing this that I employ every week to help me be as efficient as possible with my time, and to also help prevent burnout.

1. Be prepared to do the work. All this next advice is contingent on you actually sitting through the market session 4-5 days a week in its entirety + spending time during the weekend to review and prepare for the following week. That's not to say you can't make this work doing less than this. It's my belief the 2-year target outlined in the wiki is contingent on somebody putting in at MINIMUM 40 hours a week. If you cannot commit to this, it would be appropriate to expect a 3-4 year time frame. I have a bonus tip at the end for those of you who work during market sessions but trade for a few hours on their breaks/any time off during the day.
2. Have at least 1 thing you can do/look forward to that isn't market related. For some people that's a round of golf, for others it's grabbing lunch at their favourite spot. Whatever it is, have something you can do. When you're at this everyday of the week AND you work a second job, you need some way to let off steam. I lasted about 9 months before requiring some extraneous activity. I would even go so far as to say if you are working a full time job and trading, and the market is pure LPTE chop, and you have set your alerts and have your watchlists, go out and do this activity. Or go out for a walk. The market isn't going anywhere and the potential performance gains from resetting your mind will probably outweigh the gains you will make sitting in front of an LPTE market and finding a trade you can take at small size.
3. Spend an hour or two each weekend thinking about how you can optimize your routine. I have recently incorporated TradingView into my trading arsenal. With it I am able to have AVWAP points on the 45 day high and low automatically generated on EVERY ticker. I have also made custom scripts to automatically draw horizontal lines on every high volume candle. I also have experimented with some variant of cloud lines and had another member help me make a script to automatically plot these levels. Doing this saves me a lot of time. That's time during the market I am not wasting, and time during the weekend I don't spend drawing horizontal levels. Instead I evaluate the efficacy of the lines and decide which ones to act on. Take some time to learn your charting platform and find ways to do things quicker. I have a number of videos on this topic alone.
4. Speaking of the weekend: You want your weekend prep to be extensive but consolidated at the same time. You don't want to be spending 8 hours a day on it. You will burn out doing this. Instead have a checklist of items and focus on getting through it. I review TX week ahead and plot all important events on my daily spreadsheet. Then I review my watchlists

and keep them all up to date. Then I scan for potential plays based on a few OS custom scans. I can get all my prep done in a week that completely sets me up for the next week in under 4 hours. Easily. Which leads me into my next two tips.

5. Do your prep for the next day DURING the market. After 2pm EST I stop looking for day trades and focus more on swings. At this point I will go through all my watchlists and alerts. I will go through all my scans and sort all my stocks into the appropriate watchlists. I will review tomorrow morning's news events to make sure overnight swings are not walking into major news volatility. I do it all during the market so when the market closes and I go to my day job for 9 hours, I can come home and know I am already ready for tomorrow.
6. Watch my video on watchlists. It's the most recent one on my Youtube. I have not discovered a more efficient way to categorize stocks and to ultimately keep my finger on the pulse of the market. For those who have watched it: When I start to focus on swings, I merely have to filter for all stocks that are above their previous day high and above VWAP in the Breakout and Pullback watchlists to know what are the best swings to take overnight. And I am updating these lists just prior to looking for overnight swing trades. The first week or two of using it is a royal pain in the butt, but once it's set up you generally have an idea of the status of every single tradable stock, or you have an alert set on it.
7. This is not advice but just my review of TC2000 plat service. I will say, it's expensive and probably a tad overpriced. However I find it to be worth it. I get 5 real time scans that I can use on various TC2000 scanners that effectively scan my watchlists for specific things. I can also monitor for volume pops. Dan recently posted a TC2000 layout that includes something like that. I also get 1000 alerts. I set alerts on basically every single stock, and sometimes 2-3. Having these many alerts basically gives me a full view on the market. It's tough to set up but once it's up and running it's extremely efficient when combined with the real time scan.
8. More of a bonus tip. If you MUST trade at work for whatever reason, do it out of a watchlist. Unless you can run your entire complement of trading software at work, focus on a small basket of stocks. Use TradingView and watch the market. If the market is setting up for a trade, then check your basket of stocks. If nothing in that basket of stocks is set up for a trade, don't trade. Trading at work is a great way to mess yourself up mindset wise because you will make excuses for yourself. Instead, give yourself the best chance of success by having a handful of elite level D1s.
9. Learn BPS. I am mostly a shares trader, and options are still not my preference. If youre going to learn any option strategy however, learn BPS. They are extremely time efficient. They are also efficient brainpower wise (is that even a word?). Learn them. Master them. They are your greatest friend both for pro traders, but especially us with full time jobs on the side who miss some market sessions every year due to it. You can manage these at work. You simply set a few alerts for each of them for when to take profit or when to take the loss. Otherwise you ignore them.
10. WATCH PETE'S VIDEOS. Every week. I do not care how busy you are. Pete incorporates fundamentals and technical into each video. He gives you his market outlook. He gives you some picks. You cannot get a better return on your time than that, it is impossible, especially if you listen at 1.5x-2x speed. If you do nothing else from these tips, do this. Disclaimer: I am a mod at OneOption so yes there's potential for bias. But I have been doing this for over a year now.

Chapter 16. Day-Trading Insights & Lessons

The Insidious Power of Wealth

I want to touch on a more macro topic here for a moment, one that I think will resonate with a lot of you.

As many of you know from my introduction story, I climbed my way out of poverty. On my way up the socio-economic ladder, I spent time on every rung. Going from being homeless, to "working class", eventually into the "middle-class", to "upper-middle class", and so on, until I finally made it into the "top 1%". I am wealthy? No. Once one gets here you see what wealth *really* is, and it is a completely different world.

While I am not yet at the "Should I buy another yacht or finally get that 8,000 sq ft vacation home in Aspen?" level, I am able to travel in those circles. Here is what I learned from rubbing elbows with super-rich:

First and foremost - *Wealthy people have an absolute disdain for anyone who isn't wealthy*. It is important to realize that. Imagine a person who is homeless, they haven't showered in over a week, they're clearly sick, and look a bit unstable. I am sure most of you would be empathetic, might even want to give them some money if you saw them on the street - but I want you to imagine they are coming over for dinner. They come into your house and sit down at the dinner table. Put aside the "politically correct" answer and think.... How do you feel? *That is how wealthy people feel about you*. They think anyone not in the top echelon of wealth as being uncultured, broken, or as so many of them put it, "People who have played the game of life and lost". They go so far as to refer to people without wealth as "civilians", as if they are some elite guards. Plus, they don't care why you aren't wealthy, because in their minds, you aren't wealthy because *you aren't good enough to be wealthy*. Simple as that. Sounds horrible right? It gets worse.

Secondly - *the system is rigged*. This is not a shock to any of you. Here's an actual conversation I heard the other day:

Rich fucker #1 *"Hey...how much did you wind up paying in taxes last year, I know you were working on getting that down a bit"*

Rich fucker #2 *"When it was all said and done I paid around 12% in taxes, totally"*

Rich fucker #1 *"12%?? Ok, you need to call my guy, like immediately - 12% is ridiculous"*

Yes, you read that correctly - the notion of paying 12% on their total income for the year was shockingly high. Think about that when you are doing your taxes and trying to get it down below 33% all while worried about getting audited because you declared a bit too much on "charitable donations". There is a reason members of Congress out-perform the S&P 500, or way out-perform the average investor year after year, and they aren't even on the top of that insider food-chain.

But despite all of this, that isn't the real power they wield...the real power is this - ***They control the narrative***.

You see, they don't want you to join their club, just like you don't want that homeless guy to sit at your table. So, a *culture* was created, one that just about everyone has bought into - *Be happy with what you have*.

Ever since you were young enough to understand the concept of money, one thing has been drilled into your head - *the definition of success*. Sure, you might have had a lot of dreams growing up, but eventually they were replaced with something much more obtainable, something noble even - *"Support your family"*. If you can manage to get a decent job, get married, have kids and buy a house, you are a *success*. **That is what we are taught.** And don't get me wrong, that is a very honorable goal, and something to be extremely proud of accomplishing. But you are taught that is the endgame, do not pass "Go", do not collect your $200....game is over, you won.

Notice there is no major in being an *entrepreneur*? No class in High School about *starting a business*? Instead of telling you to buy stock at the age of 18, you are told to focus on picking your major and thinking about what job you want to get when you graduate. Because once you get on the track of depending on a paycheck, they know that is exactly where you will stay. Always 1 or 2 missed paychecks away from poverty. And everything is priced accordingly, done to make sure your savings never really add up. For one family it is that trip to Disneyworld, because hey, you deserved it! For another it is finally getting their kid that XBOX all their friends have and it broke your heart watching them go without. Proportionally it is all the same - at the end of the year, there are no savings left.

And then something happened.... people realize a door was left open....Trading. You can open an account and if you make the right decisions, you can finally begin to accumulate some wealth. You can join their club whether they want you to or not! And what happened? You were scammed, led astray, given all the wrong advice, but encouraged to *keep trying*. People were taught to "*hate the hedgies"* and "*damn the institutions*", an idea that those in power were more than happy to encourage.

So, that is why this sub was formed - to rectify that injustice, and at least give everyone a - ***chance.*** To level the playing field a little bit, and put your destiny back into your own hands. So that one day, perhaps you'll be able to tell them that, you don't want them to *sit at your fucking table,* and instead you'll help that homeless guy find a seat.

The Unfair Advantages of Wealth

Many of you have already read **The Insidious Power of Wealth** (if you haven't, here's the link: The Insidious Power of Wealth) which gives a macro-level view of the disparity between the wealthy and everyone else.

In this post my hope is to piss you off even more by talking about some of the specific advantages given to those that need it the least.

To be clear - I am not opposed to wealth. Nor do I think there should be a penalty for earning significant amounts of money. If you earned it, you earned it.

However, I despise when things are imbalanced.

Everyone should have the same opportunities. If you screw it up, that's on you.

As I noted in the previous post, while there is no *conspiracy* or *cabal,* there are many built-in advantages that help the wealthy stay...wealthy. Conversely there are also many built-in roadblocks that make it extremely difficult for someone to breakaway from paycheck to paycheck dependence (many of which is discussed in the other post).

I wanted to give you some specifics so you can get a real sense of those advantages. Here are some that I have experienced personally, and I certainly wouldn't consider myself *wealthy,* well-off, yes, but not *wealthy*. So, if I have these advantages, I can assure that they are just the tip of the iceberg:

Let's start with **HKD** - I was able to short **HKD** on 7/29 -205 Shares at an average price of $434 - I made $67 per share on that short. On August 1st, I got a call telling me there was another 97 shares available if I wanted to short again. I passed on that second offer. Right now the stock is at $585 - imagine how many people shorted when it was over $2,000 and are now up $1,500 a share. How is this possible? Well, the only way one could have access to that type of trade would be to have a "desk" at a major institution like Goldman Sachs or JP Morgan. That gives you a *personal broker* - and depending on the size of your account that broker can either be one of their top executives or someone more entry-level. Although even their entry level contact is going to have a hundred times more power than whomever you will get on the phone at Ameritrade.

Ok, so I was able to short **HKD** but stocks like that are dangerous, right? Sure, I had the opportunity to take that risk, but I could have also fallen on my face - splat. I mean, what if you get trapped in a trading halt??

Ha....trading halts! You think a trading halt is going to worry someone with special advantages? Hell no! Because they can just do a **Halt Swap**. Let's say I shorted **HKD** at $1,800 and it is currently at $600 - great, I am up $1,200 a share! But then it starts to surge back up, and in a blink it is at $1,100 - halted. Shit! What if it opens over $1,800?? No problem - a simple phone call (which gets answered immediately) - "Hey - see if someone will close me out at $1,200 right now". Five minutes later you get a call, "I got someone offering $1,300 - you want it?" Done. You are out with a $500 profit. **HKD** opens at $1,850, goes to $2,300 and you short the damn thing again.

How else could they reward risk? Remember high reward trades are only as dangerous as the amount of risk they pose. If I could buy an Option at $10 and there is a 90% risk of it going to 0 then I need a 10% chance or higher than it will go to $90 for it to be worth it. But what if I lowered that risk level to 80%, now I need a 20% chance it will go to $40. Huge difference.

For example, if decided to buy some ITM Calls on **MELI** that expired on 8/5, and I got them right before earnings - that is a *huge risk*. And then **Bam!** earnings come out and **MELI** is up $160 *after-hours*! But I am worried. I've seen stocks jump after-hours only to tank the next morning. What do I do? Well, normally there isn't much one can do other than wait and hope that when the bell rings the next morning you can close out that position for an insane amount of profit. *Orrrrrrr* I could decide I don't want to take that risk and I call up that friendly broker saying, "So I got these calls at $55, if this price holds they'll be worth around $140 tomorrow. Tell you want, I will offer them up right now for $125, let me know if you can find any takers." Five minutes later, ring ring - "Hey - couldn't find anyone to buy those options but we like it, so **GS** will take them off your hands at $125." Deal, done. I make $60 (i.e. $6,000) per contract.

Sticking with Options - Let's say I short **TSLA** and use options - I buy the 8/19 $900 Strike Puts - And on Monday **TSLA** drops because of some stupid tweet by Elon. Those options are up around $40 a contract right now and I am feeling great. But hey, I'm greedy - let's see if I can get more. Ugh...bad choice. A report comes out that **TSLA** is going to exceed their numbers and the stock soars....my option is now toast. It goes from being up $40 to down almost 80%. I'm screwed right? Nah...cause I was able to get **LookBack Options**! These are one of the many "*exotic options*" that the geniuses in *financial engineering* came up with in their "*Fuck'em All*" lab. Basically it means that on the expiration date I can choose when options were worth the most, and decide to cash them in at that price! And you were worried!

How about **NVDA -** they have earnings coming up - a **LookBack** Option does me no good if I choose the wrong direction, right? Once again, no worries - I will simply get a **Chooser** Option -and select the $185 strike on 8/26. If earnings come out and **NVDA** tanks - drops down to $140. Great! I choose my $185 strike option to be a **Put**. And if **NVDA** crushes it and soars to $230. Once again, not a problem - my $185 Strike option is now magically a **Call**. *I get to choose after the fact*.

Moving on - Let's talk about *insider trading* for a moment. I am sure many of you have seen the statistic that members of Congress historically out-perform the S&P 500? In fact, not only do they beat the average returns of the market, they are so good that if you grouped them together they would exceed the returns of the best Investment firms. And sure there are websites where you can see what they are buying and selling, but that information is released about a month after the fact. It has to be *Insider Trading,* right? Well....yes and no. You see the rule states that you are not allowed to use any information that is not available to the public. It is intentionally *very vague.* In fact, it is really difficult to actually get charged with this crime. Consider the following examples: an Institution commissions a huge research study - they survey 20,000 consumers and ask the same questions the CPI is measuring. Well, that Institution would have a really good idea of what that CPI number is going to be before it came out, wouldn't they? Now let's say they spent $100K on that study and then make the results available for purchase - at the low low price of $75,000. Ten other Institutions buy the study from them (resulting in a nice profit of $650,000 btw). Technically that information is available to the public - you just have to pay for it.

Back to **NVDA** for moment - Goldman Sachs has an entire team on that account. That team compiles historical information, has connections to lobbyists to get insight on when the CHIP bill was going to be passed and signed - and *rumors* are not consider *factual* information and thus do not generally apply to *Insider Trading* rules - so they didn't ***know*** that Congress had the votes to pass that bill before the news story broke, they just had ***rumors*** that it would. Plus, they have upper management of **NVDA** on speed dial and are able to get a sense of what's happening inside the company as well. On top of that, they are able to build extensive statistical models that can project the price movement of the stock within a range of likelihood. Now, that surely gives *them* an advantage over there at GS or JPM - what about lil' ole me? Well if I wrote an email that simply said, "Hey can you send me the **NVDA** report for this week?" Five minutes later, again like magic, there it is in all its PDF glory. Insider trading? Nah...not *technically*.

But what if I am a total idiot when it comes to trading? I have all this access but don't know what to do with it? Not a problem! *Because when you have money there aren't problems, only people that solve them for you*. That just takes another email - "Can you send me your trade suggestions for this week?" Bam - there it is, another PDF filled with their top ten trade ideas for the week. *Sell this Put, Buy this Call, Use this Spread, Avoid this Stock, etc.*

*Btw - it should be noted that shorting **HKD** is the only time I availed myself to any of these advantages. As you can see in the Challenges and the trades I take - I prefer to make my money the old-fashioned way - **fairly**.*

I already mentioned to you the tax advantages, but they are worth bringing up again. While *Trader Status* is available to everyone that meets the criteria, having a good accountant (or team of accountants) is not something the average trader can afford. I can't remember the last time I paid over 20% overall on taxes, and that would be high number. Many of the people I know would be shocked if they ever paid over 10%. So now only do they get to make more money, they also get to *keep* more money.

Like I said - ***Tip of the Iceberg***. Imagine the access of someone with ten times more money. How about 100?

Angry yet? You should be.

While these advantages do not stop **you** from making money, they do make sure those with *wealth* get *wealthier*.

All you have is - your brains, your computer and whatever tools you were able to afford - maybe a good journal or scanner, perhaps a decent charting program and then perhaps a few thousand dollars in *ThinkorSwim*.

This is why we *follow* the money and don't go *against* it. This is why it is so crucial to use every possible advantage you have to get an edge. **Getting to financial independence is the first step.**

You will never be able to build wealth with a paycheck - in fact, the entire system is designed to make sure you don't. So aside from starting your own business (and Trading is very much doing just *that*), this is one of the few ways you can break free of the endless financial cycle that traps so many of us.

It is one thing to be financially smart - save your money, invest wisely, retire early and not have to worry. Doing that usually means sacrifice, living below your means, skipping those vacations, etc. And *it is the smart thing to do*. Of course, the only problem is that by the time you are able to finally stop working you're now 65-70 years old. And are you wealthy? No. Are you even rich? No, again. You most likely have just enough to live comfortably without having to work.

But why settle for that? Because that is what we are told to do? There is an opportunity here and now - and it is a *learned skill*. The best place to put that all that anger is to transform it into ambition. **Trading is the gateway to financial freedom.**

They say if you can't beat them, join them. Well, I will tell you that you sure as hell can't beat them. And they sure as hell don't want you to join them. But that part at least is not up to them. That part is up to you. This sub is here to give you a roadmap - I hope you all follow it, and in doing so, level a very unfair playing field.

So Many Rules - So Many Contradictions: It's a Story not a Formula

Learning all these rules and methods isn't easy, implementing them successfully is even harder. It takes a lot of time and hard work to get it right, and even then, the learning never truly ends.

But just when you think you "got it", you start seeing *contradictions*.

A few scenarios:

You learned to wait for the pullback to 8EMA, and so you are watching MRNA go up and up and up, and seeing traders go long and making huge profits. And then a pro trader says, "Oh, in that instance, you don't need to wait for a pullback, stock is strong enough". WTF? Strong enough? What is strong enough? How do I measure, "Strong enough"??

Or there is always the classic:

You're in a trade and it isn't going your way, the stock is dropping, and it drops below the 8EMA, perhaps even below VWAP, so you exit for a loss. Because that is what the rules say you should do. But the pro trader that you followed into the trade doesn't exit, they hold and two days later they take profit saying, "Yeah I was going off the daily chart for that one and giving it a lot of room". But just the other day in almost the exact same trade you saw that trader exit the moment the stock hit the 8EMA, and that stock had an even stronger daily chart! Which of course has them saying, "I didn't like the market so I didn't want to hold overnight". Once again, WTF. How does one quantify, "I didn't like the market"?? Is there some secret market metric that pro-traders get together and vote on?

"Hey how many of you like the market right now? Only 2? Ok, so I am going to set this meter to - 'We don't like the market.'"

And now you're confused and frustrated. Apparently, sometimes you wait for a pullback, and others you just jump right into the middle of a long green bar. You should exit a trade when it breaks intraday technicals, but *not always*, because there are times when you should hold that trade for days!

I get it. It can make you want to throw your hands up, find the first OTM TSLA option you see and go for broke, because why not at this point.

I will try to clear this up -

What you see as *contradictions* are actually a testament to the rule that there is no such as thing as "one indicator" or "one metric".

Everything is taken in context. These charts tell a story and it is your job as a trader to read them.

Much of this confusion comes from the constant refrain of wanting hard and fast rules to follow - almost as if the trader themselves is a walking algorithm. Much of this is fed to us when we start trading by YouTube videos showing very specific methods (i.e. "...and when the third bar passes the second bar, you enter the trade"), or basic books/tutorials on technical analysis which are simply giving examples.

Should you wait for a pullback to the 8EMA on a strong stock before entering? Yes, *usually* you should - but look at the sector, is the entire sector hot? Is there a news related reason for the increase? How is the volume? What is the market doing? Is the stock so strong that by the time you get a pullback you will have missed the big move?

Now I know where your mind is going:

How do I know? What is the magic formula that tells me the answer to these questions?

There isn't one.

You need to stop thinking of things in terms of : *this is where I enter, this is where I should exit, this is where I take profit,* and start realizing that you are watching a constantly evolving story. The technical indications give you ideas of where the story is going, because the story is being written by *big money*.

Read the story.

Volume, Moving Averages, Trendlines, Strength Against the Market - all of these are part of that story.

Think of it this way: Remember any class at school? For the test there were two ways you could study - you could memorize the facts you needed, or you could understand them. Whether it was math, or history, or any subject, those that simply tried to memorize never did as well and those that *understood the subject*. When you are trying to find the exact formula for *Entry* and *Exit* it is the equivalent of trying to memorize before a test.

Which is why so many of you love your annotated 5-minute charts so much, with the "this is where I entered" arrows, but I almost never see those chart combined with daily charts of the stock or charts of SPY - it is as if the stock itself existed in a vacuum. It doesn't.

Understand the charts - read them.

Two examples:

I entered PFE at 10am on Friday for $54.74, because the daily chart showed a huge gap up after earnings, PFE held that gap and began to build on it over the next two weeks, staying above all moving averages and hugging the 8EMA. During the period it showed remarkable strength against SPY, seeing some of its strongest days when SPY had dropped. The recent gap up on Friday is from a news-related event that is not temporary in nature (i.e. not a earnings announcement), and it completed an HA reversal on the Daily Chart with heavy volume. Given the current market conditions and the reason for those conditions, PFE looks to be one of the few safe swings to hold in this market. Currently still holding the stock, position is down 90 cents.

I entered PFE at 10am on Friday 11/26/2021, for $54.74, coming off the M5 bullish hammer and bull-flag, the stock was strong against market, and had heavy volume. I exited for a 50 cent loss at 10:37am when PFE broke consolidation to the downside.

The first example *tells a story*. Will that trade work out? Most likely, as it is based on a combination of factors, with sound reasoning behind it. The second trade is pure technical analysis but no story attached to it.

I would rather be the trader from the first example, even though they are down 90 cents rather than the one in the second example that exited for only a 50 cent loss.

When you go to make a trade ask yourself if you can tell the story of that decision or if you can just defend it based on a set of memorized rules.

We aren't algorithms (yet), we are traders - act like a trader, not an equation.

How the Market Screws Those Without Money - The Answer: Options

To begin with, let's be upfront about something - there are some very legalistic inequities built into the market.

Some of them, everyone knows about - the restrictions of PDT or the restrictions of a cash-settled account.

Others are known, but not widely so - like the advantages of having "Trader Status" from the IRS in the U.S.

While others still, are not known at all - for example, those that have a high value account (think more than $2 million) *and* have an associated trade-desk with a major firm like Goldman Sachs or JPM, *and* usually have a Bloomberg Terminal to go with it - are able to trade their Options afterhours. Just imagine the benefit that would be on an earnings release to not have to wait until the opening of the next day!

All up and down the continuum of trading there are built-in institutional disadvantages to those that have small balance accounts. These are obviously unfair, but in reality, they are no different than the benefits we see every day for those with wealth - from Tax Rates and Loopholes, to the ability to hire the best lawyers and accountants.

But there is another disadvantage to those trading with small balances - and it comes in the form of Options.

Some who have watched me trade might notice I have a very particular process:

During market volatility I use Stocks, not Options for a very clear reason, which will be outlined.

To begin with, I entered a trade based on the technical environment with both the market and the stock, so let's say I buy 1,000 shares of AAPL today at $158.

But the market reverses and AAPL drops - but I still major technical support for AAPL at $154, so I hold the shares.

Next week, next month, whenever - AAPL eventual gets to $160, and I take $2,000 in profit

Why? Because I can. I can hold those shares without a second thought, without much of a dent in my buying power - they can just sit there and weather the storm. There is no ticking clock against that position. What are the odds that AAPL gets over $158 at some point in the future? Almost 100% What are the odds it gets over $158 in the next week? Far lower.

Hell, I can handle 100-point drops in my S&P futures position if my overall thesis remains intact - particularly if that position is Bullish. It is not like the market isn't going to eventually get back to 4176.

So now let's take the same example, but use a trader with only a few thousand as their balance.

They also note AAPL as a solid pick, and want to go long, but in order to make it a proportionally even percentage of their account as the trade above they would have to only take around 5 shares (because don't forget, I would also have 4X buying power). Well, unless you in the training phase of only taking 1 share or 1 contract, there is not much upside to 5 shares, is there? AAPL can go up $5, which is huge, and you would make $25. Yay.

What do they do? Most likely that trader buys a Call Option for next week for $7.80 - at least there they can make some actual money, right?

But as AAPL drops, so does their Call and now it is sitting at $5.30, losing roughly 33% of its' value and time decay it draining it further by the minute.

They can't lean on that ALGO support at $154, because if AAPL gets anywhere close to that their Option would be worthless - so they close the position and lose $2.50 ($250). That loss might be 5-10% of their total account.

Whereas I am still holding the stock, and eventually *will* take the $2 (i.e. $2,000) in profit.

See the problem? When you aren't in a straight Bull or Bear market, meaning it is volatile and you can expect many of your positions to go through some turbulence - *Options can crush you very quickly*. The truth is, the best way to trade a volatile market is to use the Stocks themselves, but stocks are cost prohibitive for a small balance.

Ironically (or intentionally), the one instrument that looks like it is designed to help those without much money actually get some leverage, is also the one instrument that is designed to drain those very accounts.

That is why it is so important to use *every edge* you have when you trade without much money. As I have pointed out many times - The entire system is set-up against you - and not in a "conspiratorial" way, but rather in very basic, and very transparent, rules and restrictions that aren't designed to help you kind of way. Even the mindset needed to succeed as a trader is almost polar opposite to the one you use every day.

So, every gamble or "gut-based" move you take, each bottom or top you try to predict, every chart you misread - just tilts those odds further against you.

An analogy here would be that of *counting cards* at *Blackjack*. A really good card-counter, in the right conditions, can swing the odds in their favor by about 2%. That is a 52-48 narrow advantage. But *they have to be perfect*. The table they choose has to have the right rules (i.e. split Aces more than twice!), the number of decks should be below 8, etc. They also need to play absolutely perfect strategy with equally perfect betting, on top of getting the count correct every time.

But even the best *card-counter* will lose if they try to veer from what works - that one time they decide they want to stay on that 16 against a dealer's 10 showing with the count in the negative because they have a *gut feeling* that they will bust, that mistake alone can be enough to tilt the odds back to the casino.

Do not give the market an inch of an advantage - use every edge you have (i.e. the methods taught here) and don't throw those precious percentage points away.

95% of Day Traders Don't Lose Money + 9 Things We Should Stop Saying/Doing

EDIT - this was written roughly a year ago and originally posted in r/daytrading so read it in that context.

I am glad so many of you have found my posts helpful in the past. Here are some thoughts on how to make a better forum here for everyone. These aren't "mod" suggestions, but rather things all of us can do to make this a better resource for Day Trading.

1) **Yes, Day Trading is Real.** If you don't think Day Trading & Technical Analysis is real, believe it is luck or a way suckers lose money - then why are you on a forum for Day Trading? Whether you believe it or not, many people are successful Day Traders, making it their career. You have every right to be wrong, but going from post-to-post telling people that Day Trading is bullshit on a forum dedicated to Day Trading just wastes everyone's time.
2) **Stop Saying 90-95% of Day Traders Lose Money**. Do you know where those statistics come from? Studies done by places like the Brazilian Stock Exchange, which is a highly manipulated market, using a very small sample size. Or the ESMA (European Securities and Market Authority) which requires brokers to report all account info - which means that if you put in a little bit of money, tried Day Trading once and lost, and then closed the account - this gets counted as a "losing Day Trader". Does this mean that most people make money Day Trading? No, of course not. Like I always say, this shit is hard. But most either; give up early because they were never really serious, try some scam method and lose, or think it is going to be easy so they drop it when they find out it isn't. What percent of Day Traders that put in the work/effort wind up losing money? No idea, nobody has done that study - but it certainly isn't anywhere near 90-95%.
3) **Not Everyone is a Shill.** I get the cynicism, I do. Many people are trying to push scams on those desperate for help. It is a shitty thing to do. But it has gotten to the point where experienced traders can't even recommend something that has worked for them. If someone suggests a good accountant or lawyer to you, does it mean they work for those firms? No, it just means that they have tried them and liked them. It should be pretty easy to

tell the difference. However, since it isn't always clear, I recommend that anyone suggesting a service simply put the following - "*I in no way - work for, own, or otherwise financially benefit from this resource I am recommending*." (oh and btw - I in no way - work for, own, or otherwise financially benefit from any resource I recommend) This may seem like a small point, but I know a lot of people are reluctant to suggest services publicly as they generally get attacked for being a "shill" or banned from mods, which is a shame because the one thing new traders really need are quality resources.

4) **You're Not A Guru.** If you started trading anytime after March of 2020, your experience is valuable and your story of the Day Trading journey you took can certainly help others BUT **you are not an expert.** Stop acting like one. There is a lot of quality advice you can give people - what worked for you, what didn't - but you're not a guru. Until you are consistently profitable, month after month, and actually pay your bills with your Day Trading income, you shouldn't be trying to teach others how to make a living Day Trading.
5) **Meme vs. Day Trading.** This whole Meme stock division is ridiculous. Why? Because this is Day Trading. The distinction is mutually exclusive. If people want to risk their money buying and HODL GME or AMC, fine - let them. I don't criticize people who go to a casino (I would be a hypocrite if I did), so if you would rather buy a bunch of shares of GME and hold them rather than play blackjack, who am I to say you shouldn't? A discussion on whether or not Meme stocks follow the rules of technical analysis and qualify for Day Trading is one worth having (I believe they are more difficult to Day Trade, but others do it quite well). There should be no antagonism between Meme traders and Day Traders. EDIT: Some Meme traders put in an extraordinary amount of DD and effort into their picks / decisions. My over-generalization of all Meme traders as “gambling” is incorrect. While many *are* gambling, some are very astute investors.
6) **Just Google It -** New Traders - stop asking questions that are a Google search away. If you ask any experienced Day Trader they will tell you - you can spot the person that is going to be successful at this and those who aren't, simply by the questions they ask in the beginning. Day Trading is hard work - it takes years to get good at it, putting in 60+ hour weeks of work, constant studying and research. It is definitely not a field that is kind to people who are mentally lazy. It is one thing to ask an experienced trader how useful they find EMA's, it is another thing entirely to ask them what an EMA means. Look it up. If you still don't understand it then ask someone, but put in some effort.
7) **This is Not the Way.** Your way is not the only way to trade. Some people make most of their money in the first hour of trading using momentum methods, while others like less volatility that comes from mid-day trading. Some use options and other stocks, and still others, spreads. Showing people how your method works for you is great, but telling people it is *the only way* to trade is not.
8) **You Know What Day Trading Is, Right?** This one should be obvious but sadly, it isn't. If you are on a forum for Day Trading, try to understand what Day Trading actually is first? We usually don't hold stocks for more than a few hours, sometimes less than a few minutes (sometimes less than a minute). It doesn't matter if this is a bull market or a bear market, every day is a different market for a Day Trader. We don't use Fundamentals as it doesn't matter what the long term growth prospects of a stock is to us. Of course many of us also swing trade and some of us are investors as well, but this forum is about Day Trading. This is about going long on NVDA Friday morning only to be shorting it in the last hour of trading.
9) **Nobody Owes You Anything.** Stop asking people for proof. Either their advice is good or it isn't, either take it or don't. If someone on here posts that they are a successful Day Trader and give good advice, I am going to appreciate what they said, if they give bad advice, I am

going to argue what they said. Trading forums on Reddit is filled with photoshopped account statements showing huge gains or significant losses. Fortunately, I have gotten to know some of you and now trade with you everyday, which, in the end, is the only way to ever prove you are what you say. But the never ending cycle of posting, being asked to provide proof, giving a picture of your account statement, being told it is fake, and then doing it all again on the next post is ridiculous. Also, nobody owes you a damn thing. You're not owed proof just as the poster is not owed your belief. Either the post is of quality and useful or it isn't. If you don't find it useful, then move on or argue it. If you do, than it doesn't matter.

