**Trading Principles – Part 3**

1. **Risk-Reward Ratio**: Before entering any trade, always calculate the **risk-reward ratio**. A good rule of thumb is to ensure that your potential reward is at least 2–3 times greater than the risk. For example, if you're risking $100, you should aim to make at least $200 to $300 in return.
2. **Position Sizing**: Focus on **position sizing** based on your overall capital and risk tolerance. Even if you have a high conviction on a trade, never risk more than 1–2% of your capital on any single trade. This protects you from catastrophic losses if the market goes against you.
3. **Diversification**: While you've focused on high-moat stocks, consider **diversifying across sectors**. This can help mitigate risks from any specific industry downturns. For example, in addition to tech stocks like NVDA, diversify into healthcare, consumer goods, or financials to balance your portfolio.
4. **Trade Small and Trade Often (TSTO)**: This method, popularized by experienced traders, advocates for making small trades more frequently instead of going all-in on a few trades. It helps you learn, manage risk, and stay nimble in the market. For example, trade 10 smaller positions instead of one large position to spread your risk and give you more flexibility.
5. **The "90/90/90 Rule"**: This is a popular phrase in trading which states that **90% of traders lose 90% of their money in the first 90 days**. Keeping this in mind helps to focus on **longevity** and survival in the market. Avoid trying to "get rich quick," and focus on small, consistent profits.
6. **Market Conditions Matter**: Different strategies work in different market conditions (bull, bear, or sideways). It’s essential to know whether the overall market is trending up, down, or moving sideways. Adjust your strategy accordingly:
7. **In bull markets**: Momentum strategies work well. Ride the upward wave.
8. **In bear markets**: Defensive strategies like hedging, buying protective puts, or even cashing out work better.
9. **In sideways markets**: Neutral strategies like **iron condors** or **straddles/strangles** can help take advantage of low volatility.
10. **Understand Liquidity**: Focus on stocks or options with good **liquidity** (high volume and open interest). Illiquid stocks or options have wider bid-ask spreads, which can increase costs when entering or exiting trades. You might lose money just from the spread if the asset is not liquid enough.
11. **Volatility Indicators**: You mentioned keeping an eye on the VIX. To refine this further, learn how to **use volatility indicators like ATR (Average True Range)**. This can help you gauge expected price movement and determine optimal stop-loss levels.
12. **Patience & Focus on the Big Picture**: While short-term trades are exciting, it’s critical to maintain a **long-term vision** as well. Sometimes, holding quality stocks for years will yield better results than chasing daily or weekly moves. Balance short-term trading with long-term investing.
13. **Continuous Learning and Adaptation**: The markets are ever-evolving, and what worked a few months ago may not work today. Always stay adaptable, continue reading books, attend webinars, and network with other traders to sharpen your skills. Some additional trading resources include:
14. **Books**: *“Reminiscences of a Stock Operator”* by Edwin Lefèvre, *“Market Wizards”* by Jack D. Schwager.
15. **Webinars/Online Courses**: Follow top educators like Investopedia, TastyTrade, and other platforms that regularly update trading strategies.
16. **Set Realistic Expectations**: It's easy to get caught up in big wins, but **focus on steady, realistic gains**. The compounding effect over time can create significant wealth even with a modest 1-2% gain per week.
17. **Know When to Walk Away**: Sometimes, the best trade is no trade at all. If the markets are choppy or unpredictable, it's okay to sit out and wait for a better opportunity. Trading when you're emotional or frustrated often leads to poor decisions.
18. **Understand Taxes**: Be aware of the tax implications of your trades. In some countries, short-term capital gains (investments held for less than a year) are taxed at a higher rate than long-term capital gains. Keep this in mind, especially if you're frequently trading in and out of positions.
