WISEGUY INVESTING

Beginner Guide & Tips

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I. INTRODUCTION

Welcome to the **Wiseguy Investing Co.** beginner tips guide. Here, the staff members have personally compiled a list of EXTREMELY important tips that we will discuss in depth. Each topic of discussion is based on our own trading experiences. We hope to provide information to those beginning their trading journey and impart knowledge that we wished we knew early on.

Some of the most major points we would like to address in this guide are:

I. INTRODUCTION
II. MARKET AND TRADING PSYCHOLOGY INVOLVING CATALYSTS, EARNINGS, & NEWS
III. SETTING STOP LOSSES
IV. HOW TO PROPERLY AVERAGE DOWN
V. HOW TO PROPERLY ADDRESS FOMO (FEAR OF MISSING OUT)
VI. RISK MANAGEMENT
VII. BASIC CANDLE INDICATORS AND TREND PATTERNS
VIII. CONCLUSION

By thoroughly reading what we have provided, you will be in good hands to start your first steps into a career that will grant you financial freedom. Once again, welcome to the **Wiseguy Investing Co.**, and we wish you good luck on your path to become independent traders. Enjoy!

With our best wishes,
The Wiseguy Investing Support Team

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*** All terms and definitions can be found in Investopedia.**

II. MARKET AND TRADING PSYCHOLOGY INVOLVING CATALYSTS, EARNINGS, & NEWS

Possibly the most important phrase that you will ever hear in trading is: **"BUY THE RUMOR. SELL THE NEWS."** This saying is the answer to your questions of "Should I hold this stock through earnings, news, or product releases?"

Here is an example. Let's take the infamous ticker NAK (Northern Dynasty Minerals). After 4 years of research, environmental approval records, and background checks, NAK was well underway to start their mining operations in Alaska. All they needed was President Trump's approval of the massive mining operation that would give access to hundreds of billions of dollars' worth of minerals and metals. The approval notice news was set for July 23, 2020. Thus, you enter a position of 1,350 shares at $2.20 on July 20th, 2020, anticipating a run up. Finally, July 23 hits, and you see your position gain over $500 in profit, but the good news hasn't arrived yet. Do you sell? Or do you wait? Surely with good news the stock should run up more, right? You decide to hold your position and wait for the good news.

After hours arrives, and news arrives. Congrats! The operation has been signed and approved! You eagerly check your position, hoping to see green. Absolute dismay. NAK is dipping and keeps dipping until it hits $1.50 per share. You have lost over $1,000 for holding on good news. Does this sound like a position you've been in before?

Too often I hear from beginners: "Why does the stock go down even if they beat earnings?" or "Why is this stock going down if they released a new product, or had good news?"

Remember: BUY THE RUMOR, SELL THE NEWS.

What does this mean?

If there is a potential catalyst in a future date

- Estimates of good earnings,
- Release of a product that is extremely promising
- Good news based on studies (like covid research news)

You want to buy a position beforehand and ride the hype up towards the day of the news. Good news released at a set date will be **priced in** already before the release occurs. People anticipate the news, and this buildup of hype will carry the ticker into higher prices.

As such, you want to sell the news. Sell BEFORE the news, event, product release happens. That's usually when price is at its peak.

- Once news is announced, people will take profit. This causes the massive dip you see every time there's a promising new product, good earnings report, or great news.
- To avoid this dip, sell your position before the news. DO NOT GET GREEDY.

Note: The only times you will see a stock soar after earning is if it beats earnings by a considerable margin, creating market surprise. Or, if there is a sudden announcement of marketing affecting news.

You may wonder “what if the stock soars up after an event, and I sold?”

To combat this, simply sell 2/3 to 3/4 of your original position, and let the rest ride. If it goes up, you gain more money. If it goes down, you can sell early, but you have already secured most of your profit. This is called scaling out.

III.SETTING STOP LOSSES

STOP LOSS: An order that is placed to sell or buy a specific stock once it has reached the specified price that you inputted.

