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Trading 101: The Basics

Before you can really understand the patterns outlined in this book, you need some basic trading knowledge.

Consider this section as your reference guide. You can flip back to it whenever you need to or if you just want to brush up on the basics.

What Are Stocks?

A share of stock represents a small percentage of ownership in a company.

Wanna know how much is yours? If you take the number of shares that you own and divide it by the number of shares outstanding, you can figure out what percentage of the company you own.

For example: say that Stock X has 900 million shares outstanding. If you buy 1,000 shares of that stock, you own 0.0001% of that company (1,000 divided by 900 million).

As a shareholder, you have certain claims to the earnings and assets of the company relative to how much you own. Oh, and in case it's unclear ... shares, equity, and stock all pretty much refer to the same thing.

The Different Types of Stocks

There are two key types of stock: common stock and preferred stock. Here's the deal...

Common Stock

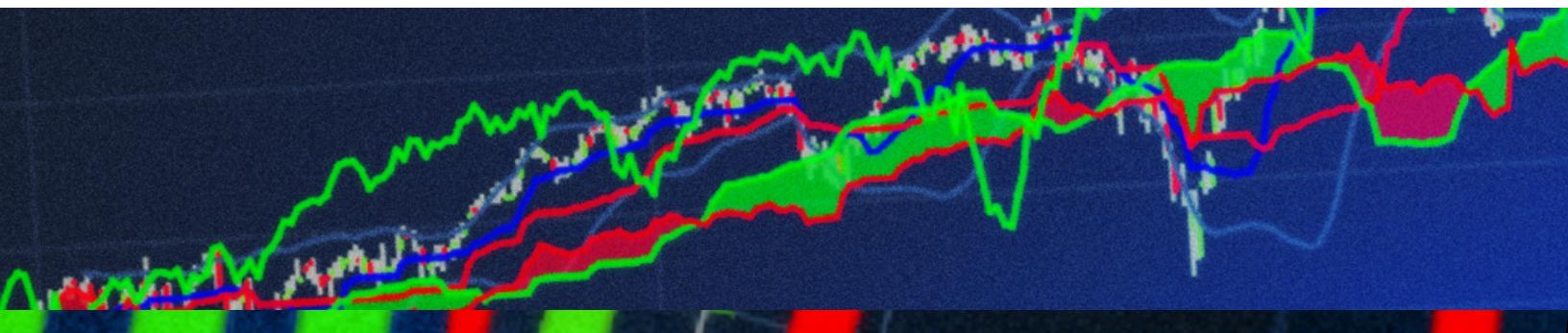
As an individual trader, you're most likely trading common stock.

Common stock gives you voting rights, but no guarantee of dividends. In the case of common stock, the company only doles out dividends when it decides to return its earnings to shareholders. These are expressed in a per-share amount.

For example, if a company offers 20 cents per share and you have 1,000 shares, you'd receive \$200.

Preferred Stock

Preferred stock doesn't afford you any voting rights, but you are guaranteed some sort of dividend or interest.



Buying and Selling Stock

These days, most trading is conducted online ... but it's still helpful to know what's actually happening during the transaction.

Stock shares are represented by stock certificates. These are legal documents that represent your ownership.

In the days of yore, when you bought stock shares, you'd actually get a physical stock certificate. Then, you'd have to take the certificate to the broker to sell it.

You can see why it's mostly done online now. These certificates still exist today, but they're virtual and held in the broker's name or "in street's name." The fact that the broker holds on to the shares doesn't affect your ownership.

The broker is responsible for facilitating the transfer of ownership, helping you perform buying or selling transactions. It used to be that you'd have to call your broker to place buy or sell orders, but these days that's mostly done online.

Types of Stock Orders

There's more than one way to buy or sell stocks. Here are some of the key types of stock orders you need to know.

Market Order

This is the default option for stock orders.

With a market order, you pick a stock and the quantity you want to buy or sell, then place your order.

The moment you click 'buy' or 'sell,' the order is automatically transmitted and executed fairly instantly. They're also called unrestricted orders (that will make more sense as you read through the other order types).

With a market order, you're executing at the current price of the stock or asset in question. Even though it could be a matter of moments, this could be slightly different from the price you saw when you clicked 'buy' or 'sell' on your computer.

This might not seem like a big deal, but the stakes go up depending on how much you're buying and the size of your position.

For example, say you place a market order to buy 5,000 shares. If there are only 3,000 available, you'll get those at the asking price.

The remaining 2,000 could come in more expensive or cheaper. But you can't change your mind, because you already committed to the order.

Limit Order

A limit order is like a market order, but with a few restrictions in place to help protect you from the potential of a widening bid/ask spread.

With a limit order, you tell the broker to buy or sell an asset at a certain price or more, within specified time frames. This way, you have a little more freedom to walk away from your screen and feel comfortable knowing that your order will only be executed at or above your set price.

However, if the minimum price doesn't present itself in the time period you set, no trade will be executed.

Stop Order

A stop order also allows you to set restrictions. With a stop order, the order will only be executed when the asset price goes above a certain level that you set as a stop.

This can help you either maximize potential profits or reduce possible losses. There are a few different types of stop orders you should know...

Stop-Loss Order: A stop-loss order helps you avoid losses. It's a pretty common choice with long positions, where you buy a stock at a certain price and expect it to rise. For example, you might choose a stop-loss order at a slightly lower price than the price you pay for the asset.

If the asset fails to rise and dips below the level you set, your order will be executed, helping you avoid the hassle of watching your position all the time to avoid a loss. It can help reduce bag holding or hanging on to a stock too long with a hold-and-hope mentality.

Stop-Limit Order: Somewhere between a stop order and a limit order resides the stop-limit order. As a trader, this requires two steps: setting a stop price and a limit price.

The trade will be triggered once the stop price is reached, and when the price rises to the limit level or above, it automatically becomes a limit order.

This gives you a lot more control than other types of orders, but the drawback is that it might not be filled if the stock price doesn't hit the stop price or limit price.



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Trailing Stop Order

These order types take things a step further than stop-limit and stop-loss orders. There are a few different variations on the trailing stop order.

Trailing Stop Order: This order involves a trail amount or a portion of the price you're willing to pay or receive for the trade.

If you place a stop order with a minimum price but add a trail, you can make the order more variable. So, if you have a minimum price and a 10% trail, as the price of the asset moves, your stop price does, too.

Trailing stop orders can be used with a percentage of the price or a fixed amount.

Trailing Stop-Loss Order: You can also reduce the potential for losses with a trailing stop-loss order. Here, you set up your trail, and if the price of the stock goes up, so does the stop price.

However, if the stock price falls, the stop price doesn't follow. It stays at the last level it reached, and if or when the stock price reaches that level, it triggers the sell stop-loss order.

Trailing Stop-Limit Order: With the trailing stop-limit order, you set up two trail amounts: a stop price and a limit price.

You wait until the limit level is reached, with both trails rising in unison. Once the stop price is triggered, it turns into a limit order.

It works similar to a stop-limit order, but in this case, the stop and the limit prices aren't fixed. They have a little bit of flexibility and move as the stock's price moves up or down.

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Stock Exchanges

Stock exchanges are the marketplaces where shares are exchanged. They provide liquidity (volume) to the market.

There are many stock exchanges around the world. But for the purposes of this guide, here are some of the key stock exchanges you should know.

New York Stock Exchange

Also known as the NYSE. This is a big and prestigious market. If you've ever seen a movie about the stock market, this is probably what you have in mind.