10) **It is the Method not the Amount.** I get it. You want to know if you can actually live off Day Trading. Fine - yes, you can. Now stop asking people how much money they made/make. To begin with, it is tacky. Secondly, they can easily lie (also see #9 above). Also, it doesn't matter. What matters is; their win percentage, their profit ratio, their risk/reward, and their money management (i.e. % of portfolio on any one trade). The magnitude of their wins/losses is dependent on their own financial circumstances and should have no bearing on their advice. Someone with $5K could have a great trading method and make a few hundred dollars a month, while someone with $500K could have shitty method and lose $10K a month. The method matters, not the amount.

If everyone followed these ten rules, this forum would be an amazing place for traders to learn, exchange ideas and improve their Day Trading. I hope some of these resonated with you and together we can make this community a great place for everyone.

Day-Trading - The Scam and Reality

EDIT - this was written roughly a year ago and originally posted in r/daytrading so read it in that context.

Anyone that came to this sub not knowing a thing about Day Trading would walk away thinking that the following is the primary activity:

Stock is going up fast - lots of volume - buy stock, try to sell it before it goes back down.

Sure, there are some indicators that people like to use and maybe some basic candlestick patterns, but as long as I have a few basic rules on some post-its stuck to my monitor, I am going to be rich!

Here's what happened - at some point when Day Trading started to become popular a natural business opportunity arose - people realized they could make money off the influx of new people.

However, the problem was that videos and courses on what Day Trading *really* is would long, arduous and well, not really marketable. So instead, they went straight for the most sellable aspect of Day Trading - momentum trading. In reality, this type of trade represents a very small percentage of any successful Day Traders' daily activity; however, that does not matter because - *it is easy to make it look easy*.

These videos come up with easily digestible terms like, "Three Bar Rule" or "Gap n' Go" - but it is all the same thing - and very easy to show visually.

And you see what happened. Hell, any post here that is longer than a 2-minute read and people are clamoring for a TLDR to summarize for them because they have things to do, and reading clearly isn't one of them.

Everything about this marketing push centers around the theme of *Get Rich Quick.* Eventually, that is what most new traders came to believe Day Trading was all about - finding low float cheap stocks with a catalyst and cashing in with a high number of shares on a quick bullish move.

Example - This is what most think Day Traders do *all* of the time:

I went long on PROG right at the open at $3.74, watched it drop all the way down to 3.47 and still held the stock (simply because I liked the Daily stock and worst case scenario, I would hold it over the weekend). Wound up selling PROG at 12:25pm (est) at $3.90 for a gain of 16 cents a share. It was a trade based on FOMO and a potential hold where I convinced myself that it would continue its run next week.

Was PROG a bad trade? Well, yes - I shouldn't have bought it on the open. If I were to trade PROG the right way, the best time would have been around 11:15am (est) where I could have gotten it about 10 cents cheaper.

Many others traded NOK at the 10:10am (EST) pullback or EXPR for decent gains based on strong relative volume on low float stocks.

These are all high-risk trades that even the most experienced traders get into trouble doing continuously.

Example - This is what most of the Day Traders actually do:

I did 17 trades on Friday (several on SPCE alone), but the following are four examples of the types of Day Trades I executed:

On Friday at the open I did a Call Debit Spread on BABA for 220/225 for a debit of $1.45, at the end of the day I received a credit of $4.50, a profit of $2.05 per contract. BABA was through all major SMA's on the Daily, showed early Relative Strength, and had a positive cross on the TSI.

Or between 10:25am (EST) and 10:45am (EST) I noticed while SPY declined, JKS climbed. At 10:55 as SPY began to reverse I went long JKS at 41.80 and sold it 20 minutes later for a $1 profit. JKS broke through the 50 SMA and had room before the 100 SMA on the daily, with Relative Strength and Relative Volume over 1.5.

Later that day at 3pm with SPY increasing TSLA began to drop - at around 3:05 with TSLA at 674.56, I short the stock using Lotto Puts. I sold those Puts 15 minutes later for a 250%+ profit. The SMA 100 gave me a good mental stop if a 5 minute candle could close above it.

At 3:15pm (est) SPY started to decline again, this time with a bearish hammer on the M5 - and at the same time the stock MA continued to climb upwards. At 3:35pm (est) I went long at 377.42 on MA, given its continued strength against the market. I sold 25 minutes later at 379.25 at 3.56pm as I did not want to hold the stock overnight. Total profit - $1.83 per share. MA broke above the 8EMA around 1pm (est) and held the line all the way up from there.

It is not that momentum trading isn't legitimate or profitable, it can be - it is just a small part of Day Trading and requires a lot more expertise than is advertised.

Unfortunately, by the time most people realize that momentum trading is *not easy* and that their early gains were more due to luck than anything else - they have already blown up their accounts. At this most point most walk away thinking that Day Trading is gambling, mainly luck and that Technical Analysis is Voodoo. I suspect if I believed that Day Trading was primarily "Gap n' Go" strategies, I might think that as well.

My recommendation to new traders is always the same - In the beginning:

Don't scalp.

Don't Trade Morning Gappers or Momentum Stocks.

Stick to small positions and make solid Day Trades with a repeatable strategy.

Day Trading is a complex field that takes years to learn and master.

Anything or anyone that tells you otherwise is either a scam or has fallen prey to a marketing strategy.

As I preach in most of my posts, Day Trading for a living is a very rewarding life and achievable - but it takes a lot of time (roughly two years) and effort before you can become consistently profitable.

As usual if you comment just to be purely antagonistic or cynical, bash Day Trading in general, or if you attack me personally, I will not respond.

I do respond to all other comments and gladly engage in substantive debate if there is disagreement about anything I posted. I do not work for, shill, or financially benefit from any service or resource - my opinions and recommendations are my own and based on my own experience.

My profile contains posts on Day Trading Tips, Day Trading for Living, Strategies and How I Got Started - I hope you check them out and find it useful.

Reddit vs Reality

****Updated and Reposted for the Wiki****

Before starting r/RealDayTrading, I could tell there was a huge disconnect between the reality of Day Trading for a living and what I would read here on Reddit.

I would notice that almost every positive post about trading was met with an incredible amount of vitriol and cynicism. I used to chalk up those responses to people who have tried their hand at Day Trading and failed. To some extent I am sure that is true. But if you read through some comments on in other subs you will quickly realize that something else is going on.

First, let's back up a bit to Day Trading for a Living. For us, Day Trading is a career. Just like any other career, except for this one you get the freedom of being your own boss, and the security of knowing that as long as you have an internet connection you have a source of income. And to be secure in that you know better how to trade in a down market as well as a surging one. Many of us have had successful careers before this, some of us have only done this and nothing else, but either way I can confidently speak for others who do this for a living when I say - there is nothing else we would rather do. It is an amazing job, truly. It is also one of the hardest skills to learn. **Still - to us - it is a job.**

There are traders that make over $50k a week and have for a long time, and there are traders that are perfectly happy making $2K a week, and everyone in-between. The notion of being consistently profitable is a given, not a question. And we don't care *how* profitable you are, as long as you make a living with it. In fact, it is in bad taste to ask a trader how much they make, although I do get why new traders ask all the time - they want to see if the potential reward is real and worth it.

So, when we say we Day Trade for a living and are consistently profitable, it isn't bragging, it is just what we do. Just like any other profession. Some of us trade alone, but most of us trade with others in one community or another, and share trade ideas, analyze trades at the end of the day and help each other prep for tomorrow's action. I am on the west coast (which does suck a bit), so I am up around 5:30am and monitoring the pre-market action. At 6:30 to 7am I typically just watch the market, and rarely make a trade in the first 30 minutes (although I do know this is where momentum traders find many of their best trades, it is just not how I like to trade, although there are always exceptions). From 7am to 1pm, I trade consistently throughout the day. From 1pm to 3pm I am reviewing the trades from that day with other traders - especially the trades that didn't work. And then finally from 3pm to 5pm I am prepping for tomorrow.

That is the world most Traders live in, but then you look not only on Reddit, but in many trading communities and it is very clear that there exist two worlds of trading. Many of the traders are new - most likely drawn into trading because of some combination of the pandemic keeping them at home and the allure of meme stocks which have gotten a lot of attention, or they were sucked in through some YouTube scam. And yes, you also have a lot of people who have tried trading and failed, but still remain interested enough to join communities. What results is a tremendous amount of cynicism - the notion that Day Trading is anything but pure luck is scoffed at, any success is met with demands of proof, and every piece of advice is criticized for some reason or another. *This isn't to say there also aren't some brilliant criticisms, and justifiable cynicism, there is - and thank god there are, otherwise these subs would be very boring.*

Also, what many here don't seem to get is that asking a successful Day Trader to show proof after every successful trade or trades is like asking a lawyer to constantly send photos of her Law Degree every time she says she is a lawyer. And yes, I do compare the two. I used to be a Professor of Sociology, I went through graduate school, I know what it is like to write and defend a dissertation and be on the tenure track at a university, and I can tell you now without hesitation that learning/mastering Day Trading is harder. No contest. Btw, imagine being a lawyer and coming on to a sub about being a lawyer, and reading comments from people who aren't even lawyers themselves that say, "There is no way to actually practice the law, it's impossible because it is all subjective. You're full of shit. Let me see your last winning case file!" Yeah, that how many of us feel. It is pure insanity to see people every day say what you do for a living doesn't and can't exist. Especially when you've been doing it for many years. We prove it through our trades, made live, as they happen.

Obviously, there are a lot of people on here that are full of shit, but one look at their profile and posting history should make it fairly easy to tell who is and who isn't. Overall, though, just look at the advice given - either it makes sense or it doesn't, either take it or don't.

Still, you could go into any of these forums and post a trade concept that you have used thousands of times over many years, and has a well-defined win rate and you will quickly find a bunch of responses that say, "This will never work and here's why...." Hell, I still see that here in this sub - and I try to answer each and every one of those comments as patiently as possible, but yes, sometimes the urge to say, "WTF are you talking about?!?!?!" is a bit hard to resist.

For all people who are new to trading or have dabbled and recently got more interested in it, please know that a majority of what you see outside this sub is *NOT* Day Trading. Day Trading is not just momentum trading in the first hour, it isn't just on stocks under $10, and it isn't luck - it involves a vast number of strategies that involves going long, shorting, options, option spreads, and yes, swing trading as well. ***Our goal is to consistently make a profit, which means consistently hitting singles.*** We won't ignore the home run, but it isn't what we set out to do with each trade. Our lives and the lives of our families depend on us reaching a minimum $ number every month.

Our trades can last anywhere from 15 seconds to 5 days, we know when to enter and exit, and what method to use. *Anyone can be profitable on any given day, but to do this for a living you need to be consistently profitable.* I urge you to ignore those that do not pay their bills with Day Trading and listen to those that do.

But mainly you should realize that there is an entire world out there of Day Traders. From what I can tell the average successful Day Trader took 2 to 3 years to get to the point where they can confidently make a living doing it. Most have one skill they excel at (I trade with some traders that are incredible scalpers, others who are masters at day trading options, others that kill it using option spreads, traders that crush the futures market, as well as amazing short-sellers) but despite their specialty, all of them are able to trade across various strategies and in bull or bear markets (yes I know we are in a 10+ year bull market). Some use stop-losses (primarily momentum traders), most do not and use mental stops on their trades to stay flexible with a shifting market. Our "watchlist" changes every 5 to 30 minutes, and we trade everything from $1 stocks to AMZN. One thing we all have in common is we **never look at our P&L while in a trade.** Yes, we have our targets. But when we exit a trade, it is based on the price action, not the P&L.

So be careful not to believe that what you read here is the actual world of Day Trading, it is not - but that world does exist. I hope to see some of you in it one day, because trust me, it's much nicer than this one.

Wall Street Bet (WSB) - Fact vs. Fiction

It should be obvious, even to a new member, that this sub is the polar opposite of WallStreetBets.

In fact, anyone that uses WSB vernacular (i.e. stonks, apes, wife's boyfriend, tendies, etc....) is subject to well-deserved ridicule. In other words, if you act like an Ape, you will get smacked down faster than you can say, "Wendy's dumpster fire".

Still, the role of WSB in this community cannot jbe denied - but it should be clarified.

Their original intent was to create a sub that allowed members to post thoughts and trades which would be deleted elsewhere. The mentality there was to treat the market as the world's largest casino and as such they encouraged risky bets. Taking losses was a matter of pride, and posting about those losses, even more so.

People lost money, a few hit it big, and everyone pretty much knew what they were in for when they signed up. If you didn't want to take the time to learn how to trade successfully, or simply didn't believe it was possible to do so, then WSB provided an alternative - gamble. And no judgement on that - a casino is fine, as long as you know you are walking into a casino.

And then came **GME**. One of their members, DeepFuckingValue discovered a stock with a flaw - it was over-shorted. Turned out, he was right. It was. There is no doubt that what happened next was historic - Retail traders came together as a group, and actually had a lasting impact on the market.

This is rare.

While retail traders like to believe they have the power to move markets, they don't. Institutions move the market, retail traders simply do not have buying power to have a lasting impact on the price action of any one stock. But in this case, they did.

Because of that phenomenon WSB changed. They began to believe they could continue to move the markets. And along came **AMC**. While the WSB crowd certainly helped push **AMC** into a short-squeeze, this time Institutions joined in, which was reflected in the volume of the stock. Still, this only added to the allure of the subreddit, with people beginning to believe they had the power to impact the price of a stock through the sheer force of collective action.

Suddenly, WSB went from people in a casino, to a place filled with wannabe social warriors, believing they were screwing over hedge funds by holding onto their shares (*Diamond hands!*). Post after post began to emerge, each one touting that they found the next **GME** or **AMC**. And, if we are being honest, some of the DD written there would rival that of any high paid analyst. I admit, some of those posts are impressive.

Soon though, anytime a low float/high short stock would pop with strong volume, WSB was taking credit. Retail traders, who desperately want to believe they have more power than they do, were quick to support this notion. Lists of the *most mentioned* tickers on WSB would be circulate around each day. Each stock on the list would have extensive write-ups dedicated to exactly why and when it would "squeeze" or better yet, "gamma squeeze", or even better yet, "an infinity squeeze!". Inevitably, some of them did. I say this is inevitable because if any of you were to compile a list of the top 20 low float-high short stocks, chances are at least one of them will experience a jump on any given day. So, when **CLOV** (an example) surged up - WSB was right there saying they knew it all along, and it was the result of their members buying up shares. As for the other 19 stocks on the list that didn't move or went down? Well, WSB's roots as a gambling sub never went away, so the losses on those other tickers are celebrated. You just lost $75,000 on **IRNT**? "This is the way".

Here's the truth though - there is no correlation between the top mentioned stocks on WSB and their likelihood of going up on any given day.

In fact, brokers have stated that roughly 98% of those playing the Meme stocks have *lost* money (they said this on financial news shows), and a large number of accounts have been wiped out. There is no reason not to believe this is true - as those brokers actually have more of an incentive to lie about that number. The more people believe they can get rich playing Meme stocks, the more people sign up to trade.

However, the rule still applies, even if they don't believe, even if the mythology of WSB that circulates among traders doesn't support it - ***Retail traders DO NOT move markets, they do not have a lasting impact on price action, Institutions do.***

This fact doesn't stop people from constantly saying, "Oh, **LCID** went up because everyone at WSB decided to target it." No, sorry - that is not why. Spend 10 minutes in that sub and you will quickly realize they couldn't coordinate the mass purchasing of anything. **GME** and perhaps **AMC** was a black-swan event, where not only did the members of that subreddit act in unison, but thousands of other retail traders around the world joined in.

But now? They simply do not have the organization or focus to pull that off again. Nor do they have the liquidity - most of them are broke. You can only spend some much time gambling in a casino before you have liquidated every last dime and you consider selling yourself down at the docks for a few shares of **PROG**.

I once argued with their moderator - telling him that they were ruining lives, encouraging people not only to gamble, but to not even take profits on the low chance that they actually make money. The response? *People know what they are getting into and should know better than to take advice from a bunch of Apes.*

Perhaps. But let's not forget - these "people" are usually desperate. They have seen in the news examples of people that became millionaires overnight all while "sticking it to the Institutions", and then look around at their debt filled life and want a way out. So they believe. Can you blame them?

Again, it is a grey area. Still, I have spoken to enough of these people that have lost everything to know that they truly did believe in what they were reading. They believed that the DD looked so convincing, and they thought they were doing the right thing. Turns out - they weren't.

So, let's keep them in the context that they are - if you want to just gamble, then go there. But do not kid yourself that they are traders, no matter how much DD you read - they are not. If you are ok with losing money, but getting cheered on as you do - that is the sub for you.

Here - we are about actually making money - *consistently*. We aren't trying to *beat* the Institutions, just the opposite, we are *mimicking* them. Those trends are you friend.

Our job as retail traders is not to "move" the market or impact the price, our job as retail traders is to analyze the market and *follow* the price.

So, if you have come here from WSB - welcome. Welcome to Real Trading. Please leave your "stonks" and "tendies" at the door. There are no Apes here, your wife doesn't have a boyfriend and we don't eat at Wendy's. We teach people how to make a living off the market without rocket emojis.

Trust me - *This Is The Real Way.*

Females In Trading

As we all know, becoming a full-time trader is an extremely difficult goal to achieve.

It is so difficult that if it wasn't for the extraordinary payoff of financial independence, many people would not even attempt it.

Trading is also a *male-dominated* field, like so many in the financial realm tend to still be, even in today's supposed *enlightened* environment. In essence, women have been shut out.

Videos on YouTube are filled with images of what society deems as "masculine success", made complete by the ever-present gaudy Lambo.

Online conversation, while I wouldn't describe it as "locker room talk" is certainly male-centric, and filled with exactly the kind of vernacular you would expect from a community that is most likely over 90% skewed toward men.

And despite all the social progress that has been made (and there has been some), women continued to be steered away from finances from a young age. When the culture is combined with an uninviting environment, it begins to make sense why trading is so male dominated.

In fact, many women that do enter the space use gender-neural screen names out of fear of being treated differently.

No matter how you look at it, the world of "trading" is not one that is welcoming to women.

And yet, the trading is the one place where there is no gender gap in pay. The market will take or pay your money just as equally - it is truly one of the only egalitarian fields out there to work. Success or failure is so gender ambivalent that one would think the level playing field makes it a perfect career choice for women, but it isn't.

When I said I wanted to change the way trading was viewed and turn it into a viable career choice, I meant for everyone. As part of that mission (and as many of you know), I am currently in the process of having a fully produced show put together. And to help make trading a more viable choice for females, I am planning for the format to feature segments on women in trading. However, having a male (me) sit there and talk to women about trading, just perpetuates the very problem I am talking about, and that is not what I want.

So, I would love to know if there are any female traders that would be interested in coming on the show (think Summer 2022) to talk about your experience?

If so, let me know!

The Definitive Guide to Stock Forum Trolls

EDIT - this was written roughly a year ago and originally posted in r/daytrading so read it in that context.

The various forums on Reddit that provide advice and information for traders provide a useful service. You can make connections, bounce your ideas off other people, and learn new strategies from the constant stream of posts every day.

Unfortunately, these forums are missing one key ingredient which limits their effectiveness - actual professionals. Despite the constant questions from new traders who wonder, "Can you really make a living doing this??", there is an entire community of traders who live quite comfortably off their profits.

I am one of them, but hey, this is Reddit, anyone can say that. Suffice to say, I also know many of them. Some are more successful than others, but all of them make a decent annual return on their day/swing trading. **And almost all of them avoid these forums like the plague.** Why?

Because of the trolls.

So, for identification sake, here are the types of trolls I have seen:

Basic - They are typically harmless, just posting a low effort reply with a singular insult. Comments like, "Idiot", with no context or narrative, just the single world. Easy to ignore.

Advanced - They are a step above your *Basic Troll*. There is some real flair to their insults. The comments are still disconnected from the content of the OP, but they put in some effort. Instead of saying "Idiot", you'll get something like, "You fell out of the Stupid tree and hit every branch on the way down, didn't you?"

Paranoid - This troll will accuse the OP of ulterior motives. Either the poster is trying to sell something or boost their ego, doesn't matter, there is some type of hidden goal. Someone can ask the OP what books/community/chat/video they should read/watch/go to, and if the poster dares to respond with a recommendation these trolls come out in force. They are so angry it is clear that someone, somewhere, hurt these people and now they trust... **nobody**.

Confused Newbie - This person starts off as a confused newbie who claims not to understand the OP's strategy, but no answer satisfies them. Eventually they are asking for proof or quickly turning into a *Basic* or *Advanced* Troll. OP's everywhere fall into the *Confused Newbie* trap but at first, they think, "If I just explain this with more clarity, they'll get it". After the fifth attempt they realize that the *Confused Newbie* will **never** get it. **Ever**.

Doubter - Armed with some knowledge, these people doubt *everything* - no matter what strategy you post, it won't work. They don't know enough to really explain why it won't work, but that doesn't matter. To them - Stranger = Lies. They won't trust anything you say. They'll ask for proof, and if you give it, then the proof itself was "altered". Fortunately, they don't have much staying power. After a comment like, "85% success rate? Yeah, I don't think so, you would be richer than Gates if that were true", they don't have much else. Maybe you will get a feeble, "Yeah, not possible" but that's it.

Incompetent Expert - These are by far the worse trolls on these forums and the primary reason real pros stay away. These people claim a degree of expertise in trading and then proceed to outline why everything you said is wrong. The *Incompetent Expert* can also combine with *Paranoid* making them even more irritating. They typically know the vernacular of trading and to a new trader they can sound like they know what they are talking about. These people will then defend their claims nonstop replying with several paragraphs filled with statistics that attempt to discredit the OP. You want to ignore these people but because their comments *sound* intelligent they can detract people from the point you are trying to make. So you argue with them, and down the arrogant idiot rabbit hole you go.

Every online forum has trolls, and we all know the psychology behind why they are trolls. Reddit is no exception, and neither are forums dealing with the Stock Market. The problem is that forums like these *need* professionals on it. People who truly make their living in the market are an invaluable resource. When they are offering up their time to give advice, it is positive to the whole community. Sadly, what these forums are left with are people that couldn't even trade for supplemental income, let alone as the primary source.

Anyway, use this guide, know them when you see them, and don't encourage them.

Is There An "X" Factor to Trading?

This topic is rarely discussed. We are all taught the same things, and yet we also all know that you can teach 100 people the exact same method and you will get varying degrees of success.

Most of that is due to the amount of time, effort and focus one puts into implementing those methods. Much like school or anything else, the people who put in the work will outperform those that do not.

However, in life, we also know that there are some people that just *seem* to be better at some things, and no matter how hard you try, you can't reach their level of success.

In academia, the answer to this is somewhat clearer - some people are just smarter than others. Someone with a higher level of intelligence that puts in the same effort as someone with less intelligence is going to do better.

We see it most clearly in Sports - no matter how much one practices and tries, they can't beat out someone else that has natural talent.

Although it has been said and seen many times that *Hard Work + Less Talent will out-perform Laziness + More Talent almost every time*. *I say almost because there are some examples of people that just have an extraordinary amount of innate ability (e.g. nobody is going to beat Michael Jordan in his prime no matter how much they practice!)*.

So, what about trading? Personally, I have witnessed some traders that just *seem to know* when to enter and when to exit, and do better than someone else with an equal level of knowledge in reading the charts. Is that *talent*? Do some traders just have a better *innate* ability to read the charts, a better *intuition* for the market?

I think it is more complicated than that. In trading you take various factors into account at once - you might see volume slowing down in a stock, the market pulling back a bit, other stocks in the same sector as the one you are looking at starting to fall. Trendline get breached, price-action changes, and for every one of these things the trader needs to assign a "weight" in their mind. Each variable is not *equal*, some are more meaningful than others. Great traders are able to assign the correct *weights* in their minds and come to a decision faster, and more accurately than other traders.

What causes this ability to correctly assign those weights? I have found that a combination of *experience*, *intelligence*, *mindset*, and *knowledge* is what allows for this difference in ability. And what one lacks in one area they need to make up for in another. Perhaps you do not have the *experience* or even *intelligence* that another trader might have - but you spend all your time studying the markets and methods. You dedicate yourself to working on your *mindset*. In doing so, you can compensate for those deficiencies and become more successful than your more *experienced* and/or *more intelligent* counterpart.

In the end, my conclusion is that while yes, there is an ***"X"*** factor - it is not akin to natural innate ability in a sport, but rather a mix of attributes that you, as a trader, can work on to overcome and obtain the same level of competency.

So once again, trading successfully for a living - is something everyone can do if they work hard enough to reach the goal.

Curious to hear your thoughts!

Patterns - Triggering vs. Inherent

I have noticed that many traders are not differentiating the crucial difference between the two types of Patterns/Trendlines on charts.

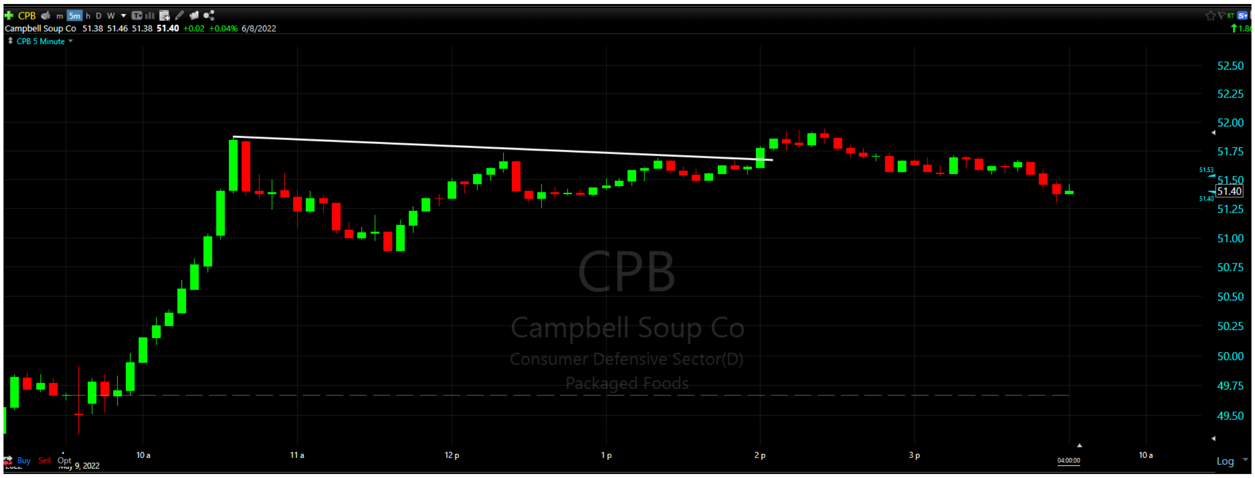
The first is **Triggering**, and no, not in a "Show me on the doll..." kind of way, but rather due to a *group consensus* kind of way.

Let's look at **ADBE**:

ADBE ALGO Line

ADBE has a long standing ALGO line that is descending support which began almost a year ago. This type of line is *Triggering*. Chances are many other traders and more importantly, Institutions, also have this very line drawn - meaning that when it is breached it becomes a clear *sell* signal. Falling below this line gives a good set-up for a *Short* position in the stock.

Whereas in the case of **CPB** today:



5-Min Trendline

This is a 5-minute Trendline that shows.... the break of a trend, that is all. Drawing trendline intraday can be used the same way you would use a 3/8 Cross of the EMA - simply to alert you if the price of the stock is trending in the direction you want. It is useful in a short-term time frame, as you can see above, it would have given you around 25 cents profit on a bullish trade. However, HA Reversals / Continuation (excellent post by u/onewyse) are, in my opinion much better at identifying those trends.

It is very important that you recognize the difference between these as one is dependent on others recognizing the pattern and acting on it, and the other is like a temperature reading of the stock.

Prop Trading Firms

Just a quick note on this.

Every week around 5 to 10 traders ask me about joining a prop trading firm. Some of them are really excited about it, telling me about all the amazing things they get once they join. A fully funded account! No more PDT! Trade your own style!

Take a moment and think about it. Why? Why would anyone give you that?

Just remove ego out of the equation for a second. Here you are - you know the basics of trading, but you have never had a profitable month, let alone several in a row. The best you have managed has been a few really good days, but overall, that account is in the red. So much that I bet you don't even want to look at the total.

Now think as if you were a "Prop Trading Firm", would you want to hire a bunch of people like yourself?? No, of course not.

Unless.... you charged them for the opportunity to try, right? Because everyone a) *wants to be evaluated and see how good they really are* and *b) thinks they can pass*. And once they pass, *then* they can share in the big pool of money, right? No, of course not. That is recipe for disaster - you wouldn't let a bunch of strangers just trade all your money!

Because....once the 1 out of every 50 that manage to "graduate" (naturally you keep the entry fees from the other 49, but hey, they can come back and keep trying!) and get a "desk", they don't get the full $25,000/$50,000/$100,000/etc. Nope. They will trade a small portion of the total pool of money, and with very tight restrictions on it. But that's ok, they will be fine with it... why, because.....

Always being dangled in front of them is a way to **move up** and really cash in....I mean look, there goes Michelle now, new Ferrari and everything... Michelle is one of our "Platinum Traders" she has access to the full $100,000. Keep trying, you will get there one day! Michelle managed it in six months, a new company record!

Getting the picture?

It is a pretty simple concept - anyone good enough to be a prop trader doesn't need to be a prop trader.

Prop Firms (Additional Info) (/u/_IamTraderJoe)

HERE IS THE FOLLOW-UP to this post!

I am very hesitant to write this because it requires VERY careful reading and could easily be misunderstood. So please, pay very close attention to what I am trying to communicate.

First of all, this post will make no sense to you if you do not first READ THE DAMN WIKI

Seriously. That is what this sub is all about and my post is only applicable to those who have really done their homework. Also, READ MY DAMN STORY. Ok I probably didn't need to get so aggressive there...but yeah, reading what I have been through will give you important context to what I have to share here. Also, this isn't about actual trading strategies. If you want to learn how to trade futures, check out this INCREDIBLE RESOURCE.

Ok, here goes:

The problem with futures

Wait... the problem? I thought this post was a case *for* trading futures. Well...if you read my story (you didn't, did you? I knew it!) you would know that I am absolutely looking forward to getting over PDT and being able to day trade stocks. Ask any of the professionals in this sub and they will tell you that there is no contest between trading stocks with RS/RW and trading the market directly through index futures. RS/RW Stocks win in a landslide. They *inherently* have an edge. Futures do not.

The problem with futures is the very things that make them so attractive. They are highly leveraged, not subject to PDT, and (with many brokers) require relatively little margin. All this is a recipe for disaster as new traders pop some money in their account and give them a go. You can find yourself in a deep sea of red faster than you can blink. Really, trading these instruments should be left to the professionals...but we all know that doesn't stop anyone; underfunded beginners are constantly flocking to them (Hey I resemble that remark!)

The problem with prop firms

Hold on...so there's problems with futures and prop firms?! Oh man, I'm really starting to think that all of this isn't such a great idea....Well good. Maybe I can scare some of you off.

Modern Prop Firms are highly aware of the predicament I laid out in the previous section, and they have built their entire business plan around it: Futures are just too good to resist, yet they are *extremely* difficult to trade. Traders will come. They will fail. They will try again. They will fail again. The firm will collect their money.

So how does it work? I have done extensive research on all the modern firms, and their basic structure is pretty much the same:

1. ***You pay them to earn the right to a funded account.*** This is basically a paper account you trade live during market hours. You have a profit target you need to hit without going past your maximum drawdown and you pass! You can take as long as you need to complete this challenge, because your payment is monthly...and you pay more per month based on the size of account you are trying out for. This can be anywhere from $100-$600 a month. Cha-ching.
2. ***You pay them when you fail.*** If you hit your maximum drawdown, thus failing the challenge, you pay a "reset fee" if you want to keep trying. This is an additional cost on top of the monthly fee, and usually around $80. Double cha-ching.
3. ***In a funded account, you pay them a percentage of your profits.*** Most companies will let you keep 100% of the first 10k or so you earn. After that, they take anywhere from 10-30% of your profits from every withdrawal.

That structure is not really the problem. If you pass the challenge, maybe with one reset, and it takes you two months, you've spent a total of let's say $500. Now you have a 50k account where you can trade 5 /ES contracts at a time. All you would need is one 2pt winner on your max contracts and everything is paid for! And yeah, you do have to give them 10% of your withdrawals, but that is a small price to pay for the massive earning potential they are laying at your feet! 10 points a day on 5 contracts is over $500,000 a year AFTER you pay them their cut.

Here's the thing. That's exactly what they want you to try to do. The problem is that the total buying power they give you is WAY too much for the drawdown they allow. For instance, a 50k, 5 contract account allows a max loss of around $2,000 during the challenge. If you take a position with your maximum amount of contracts, that's a loss of just 8 /ES points. You know how easy it is to loose 8 /ES points?! You make one bad trade and bam, your done. This drawdown increases as your account does, so eventually you CAN have massive earnings....but if you don't take it slow you are going to be failing a lot of challenges, starting a lot of new accounts, and putting more money in their pocket.

THE SOLUTION!

So, with all that said, why would I suggest that you use a prop firm to trade futures?! Because if done correctly, you can: trade futures every single day without risking your own money, have the experience of money being on the line, determine beforehand the total amount of money you loose each month, and be given the possibility of earning far more, far quicker than you ever could by trading your own capital.

