



STOCKMARKET MASTERY

Your Trading Club Online Course
Module 4





Module 4 – Different Entry Orders

Dennis Sahlström



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Orders



- Limit Order
- Stop Order
- Market Order

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Market Order - Executes immediately



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Limit Order – Pending order



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Stop Order - Pending



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Module 4 – Different Exit Orders

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Stop losses



- Stop losses are used by traders as a method of exiting a trade at a predetermined price
- This allows traders to both manage risk when taking the trade and also to manage a trade that is running in profit
- Stop losses should be placed at a price that, if reached, would mean the trade is no longer valid
- When trading with leverage, a stop loss should ALWAYS be used

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You never want to turn a winning trade to a losing trade

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Stop losses



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If you do not have a stop loss, you could end up losing your entire account! NEVER trade without a stop loss.

One trade can never make you rich but, one trade can ruin your entire portfolio!

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Take profit

- Take profit (TP) orders are limit orders that are closed when a specified profit level is reached
- Take profit orders are placed at a set price using either fundamental or technical analysis.
- Identifying a take profit price allows us to calculate the risk to reward on a position

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Take profit



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Module 4 – How the market works

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Trader / Investor



Broker



Stock Exchange

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Buying the underlying asset means you
buy the actual share of the company

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With a derivative you are buying
a fake product of the asset

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You can make money when the market goes up and when the market goes down

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Options & Contracts For Difference (CFD) are two of the most common derivatives

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CFD – Stands for Contract For Difference. You make a contract with the broker

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Options are financial derivatives that give buyers the right, but not the obligation, to buy or sell an underlying asset at an agreed-upon price and date

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The underlying asset is for VCA and
the CFD or Spreadbetting is for Buffalo

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Underlying assets

- Buying the underlying asset is when you are buying the physical stock. This means you will make money if the stock goes up and lose money if it goes down
- Example – Let us say you buy 10 shares of Company X and they are worth \$10 per share. This means your investment has cost you \$100. If the share price increases to \$20 per share then your investment is now worth \$200. If the share price drops to \$5 per share then your investment is now only worth \$50
- Use **VCA** for this.

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ETF's



Largest S&P 500 Stocks				
Stock	Company	Market Cap	Price	YTD % Chg
AAPL	Apple Inc	\$1,005,976,987,280	208.21	23.05
AMZN	Amazon.com Inc	\$891,403,113,134	1826.56	56.19
GOOGL	Alphabet Inc	\$853,355,132,134	1234.28	17.17
MSFT	Microsoft Corp	\$823,796,586,258	107.40	25.55
FB	Facebook Inc	\$510,569,685,383	176.70	0.14
BRK/B	Berkshire Hathaway	\$495,747,425,203	199.45	0.62
JPM	JPMorgan Chase	\$392,836,938,847	116.84	9.25
XOM	Exxon Mobil	\$338,154,432,495	79.86	-4.52
JNJ	Johnson & Johnson	\$354,150,627,613	131.91	-5.59
BAC	Bank of America	\$313,829,807,189	31.41	6.39
V	Visa Inc	\$282,903,351,238	139.04	21.94
WFC	Wells Fargo	\$284,787,643,000	58.69	-3.26
WMT	Walmart Inc	\$264,572,708,276	89.65	-9.22
UNH	UnitedHealth	\$246,607,006,322	256.67	16.42
INTC	Intel Corp	\$227,575,443,900	49.34	6.88
CVX	Chevron Corp	\$237,468,110,103	123.94	-1.00

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Inverse ETF

Short Selling

- Potential on profit on falling assets
- Engage in short selling, sell high and buy low

