



WARRIOR TRADING

CHAPTER 3: STOCK SELECTION

Stock Selection

Today You Will Learn

Stock Selection

Relative Volume

Trading Extremes

Algorithms, High Frequency Trading & Triggers

Inside Days & Follow Through

Breaking News

How To Build A Watch List

Trade Checklist

Importance of Stock Selection

There are thousands of different approaches to the market which is great in that anyone can essentially find a strategy that suits them best. However, without proper stock selection the strategy means NOTHING

Proper stock selection is paramount and is ultimately the first required step in positioning for successful trading

What is YOUR Go To Strategy?

Relative Volume

Relative volume is the amount of volume a stock is currently trading relative to a predefined lookback period which is typically 20-30 days of trading data

A stock trading on high relative volume, 2x or more & preferably over 5x, has more potential to make an extreme move which presents ***predictable*** opportunities for day trades

Relative volume is also a great indicator for position sizing. The higher the relative volume the larger of a position the stock typically can support without taking on additional risk with regard to liquidity concerns

Trading Extremes

While searching for trading opportunities you **MUST** only consider stocks which are trading at extremes

Stocks trading at extremes provide **PREDICTABLE** movements

Stocks that have made an extreme move create points of imbalance in the market and these are points easily exploited for profits

Imbalance points are inflection zones where a market moves through significant levels of support or resistance with an overwhelming force

Algorithms, HFT, & Triggers

Understanding the algos is the framework for realizing massive gains as a daytrader. You will NOT make these types of gains trading reversals. The homerun trades are those that trend in one direction and are driven by the algos which i am going to show you how to locate and predict which stocks will make these extreme moves

You should NOT be in a trade that does not have HOME RUN run potential!

Algorithms, HFT, & Triggers

Overview & Background

There are very few HFT algos that are deployed with the goal of capturing exorbitant profits. The majority of them are adding liquidity to the market at a fraction of a penny per share on rebates from an ECN.

For example, an algo may add 1,000,000 shares of liquidity through their order flow at just \$.003 /share through an ECN such as ARCA, that algo would profit roughly \$3,000 via the rebate

Now, if that same algo could increase the per share gain to \$.01 by running a stock in a trend all day, (think pockets/windows) the algo will surely be looking for these stocks that have room to move fluidly for a long period of time These are HOME RUN potential trading opportunities!

Algorithms, HFT, & Triggers

Basic Trigger Principles

Trigger points are technical levels on a stock where upon a break can ignite a massive move

Trigger points are most often confirmed by an extreme spike in volume. If no increase in volume through the trigger, be weary, and recheck your level

Once the trigger fires you will want to see a pivot over/under and preferably a retest

Stocks that hover at a trigger with no measurable increase in volume will typically result in either a failed move or a slow, controlled continuation trend

Algorithms, HFT, & Triggers

Basic Trigger Principles

In order to locate these trigger points you will need to refer to either a daily/weekly/monthly time frame chart

Next, identify the most significant levels of support and resistance which is determined by the respective price action over time at a specific level

Then, determine whether or not the levels qualify as a trigger point by measuring the distance from one level to another and then cross referencing against the stock's ATR. If the distance between levels equals the ATR or more it is a qualified trigger point, also known as my "Pocket Theory", or what Ross teaches as "Gaps and Windows" on the daily chart.

Algorithms, HFT, & Triggers

Trigger Traps (Bull Trap/Bear Trap)

Trigger traps are essentially a confluence point of support or resistance that will negate what normally would be a valid trigger for a breakout or breakdown

Trigger traps are found along ascending and descending trend lines

Long trigger traps lie at breakout points along ascending and descending resistance trend lines

Short trigger traps lie at breakdown points along ascending and descending support trend lines

Algorithms, HFT, & Triggers: Trigger Trap



Algorithms, HFT, & Triggers: Trigger Trap



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Algorithms, HFT, & Triggers: Trigger Trap



Algorithms, HFT, & Triggers: Trigger Trap



Algorithms, HFT, & Triggers: Trigger Trap



Inside Days & Follow Through

These are two commonly used terms that are important to understand as each have the ability to gauge sentiment on a stock which contributes to the level of one's situational awareness and ultimately aid in determining whether or not a stock meets criteria for a trade

Inside Days

Inside Day: An inside trading day is a day where the entire range of the trading action falls within the range of the previous. Inside days often signal indecision as neither the bulls nor bears have control which more often than not equates to choppy and inconsistent price action

Conversely, an inside day can be useful in identifying a shift in trend when located at or near the end of a prolonged move which is often a great exhaustion indicator