Here, traders are physically on the floor trading stocks. The NYSE won't list just any company. There are fairly stringent listing and requirements for listed companies to maintain a certain level of legitimacy to the market.

The NYSE is mainly comprised of blue-chip and medium- to large-cap companies.

Nasdaq

Short for National Association of Securities Dealers Automated Quotations, the Nasdaq is an electronic exchange. Here, buyers and sellers connect electronically.

Market makers (MMs) have their own inventory of Nasdaq stocks and are ready and waiting to buy or sell. These MMs help create a market and keep things moving by posting their bids and asks.

Once again, there are listing and maintenance requirements for listed companies to maintain a certain level of legitimacy to the market.

The Nasdaq includes small-, medium-, and large-cap technology companies, although it includes stocks from other sectors too.

Other Exchanges

Certain stocks don't meet the requirements of the bigger exchanges for various reasons, such as size, profits, etc. Maybe they're just starting out, or maybe they're in new or emerging sectors.

For companies like these, there are OTC (over the counter) markets. These stocks tend to be lower in price but higher in risk since they're generally up-and-coming companies. Their listing requirements aren't as stringent as the NYSE or Nasdaq.

If you've seen "The Wolf of Wall Street" ... you know this can also mean there's a higher chance of fraud.

OTCBB (Over the Counter Bulletin Board)

This is an electronic exchange made up of market makers. Many stocks that fall short of the requirements of the bigger exchanges end up here, since there isn't a minimum sales or asset requirement.

However, there still are standards. OTCBB companies must register and remain current with SEC filings.

OTC Pink Sheets

These companies aren't obligated to submit or register SEC filings, so you can't necessarily trust their reporting. The volume and liquidity are often pretty low.

Because of the lack of reporting required, it's super important to do your research when trading stocks on this exchange.

Stock Charts

A stock chart is a price chart that plots out a stock's price movement over time. In the stock market, it's one of the most important tools of the trade (pun intended).

A stock chart can tell you about...

- A stock's overall price trend
- Support and resistance levels indicating price halts or reversals
- The momentum of price swings
- Where to place your stop-loss

... and so much more. Almost all traders will consider information from the stock's chart when deciding on a trade.

Here are the key types of stock charts...

Line chart: This is the most basic way to view a stock price. The price is plotted out at certain points and times on the chart, and they connect to form a line.

When you have enough price points, you'll see a line that zigzags based on the price action. Based on the dominant direction of the chart, you can start to understand price trends.

Line charts are simple and easy to read, but advanced traders typically move beyond them to more informative charts.



Bar chart: A bar chart features rows of bars that show you the stock price open, high, low, and close within a specific time period. Here's how it works:

- The top of the bar represents the high.
- The bottom represents the low.
- The left vertical line represents the open.
- The right vertical line represents the close.

A charting program like StocksToTrade allows you to set the time period for each individual bar. For instance, on a 5-minute chart, each bar would represent a five-minute period. On a daily chart, each bar would represent a trading day.

Candlestick chart: Candlestick charts are somewhat similar to bar charts, but present the price action a little differently.

This chart gets its name because the units on the chart resemble candlesticks:

- The candle's body is a thick bar and represents the difference between the open and close price.
- The small lines above and below the body are called wicks. Each end represents the high and low prices.

What Makes Stock Prices Move?

The simple answer? Supply and demand.

Supply is the amount of stock out there, available from sellers. Demand is the amount of stock desired by buyers.

If there's too much supply and too little demand, the stock price will go down. Kind of like the price of Halloween candy on November 1.

On the other hand, if the demand is stronger — there are many buyers and not too many shares — the price will go up.

This part isn't too hard to understand. But the bigger question is this: why do stock prices move the way they do? That could take a lifetime to answer.

What Chart Type Should You Use?

Deciding which stock chart type to use all comes down to a matter of personal preference. The best way to figure it out? Try them all to find what works for you over time!

A stock screener and charting platform like StocksToTrade allows you to further personalize your chart. You can decide on color schemes, indicators, and other details that make the charts most easily readable for you.

What Is a Stock Pattern?

You've probably heard the saying "history repeats itself." Well, I like a slight variation of that saying. History doesn't always repeat itself – but it often rhymes.

To newbies, stock price action might seem totally mysterious and confusing. But when you take a step back, you can actually find that it often repeats. That's why it's worth looking at a stock's history before making trades.

To find stock patterns, first, you need a stock chart. The chart is a visual illustration of a stock's price action. When you look at the chart, there may be certain price actions that repeat themselves consistently. Over time, this can form distinguishable patterns based on history.

This is where the whole idea of history "rhyming" comes into play. The thing is, these patterns are only predictable and obvious after the fact. But if you really begin to look at patterns, you can get better at sniffing them out.

Reading a Stock Quote

Here's the basic anatomy of a stock quote:

- Previous close: The stock's closing price from the prior trading day.
- Open: The stock's opening price on the current trading day.
- Bid: The current price people are willing to pay for the stock.
- Ask: The current price people are asking for when selling
- Days' range: This shows you the range between the lowest and highest prices of the day.
- 52-week range: This shows you the lowest and highest prices for the year.
- Volume: This is the number of shares traded for the day. The higher the volume, the more shares being traded.
- Average volume: This shows you the average number of shares traded per day over a specified period.

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Market Capitalization

The value of a company isn't its stock price. Rather, it's the company's market cap (market capitalization).

The market cap is the stock price multiplied by the total shares outstanding. To put that into action, say stock X closed at \$299.94 and has 790 million shares outstanding. Here's how to calculate the market value of the company: multiply the share price by the number of shares outstanding. So in this case...

\$299.94 x 790 million.

Depending on the company's market cap size, it might be categorized differently. Here's the breakdown...

Large Cap

These are companies with a market cap of \$10 billion or more. These days there are also mega-cap stocks with a market cap of \$200 billion or more. These are the biggies, the companies that dominate entire industries. They're not infallible, but they tend to be more stable during downturns. They're not typically very volatile.

Mid Cap

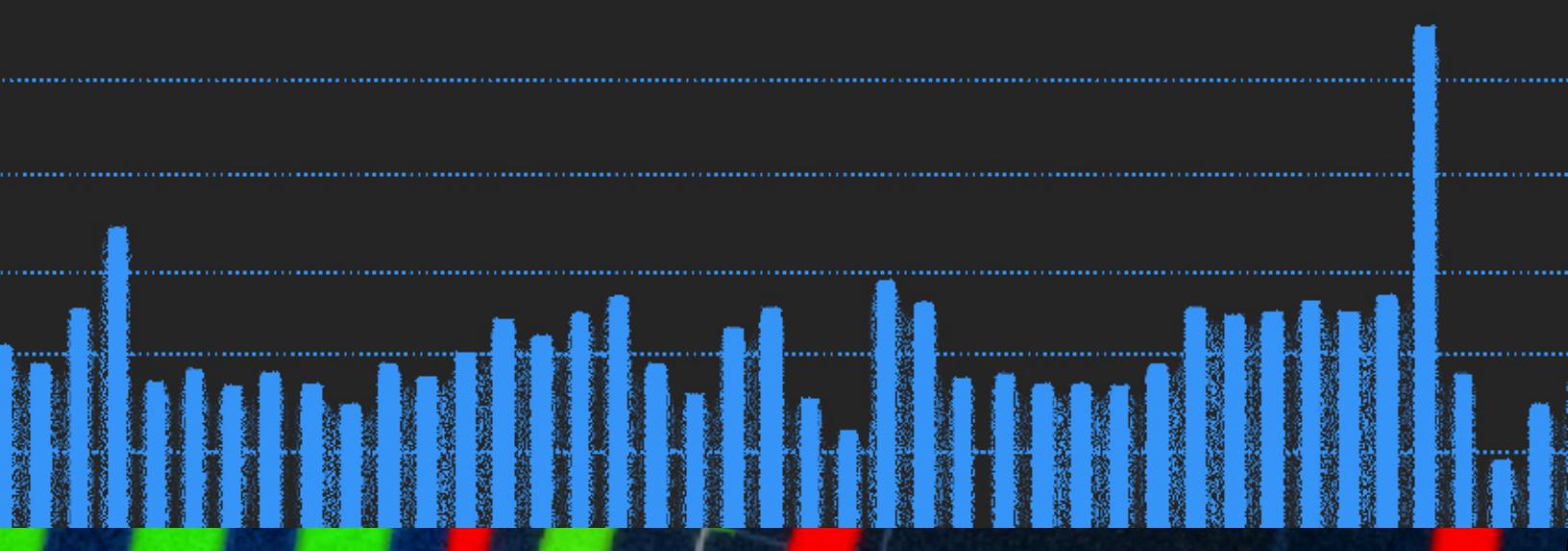
These are companies with a market cap between \$2 and \$10 billion. They're a little riskier than large-cap companies and might offer more growth potential, but they're still relatively stable.