19. **Paper Trading**: If you're trying a new strategy or working with options, consider starting with **paper trading** (using simulated trades without real money) until you are confident. This can help you practice and develop a strategy without the risk of losing money upfront.
20. **Mentorship**: Trading can sometimes feel isolating, but learning from a **mentor or community** can accelerate your learning curve. Joining a trading group or finding a seasoned investor to guide you can help you avoid common pitfalls.
21. **Mindfulness**: Trading can be stressful, and maintaining your mental health is crucial. Incorporate practices like meditation, exercise, or other activities to keep yourself focused and balanced.
22. Backtesting**: Always backtest your strategies on historical data to understand their effectiveness in different market conditions before risking real money.**
23. Avoid Overleveraging**: Leverage can amplify both gains and losses. Use it cautiously to avoid large drawdowns.**
24. Embrace Losses**: Accept that losses are part of trading. Learn from each one, but don’t let them dictate your emotional state or subsequent trades.**
25. Stay Informed**: Beyond financial news, stay updated on technological advancements, geopolitical events, and macroeconomic trends that can impact markets.**
26. Environmental, Social, Governance (ESG) Investing**: Consider the impact of ESG factors on your investment decisions. Companies with strong ESG practices may have long-term growth potential.**
27. Sector Rotation**: Keep an eye on which sectors are performing well and consider rotating your investments into sectors that are trending upwards.**
28. Risk Management Tools**: Use advanced tools like options for risk management (e.g., buying puts as insurance).**
29. Market Sentiment Analysis**: Pay attention to market sentiment and investor behavior. Use tools and indicators like the Fear & Greed Index.**
30. Algorithmic Trading**: If you're tech-savvy, explore algorithmic trading to automate your strategies and remove emotion from the equation.**
31. Financial Health Check**: Regularly review your financial situation, goals, and risk tolerance to ensure your trading strategy aligns with your overall financial health.**
32. **Risk Management**
33. **Position Sizing**: Never risk more than 1-2% of your total trading capital on a single trade. This protects you from significant losses if a trade goes against you.
34. **Risk-Reward Ratio**: Before entering any trade, ensure that your potential reward is at least 2-3 times greater than the risk. For example, if you're risking $100, aim to make at least $200-$300 in return.
35. **Market Analysis**
36. **Multiple Time Frame Analysis**: When analyzing a stock, look at multiple time frames to get a complete picture. Start with a longer time frame to identify the overall trend, then move to shorter time frames for entry and exit points.
37. **Correlation Awareness**: Be aware of correlations between different assets. Diversification doesn't work if all your assets move in the same direction.
38. **Trading Psychology**
39. **Emotional Discipline**: Develop a system to manage your emotions. Consider keeping a trading journal to track not just your trades, but also your emotional state during trading.
40. **Advanced Techniques**
41. **Options Strategies**: Learn advanced options strategies like iron condors, butterfly spreads, or calendar spreads to take advantage of different market conditions.
42. **Algorithmic Trading**: If you're tech-savvy, consider learning about algorithmic trading to remove emotion from your trading decisions and to backtest your strategies.
43. **Continuous Improvement**
44. **Post-Trade Analysis**: After each trading session, review your trades. What worked? What didn't? How can you improve?
45. **Stay Informed**: Beyond financial news, stay updated on technological advancements, geopolitical events, and macroeconomic trends that can impact markets.
46. Remember, the key to successful trading is continuous learning, disciplined risk management, and consistent application of your trading strategy.