Here's how:

1. Learn. If you don't know what a futures contract is, how they relate to the markets, the difference between a micro and a mini, etc etc etc. Go learn! I spent three months reading about the market, technical analysis, strategies, price action and everything else before even opening a broker account. I spent another 3 months watching the SPY chart ALL DAY. Get out there and immerse yourself. Don't think you will be able to jump right in. Again, here is THIS RESOURCE. and the DAMN WIKI. Make sure you know what you are doing and how you are going to do it.
2. Go back and do step #1, because I know you are trying to skip it.... You can't skip it, or you will not succeed!

3. When you are confident you have a grasp on the market and have a strategy that you want to try and execute, paper trade until you have 3 months with a win rate of at least 60% and a profit factor of 1.5 (this is far less than the WIKI suggests for RS/RW, but futures are f*&$% hard and don't have the same edge, so if you are pulling these kind of stats, your doing alright).
4. Choose a prop firm. I have done extensive research on all of them and my top choice is definitely Apex Trader Funding, which is who I have an account with. TopStep is also good. I have tried both and I can tell you they are legit. If you do decide to go with Apex, I have talked with them and you can use the code "IAM" to get the best possible deal on evaluations (sometimes up to 90% off!). (I would get a small commission from Apex, I'm not an affiliate of Topstep) (Also let me know if you would like me to do a write-up comparing and contrasting the two companies...I have done WAY too much reading and can definitely give you a solid breakdown)
5. Consider your financial situation and DECIDE BEFOREHAND the total amount of money you will pay towards prop fees every month. This needs to be money you are completely ok with never gaining back. Based on this number, choose your account size and number of monthly resets you will allow yourself. When considering account size, your thought process needs to be that you are spending more for a larger drawdown...NOT for making more money. You will be trading 1 micro at a time anyway (spoiler alert for the next rule). "Resetting" an account is not a good phycological habit to get into, so I suggest allocating your money towards a larger account (read: larger drawdown) and 1, if any, resets. ***It is absolutely crucial these limits are UNBREAKABLE*** If you break this rule, there is nothing stopping you from going on a "reset-tilt" and opening new account after new account. Remember, this is what they want you to do.
6. Trade 1 micro contract at a time, scaling up slowly (I added one contract every 1k). Keep careful watch of your drawdown and SCALE DOWN if you are getting close. DO NOT trade minis or try to complete the challenge by sizing up. If you fail the challenge and don't have any self-allowed resets, paper trade for the rest of the month as punishment. You will complete the challenge when you complete the challenge, but that cannot be part of your thought process. You have already determined that you are absolutely willing to pay your monthly fees, consider them your price for education (which I can promise you is FAR less than it would be if you were trying to trade your own capital). When you complete the challenge and earn a funded account, go back to 1 micro (no matter where you ended up in the scaling process) and start again.

***Edit: Many have brought up the drawdown structure. I was hoping to get into it, but it would be a whole separate article.....briefly: During the challenge phase Apex measures drawdown intra-trade and Topstep measures it at eod (unless you hit your max drawdown intraday). Therefore, yes, Topstep favors longer trend moves and Apex is more for scalpers. I scalp so it favors my style...but this structure really only comes into play more if you are sizing up too much. With small positions you can do trend moves in either.

****TLDR: Futures are hard. Prop firms take advantage of that. RS/RW is better but if you are going to trade futures, learn everything you can and scale slowly, using prop-firm's monthly fees as your non-negotiable monthly tuition.**

Best of luck, RTDW and let me know if you have any questions!

The Opportunity Ahead

There is a widespread psychological phenomenon which creates a clear bias in perspective - people tend to ascribe individual motives to larger organizations.

Which makes sense when you think about it - most of us have issues with the notion of *empathy or, putting yourself in someone else's position*. And *that* is on an individual basis - so trying to put ourselves in the proverbial shoes of larger entities like *Institutions* becomes exceedingly difficult.

In the case of Retail Investors and Institutions it hits even closer to home, because both sides actually have the same motive - to make money. However, there is one significant difference that changes everything - *level of certainty*.

Institutions want *consistent, predictable* returns.

Whereas Traders typically are looking for a *high return in a short period of time*.

The mindset and method behind the two are almost polar opposite. *Institutions* are constantly balancing and rebalancing their portfolios based on geo-political forces, research on their investments, and economic forecasts.

You have all heard the term - *the Market hates uncertainty?* That's not true - the **market** doesn't care about shit - ***Institutions*** hate uncertainty. Look at the current situation in the Ukraine - Will Russia invade? What will that lead to? How will it impact Energy Prices and how will that in turn impact the costs of other industries? All of those questions do **not** have definitive answers. In other words - a great deal of uncertainty surrounds the geo-political variable in their equations.

When we look at VIX - we think of it as a measure of **Fear**, but what it really should be thought of is a measure of **uncertainty.**

Why does money flow out of equities into Government Issued Bonds that have a far lower rate of return? Because *Institutions* are trading higher profits for the certainty of *any profit*.

They don't like to lose, and they did not amass billions of dollars by taking chances. Not surprisingly, the model works quite well - consider the pattern:

Stock at an all-time high

Uncertainty enters the Market and Institutions unload those Stocks at high prices

Retail traders trying to predict a bottom buy them on any bounce, and then the Algos kick in, unloading another portion of the equity - trapping the retail trader and giving Institutions a higher price on their next round of selling.

Their money goes into low-return, no risk assets as they wait for certainty

Things stabilize and Institutions buy back the very equities they sold off, but at a far cheaper price.

Retail Traders look at the market thinking - "Why won't it go up??" Because we are applying *our* mindset to the entities that truly move the price - *Institutional buying and selling.* It is not going up until *Institutions* feel certain they will get their expected level of profit from it.

The best thing we can do is to use the tools available to us to try and understand where *Institutional* activity is and where it will be in the future. For example, right now we can see that the current level of uncertainty has the market hovering at **major** support levels. This typically implies a waiting period - *Institutions* have various scenarios, and one of them is clearly a break below that support - hence, we hover close to that mark. On the other hand, we have noticed something else - any piece of good news (i.e. signs that there will not be a military conflict in the Ukraine for example), sends the market higher with significant jumps upward. That tells you that *Institutions* find these prices ***very*** attractive, and do not want the sloppy seconds of a more aggressive competitor.

In other words, they are *chomping at the bit* to buy right now - and do not want to be left behind grabbing equities at higher prices. That desire does not go away, and if we break support due to an escalation in the international conflict, those prices are only going to get **more attractive** not **less**. Which means that at a certain point that drop will stabilize as *uncertainty* begins to turn into *reality*. At that point there is a lot of capital that needs to be deployed.

Either scenario will offer some of the best buying opportunities you will see in a long time. There are many strategies that one can use to take advantage of that, including the good old-fashioned method of just buying stock. Personally, I will be loading up on *Fig Leafs*, buying deep ITM Leaps and selling far OTM calls against them. Swing trading will become very profitable at that time as well, *OTM Bullish Put Spreads* would be the most conservative approach, *Call Debit Spreads* will be a very sound approach, and *Straight ITM Calls* will probably be the most profitable.

The trick here is not to get *tricked*. That means unlike *Institutions* you absolutely must settle for sloppy seconds, or even thirds - As when that bounce occurs, do not worry about missing the first wave, or even the second one - you are still going to have plenty of upside opportunity.

Just be ready for it.

Lots of People Are Going to Make Lots of Money When the Market Rebounds - Will You?

*Note - this post speaks to a strategy that is outside the typical purview (short-term trading) of this sub, but it does fall under the very applicable category of "**making money in the market**".*

In 2020-2022:

A lot of people got **rich**.

Some got ***wealthy***.

Others got ***wealthier.***

Remember - being Rich means you get a lot of big checks, being Wealthy means you are the one writing those checks.

Money was pretty much raining down during this time and chances are most of you watched it from the sidelines. While you were holding on to **GME** and **AMC** (hell, throw a little **BB** in there for good measure), others were tripling their net worth.

Those that took advantage of the COVID-induced market crash loaded up on depressed equities and then rode the bullish wave upwards. And now the current market sell-off is the result of those people/Institutions cashing in on those investments.

How often do you look back and kick yourself (repeatedly) for not capitalizing on that situation?

Do you play the "If I just put my money is X, Y and Z back then I would be rich now!" game?

It is a shitty game to play - you always lose it - because it is just a game of regret.

Obviously, the crash in Feb/Mar of 2020 was an acute event due to unforeseeable external circumstances, whereas the current market crisis is a far more natural correction into Bearish territory. *But the end result is the same - the market goes into a Bearish trend*.

Now it is useless to debate whether we are in a *Bear* market right now or not - the 20% line in the sand is arbitrary - a definition for headlines, that's all. What *does matter* is that we are clearly in a *Bearish* trend. Even with the recent "rally", it does not change the overall calculus. In fact, some of the most Bullish single days in the history of the market occurred during *Bearish Trends.* Basically, this little pop in **SPY** means Jack shit.

However, when thinking about a *Bearish Trend* or a *Bear Market* there is something that has been true since the inception of markets themselves - *Bear Markets/Trends do not last long*. In fact, on average most do not even last a year.

Why?

Because it is in the nature of the Market to go up. Bullish behavior begets bullish behavior and stocks rise until they are well beyond their actual value. At that point the air is let out until they hit a price level that is once again desirable. And since it is faster to deflate something than inflate it, Markets drop quickly, and it does not take much time to hit a level that once again entices Bullish behavior.

All of this is to say that at some point - perhaps this summer, maybe before the end of the year, or in the first half of 2023, but *at some point* - the market will once again be in a *Bullish Trend*. Will it be as ridiculous as the previous Bull Market? Probably not - but one thing is for certain - when it starts it will be *violent.* As if the dam breaks and all that money sitting on the sidelines right now pours out into equities.

The questions are - *Will you be ready when it does?* Or will you be sitting there in late 2023 playing that game of regret again?

So how do you get "ready"? And how do you know when you should go from being "ready" to being "active"?

Let's start with getting "ready"

I can only tell you what I do - and while I profess expertise in the area of short-term trading and feel comfortable teaching that skill from a position of subject matter authority - I am by no means an expert at *Long Term Investing*. However, since this "method" combines both, I hope it has some value to you - as long as you realize it is caveated.

The first thing I do is going through every sector and identify the top 5 stocks from each (and everything I am about to describe, my wife also does and then we compare the results).

How do I decide on the top 5 stocks?

I use the following Fundamental Indicators - **Trailing P/E Ratio, Trailing P/E Ratio compared to Sector Average, Forward P/E Ratio, Forward P/E Ratio compared to Sector Average, PEG Ratio, PEG Ratio compared to Sector average, Price to Book Ratio, Price to Book Ratio compared to Sector Average, Average of P/E Trailing / P/E Forward. PEG and Price to Book Ratio Difference to Sector, Fair Market Value vs. Current Price, Fair Market Value vs. Current Price, Morningstar Fair Market Value vs. Current Price, 1yr Consensus Target vs. Current Price,** ***Overall Average Difference in Price****,* **Morningstar Rating (1 through 5 stars).**

And the following Technical Indicators: **Short/Mid/Long Term Outlook (e.g. Bullish/Bearish/Bullish), Current Levels of Support/Resistance in relation to current price, Current trend and any significant technical events (e.g. Stock just broke through the Downward Sloping Algo line to the upside).**

And I decide which Instrument I would use on the stock when trading it: **Fig Leafs, Straight LEAPS, Selling Puts, Buying Stock**

Thus a stock would look like this:

CLF:

- *Trailing P/E Ratio - **3.18***
- *Sector Average Trailing P/E Ratio: **10.06***
- *Indexed Difference: **317%***
- *Forward P/E Ratio: **3.43***
- *Sector Average Forward P/E Ratio: **12.05***
- *Indexed Difference: **351%***
- *PEG Ratio: **N/A***
- *PEG Ratio: **N/A***
- *Price to Book Ratio: **1.79***
- *Sector Average Price to Book Ratio: **2.16***
- *Indexed Difference: **120%***
- *Average Difference for P/E, PEG and P/B:* **263%**
- *Fair Market Value vs Current Price: $52.66 vs. $23.55*
- *Indexed Difference: **124%***
- *Morningstar Value vs Current Price: $29.4 vs. $23.55*
- *Indexed Difference: **24.8%***
- *One-Year Target vs. Current Price: $32.76 vs. $23.55*
- *Indexed Difference: **39.11%***
- *Overall Average Difference in Price***: 62.5%**
- *Morningstar Rating: **3 Stars***
- *Short-Term Outlook: **Bullish***
- *Mid-Term Outlook: **Bearish***
- *Long-Term Outlook: **Bullish***
- *Support****: $23.13***
- *Resistance****: $23.64, $24.31***
- *Technical Events****: Between SMA 200 and SMA 100, Failing to stay above Horizontal Resistance***

*Instrument Recommended: **Due to low volatility and low price, I would recommend Buying the Stock if I was to trade it at all.***

I would then rank the various attributes by their level of importance. Once again, this is subjective - some may feel the trailing P/E has no value, while others can proclaim it is a very important indicator on a companies overall health.

Doing this gives me the top five in each sector. For example, based on the measures I chose and how I weight their importance (and no, I am not going to say I how weight these measures, everyone needs to figure out what matters to them) stock like **VALE** and **X** are in the top five for *Basic Materials*.

At this point I compare my list with my wife's and we narrow it down to the top 2. Usually if a stock doesn't match up (i.e. I have it on my list and she doesn't have it on hers) it gets tossed unless the person that has it on their list can make a good argument to keep it.

Once we have the 22 Stocks, they are ranked by each of us and then the rankings are once again compared to one another. At the end of that process we have a single list of 22 stocks ranked.

It is always good to do this with someone, and thankfully we have an entire community here, so finding someone to partner with (even finding several people) helps a great deal and improves your level of certainty.

Separate from this process we make sure there is a clear budget in place - such that (in a very simple way):

- **Stocks: 40%**
- **Leaps: 25%**
- **Selling Puts: 25%**
- **Selling Calls: 10%**
- **(this is an example - not actual)**

The final part of the process is to identify the instrument for each stock - for example if **FB** would be on that list of 22 stocks and the **Fig Leaf** strategy was to be used for it, it would look like this:

FB:

- **June 16, 2023 Calls: $175 Strike**
- **$50.50 ($5,050)**
- **Number of LEAPS: 10**
- **Average Weekly OTM (Delta <.10) Call Price: .55 ($55)**
- **Expected Covered Call Revenue per Week: $550**

Ok - so now you know how I would do this - now comes the bigger question of *When?*

None of the above matters if you time your entry incorrectly.

If you enter too early you can get absolutely crushed by the rapid decline that follows. Imagine on March 28th you have just seen the market go up for two straight weeks. **SPY** went from $415 to $456 during that time and by 3/28 you couldn't stand waiting anymore. With serious FOMO, you jump buying LEAPS, selling Puts, etc. What would have happened?

Within less than a months time you would have been wiped out.

But you also don't want to enter too late either - because you could miss a large portion of the Bullish move if you sit on your hands for too long.

Here's the first thing to know - It is ALWAYS better to be late than to be early.

If you enter the rebound late the worst that happens is you make less money, but if you enter too early the worst thing that could happen is you *lose* all your money.

Have a checklist, but keep in mind that this list must be flexible with context always taking precedent.

Has there been a material change in the socio-economic conditions? *For example - Inflation starts to decline, Unemployment Increases along with GDP numbers, the war in the Ukraine reaches a peace agreement, etc.*

Has there been a significant breach of Technical Resistance on SPY? *For example, SPY closes above the SMA 50 for the first time since April and remains there.*

Has Earnings Season Passed with a Higher or Equal number of Exceeds? *For example companies this Earnings season have, on average, exceeded expectations by 4.7% - how does that compare with the previous one?*

And then you want to make sure the stocks you have chosen participated in the market rally as well:

- **Does the stock have Relative Strength to SPY?**
- **Has the stock broke through any technical points of Resistance?**
- **Is the stock trading with high levels of Relative Volume?**
- **Has there been any significant news event since you chose the stock?**

These represents some main items on either list that you might want to know before deciding to start investing but each person's comfort level is different and as such your lists should be adjusted accordingly.

Also remember - this is not short-term trading and as such your standards need to change.

It is not uncommon for a **LEAP** call to suffer a significant drawdown as you are selling calls against it, when you sell the **Puts** you are actually *hoping* to get assigned, when you **buy the stock** you are deciding to sell calls against it on one week, but not the other.

And for every position, even though they are *Long-Term*, you have to have a mental stop in place. Let's say you bought that LEAP on **FB** when the stock was at $235, you might want the use the SMA 50 as your stop to cut your losses (which would be mitigates by the sold calls) on the LEAP.

You might also want to have a target in place - let's say after 6 months, you have managed to generate $1,300 off selling calls on the **FB** LEAP, which reduces your exposure on the option to $3,750, the call is now worth $8,400 - meaning your overall profit from the *Fig Leaf* is $4,650 exceeding your target of $4,500. At that point you close the position.

In terms of the stocks you own, you always need to decide how long you are holding them - some might be for years while others you may decide to cut losses earlier.

Anyway - this is how I plan to take advantage of the market turnaround when it occurs - hopefully it helps you with your plans.

Hardest Market to Trade - And Lasting Impact

Let me get this part out of the way -

This is the hardest market I have ever traded. Period. Bar none.

And it is not just me - I asked various pro-traders what they thought, people who have been trading back in 2007-2009 and they were unanimous - *This market is extremely difficult to trade with consistently profitable results.*

Did Powell's talk and the resulting surge that brought **SPY** over the 200 SMA, and over all major SMA's for the first time since April kick off a new bullish cycle? We can hope - I doubt it though. At best it may have sparked a nice year-end rally though - however, this downtrend trendline remains intact:

SPY

Optimism about exiting this Bear market needs to be seriously tempered until we breach that line, and even then Q1 earnings has the potential to completely wreck **SPY** early 2023. That means we are basically stuck in a range right now between $404 and $409 (SMA 200 and Downward Trendline) - which also means that everything that happens between those two price-points is just **noise**. Obviously there will be individual stocks that stand out but there is no way to say the market is either **Bullish** or **Bearish** until one of those levels is breached. I *lean* toward the **Bearish** side only because the SMA 200 as support is weaker than the Resistance above, and **SPY** needs a catalyst to get through that Resistance but doesn't need one to break below the SMA 200.

Still at some point this horror show will become a distant memory, one of those, "Yeah, I remember the Bear Market of 2022" with that thousand-yard stare in your eyes. It may even become trading social currency to know that someone traded their way through this and made it out alive.

For many of you this is all you know. It's like 18-24 year old's looking at the state of the political system in the U.S. and asking, "Is this normal?" - No, no it is not normal at all.

You are used to day after day of *chop* and *sudden-reversals* and you learned on this fucking crap. So many of you never had the pleasure of taking calls on **AAPL**, waiting a few days and then closing it for huge profit. Just constant no pressure trades, one after another. Can you even imagine that? The grizzled veterans amongst us can, although the memory of it is fading I am sure.

Learning how to trade in this market is truly like the Navy Seals Bootcamp of Trading and many of you have rung that bell to exit (and I can't blame you). The good news is if you follow the Wiki, trade with small size (like 1 share or Paper), you can make it through relatively unscathed but with a ton of knowledge. Imagine learning how to drive in Manhattan, during a blizzard and then when you finally make it out alive you get to drive on small town roads and nice long highways with little traffic. Can you still get into an accident? Of course - but your chance of getting to your destination is a hell of a lot higher than it was before.

So that is the good news - you will be well trained. Here's the bad news - you may also have trading *PTSD*. Once we finally get to a Bull Market you may have a hard time trusting it. Because this tortuous piece of shit trading environment we have right now will have left you with emotional scars - the most notable is a mistrust of *technical analysis*. **And that is very very bad.**

Putting aside the occasional macro-socioeconomic thesis on the market, or selling Puts on a company you like fundamentally, *technical analysis is what separates trading from gambling*. When we begin to doubt whether TA is working then the entire basis for our trades falls apart. The past year has certainly done nothing to instill confidence in the conceptual use of ***Support/Resistance***. Time and time again we have seen S/R break as if it wasn't there. Trends have failed, and *Relative Strength/Weakness* reversed constantly throughout the day. I am sure many times you have sat there thinking, "I followed all the rules, checked all the boxes and still lost! I don't know what I am doing wrong?!?!" That can only happen so many times before you begin to mistrust the market on an instinctual/emotional level. When that sets in your trades becomes dictated by *Fear* . Traders have a difficult enough time overcoming the various *Fear-based* Mindset problems that plagued most people when they begin. **This fear though is instilled from experience and that is even more difficult to overcome.**

The best thing you can do is to recognize if you have it and always ask yourself, "Am I entering/exiting this position and am I using this position size because of, fear?" For example, one of the benefits of a Bull Market is the ability to add to your winners - which is difficult to do when all you can remember are times when adding to your winners resulted in a big loss.

I am working on a technique that can help overcome this but, in the meantime, I would love to hear your stories - how has this Bear Market impacted you mentally and has it changed the way you trade? How do you think it will affect your trading when we are in a Bull Market?

If we work on this problem now, then when we finally do have a Bull Market we can collectively be ready to take full advantage of it!

Chapter 17. Setting Up Your Trading Workflow

Below section covers tools, indicators, layouts and scanner settings created and/or used by members of this community that align with the methods taught here. Some of them are paid tools, some of them are free and some are open source developed by members of this community. This section is not an endorsement by r/RealDayTrading and is not a definitive guide to how you should trade but rather it is meant to be used as a reference (a starting point) to help you configure your own charts and layouts. These resources are available for free and your use of them is at your own risk. Feel free to reach out to the authors (or comment on their post) if you have questions on an indicator or need help.

What Do I Pay For?

I get it - everyone wants everything for free. And there is a healthy dose of cynicism in this industry towards anyone charging you for any service. You should be cynical. According to Credit Suisse the number of new traders has doubled since 2019 - and whenever you get that many new people into any space, you also get scammers trying to fleece them. For sure, there are *plenty* of scams.

However, like any career - there are also products and services that can help you a great deal, and when it comes to deciding what to use, the old adage applies - *You get what you pay for.*

One thing you can be certain of here - free or paid, I will never endorse anything unless I feel it adds value to the members of this sub.

With that said - here is what I currently pay for to help with trading:

- **My Set-up**: *Obviously computers and monitors aren't free - many of you are able to build your own systems, which is great - but most of us cannot. I used Falcon Computing System to build my desktop and couldn't be happier with the result. A bit pricey, but no complaints.*

- **Finviz Elite:** *I really like Finviz, great scanner with a lot of good tools. Not the best for Day Trading, but the additional features offered with "Elite" is worth it for me - particularly on their after-hours scans and real-time data.*

- TC2000: *In my opinion the single best charting software out there, which when combined with their "Flex scans" make this an invaluable resource for me. Anyone serious about Day Trading should look into it.*

- One Option: *In my trading career I have tried many different communities, most were scams, some were good but focused too much on scalping (yes Ross I am looking at you), One Option is the only one that offered a method that is aimed at consistent profitability, a chat room with actual pros, and a great platform (Option Stalker) - It typical pays for itself within the first week.*

- **Sweeps Data**: *There are many different choices for this information. I find it valuable, but unless you really know how to use it, I wouldn't recommend spending the money.*

- **TraderSync:** *You do not want to cheap-out here, having a good trading journal is essential and the free ones just do not give you enough functionality to meet your needs. I like the interface of TraderSync, but there are many decent choices.*

Clearly if you are just starting out you shouldn't be spending money - most brokers offer great free tutorials on both Stocks and Options, the Wiki here is filled with information, and there are plenty of other free resources you can use to learn. You can even check some of the standard books out of your public library.

But once you are ready to start trading seriously, you should invest in your career like any other career out there - just do it wisely and don't waste it on any unvetted service. If you are ever in doubt - just ask here, we will give you our honest opinion of it.

Figured this topic was never really discussed, so wanted to quickly write up something on it.

Trading Tools

Paid

- Option Stalker Pro
- TC2000
- Trade Ideas
- TradeXChange - News Service
- FinViz Elite
- TraderSync
- Falcon Computer Systems

Free

- ZenBot - Free Stock Screener Based On RS/RW - `u/Glst0rm`
- ZenBot - Scanner Updates (Bonus: Windows App)- `u/Glst0rm`
- ZenBot - New 'Price Pops' alerts and scans - `u/Glst0rm`

- [ZenBot - Live News Feed and Ticker Search]() - `u/G1st0rm`
- [ThinkOrSwim]()
- [StockBeep]()
- [FinViz]()

Chapter 18. Community Contributions

Trading Business Plan (/u/anonymousrussb)

Earlier in the year, I posted my Trading Business plan in the [r/Daytrading]() forum for feedback, [linked here.]()

At the time, I was very focused on momentum trading and scalping, and fortunately have since found this forum. I had started out paper trading (which meant spending 2 hours at a time using ThinkOrSwim's OnDemand feature to paper trade on the weekends, focused on the first 90 minutes after the open. Here were my results - extremely volatile, but in a clear direction - DOWN!

After putting together my notes on Real Day Trading last weekend [(shared here)](), I spent some time this weekend re-working my Trading Business plan to reflect the strategy I will be focused on going forward - trading relative strength and weakness vs. SPY, with a longer term trend (daily chart) in line with the direction of my trade.

Here is my plan. I realize it is extremely long - posting partially for my own benefit to help hold myself accountable to it, but welcome any feedback and if you think it's useful, feel free to steal for yourself.

Part I: Overarching Framework and Plan

Trading Vision:

By February 2022, I will begin live trading after having established a successful, consistent, winning trading strategy that has been tested through extensive paper trading efforts.

By February 2025, I will have sufficiently consistent and profitable results from the live trading over the past 2 years to facilitate the transition into full-time occupation as a professional trader. These results will generate on average at least $1,500 per trading day, or roughly $350,000 on an annual basis if executed on a full-time basis.

Why? Because I do not want to constrain my life by working for a company. Professional trading will allow me to generate my primary source of income without being tied to a specific company or location, offering greater flexibility and financial freedom that can be obtained through my current corporate trajectory.

Trading Mission:

Consistently improve trading strategy and discipline over time, while consistently generating profits that enable compounding growth of capital.

Focus on constantly learning more about trading strategies, execution, and psychology to enable continuous improvement. I will always keep focus on the long-term vision and ensure every week brings me a step closer to reaching that ultimate vision.

Timeline:

- **Paper Trading**
    - **May 2021 – May 2021** – Develop initial framework for trading business plan. **Status: Complete.**
    - **May 2021 – Oct 2021** – Test out trading strategies and refine trading business plan based on what strategies work well for me in terms of generating consistent results. **Status: Complete – will focus on trading stocks with Relative Strength / Weakness vs. the market and in line with longer term trend (daily chart).**
    - **Oct 2021 – Feb 2022** – Execute refined trading business plan to prove concept prior to transitioning into live trading and make any final adjustments to trading plan prior to transition to live trading. **Status: In Progress.**
- **Live Trading**
    - **Feb 2022 – Feb 2023** – Begin live trading, at a minimum of 1x per week (target 2x per week), objective is to show the potential for modest returns but more importantly with minimal drawdowns in trading capital, confirming the consistently of the trading strategy.
    - **Feb 2023 – Feb 2025** – After 1 year of live trading, objective is to transition from modest returns to consistent returns that would be sufficient to provide full-time income if done daily.
- **Professional Trading**
    - **Feb 2025 – Onwards** – Refine trading business plan for transition into trading on a full-time basis and then transition into becoming a professional full-time day trader.

Objectives for Paper Trading

Note: This is written for the phase described in the timeline as "Paper Trading". Once the transition from Paper Trading to Live Trading is made, this section will need to be re-written for the Live Trading phase.

Will start with an account sized at $30,000 for paper trading, to reflect the expected size of the account that I will start with when live trading.

Daily / Weekly:

There will be no daily or weekly goal. This is because focus should be on win rate which needs to have a sufficient sample size to be meaningful.

There will be a maximum loss of 3% of trading capital per day from trades opened that day. Once that level is reached, paper trading for the day should be stopped and the rest of the day can be focused on monitoring the markets / other traders or on trading education.

Every Other Month:

Every other month (defined by every ~8 total trading days since I am only trading 1x per week on average) the target will be to generate 10% returns on trading capital. At the end of each month, the following metrics will be analyzed:

Win percentage – target 75%, excluding all trades with P/L within +/- $25 as "scratches"

Risk reward weighted by win percentage of at least 2:1

Calculated as P&L from winning rates divided by P&L from losing trades with scratches excluded

P&L – average of 1% of base trading capital per day

Total:

Since this is expected to span across a 4 month period before transitioning into live trading, it is expected that this will be around 25 days in total. The objectives for the total period are:

Win percentage – target 75%, excluding all trades with P/L within +/- $25 as "scratches"

Risk reward weighted by win percentage of at least 2:1

Calculated as P&L from winning rates divided by P&L from losing trades with scratches excluded

P&L – average of 1% of base trading capital per day

Translates to an end goal of $37,500 after 25 days (will not raise position size unless I reach $40,000, so will aim for $300/day on average)

At a minimum, paper trading account will need to reach a goal of $35,000 before beginning live trading with a maximum drawdown of $3,000.

Part II: Money Management & Trading Strategy

Money and Risk Management Principles

Risk management is **extremely important**. Avoiding account blow up is significantly more important than trying to get rich quick. The objective is to generate consistent results that will provide sufficient confidence in the trading program to eventually go full time.

Initial starting capital will be $30,000 for both the paper trading account and the live trading account. Additional deposits will not be made in the trading account, it is expected that the account should grow on its own based on trading profits and sizing up in terms of position size will not be done until certain trading capital thresholds are met.

There will not be a defined “R” or risk per trade with this system. Instead, position sizing will be done to manage risk, and this position sizing will be based on confidence level in trade and volatility of the stock being traded.

Base position sizing will be as follows, based on trading capital. This approach ensures that position sizes are not too large relative to trading capital available while also ensuring that increases to position size only occur when trading capital appreciates (*i.e.*, profits are being generated).

Trading Capital

Base Position Size

Trading Capital	Base Position Size
$30,000-$36,000	$10,000
$36,000-$45,000	$12,000
$45,000-$60,000	$15,000
$60,000-$80,000	$20,000
$80,000-$100,000	$25,000
$100,000-$120,000	$30,000
$120,000-$150,000	$40,000
$150,000-$200,000	$50,000
$200,000-$250,000	$60,000
$250,000-$300,000	$75,000
$300,000-$350,000	$90,000
$350,000-$400,000	$100,000
$400,000-$500,000	$125,000
$500,000+	$150,000

However, this is the base position size, and this will be adjusted up or down based on the following factors:

1. Stocks with very high volatility (defined by an ATR divided by price above 10% of stock price) or stocks under $10 will be traded with 50% of the base position size
2. Stocks with very low volatility (defined by an ATR divided by price below 2.5% of stock price) will be traded with 200% of the base position size
3. When there is a high degree of confidence in both market direction and the stock being entered, stocks can be traded up to 200% of the base position size, although this is not required and going above 100% of the base position size is always discretionary

- If this is the case but the stock meets the very high volatility criteria defined by (1.) above, then the stocks should be traded with 100% of the base position size

- If this is the case but the stock meets the very low volatility criteria defined by (2.) above, then the stock should still be limited to 200% of the base position size

There will be a maximum loss of 3% of trading capital per day from trades opened that day. Once that level is reached, trading for the day should be stopped.

Trading Framework & Routine

There will be no limit to the number of trades per day, but part of the post trading day activity will be to assess whether overtrading is occurring. This will not be defined by the number of trades taken, but rather by assessing whether the quality of the entry/setups taken degrades throughout the day (or is just poor in general).

While it's not a hard target, I would like to target makes 15-20 trades per day on average. At first, the target should be lower to allow for a high degree of focus when executing trades and ensuring that every single trading criteria is met – in the 5-10 trades per day range.

If overtrading is observed, a maximum number of trades per day can be put in place for a short period to help drive focus on quality of setups, but this will not become a permanent rule.