If reversal trading, an inside bar at the top or bottom of the move can signal a potential exhaustion of trend and beginning of a reversion move

Follow Through

Follow Through: Also known as continuation, follow through moves occur after a stock makes an extreme move on increased volume on resolution of an established TECHNICAL setup

CAUTION when trading follow through moves that have not originated in result of a technical break

These types of follow through moves often fail due to the lack of a technical resolution which the majority of the time lack volume and ultimately results in choppy price action and unpredictable movement

Breaking News

Trading breaking news is of higher risk due to the heightened volatility and extreme movements, however, this is risk that can be properly managed with a structured approach that you will learn today

First, let's take a moment to break down from start to finish what occurs when a breaking news headline hits the wire

Breaking News

When a stock specific breaking news headline hits the wire that stock will typically have a sharp initial reaction which is caused by the algos

These algos are programmed to read every head line that hits throughout the day in a fraction of a second scanning for key words such as buyout, study fail (for biotech), activist investor or short seller names, accounting probe, bankruptcy, etc., just to name a few

The algos will then move the stock based on the keywords found and it is in this initial reaction where the vast majority of the risk lies and unfortunately also where inexperienced and uneducated traders incur large losses

Breaking News: Verification

ALWAYS verify the news from a reliable source

Briefing.com, Theflyonthewall.com, Tradethenews.com, Bloomberg.com, etc

ALWAYS look for sustained volume on a fast time frame such as a 1 minute or 30 second interval and look for an initial pullback of no more than 50% of the initial reaction for lower risk entry

NEVER blindly execute trades without fully reading through and UNDERSTANDING the news release in its entirety

Be very CAUTIOUS if trading a news release that contains the words, “chatter”, “speculation”, or “rumor”

Breaking News: The Approach

In an effort to maintain a simplistic approach we will cover the highest probability trade setups which will greatly reduce risk

Keep in mind that trading breaking news is very fast paced and meant to be traded with a scalp mentality

Breaking News: The Trade

First, read through and understand the news from a verified source

Next, look for an immediate spike in volume and for it to sustain

Then, switch to a fast time frame such as a 30 second or 1 minute and allow the initial reaction to unfold and wait for confirmation of the move by looking for short periods consolidation rather than an immediate reversion

Finally, after all previous criteria are met, initiate an entry as a period of consolidation is beginning to resolve for further continuation

Breaking News: The Trade



Breaking News: The Trade



How To Build A Watch List: 4 Steps

First, review the biggest gainers & decliners with minimum of +/- 3% gap

Next, confirm that there is minimum volume of 100,000 shares traded by 9EST

Then, consult the news on each stock and verify a valid catalyst. NO catalyst NO trade!

Finally, review the daily chart for a valid technical setup and/or any significant levels of support, resistance, and trigger points

Stock Selection: Gap Scan

Top Gappers: 08:39:00 - 08:44:00								
Symbol	Price	Volume Today	Float	Relative Volume(Daily)	Relative Volume(5 min)	Gap(%)	Change From Close(%)	News
CTIB	5.02	3.63M	2.10M	66.04	915.02	112.71	112.71	CTIB
HHT	0.95	653.3K	17.85M	2.54	273.23	39.19	39.19	HHT
CHNR	1.50	408.3K	9.45M	5.26	111.79	32.76	32.76	CHNR
KBSF	3.04	381.0K	1.46M	3.62	140.74	29.36	29.36	KBSF
IBIO	1.75	3.77M	88.43M	14.64	196.58	20.69	20.69	IBIO
VRNA	6.13	5	13.31M	0.56	0	14.58	14.58	VRNA
DELL	56.10	264.4K	252.02M	575.85	124.37	14.47	14.47	DELL
JFIN	4.90	422.7K	54.02M	4.50	9.66	13.95	13.95	JFIN
CVEO	0.72	5	82.20M	0.00	0.01	13.92	13.92	CVEO
ARTW	2.75	328	2.10M	0.08	9.24	12.24	12.24	ARTW
CCO	1.32	26.1K	360.73M	1.67	5.14	11.86	11.86	CCO
TCRD	3.25	1.8K	30.14M	40.07	51.34	11.30	11.30	TCRD
MNOV	6.01	3.7K	41.73M	181.16	0	10.31	10.31	MNOV
PLUG	7.08	2.38M	321.08M	21.06	63.65	10.11	10.11	PLUG
BOSC	3.40	100	3.50M	2.67	0	9.88	9.88	BOSC
DTSS	2.36	20	5.94M	0.34	0	9.36	9.36	DTSS
CMBM	7.60	1.6K	5.53M	547.75	0	8.88	8.88	CMBM
KZIA	3.80	1.5K	7.20M	1.55	0	8.88	8.88	KZIA
VMW	162.20	41.4K	65.53M	48.25	33.30	8.69	8.69	VMW
DSKE	3.80	30	45.91M	0.24	0	8.26	8.26	DSKE
KTOV	0.89	5.51M	104.26M	3.55	67.47	8.05	8.05	KTOV
KMDA	9.65	65.6K	28.69M	25.5	0	7.94	7.94	KMDA
BIOX	6.99	300	9M	175	0	7.87	7.87	BIOX
WINT	7.53	1.3K	4.02M	29.83	5.71	7.73	7.73	WINT
IKNX	4.20	40	1.31M	0.06	0	7.69	7.69	IKNX
CLEU	5.00	200	3.63M	8.72	0	7.53	7.53	CLEU
CCR	4.49	1	5.22M	0.00	0	7.42	7.42	CCR
PSHG	0.68	23.0K	26.14M	106.02	0	7.39	7.39	PSHG