By setting stop losses, you can significantly reduce the amount of losses to your portfolio, or even secure profits. It is an extremely powerful tool that ALL traders rely on.

I realize the concern of potentially getting stop-lossed out, and missing a large bull run as a result. However, knowing appropriate market price action (such as when dips occur due to catalysts) and having more market experience will allow you to set better stop losses and entry positions.

NOTE: IF YOU CONSISTENTLY GET STOP LOSSED OUT, YOU NEED TO HAVE BETTER ENTRY TIMING. ANALYZING CHARTS AND PRICE ACTION VIA TREND PATTERNS WILL AID YOU SIGNIFICANTLY.

A. PREVENTING LOSSES

Here is an example of what I use for my stop losses:

- **Day trading/Scalping:**
  - Typically, 5%-8% Stop Loss below the current price of entry.
  - Ex. I enter a position for an average price of $15.00. I am fearful of a major dip, so I set an SL 5% below that at $14.25. That way, if dip occurs, I will only lose $0.75, instead of potentially more.
- **Swinging:**
  - 10%-15% Stop Loss.
  - I have a little more leeway with swings because time is on my side. I can afford to wait, and thus my stop loss is a little wider.

After getting stopped out, you can consider waiting for a better time for reentry, or simply move on to another play.

Note: Every trader has his/her own risk tolerance. Each portfolio is different. Some people can afford to lose more than others for a particular position. Find and set your own stop losses, and follow it strictly. This will aid you in loss prevention and form great habits in the future.

B. SECURING PROFITS

Every single dollar lost or gained is absolutely essential to a small account. Do not greed for 100% gains but take profits at appropriate levels. You can always sell a portion of your position, and let a small amount ride up additional gains. **GREEN IS GREEN.**

- If you are up 20%-50%, don't be afraid to take profits. **If you are up 20% on your position, sell half of your position and let the rest ride. Then, at the next profit point, sell another half.**
- To ensure you take profits, trail a stop loss behind your position as it begins to gain value. **If you are up 40%, and want to hold, set an SL 5% below that point so if the stock drops in price, you can keep profits.**

Properly practicing stop losses and profit taking methods will reduce your greed and FOMO, allowing you to become better traders in the future. Remember: take appropriate profits. It's not about fast, insane gains, but more a consistent build up of gains to grow a portfolio.

IV. HOW TO PROPERLY ADDRESS FOMO (FEAR OF MISSING OUT)

FOMO (FEAR OF MISSING OUT): The impulsive move a trader makes to chase a ticker when it suddenly rallies or dips. Often, entry is extremely risky and late, resulting in an untimely loss in capital. Judgement is clouded, and the desire to join the sudden price movement overpowers the need for proper analysis and risk management protocols.

On August 25th, 2020 aftermarket, you notice that CRM (Salesforce) released earnings, beating the estimate by 326%. The stock immediately soars from $214 to $250 within seconds. You see testimonials popping up everywhere, people exclaiming how they had calls for CRM just the day before. A feeling of doom blooms inside you as you realize you are about to miss out on a large amount of potential gains. You hastily place an order of 30 shares for market open, in hopes that you, too, can ride the wave and reap the benefits. Turns out, you neglected to check the charts, and the level 2 buying/selling volume of the ticker and bought right at the peak. The next day, the ticker begins curling down as people take profits. You realize your mistake: an impulse purchase at the peak of a sell off. Your position shows a loss of -$900. You became victim to one of the many forms of FOMO mentality.

Unfortunately, there is no clear "how to" prevention for FOMO. As a psychological barrier, traders must overcome it by experience or sheer force of will. However, there are tips and strategies you can employ to overcome FOMO.

Guidelines:

- Know when to cut losses. Do not stay in your position in hopes that it will recover, while your entire account is bleeding away. You can always cut losses early, and then re-enter when the time is better.
- Always remember that there are other potentially better plays that will come. **DO NOT FORCE A TRADE**. Instead, wait for the appropriate trade to come to you.
- **DO NOT GET MARRIED TO YOUR POSITION**. If the position is killing your portfolio, leave it.