Small Cap

These are companies with a market cap between \$300 million and \$2 billion. This category includes some companies with growth potential ... but also the potential for failure. Companies like this can seriously dwindle in times of recession but really shine during bull markets.

Micro and Nano Cap

These are the tiniest of the stock market — companies with a market cap below \$300 million. And the related nano-cap companies are companies with a market cap below \$50 million. With these stocks, there's great potential for extreme growth. But there's also a big chance of failure.





Bull vs. Bear Market

There are two primary market conditions: bull markets and bear markets. Let's break down the difference.

Bull Market

When you think "bull market," think of a triumphant bull. This is a high-energy, confident market.

Stock prices are going up, the economy is strong, unemployment is low, and people are looking forward. Bullish investors are all about buying, with the expectation that stocks will go up in price.

Bear Market

When you think "bear market," think of an angry bear that's been woken up in the middle of hibernation. This is a downhill, pessimistic market.

The economy might be weak or in recession, investor confidence is shaky, and people generally don't have a good outlook.

Bearish investors are stingy. Usually, they'll refuse to go long or they'll short sell, expecting stock prices to go down.

Stock Research

Stock research is where you do your due diligence before committing to a trade. Think about it. You probably wouldn't even buy something online without doing some research, so don't commit to any trade without doing a little research.

There are two key types of stock research: technical and fundamental analysis. Here's how they work...

Technical Analysis

This type of research is all about charts and statistics. It doesn't really consider who's selling the stock. Instead, it looks at the past market activity, including things like past prices and volume.

Technical analysis isn't so much about a stock's or company's intrinsic value. It's more about using charts and tools to look for patterns that can indicate future activity.

Fundamental Analysis

This type of research looks at the company offering the stock from a range of angles. You're like a detective, evaluating a variety of qualitative and quantitative factors.

Basically, you're trying to consider anything and everything that could affect the company's value, from the economy and world events to company-specific news or developments. To do fundamental research, you look at the company's earnings statements as well as SEC filings, news, social media, and consider the world news at large.



Going Long Versus Going Short

Being Long a Stock: Expecting a Stock Will Rise in Price

If you go long, you expect that the stock price will rise. You buy a stock hoping that the price will go up and that you can sell your shares at a higher price than your purchase price.

Being Short a Stock: Expecting a Stock Will Fall in Price

If you go short, you hope that the stock price will fall. Short selling involves borrowing shares of a stock you don't own and selling them in the hope that they'll drop in price. Then, you buy them back at a lower price and return them to your broker, netting the difference as a profit.

Yes, this is both legal and ethical. But approach short selling with caution. If the price rises, you can lose big — you have to return the shares. And that can mean buying the shares back at a higher price than you sold them.



Trading Glossary

Trading can seem like it has its own unique language, and it kind of does. Confused about a term? Here's a glossary of some of the most common trading terms you'll come across.

Bear Market: A downtrending market characterized by pessimism and low confidence.

Breakout: A stock price that's moved out of a support or resistance level with higher volume.

Breakdown: A stock price that's moved below a level of support with higher volume.

Broker: A broker is a sales agent who facilitates stock orders. It may be an individual broker or a brokerage firm. They buy or sell securities based on your orders. Some brokers provide financial planning and advising and others simply execute.

Bull Market: An uptrending market characterized by optimism and high buyer confidence.

Catalyst: Also called a news catalyst, this is anything that can affect a stock's price. It can be a news story, a company announcement, an SEC filing, or even Twitter gossip.

Day Trading: A style of trading involving entering and exiting a position in the same trading day.

Downtrend: A security's price action that's fluctuating downward over time. There might be intermittent spikes, but the general trend is downward.

Earnings Report: Reports issued yearly and quarterly by public companies. They include things like net income, net sales, earnings per share, earnings from operations. An earnings report can help traders figure out a company's financial health.

ETF: Short for exchange-traded fund. Designed for individual investors, an ETF includes a variety of underlying assets that might include stocks, bonds, gold bars, oil futures, and foreign currencies.

Exchange: A marketplace where stocks and other securities are traded.

Float: Also called the public float. This is the number of shares available for trading. Public float is the amount of shares available minus shares only available to insiders.

FOMO: Fear of missing out. This acronym describes one of the biggest pitfalls for new traders who jump into trades without thinking them through first.

Fundamental Analysis: This stock research involves looking at the company behind the stock and the climate of the market at large. With fundamental analysis, you look at things like earnings reports and company performance, but you also consider things like the global economy.

High of Day: Also shortened to "HOD," this refers to the highest trading price on a given day.

Hold and Hope: A phenomenon where a trader will avoid cutting losses and hold on to a position in hopes that the price action will turn around. Spoiler: it usually doesn't end well.

Index: An index is a way to measure the market. It might include a hypothetical portfolio within a sector that's considered a benchmark. For example, the S&P 500 is an index that's considered a benchmark of the stock market. You can't invest directly in an index.

Indicator: Also called technical indicators, these are the tools that you can use to look at the price action of a stock on a chart. It's common for traders to overlay technical indicators on a chart as a way to filter trades for a higher probability.

Level 2: This is like the order ledger for Nasdaq stocks. Orders are placed through a variety of different market makers and participants. Level 2 shows you a list, ranked by the best bid and ask prices, for each of these participants. This can give you a behind-the-scenes look at the price action.

Options: Options are contracts that give you the right (but not obligation) to buy or sell a security at a specified price within a specific time period. You can either buy or sell options, depending on what your brokerage account offers.

Paper Trading: Simulated trading. You can execute buy or sell orders with real tickers, but it's virtual — you're

not actually risking real money. It lets you test out trading strategies and see how your trades would theoretically work out.

Pattern: A pattern is something that occurs repeatedly and regularly. In the stock market, patterns are price movements that occur with enough regularity and reliability that they can be identified.

PDT: Short for pattern day trader. Per FINRA, there are certain rules that pertain to traders with accounts under \$25,000. One of the most prominent rules limits the number of day trades you can make within specified periods if your account is under the limit.