Trading will not be focused on a specific timeframe. The intent will be to utilize the full trading day, with the following breakdown of time (all times CST):

7:00 AM – 8:30 AM – Pre-Market

- Read the following daily posts to get a feeling for the market and any key overnight events that may be relevant for today:
    - "The 10-Point" from the Wall Street Journal
    - "The Morning Brief" from Yahoo Finance
    - "The Big Picture" on Investor's Business Daily (IBD)
    - "The Market Trend" on Investor's Business Daily (IBD)
- Review overnight price action for SPY, QQQ, and all stock(s) with open positions
- Review charts for any stocks on watchlist or those that came up during morning reading
- Review Option Stalker scanner for stocks of interest, specifically:
    - Pre-Open Gainers / Losers
    - Gap-Up / Gap-Down
    - Pop-Bull and Pop-Bear
- Read Pete's pre-market comments on One Option

8:30 AM – 9:15 AM – The Open

- Focus on watching the market and monitoring the behavior of individual stocks
    - Do not focus on making entries – at maximum, enter 1-2 new trades during this time
- Objectives:
    - Get a feel for market direction based on SPY price action, 1OP indicator, and chat room commentary to set stage for trading the rest of the day
    - Identify individual stocks with Relative Strength / Weakness to SPY

9:15 AM – 2:00 PM – Trading Session

- Make trades based on trading plan (see next section)

2:00 PM – 3:00 PM – The Close

- Focus more on exiting trades then entering trades

- Make decisions on what stocks will be held overnight, and close the rest

3:00 – 5:00 PM – After Hours

- Review results from the day for each individual trade
- Journal for the day – document how trading went, what mindset was for the day, identify any potential improvements for the next trading session

Part III: Trading Strategy

The focus of my trading strategy will be based on the following key principles:

- The majority of stocks (70-80%) will follow the market as measured by SPY (S&P 500 ETF)
    - This applies even if they are not in the S&P 500.
    - This only applies to stocks over $5.00 which will be the focus of this trading strategy.
- Focus will be on going LONG on stocks that have Relative Strength vs. SPY, and going SHORT on stocks that have Relative Weakness vs. SPY.
- Monitoring the market is critical and will dictate trading.
    - I will not go LONG on stocks when I have a SHORT market bias
    - I will not SHORT stocks when I have a LONG market bias.
    - I can go either LONG or SHORT when I have a neutral market bias, but these trades should not be sized large (see position sizing section).
    - When I am trading in the same direction of my market bias, I can size up to 2x as large as a normal position size (see position sizing section).
- All positions taken will be in line with the longer term trend for the stock (daily chart). By trading stocks in line with the prevailing daily trend (LONG stocks with bullish daily charts and SHORT stocks with bearish daily charts), I will have more staying power in my position and can hold positions overnight as a swing trade when needed.
- All trades will be **Stock only.**
    - Only exception: Lottery trades on Fridays (straight calls/puts expiring the day with a maximum position size of $300).
    - Note that options are anticipated to eventually become a very large part of the trading strategy, but only after consistent profitability is achieved, as defined by trading capital appreciation up to $50,000 with no drawdowns exceeding $3,000.

Relative strength and relative weakness will be defined as per the table below:

SPY Trend	Stock Trend	Relatively Strong or Weak
Up	Up and rising faster (when considering volatility) than SPY	Relatively Strong
Up	Up proportional to SPY	Neither
Up	Flat or down	Relatively Weak
Flat	Up	Relatively Strong
Flat	Flat	Neither
Flat	Down	Relatively Weak
Down	Flat or up	Relatively Strong

Down	Down proportional to SPY	Neither
Down	Down and dropping faster (when considering volatility) than SPY	Relatively Weak

Trade Criteria:

To enter a trade, the following conditions must be met at a minimum.

Long Trades—Requirements:

- Neutral or Bullish market view
- Bullish daily chart based on trend and recent candlesticks
- Stock is trading above its 8-day EMA
- 3-period EMA is above the 8-period EMA on the 5-minute chart
- Not extended—stock is within 10% of the 8-day EMA
- There are no major long-term moving averages above that could act as resistance—at least 5% until reaching the 50-, 100-, and 200-day EMA
- Relative strength—Stock is relatively strong to SPY (as measured by 1OSI(10) being above 0 on both the 5-minute and daily charts)
- There are no major horizontal resistance level above—at least 5% room
- At least one trade entry criteria must be met (see below)

Short Trades—Requirements:

- Neutral or bearish market view
- Bearish daily chat based on trend and recent candlesticks
- Stock is trading below its 8-day EMA
- 3-period EMA is below the 8-period EMA on the 5-minute chart
- Not extended—stock is within 10% of the 8-day EMA
- There are no major long-term moving averages above that could act as resistance—at least 5% until reaching the 50-, 100-, and 200-day EMA
- Relative weakness—Stock is relatively weak to SPY (as measured by 1OSI(10) being below 0 on both the 5-minute and daily charts)
- There are no major horizontal support level above—at least 5% room
- At least one trade entry criteria must be met (see below)

In addition to the above minimum requirements, the following factors will make for a stronger trade in general. Most trades should have at least one of these factors met, ideally multiple.

Long & Short Trades—Additional Factors:

- Heiken-Ashi candle trends (both reverse and continuation patterns) that support the direction of the trade on both the daily and 5-minute chart (flat bottomed green candles for longs, flat topped red candles for shorts)
- High relative volume on the day of entry
- Higher volume on candles in the direction of the trade and lower volume on candles opposing the trade (on both the daily and 5-minute chart)

- Relative strength or weakness to SPY on multiple time frames (15-minute, 30-minute, 1-hour, 2-hour, 4-hour)
- Breach of downward sloping trend (for longs) and upward sloping trend line (for shorts) on either the daily or 5-minute charts
- Coming out of compression in direction of the trade on either the daily or 5-minute charts
- Bullish or bearish candle stick formations
- Stock trading above the previous day's high (for longs) or below the previous day's low (for shorts)

In the requirements, trade entry criteria are referenced. It is important that in addition to meeting the minimum requirements for a trade, the timing of the entry should be such that it is upon confirmation and not anticipatory in nature. Therefore, one of the following criteria must be met before entering the trade:

1. Trendline breach:
    a. Breach of a downward sloping trendline to the upside on the 5-minute chart for long positions
    b. Breach of an upward sloping trendline to the downside on the 5-minute chart for short positions.
2. 3/8 EMA cross:
    a. 3-period EMA crossing above the 8-period EMA on the 5-minute chart, or coming back to and then separating above for long positions
    b. 3-period EMA crossing below the 8-period EMA on the 5-minute chart, or coming back to and then separating below for short positions
3. Market confirmation:
    a. 1OP cross above after falling below 0 confirmed by technical price action on SPY indicating a bullish market move may be beginning
    b. 1OP cross below after rising above 0 confirmed by technical price action on SPY indicating a bearish market move may be beginning

Before entering a trade, the following steps will be taken:

1. Confirm that all minimum requirements are met
2. Confirm which additional factors are met to gauge quality of the trade
3. Wait for trade entry criteria to be reached
4. Define price target, if applicable (may not always have a target)
5. Define stop loss – this is required. If meaningful stop loss cannot be identified within 3% of current stock price, need to size down from normal base position size to ensure maximum loss is less than 1% of trading capital.
6. Define position size. Calculate number of stocks to trade based on position size criteria and stock price.

Exits

The following reasons for exiting a trade will be utilized. Whenever one of the below conditions are met, the trade must be exited:

1. Stop loss defined before entering the trade is hit. This will be handled via mental stops.
2. Major technical violation on the daily chart such as breaking a major SMA or horizontal support/resistance level on a closing basis.

3. Hit profit target – these will not always be defined when entering trades, but when they are they must be followed.
4. Thesis no longer applies – if original thesis for entering trade no longer holds (lost Relative Strength or Weakness), 3/8 EMA crossed back against position (if used as entry criteria), need to exit.
5. Market direction changes against trade. Only exception to this is if the position is being used as a hedge against other positions and the overall portfolio is aligned with the market direction change.
6. Earnings overnight or the next morning – always sell before the close, do not hold over earnings.

While not a required exit criterion, positions can also be exited if a time stop in my head is reached or if the stock stops moving as expected, even if it doesn't firmly meet one of the above criteria.

Part IV: Everything Else

Discipline

Will target the following time dedicated to trading each week:

- Every Friday – full day dedicated to paper trading
- Daily – Review all trades posted by One Option Featured Traders after work
- Daily – Follow swing trading routine (see separate document)
- Weekly – Follow swing trading routine (see separate document)

Trading Journal / Tracker

Trader Sync will be utilized as the Trading Journal. Need to define routine for utilized Trading Journal and add more detail in this section of the trading plan after I better understand all of the functionality available.

Trading Setup

4 monitor setup will be utilized:

- Monitor 1 – Will be used to track the market with the following information:
  - SPY daily chart
  - SPY 5-minute chart
  - One Option chat room
  - Finviz S&P 500 Heat Map
- Monitor 2 – Will be used to track two individual stocks:
  - Stock #1 – daily chart – Option Stalker
  - Stock #1 – 5-minute chart – Option Stalker
  - Stock #2 – daily chart – Option Stalker
  - Stock #2 – 5-minute chart – Option Stalker
- Monitor 3 – Will be used to track two individual stocks:
  - Stock #3 – daily chart – Option Stalker
  - Stock #3 – 5-minute chart – Option Stalker
  - Stock #4 – daily chart – Option Stalker
  - Stock #4 – 5-minute chart – Option Stalker
- Monitor 4 – Will be for scanning, making trades and monitoring open positions
  - Position tracker – ThinkOrSwim

- Trade entry – ThinkOrSwim
- Scanner – Option Stalker

The below screenshots show the charts that will be utilized in Option Stalker, including what indicators are on each:

Trading Tools

- Broker – TD Ameritrade
- Trading Interface – thinkorswim
- Scanner – Option Stalker **(Pro, $159/month, or $999/year)**
- Charts – Option Stalker
- Community – One Option
- Resource – Investor's Business Daily **(IBD Digital, $34.95/month)**

- Journal – Trader Sync **(Pro Plan, $29.95/month)**

Education Plan

- There are four main types of education that will be utilized:
- Trading Books
- YouTube
- Reddit
- One Option Community

Trading Books – Will aim to complete a minimum of 2 trading books per month. Reading completed to date and the next planning books include:

- Completed
    - Come Into My Trading Room – Elder
    - The New Trading for a Living – Elder
    - Market Wizards – Schwager
    - New Market Wizards – Schwager
    - Stock Market Wizards – Schwager
    - Modern Market Wizards – Schwager
    - How to Make Money in Stocks – O'Neil
    - Reminiscences of a Stock Operator – Lefevre
    - How to Day Trade for a Living – Aziz
    - Advanced Techniques in Day Trading – Aziz
    - How to Day Trade – Cameron
    - Trading in the Zone – Douglas
    - Complete Guide to Volume Price Analysis – Coulling
    - How to Trade in Stocks – Livermore
    - The PlayBook – Bellafiore
    - One Good Trade – Bellafiore
    - Technical Analysis Using Multiple Timeframes – Shannon
    - Japanese Candlestick Charting Techniques – Nison
    - Technical Analysis of the Financial Markets – Murphy
    - One Up on Wall Street – Peter Lynch
    - A Random Walk Down Wall Street – Malkiel
    - Liar's Poker – Lewis
- Planned
    - Technical Analysis of Stock Trends – Edwards & Magee
    - The Daily Trading Coach – Steenbarger
    - Options as a Strategic Investment – McMillan
    - Encyclopedia of Chart Patterns – Bulkowski
    - When Genius Failed – Lowenstein

Trading Business Plan – An Update (/u/anonymousrussb)

When I first joined Real Day Trading, one of the first posts that I made was sharing my Trading Business Plan. This was 7 months ago. At the time, I was very early into my trading journey, and since then, I have completed my 4 month paper trading period and transitioned into trading with real money in late February of this year. I also started out trading stock only, and have since added options and futures to my trading, though over 90% of my trades are still stock trades.

Most importantly, I've realized the incredible importance of mindset and mental discipline in trading. My original trading plan barely touched on this. To address the expanded nature of my trading, and to put what I've learned from Hari, the Featured Traders at One Option, the Intermediate (and all the developing traders that maybe don't have the tag yet), and "The Daily Trading Coach" book that I just finished reading (here's a link to my summary of it), I needed to update my business plan.

So, I took advantage of the long weekend and made the needed updates. As with the original plan, I wanted to share it with the sub-reddit. As I caveated with the original plan, I'll also warn that this is extremely long - posting partially for my own benefit to help hold myself accountable to it, but welcome any feedback and if you think it's useful, feel free to steal for yourself.

I would also add that while I said the same thing on my original plan (it being long) - I still found it to be inadequate with key areas missing. If you don't have a documented plan, how are you holding yourself accountable? What are your goals? How often do they change? I strongly believe that you need to treat trading as a business to be successful, and encourage you to make a plan if you don't have one.

Part I: Overarching Framework and Plan

Trading Vision:

By February 2022, I will begin live trading after having established a successful, consistent, winning trading strategy that has been tested through extensive paper trading efforts. **This phase is now in progress.**

By February 2025, I will have sufficiently consistent and profitable results from live trading over the past 3 years to facilitate the transition into full-time occupation as a professional trader. These results will generate on average at least $1,500 per trading day, or roughly $350,000 on an annual basis if executed on a full-time basis.

Why? Because I do not want to constrain my life by working for a company. Professional trading will allow me to generate my primary source of income without being tied to a specific company or location, offering greater flexibility and financial freedom than can be obtained through my current corporate trajectory.

Trading Mission:

Consistently improve trading strategy and discipline over time, while consistently generating profits that enable compounding growth of capital.

Focus on constantly learning more about trading strategies, execution, and psychology to enable continuous improvement. I will always keep focus on the long-term vision and ensure every week brings me a step closer to reaching that ultimate vision.

Timeline:

- **Paper Trading**
  - **May 2021 – May 2021** – Develop initial framework for trading business plan.
    - **Status: Complete.**
  - **May 2021 – Oct 2021 –** Test out trading strategies and refine trading business plan based on what strategies work well for me in terms of generating consistent results.
    - **Status: Complete – will focus on trading stocks with Relative Strength / Weakness vs. the market and in line with longer term trend (daily chart).**

    - **Oct 2021 – Feb 2022** – Execute refined trading business plan to prove concept prior to transitioning into live trading and make any final adjustments to trading plan prior to transition to live trading.
        - **Status: Complete.**
- **Live Trading**
    - **Feb 2022 – Feb 2023** – Begin live trading, at a minimum of 1x per week (target 2x per week), objective is to show the potential for modest returns but more importantly with minimal drawdowns in trading capital, confirming the consistency of the trading strategy.
        - **Status: In Progress.**
    - **Feb 2023 – Feb 2025** – After 1 year of live trading, objective is to transition from modest returns to consistent returns that would be sufficient to provide full-time income if done daily.
- **Professional Trading**
    - **Feb 2025 – Onwards** – Refine trading business plan for transition into trading on a full-time basis and then transition into becoming a professional full-time day trader.

Objectives for Live Trading

Starting account sized for live trading will be $30,000. The objective will be to build this account to $300,000 before transitioning to trading full time. Reaching this threshold will prove that the results from live trading have a clear, repeatable edge that has lasted over a long timeframe, while also providing sufficient starting capital to generate a full-time income.

Daily & Weekly:

There will not be a daily or weekly P&L goal given my trading frequency. On shorter timeframes, the focus will be on trading discipline and psychology. This means following the trading system, honoring risk limits (position sizes) and having the mental discipline to follow all aspects of my trading routine. Daily objectives for mindset management and mental discipline are outlined in the section on being my own trading coach.

Monthly:

Every month at the end of the month I will hold a detailed review of my trading for the month. All trades for that month will be reviewed, and all trading statistics will also be reviewed.

Here are the most important metrics and associated targets for each metric:

- Win percentage – target 75%, excluding all trades with P&L +/- $20 as scratches
- Profit factor – target 2.0
- P&L – target 5% monthly account value appreciation

Over time, these targets may be adjusted as my trading abilities improve. Eventually, my aspiration is to reach the following levels, which may not be achieved until I am trading full-time:

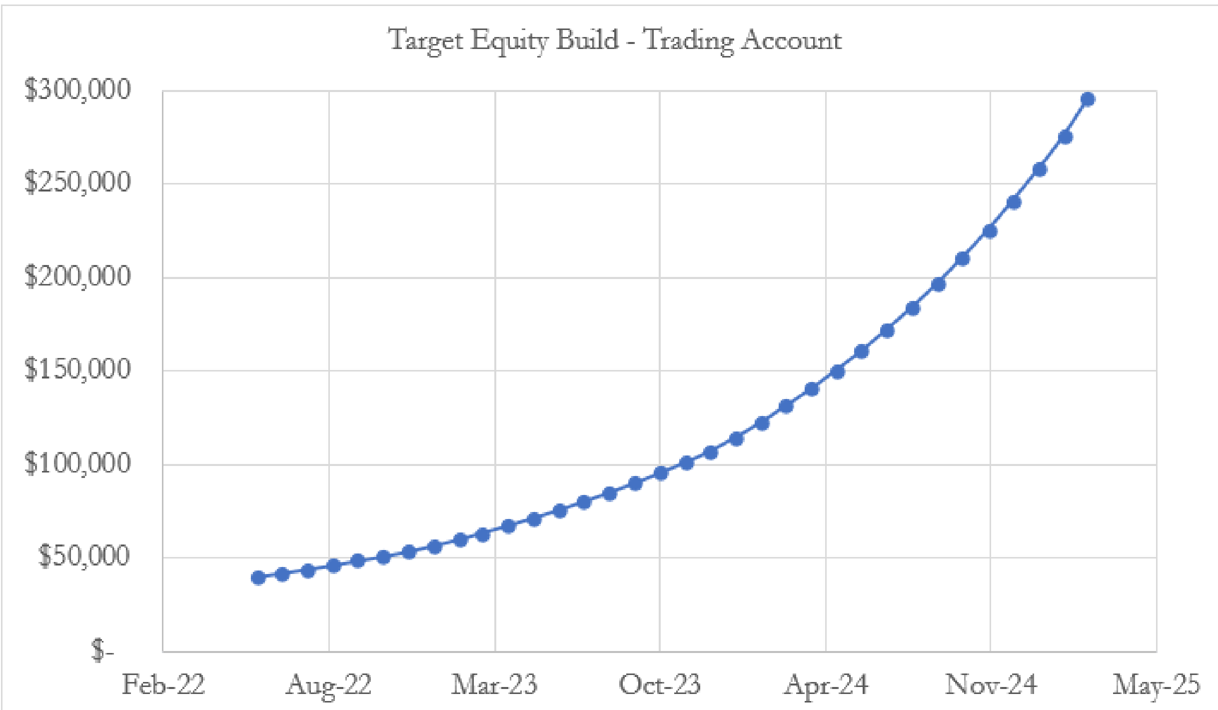
- Win percentage – target 85%, excluding all trades with P&L +/- $20 as scratches
- Profit factor – target 4.0
- P&L – target 10% monthly account value appreciation

With a $300,000 account base, this would translate to $360,000 yearly income, assuming profits are withdrawn monthly. The below chart shows the equity build of the account if the following return levels can be reached:

- 2022 – 5% per month return
- 2023 – 6% per month return
- 2024 on onwards – 7% per month return

This assumes that all taxes are paid for by other income to prevent the need to take equity from the account. This results in the account reaching $300,000 in early 2025 which is in line with the desired timing to go full-time.

This trajectory will be updated based on actual trading results through the coming years. If I underperform this equity build, that means it will take longer to go full-time – I will not attempt to "make up for lost time" after a down month, as this will likely lead to poor trading behaviors. Similarly, if I overperform this equity build, that may allow me to go full-time in less time. If this occurs, I will take to take a decision whether to accelerate the process or keep on track for early 2025 full-time transition and then have a higher starting capital when I go full-time.



Current trading account balance is $39,700 at the end of May 2022, this is used as the starting balance in the equity build curve above.

Part II: Money Management & Trading Strategy

Money and Risk Management Principles

Risk management is **extremely important**. Avoiding account blow up is significantly more important than trying to get rich quick. The objective is to generate consistent results that will provide sufficient confidence in the trading program to eventually go full time.

Initial starting capital is $30,000 for the live trading account. Sizing up in terms of position size will not be done until certain trading capital thresholds are met.

The objective will be to keep risk per trade below a certain threshold. Position sizing will be based on the defined risk per trade and mental stop. For example, if the defined risk per trade is $1,000 and the mental stop for a trade is $2 below the entry, then the maximum position size for that trade would be 500 shares. As the trading account grows, the defined risk per trade will rise according to the table below. In general these levels correspond to 1% of the account size, sounded down.

It is not a requirement to trade up to this size, this is simply a maximum. For extremely high conviction trades, I will allow myself to go up to 2x the maximum position size, but there should be a maximum of one trade per day that is given the ability to size up in this manner.

Trading Capital	Risk Per Trade
$30,000-$36,000	$300
$36,000-$45,000	$400
$45,000-$60,000	$500
$60,000-$80,000	$600
$80,000-$100,000	$800
$100,000-$120,000	$1,000
$120,000-$150,000	$1,200
$150,000-$200,000	$1,500
$200,000-$250,000	$2,000
$250,000-$300,000	$2,500
$300,000-$350,000	$3,000
$350,000-$400,000	$3,500
$400,000-$500,000	$4,000
$500,000+	$5,000

In addition to the position size limits, there will be a maximum loss of 3% of trading capital per day from trades opened that day. Once that level is reached, no new trades for the day should be opened and I will stop trading or transition to paper trading for the rest of the day. The below table can be used for sizing based on the current risk of $300 per trade, based on the price difference between the entry and the mental stop:

Price Difference	Shares	Price Difference	Shares	Price Difference	Shares
$10.00-$15.00	20	$2.00-$2.50	120	$0.40-$0.50	600
$7.50-$10.00	30	$1.50-$2.00	150	$0.30-$0.40	750
$6.00-$7.50	40	$1.25-$1.50	200	$0.25-$0.30	1000
$5.00-$6.00	50	$1.00-$1.25	250	$0.20-$0.25	1200
$4.00-$5.00	60	$0.80-$1.00	300	$0.15-$0.20	1500
$3.00-$4.00	80	$0.60-$0.80	400	$0.10-$0.15	2000
$2.50-$3.00	100	$0.50-$0.60	500	$0.00-$0.10	3000

Trading Framework & Routine

There will be no limit to the number of trades per day, but part of the post trading day activity will be to assess whether overtrading is occurring. This will not be defined by the number of trades taken, but rather by assessing whether the quality of the entry/setups taken degrades throughout the day (or is just poor in general).

While it’s not a hard target, I would like to target makes 10-20 trades per day on average. In the early stages of my trading development, the target should be lower to allow for a high degree of focus when executing trades and ensuring that every single trading criteria is met – in the 5-10 trades per day range.

If overtrading is observed, a maximum number of trades per day can be put in place for a short period to help drive focus on quality of setups, but this will not become a permanent rule.

Trading will not be focused on a specific timeframe. The intent will be to utilize the full trading day, with the following breakdown of time (all times CST):

- 6:30 AM – 7:00 AM – Wake Up, Shower, Coffee
- 7:00 AM – 8:30 AM – Pre-Market
    - Read the following daily posts to get a feeling for the market and any key overnight events that may be relevant for today:
        - “The Morning Brief” from Yahoo Finance
        - “The Market Wrap-up” from TradeXchange
        - “The Morning Mash-up” from TradeXchange
        - All new posts on the Walter Bloomberg discord and TradeXchange feed
    - Review overnight price action for SPY, QQQ, and all stock(s) with open positions
    - Review charts for any stocks on watchlist or those that came up during morning reading
    - Review Option Stalker scanner for stocks of interest, specifically:
        - Pre-Open Gainers / Losers
        - Gap-Up / Gap-Down
        - Pop-Bull and Pop-Bear
    - Read Pete’s pre-market comments on One Option
- 8:30 AM – 9:15 AM – The Open
    - Focus on watching the market and monitoring the behavior of individual stocks
    - Do not make any entries in the first 15 minutes
    - Do not focus on making entries – at maximum, enter 1-2 new trades during this time
    - Objectives:
        - Get a feel for market direction based on SPY price action, 1OP indicator, and chat room commentary to set stage for trading the rest of the day
        - Identify individual stocks with Relative Strength / Weakness to SPY
- 9:15 AM – 2:00 PM – Trading Session
    - Make trades based on trading plan (see next section)
- 2:00 PM – 3:00 PM – The Close
    - Focus more on exiting trades then entering trades
    - Make decisions on what stocks will be held overnight, and close the rest
- 3:00 – 5:00 PM – After Hours
    - Review results from the day for each individual trade
    - Journal for the day – see the section of being my own trading coach for details

Part III: Trading Strategy

The focus of my trading strategy will be based on the following key principles:

- The majority of stocks (70-80%) will follow the market as measured by SPY (S&P 500 ETF)
  - This applies even if they are not in the S&P 500.
  - This only applies to stocks over $10.00 which will be the focus of this trading strategy.
- Focus will be on going long on stocks that have Relative Strength vs. SPY and going short stocks that have Relative Weakness vs. SPY.
- Monitoring the market is critical and will dictate trading.
  - I will not go long on stocks when I have a short market bias
  - I will not short stocks when I have a long market bias.
  - I can go either long or short when I have a neutral market bias, but these trades only be the highest quality setups on the strongest/weakest stocks
- Market direction will be determined based on the following factors:
  - Medium/long term trend of the market on the daily chart
  - Price trend of the given day (current price vs. opening price)
  - 1OP cycles
- All positions taken will be in line with the longer term trend for the stock (daily chart). By trading stocks in line with the prevailing daily trend (long stocks with bullish daily charts and short stocks with bearish daily charts), I will have more staying power in my position and can hold positions overnight as a swing trade when needed.
- 90% of trades will be **Stock only.** Exceptions are covered in the Options and Futures section.

Relative strength and relative weakness will be defined as per the table below. Relative strength and relative weakness will also be measured via the 1OSI indicator on Option Stalker and the RealRelativeStrength indicator on thinkorswim.

SPY Trend	Stock Trend	Relatively Strong or Weak
Up	Up and rising faster (when considering volatility) than SPY	Relatively Strong
Up	Up proportional to SPY	Neither
Up	Flat or down	Relatively Weak
Flat	Up	Relatively Strong
Flat	Flat	Neither
Flat	Down	Relatively Weak
Down	Flat or up	Relatively Strong
Down	Down proportional to SPY	Neither
Down	Down and dropping faster (when considering volatility) than SPY	Relatively Weak

Trade Criteria:

To enter a trade, the following conditions must be met at a minimum.

Long Trades—Requirements:

- Neutral or Bullish market view
- Bullish daily chart based on trend and recent candlesticks and 1OSI>0
- Stock is trading above its 8-day EMA
- High relative volume on the daily candle
- No major long-term moving averages above that could act as resistance—at least 5% until reaching the 50-, 100-, and 200-day EMA
- Relative strength—Stock is relatively strong to SPY (as measured by 1OSI(10) being above 0 on both the 5-minute and daily charts)
- No major horizontal resistance level above—at least 5% room
- At least one trade entry criteria must be met (see below)

Short Trades—Requirements:

- Neutral or bearish market view
- Bearish daily chat based on trend and recent candlesticks
- Stock is trading below its 8-day EMA
- High relative volume on the daily candle
- No major long-term moving averages above that could act as resistance—at least 5% until reaching the 50-, 100-, and 200-day EMA
- Relative weakness—Stock is relatively weak to SPY (as measured by 1OSI(10) being below 0 on both the 5-minute and daily charts)
- No major horizontal support level above—at least 5% room
- At least one trade entry criteria must be met (see below)

In addition to the above minimum requirements, the following factors will make for a stronger trade in general. Most trades should have at least one of these factors met, ideally multiple.

Long & Short Trades—Additional Factors:

- Heiken-Ashi candle trends (both reverse and continuation patterns) that support the direction of the trade on the daily chart.
- Heiken-Ashi candle trends (both reverse and continuation patterns) that support the direction of the trade on 5-minute chart.
- Higher volume on candles in the direction of the trade and lower volume on candles opposing the trade (on both the daily and 5-minute chart)
- Relative strength or weakness to SPY on multiple time frames (15-minute, 30-minute, 1-hour, 2-hour, 4-hour)
- Breach of downward sloping trend (for longs) and upward sloping trendline (for shorts) on either the daily or 5-minute charts
- Coming out of compression in direction of the trade on either the daily or 5-minute charts
- Bullish or bearish candle stick formations
- Stock trading above the previous day's high (for longs) or below the previous day's low (for shorts)

In the requirements, trade entry criteria are referenced. It is important that in addition to meeting the minimum requirements for a trade, the timing of the entry should be such that it is upon confirmation and not anticipatory in nature. This also helps in making entries at prices that will not immediately reverse after entering the position. Therefore, one of the following criteria must be met before entering the trade:

- Trendline breach:
  - Breach of a downward sloping trendline to the upside on the 5-minute chart for long positions
  - Breach of an upward sloping trendline to the downside on the 5-minute chart for short positions.
- Compression break-out
  - Break out of a compression to the upside on the 5-minute chart for long positions
  - Break out of a compression to the downside on the 5-minute chart for short positions
- 3/8 EMA cross:
  - 3-period EMA crossing above the 8-period EMA on the 5-minute chart, or coming back to and then separating above for long positions
  - 3-period EMA crossing below the 8-period EMA on the 5-minute chart, or coming back to and then separating below for short positions
- Market confirmation:
  - 1OP cross above after falling below 0 confirmed by technical price action on SPY indicating a bullish market move may be beginning
  - 1OP cross below after rising above 0 confirmed by technical price action on SPY indicating a bearish market move may be beginning

Before entering a trade, the following steps will be taken:

- Confirm that all minimum requirements are met
- Confirm which additional factors are met to gauge quality of the trade
- Wait for trade entry criteria to be reached
- Define price target
- Define mental stop loss
- Define position size – calculate number of stocks to trade based on position size/risk criteria.

Exits

The following reasons for exiting a trade will be utilized. Whenever one of the below conditions are met, the trade must be exited:

- Stop loss defined before entering the trade is hit – this will be handled via mental stops
- Major technical violation on the daily chart such as breaking a major SMA or horizontal support/resistance level on a closing basis
- Hit profit target – these will not always be defined when entering trades, but when they are they must be followed
- Thesis no longer applies – if original thesis for entering trade no longer holds (lost Relative Strength or Weakness), 3/8 EMA crossed back against position (if used as entry criteria), etc.

- Market direction changes against trade – only exception to this is if the position is being used as a hedge against other positions and the overall portfolio is aligned with the market direction change
- Earnings overnight or the next morning – always sell before the close, do not hold any trades over earnings (except time spreads)

While not a required exit criterion, positions can also be exited if a time stop in my head is reached or if the stock stops moving as expected, even if it doesn't firmly meet one of the above criteria.

Part IV: Tools & Setup

Discipline

Will target the following time dedicated to trading each week:

- Every Friday – full day dedicated to trading
- Daily – Review all trades posted by One Option Featured Traders after work
- Monthly – Perform review as outlined in the section on being my own trading coach

Trading Journal / Tracker

Trader Sync will be utilized as the Trading Journal. Routine for journaling is outlined in the section on being my own trading coach

Trading Setup

6 monitor setup will be utilized:

- Monitor 1 – Will be used to track the market with the following information:
  - SPY daily chart (Option Stalker)
  - SPY 5-minute chart (Option Stalker)
  - UVXY 5-minute chart (Option Stalker)
  - IWM 5-minute chart (TOS)
  - QQQ 5-minute chart (TOS)
  - TICK 1-minute chart (TOS)
- Monitor 2 – Will be for scanning, making trades and monitoring open positions
  - Position tracker (TOS)
  - Trade entry (TOS)
  - Scanner – connected to both a daily and 5-minute chart (Option Stalker)
  - Chat Room – One Option
  - Chat Room – Real Day Trading
- Monitor 3 – Will be used to track two individual stocks:
  - Stock #1 – daily chart (TOS)
  - Stock #1 – 5-minute chart (TOS)
  - Stock #2 – daily chart (TOS)
  - Stock #2 – 5-minute chart (TOS)
- Monitor 4 – Will be used to track two individual stocks:
  - Stock #3 – daily chart (TOS)
  - Stock #3 – 5-minute chart (TOS)
  - Stock #4 – daily chart (TOS)
  - Stock #4 – 5-minute chart (TOS)
- Monitor 5 – Will be for monitoring market news

- Trade Xchange news feed
- Discord – Walter Bloomberg
- Twitter
- Monitor 6 – Will be for monitoring market
    - S&P 500 Heat Map – Trading View

The below screenshots show the charts that will be utilized in Option Stalker, including what indicators are on each:

Indicators – Stock Daily Chart

Indicators:

- 50-day SMA
- 100-day SMA
- 200-day SMA
- 8-day EMA
- 1OSI (Relative strength / weakness vs. SPY)
- Volume
- Earnings dates (info)

Items to add based on your technical analysis

- Horizontal support/resistance
- Trendlines
- Alerts

Indicators – Stock 5-Minute Chart

Indicators:

- 3-period EMA
- 8-period EMA
- SPY overlay
- 1OSI (Relative strength / weakness vs. SPY)
- VWAP
- Volume

Items to add based on your technical analysis

- Horizontal support/resistance
- Trendlines
- Alerts

Trading Tools

- Broker – TD Ameritrade
- Trading Interface – thinkorswim
- Scanner – Option Stalker **(Pro, $159/month, or $999/year)**
- Charts – Option Stalker
- Charts – thinkorswim
- Community – One Option

- Community – Real Day Trading (reddit)
- News – TradeXchange **($44.95/month)**
- News – Walter Bloomberg discord
- Journal – Trader Sync **(Pro Plan, $29.95/month)**

Note: Investor's Business Daily **(IBD Digital, $34.95/month)** subscription has been cancelled

Education Plan

There are four main types of education that will be utilized:

- Trading Books
- YouTube
- Reddit
- One Option Community

Trading Books – Reading completed to date and the next planning books include the below. All books highlighted in yellow will be read twice (none have been completed twice yet).