- Always check the charts and appropriate due diligence before entering a play. Note significant levels of resistances or supports depending on price action.
- Do not attempt to predict price movements based on feeling or emotion. Remember to stay calm, check your charts, and look for a well-timed entry to place an order for a position.

V. HOW TO PROPERLY AVERAGE DOWN

AVERAGING DOWN: an investment strategy in which traders purchase additional shares at a cheaper price on top of a previously established position. The result is a lowered average compared to the initial position. This is a great strategy to reduce losses, and gain more profit IF APPLIED CORRECTLY. There are situations in which averaging down will not help. You must have a limit to how many times you are willing to average down, and know when it is appropriate to cut losses.

Every price you enter a position at will be your average. If you buy 15 shares of AAPL at $120, your average on that position will be $120. Let's say AAPL suddenly tanks down to $102 (something that happened during the September market corrections). You are down $270 total. You have some choices: cut losses, average down, or hold.

After confirming that you have capital to spare and maintaining proper risk management and checking the AAPL long term charts, you decide to average down on your current position. You wait for AAPL to hit $100 before entering a buy order for 15 more shares. Your new average on AAPL, with 30 shares is $110 ([15x120]+[15x100])/30=$110.

Now, AAPL makes a bull run back up to $120. You have a net gain due to your lower average. You are now $300 in profit from your original position.

How I average down:

- For long positions (stocks and options that expire more than a week out): down 20%, I will double my current position to lower my average. I will do this AT MOST 3 times. **YOU WILL NEED ADDITIONAL CAPITAL FOR THIS.**
- **For options**, I will start off with a small position (1-2 contracts). That way, when I need to average down, it will be much easier to do so given my small position, as opposed to starting off with 5+ contracts. Typically, I will have at most 5 contracts total for the option position that I am in.

Key Takeaways:

- Averaging down reduces your current position's average, allowing you to reduce potential losses or even gain profit during a bull run.
- Be conservative when averaging down. Do not blindly average down on positions without setting a limit for yourself.
- Frequent averaging of positions may indicate the need to find better entries instead. Look at the charts and base your decision there.
- Know when to cut your position for a loss, instead of holding and continuously averaging down. Do not grow attached to your position. Let it go if it hurts you too much.

- Carefully consider the amount of capital you have, and how much of that capital you are willing to place into a single position. You do not want to have a majority of your capital in play on a single position.

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VI. RISK MANAGEMENT

The most important step towards building a consistent portfolio and becoming a better trader overall is to establish good risk management early on in your career. Risk management methods vary greatly from person to person, as it depends heavily on portfolio size, trader psychology, personality, and experience. The key is to explore and find your own risk tolerance levels through experimentation. The safest method to do so would be through **paper trading** (fake money provided by a broker to trade real time). This will allow you to explore trading strategies and test what works best for you.

Here are some major topics I would like to address with regards to risk management.

- **Chasing tickers-** Chasing a ticker refers to when someone enters a position on a stock that is already running. They enter too late, and often suffer the consequences of a pullback as people begin taking profits. When a ticker has made significant gains and passed your intended entry point, do not chase it. Forget and move on to your next play. You can always consider entry when the stock dips again.
    - This behavior is attributed to the FOMO mentality. Refer back to the FOMO section to understand how to address this issue.

- **Betting against the trend-** Too often I see people suggesting puts (options contract for betting against a stock) when a ticker goes on a large bull run, or people entering positions after a large dip, thinking buy low sell high. There is no guarantee at that given moment that the trend will reverse. Don't bet against the trend. Instead, go to the charts and properly analyze indications for a potential trend reversal. Once you see a confirmation candle, indicator confirmation, and trendline break, then you can confirm that a trend is reversing, and you can place an entry order.

- **All in on a position-** No matter how confident you are in a stock's potential to grow, NEVER all in any ticker. You will expose your portfolio to significant risk, as any price movement in the ticker will affect your account. In addition, by all ining your buying power, that leaves you with no funds to make other plays that would have potentially earned you more money.
    - The key to avoid this is to DIVERSIFY your portfolio. Put at most 20% of your capital into one position. Again, this also depends on your portfolio size, so make sure to find the correct balance for your portfolio.