Penny Stock: A low-priced security, priced under \$5 per share. Although some penny stocks trade on large exchanges such as the New York Stock Exchange (NYSE), most penny stocks trade via over the counter (OTC) transactions.

Position Trading: This is a longer-term trading strategy where you hold a position for an extended period of time, holding out for major moves. It doesn't require the hawkeye over market movements like day trading does, but you still need to have a solid strategy.

Pumps: An illegal practice/scheme where promoters try to boost a stock's price based on misleading or exaggerated claims. Typically, the promoting parties sell their positions when the price is inflated, leaving others holding the bag.

Scalping: Super short-term day trading strategy where you look to quickly make frequent, tiny profits of a few cents per share.

Security: Any financial instrument with monetary value that can be traded. Stocks are a type of security.

Short Selling: A process of borrowing and selling shares you don't own in hopes of profiting from declining stock prices. Here's how the process goes:

- You borrow shares from your broker.
- You sell the shares.
- You wait for the share price to decline (in an ideal world ... but this doesn't always happen).
- You buy back the shares at a low price.
- You return the shares to your broker, keeping the price difference as your profit.

Support and Resistance: Defined ranges that a price action can break through. Support is the price level where a downtrend might hesitate. Resistance is the hesitation zone established when prices are increasing. Once you establish these zones, you can establish entry and exit points for a trade.

Stock Chart: A snapshot of a stock's historical price and trading volume in the form of a graph.

Stock Screener: A platform that lets you screen stocks based on criteria that you set. StocksToTrade is an example of a stock screener.

Swing Trading: A trading method that's based on riding the price "swings" of a trend rather than adhering to a specific time period. Swing trades might last anywhere from an overnight hold to a few days to as long as months.

Technical Analysis: A type of stock research where you look purely at the price action by analyzing the stock's chart over time.

Trading Journal: A log where you note the details of your trades, including entry and exit, time of day, why you made the trade, and your thoughts afterward. Over time, evaluating your journal can help you refine your trading techniques and focus on what works best for you.

Trading Plan: Your game plan for a given trade, including your anticipated entry and exit points, risk/reward, trading thesis, etc.

Trend: The tendency for either the market or a stock to move in a direction over a period of time.

Uptrend: A security's price action that's fluctuating upward over time. There might be intermittent drops, but the general trend is upward.

Volatility: The gap between high and low prices of a stock, and how quickly it moves.

Volume: This is the number of shares traded for the day. The higher the volume, the more shares being traded.

VWAP: Short for volume-weighted average price. This calculates the price based on all trades within a specified time period. Traders may use the VWAP to help determine whether a stock's price is appropriate.

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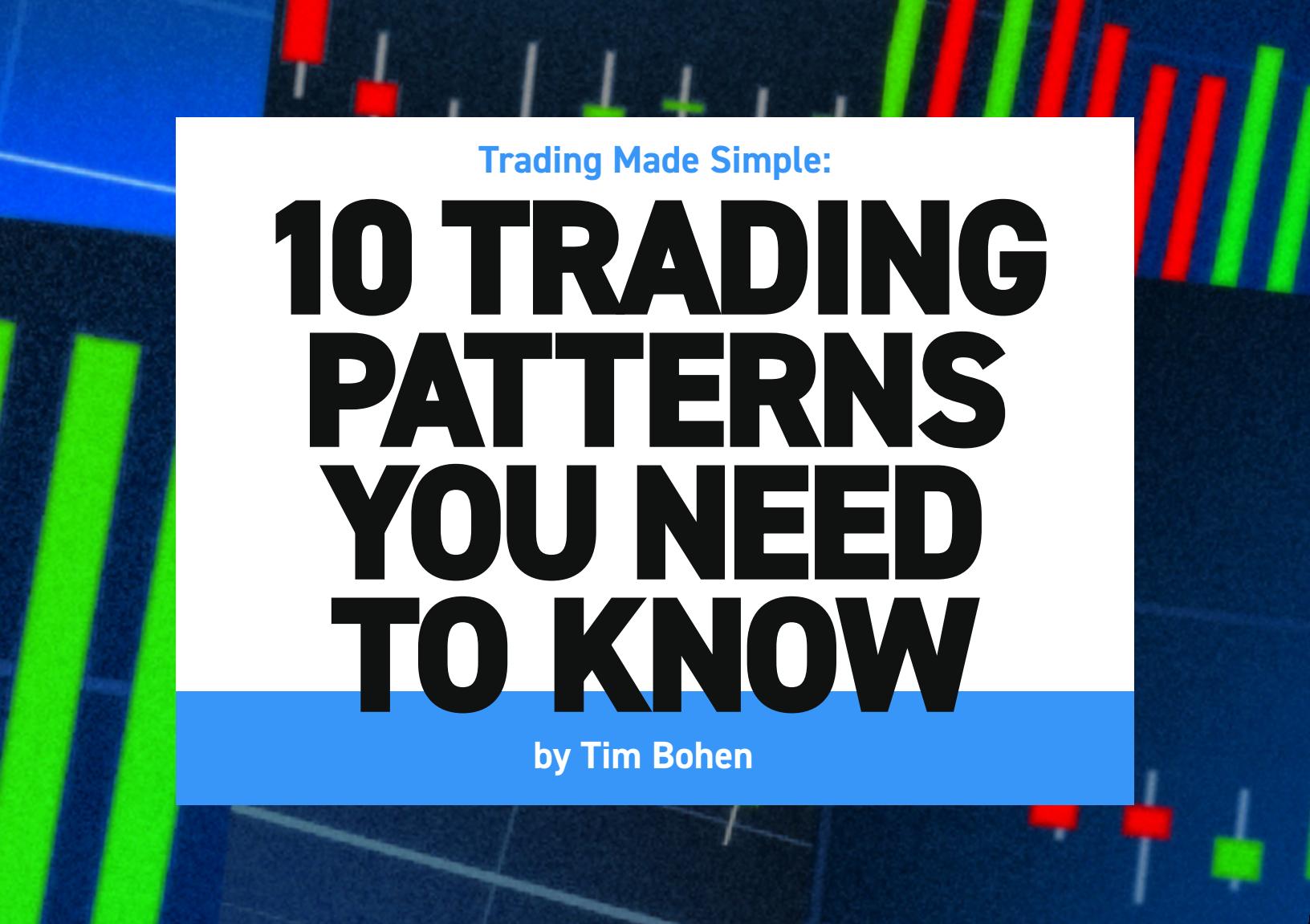
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Trading Made Simple:

10 TRADING PATTERNS YOU NEED TO KNOW

by Tim Bohen

You made it! Now that you've got a good idea of the basic market mechanics, different trading styles, and why patterns matter ... it's time to get down to business.

Here's the real meat and potatoes of this book: 10 trading patterns you need to know.

These may be just 10 patterns, but they represent nearly limitless trading setups. They have endless incarnations and variations. So if you can learn to recognize these patterns, you can learn to use them in hundreds – thousands – of different trades.

Remember: it's not about memorizing a pattern. It's about learning to understand these patterns and how they play out so that you can recognize them when they crop up again. They'll never look identical, but once you start to get a handle on them, you'll see them over and over (and over) in the stock market, year after year.