Option Definition – Contract between 2 Parties (a Buyer & a Seller)

Options have two types: Calls & Puts

You Buy Calls if you think the stock price is going up (Buy towards the direction)

You Buy Puts if you think the stock price is going down (Buy towards the direction)

You Sell Calls if you think the stock price is going down (Sell towards the opposite direction of the market trend)

You Sell Puts if you think the stock price is going up (Sell towards the opposite direction of the market trend)

Venkat Notes: The BUYER always has the RIGHT/OPTION to BUY the stock, or PUT the stock to another person.

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**SELL CALL (on oct 1). Geico is selling insurance thinking Geico can collect insurance payment**

**I sell call on XYZ | Current Price= 200$ | Strike price 220 | Exp Oct 10 | Premium = 10$ | 1 Contract |**

As a seller, I am doing a sell call, thinking the price will NOT go higher than strike price,

so, I can pocket the premium 10 x 100 = 1000$

**BUY CALL (Max Risk = Premium Paid, Profit is unlimited)**

**I bought a call on Oct 1 | Current Price XYZ = 200$ | Strike price 220 | Exp Oct 10 | Premium = 10$ | 1 Contract. |**

As a Buyer, I do BUY call as a buyer, thinking the price is going to go past the strike price, so I can get good profit

**When the current price is greater than strike price before expiry date**

On Oct 5 the stock price is 250$

(Current Price – Strike price - premium) x (No of Contract \* 100) => (250 -220 - 10) x (1 x 100) = 20 x 100 = 2000 profit

**When the current price is Lesser than strike price before expiry date**

On Oct 5 the stock price is 120$

I will lose the premium as the current price has **NOT** moved higher than strike price.

**When the current price is equal to strike price before expiry date**

I will lose the premium

**When the current price is less than to strike price and the expiry date is passed (Usually Friday 3pm cst) the contract**

**Expires and the buyer loses his premium to the seller.**

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Put is difficult to understand for beginners so let’s use some examples.

**SELL PUT**

As a seller, I am doing a SELL PUT, thinking the price will NOT go lower than the strike price, so I can pocket the premium

**BUY PUT (Max Risk = Premium Paid, Profit is unlimited) buying an insurance on a falling price to safe guard your stocks.**

As a BUYER,I am doing a BUY PUT, thinking the price will go lower than the strike price, so I can get good profit.

**I, BUY PUT on Oct 1 | Current Price XYZ = 200$ | Strike price 100 | Exp Oct 10 | Premium = 10$ | 1 Contract. |**

**On Oct 7 the stock XYZ price fell to 50$**

**(Strike Price – current Price) \* (Num of contract \* 100) - (Num of contract - Premium)**

**(100 – 50) x (1 x 100) – 10 = 4990 profit.**

**As a buyer I can PUT (meaning SEND) the stock to the seller.**

**On Oct 7 the stock XYZ price fell to 20$**

**(Strike Price – current Price) \* (Num of contract \* 100) - (Num of contract - Premium)**

**(100 – 20) x (1 x 100) – 10 = 7990 profit.**

**As a buyer I can PUT (meaning SEND) the stock to the seller.**

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**Short Stocks in Robin Hood in A Bearish Market** <https://www.youtube.com/watch?v=EMeV291GPFI>

**Wheel Strategy**

* You sell put options to collect premium
* You might get assigned on expiration date.
* If you assigned. You sell call options and collect premium

Exercise Cut-off time for expiring options – Finra says 4.30pm cst on the day of expiration.

Market closes at at 3pm est and you have 90 minutes to decide on assignment.

Tastyworks until 3.30pm cst

Robinhood until 4pm cst

Own the Shares before selling covered call. So wait till Monday to sell covered call instead of selling it on Friday.

The Tallest mountains are conquered with the smallest steps.

A journey of a thousand miles begins with a single step

Follow YouTube channel

<https://www.youtube.com/@parkevtatevosiancfa9544> (Stock Selection)

<https://www.youtube.com/@FiredUpWealth> (Stock Selection)

<https://www.youtube.com/@tastyliveshow> (Deep advanced Analysis).