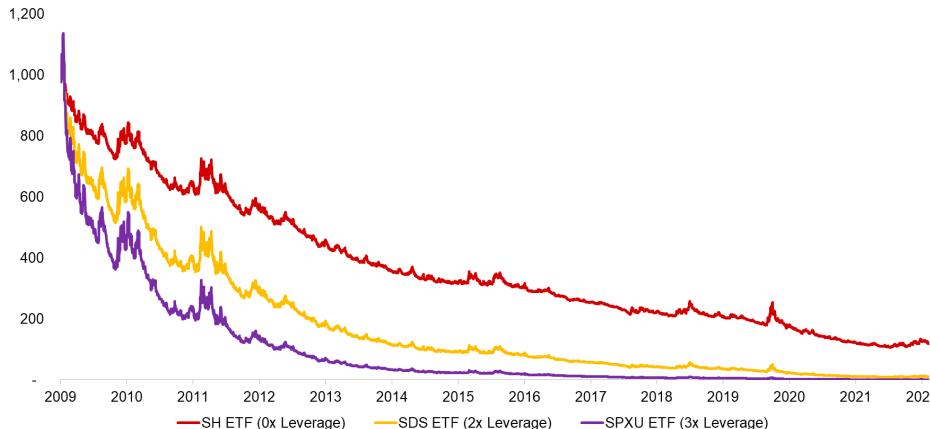
Inverse ETF

- Potential to profit on a falling asset
- The concept of shorting is baked in
- Avoid the hassle of shorting

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Inverse ETF

Shorting the S&P 500 via Inverse ETFs



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How it all fits together



The
Market

CFDs/Spreadbetting

- Use Leverage
- Go short
- Need to pay dividend when going short
- Buffalo

Underlying Asset

- No Leverage/Margin
- Not go short
- Share OR ETF
- For VCA

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Leverage and margin

Leverage	Capital Invested	Purchase Power	Money Value of 1% Profit	ROI
2:1	\$1,000	\$2,000	\$20	2%
10:1	\$1,000	\$10,000	\$100	10%
50:1	\$1,000	\$50,000	\$500	50%
100:1	\$1,000	\$100,000	\$1,000	100%
150:1	\$1,000	\$150,000	\$1,500	150%
200:1	\$1,000	\$200,000	\$2,000	200%

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Leverage and margin

Leverage	Amount Traded	Required Margin
1:1	\$100,000	\$100,000
2:1	\$100,000	\$50,000
50:1	\$100,000	\$2,000
100:1	\$100,000	\$1,000
200:1	\$100,000	\$500
400:1	\$100,000	\$250

Note: Actual Required Margin would change per currency pair

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Module 4 – Identifying Trends

Dennis Sahlström



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Trade with the trend.
Because the trend is your friend,
until the bend at the end

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This is basically referring to the fact that you are best to follow the trend until it shows signs that it is coming to an end

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What is a trend?

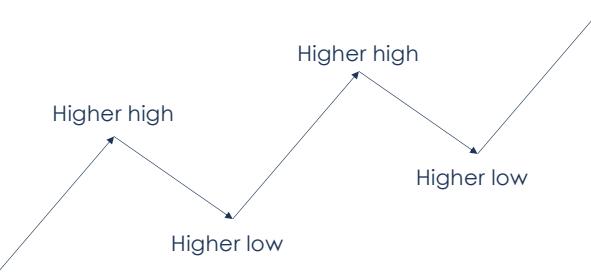
This is referring to the fact that you are best to follow the trend until it shows signs that it is coming to an end.

A cycle is formed of 2 phases:

- Phase 1 = With Trend
- Phase 2 = Against Trend

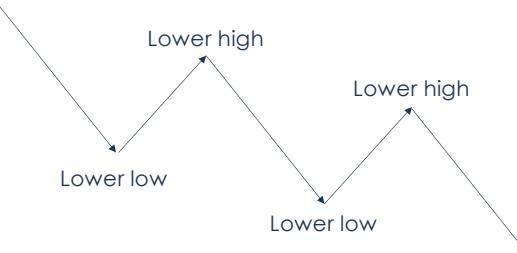
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Bullish trend