- **Using up buying power completely-** You do not need to completely use up all your buying power by the end of each trading day. You do not need to have all your money in the market for it to be "working for you." During times of high volatility (like the 2020 Coronavirus pandemic), it's safest to have most of your position as cash. This means you are simply holding your money instead of potentially losing it to the market. Most of the experienced traders during times of volatility hold 80% of their portfolio as cash. In addition, you may need additional BP to average down or enter a new promising trade. Always keep some buying power for situations like these.

- **Revenge Trading/Forcing Trades-** Revenge trading is when a trader makes riskier, large positioned plays after losses. Forcing trades is similar, in that you literally force yourself into a play despite potentially volatile market conditions. Both types of trading pose extreme hazards on the portfolio, and may be driven by frustration and anger.
  - The solution to this irrational, impulsive trading is quite simple. Come to terms with your losses, and the fact that there will be future opportunities to recuperate.
    - You can also step away from the market for however long you want. The market isn't going anywhere. Take your time to settle down, and come back with a strong mentality.
- **Lotto trading-** Lotto trades are called as such precisely because they are lotteries. These plays (usually just for options trading) are EXTREMELY risky. The trader should realize that the possibility of losing 100% of his/her position is very high, so avoid having too large a position on such calls. Lotteries have extremely high risk, but in turn, may generate high reward.
  - If you want to play a lotto call, go very light on the position (1-2 contracts).

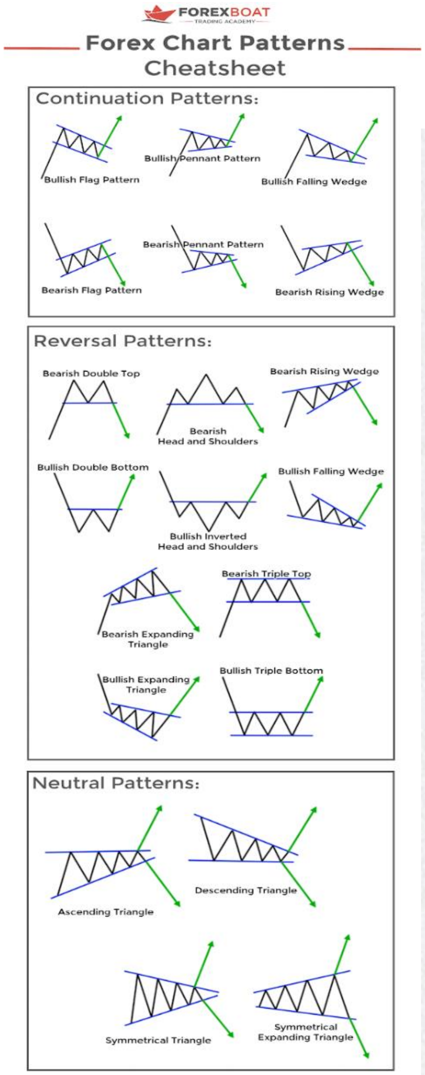
Percent per day- Remember, 3% a day on the portfolio can very easily lead to significant gains. You do not need to greed for constant high percent gains. Rather, keep a daily goal in mind. Refer to the chart below to see the exponential growth of following 3% a day on your portfolio. This is why consistency is important over erratic, potential large gains. A consistent daily goal is a surefire way of building the portfolio.