Example Watch List



Stock	Key Support	Key Resistance	Additional Notes	News
TBIO	24.3(pre pivot), 22(pivot & former ascending resistance), 16.08(20EMA)	28.69(pre high)	I'm watching for a gap fade < 24	Collaboration w/ SNY
SPR	25.5(pre low), 21.45(pivot)	216(pivot), 27.05(20EMA)	I'm watching for a continued fade < 25.5	Reducing 2020 output
PLUG	5.95(former descending resistance)	6.05(pivot), 6.22(pre high), 6.47(pivot)	I'm watching for continuation long > 6.1, or gap fade < 5.95	Updated Guidance

\$TBIO: Daily Analysis



\$TBIO: Pre Market Analysis



\$TBIO: Resolution



\$PLUG: Daily Analysis



\$PLUG: Pre Market Analysis



\$PLUG: Resolution



Watch List Key Elements

Stock	Key Support	Key Resistance	Additional Notes	News
TBIO	24.3(pre pivot), 22(pivot & former ascending resistance), 16.08(20EMA)	28.69(pre high)	I'm watching for a gap fade < 24	Collaboration w/ SNY

Diagram illustrating the mapping of table columns to key elements:

- Symbol (points to Stock)
- Key Support Levels (points to Key Support)
- Key Resistance Levels (points to Key Resistance)
- Trade Plan (points to Additional Notes)
- News Catalyst (points to News)

Catalyst Identification

Earnings

Preliminary Announcements

Analyst comments, Upgrades/Downgrades

Merger & Acquisition

Offering

Activist Investors

FDA/Clinical Trial Announcements

Technical

IPO

Key Management Changes (C suite executives)

Partnerships, Contracts, etc

SEC Probes

Catalyst Identification: Earnings

VALID Catalyst

The most common and typically also the most consistent driver of price movement due to the relative high importance

Each quarter a company will release their earnings results as well as a forecast for the upcoming quarter which will include many important key pieces of data

For example, a company may post a “miss” for the expected quarterly results, however, this could be less of a miss than last quarter or last year and may be viewed as a positive, especially if the forecast is positive

Catalyst Identification: Pre Announcements

VALID Catalyst

Catalyst Identification: Analyst Actions

INVALID Catalyst With Exceptions Below

Analyst Comments, Upgrades/Downgrades

The stock market is well covered by many Analysts who on a daily basis adjust their views and price targets on a wide variety of stocks

You will most often see an analyst put out a short note overviewing their expectations along with either an upgrade, downgrade, neutral, buy, hold, or sell rating and a price target

Analyst comments are typically a very inconsistent catalyst, with two exceptions. The first is when a handful of top tier analysts all have a similar view and place an upgrade/downgrade with an increased price target on the stock. The second is when a stock receives what is known as a double downgrade/upgrade. So, if a stock receives a move from a “buy” to “sell” that would be a double since it skipped the “neutral” or “hold” rating

Catalyst Identification: Merger

INVALID Catalyst

Merger: News that two companies are uniting to form one company typically to expand their reach and/or gain market share

These can be the most difficult to trade as upon the release of the Merger news there is a lot still unknown which leads to speculation and volatile price action. Headline risk a big factor and one that is difficult to control

In some cases, there may be a trade opportunity if one company is merging with a much larger company such as Amazon, Google, Apple, etc