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Bearish trend



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Range

Equal highs



Equal lows

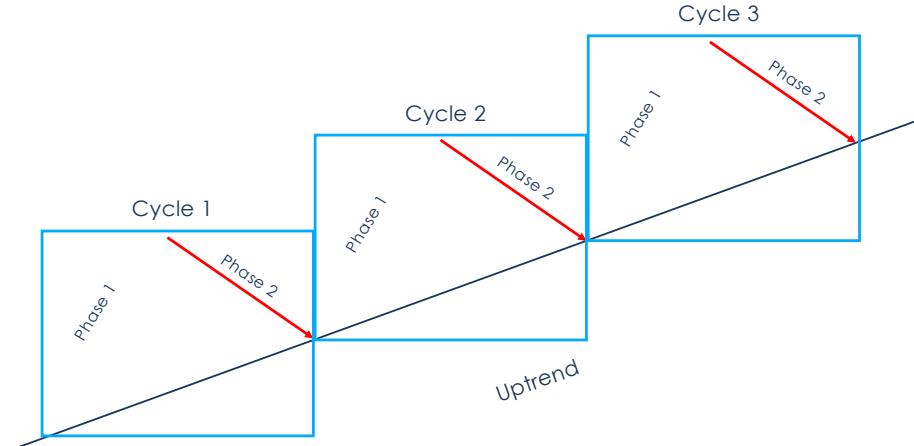
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What is a trend?



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Complete trend example



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Module 4 – Portfolio Management

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Comparing timeframes



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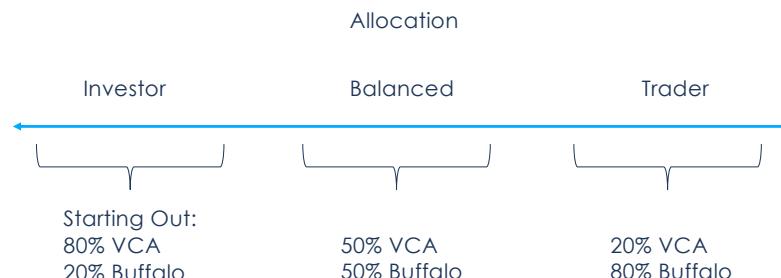
What type of portfolio will you manage?

- If you were looking to hold positions long term you may decide that 75-80% of your capital is going to be allocated to the VCA strategy and investment positions
- If you were someone that could actively manage your positions, then you may decide that the majority of your capital will be allocated to the Buffalo strategy and only a small amount will be invested in VCA

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Different kinds of portfolio management - Strategy

- We aim to be in 4-6 Buffalos
- We aim to be in 2-10 VCAs



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Different kinds of portfolio management - Positions

- Different industries
- If you are in stocks from the same sector they will move in the same direction, and you will be exposed to the same direction "twice"
- Be hedged, meaning that you are investing into companies from different industries and being long and short at the same time

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Different kinds of Portfolio Management - Trading

- Risk Management: Only risk 1% on each trade
- Drawdown, how much you are down at any given time. If you AT MOST have 6 losers in a row and risk 1% on each, you would be down 6%

WIN %	100% Probability	Average	10% Probability	1% Probability	Maximum
80	2	3	4	5-6	7
60	4	5	7	9-10	14
40	7	8	11-12	15-16	25

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Module 4 – Power of Compounding

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What is compounding?



- Compounding is the process in which returns are reinvested to generate additional earnings over time
- The act of compounding grows our capital at a much faster pace, because future returns are then made on both the initial capital, plus the additional amount from past returns

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Compounding Calculator

Initial Amount* % / Month* Extra A Month Additional Top up Currency

CALCULATE NOW

Here's how to use this calculator



STEP 3

Enter the amount of money you can comfortably add to your trading account per month. We suggest a minimum of £100 per month)

3 / 5

	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
	£43,250	£64,502	£94,803	£138,005	£199,601	£287,422	£412,633	£591,155	£845,684	£1,208,581	£1,725,986

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Module 4 – Selling Short VS Going Long