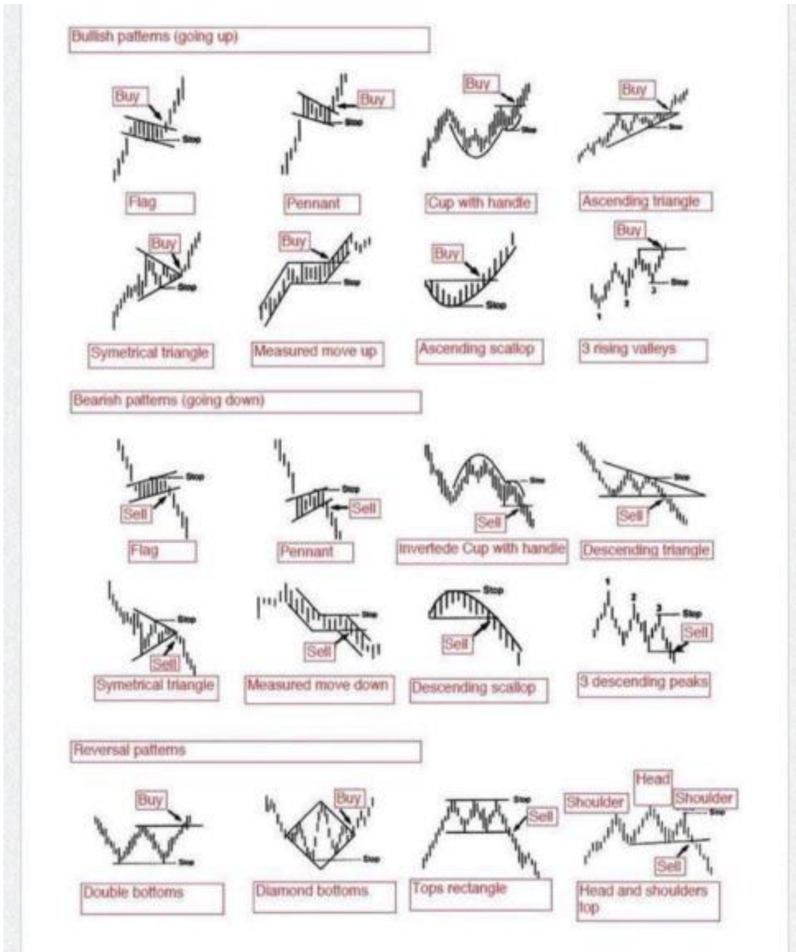
	A	B	C	D
1	Initial Funds	Day	Account Value with $500 A day	Account Value With 3% A day
2	2000	1	$2,500	$2,060
3		12	$8,000	$2,852
4		35	$19,500	$5,628
5		58	$31,000	$11,107
6		80	$42,000	$21,282
7		113	$58,500	$56,446
8		136	$70,000	$111,402
9		191	$97,500	$566,161
10		253	$128,500	$3,538,733

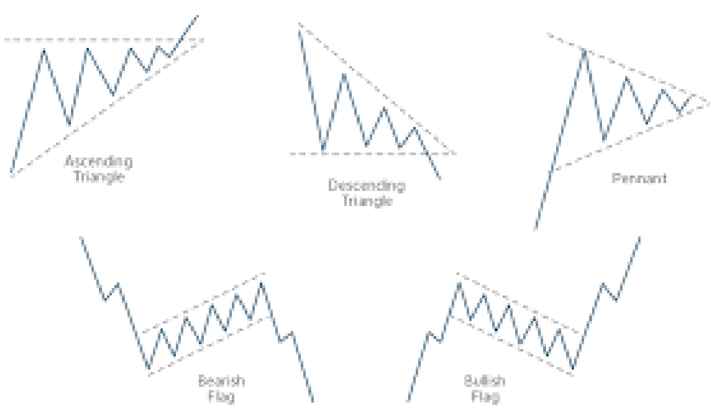
VII. BASIC CANDLE INDICATORS AND TREND PATTERNS

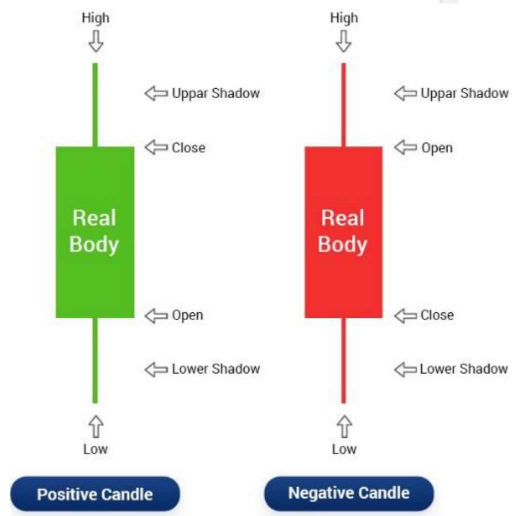
The following charts are extremely useful basic guidelines to use when looking at stock charts. These patterns will aid you in determining potential price action and are fairly dependable and consistent. Try to observe the patterns within tickers and draw them in yourself.
When charting patterns and watching candlestick indicators, I always analyze in this order:

- 1D→ 4H→ 2H→ 1H→ 45min→ 30min→ 15min→ 5 min
- Long time frames (1D, 4H, 2H, 1H, 45min, 30 min) allow you to see the general trend a ticker is taking, and helps you plan long positions and swings. Shorter time frames help you with intraday trading and short-term patterns.


FOREXBOAT
Forex Chart Patterns
Cheatsheet
Continuation Patterns:
Bullish Flag Pattern
Bullish Pennant Pattern
Bullish Falling Wedge
Bearish Flag Pattern
Bearish Pennant Pattern
Bearish Rising Wedge
Reversal Patterns:
Bearish Double Top
Bearish Head and Shoulders
Bearish Rising Wedge
Bullish Double Bottom
Bullish Inverted Head and Shoulders
Bullish Falling Wedge
Bearish Expanding Triangle
Bearish Triple Top
Bullish Expanding Triangle
Bullish Triple Bottom
Neutral Patterns:
Ascending Triangle
Descending Triangle
Symmetrical Triangle
Symmetrical Expanding Triangle


Bullish patterns (going up)
Flag
Pennant
Cup with handle
Ascending triangle
Symetrical triangle
Measured move up
Ascending scallop
3 rising valleys
Bearish patterns (going down)
Flag
Pennant
Invertede Cup with handle
Descending triangle
Symetrical triangle
Measured move down
Descending scallop
3 descending peaks
Reversal patterns
Double bottoms
Diamond bottoms
Tops rectangle
Head and shoulders top


Ascending Triangle
Descending Triangle
Pennant
Bearish Flag
Bullish Flag


High
Uppar Shadow
Close
Real Body
Open
Lower Shadow
Low
Positive Candle
High
Uppar Shadow
Open
Real Body
Close
Lower Shadow
Low
Negative Candle

In addition to knowing trend patterns, candle recognition is vital in predicting price movement. Study the anatomy of a candle, and the patterns that they can make as well. Candlestick patterns will be a surefire way of understanding and predicting price movement in the real time. Knowing candlestick anatomy allows you to determine if buyers or sellers are in control, and ultimately reveal to you which way the market will move. Take a look at the common patterns below.

VIII. CONCLUSION

Congratulations! Hopefully by the end of this guide, you will have a more basic understanding on how trading works. Keep in mind that this guide does not, in any way, represent a thorough one. This entire guide was based on my own trading experiences and mistakes as a beginner trader. Each example was a scenario that happened to me and will happen to you as well. I only hope to prevent you from following the same path as I have.

Trading will be one of the most challenging things many of you try, and it will also be the most rewarding. As future traders, you will be continuously learning for the rest of your trading career, constantly experiencing new market catalysts, and facing new challenges. However, when that time comes, remember the basics of what you have learned. They will be your lifelines on this taxing journey towards financial freedom.

Please refer to our Disclaimer, Terms, and Conditions. Nothing presented here is meant to be taken as advice this is for entertainment purposes only. I sincerely hope you enjoyed reading my guide and learned something valuable to take onto your journey.

Best wishes,
EDC_EMT
- Max Li

TRENDLINE CHART WEBSITES:

Link to chart 1.
- https://www.newtraderu.com/2019/01/11/what-causes-a-chart-pattern/

Link to chart 2:
- https://tickertape.tdameritrade.com/trading/how-to-read-stock-charts-types-patterns-trends-15099

Link to chart 3:
- https://www.forexboat.com/forex-chart-patterns-guide/