- Completed
    - Market Wizards – Schwager
    - New Market Wizards – Schwager
    - Stock Market Wizards – Schwager
    - Modern Market Wizards – Schwager
    - How to Make Money in Stocks – O'Neil
    - Reminiscences of a Stock Operator – Lefevre
    - Trading in the Zone – Douglas
    - Complete Guide to Volume Price Analysis – Coulling
    - The PlayBook – Bellafiore
    - One Good Trade – Bellafiore
    - The Daily Trading Coach – Steenbarger
    - Options as a Strategic Investment – McMillan
    - Come Into My Trading Room – Elder
    - The New Trading for a Living – Elder
    - How to Day Trade for a Living – Aziz
    - Advanced Techniques in Day Trading – Aziz
    - How to Day Trade – Cameron
    - How to Trade in Stocks – Livermore
    - Technical Analysis Using Multiple Timeframes – Shannon
    - Japanese Candlestick Charting Techniques – Nison
    - Technical Analysis of the Financial Markets – Murphy
    - One Up on Wall Street – Peter Lynch
    - A Random Walk Down Wall Street – Malkiel
    - Liar's Poker – Lewis
    - When Genius Failed – Lowenstein
- Planned
    - Technical Analysis of Stock Trends – Edwards & Magee
    - Encyclopedia of Chart Patterns – Bulkowski

Part V: Options Trading Strategies

Debit Spreads – Both Call Debit Spreads (CDS) & Put Debit Spreads (PDS)

- All entry criteria for long and short trades apply to spreads – only trade the absolute best setups
- Minimum of $2.50 spread (due to commissions impact on profitability of lower spread trades), but ideally $5.00 spreads
- Maximum debit of 50% of the spread
- Long call/put must at ATM, and ideally slightly ITM
- Trade current week expiry only
- Maximum total debit of $300, or:
  - 2-3 contracts for $2.50 spreads
  - 1-2 contracts for $5.00 spreads
  - $10.00 spreads cannot be traded unless it is an A+ setup (see below), and spreads below $2.50 should not be traded due to commissions cost impact on returns
- In A+ setups, can trade up to $600 debit, but maximum of 2 positions this size at a given time and not in the same direction (e.g. CDS & PDS, not 2 CDSs or 2 PDSs)
- This enables $10.00 spreads to be added, 1 contract at a time
- Profit targets should be put in as soon as positions are entered – these targets can be more aggressive later in the week at time decay impacts the short strike position more and the spread narrows in on it's intrinsic value):
  - Monday: 15-20% of debit
  - Tuesday: 25-30% of debit
  - Wednesday: 35-40% of debit
  - Thursday: 50-60% of debit
  - Friday: 60-90% of debit
- Positions will generally be held until profit target is hit or until expiration, thus assuming the full risk of the initial debit. Exceptions:
  - Key support/resistance level broken on the daily chart that goes against the trade and 10% or more of the spread value remains – exit for a loss in this case.
  - Friday CDS or PDS taken as day trades that I would otherwise exit the equivalent stock position and 10% or more of the spread value remains – exit for a loss in this case.

Options – Both Calls and Puts

- All entry criteria for long and short trades apply to spreads – only trade the absolute best setups
- Options price must be between $1.00 and $10.00
  - Lower limit is to prevent commissions cost from being a significant portion of the trade
  - Upper limit is to manage risk
- Maximum total debit per position of $1000 with a target average position of $500
- Trade expiry 2-3 weeks out (the expiry date the week after next)
- Profit targets will be defined by the expected move of the stock and should be written down when entered, if target is not at least 30% return on the debit it should not be entered
- Exits will be based on mental stops defined on the chart of the underlying stock

Total positions across CDSs, PDSs, Calls and Puts should not exceed a total of $2,000 debit.

Time Spreads

- Objective is to profit on the IV crush that occurs after earnings by taking the following positions:
  - Short ATM call with current week expiry
  - Long ATM call with next week expiry
- Trade should only be done on stocks that generally don't beat expectations using Option Stalker functionality to check
- Total risk is initial debit
- Objective will be to take profit on the time spread by buying back the short ATM call with current week expiry and selling the long ATM call with next week expiry for a credit higher than the initial debit
- Positions will be entered the day before earnings (after-hours reporting that day or pre-market reporting the next day following entry)
- Put profit target to sell in for 30% before open after earnings, and lower as needed to get a fill
- If not filled the day after earnings for the profit target or breakeven, either:
  - Close out position for a loss if the calls are ITM
  - Let the short call expire and let the long call run the next week
- Do not leg out of the trade, that increases the total risk of the position – this can be considered once I have made over 100 time spread trades but not until then
- Maximum debit per position of $300 – this can potentially be increased to $500 per position but only if that is the only spread being held overnight

Part VI: Futures Trading Strategies

/ES Contracts

- The only Futures contract that will be traded is /ES, the mini-contract on S&P 500 futures
- The maximum position size will be 1 /ES contract, with the only exception being if there is an open /ES trade that is up by 10 points, I can add a 2nd contract, but need to adjust the stop to the original entry point (or higher) such that the maximum loss remains 10 total points (5 points per contract)
- The maximum loss per trade will be 10 points, which is $500
- This will be the only trade where hard stops are used – this is done to manage risk given that I do not have significant experience trading futures contracts. Over time, this requirement may be re-assessed
- There will be very strict criteria for trading /ES:
  - Trades must be in direction of the trend for the day (determined based on current price vs. open)
  - Trades must have a supporting 1OP bullish/bearish cross with price confirmation to be entered

Other Futures Contracts

- At this time, no other futures contracts will be traded
- Micro-contracts will not be traded due to high commission costs
- Over time, more contracts such as /NQ, /RTY will be added

Part VII: Trader Coaching Practices

In order to be a successful trader, having the right mindset, discipline, and ability to manage emotions will be critical to my long-term success. This section goes over the systems I will have in place in order to be successful in these critical areas.

Daily Practices

Below are the 12 key daily practices I have in place to manage mindset and mental discipline:

1. Complete full pre-market routine
   - As part of the pre-market routine, do a set of pull-ups and a set of push-ups to near failure to help sharpen my mind through physical activity
   - In addition to the steps outlined in the daily plan section, ask myself "What would make my trading a success today, even if I don't make money?" and record the answer and play it back during at least one of the mindset check-ins
2. Do not open any new trades in the first 15 minutes of trading
3. Complete the full screening checklist for every trade entered
4. Define mental stop before entry on every trade
5. Record my trade entries with audio outlining my reason for the trade and how I plan to manage it
6. Honor position sizing rules based on mental stops
7. Do not average down any losing positions
8. Do not look at P&L (of a trade, or daily P&L) – if this is violated, I will slap myself in the face (yes, really) and then take a short break and perform a mindset check-in
9. Honor all mental stops
10. Perform mindset check-ins throughout the day at 10:00 AM, 11:30 AM and 1:00 PM
    - Watch out for frustration and overconfidence mental states
    - As part of the mindset check-in, do some physical activity (pull-ups, push-ups, etc.)
    - Before returning to trading, take 10 deep breathes to reset mental state and focus
    - When returning to trading, focus first on the market, second on open positions, and third on new trading ideas
11. Run or perform other physical exercise at the end of the trading day to clear head
12. Perform daily journaling
    - See section below on journaling practices
    - § As part of the daily journal, I will give myself a grade on each of the above areas – A, B, C, D or F, the overall day can also be graded by totaling the grades (5 points for an A, 4 for a B, etc.)
    - Identify any key lessons learned, insights, or document any key comments made by other traders worth saving for future reference

Trade Journal Practices

- Document the grades in the areas of mental discipline and share any thoughts on what went particularly well or poor on that day related to mental discipline or my mindset and thoughts during the trading day
- Include reflections on how I did on the top two areas of improvement and the top two strengths that I am focusing on in the current month
- Review each trade for the day and document reflections on:
  - Stock and trade selection – tag the setups that led to the entry

    - Market analysis
    - Trade management – tag any mistakes made
    - Mental discipline and mindset – including any negative thoughts or lines of thinking that may have impacted that trade (hope, loss avoidance, regret, self-blame)
- If I broke any rules during the day, document them using "The Daily Trading Coach" psychological journal format
- Situation in markets
- My thoughts, feelings and actions in response to the situation
- Consequences of these actions
- If I have a day where I reach my 3% maximum loss, I will write myself a detailed memo that explains what went wrong, why it went wrong, and what I will do to avoid making similar mistakes going forward and share it with the sub-group of the RDT sub-reddit

Monthly Trading Performance Review

- This should be done on the first weekend following the completion of the month. For this to be successful, at least 4-6 hours should be set aside for the review.
- Review key statistics for the month:
    - Win percentage – target 75%, excluding all trades with P&L +/- $20 as scratches
    - Profit factor – target 2.0
- P&L – target 5% monthly account value appreciation
- I will share these statistics with the sub-group of the RDT sub-reddit as well as any major mindset challenges or victories as part of my monthly review
- Go through all of the trades made for the month, and review the trade again as well as the previous notes taken on it – conduct the Walkaway analysis for all stock trades made that month
- Assess how I am doing qualitatively in the following areas (give a grade of A, B, C, D or F):
    - Stock and trade selection
    - Market analysis
    - Overtrading
    - Trade management
    - Mental discipline, in particular identify where any of the following patterns are occurring often:
        - Placing impulsive, frustrated trades after losing ones
        - Becoming risk-averse and failing to take good trades after a losing period
        - Becoming overconfident during a winning period
        - Becoming anxious about performance and cutting winning trades short
        - Oversizing trade to make up for prior losses
        - Working on trading when I'm losing money, but not when I'm making money
        - Becoming caught up in the moment to moment of the market rather than actively managing a trade, preparing for your next trade, or managing your portfolio
        - Beating myself up after losing trades and losing your motivation for trading
        - Trading for excitement and activity rather than to make money
        - Taking trades because I'm afraid of missing a market move
- Review Trading Journal entries from the previous month
    - Ensure that there is a balance or positive skew to my coaching language in the journal to make sure I have a positive coach-trader relationship with myself – if I am

always negative, I will shy away from the practices like journaling needed to make myself successful

- Ensure that my entries include my emotions during the day and aren't just focused on trading execution – I need to leverage my entries to motivate change
- Identify the top two areas of improvement and the top two strengths of the past month to build on for the next month of trading
- On the areas of improvement, spend 5 minutes on each doing visualization exercises where I visualize myself in trading situations and exhibit the desired behaviors
- On the strengths, review example trades where I have exhibited this strength to reinforce with myself that this is in fact an area of strength for me
- Assess how well I am doing at self-coaching – am I spending enough time on coaching efforts? Do I have clear goals each day? Am I working on my trading skills enough?

Personal Issues

- I have personal issues from my past that can manifest themselves and negatively impact my trading. The themes behind these issues are related to…
- Removed the rest of this section, but this includes the themes behind issues that have translated negatively into my trading, how they manifest themselves, and what I am doing to monitor them (most of which is outlined in the above section)

TRADING IN THE ZONE EXPERIMENTS - The path less taken: Part I (/u/achinfatt)

Me posting, shocking I know (and probably wont post again or for a long time). I will try to keep this short, but who am I kidding…(I really procrastinated in writing this, as it will be a long boring post, that I probably wouldn't read if another member wrote it).

I was encouraged by some of my mates to post this in hopes that it may provide some encouragement or motivation to do these "experiments", usually starting with 1 share, which is a core exercise in "trading in the zone" by Mark Douglas and it is also highly recommended and advised by Hari here many many times.

(A) BACKGROUND - I am a regular dude, who decided I have had it working in a corporate environment and to start working for myself. I wanted to commit fully to this journey, so about 9 months ago I quit my job to try and focus all my attention to this trade. Stupid? perhaps, but just had it working in a job, long hours, that doesnt motivate me to wake up in the morning, and if I get frustrated enough, I quit, and I lets just say I was beyond that. So here I am after seeing some of Hari's post on WSB and joined RDT after he created this sub. Dived right in 17 hours a day, 7 days a week (reading and re-reading wiki, charts etc.). Started dipping seriously in Jan 2022. Guess what comes next, huge losses and blown account..yada yada…you all know what I am talking about. 1 step forward, 3 steps back. Thought about quitting daytrading since the feeling of failing was overwhelming. However even more daunting is the thought of going back toa corporate office, working my ass off in a unhappy job, for someone else. However, still had a mortgage to pay, bills, expenses, car payments and most importantly a family to support, I had to make a change, a different approach. One that maybe slow but consistent, steady and offers the best chance of succeeding.

(B) WHY MAKE THIS POST? - Obviously I don't like making posts, particularly after 3 months of accomplishing anything, as it seems like as soon as you do a reveal, your trading suffers. However since this is about the Zone experimentation, it may be useful yet. I was encourage by some of my friends here to do so in hopes that it may be useful to the community and if it helps even 1 member, then it was worth it.

(C) WHAT IS THIS POST - Basically its the 1 share exercise (recommended by RDT and also Mark Douglas trading in the zone, however I may not have done it strictly according to the Zone method). You start with 1 share for a minimum 25 sample size and once you are comfortable and profitable, you move on to the next experiment by slowing sizing up for another min 25 trades, rinse repeat..etc.

(D) WHAT IS IT YOU HOPE TO LEARN OR WHAT ARE THE BENEFITS? - The benefits may vary for different members. It could be finetuning your edge / criteria, it could be learning to trade with real money or it could be mindset. For me it was to help me with the emotional side of trading real money. To be able to trade with real and enough money, without doing stupid emotional decisions. Its a bit like immunotherapy, you try to slowly build up an immunity by slowly introducing 1 share trades for which most traders, have no emotional attachment, since the losses are negligible at worst, and you make your trades once you see your setup. Then you slowly size up to get comfortable and profitable at, say 2 shares, then 5, then 10 etc. so on and so forth. While you will never totally eliminate emotional trading 100%, this should help you get to sizing that you can comfortable trade in a zone, where you can handle the swings / drawdown in your portfolio while remaining level headed enough to apply proper risk management rather than making trades based on fear or uncertainty.

(E) IT TAKES TOO LONG, I WANT TO MAKE BIG BUCKS NOW - As a moderator of this sub, I have made many observations and what I do see, is that many members (**at all levels**) do not go this route as they assume it will take too long or those that have, may have done 1 or 2 experiment and moved on to real trading.

Here is the thing…….1 or 2 experiment is not nearly enough; also if you have not done it or taken this route, stop what you are doing right now and do it, the benefits are real and you will not see it until you have performed several experiments, up to the point where you are sized up large enough. I have seen practically all members going thru the cycles of bad losses, blowing up accounts (including myself) and thought if only there was an exercise that may help…….

Also, how long do you think it will take you to be consistently profitable if your cycle is 1 step forward, 3 steps backward? **IT DOES NOT TAKE AS LONG AS YOU THINK**. I started experiment 1 the beginning of May 2022 at 1 share and I am currently finishing up experiment 10! (3 months and almost 500 trades later). I will continue to do the experiments this until I am at a level where I consider it normal level sizing or consistently profitable for minimum 1 year (your choice but minimum 3mths seems to be a benchmark, though I would recommend 6 months minimum). Sure your equity curve will be basically flat for the first few experiments/mths, since PL will be negligible, but the curve will pick up quick as your sizing grows (refer to my equity curve below)

(F) JOURNEY SO FAR - As a moderator of this sub, I have made many observations and what I do see, is that many members (**at all levels**) do not go this route as they assume it will take too long or those that have, may have done 1 or 2 experiment and moved on to real trading.

I know what you are thinking, this will take too long I need to make money now. Hope this will show otherwise.

As most of you are aware and have experienced so far in your trading journey, mindset and emotions are arguable the biggest challenged faced by most traders when REAL money is on the line. It was definitely mine, which ultimately led to me technically blowing up my account or most of it. I have instances where I have lost 50% of my account in a span of 30 minutes. Dumb right? i know. Essentially, I would progress 1 step forward, then 3 steps backwards.

Am I finished with my experiments? Absolutely not.

Too long? Bored yet? take the opportunity to exit now before you fall deeper into this rabbit hole.

if you still here, I will stop messing around and get on with what we are all interested in (i refer to them as zone experiments)

CAVEAT -

The results does NOT make me an expert, nor does it make me qualified to teach any of you anything but rather just sharing in hopes that it may be useful and encourage you all to DO THE EXPERIMENT, as everyone can benefit IMO. I am still a new trader and learning just like the rest of you and simply applying the teachings from u/HSeldon2020 and the wiki that he has generously provided to us. Up to you what you do with the info here. **Also, I live in Canada, so no PDT restriction.**

ZONE EXPERIMENT (not strictly but some version)

GUIDELINES -

- Use whichever criteria, setup ("edge") Absolutely no modifications for sample.
- Whichever # of shares (or whichever sizing that allows for non-emotional attachment, I started from 1-2 shares)
- Adjustments if required from previous exp, if not you can start sizing up slowly (5 -> 10 -> etc.) (in the later experiments I chose to change over to $ rather than # of shares)
- Sample size - Minimum 25 (this amount will usually increase as you gain momentum and progress thru your experiments)

MY SETUP (use whichever works for you, I am lazy, so I try to keep mine super simple) -

- D1 - RS/RW- D1 - Above/Below 50/100/200 SMAs (or strong / weak directional)
- M5 - Market first / trade direction / cycle
- M5 - RS/RW (5/15/30 timeframes) w/good rvol
- M5 - breach of R / S
- Stop exit - quickly as possible if it makes sense (you can always re-enter)
- Profit taking - S/R TAs
- ATR > 1 (my preference)
- Share price range (mainly between $10 - $100 for the most part)
- Slow down, focus on A+ setups (high probability) to mitigate overtrading
- Can scale into / out of positions
- Can add/avg in positions as well
- Shares only (no options / this will be for another experiment)

(**I try to stick to these as much as possible in conjunction with price action analysis but you will need to adjust as necessary especially in this market, particularly your trade management process)**

WHAT ARE MY MAIN LEARNINGS SO FAR -

- RTDW (minimum 5 times fully and keep reading as you your experience grows, things will become much clearer)
- KISS (Keep it super simple; for me less is more, so this made sense to me)- Learn and understand price action
- Join or start your own subset focus support group from members of the RDT community (I found this to be incredibly important and beneficial both in learning, helping with mindset and supporting each other during the tough times)
- **There is no holy grail setup, flexibility and the ability to adapt is key, either that or fail**

Recently Hari tweeted these simple but yet so powerful messages, remember them, sear them into your brain.

- https://twitter.com/RealDayTrading/status/1553830701224538113?s=20&t=L7vFgMncYAESukV7dC2COg

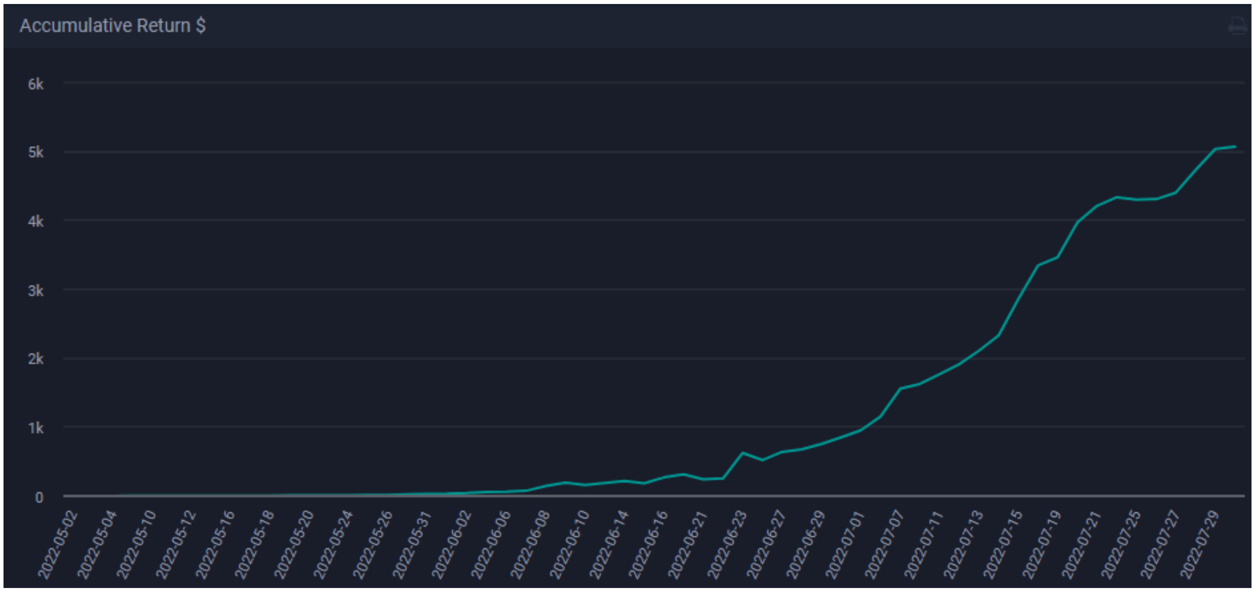
- https://twitter.com/RealDayTrading/status/1553811846951419904?s=20&t=L7vFgMncYAESukV7dC2COg

MY EXPERIMENTS (3 MTH) RESULTS ====>

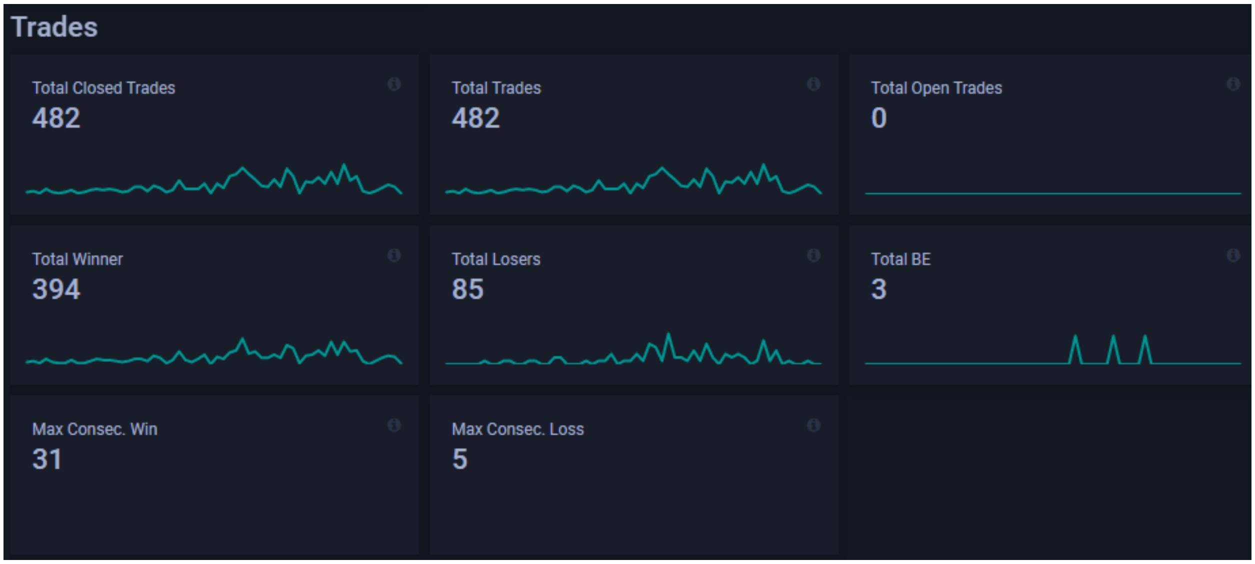
- ***Note 1:*** I am still continuing the experiments and slowly sizing up (I imagine I will be continuing for sometime)
- ***Note 2***: I seldom write any review commentary, so sorry about that in advance (I did warn you I am lazy and less is more)
- ***Note 3***: The variation in results are mainly from price action analysis and trade management rather than criteria setup.

Experiment (May - Jul)	# TRADES	WR %	PF
Z1	27	88.9	2.39
Z2	30	86.7	3.09
Z3	25	92.0	7.44
Z4	32	81.3	3.87
Z5	26	80.8	2.43
Z6	43	69.8	1.33
Z7	42	76.2	2.17
Z8	76	77.6	2.64
Z9	90	84.4	7.36
Z10	91	84.6	3.10
ALL	482	81.7	3.31

Summary - all experiments (3 mths)

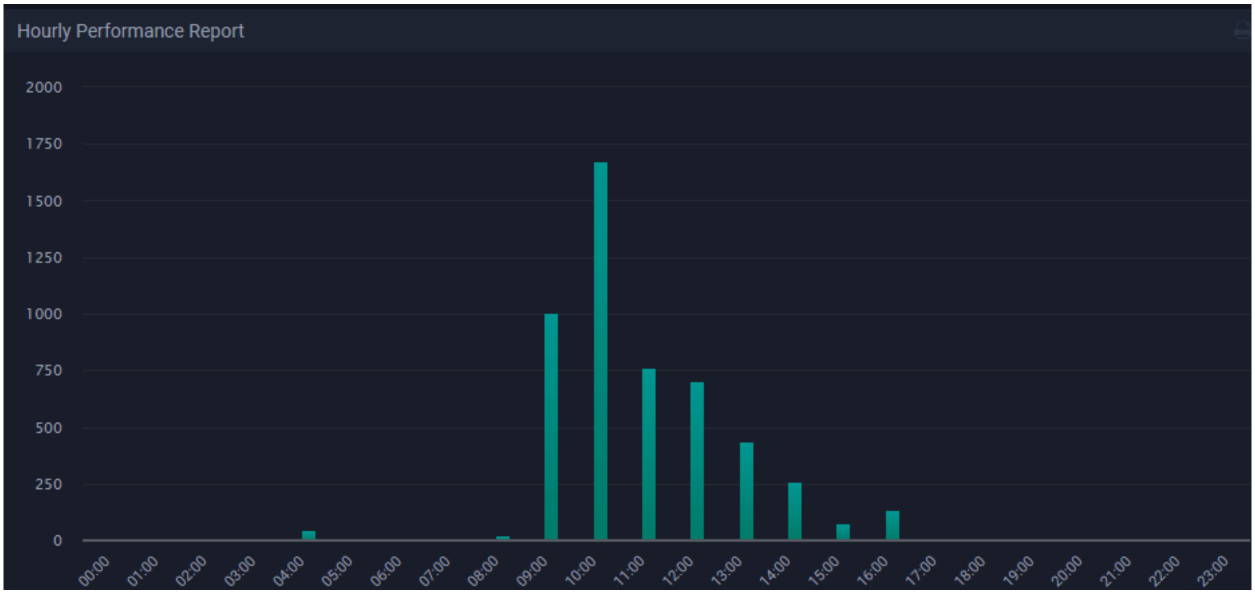


Accumulative Return $
6k
5k
4k
3k
2k
1k
0

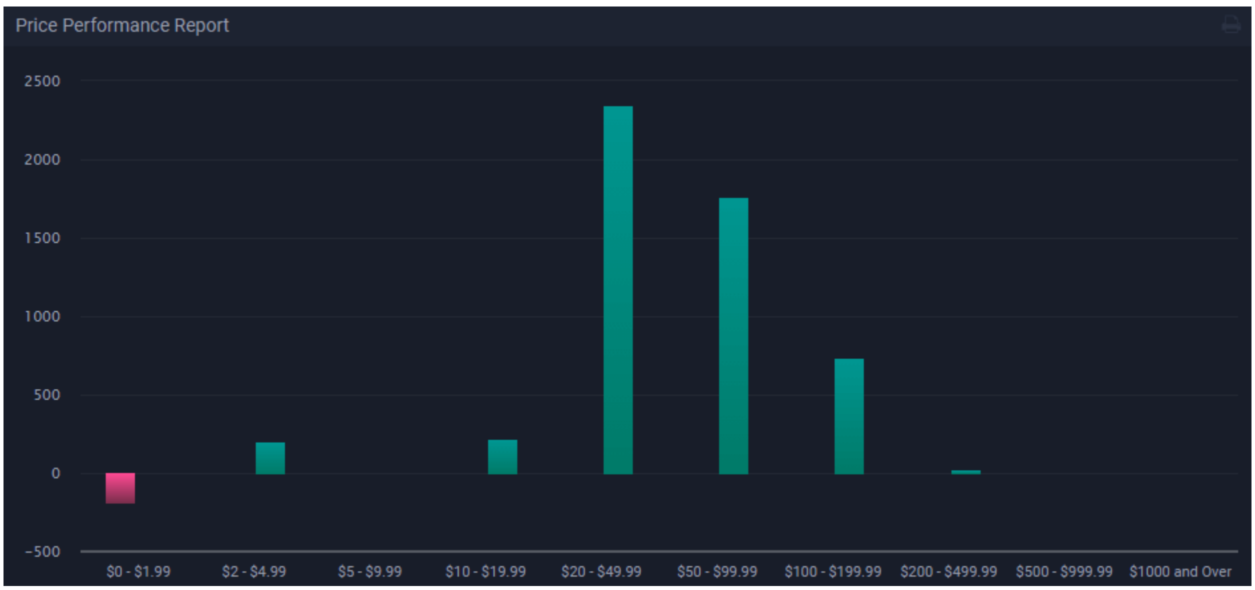


Trades
Total Closed Trades
482
Total Trades
482
Total Open Trades
0
Total Winner
394
Total Losers
85
Total BE
3
Max Consec. Win
31
Max Consec. Loss
5

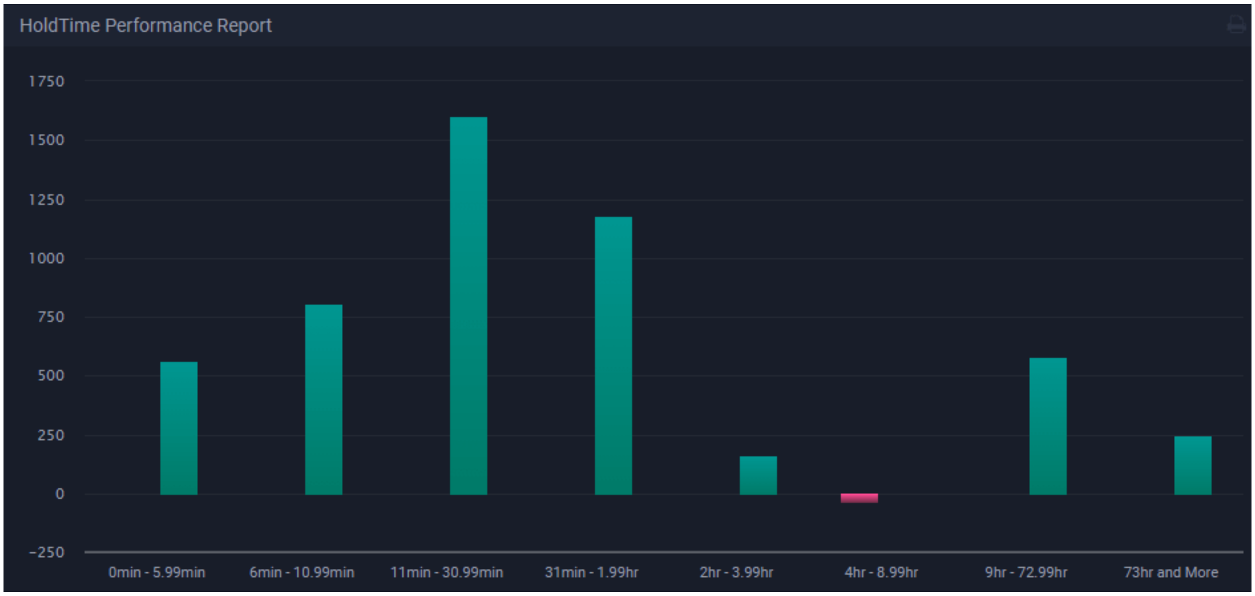
Trade info



Performance by the hour



Share price performance range



Hold times

Trading journal - Link

FINAL THOUGHTS (pretty sure I will miss something) -

I don't use hard stops, TA mental stops, I keep it simple, i see so many traders try to look for so many indicators, build new fancy ones, try to factor a gazillion things in. Guess what they work until they don't. There are tons of people doing this for years and way smarter, if there was one, it would have been found or developed already (which it probably wont, since no 2 trading circumstances are ever the same)

If you don't stick to your experiment sizes and size up too soon, you will probably fail.

The experiment itself is also a mental effort....to be able to stick with it (without running back to normal size etc.) is also part of the process.

Ok, that's all folks. This is the shortest I could keep it. Good luck in your experimentation and wish you all success!

TRADING IN THE ZONE EXPERIMENTS - The path less taken: Part II (/u/achinfatt)

Hi everyone, thought I would post an update to the ongoing zone experiment, but it will a short boring post this time.

Hopefully you may find it useful for those that have either done some of the experiments or thinking about doing them.

As you can see, I am still doing the experiments and as of the end of September 2022 I am up to #14.

Original post is here (Previous Section)

Quick recap -

Setup - hasn't really changed, it can be found in the original post.

Position sizing / trade management - main changes to further experiments.