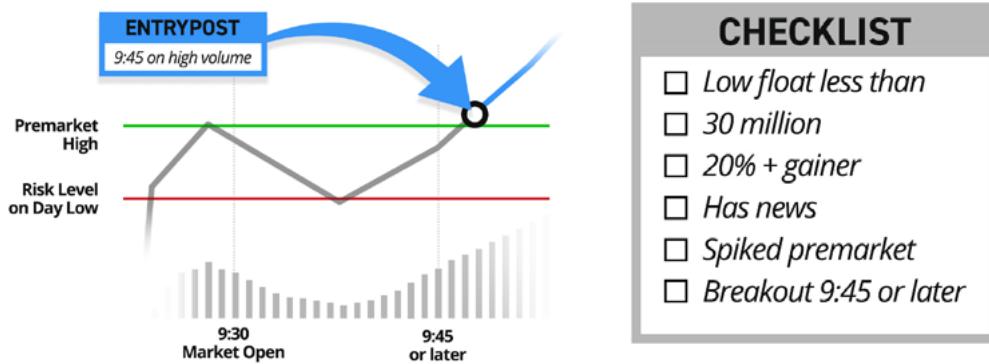
This is some awesome prerequisite material for new traders and great reference material for established traders.

These 10 patterns are organized into five long patterns and five short patterns ... and even a bonus variation.

5 Long Patterns

Long Pattern #1:

Low-Float Big Gainer With News Reclaiming Premarket Highs 9:45 a.m. or Later



I know you shouldn't play favorites ... but this is my favorite setup. If you frequent my webinars on StocksToTrade, you'll hear me talk about this setup a lot.

I love low floaters – stocks with a low number of available shares. I'd say that from 2014–2018, low floaters were everything. Just about every premarket session I led during those years featured some sort of a rant about low-float stocks.

There's a reason I'm so passionate about low-float stocks. They're the ones that can give you ridiculous moves and multiple opportunities to trade!

Like any other pattern, this one comes in and out of style. Depending on when you're reading this guide, you might not see it as often, but it'll be back eventually. That's just how the market goes.

Trading Notes

The name of this pattern is a mouthful, but it tells you everything you need to know about the pattern. So let's break it down and look at every part.

Low Float: Low float is typically less than 10 million shares, but there can be a little give or take in either direction depending on the stock.

Big Gainer: "Big gainer" can be relative ... but in momentum stock land, we're talking a minimum of 20% gains. It could be higher though...

With News Reclaiming Premarket Highs: When a stock like this is reclaiming premarket highs, what you want to find out is why. Usually, it's based on some sort of news. The best part? It doesn't really matter what the news is, it just matters that it's legit (check reputable news sources) and related to the stock.

9:45 a.m. or Later: Timing matters! 9:45 a.m. is one of my favorite times of day, as is 2 p.m. Why? Because at these times, stocks have proven themselves — the action isn't just a random pop. These are the stocks that prove themselves.

This is a stock that has a higher likelihood of running ... not one that spiked at premarket then fizzled into nothing. As for a stop-loss? If the direction reverses, it's time to get out.

Will These Patterns Always Work?

Warren Buffet said, “Be greedy when others are fearful, be fearful when others are greedy.”

Me? I love greedy markets.

Then again, Warren has time and money — advantages that a lot of other people don't have. Others need to make money in a shorter time frame.

A greedy market creates float rotation, and that makes this chart pattern happen all the time ... and everyone wants in! But the frothy market is key to this pattern's success. During a downtrending market, you won't see it as much.

But that doesn't mean that as the market changes, you should forget this pattern forever. It just means you might have to shelve it for a while ... but it'll come back.



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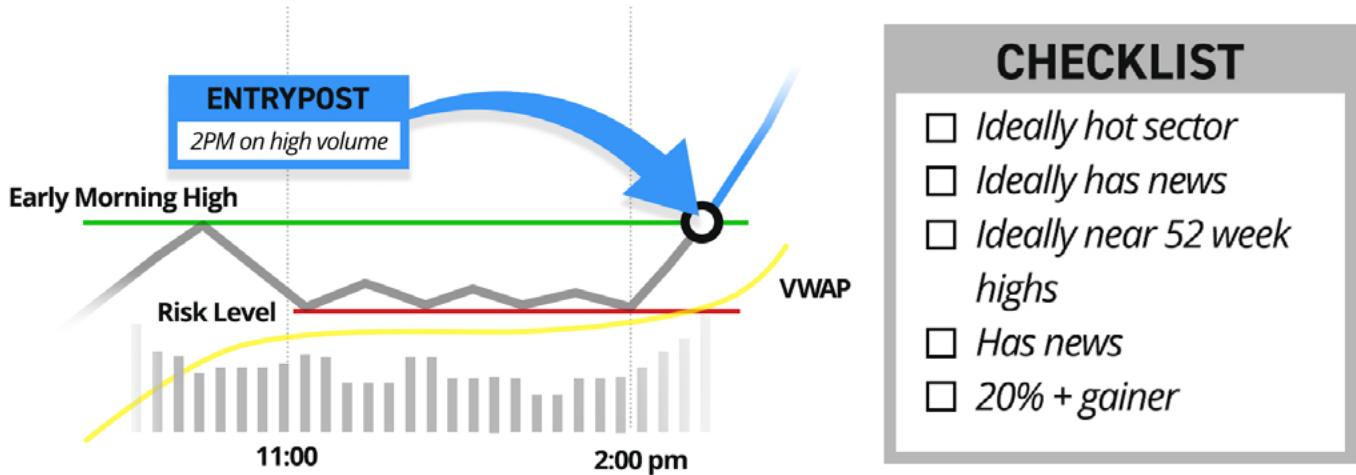
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Long Pattern #2: Late-Day, VWAP-Hold, HOD-Break With News at or Around the 52-Week Highs



You could think of this as an alternative-universe version of Pattern #1.

Here, you've got a stock that's up big on the day. But in this case, the market's a little mixed. There's an air of caution. The general mentality is "I don't know if I'm feeling this..." Buyers aren't sure if they want to dive in.

So instead of getting in early, it can be smarter to wait for the late-day break. That's where you can find more opportunities.

One of the nice things about a late-day break? If the stock fails and doesn't make the desired move, just forget it and move on.

Trading Notes

Once again, the name of this pattern pretty much tells you everything you need to know, so let's break it down.

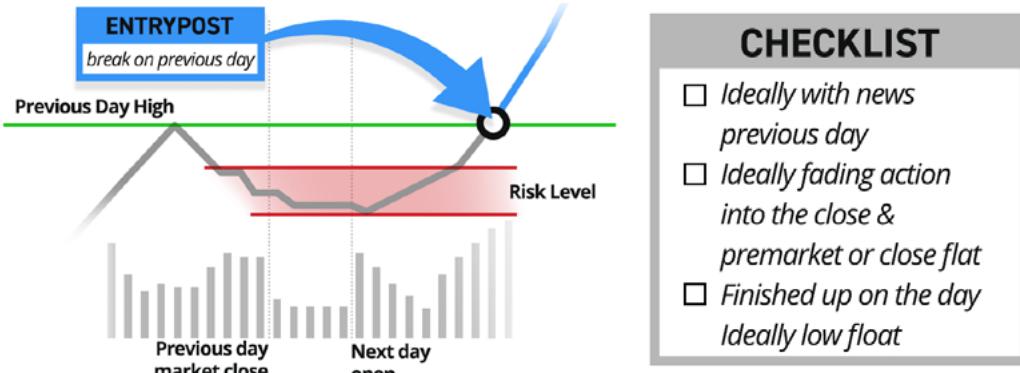
Late Day: The first thing you'll look for is an early spike. That's what will grab your attention. It's also what could lead to a late-day break. However, you're just monitoring at this point, not doing anything. Your attitude toward this stock through the early and mid-day is "whatever." Until later on...