Catalyst Identification: Acquisition

VALID Catalyst

Acquisition: When one company purchases all or the majority of another company's shares to gain control. This results in the acquirer being able to make decisions regarding the newly acquired assets without approval from shareholders

Acquisitions tend to provide predictable trading opportunities due to the acquirer usually spending a large amounts of cash or stock to complete the deal

Acquisitions result in the Acquirer moving lower due to burning a large amount of cash or leveraging up to close the transaction (depleting resources), and is why you will want to watch for a move lower in price

Catalyst Identification: Buy Out

INVALID Catalyst

Buy Out: Synonymous with acquisition, is when one company takes controlling interest of another

The company that is bought has an agreed upon price at which the transaction will occur and the stock will then be pinned at that price. The stock purchasing the other will often see a short term decline and can present an opportunity

Catalyst Identification: Offering

INVALID Catalyst

Offering: A dilutive offering involves a company offering new shares for sale to the open public which dilutes value. However, there are many different ways an offering can be utilized which in some very rare cases can be seen as a positive action

Due to the various ways offerings can be structured, these trades are generally avoided altogether because of the lack of consistency in the resulting action

Catalyst Identification: Activist Investors

VALID Catalyst

An individual or group that will purchase large amounts of stock with the goal of gaining a seat on the board to ultimately effect a big change within the company

Famous activist investors such as Carl Icahn, Bill Ackman, George Soros, and Daniel Loeb, are major market participants and normally will act as very powerful catalysts

An Activist Investor's goal typically is for the longer term with a substantial upside return, thus why stocks will see immediate and significant reactions to Activist Investor headlines

Example Headline: *Carl Icahn takes a 10% stake in \$XYZ*

Catalyst Identification: FDA Announcements

VALID Catalyst

Catalyst Identification: FDA/Clinical Trial Announcements

These types of announcements are extremely important to biotech stocks as these trial results are typically what the entire stock price revolves around. If a trial fails or rejected by the FDA it can bring havoc to the stock, often slashing the stock price by 50% or more instantly or vice versa

Biotech stocks tend to be very speculative which in result means volatile trading. Be sure you understand the news before taking the trade!

Catalyst Identification: Technical

VALID Catalyst for Swing Trading, Day Trades Require Both News AND Technicals

Technical: Technical resolutions on a stock can deliver extreme moves, especially if the technical setup is largely macro based. They often consist of well defined technical patterns such as flags, flat tops/bottoms, head & shoulders, etc.

When a technical break occurs it is imperative there is a significant increase in the rate of volume to support the continued move

The higher the profile of the stock (AAPL, FB, TSLA, NFLX, AMZN, GOOGL, NVDA, etc) the more predictable the technical move (herd mentality)

Catalyst Identification: IPO

VALID Catalyst

Initial Public Offering: A company that raises capital in lieu of offering stock to the public for the first time. This will be a stock that has not yet traded on the open market

IPO trading is based strictly on price action and momentum since there are no prior technical levels

Again, the profile of the stock will largely impact the type of move the initial IPO will experience. It is also important, however, to review company financials and internal operations as these will also play a significant role in pricing (BABA, SNAP, etc)

Catalyst Identification: Key Management Changes

VALID Catalyst

A change in a C suite executive can have different effects on the stock price and which will all depend on the scenario

For example, if a change to the CEO is UNplanned this is often perceived with more downside than upside due to the unknown component of the new management strategy

Investors tend to be more comfortable if the shift is internal for the simple reason that they are likely familiar with current operations

In some cases, a management change will be perceived as a positive if a company has seen poor earnings for several quarters or has made poor decisions over their tenure

Catalyst Identification: Partnerships, Contracts, etc

VALID Catalyst

When a headline hits that speaks of a new partnership, contract, etc it is important to pay close attention. This is especially true if you have a lesser known company that has agreed upon terms with another many times its size such as AAPL, BA, MSFT, AMZN, GOOGL, etc

It is not uncommon to see small, unknown companies enter into partnerships or contracts with a conglomerate, or the government, which will bring attention and ultimately have a major effect on the stock price which can provide lucrative day trading opportunities

Catalyst Identification: SEC Probes

VALID Catalyst

Pre Trade Questions

What is the market doing? What side do you want to be on?

What levels are you trading around? What are potential targets?

Does the planned entry allow you to get a minimum of 3:1 Risk/Reward?

Check the volume - is it extreme? What type of position can it support?

Can you anticipate the move? ONLY if there is high relative volume and market is in alignment

EVERYTHING must have HOME RUN potential!