What I have learned since and in the current market environment -

a) Conviction & patience - you will need to have confidence to allow your trades to breathe and play out the way you expect. The market is unforgiving and it changes direction constantly. You will need to be patient to weather the drawdowns, because there will be. I am sure you all go through the stress of seeing trades reverse immediately after you take them. Yes, uncanny.

b) FOMO - this is a constant challenge, and I would venture to say almost all bad trades have some of this aspect to it. No matter how many experiment trades you do, it is our nature at time to take trades that may have been driven by urges or something else that will inevitably lead to a fail trade or trade management process. This is real and always hanging over your shoulder. You will need to master this for the most part to be successful.

c) Sizing - Everyone experiences this. Inappropriate sizing or sizing up too fast, or moving too quickly from paper trading to real money. This is all part of the same pot. This is a long game, sizing up should be slow and systematic but will get you to your destination eventually. Too fast or inappropriate and you run the risk of blowing your account. Even more dangerous than blowing your account is, suffering a loss that blows your confidence, because once you do, its all downhill from there and it can take a while to get back. It will have you questioning or second guess whether you can do this.

d) PL target - This is somewhat tied to sizing but not all the time. if you have a daily target, be reasonable about it, do not overshoot / overkill. The stress or urgency in trying to meet an oversized target, will cause you to fail. This has been mentioned many times by Hari and also in the sub. Aim for base hits not home runs. Doesn't seem important but its very true. If you find that you met that target and thought it was too easy, lets keep going or lets go higher, this will work until it doesn't. When it doesn't, it doesn't very hard. Base hits everyday actually equates to several home runs over the course of the month.

e) Price action - This is constantly changing, requires continuous learning. Keep improving, this is key.

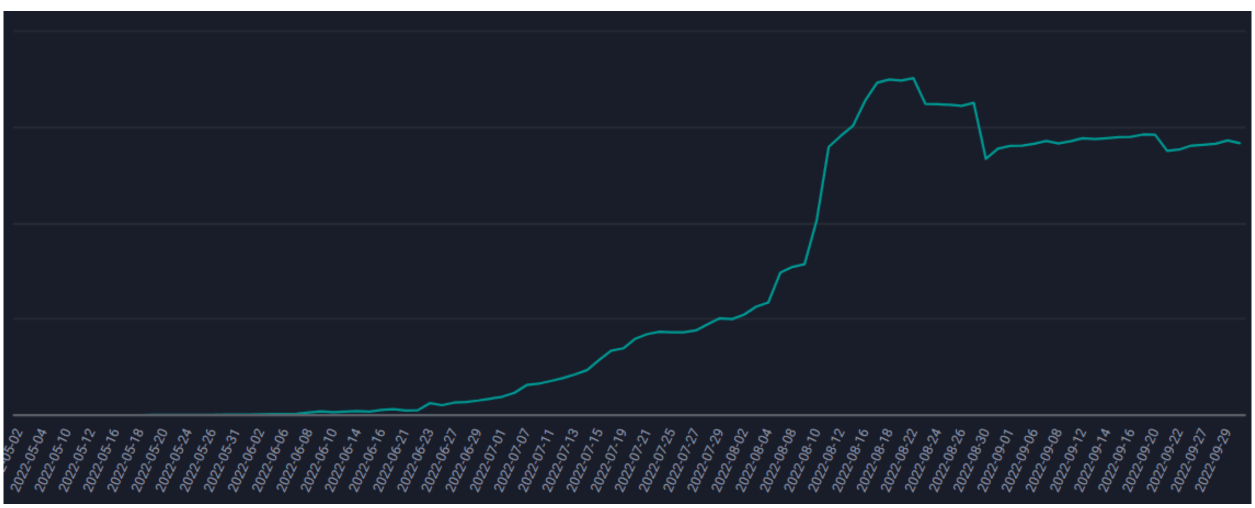
Stats time -

I am up to Experiment #14, which is 4 additional (varying sample sizes) since the original post. Total cumulative stats to date **May - September, 933 trades, 78WR, 2.27PF.**

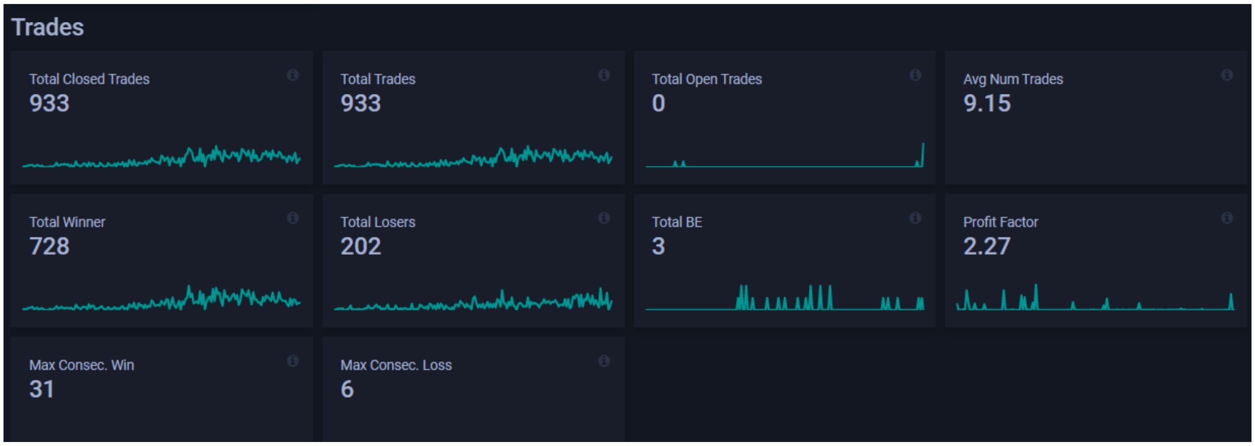
Experiment (Started - May 2022)	# TRADES	WR %	PF
Z1	27	88.9	2.39
Z2	30	86.7	3.09
Z3	25	92.0	7.44
Z4	32	81.3	3.87
Z5	26	80.8	2.43
Z6	43	69.8	1.33
Z7	42	76.2	2.17
Z8	77	77.9	2.67
Z9	90	84.4	7.36
Z10	91	84.6	3.10
Z11	229	77.7	2.30
Z12	109	68.8	1.90
Z13	55	74.6	0.35
Z14	57	68.4	1.81
ALL	**933**	**78.0**	**2.27**

Summary of all experiments to date

Overall of **933** trades total, the stats seems ok. However Z12-14 the individual stats are less than stellar and was performed in the month of September, which for me has been the most challenging month so far. As such for the my next experiment, I will be sizing down to work out the issues. This is also apparent in the equity curve below -



Equity curve



Trade summary

My tradersync journal here - Link

FINAL THOUGHTS -

RDT and its teaching works, don't expect a miracle, its success is directly dependent on the effort each member puts in as well. The more effort, dedication and time invested applying RDT and learning from u/Hseldon2020 and the community, the greater your chances of success.

The post is abrupt as I don't like to write much, but if anyone has any questions, do let me know or send me a message. I will try to help if I can.

No Tips, No Setups, No Shortcuts

Alrighty, it's time to be real here. Maybe this will help you refine your trading resolutions for next year, but mostly I'm just going to write this down because I get asked a bunch of the same questions whenever I do a trading recap post (or if others do) - same questions all the time. Some from folks with good intentions, others that are just spinning their wheels and not putting in the right effort.

Types of Knowledge

Let's set the stage here. First of all, there are two basic types of knowledge of knowledge:

1. Book knowledge
2. Practical application

You might call these different things, but the basic distinction to realize is that is a huge difference between knowing something and being able to do something. You might "know" how to change a tire, but unless you've actually done it, you aren't actually *able* to do it.

Trading is no different, but so many people are just looking for that last "tip" or that "magic setup" or that "one more thing" that's going to turn them around.

STOP.

THERE IS NO MAGIC.

THERE IS ONLY A LOT OF HARD WORK, DETERMINATION, AND GRIT.

The Process

The wiki says it takes two years. Do you know why? You can read the wiki in a weekend. You can understand all of the words in it in less than a week. You can even make a few trades and make some money. Guess what? Doesn't matter.

The reason this takes time is because you need to convert all of that book knowledge into practical knowledge.

- You need to understand what it feels like to be down $2 on 100/500/1000 shares (in your paper account!!!) and keep holding it because the next support is still $3 away and your target level is still $6 away.
- You need to learn that a profitable trade isn't necessarily a good trade. Did you violate your rules? Did you hold it past your stop? Did you bail on it early? (I'm still bailing on trades too early!!! NVDA and TSLA today...)
- You need to learn that a losing trade can still be a good trade. Did you take the setup you like only to have it reverse due to a unforeseeable change in the market? Did you actually take it off and not bag hold it?
- You need to be able to, in real time, make a decision to enter a trade and have your **own convictions** on it. Don't enter a trade because Hari took it and then ask him two hours later when you're down $2k in your real account because you thought it was a sure thing since Hari is in it and now you're freaking out messaging him if he's still in the trade.
- Figure out how to apply the guidance of the wiki to your own style and needs. Each of us will develop a different style of trading even though we are following the same basic structure. Just look at Hari and Dave to see that illustrated perfectly. You need to figure out how *you* trade.
- Emotional damage - you're going to get it. How do you deal with it? A book might give you techniques to try, but you have to go through the motions.

What you need to be doing

It's already in the wiki! But I'll lay it out again:

- READ THE WIKI
- UNDERSTAND THE WIKI
- Start applying the things you're learning from the wiki in a paper account
- Make notes of why you entered the trade, where you are thinking it's going, why you are holding it when it moves against you, and why you are exiting the trade.
- Review these trades!
- Strategize a plan to fix the errors
- RINSE AND REPEAT

This is what you'll be spending your two years doing. You'll be getting in the reps and figuring out what trade setups work for you. What relative strength/weaknesses setups are the ones you like to take. Maybe you can't hold positions with big swings and you only enter positions that are $1 away from major support/resistance levels. Maybe you only take second day continuation trades. Whatever is it, you need to figure out what works for you.

I'm in a chat room with some folks - none of us trade the same way. NOT A SINGLE ONE OF US. Yet, we all use this same framework for our trades.

But paper trading doesn't work for me

Make it. Seriously, the only reason it doesn't work for you is because you aren't actually treating it like a real account. Once you realize that if your monthly stats actually tell you that you aren't going to make it, then it changes. Because that's what it means. If you can't be profitable in an account where there is no "skin in the game", **you will not be profitable in a real account.**

Imagine if a professional football player said they didn't need to go to practice to put in the reps. You think the coach is going to put them in to play in a real game?

But I'm too busy, tired, exhausted, nothing is working, I just need...

Listen, you can make any excuse you want. If this is something you want, you'll figure out how to make it work. I'm guessing I'm busier than the vast majority of you here, but I'm here every day getting those reps in.

Some of you are going to be in much worse conditions than I am in; I get that, but the market doesn't care. *You must realize this*. Does it suck? Yeah, it does. But if this is what you want to do, you're going to have to figure out what works *for you* in order to make it work.

Closing Thoughts

If you've made it this far, I'll give you a brief summary of what I look for in my trades:

- Relative strength/weakness to the market
- Relative strength/weakness to the sector
- Parity with SPY (e.g. the stock is trading like SPY but it has bigger moves than SPY)
- VWAP fades after a double-top/bottom

I've practiced all of these setups, I know that if I take them when my other conditions align (price of stock, daily resistance levels, general market conditions, etc...), I have a good chance of getting a profitable trade. I know because I have my previous trade stats to back it up.

Lastly, if you think this post is too harsh? Frankly, I don't care. Every single piece of advice I've given up there applied to me at some point in time. You can either choose to accept that you need to put in both a lot of work and the *right type of work*, or don't and in a year or two from now, when you see a bunch of other traders making it, you'll still be asking the same questions and wondering why you are still stuck in place.

I've got a wallpaper on my computer that reads: "Dreams don't work unless YOU DO".

One Year of Trading Knowledge in a (long) Nutshell (/u/EMoneymaker99)

Hello traders,

I have been studying day trading for a year now and I wanted to share some of the resources and information that has been most helpful to me on my journey. I am not yet a professional Trader, but I am working towards becoming one.

Tips / Resources

Professional Traders - People like Hari, Pete, and the other professional contributors in this sub who are willing to share their knowledge of the markets, their strategies, and their mistakes have been invaluable mentors to me during my foray into trading. The opportunity to learn from professionals who have spent years honing their skills and studying the market is priceless. They have also made expensive mistakes, and can help us avoid doing the same. If you have not had the chance to read Hari's How I Got Started post, I highly recommend you read it along with his other posts.

Hari's roots as a professor really shine through in his posts and methodology - he established a specific goal for this sub, which is "...to help traders become consistently profitable." Hari then proved that it is possible to be consistently profitable by completing the 30K Challenge, and is currently guiding and educating us as we attempt to become consistent traders as well. **Note:** Following the pros into trades that you do not fully understand because you think it is easy money is a big no-no. You will not learn, you will not become consistent, and you will likely lose money - and it completely defeats the purpose of this sub. That is not to say you should avoid the stocks the pros call out in the chat - rather, you should analyze the stock, form a thesis, plan an entry and exit, and execute the trade - not blindly follow. "How do I close a butterfly?" 20 minutes before close on a Friday should never pop up in the chat. (Also, if you are new here and do not know the chat guidelines, please read this post.) I invite all of you to find your own trades, ask questions, accept and give constructive criticism, and to be quick to recognize when you are wrong - I personally believe that humility is key to becoming successful in any profession.

Time In the Market - No, not the Warren Buffett hold-until-you-die kind; the sit in front of your computer from 7AM to 3PM staring at charts without placing a single trade kind. I do not have a large enough account to day trade frequently, but the time I spend every day learning to read the market and to identify patterns will prove invaluable to me once I do have the capital. Any job requires education and practice - the time I spend in the market learning, observing, and practicing is no different from the time I spend learning in my university classes. Some people call large losses in the stock market "tuition". Personally, I would rather pay my "tuition" in time spent learning than with $$ (though I certainly have paid more $$ than I would like). With time comes the ability to confidently recognize patterns and circumstances that set up great trades. Every day I get a little better at finding strong/weak stocks, recognizing entry and exit points, and knowing the best way to execute a trade. Learning about options spreads and HA charts have helped me make better trades and to stay in winning trades longer/cut losses sooner. Each trader needs to find indicators and methods that work for them, and the only way to do that is to spend significant amounts of time practicing. On a side note, paper trading is *not* a waste of time, nor is it a game. It is a tool that lets you test out strategies like iron condors or long call butterflies without blowing up your account or getting a margin call due to a mistake.

Google / Other Online Resources - I felt the need to include Google since I see so many questions on a daily basis that could easily be answered by a quick search. Don't know what a Put Credit Spread is? Google it. look on OptionsPlaybook or Investopedia. You do not need to ask a busy professional trader to define a basic strategy for you when you could do it yourself in seconds. To be frank, if you do not have the capacity or motivation to do the simplest of research, *you will not succeed*. You will also lose lots of money. If you enter a trade with minimal research, you could lose more money than you even thought possible (see this example of Pin Risk). You also need to understand the tax implications of trading, especially how wash sales work. Your broker probably has an education center that covers the basics of stocks, derivatives, chart reading, etc... TD Ameritrade consistently releases videos that cover not only trading basics, but market conditions, which I have found helpful. Here is a link to their Trader Education Page and to their YouTube Channel. Pete (u/OptionStalker) also has a blog and a YouTube Channel that have great market commentary/education and trade ideas - I highly recommend watching his videos.

"Risk comes from not knowing what you're doing"-*Warren Buffett*

Setup / Software - Having a setup that works for you makes finding trades much simpler. I know that Hari currently uses three screens and wants one of these. He uses TOS, OptionStalker, finviz, TWTR, and tc2000 (I think that covers it?). I have a laptop and one additional monitor, though I do a significant portion of my research on my phone. I use TOS to place trades both on my phone an on my computer, and I use finviz and TOS to scan for stocks. I also have a long series of watchlists of stocks that I like to trade and stocks that I want to keep an eye on in the RobinHood app. I avoid actually trading on RH, but their app is great for making watchlists and quickly spotting stocks that have RS/RW to the market with the thumbnail charts. I also like the Yahoo Finance app, which has live news and quotes. Finviz and TOS both provide live headlines as well. Setting up commonly used EMAs/SMAs like 3,8,50,100, and 200 is important. Learning how to spot S/R lines and setting up alerts is also essential. I have found that HA candles, ATR and VWAP are also commonly used and effective indicators, which I often pay attention to. I am sure there are many other indicators that work for you that I am not familiar with, and I would love to hear about them and how they have helped you make better trades.

Strategies - Trading stocks using the RS/RW method is by far the most effective strategy that I know of. It works incredibly well, and is consistently profitable and repeatable. RS/RW is discussed at length throughout this sub. Recently I have been keeping an eye on unusual options activity alerts on Twitter and using the TOS Sizzle Index, which have both highlighted some good trades. The TSLA trade u/Professor1970 posted in the chat today confirmed to me that options sweeps are worth paying attention to. As I mentioned before, using HA Candles and learning to trade spreads have been huge milestones for me as well. I think that HA candles complement the RS/RW strategy very nicely and are easy to set up and use. Trading gappers, low float, etc... looks easy, but it is not. I used to think that's what day trading was - I am glad that I have since learned otherwise. I strongly recommend not trading that way, and instead learning RS/RW. Also, trading WSB meme stocks is (usually) a terrible idea. Most of the "fundamental analysis" or "DD" they post is utter nonsense. Some of it is not - but unless you know how to tell the difference, you should stay away. I wouldn't even suggest shorting meme stocks since they only have to be right once for you to be on the wrong side of a short squeeze.

Mentality - I have learned to control the adrenaline rush that I used to get while trading, which has made a world of difference. Now when I enter a trade, it just feels like I'm doing any other routine motion. Being calm has made me a much, much better trader. In the (recent) past, I took some unnecessary losses and missed out on some huge gains because I was too afraid or overexcited. Learning to ignore my P&L and trade the chart is still a challenge, but I have gotten better; recently, I have found myself only glancing at my P&L and I no longer feel much of anything. Those P&L numbers are just... more numbers on the screen. The charts are what I *really* care about. That mentality is changing the way I trade and I am seeing the profits come in as a result. Slowly, but consistently.

These posts from Hari are awesome and delve into mentality and habits: One Question To Ask Yourself Before Making A Trade and Bad Trading Habits That Are Causing You To Lose Money.

I also loved this video that u/RentalWRLD shared yesterday - it really is worth watching.

I would love to hear what you guys have learned from this sub and for you to share your thoughts and resources. Thank you to Hari for creating this community and to all of you for being a part of it!

Some Misconceptions about RS/RW I Noticed (/u/5xnightly)

Hari's reply to this post that should be read first (to remove the misconception of the misconception that RS/RW is not important, when it very much is and is core to our trading strategy here)

> This post is extremely well written and stated - I will include it in the Wiki. Well done u/5xnightly !
>
> I've also read all the comments. And I get the critique, and fear that new traders might feel that RS/RW should take a backseat. I don't think, from reading, that this post makes that claim.
>
> Every trade flows from a larger thesis, that thesis includes your read on the market, the sector, the stock on a daily level, and the intraday levels. You're assessing levels of S/R and also trying to ascertain how important each is to your decisions (i.e. breaching VWAP may be ok, but not breaking through a daily Algo line).
>
> So, all trades are a result of a combination of these factors. RS/RW gives you an edge in that analysis, and it is certainly central to your decision. But it does not stand alone as the sole reason - i.e. one should not go long on a stock that doesn't have RS, but RS is not the only reason to go long.
>
> So, I do not think any of the disagreements here are mutually exclusive. RS/RW is VERY important and central. But it is also one piece of the puzzle.

And now to my post:

RS/RW is a relatively simple concept, but I noticed some may be considering it is more than what it is: it's simply a trait of a stock in a given point in time.

There's more than enough about this in the wiki, but I fear it bears repetition.

At its core, RS is just strength relative to SPY, and RW weakness relative to SPY.

In other words, when SPY goes up, it is the tailwind to a RS stock, pumping it up faster, and when SPY goes down, it will drag down a RS stock slower (or make it not rise as fast/stagnate).

The converse is true for RW: When SPY goes up, a RW stock will drag up (or not fall as fast/stagnate). When SPY goes down, it will drag a RW stock down like a dead weight.

RS/RW is not necessarily a criteria to enter/exit a stock with (the following points are also true for RW, but in the other direction).

- I could have a RS stock, but I sure as hell don't want to go long on a RS stock while SPY is dropping.
    - For one thing - every stock will get dragged down if SPY keeps dropping.
    - For another - RS also can signify that a stock is not dropping as fast as SPY is (but if SPY keeps dropping, eventually, it will drop as well).

Now, can you exit a long stock because it has lost RS? Sure, you could. But it could also keep grinding up, but at the same rate as SPY (and not at a higher rate of a RS stock).

Similarly, can you stay in a long stock because it has RS still? Sure, you could. But it could also start dropping, but not as fast as SPY.

You must keep the market first mentality. Every time you think about any action you're about to take, you have to look at SPY first. It is totally ok to be wrong about what the market's doing (we're all learning here after all) - it is not ok to ignore the market.

Let's look at SFM today:

SFM, M5 chart, HA candles

SFM, M5 chart, regular candles

SFM, entries (green arrow) and exit (red arrow)

This was my shining jewel today (yes, even more so than the TSLA scalps). This play gave me 25% of my gains.

I entered shortly after the start of my day (11:49 market time). Notice how the trend keeps going up even as SFM drops at my point of entry. Do I know if SFM is going to drop? No - but I am relying on the trend continuing. If I'm wrong, I'm wrong. But it manages to hold a small green bodied candle on the SPY drop at 11:49 market time.

It continues to grind up, with continuing HA candles all the way up (note: I put the regular candles here, but once I enter a trade I tend to focus on the HA candles to see if the trend continues).

SPY has a general trend going up (some dips here and there), but during the SPY dips, SFM holds and continues to go up.

My exit point is when I see the red HA candle start to form and stay - I take profit at 2:04 market time.

RS, along with HA candles, allowed me to stay in this trade through the dips in SPY. If I relied on RS alone to exit, I could have exited at many points - 12:10 market time, 12:30, 1:05 on RRS indicator, 1:10 on quick-n-dirty RS/RW. None of those would have been a good an exit as the one I did at 2:04, where RRS was still showing great strength, and quick-n-dirty RS/RW was still showing a little bit of strength but dropping.

Am I cherry picking a great play? Yes, I am. But this specific example drives home my point: focus on the market and the stock's trend. RS/RW goes on top of that, not in place of.

Don't think of RS/RW as this magical indicator that will solve everything for you. It is an edge - that's it. It's a great edge, but not much more than that.

If you're having trouble during these tumultuous times, I highly suggest Hari's post of Keeping It Really Simple -- and realize that along with those 4 rules, here's a corollary: Don't go long on a stock just because it has RS, even if SPY is dropping (or short a RW stock when SPY is rising). Trade with the market. (Notice how Hari's post does not mention RS/RW, but how the market is?)

And as always, I hope this helps. If it does not, please tell me so I don't waste your time with useless posts.

Example Trading Plan/Rules (/u/Ajoynt551)

Hello everyone,

I have been spending some time reviewing my trading performance for 2021. Being the few months I have been at it more or less full time and recording my trades. Upon inspection I am discovering some real humbling data. I am simply not staying very disciplined in my trading. Yeah I know in my head what I need to be looking for, when I should be taking a trade and when not to. Of course I am seeing some real tangible improvements but also some glaringly obvious faults. So in my effort to correct that, and thanks to nice long night of staring at the ceiling unable to sleep, I decided to make a hard copy trading plan. I've printed it off and have it right in front of me at my desk. I haven't been in the best place mentally for trading lately and maybe this is the fix I needed, maybe it isn't. At the very least I can say writing it out gave me a kick in the head to wake up to all the dumb mistakes I have been making so hopefully I can make less of those going forward.

So, I'm sharing it here and if any of you feel like this is the type of thing you can use, please feel free to copy and make whatever changes that fit you or use it as a rough template to create your own (probably the better idea). If this is something you've already done, well good for you and id like to hear about what you've implemented that made a real difference for you. You will notice I have some numbers in there like my income goal, this will be changing as I progress, And some numbers I'm missing, this is going to be an evolving thing and is just a first draft. If I find I'm offside on some of this in a month I'll rewrite certain things and adjust.

At the end of the day I need to be treating this like a business, a job. If this is to be my career I owe it at least that much effort right. So just like starting a business, you make a business plan so you aren't going in blind. At the very least this will act as a simple game plan condensing a few key points for myself. Let me know what you think!

https://1drv.ms/w/s!AuqIaOx7xTnMjEOPlwiWWjubGq39?e=IOlgrj

Trading Plan

Personal Goals

Short Term Goals

- Achieve consistency in my win/loss ratio with a positive profit factor. Win/loss - %80
- Continue to learn and apply technical analysis, options strategies, and market outlook.
- Feel comfortable with managing trades professionally and with appropriate patience.

Long Term Goals

- Adopt trading as my full-time career to enjoy more time with my family.
- Earn a consistent income equal to or greater than my salary of my previous career. Approximately $6250 per month.

The most important factor to my trading strategy will be knowing my risk before making the trade to avoid surprise outsized losses overtaking my profits. To achieve this, I will be making great effort to learn proper position sizing and hedging.

I will implement some form of daily learning, be it reading wiki posts, watching videos, research online etc. I will be diligent and honest in my journaling every day after market close.

In order to achieve my monthly income goal my daily profit would need to be about $300.00 per day. I currently take an average of 8 trades per day, my win rate and profit factor should align in order to maintain this goal.

Strengths & Weaknesses

Strengths

- Ability to identify relative strength and weakness in a stock.
- Understanding of technical analysis, support and resistance levels, trend lines.
- Able to turn away from trading less than ideal stocks unfitting to my strategy.

Weaknesses

- Biases to certain stocks
- Risk management needs improvement. Often find myself risking larger amounts than a particular setup/market conditions dictate.
- Proper position sizing needs improvement
- Tend to force trades out of boredom or feeling the need to remain active throughout the day.

Trading Strategy

Trading Rules

- Long stocks with relative strength comparative to the market (SPY), with a strong daily chart only. Short stocks with relative weakness, with a weak daily chart only.
- CDS/PDS expire the same week and be ATM. Debit should be no more than %50 the distance between strikes.
- Long Calls/Puts only if very bullish/bearish respectively. Buy a strike ITM with a delta of .6 or higher and 2 weeks DTE.
- Wait for confirmation above or below resistance and support levels before putting the trade on. Do not anticipate – it is better to be late and right than early and wrong.
- Lotto options should be ATM or very close OTM. Should have a solid reason for taking (do not gamble for the sake of gambling, this is still trading), should be perfectly fine risk-wise with the position becoming worthless realizing max loss on the option.
- Never hold over earnings. Never take a trade without first analyzing daily chart.
- Look for sector strength/weakness and market direction before making a trade in either direction.
- Try to keep your portfolio balanced in order to hedge yourself.
- Do not hold more than 5 open positions at a time.

Indicators & Time-Frames

- Daily chart – 50, 100, 200 SMA. 8 EMA.
- 5-minute chart – 3, 8 EMA. VWAP, Volume with relative volume.
- SPY overlay on stock charts

Trading Hours and Routine

- Establish a bull/bear watchlist before market open – categorized by sector, while remaining flexible to changes in market conditions. Don't be afraid to add or remove stocks from the watchlist if they are not acting as anticipated.
- Make yourself aware of any schedule news events or earnings reports that may affect the market or individual stocks that may be of interest.
- Wait and observe for at least 30 minutes after market open.
- Once profit target for the day is achieved, take a step back and evaluate. Go through your watchlist, check in with what the market is doing, set alerts, log your trades, get up and stretch etc.
- After market close, log all trades into your journal. Review and understand any mistakes you made and why. Don't forget to review what you did right.

Before making any trades always check in with the market. Observe the SPY/VIX daily chart – is it above the 50,100,200 SMA? Have you drawn trend/algo lines and found horizontal support and resistance levels? Look ahead for any scheduled news events. Observe what sectors are strong/weak.

Check in with yourself prior to trading. Are you tired or rested? Stressed or anxious? Understanding when not to trade is more important. You trade like shit when you've been up all night with a screaming toddler, recognize that and don't trade. Set alerts on levels you will be interested in a stock and wait for them to trigger. Maintain patience, if nothing presents itself do not force it, let the trades come to you.

Going Forward

- Increase base account size every 3 months, if consistently profitable within that time, by a percent deemed appropriate to results and personal finance requirements.
- Determine an average profit and loss per trade every month. Along with win rate, this will be used to determine position sizing to meet my income goals.
- Continue education in options strategies to expand my playbook. Areas of interest currently are calendar spreads, Bullish put spreads, and butterfly options.
- Analyze trading journal monthly to determine what types of mistakes I am commonly making and make a plan to correct it. Determine what I am doing right and work on doing that more.
- Study up on hedging and become better at sizing appropriately to cushion my downside potential appropriately without cutting into my upside potential too much.

Exiting and Entering - Using the Market as a signal (/u/IzzyGMan)

I've seen a few posts lately asking for trade reviews, or wondering how to enter and exit a trade, asking if this pullback or that bounce or this 3/8 cross or whatever else on the ticker is a good signal. I haven't seen much discussion about what the market is doing at time of entry or exit, however, and, as Pete (u/OptionStalker) and Hari remind us constantly: **MARKET FIRST.**

Here is an example from today on how I do it, and how I traded FISV and when AND WHY I exited all my short positions at the same time.

TRADING GAPS

TRADE JOURNAL for FISV


FISV
1m 5m 15m 30m 1h 2h 4h D W M
FISV
1/2 Big Red Candle
Loss
Hold
NLOD
Exit
98.50
97.97
97.50
97.00
96.60
96.20
95.80
10:00
10:30
11:00
11:30
12:00
12:30
~1/2 gap
Loss
Hold
Exit ALL Shorts
NOT Thesis
Thesis
SPY
374.00
373.59
373.00
372.50
372.00
371.50
371.00
370.40
369.80
369.30

FISV Vs SPY

I have my thesis for SPY and this will guide my trades.

We have a gap down after a high-volume selloff, so I'm expecting some retracement if I don't see red stacking candles with little to no overlap and increasing volume (Here is a [MASTER LESSON](#) by [u/OptionStalker](#) on trading gaps down and bear trend days). I also have a couple of levels I'm looking at: Low of day, high of day, 1/2 way up the gap, yesterday's close. I am bearish until SPY confirms ABOVE 1/2 of the gap with volume, and after yesterday I'm not bullish unless I see high volume, stacking greens, etc etc.

So I pick my ticker to trade (how is beyond the scope of this quick post and there is a ton of info in the wiki) and I'm watching SPY. I enter at #1 because of the big red engulfing candle. I expect to see immediate follow-through and I don't get it. Ok, now I want to see 1/2 of that red candle defended and I enter an order to add to my position a little below the 1/2 point. I get filled at #2 ON SPY, NOT FISV. I determined FISV is very weak and under algo, and at that point I don't care about FISV.

Now I'm looking for continuation down on SPY through VWAP. I don't get it. In fact, the big red candle is erased by a big green candle. hmmm. But I'm still bearish and that green candle is very low volume for its size so I hold. As SPY gets close to the 1/2 point of the GAP I add to my trade again at #3 and I keep holding. If SPY confirms above the GAP then I take the loss.

SPY touches and reverses. At this point, I'm looking for continuation into a NLOD and increasing volume into and through VWAP. My plan is now to add again to the trade if SPY confirms below VWAP and exit 1/2 to 3/4 at NLOD, and exit if it stalls or reverses.

SPY clears VWAP and reverses and, at this point, I exit FISV AND ALL OTHER SHORT POSITIONS (AMZN, FISV, GPN, SPY). Why? My thesis is now broken. There is no new low of day and we will either make a new high and continue, or chop around for the time being, or make a NLOD. I don't know and have no clarity, so I take my money off of the table and wait.

At any point am I looking at FISV? not very closely. Yea I'm a little underwater, but I can hold and it's weak. I'm more concerned with what SPY is doing and whether I went in too early, before SPY set a trend (I did).

I hope this helps, and I look forward to seeing more 'review my trades' questions focused on what SPY is doing at the moment.

Keep chasing the dream.

For Beginners - Factual Knowledge of Technical Analysis (/u/ELBashour91)

I am posting this today because tomorrow is Easter and I want to focus on the holiday and on family rather than on trading and writing. I admit I am a bit tired, so please excuse any grammatical or formatting errors - let me know if you see any and I will correct them another time. Happy Easter to all!

This post targets beginners, especially those new to the sub and new to trading. Please read this post in conjunction with (or after) the "Getting Started" section of the Wiki.

Among the modern scope of study exists a variety of different types of knowledge. Of these types, the two most referenced are "theoretical" and "experiential" knowledge – both of which fall into the realm of "conceptual" knowledge. *This type of knowledge must come second - within the context of the learning process, the first and most important for foundational growth is "factual" knowledge.*

Factual knowledge is knowledge not subject to large variation, generally having a widely accepted definition and construction (although not always!). Conceptual knowledge largely refers to perception and application, varying based on a variety of factors, especially opinion and personal experience.

In order to benefit from the Wiki, OneOption videos, or practically any content in this sub, the aspiring trader needs to have a basic ***factual knowledge*** of Technical Analysis (henceforth referred to as TA). This knowledge is the barrier to entry for the sub, the Wiki, OneOption videos, and especially trading as a whole (for hobby or for career). *Factual knowledge of TA is like your "learner's permit", and you have to put in the legwork to achieve it yourself.* Acquiring your own "permit" requires a bit of work and dedication. Those uninterested in the necessary labor will not put in the effort and will deprive themselves of time, money and overall progression in this field. Please do not harm yourself in this way! Try to make a bit of effort.