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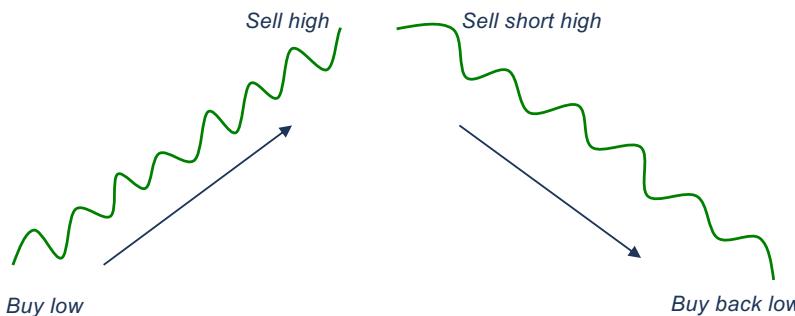
With a long-position, the trader purchases a stock and owns it with the expectation that the price is going to rise

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Short selling is an investment or trading strategy that speculates on the decline of a stock or other security's price

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Short selling



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Short selling



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ONLY for Trading, not Investing

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Module 4 – Trading VS Investing

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What is trading?



- Trading is the active process of buying and selling shares and looking to profit from the fluctuations in prices
- With trading we can also profit from stocks that drop in price by “**shorting**”
- Trading **ALWAYS** uses a stop loss
- On average, we are in a Buffalo position for 34 days
- If you do not use a stop loss in trading you might lose your entire account in one trade

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Trading is TIMING the market

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What is investing?

- Investing we hold shares for a longer duration than trading
- For month to years
- Investing is a “**long only**” strategy meaning we are only looking to profit from a rise in a share price
- When investing we do not usually have a stop loss, to stop losses, since we are in for the longer term i.e. months to years
- See more in the Value Cost Average Module (**VCA**)

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Investing is TIME IN the market

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Terminology

Fundamentals

The HEALTH of the company
Tells you WHICH stock to buy
Long-term view

Technicals

The PERCEPTION of the market
Tells you WHEN to buy
Short-term view

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Different types of traders

	Scalping	Day Trading	Swing Trading	Position Trading
Trading Time Frame	Very short term	Same day	Medium term	Long term
Trading Signals	Many daily	Few daily	Few weekly	Few monthly or yearly
Typical Holding Time	Minutes	Hours	Days or weeks	Months or years
Chart interval Analysis	1M, 5M, 15M	15M, 1H, 4H	1H, 4H, D	D, W, M
Trade Monitoring	Very active	Active	Moderately active	Rarely active

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Different types of investors

Value Investors
Growth Investors
Momentum Investors
Dividend Investors

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Comparing timeframes



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Module 4 – Understanding Margin

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Leverage is the use of debt
(borrowed capital) in order to undertake
an investment or project

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Like buying a house



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Leverage Example

Leverage	Capital Invested	Purchase Power	Money Value of 1% Profit	ROI
2:1	\$1,000	\$2,000	\$20	2%
10:1	\$1,000	\$10,000	\$100	10%
50:1	\$1,000	\$50,000	\$500	50%
100:1	\$1,000	\$100,000	\$1,000	100%
150:1	\$1,000	\$150,000	\$1,500	150%
200:1	\$1,000	\$200,000	\$2,000	200%

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Margin allows you to borrow money from a broker for a fixed interest rate to purchase securities, options, or futures contracts in the anticipation of receiving substantially high returns

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Margin Example

Leverage	Amount Traded	Required Margin
1:1	\$100,000	\$100,000
2:1	\$100,000	\$50,000
50:1	\$100,000	\$2,000
100:1	\$100,000	\$1,000
200:1	\$100,000	\$500
400:1	\$100,000	\$250

Note: Actual Required Margin would change per currency pair

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Margin is used to enter more positions.
Nothing else. You will only risk 1% of your
account in every trade you take based on
your capital, not the amount you borrow