VWAP Hold and HOD Break: But then, it breaks to the high of the day. But the break isn't the only thing you're looking for — you also want it to hold the VWAP.

Once I see that HOD break and a VWAP hold, I set my stop-loss in case it fails after that.

Ideally, you're looking for a stock in a hot sector, with real news, and that's hovering at or around 52-week highs. The odds of this pattern working tend to be better at or around 52-week highs.

Long Pattern #3: The “Squeezer” – Junk Stock Hitting Previous Day’s Highs



This pattern acts as proof positive that bad businesses can give traders a big advantage.

When I say “bad” stocks, I mean real junkers.

They've got terrible patterns, and they're super sketchy businesses ... Really, this is the worst of the worst. Like if you look them up on Google Maps, they'd be based in a house, not an actual commercial location.

But for some reason, news can make stocks like this spike big. If you can identify a contender, this can be a great – and potentially profitable – way to trade.

Trading Notes

Remember: the junkier the stock, the better. While it's not necessary, I prefer this to also be a low-float stock. In my experience, the worse the float, the better this trading style works out.

As for trading it, start by looking at the previous day's action. Ideally, the stock was up big the previous day, and it's mainly held its gains. It could close at various places, but it basically finished “up” on the day.

Personally, I like a slight fade into the close. That tells me that it will likely embolden the shorts. To be clear, that's just a gentle fade. You want the stock to mostly be up for the day, but it could be slightly flat or still up.

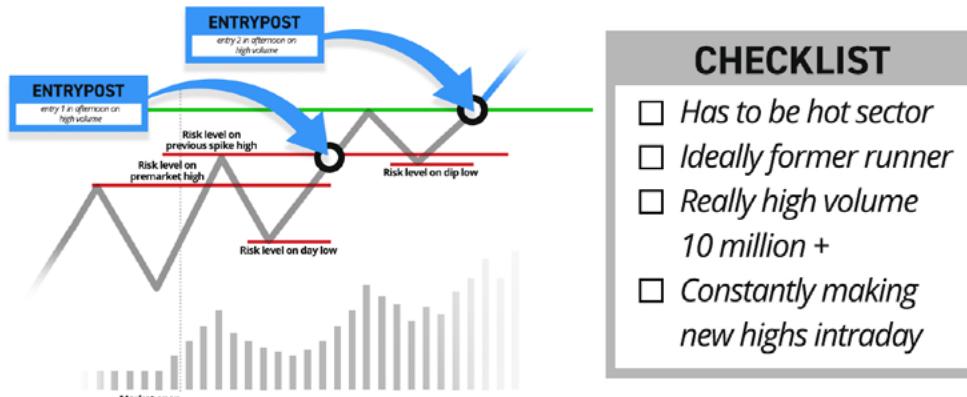
But what you're really looking for is when it doesn't gap down. That's where the magic happens.

Say that it's a stock with news. If the stock breaks the high the next day, the weak closing action draws in the shorts. And when it breaks, everyone freaks out ... with good reason. The shorts' accounts are exploding – they're about to blow up!

When it reclaims that previous day's high, if it's a toxic stock with news, that's when you see fireworks. A lot of stocks trade crazy volume – that's happened recently.

What about your stop? In this setup, I like to buy near the high of the day, then stop out on a failure to break the high of the day.

Long Pattern #4: The “Ripper” – Spike Early, Spike Mid-Day, Spike Late Day



This pattern is pretty simple and involves multiple spikes in early, mid, and late day.

It's characterized by big moves, so this pattern is easy to find. Its chart typically features a pretty striking visual ascent with noticeable peaks.

Because it's so recognizable and easy to see, you won't be alone in spotting this pattern. Plenty of other traders will notice it too. But few people know how to actually handle it. How you plan out your trade can make all the difference.

Trading Notes

The first thing you want to look for with this pattern is a series of big moves. It involves three separate spikes: one early in the day, one mid-day, and one late in the day.

But that's just the starting point.

In addition to these big moves, you're looking for really high volume. I mean really unusual volume. For example, it might normally average a few hundred thousand shares a day, then suddenly it's trading 30 million or 100 million shares.

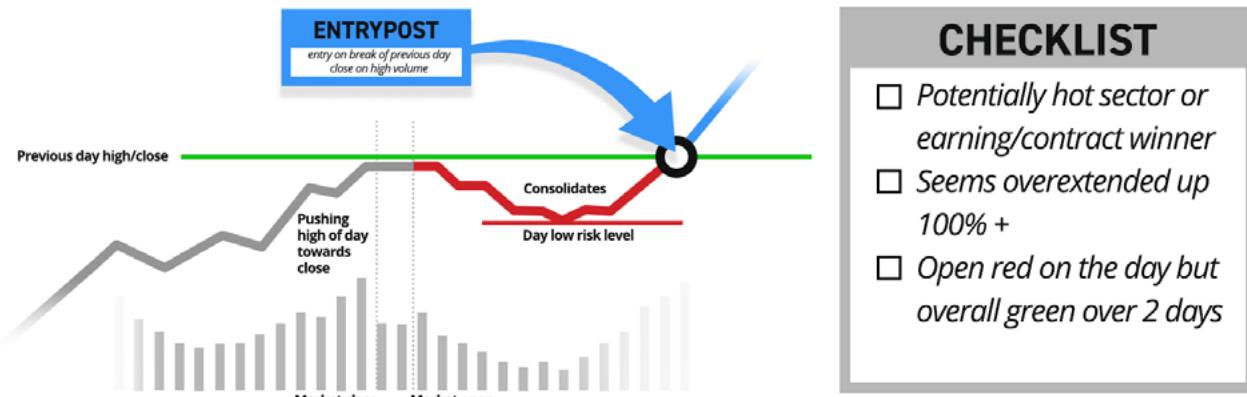
This happens often with stocks in hot sectors. We saw it happen a lot with weed stocks, and it's common with former runners.

If you look at the chart, the volume bars might generally look like they're holding steady, but then suddenly it's roughly a million feet higher than usual. Significantly higher. When a stock rips early like this, you know something's up.

Patience is key with this pattern.

The good news is that with the increased volume, you have multiple opportunities for entry. Just wait. The ridiculous volume can give you multiple chances to trade the stock.

Long Pattern #5: Weak Open Red/Green – Higher Quality, Previous Day's Big Gainer, Multi-Day Gainer, Also Previous Day's Low-Float Junk Runner



This pattern is subtle. It's not as obvious or as clearly visible as some of the other long patterns, but that's part of its beauty. It means that a lot of other traders won't see it, and that means less competition for you.

This is one of the few instances where I might actually like the stock or even slightly believe in the company. It might be a solid business, an interesting sector, or an earnings winner. It could be up on positive news.

If you're looking at a stock later in the day and feeling FOMO — it's pushing the high of the day toward the close and it feels like it's "up too much." The next morning could present some opportunities.

Trading Notes

This pattern starts with a business that has a positive-looking trajectory. It's been gaining steadily, and maybe it had some big gains the day before.

However, it opens weak. That's to say, it opens red on the day, but the stock is still up relatively.