Figuring out what factual TA to research first can be both daunting and confusing – in the beginning of my trading journey, this is where I struggled the most. Therefore, in an effort to give you some directions, I have compiled a list of what I see as essential factual TA. I use these items whenever I trade, and they are also frequently referenced in the Wiki. Learning about these items first will substantially increase your readiness to read the Wiki with a capacity to understand the contents therein. *I will not provide an explanation of these items - you can find the necessary information for each item with a quick Google search faster than I can write it for you!* If you are not willing to look up the information on your own, you are doing yourself a huge disservice and will really struggle to trade in any capacity. For those who are willing to do their own research, these are some of the basics. I hope you find them useful!

Important: Strive to learn as little as possible about the conceptual knowledge of the items I have listed. Prioritize gaining factual knowledge particular to these items. I am not trying to discourage proper effort and absorption of knowledge, but caution is both warranted and necessary. I will explain later in the post.

- **Charts:** There are many different charting methods for any security, some more intuitive than others. Most traders strongly prefer and use candle charts. While line and OHLC (and some others) have their place, candle charts do an excellent job of providing detailed information in a clean and easy-to-view format. In your research, view various types of charts and familiarize yourself with the look and feel of candle charts. Don't worry about reading the chart! Simply develop some familiarity.
- **Timeframes:** Within each chart there are a variety of time intervals to choose from. Traders tend to refer to these different time intervals as "timeframes." There are a variety of timeframes to choose from. In your studies you may see these referred to as D1, M5, etc. Find some charts to work with (Yahoo Finance was my tool of choice to learn active charting before I understood my broker's software) and play around a bit with changing the timeframes.
- **Viewing Windows:** The best way to envision a viewing window is by comparison to a window in a building: the wider the window, the wider the view of what's outside. Each timeframe generally has a default viewing window (for example, the D1 generally has a 1 year viewing window) but this can be changed according to how much information you are looking for. Chances are that you will find this information when studying charts and timeframes, but in an effort to distinguish between windows and timeframes I listed this item separately.

- **Candles:** A candle is effectively a snapshot of price action over time. Understand the basics of candle formation (wicks, tails, open and close levels, color, etc.). Learn about the various shapes of candles (dojis, hammers, engulfing, etc.). Don't get caught up too much in what they mean to stock movement. Instead, be attentive to how their formation relates to their shape. **Important:** *Candles need to be read within their context - the Wiki along with OneOption's videos will teach you the correct way to do that. The vast majority of what you will find with simple searches does not take context into consideration. For example: a "bullish" hammer is not always bullish – context is everything. Do not fall into the trap of "x always means y" in candle application.*
- **Price Action:** This is the most dangerous item to research because the information you find will vary widely in quality. Any serious price action material you need can be found on the sub and/or on OneOption's YouTube channel. *Price action is a mix of factual and conceptual knowledge and the only part you need right now is factual.* Learn the definition of the following: trend, pullback, consolidation, breakout and reversal (and associated terms). Understand that these movements can occur in a variation of up, down and sideways directions. You may also come across the word "chop" in your research. Chop is not easy to technically define, and many traders use the term too loosely, defining any type of price action they are unable to read as chop – often when it is not. For now, be aware that it usually has a negative connotation in regard to the quality of price action conditions.
- **Moving Averages:** Learn the definition of a moving average and how it is calculated. Understand how different inputs and methods of calculation affect the output. Especially important is the difference between simple and exponential moving averages. The Wiki explains how to use them – all you need to know is what they are.
- **Volume:** Learn the definition of volume and understand its basic calculation. This community prioritizes Volume Averages, On Balance Volume (OBV) and Relative Volume (of which there are primarily three variations). Learn the basics of these concepts, but again – attend primarily to their factual description rather than their conceptual applications. Relative Volume in particular is best learned here - use the search bar!
- **Average True Range (ATR) and Average True Range as a Percentage (ATRP, also written as APTR):** These are very important concepts that I believe are largely essential to your proper selection of stocks to trade, especially relative to your specific personality traits and profit objectives. ATR and ATRP are not discussed as much in the Wiki as the other items I have listed. At some point, God willing, I will write an article explaining them. Common usage generally applies ATR and ATRP as measures of volatility – this usage vastly understates their value. In your research, try to get a feel for the items themselves and their calculation. I found Fidelity (the broker, on its website) to provide a good explanation when I first learned about these concepts.
- **Support and Resistance:** These topics are more conceptual than factual, so you have to be careful in your research thereof. Understanding the definitions of these words in the context of trading is enough to enable you to read the Wiki and understand. Be less attentive to those sources defining them as zones (especially in relation to the words "supply and demand") and more attentive to those defining them as lines or levels – proper application of support and resistance is covered in the Wiki, so learn the application there after you understand what they are on your own.

A Note on Caution: Within the Wiki there is much reference to unlearning what you once knew. *This is generally in reference to unlearning very poor conceptual knowledge, some of which is outright inapplicable and very damaging.* Therefore, ***exercise extreme caution in your research.*** As of this writing, there has never been a time where so much information is so easily and cheaply accessible – and so much of it is completely unworthy of your attention. If you learn the factual basics themselves, the conceptual knowledge can be found in trustworthy sources. I assure you that the Wiki and the OneOption YouTube channel are both trustworthy sources. Learn the factual basics from your own research. Learn the conceptual knowledge from the Wiki and OneOption. Combine these learnings with your own efforts to trade (when you are ready and with respect to the steps in the Wiki) and you will increase the probability of your success. And most of all…

Be Patient!!!

When learning any topic – *especially* something you perceive as simple – it is easy to try and rush ahead, skip steps, and do it your own way, irrespective of advice and exhortation to the contrary. This is not proper and good zeal for learning! Rather, it is impatience and pride. Learn to discipline your studying and you will gain patience. This patience will help you use resources properly and apply them properly. Be obedient to the Wiki and you will learn obedience to yourself and your rules. **Patience and obedience learned in study directly translate to patience and obedience in active trading.** As many have said, "Slow is smooth, smooth is fast – go slow."

If you learn to apply effort to your own research now, you will find difficult and content-rich sources to be more approachable in the future. Starting that research can be overwhelming, especially since loss of direction (and subsequently zeal for learning) easily occurs. I hope you find this list useful in your efforts to learn and grow as traders!

Q: Can anyone expand a bit more on the difference between the lines & levels definition of support and resistance, and zones & supply and demand?

A: **Supply and Demand Zones:** I can't help with this part, in my opinion. According to the Wiki, these are generally to be avoided as items to trade with. Of course, there are supply and demand forces in the market, but using "supply and demand zones" to trade is something Hari has repeatedly advised against, therefore I also cautioned against those items in the post. Due to Hari's warnings, I have not pursued knowledge of those items and probably know no more than you do of them!

Support and Resistance (S/R) Lines/Levels: As you are likely aware, levels are specific price points where S/R exists. "Lines" as a term includes trend and algo lines, moving averages, and price points as well. A level is a line, but a line is not always a level, if that makes sense. As price approaches lines and/or levels, it responds to them in a manner dependent on a variety of contexts, including but *not* limited to:

- Market conditions
- Sector influences
- News atmosphere of both stock and market
- Relative Strength and Weakness to SPY
- Volume
- ATR
- Presence of buyers vs sellers in the stock
- Type of S/R (SMA, Trendline, Price Point, etc.) and how it has been responded to recently.

I hope this helps a bit!

Chapter 19. General Resources

How To Setup Charts (And Trade Options) [VIDEO]

Hello all -

I've been requested to do some quick tutorial videos, so I just made this one which covers:

- How to set up your charts
- How to buy Options
- What the hell are Options
- Option Spreads

https://youtu.be/R55uddohLDw (19:20)

Setting Alerts on Your Charts

The two best ways to identify potentially profitable trades throughout the day are by using *scanners* and *setting alerts*.

It occurred to me that there is no post in the Wiki about *setting alerts*.

Alerts are an extremely powerful tool that if done properly can serve up trades to you throughout the day.

You should be setting alerts on charts constantly, but you want to make sure they *mean something* when they are triggered.

For example - let's look at **AAPL**:

AAPL has a clear point of resistance here - you have horizontal support which joins with the downward sloping trendline, meeting at $176.45. Placing an alert on AAPL at $176.50 would give you a very clear buy signal (*market permitting*).

Here is another example - **HD:**

You'll notice there are a lot of different lines here - you can draw an upward sloping line from the 1/18/2022 Bullish Hammer, a horizontal line of resistance from the *bottom* of 1/14/2022 red candle, which pretty much comes right in at the SMA 100, a downward sloping *Algo* trendline from the *top* of that same candle and an *Algo line* coming in from 1/7/2022.

What this produces are a clear range from $372 to $376.50, with the SMA 100 sitting right in the middle at $374.

*The interesting thing about this chart is that it shows that if **HD** broke through the SMA 100, that alone wouldn't be enough to go Long - it would still need to break above $376.50 - **and that is where you put your alert**.*

Looking at **PHM** we see a very different set-up, providing both a potential *Long* and *Short* opportunity:

PHM is definitely bearish right now, it broke through three major SMA's in the past three days - so it is a good short, right? Not quite - look at the upward sloping *Algo* trendline from 10/1/2021 - twice the price hit that line and bounced above it - right at $49. An alert below $49 ($48.80 should do it), and a finish below that price would make **PHM** an attractive short. However, it may also bounce nicely off this support and head back up - where you want to see it once again clear the three SMA's to be considered for a long position. However, the high-volume candle on 1/13/2022 provides you downward sloping *Algo* trendline which is an excellent benchmark to be certain of its' bullish reversal - and thus another alert at $54.30 gives you another potential trade.

Going through your charts, and noting *downward sloping trendline and upward sloping trendlines* ***(Note: trendlines that start with a high volume candle can be considered Algo Lines - downward sloping Algo lines are more powerful than upward sloping ones)****, horizontal levels of support or resistance, and SMA's,* will provide you will excellent points for your alerts.

Setting roughly 10-20 Alerts a day, both for longs and shorts, puts you in a position where you can have excellent trades suggested at a constant interval. Naturally, once an alert is triggered, you need to open up that chart, look at the market, and decide if there is a trade present - but if you make sure your alerts are *meaningful* and thus aren't simply triggered by *chop*, more often than not you will find yourself deciding between several potentially profitable ideas at once.

Scan settings I like to use (/u/IzzyGman)

I've been getting some DMs about what scanner I use to find my picks. For disclosure, my main scanner is Option Stalker from [oneoption.com]() and my secondary scanner is [Trade Ideas](). Hari has a [review on TI]() .

The 1OP scanner is literally built for our strategy. I've been playing around with TI because it's also very powerful yet I'm not certain that the additional cost is worth it. Diminishing returns and such. It also takes a lot of work to get it dialed in to our strategy.

I'm writing this out because 'what scanner do you use' is the wrong question to ask. The right question is 'what filters do you use' or 'what do you scan for and why or when', regardless of the platform. Any scanning/screening platform should be able to search for many or all of these filters:

BASIC FILTERS I LIKE (I'll modify these once in a while, but nothing gets scanned that doesn't fit these):

- Price per share: $5+
- Float: at least 50M
- Average Daily Volume: at least 1.5M
- Average True Range: at least $1.5
- Relative Volume: at least 1.5x.

THE SCANS I USE with the above filters (these are **always** up on my screen):

1. 52Wk/AT high/low scans
2. NHOD and NLOD on volume
3. D1 compression breakout, with 4 daily candles minimum compression (experimental)
4. D1 compression breakdown, with 4 daily candles minimum compression (experimental).
5. Strong D1 with all SMAs in order (all above filters + sustained RS vs SPY or Sector + above VWAP +3+ green candles in a row). SMA 200<100<50<current price
6. Weak D1 SMAs in order (Strong D1 flipped)
7. Consistent Green Candles on increasing volume (3+ candles with increasing volume)
8. Consistent Red Candles on increasing volume (3+ candles with increasing volume)
9. Royal Flush green (1OP scan)
10. Royal Flush red (1OP scan)

I also have a few others on 1OP that I check regularly, but those are my go-to daily scans.

That's it. Then I quickly type in all of my results into a 'strong' and 'weak' watchlist and flip through them, eyeballing for nice patterns on the D1. Then I delete those D1s that don't look good. If one doesn't 'yet' look good but would at a certain level, I place an alert.

From the resulting list I then go into the 5M and do the same, and I'm left with a nice list of potentials.

I do this a few times a session to keep the list updated as sectors rotate in and out.

Hopefully my scanner settings give you an idea or two. If it can't be implemented in your scanner, maybe a variation of the above would work. What's important is that we understand why we scan for what we do and then see if our tools can give us some nice picks. Then integrate it into your workflow to blast through charts intraday.

Keep chasing the dream.

Free daily screen using Google Collab (/u/RossaTrading2022)

I'm still a newb (only been paper trading 3 months) and sometimes I feel like I'm scrambling to find good stocks during trading hours. As a result I feel like I'm chasing moves, so I'm trying to be more systematic in my prep work using u/HSeldon2020 's post Keeping it Really Simple as the foundation.

Here's a python notebook that anybody can download, upload to Google Colab, and run. As of Friday's close (9/2/22), here are the stocks in the S&P500 that fit Hari's rules 3 and 4:

Longs

- CAH

Shorts

- AMD
- BKNG
- DOW
- DPZ
- EQIX
- FCX
- FIS
- FLT
- HPQ
- HRL
- HSIC
- IQV
- LYB
- MPWR
- NSC
- NVDA
- NWL
- PVH
- RL
- RTX
- SEDG
- SWK
- T
- TTWO
- TWTR
- VZ
- XRAY

Over time I plan on adding more criteria to this workbook based on RSRW vs SPY and sector ETFs, and expanding beyond just the S&P500. Also, if I can figure out how to automate technical analysis like on FinViz charts I'll add that too. Let me know what you think!

EDIT: here's the list of stocks as of today's (9/6) close, including if the stock was mentioned in today's chat:

Longs

- CBOE, no

Shorts

- AMD, yes
- BKNG

- DOW, yes (by me)
- DPZ, yes (also by me)
- EQIX
- FCX
- FIS
- FLT
- HPQ, yes
- HRL
- HSIC
- IQV
- LYB
- MPWR
- NSC
- NVDA, yes (Hari closed position)
- NWL
- RL
- RTX, yes
- SWK
- T
- TTWO, yes
- VZ
- XRAY

Pretty much the same on the short side except PVH, SEDG, and TWTR didn't have flat-topped candles today. CBOE has a weird D1 chart because the last two days were gap up red candles, although it did close above the SMA today.

Expected WR% Template (/u/Oneclumsy_mfer)

As continuation to what u/HSeldon2020 (Take The Loss Or Stay In The Trade) shared in relation to determining whether to ride the trade out or take the loss here is a file to help quickly analyze the expected WR% for a range of price targets & set price points which act as support/resistance for your trade.

Expected Win Rate % Template

Input values into cells in Column B to see desired results.

Current values reflect the AAPL analysis he walked through.

And if you input your Win Rate % you can also determine the required targets/stop loss to achieve that Win Rate % for the trade.

Hope it helps.

How to Create Tags for your Trading Journal

Keeping an ongoing trading journal is essential. I have always said that if you were to spend money on only one thing, it should be on getting online journal (I use TraderSync, but that is personal preference). Could you make your own? Probably - but I doubt it would give you all the tools that a preset journal already has built-in.

Obviously, your journal keeps track of your win-rate, profit factor, total number of trades, etc. which are key numbers that you should be plugging into your trading business plan, like this:

Business Plan Example:

- Goal: $15,000 a month in profit, $180,000 total profit per year
- Annual Hard Costs (Internet, Subscriptions, Software, etc.): $5,500 per year
- Win-Rate (averaged over 1,000 trades): 70%
- Average Profit Per Winning Trade: $100
- Average Loss Per Losing Trade: $60
- Average number of Trades Per Day: 10
- Expected Daily Profit: $520
- Expected Annual Profit (based on 252 Trading Days): $131,040

Based on a plan like this you would realize that you need to either increase the number of trades per day, decrease the average loss, increase the average win, or increase your win-rate. Your stats and your goal in this case would not align and need to be addressed.

This is where your journal comes in once again. If you have been properly labelling your trades you would be able to identify the areas you are more successful and thus, take more of those set-ups or where you need to improve (or avoid).

Everyone has different methods on how they "tag" their trades, but to help those who are struggling to come up with a good system, I have created a taxonomy that you can implement:

Method of Classifying Trades

Let's start with the "Mistakes" because fuck-ups are more fun. Any good method of categorization starts "top-down". First, we need to define, "Mistake". For the purposes here I will use a very simple definition - a *mistake* is something that was in your control and had a negative impact on the result. So, if news hit that suddenly tanks a stock you had a long position on, that would be out of your control and not a, *mistake*. However, if you knew news was going to be released on the stock and traded it anyway, that would be a *mistake*.

There are **three** meta-level mistakes:

- **Trade**
  - *Mistake - Trade:* You should never have taken this trade.
- **Entry**
  - *Mistake - Entry:* The trade was fine, but you screwed up the entry.
- **Exit**
  - *Mistake - Exit:* The trade was fine, but you screwed up the exit.

Now each of these would have sub-categories, these are some, but you can add others. I would just caution against having too many tags as you want to be able to look at your trades by each category and would need enough of a sample for it to be meaningful. You would also use a combination of various tags:

Mistake - Trade

- *Mistake - Trade - Against The Market*
- *Mistake - Trade - Countertrend*
- *Mistake - Trade - Gambling*
- *Mistake - Trade - Low Probability Trading Environment*

- *Mistake - Trade - Low Probability Trade (this one could have it's own sub-categories as well)*
- *Mistake - Trade - Not Confirmed*
- *Mistake - Trade - No Relative Strength/Weakness*
- *Mistake - Trade - Ignorance (i.e. you took a trade you did not understand)*
- *Mistake - Trade - I was an idiot and I am not sure why*
- *Mistake - Trade - Other*

Mistake - Entry/Exit

- *Mistake - Entry - Did Not Wait for Pullback*
- *Mistake - Entry - Chased*
- *Mistake - Exit - Held Loser too Long*
- *Mistake - Exit - Cut Winner Short Should Have Held*
- *Mistake - Exit - Cut Winner Short Should Have Added*
- *Mistake - Exit - Averaged Down*
- *Mistake - Exit - Ignorance (i.e. you screwed up exiting a spread because you had no idea what you were doing)*

It is also important to include any emotion that factored into your decision. You should have set "emotion" tags that you can add to any trade, such as:

- **Fear**
- **Greed**
- **Hope**
- **FOMO**

Sometimes the fuck-up is so complete that your tags might look like this:

Mistake - Trade - Gambling, Mistake - Entry - Chased, Mistake - Exit - Held Loser too Long, **FOMO, Greed, Fear**

Basically, you saw a stock jump up in price so you quickly took the trade (FOMO and Greed led to Gambling) and then you chased the price up until you got filled, it turned against you but you stayed in way too long and got your ass kicked.

Set-Ups

A good online journal will have a place for you to put your "mistakes" and another place for you to enter the set-up of the trade.

You might first want to note what the market conditions were at the time of the trade:

- *High Probability Trading Environment*
- *Low Probability Trading Environment*
- *Bullish Trend Day*
- *Bearish Trend Day*
- *Low Range Chop*
- *High Range Chop*

Here are the basic top-level set-ups:

- *Relative Strength*
- *Relative Weakness*
- *Sector Strength*
- *Sector Weakness*

- *Strong Daily Chart*
- *Weak Daily Chart*
- *Good Relative Volume*
- *With Market*
- *Against Market (this isn't always a mistake)*
- *Hedge Trade*
- *Lotto Trade*
- *SPY/QQQ Trade*
- *Afterhours*
- *Unusual Option Activity*

And some more detailed set-ups (Support/Resistance is assumed to be daily) :

- *Break of Compression - Daily*
- *Break of Compression - Intraday*
- *Break of Trendline Resistance (you can put an "A" next to this if it was an Algo line)*
- *Break of Trendline Support (you can put an "A" next to this if it was an Algo line)*
- *Break of Horizontal Resistance*
- *Break of VWAP or AVWAP*
- *Break of SMA(s)*
- *Momentum with Catalyst (e.g. a news event)*
- *Momentum with no Catalyst*
- *Bounce off Support*
- *Rejected at Resistance*
- *In the Gap*

You should also enter the type of trade:

- *Straight Calls*
- *Straight Puts*
- *CDS*
- *PDS*
- *CCS*
- *PCS*
- *WATM*
- *Earnings Time Spread*
- *OTM PCS*
- *Bracketed Butterfly*
- *Day Trade*
- *Swing Trade*
- *Day trade turned into Swing Trade*
- *Scalp*

You can also include your mood for that day (which is different from the temporary emotion you felt regarding a specific trade):

- **Happy**
- **Anxious**
- **Depressed**
- **Desperate**
- **Angry**

- **On Tilt**
- **Exhausted**
- **Irritable**
- **Excited**
- **Annoyed**

So, a full trade might look like this:

High Probability Trading Environment, Bullish Trend Day, Relative Strength, Sector Strength, Strong Daily Chart, Good Relative Volume, With Market, Break of Compression - Daily, Straight Calls, Swing Trade, Excited

This way after many months of trading you will have enough cases to be able to look at all the trades you made that included *Straight Calls* with *Relative Strength* to see what your win-rate is on just those two set-ups. Then you can compare when it was a *High Probability* day or a *Low Probability* day.

Once you master tagging your trades you will be able to look at countless combinations to find your strengths and weaknesses. A good online journal will also be able to tell you what scenarios you excel in, and which ones need work.

Clearly there are a lot more categories you can add to this, but hopefully by now you get the general idea.

This is a long overdue post given how important the subject matter is to your trading education (and yes, it will go in the Wiki).

Institutional Trade Idea

As many of you know I not only trade my own account, but I am also trading a much larger account (over $5 million) with a desk at JPM.

When you get assigned a "desk" at an Institution you are given your own team that not only processes your trades, but also gives feedback and/or suggestions. They also can give an in-depth report on the market or any stock.

I've now had direct experience with both JPM and GS desks. There is no comparison - JPM is **far** superior in almost every way. They are quicker, more knowledgeable and nicer.

Although one thing I will not do is utilize any "special" offering, such as *exotic options* or *halt-swaps* (the ability to close a position while the stock is halted). That is simply not fair, and I have a pathological need for things to be on a level playing field. This is not because I am some virtuous person, I'm not - hell, if karma existed, I would be absolutely screwed.

No....I just fucking hate the fact that the people that need "advantages" the least are the ones that get them the most. It is total bullshit that some rich asswipe is able to take profit on something while everyone else gets fucked.

Anyway....back to the trade idea: Today I received an interesting suggestion which is predicated on the upcoming CPI number next week - to be released on 2/14. They believe that the market is not properly pricing in the percent chance that the CPI comes in hotter than expected.

Basically it goes like this (an over-simplification, percentages are random, but used to illustrate the perceived discrepancy) - Let's say there is a 50% chance the CPI is under-expectations, in which case the market will go to $420, there is a 40% chance it will meet expectations in which case the market will be between $410 and $419, and 10% chance it will exceed expectations, in which case the market will be below $405. If you average all that out the market should be at $416.50 going into the number.

However, they (JPM) believe the percent likelihood given to the CPI coming in above expectations is too low. Which means that if the CPI *is* hot, the market will need to over-correct, and the drop will be on the extreme end. For example, if the percentages were really 30%, 40% and 30% then the market should be at $413.50 not $416.50.

On top of this (or due to it), the option pricing also does not reflect the higher than modelled chance of a hot CPI number, which gives a better Risk-Reward on the downside.

So that is their logic. As to why the CPI is more likely to come in hot than people think, it goes like this:

We got a stronger than expected employment number, which when combined with a hotter than expected CPI would cement the current hawkish path for the Fed, or even accelerate it (*i.e.*, a 50bps raise). While an in-line or softer CPI report seems to already be baked-in to the market. That belief does not seem to take into account the recent commentary on product and service pricing from Q4 results thus far, the wider reopening in China, rising commodity prices, a weak dollar and of course the very tight labor market - all of which suggest that continued declines in inflation for January may be difficult to achieve. Also, if you look globally at the larger economies around the world (of which the U.S. CPI is highly correlated) they are all coming in higher month-over-month for January. All of these seems to imply that the CPI report will be, in their words, a "high impact" event - but despite this the option market are below their historical averages for CPI-related moves.

Anyway, that is the reasoning behind the trade, so now the trade itself:

Buy the $414 SPY Puts (or whichever strike is just below ATM) expiring 2/14 & buy the $195 IWM Puts (or whichever strike is just below ATM) expiring 2/15

This is a purely directional trade without a hedge and is entirely dependent on a hot CPI number. The market may well continue up and cause a significant drawdown on this position. Obviously, your best-case scenario is that come 2/14 you are already in profit before the CPI even hits.

I took this trade earlier today right before the market pulled back, and then closed it for a huge profit (**SPY** Puts almost doubled in value). When the market went back up I put the trade back on.

I currently have the **SPY** $413 Puts, 2/14 Expiration for $4.28 and the **IWM** $194 Puts, 2/15 Expiration for $2.48.

I am not advising you to take the trade or not - I just feel that if I am given information from them, you should have it as well. Do with it what you will.

EDIT: To be clear - "Having a desk" does not mean you work at JPM (or GS or any other place like it) - it means you have a large trading account with them.

TradingView Script Imitating 1OSI

https://www.reddit.com/r/RealDayTrading/comments/r8t46o/custom_indicator_for_tradingview_1osirelative/

Hi everyone, Just wanted to share a custom indicator I made trying to replicate the 1OSI indicator as I'm not a member of the OptionStalker platform yet and really like TradingView as a charting platform.

I'm not claiming (and I don't know if) that this is exactly the same thing but please see this comparison and make your own conclusions:

12:35 M5 candle showing -1.93 on my TV indicator and showing -1.95 on 1OSI (took screenshot from Pete's video) but there the candle was still live.

TradingView "1OSI" indicator

Real OptionStalker 1OSI indicator

I asked Harri if he had any problems with me posting this but he didn't. If Pete would have any problems with this, I would take the post down.

Hope you all find this usefull, just want to give back to the community. Link: https://www.tradingview.com/script/LmdZuHmN-Relative-Strentgh-vs-SPY/

EDIT: Look like TradingView blocked the script for some reason. Here's the code while I look into publishing it again:

```
indicator("Relative Strength vs. SPY")
period = input(10, "Period")
symbolVar = (close - close[period]) / close[period] * 100
spy = request.security("SPY", "5", close)
spyVar = (spy - spy[period]) / spy[period] * 100
rsi = symbolVar - spyVar
plot(rsi)
plot(0, color=color.white)
```

TradingView Script Imitating 1OSI, Relative S/W vs SPY WITH ATR Indicator

https://www.reddit.com/r/RealDayTrading/comments/13g0h4d/tv_1osi_relative_sw_vs_spy_with_atr_indicator/ .

I have coded a script for TradingView to give a simple overlay of SPY. I know there have been posts about this before, however I have added a simple ATR filter. If anyone has any modifications, please feel free to add them!

```
//@version=5
indicator("vs SPY", overlay = true, scale = scale.left)
// Calculate ATR
atr_length = input(14, "ATR Length")
atr_value = ta.atr(atr_length)
// Define entry conditions with ATR filter
entry_condition = close > open
atr_filter_condition = atr_value > 0.5 // Change the value as desired
SPYClose = request.security("SPY", timeframe.period, expression=close)
SPYMA = ta.sma(SPYClose, 8)
plot(SPYMA, color=#0ebddb)
```

Hope this helps some of you out there as I have endlessly benefitted from this sub.

Appendix A. Abbreviations

- **Long**: This means we bought to open. Entries are very important because we may want to join the trade. If we just used the word bought we would not know if that was a buy to cover a short or a buy to initiate the trade.
- **Short**: This means we sold to open.
- **Bought for gain/loss**: This means we are closing a short position we previously posted.
- **Sold for gain/loss**: This means we are closing a long position we previously posted.
- **Bidding $X.XX**: This means we trying to buy below the current price to close a short position. That price is our target.
- **Offering $X.XX**: This means we are trying to sell above the current price to close a long position. That price is our target.
- **Stop**: This is our stop price and the order has been entered. It is a "working order".
- **Mental stop**: This is a manual stop. It gives others an idea of where we plan to exit a current trade.
- (S): Scalp
- **CDS**: Call Debit Spread
- **HOD**: High of Day.
- **LOD**: Low of Day.
- **M5**: Five minute chart.
- **D1**: Daily chart. We often reference this and it is a sign we would consider for a swing trade.
- **MA**: Simple Moving Average. 200MA is the 200-day Moving Average.
- **HA**: Heikin-Ashi Candles
- **Bullish Hammer**: Candlestick pattern.
- **Bearish Hammer**: Candlestick pattern.
- **Bullish/Bearish Engulf**: Candlestick pattern.
- **Doji**: Candlestick pattern.
- **OTM**: Out of the money option
- **ATM**: At the money option
- **ITM**: In the money option

- **Lotto calls/puts**: Options that expire the same day. Usually bought in the later hours of Friday for a fun high risk/high reward play. Do not use large amounts of capital on these plays.
- **ES**: S&P 500 e-mini futures
- **Melt up**: https://www.investopedia.com/terms/m/melt-up.asp
- **LPTE**: low probability trading environment

Appendix B. About the Founder

HSeldon - My Introduction

So many of you have shared your stories with me, many of them deeply personal. It is only right that I share some things about myself.

First the basics - I am 48 years old, live in Los Angeles, and I'm married (second marriage) with two kids: A 16-year-old and 2 year old son. My 23andMe shows a mix across Europe, but overall, I am Jewish (Mother Jewish, thus, I am Jewish), Italian, Irish, German, and Albanian/Russian. Been an atheist since I was 9 years old.

I grew up poor, like living in a car, sharing a Snickers bar with my two siblings as our "treat" for the week, type of poor. Usual sad story - Father left when I was 3, mentally ill Mother estranged from her relatives, *etc. etc*. Mental illness runs in my family, and I was not left untouched by this genetic "gift".

Some interesting things about myself (and I assure you it is all true):

My Grandfather (Maternal) was a world class Pianist and conductor, trained at Juilliard. His Grandmother (my Great, Great Grandmother) was Leah Einstein. And his Great Great Grandfather was Abraham Einstein, whose only claim to fame, as far as I know, is in being Albert's Father. Of course since Albert went ahead and married his own Cousin, my Aunt Elsa ,the family tree doesn't exactly fork in some spots.

I showed an aptitude for Physics at a young age, and eventually went on to get a scholarship to Cornell in the subject. Upon arriving there, because of my family relations, it became clear that the expectations they had were....unreachable. This led to probably the only time in my life I walked away from a challenge, as there is just no way I was going to beat E=MC squared.

It is also noteworthy that at the age of 10 I became obsessed with the Foundation series from Isaac Asimov (my youngest son's middle name is Isaac), and the notion of creating a way to predict human behavior. *Hence my screen name HSeldon - which stands for Hari Seldon, the main protagonist of the Foundation series*. This series is now a TV show on Apple - I like show (waited like 38 years for it), but it is, unfortunately, very different from the books. Anyway, leaving physics and going into Sociology was an easy transition given my hope to one day "model humanity" and predict it. This obsession would wind up dictating the course of my life.

As I worked through undergraduate and then graduate school (SUNY Stony Brook - stayed close to home to care for a sick mother), I got engaged 7 times - and lost all 7 rings (yeah, they kept them). One engagement was called off a month before the wedding and, I wound up marrying the bridesmaid (my first wife, and mother to the 16 year old son).

Thankfully I am now married to an amazing woman (who is also an excellent trader herself) and have given out my last ring. And for those of you that are going to trade for a living, and I can't stress this enough - *make sure you have a partner that understands what you do and what it entails*.

After school I went on to be a Professor of Sociology and Statistics, where I created predictive models for opening weekend box-office for movies, which led me to the film industry. (*turns out that the two things that have enough data to be predictive are **elections** and **box-office***, and movies were more fun).* Once there I ran several research and marketing consulting companies, invented new ways to analyze content, started two companies, and eventually headed up Strategy for a major studio. I topped off my career in the entertainment industry by co-founding a studio, and releasing theatrical movies.

I've spent my fair share of time and money in both Atlantic City and Las Vegas. Gambling has always been a part of life - one that I had to get under control at times. Through the years I also became an excellent poker player. At one point I considered playing for a living, going as far has having Annie Duke work with me to improve my game. In the end though, it wasn't a matter of skill, it was a matter of not wanting to actually sit at a table with *people* for hours and hours every day.

Several years ago I turned to trading, and that story is documented in another post here: https://www.reddit.com/r/RealDayTrading/comments/nzxydj/how_i_got_started/.