<https://www.youtube.com/@juniortrader> (Chart Analysis)

<https://www.youtube.com/@ChrisSain1> (Chart Analysis)

**Tickers to watch**

<https://www.yieldmaxetfs.com/our-etfs/> .Tier1: CONY | MSTY | NVDY

Tier2: ULTY | TSLY | CRSH | AMZY | NFLY | YMAG | YMAX

<https://www.roundhillinvestments.com/etf/> XDTE, QDTE, YBTC, RDTE

<https://www.proshares.com/our-etfs/find-strategic-etfs?strategy=all-etf> BITO

<https://graniteshares.com/institutional/us/en-us/fund-map/> NVDL, CONL

**Best High Volatile stocks for selling options:** NVDA, TSLA, LULU, SOXL, MARA, TSLL, NVDX, XOM, BITO, OXY, DELL

**Best Tools: Buy Premium membership** Barchart.com Tradingview.com

Stocks.

**Public Library Users – use the below URL’s**

McKinney => <https://galeapps.gale.com/apps/udemy/auth?userGroupName=txshrpub100250>

Frisco => <https://galeapps.gale.com/apps/udemy/auth?userGroupName=txshrpub100509>

<https://gale.udemy.com/course/foundation-course/>

<https://gale.udemy.com/course/advanced-course-plus-strategies/>

<https://gale.udemy.com/course/day-trading-swing-trading-strategies-stocks>

<https://gale.udemy.com/course/live-stock-trading-course-beginner-to-pro/>

<https://gale.udemy.com/course/complete-course-introduction-to-option-trading/> : First 6 chapters Alone

**Options Trading for Beginners: Complete Guide with Examples**

<https://www.youtube.com/watch?v=NW1ziUDjB7w>

Call Options Explained: [https://youtu.be/kC28MuQPyu8](https://www.youtube.com/watch?v=kC28MuQPyu8)

Put Options Explained: [https://youtu.be/tlcCPX4t9y0](https://www.youtube.com/watch?v=tlcCPX4t9y0)

Covered Calls Explained: [https://youtu.be/D5Rjx\_7XG2U](https://www.youtube.com/watch?v=D5Rjx_7XG2U)

Cash-Secured Puts Explained: [https://youtu.be/YfC7DYri4co](https://www.youtube.com/watch?v=YfC7DYri4co)

**Venkat Recommended Courses – on Options. (Paid Training, buy these courses on thanks giving/ new year etc.)**

[**https://www.udemy.com/course/learn-stock-trading-from-scratch**](https://www.udemy.com/course/learn-stock-trading-from-scratch)

[**https://www.udemy.com/course/the-ultimate-stock-options-training-cours**](https://www.udemy.com/course/the-ultimate-stock-options-training-cours)

[**https://www.udemy.com/course/how-to-trade-options-on-earnings-for-quick-profit**](https://www.udemy.com/course/how-to-trade-options-on-earnings-for-quick-profit)

[**https://www.udemy.com/course/the-complete-technical-analysis-candlestick-secret-trading**](https://www.udemy.com/course/the-complete-technical-analysis-candlestick-secret-trading)

[**https://www.udemy.com/course/10-powerful-tradingview-indicators**](https://www.udemy.com/course/10-powerful-tradingview-indicators)

**Venkat Recommended Courses – on Day Trading.**

[**https://www.udemy.com/course/daytrading/learn/lecture**](https://www.udemy.com/course/daytrading/learn/lecture)

[**https://www.udemy.com/course/the-complete-day-trading-course/learn**](https://www.udemy.com/course/the-complete-day-trading-course/learn)

**Trade double tops, cup and handle, flags and pennants, head and shoulder.**

**Other Courses**

[**https://www.udemy.com/course/day-trading-how-to-profit-in-bear-markets**](https://www.udemy.com/course/day-trading-how-to-profit-in-bear-markets)

[**https://www.udemy.com/course/stock-trading-masterclass**](https://www.udemy.com/course/stock-trading-masterclass)

[**https://www.udemy.com/course/candlestick/learn**](https://www.udemy.com/course/candlestick/learn)

**The Only Options Trading Course a Beginner Will Ever Need (The Basics from A to Z) \*\* Very Good Material \*\*** <https://www.youtube.com/watch?v=w_BjFmbwbYA>