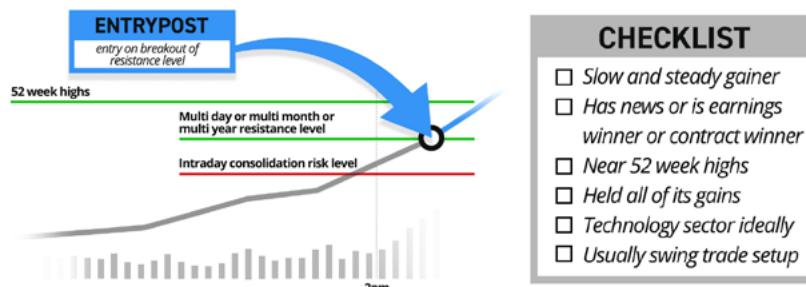
With a pattern like this, an intelligent entry is to wait for this weak open, in hopes that it will go from red to green. Remember: even if it's opening red, you want the stock to be green overall. In many cases, this dip will be brief before it stabilizes and goes green.

A good entry is above the previous day's close, and your stop is when the trajectory fails to continue or when it goes red for the day.

Also note that since this pattern tends to play out with higher-quality companies, it could be a multi-day gainer. That means this pattern could play out over several days (and in some cases even months!). So you could watch and wait to see how it all plays out before jumping in.

Bonus Pattern:

Earnings Winner or “Quality News” Stock Pushing HOD Post 2 p.m.



Traders are obsessed with hot sectors, but sometimes slower, under-the-radar movers can provide opportunities, too.

This pattern usually plays out in solid, but not necessarily trendy, sectors. It won't be in a boring sector like retail, oil, or gas. It'll be in an “interesting” sector — maybe biotech, social media, etc.

Trading Notes

With this slower mover, you're not looking for a crazy parabolic move. It's a stock that's not up a crazy amount — maybe just 5% or edging closer to 10%.

It's also pushing the high of the day ... maybe it's an earnings winner or has good news. It's at or around 52-week highs, and it has a nice, gradual late-day push.

Once again, this stock won't be up 30%–50%. It's a gradual, all-day grinder. It's pushing highs after 2 p.m., holding its gains, and it's got legit news.

This stock has proven itself. It might look like the most boring stock of the bunch. But remember that it's got news, earnings, or both. You're looking to hold this baby for days or weeks, swing-trade style.

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5 Short Patterns

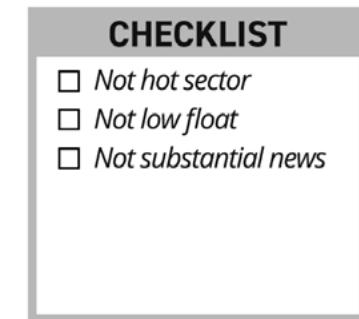
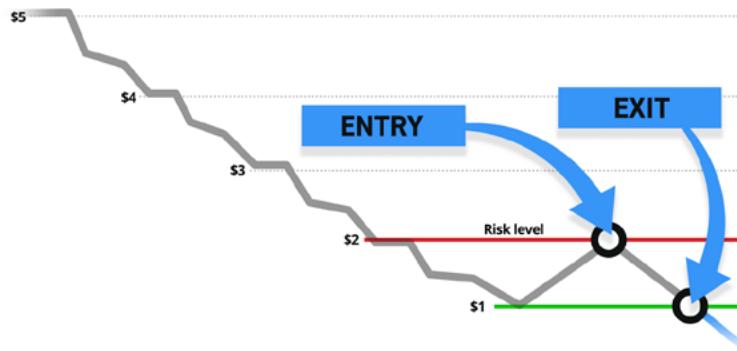
There are plenty of reasons to avoid going short. For one, it's not necessarily advised for newbies. It's not the best for cash accounts or small accounts and you'll get stopped out a LOT.

But then again ... if you're willing to take the time to actually learn how shorting works, it can be a great addition to your trading repertoire.

Why? Because shorting lets you take advantage of dwindling stock prices. By mastering long and short strategies, you can find opportunities no matter what the market conditions may be at any given time.

My advice? Focus on going long first. If you can't consistently make money as a long, you won't make money as a short. However, once you learn the ropes and are ready to dive in, these are some patterns to consider.

Short Pattern #1: Dead Cat Bounce Into Support



The 'dead cat bounce' is a popular pattern where a stock price has a big drop followed by a brief recovery or bounce before continuing to drift downward. This is a variation on that pattern.

With this pattern, you'll see a long-term downtrending stock that's finding or discovering various levels of support, then breaking down below those support levels.

With a stock like this, opportunities can arise when there's some sort of catalyst. What's key is learning how you can take advantage of the spikes and fails.

Trading Notes

With this pattern, you're looking for a chart with a history of consolidation then failure ... over and over. Here are some characteristics to look for:

- This stock is NOT in a hot sector.
- It's NOT low float.
- It's NOT an earnings winner.

Sometimes with stocks like this, you'll get a random day when there's some weak news or a catalyst that makes the price spike premarket or early in the day, giving a clearly defined level.

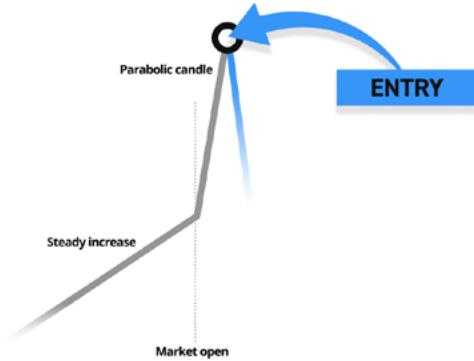
In that kind of situation, you might consider shorting into the previous resistance level.

Say the stock was a dollar yesterday, and it's spiking big in premarket or at the open into a previous resistance level. In a case like this, you could short into that level, then cover into the fail.

If the price continues through that level, you quickly stop out – don't try to be a hero with short selling.

Ultimately, your goal is a fail at resistance. You can cover that same day or even the next day when it breaks down, which it probably will. Remember – this stock is dead meat. What you're looking to do is scale into your position at the previous resistance level.

Short Pattern #2: Parabolic Candle



What if there's no hot sector ... or you don't want to play the trend game right now? The parabolic candle pattern lets you take advantage of spikes in not-so-hot sectors.

With this pattern, you've got an exponential or parabolic candle. This candle's burning — the stock price is increasing, building steadily and going up. Plenty of traders have FOMO and want in.

Instead of falling prey to FOMO, with this pattern you take a short position ... and potentially get a leg up on everyone who DOES believe the hype.

Trading Notes

Most importantly, you're looking for a stock that's up big. It could be based on news. It's building action in the premarket ... then we come into the market open. I typically don't advise shorting in the premarket. But keep watching the stock's action as it comes into the market open.

As the candle increases at a gradual amount, the price is increasing, too. The FOMO is building for the longs. There's more and more buying.

Then, you see that crazy big candle. It's exponentially bigger than the last candle. That's what's called exhaustion candle. It's when things reach a feeding frenzy and everyone wants in.