Module 4 – Understanding Risk Management

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Types of risk

- **Individual trade risk** – This is the amount of capital you have at risk on any one trade or investment
- **Sector risk** – This is the risk you have taken on by being exposed to a particular sector within the market. You should also be aware of how many positions you have in a single sector
- **Portfolio risk** – This refers to the overall exposure you have in the portfolio. How many longs and shorts do you have?
- **Event risk** – Earnings, election or announcements, pre-market movements

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Gaps and pre market trading



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Types of risk

- **Account Risk** – How much you risk of your entire account.
We risk 1%. If you have an account with \$25,000 you would risk \$250
- **Trade Risk** – Risk on each trade: Your **Entry – Stop Loss**
 - This will help you calculate your **Trade Size**

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Example

Account Size = \$25,000

Risking 1% per trade

Entry price = \$21.20

Stop Loss = \$19.10

Account Risk = \$25,000 x 1% = \$250

Trade Risk = Entry Price – Stop Loss = \$21.20 - \$19.10 = \$2.10

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Example

Trade Size = Amount of Stocks

$$\text{Trade size} = \frac{\text{Account Risk}}{\text{Trade Risk}} = \frac{\$250}{\$2.10} = 119 \text{ stocks}$$

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Reward/Risk Management

- Minimum Reward/Risk Ratio of 3:1



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Module 4 – What do we invest in?

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Where do we invest?



Indices

- DOW Jones
- S&P 500
- DAX
- FTSE

Sectors

- Energy
- Finance
- Healthcare
- Industrials
- Tech

Commodities

- Gold
- Silver
- Oil
- Wheat
- Palladium

Blue Chips



Penny Stocks

- Small marketcap.
- Brand new issues floating on the stock market

IPO's

Risk

Volatility

Profit



Risk

Volatility

Profit



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What do we look for?

- **Proven track record**
- **Future growth potential**
- **Valuation**
- **Strong balance sheet**



Module 4 – What is the stock market

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The stock market refers to the collection
of markets and exchanges where
regular activities of buying, selling, and
issuance of shares of publicly-held
companies takes place

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Stock exchanges

- New York Stock Exchange
- Nasdaq
- Japan Exchange Group
- London Stock Exchange
- Frankfurt Stock Exchange
- Hong Kong Stock Exchange

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Opening times: <https://www.tradinghours.com/>

Market	Schedule	Market Status
 London Stock Exchange LSE	M-F, 8:00 am - 12:00 pm, 12:02 pm - 4:30 pm (GMT)	 CLOSED
 Tokyo Stock Exchange JPX	M-F, 9:00 am - 11:30 am, 12:30 pm - 3:00 pm (JST)	 CLOSED
 Shanghai Stock Exchange SSE	M-F, 9:30 am - 11:30 am, 1:00 pm - 3:00 pm (CST)	 CLOSED
 Hong Kong Stock Exchange HKEX	M-F, 9:30 am - 12:00 pm, 1:00 pm - 4:00 pm (HKT)	 CLOSED
 Shenzhen Stock Exchange SZSE	M-F, 9:30 am - 11:30 am, 1:00 pm - 2:57 pm (CST)	 CLOSED
 Australia Stock Exchange ASX	M-F, 10:00 am - 4:00 pm (AEDT)	 OPEN
 Johannesburg Stock Exchange JSE	M-F, 9:00 am - 5:00 pm (SAST)	 CLOSED
 Brazil Stock Exchange BOVESPA	M-F, 10:00 am - 4:55 pm (-03)	 CLOSED
 Euronext Paris Exchange EURONEXT-PARIS	M-F, 9:00 am - 5:30 pm (CET)	 CLOSED

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An index is a list of stocks that are grouped together.
For example, the S&P500 is the 500 largest companies
listed on the stock exchanges in the United States.
This includes companies such as Apple, Amazon etc

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Idea of owning a share of a company



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Trader / Investor



Broker



Stock Exchange

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