One other thing you should know -

Despite having several high profile jobs that were public facing (I've been on the cover of the New York Times, various news programs and outlets, etc.) I have an absolute disdain for people in general. I wouldn't say I am an introvert, more like a misanthrope. My preference is to stay in the house and only interact face-to-face with a few select individuals - something the pandemic made quite easy for me. *However*, while I tend to not like *people*, I also can not stand watching someone get screwed over when they are just trying to get ahead in life - which describes many of you. Whether it is a government that does not have your interest at heart, or people trying to scam you into buying their "get rich quick" system, it seems that no matter where you turn, there is someone there trying to push you back down.

And that is why I created this sub - to make a place that is dedicated to actually lifting people back up. Watching so many of you actually *get it* as you become successful traders, it truly a great source of happiness for me.

I left out many details concerning my father - an Italian-American that oversaw construction sites in Staten Island, as you can watch an episode of the Sopranos which would pretty much sum him up. There are other parts my of life that would even further stretch the bounds of believability, so I'll also leave those out for the sake of brevity.

So, there you have it -since so many of you have said I have become a significant part of your life, I figured you should know a little bit about who I am.

And so you know I am a real person - this me:

https://preview.redd.it/v8e4w0i1a9x71.jpg?width=262&format=pjpg&auto=webp&s=4a3cda94a3769c285eae427ac6d48f5c58784d84

With my youngest son

Best - H.S.

How I Got Started Day-Trading

**** This was posted last year, but of course r/Daytrading took it down, as they did all my posts (since about half of their top 20 posts of all time were from me it makes perfect sense to remove them....dumbasses). So, I am reposting here and linking it back to the Wiki.

How did you get started?

When did you start being profitable?

Other than asking about resources, those are two very common questions. So I figured I would just put it down here, hopefully some of you find something useful out of the journey I took.

—

I grew up poor, like living in a car sharing a candy bar with my siblings as a once-a-week treat level of poor, but through hard work, education (and yes, the inherent built-in privilege of being born a white male in America) I wound up doing really well for myself. Five years ago, living in LA with my family, I got interested in trading. It wasn't out of necessity, more because I kept hearing friends/colleagues talk about how much their investments were making. I'm way too arrogant to think they could do it and I couldn't, so I looked into it. And investing seemed.... boring. Not that I don't have long-term investments, I do, but the idea of finding an edge in the market on a day-to-day basis was too enticing to ignore. Long term, it made sense that reductions in the corporate tax rate and lifting regulations would jolt the market (bad for the economy long term in my opinion), so I bought your basic stocks and did fine with them, still do to this day.

But Day Trading caught my eye, and I started watching videos. Quickly it became obvious that if a video started off with a Ferrari or Lambo, to just click next. It immediately became clear that the more popular this space became, the more corrupt it was, and the more vultures were out to fleece people. Made me sick to see. Still, among all the crap, there were some that made sense. So I ordered a bunch of books and read them. Learned chart patterns, option trading, indicators, you know, all the basic technical analysis info. I'm the type that before I do something I like to know as much about as I can. The whole "90% fail" mantra didn't deter me. Why? Well, as I said, I'm arrogant so I figured I would be in that 10%, and experience has taught me that most people fail because they don't put in the work. Turns out that is exactly why so many fail - they simply do not put in the work required.

When I felt I learned enough I put $50k in an Ameritrade account, took some ThinkOrSwim tutorials, popped some pharmaceuticals and was ready to trade.

I promptly got my ass handed to me. Hard. Typical story here - $50k became $100k became $3k. Yeah, I didn't know shit. Six months of studying and I still screwed up as badly as possible. I thought I could anticipate the market - "This stock is going to go up, it HAS to!" rather than wait for confirmation. I counter-trend traded thinking I knew better.

Not deterred, I put in another $50k (mistake). I figured, ok, my mental game is off, I'm still treating it like gambling. So I read all the books on mindset (Trading in the Zone by Douglas was actually good), and tried again. This is now one year in, and I improved. It's 2017-2018 and there are still commissions, but I started to see real profit. And once again, I was a moron. At the end of the year SPY hit a bear run and go figure I found out I sucked at shorting stocks and using puts. I also found that my early success at OTM Options was just luck. After two years my toolkit was still incomplete. I couldn't trade in a bear market. But I thought I could! (arrogant remember?) The market quickly said, "No dumbass, you can't".

Now I'm down close to $100k. I hate giving up. I did well, but $100k was a lot of money, and it was kind of making me sick thinking what I could have done with it instead. I won't bore you with the next few months, but needless to say before I snapped out of it, I was down $150K.

So, I decided to do two things. One - start again but this time with only $10k. If I couldn't build that up to over $25k using a combo of swing trades and my three day-trades every week, I had no right to continue trying to be a trader (btw - I still do this challenge for myself, except now I do a $5k account to build up on the side). Second, I was sick of doing this alone, so I looked for a good community to join. As you might expect most were either scams or just basic crap they were charging me to relearn. However, there were a few that actually seemed worth the money, and I finally settled on one which most of you know is OneOption. There I met traders who have been making a living doing this for over a decade. I was able to discuss trades and strategies, analyze what went wrong and get an outside opinion. Seeing actual pro traders that depend on their profits to support themselves and their families, was invaluable.

Well third time was the charm. I built it back with that $10k and by 2019, made back the $150k.

And now I am here - my last 100 trades has a win rate of 95% and a profit factor close to 40 (yes, that is right, 40) - I have 42 straight winning trades on SPY futures. In short, I am a really good trader. But it took dedication, patience, and time.

It can be done, and it doesn't have to cost the two years of frustration and the financial loss it did for me before learning how to do it.

Everyone's journey is different, but hopefully you can learn something from mine to make yours a bit easier.

Appendix C. About the Community

Our purpose

"This community is devoted to the sharing of strategies, trades, resources and lifestyle in order to help traders become consistently profitable. There is an absolute "No Troll" policy here - this sub is meant to be an environment where traders can learn and help each other. This is hard enough without having to deal with angry failed traders that just want to make everyone else miserable.

Please note that any trades you follow or advice taken from this sub are your responsibility. None of the content available on this sub-reddit should be considered financial advise. You assume all risks for your decisions."

You might have seen this before. It's on our sidebar, and it's how we run our sub. Our goal is to efficiently educate as many people as possible through the advice and perspective of professional day traders. This does not mean we are here to argue if daytrading is gambling, individual trades, or any other nonsensical topics. When u/HSeldon2020

began r/RealDayTrading, he believed that other subreddits dedicated to the practice were lackluster in educating consistent trading practices and he wanted to provide a better path to learning how to make daytrading into a career. As a community, we hope to follow this exact mindset by being laser-focused on how to make consistent profits through daytrading and create a career out of it. We hope you can enjoy the ride - it might get pretty bumpy.

Rules

1. **Read the Wiki first** - The purpose of this sub is for Professional traders (i.e. consistently profitable and full-time) to help novice/struggling traders reach financial independence. The Wiki is a culmination of over a year's worth of their collective effort to guide members toward that goal. If it is evident that you have not read the Wiki, you will be asked to refrain from participating in our subreddit until you have read it.
2. **Do not treat RealDayTrading as a general daytrading-themed discussion board** - Discussion in this community should pertain to trading within the context of the Wiki material. Please do not discuss trading crypto-currency (crypto stocks are obviously fine), long-term investing, algo-trading, forex, or other subject matters that are not covered by the sub's wiki. If you have any doubts about what is permissible in this sub, please read our wiki first, and then consider posting in our Weekly Lounge thread before creating a new post.
3. **Exercise discretion when giving trading advice** - While we recognize that there are different methods and strategies, we ask that all trading advice to be in alignment with the teachings of Verified Traders (and the Wiki by extension). The trading world is filled with Amateurs giving advice as if they are profitable traders. Giving advice based on your experience emotionally is one thing - e.g. "When I had my first big loss I found that getting up and not trading again until my head cleared was the best thing to do" - that is fine, and encouraged. But when people who have never even had a profitable month try to tell others how to trade all it does it pass along bad habits. The methods taught here are proven to work, and work consistently.
4. **Treat RealDayTrading as a place of teaching** - RealDayTrading is very much like a university. -- so imagine for a moment you enter a classroom where there is a professor up front teaching. This person teaching is established, has proven their credentials and people have come to learn from that person - there are also TA's in the class, each of which have spent a long time also proving themselves, and they take their time out to help others in the class. That is what this place is - now you walk in - perhaps you are a visiting professor, hell, maybe you are even more of an expert in the field than the person teaching, but nobody knows you, and there is zero proof that you have any ability. Now further imagine there are rules of conduct in that classroom, but you also don't read those. Instead you decide to get in front of the class and begin teaching yourself. Can you even further imagine if anyone could come in and just start throwing advice out. Wouldn't that be confusing? Wouldn't that make it impossible to teach anything? That would no longer be a classroom would it?

   So don’t be that person. If you’re here, you’re a student.

5. **No trolling** - We have invited professional traders here to help people try to make a living doing this. We don't have the time or inclination to deal with your cynicism or disruption. *If you are here simply to be antagonistic, you will be warned once, and then banned*.
6. **No shilling crap** - Unlike other forums, we believe the sharing of resources that you either personally recommend or have created yourself, is essential to everyone's success. If you are a proven, flaired trader, and you have something you truly believe will help others, by all means suggest it. However: If it is a scam, you will be banned. *If you don't take no for an answer, you will be banned*.
7. **This is not WSB - Do not act like it** - The people here really want to learn how to Day Trade. They are trying to make their lives (and the lives of their families) better by gaining expertise at something that can give a consistent source of income. Do you know what doesn't give a

consistent source of income? Rocket emojis - saying crap stocks will go to the moon, and writing pages of bullshit DD. That is how you lose money. Do it somewhere else.

8. **Do not be a complete asshole** - You can argue, you can get into heated disagreements, you can even be arrogant, but do not be an asshole. Sexism, Racism, LGBTQ+ insults, will result in an immediate ban, no questions asked. Also, leave the politics outside of this sub - there are plenty of other subs on which you can vent to others.
9. **You must be interested in trading for income** - this may seem obvious but it is not. This sub is laser-focused on methods and resources to help people become consistently profitable at Day Trading. If your goal is not to either learn how to do that, or to help others learn how to do it, you shouldn't be here.

   We are teaching a proven method of Trading - for both Day & Swing Traders that results in consistent profitability. Every day we prove this method by posting our trades in real time, allowing our record to stand for itself. Do not come into this sub with outdated and/or unproven methods that have resulted in traders losing money time and time again. Come here to learn and then to help others learn.
10. **Do not ask questions in the Live Chat** - Post your questions in the weekly questions chat.
11. **Do not spread misinformation** - If you do not know what you are talking about, do not give advice.

Building the Community

When I started r/RealDayTrading I did not expect it to grow as fast as it did. Now we are nearly at a thousand members and I am starting to appoint mods to help keep the sub in line with its' mission statement.

When I see so many people trying to make money in the market, whether they are from r/wallstreetbets, r/Daytrading, r/options or r/StockMarket, I can tell that they all have one thing in common - everyone is trying to make a better life for themselves. Most of us were born into a world that allows those with wealth to have limitless opportunities to create more wealth - opportunities that we do not have access to, that are blocked off from us legally and financially.

And that is what everyone is trying to do - get a piece of the economy that has been denied to us all of our lives. Some throw caution to the wind, while others tread more carefully - but in the end the only way to come out ahead is by truly balancing the scales. To have an edge, and use it.

My hope is that r/RealDayTrading will become the place where those who have been able to successfully find and use that edge, can help those who have not. A community where we all work together towards the common goal of creating our own wealth, allowing for financial freedom and independence.

However, I can only do that with your help - so please let me know any and all suggestions you may have to improve our forum. The more our community is built through the ideas of everyone involved, the better it will become.

Thank you and I hope you are all enjoying your weekend as we await the opening bell on Monday!

Reminder - How this Sub is Different

Just a reminder for people and a note for new people joining - this sub-reddit is *very* different than other ones you might have visited.

We are hyper-focused on one thing - **Teaching people to be *consistently* profitable at short-term trading. This means getting the point that you can count on the income at the end of every month and live off those profits.**

There are a number of professional traders here that post and comment - these are people that make their living doing this (and a *very good* living at that). *No other sub on Reddit has that resource.* They have been doing it for years and are here to help others. Keep in mind that they aren't here to argue with someone who has $2,000 in their account, and thinks they know how to trade.

There are a few things that aren't tolerated here, that are allowed elsewhere. And other things we allow that most forums do not.

*What we **do not** allow:*

- **Cynics** - If you do not think Day Trading is viable and you think it is impossible to make money doing this, this sub is **not** for you. Those comments will be removed, and you will be asked to leave. Not because we don't want different opinions, but because that mindset goes against the entire purpose of this community. It also happens to be wrong. Chances are you lost money and rather than admit that you screwed up, you would rather claim the entire thing is rigged. Go talk it out somewhere, get well, and come back.
- **Bad advice** - In other subs it is a free-for-all with everyone throwing out advice on how to trade. It not only leads to confusion amongst new traders, but causes people to make very costly mistakes. Who judges if the advice is bad? I do. The other professional traders that are mods do as well. We do this for a living and know what works and what does not. Obviously if there is any grey (gray? grey?) area at all, it is open to discussion and should be - but there will be no, "SPY is at an all-time high, it is due for a reversal - time to short it!" type posts here. If you want to counter-trend and pretend you can "beat the market" I assure you that you will wind up broke.
- **Trolls** - Zero tolerance. None. Having an argument is one thing. Getting frustrated is normal as well (within limits), but if you are clearly just being antagonistic you will be banned permanently. Asking for proof is also not tolerated. I did the $30K challenge and opened my account up to be publicly viewed - because that was the best way for people to learn, not to prove anything. To have professional traders constantly be asked to prove their own livelihood isn't happening here - focus on the advice they are giving.
- **Stonks** - I do not care how many tendies you have, whether your wife's boyfriend brought home Wendy's, or how many times you've gone "tits up". Take that shit over to WSB. If you are seriously using that vernacular (i.e. not saying it sarcastically which is highly recommended) than prepare to be ridiculed, warned and if you can't stop - banned.

*Remember, people come here because they want to learn how to Day Trade **for a living**.*

This sub will continue to be moderated towards that end.

There are some things we permit that other subs do not:

*What we **do** allow:*

- **Resources -** most subs will remove any mention of any product or service. I do not believe in that - I feel that most people aren't "shilling", but rather simply recommending things they have tried. While I have services, books, and resources I recommend, they aren't the only ones out there and traders should be able to hear what has worked and what hasn't worked for others. However, if what someone is recommending or selling has no value, or is a clear scam, it will be removed.
- **No Banned Tickers -** There are no tickers that are banned. If you want to post about a stock, and you have legitimate technical analysis to give, then by all means, post it.
- **Live Trading** - If you want to set up a chat and trade live with other people, have at it. I would just caution members - *do not blindly follow anyone, including me, into a trade - ever.* If you take a trade, make sure you have your own plan and are not relying on someone else for your exit strategy.

Always remember the goal here - to learn a skill that can give you financial freedom. If you are using this sub just to get some trade ideas, you are doing yourself a disservice. The journey to becoming consistently profitable is a long, hard road, but not an impossible one. Hopefully this forum helps you along the way.

Why This Place Is So Important

<Warning - Inspirational rant ahead>

We all know there is a disconnect between *Wall Street*, which is constantly reaching new *all-time highs*, and *Main Street*, which seems to be in a downward spiral.

So many people are currently out-of-work, or being forced to accept job well-below the levels that were at with their previous employer. Many people have depleted their savings and are genuinely worried about the future for themselves and their families. It doesn't matter if you are just out of college and looking for a job, or postponing retirement because you just can't afford it, there is a widespread feeling of hopelessness out there.

No matter your political affiliation, one thing is clear - if you were wealthy, than over the last two years you got even wealthier, and if you weren't, you are most likely in a worse position today than you were just a short time ago.

And we all grew up hearing the same advice - buy stock in solid companies and build your investment portfolio. Which is all well and good, except people need to eat, now and pay rent, now - not in thirty years.

As a result, millions turned to the one place where there wasn't a gatekeeper to turn them away, the one place where they could rise or fall based solely on their own abilities - Trading. *And what happened?*

The vast majority of them got wiped out.

What little savings they had were gone in the blink of an Out-Of-The-Money Call Option. People got crushed both financially and emotionally. *And why did this happen?*

Because the moment you have a large number of people rushing into a space with money to spend, you also have a bunch of vultures ready to fleece them. And fleece them they did.

Whether it was through some false-guru on YouTube, promising that they can get rich and only have to work for one hour each day, or a bunch of uninformed gamblers convincing them to buy a Meme stock and then hold it - even if it went into profit - new traders didn't stand a chance. Even the forums that tried to become somewhat legitimate quickly became filled with bad advice that wound up confusing and misleading even the sharpest amongst us.

Due to all of this, the total measure of economic injury caused to countless people was, and is, staggering.

Short-Term trading is unique. Whether you start with a small account, or use a significant amount of capital, there exists a roadmap, that if navigated properly, can allow an individual to finally be free of a system that does not allow them to succeed. It stands alone as a potential pathway to never having to worry about money again, all while being your own boss. The promise of this reward is why people keep coming back again and again, hoping to get it right (or to at least get *lucky*).

Hence, this sub-Reddit was formed. A small oasis, that existed for the sole purpose of actually helping those seeking a better life for themselves and their families. A place where people can actually learn this skill and reach the financial independence the field allows one to achieve.

But I want more than that. I want nothing less than to change the way trading is seen - I want to remove the stigma that the past few years has created and truly make this field what it is really is - *a viable and obtainable skillset that allows one to become financially independent*.

Being a full-time Trader is a career, one of the best careers you can have, and it should be seen as such.

I want the cultural conversation to go from: "95% fail and the rest get lucky - it's all gambling and not something you can actually depend on to make a living" to "If you put the work and time in, you can become a consistently profitable full-time trader".

Because once that happens, once that conversation shifts, it opens up an entire avenue to all those people that currently feel trapped.

So, I am happy this sub is helping so many become better traders, I see it everyday, and love every minute of it, and the more that happens the more this place will become the spark that spreads out and truly changes how trading is viewed.

I want to thank you, all of you, for being part of this, and helping grow this community - we are doing something truly great here. We will continue to grow and help as many people as possible - something I can't do it without all of you.

And anyone that doesn't believe this is possible, you send them here - send them to me, or just show them our Twitter account (https://twitter.com/RealDayTrading), where this week 53 straight winning trades were posted live, as they were made and exited. Ask them to explain how that is possible unless it is a learned skill, a skill that is obtainable to anyone that is willing to put in the work. Which is why I post every trade I make in real-time, not so you can follow the trade, but to constantly show anyone willing to watch, that it is *Real*.

Keeping the Sub Pure

As many of you know this Sub is special. It is a place where we see members *actually* improve everyday. More than that, it has become a ***community***.

At our heart - this is a *teaching* community - where Pros and experienced traders teach a clear method that has proven time and again to result in *consistent profitability*.

I post every trade in real time, and do the challenges in real time, with full transparency to the trading log, to not only teach members how to trade correctly, but also to show *that it is possible*.

Given all the scams and misinformation out there, it is natural to be cynical about the notion that one can obtain financial freedom through trading. Which is why so much effort is put into showing you that it *can* be done. It is hard, it takes time and effort - but it is an achievable goal.

We are all here in service of that goal. But as we expand, naturally some will come in without having the best intentions.

I, in no way, want to discourage criticism or discussion. However:

1. We are very hesitant to entertain alternative methods here for a simple reason - *that is exactly what every other trading sub does*. Everyone throws their "method of the week" against the wall, which turns into a orgy of bullshit and confusion. Nobody knows what works and what doesn't. Well, we know what we teach and put into the Wiki here, *works*. So if you have something you truly feel is additive, you can message me and I will take a look - but don't post or comment with it.
2. We say "Read the Damn Wiki" because it truly is the most comprehensive guide on trading you will find. It is free and available here. Myself and the other pros cannot answer the same questions over and over, so when you ask a question that is in the Wiki, you will get the answer - RTDW.
3. Trolls and assholes are **not** tolerated. I get it - many want to attack me. Some even make fake accounts to come back again and again to do it. It never works, and you only wind up looking bad. But fine - that is what "Bans" are for - and we use Bans liberally here. If you act like a troll, you are banned. However, know that I give every single banned person a chance to show they mean to add value here, and I let them back in. This has happened several times already and those people went on to become valuable members of the community.
4. Criticism and Discussions *is* encouraged. If you read my trade reviews, trust me, nobody is harder on myself than me - I openly say when I screw up, and I *do* screw up. You should be very *wary* of any trader that looks perfect and polished - they don't exist. I mess up, I misread the market and trades. Not often mind you, but it happens. I try to respond to all criticisms and disagreements, as long as they are not meant to cause harm to myself, other members or this community.
5. We **are** a community. I have one goal for the members here - **that you make money**. Period. Full stop. If someone is losing money or having a hard time, I expect this community to *support them*. And yes, I may be a dick at times, and harsh to some - but it is because I don't want to see you *lose your money*. We are in this together, and together we will succeed. And if *anyone* is having an issue with someone else on other subs, feel free to send up the Bat Signal, and I would hope this community would respond like an army coming to help you.

It is *very* important we keep this place pure. We have become the fastest growing trading sub on Reddit over the past year (and we aren't even a year old yet) for a reason.

In that spirit, I have asked the mods here to implement any rules about posting that can help keep our community what many have described as; not just the best trading sub on Reddit, but the *Best Sub* on Reddit or anywhere else.

Now...I see SPY is going up, which I have been saying it will, and I have profits to take. I leave the rest to our amazing moderators.

A Safe Haven

In the past year this sub has grown exponentially - putting us now in the top 5% of all sub-Reddits. So thank you all for contributing to our success!

When this forum was started there was always the fear that as we grew the culture would begin to resemble that of other trading subs, which was the last thing we wanted. Most other subs are a toxic mix of Trolls and well-meaning idiots. They not only suck, but they are dangerous. People go into those communities looking for guidance and wind up getting sucked into a never-ending barrage of bad advice.

We never wanted that for this place and thanks to our incredible team of Mods we have been able to stand strong, and remain just as cultish as ever! (Yes, I am aware of the comments out there referring to us as a cult, and to that I say - You can't call us a cult until we have a commune to live on! And we won't have a commune until at least 2024!).

To put it simply, I want this to be a place that is life-changing to those that embrace it. Of course, our ultimate goal is to help people obtain financial freedom and become full-time traders, but as many of you know, it is the journey towards that end which is truly transformative.

And while this sub has also had a reputation of "tough love", we truly are a community in every sense of the word. Spend some time here and you will see member after member come through the other side of that journey to start their new careers as traders. Then you will see something even more amazing - they don't leave once reaching their goal - instead they stay and dedicate their time/experience to helping others.

I also see amazing traders like u/optionstalker and u/onewyse work tirelessly to provide people with the tools and knowledge they need to never again have to depend on a paycheck from some company that is always a "budget cut" away from letting them go.

In a space littered with con-artists, bad advice and cynics, my goal has always been to rebuild this field into one that gives people realistic goals, clear steps on how to reach them and support along the way.

Also, as many now realize, trading is 90% mindset. The methods and strategies taught here are essential, but without the right mindset they will never produce consistent profits. A large portion of the Wiki and this community in general is dedicate towards helping people readjust their mindset, which is no simple task.

It should come as no surprise that a vast majority of "New Years Resolutions" wind up failing. Gym Memberships soar right after January 1st and most people never use them (which is exactly what those establishments count on btw). Time and again people vow to improve their lives as the year starts only to quickly slide back into the habits they wind up regretting. I am sure that just about everyone reading this is intimately familiar with this phenomenon. You didn't lose the weight, quit that job, leave that partner....we don't drink less, we never learn that new language, and the farthest you wind up travelling is to the local store. It's a well-meaning tradition but one that leave most people feeling like shit in the end. So why am I bringing this up without any segue at all?

Good question - chalk it up to bad writing. Still....allow me to tie all together.

How many times have you started the week thinking, "Ok...I know what I have been doing wrong. From here on I am not going to make the same mistakes!" And how many times have you finished the week thinking, "God damnit! What the hell is wrong with me?? Why can't I stop making stupid trades??"

It is the same concept, same issue. Just like with your NYE resolutions, the issue is that the person trying to improve themselves is the same person that caused the problems needing improvement. And yet, *you're the only one that can solve them*. Seems like a Catch-22, right?

You are the problem, but only **you** can solve it.

Simply having the intention or desire to change is not enough, nor is knowing exactly what needs to be changed. In order to truly change, one has to figure out what caused their issues to begin with and address it at their core.

As a fictional example - let's say a young woman named Heather started trading but quickly realized that she always takes profit too quickly. It's almost like an impulse - when her position turns green her immediate thought isn't, "I should let this run" or even, "I need to add to this", instead it is, "I have to take profit before I lose it!"

Heather knows she is fucking up and even worse, she can't seem to let go of her losing positions either. She is experiencing what most traders deal with, having more faith in her losers than her winners.

Sadly, no matter how many times Heather absolutely swears to change, she goes right back to the old habits.

Why Heather, why?

A quick glimpse into Heather life would give the answer (and also probably feel very familiar to many of you) -

- When she was 8, everything was great - Mom and Dad were there, lots of fun memories....that is until one day Dad up and left. And therein is the first life introduction into the mental state of - "Don't trust anything that is good, because it will soon be gone."
- Through High School and College every girlfriend Heather had (see how woke I am?) either cheated or broke up with her, usually right when she thought everything was going great.
- She thought she would get that promotion at work, but instead they gave it to that asshole Ethan. Fuck Ethan.
- Heather did not have to worry about Ethan for long though, because she was laid off a few months later.

And now Heather is a single mom with a dead-end job in an Accounting office that she hates. She is absolutely conditioned to believe that whenever something good happens, that the other shoe will soon drop.

Now look at her propensity for taking profits quickly through that lens and you will see the *real problem*. That is why declarations and promises to change won't make a dent in the behavior until Heather deals with the underlying issue.

Becoming a full-time trader is like a non-stop self-help seminar.

This is even more difficult for those among us that live with mental illness. As many of you know, I have battled mental illness most of my life. It has taken several close members of my family and will most likely continue to plague anyone unlucky enough to share genetics with my family tree.

So many of you silently suffer from mental illness even as you try to take on something so strenuous as becoming a full-time trader. I commend your courage. And I hope this community provides the support you need to achieve your goals and not let anything stand in your way, including your own mind.

It is so important that this place always stays a - "community". Call it cult, call it whatever you want - as long as the members here are not only dedicating to making their lives better but also in helping others do the same. You never know what someone else is going through.

RealDayTrading should always be a safe haven for anyone looking to make a better life for themselves. And in this world right now, those are far and few between - so please, always keep this place special. And this holiday season I am very thankful for all of you helping do exactly that.

A Responsibility to Your Fellow Traders - Help Each Other

You are all after the same thing - *financial independence*. Just about every single one of you realizes that nobody ever got rich from a full-time job and if you are lucky, you get enough (and many times not even that) to survive.

So, when people enter the world of trading, striving for that better life, every dollar they lose is usually a dollar they couldn't afford to give away.

What they need to realize is:

Reaching the goal of being consistently profitable is hard, and it takes time, effort and dedication.

Still as to be expected, millions of people just jump right in anyway. And why not? Brokers have made it very easy, so there is little barrier to entry - just deposit money and off you go. But as we all know, millions of people lose that money, and then lose the next deposit and the next and so on....

So, when you see someone post questions or their trades and it is clear they haven't put in the time and work to learn this, every single one of us has a responsibility to reply with -

Stop Trading Right Now.

They should not spend another dime.

Only after they have gotten a solid grasp on the information and methods should they start using their hard-earned cash. ***And then only with 1 share and 1 Contract at a time.***

I know everyone wants to be helpful and answer these questions (e.g. "Is shorting a good thing?", "I want to try Options, where should I start?", etc.) but the best answer is the one they won't like - ***Stop Trading.***

Because they WILL lose their money.

So, I call on all of you to help pull these people pull back from the edge, and make them realize they can't just rush off to war, they need to go to boot camp first.

Is the sub RDT for real? (/u/Draejann)

This is a public statement in response to a post that was made on the large daytrading subreddit:

> I (kind of) like their analysis and their RS/RW methodology. However, the sub seems too nice to be true - unlike, most other trading subs. It might be because it is heavily mod'ed and I'm fine with that.
>
> I'm looking to join a directional trading chat-room and their service seems nice however there have been some negative comments as well on r/Daytrading regarding that sub.
>
> Pete, Hari, Dave seem like nice folks but what has been your experience with them?
>
> thanks in advance for your comments
>
> PS: I can understand it to be marketing sub for their subscription chat/software but nevertheless if the value is good, I'm willing to pay up (I'm doing well on options vol

strategies overall and wanted to step up my directional trading skills). I'm currently looking for a place to discuss day/swing trade ideas.

Although most of these questions are answered in the Wiki, I'll re-iterate them once again.

"The sub seems too nice to be true, unlike most other trading subs."

I actually disagree that we're too nice to be true. If anything, we are a lot harsher than other subreddits. If somebody comes here to say they want to trade /MES using 1 minute charts, they will be promptly asked to read our Wiki material or be banned.

We also do not entertain general "trading tips" posts in here by unvetted individuals, which you will find the other trading subs littered with.

"[...] there have been some negative comments as well on r/Daytrading regarding that sub."

There will always be negative comments regarding anything in the public. Hari himself used to received death threats for his work in Hollywood script analysis, way before he discovered daytrading. None of this is new. I also won't air out dirty laundry here but know that we have dealt with some very shady individuals in the past; just know that there are always two sides to a story.

"Pete, Hari, Dave seem like nice folks but what has been your experience with them?"

u/HSeldon2020 , who calls himself a misanthrope, would disagree that he is a nice person. DaveW (u/onewyse) also does not tolerate asking dumb questions that have been answered many times. Pete (u/OptionStalker), despite being in the industry since most of us were born, is one of the nicest people in the space, though he will also be quick to remind you that this is a cutthroat industry and you'll have to make sacrifices to make this happen.

But one thing they all have in common -- THEY DON'T WANT YOU TO LOSE MONEY. They want to see every one of you SUCCEED. Hari most of all, is TAKING RESPONSIBILITY for the content he wrote in the Wiki by using the Wiki to trade every single day.

It is so easy for people on other forums to give trading advice when they don't actually have to put some money where their mouth is, and show their pupils in real time.

This is why Hari posts his trades, live. To prove that this works.

"I can understand it to be marketing sub for their subscription chat/software"

This is actually not true. Full disclaimer: I am a member and moderator for the OneOption chat room. Our 3 other Senior Moderators, u/Ajoynt551 , u/achinfatt and u/Reeks_of_Theon (the most active moderator on this subreddit and especially the Live Chat), are not OneOption members, nor do they have any interest in joining.

OneOption is a great community. Many members enjoy the mature, business like atmosphere of the chat room being led by Hari. It truly is a unique space. It is heavily moderated (mostly by Hari), and some people feel that the atmosphere is oppressive. Those people are entitled to their opinions, but many, many more subscribers appreciate the no nonsense environment that is OneOption.

Pete brings his decades of experience to the chat room everyday when he is not working on improving his scanners. Most of the members agree that his market commentary (the intraday price action of SPY) is invaluable.

DaveW actually runs his own chat room (Right Line), but he also posts in the OneOption room and shares his trades with the community.

If you are not profitable, if you don't yet know if trading is right for you, if you can't commit almost every minute of your free time to learning how to trade, if $1500/year is something you actually have to budget for, WE DISCOURAGE YOU FROM JOINING ONEOPTION. This is the public statement from RealDayTrading.

Instead, we encourage you to save your money, only spend it on the bare minimum (market data if you're an IB customer, maybe TraderSync if you can spare the sub fee and using Excel is too tedious.) while you're learning.

"I'm currently looking for a place to discuss day/swing trade ideas."

RealDayTrading is only appropriate for people who are willing to surrender, to drop their ego, to come to the plate with an open mind and the commitment to learn the Wiki and to do the 10-steps and become an actual consistently profitable trader. If this describes you, then you are welcomed at RealDayTrading.

If you just wanted a place to discuss some trade ideas that has nothing to do with the curriculum, perhaps you better stick to the other trading subreddit.

If anybody has questions, please feel free to DM me or reach out on Discord (The Unofficial RealDayTrading Discord server: Edit: https://discord.gg/VcgzrdHUTS).

Edit:

I received a comment suggesting that there is a "push" toward OneOption at this sub, and that there is a financial relationship between Hari, RDT, Pete (u/OptionStalker), and OneOption.

I disagree that the sub pushes people to those services. The purpose of this post is to clarify that this is not the case.

Our public stances are-

- You do not need OneOption.
- You can be profitable without OneOption.
- However, OneOption is a nice place for the reasons I mentioned in the post.

With regards to financial incentive-

Pete has a financial interest in OneOption as it is his company, and he makes it abundantly clear.

Hari has no financial ties to OneOption. If he did, it would not make sense for him to post his trades in real time on this subreddit (free) and Twitter (free).

Hari uses OSP (OneOption's "Option Stalker Pro" program for scanning and charting). But he could very well trade without OSP if he so chooses.

Hari is, however, the leader of the OneOption chat room. This is done without any financial incentive.