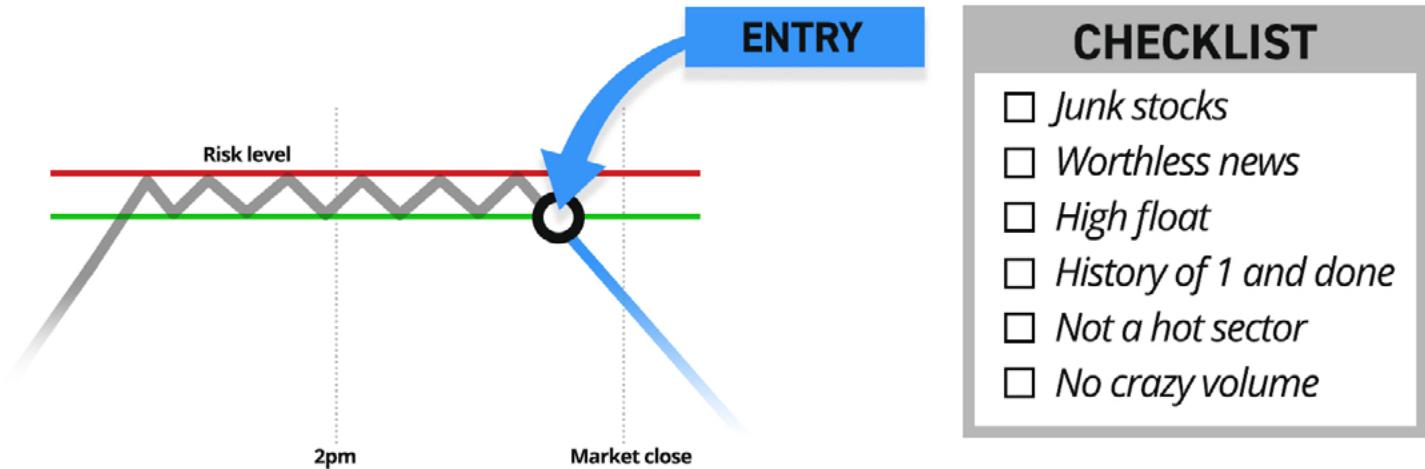
So say it went from \$2 to \$6 in the open. You think it's up too much and that it can't continue. So you decide to short.

If you short into this move, you MUST have a stop. Have a dollar-amount stop — decide what you're willing to risk and stick to it.

Often, stocks like this drop hard, and there's money to be made. But if you don't have bulletproof discipline ... if you can't stick to a plan ... you've got no business being in this kind of trade.

In bear markets, this is a favorite setup, but you MUST have discipline. Bag holding won't fix the trouble you can get into with this setup.

Short Pattern #3: HOD Reject



When it comes to short-selling strategies, this is one of my personal favorite setups.

It's an interesting pattern. It involves a big gainer that starts to go into a choppy period after the open. Then, moving into mid or late day, it starts to grind into the high of day. It fails. Then it grinds and fails again, before it breaks support.

It might seem erratic, but once you start to see this pattern, you'll see it's not as nutty as it seems. When you know how to approach it, it can provide opportunities!

Trading Notes

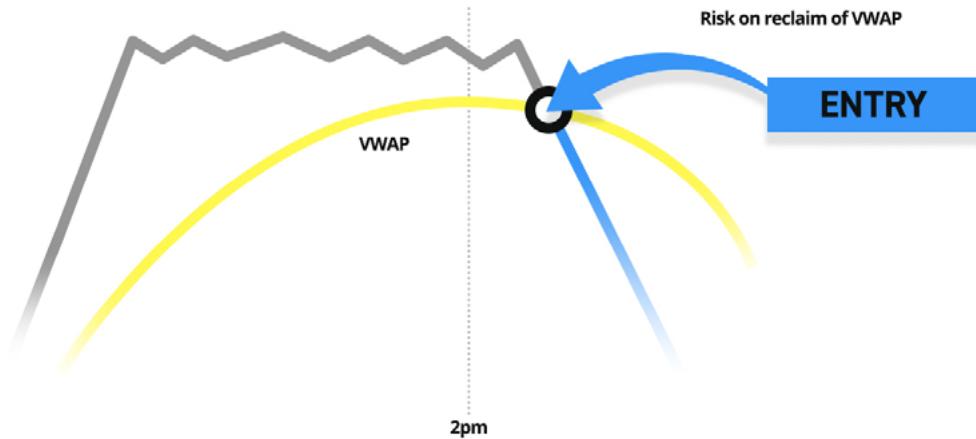
The first thing you're looking for here is a big gainer. But not for any great reason. A junky stock with a history of fails ... that's what you're looking for. No substantial news, not a hot sector, not a good company, not a low float, no crazy volume.

It's got spikes and it's holding support. In this case, you actually want it to hold up throughout the day. Then as we get into late day, it spikes, spikes, spikes ... before it fails and breaks support. When it breaks support, that's your entry.

Unlike many short strategies, these are relatively safer to hold overnight. If it breaks support late day, it's trending down into the low of the day at the close. And there's a pretty good chance it will gap down the next day.

If it closes like this it can be good to hold overnight. Yes, there could be news or an event that stops you out, but that's always a risk no matter when you trade.

Short Pattern #4: Late-Day VWAP Fail



This stock is up on the day, and it can make believers of traders who don't know better.

But you? You're different. You know that even though this might seem like the same thing you'd see on a bullish day, it'll end badly for this stock.

This lets you look for opportunities even with bullish patterns.

It's simple, it works, and it's consistent. It's also a late-day pattern, so you kind of have to sit around and wait. But if you wait ... it's there! It's your chance to short below the VWAP and cover above the VWAP.

Trading Notes

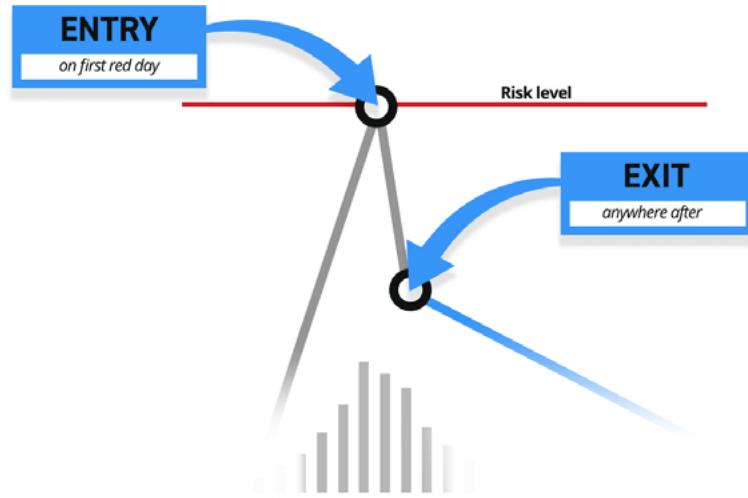
This stock has been running high, but it can't hold onto these sustained highs without any good reason. This could be a low floater, but it doesn't have to be.

The big thing to watch for is the late-day VWAP fail. The pattern is characterized by a big move, then consolidation, then it breaks down below the VWAP. v

Your risk? The reclaim of the VWAP. If that happens and the volume comes in, you must cut losses!

My advice? Keep a tight stop and stick to your trading plan. If the stock reclaims VWAP after 2 p.m., you don't want to stay short.

Short Pattern #5: Daily Chart Fader



If a stock's been building in price and volume, there should be a good reason. If there's no good reason, beware if you're going long, and rejoice if you want to go short.

A ticker could be a good contender for this short pattern if it's not in a hot sector, if it's a company with bad financials, or it's up on fluff news.

To trade this pattern, you're looking to short into the first red day with risk on the reclaim of the highs. This is what I would call a swing short — you might hold it for days or even weeks.

Trading Notes

With the daily chart fader, you see a stock that's building on fluff news ... but it's not in a hot sector, and it's not a great company.

Then suddenly, the candles start changing direction. What you look for here is an exponential daily candle, somewhat like the parabolic short.

Once you get that big move to the upside with big volume, the next day will most likely be the first red day. You want to short against the reclaim of the highs and look for fading volume and price over multiple days or weeks.

StocksToTrade

Ready to make the most of these patterns but not sure where to find potential tickers? Turn to **StocksToTrade**.

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