Wall Street Vision Trading Mastery

Trade Profitably and Consistently in 15 Minutes Per Day Or Less

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Introduction

Achieving Day Trading Success in 15 Minutes a Day

Welcome to a new era of trading, where technology empowers you to streamline your success with minimal time investment. Day trading can be fast-paced and complex, but with the right system, it doesn't have to take over your day. Our approach leverages cutting-edge automation, including double filtration, AI, and trading bots, allowing you to execute effective trades in 15 minutes or less each day.

Why Insider Buys?

This book focuses on one of the most reliable trading signals: insider buying. When key executives like CEOs and CFOs buy shares in their own companies, it sends a strong message about future performance. These individuals have inside information, making their trades a compelling indicator of opportunity. Our system taps into these signals, automating much of the analysis through bots and AI, so you can capitalize on them without the need for hours of work.

What You Will Learn

You'll learn how to:

- **Leverage Insider Buys**: Understand how insider buying drives market momentum and how our bots help you profit from it.
- **Execute Trades Efficiently**: Use our automated processes, including trading bots, to set up and execute trades with minimal effort.
- **Manage Risk**: Implement risk management techniques to protect your capital in a fast-moving market.
- **Stay Disciplined**: Develop the mindset needed to navigate the emotional highs and lows of trading.
- **Refine and Grow**: Continuously improve your strategy as market conditions evolve.

Each chapter provides actionable steps that make the trading process smooth, whether you're a beginner or an experienced trader.

Why This Strategy Works

Our insider buy strategy is based on real-world actions from key executives. By following the signals created by their trades, and automating the filtration and execution process through bots, you get the best opportunities with minimal effort. This efficiency increases your potential for consistent profits while reducing the time spent on analysis.

Who This Book Is For

Whether you're just getting started or looking to improve your existing strategy, this book will give you the tools and knowledge to trade with confidence. With the simplicity of bots and automation, this approach is perfect for anyone who wants to trade effectively without devoting hours to market analysis.

Your Journey Starts Now

Day trading no longer has to be a full-time job. With our system of bots, AI, and automation, you can achieve consistent results by spending just 15 minutes a day. This book will guide you through the entire process, helping you unlock the power of insider buying and maximize your trading potential. Let's begin.

Section 1: The Basics to Get Results Fast

Introduction

This section is designed to get you trading quickly and confidently. Whether you're new to trading or have some experience, the focus here is on giving you the essential steps to start executing trades using our system in just 15 minutes a day. You'll learn the core elements of our strategy, from understanding insider buys to setting up your trading platform, allowing you to begin taking trades with a basic level of understanding.

While this section will get you started and help you see initial results, it's important to recognize that it won't cover every nuance of the strategy. You'll learn enough to take trades effectively, but a deeper understanding is needed to fully grasp the intricacies of the system—especially when it comes to withstanding periods of market volatility. Emotional discipline is key to long-term success, and understanding these nuances can make all the difference when facing unpredictable market movements.

By the end of this section, you'll be ready to take action and start trading, but keep in mind that there's more to learn if you want to strengthen your emotional resilience and improve your ability to navigate the ups and downs of trading with confidence.

Chapter 1: What is Our Trading Strategy?

Introduction

When it comes to trading, particularly day trading, there is no one-size-fits-all strategy. The markets are vast, unpredictable, and influenced by countless factors that range from global events to individual emotions. Yet, among the chaos, a strategic approach can transform the uncertainty of the market into a calculated opportunity. Our trading strategy focuses on one of the most compelling market signals: insider buying. The essence of our strategy is to take advantage of the psychological momentum generated by insider buys, leveraging the belief that insiders possess valuable, non-public knowledge that can influence stock price movements.

This chapter will walk you through the core concept of our strategy, the psychological edge it provides, and how we execute it to capture consistent results. We will also explore the different variants of the strategy and how each is tailored to smooth returns while minimizing risk. Let’s dive into the mechanics that power this profitable trading approach.

Core Concept: Day Trading Insider Buys

At the heart of our strategy lies a simple yet powerful premise: **insider buys create momentum.** Insiders—those executives, directors, and key stakeholders within a company—purchase their company’s stock based on insights that the public may not yet be privy to. This could be a new product launch, favorable earnings report, or some other form of growth driver. When an insider buys shares, the market pays attention, and the stock price often moves in response.

While many traders and investors look at insider buying as a long-term signal, we utilize it in a **day trading context**. Our strategy focuses on **buying and selling within the same day**, avoiding the risks that come with holding positions overnight. This maximizes liquidity, reduces exposure to after-hours market events, and takes advantage of the **initial surge** in price that typically follows insider purchase announcements.

- **Why Day Trading?**: By avoiding overnight positions, we mitigate risks related to unexpected news, earnings reports, geopolitical events, and other factors that can cause significant market gaps. Day trading allows us to react quickly and focus on short-term price movements rather than long-term market trends.
- **Insider Buying as a Catalyst**: Insider buying is a unique catalyst because it can trigger immediate market reactions. Traders and investors often assume that insiders have access to non-public information, and they flock to buy stocks that insiders have purchased. This sentiment alone can drive the stock price higher, even if the insider purchase is based on nothing more than optimism.

The goal is not to predict the exact reasons behind the insider buy, but rather to capitalize on the market's reaction to that event. This reaction tends to be most pronounced on the day following the purchase, making it ideal for a day trading strategy.

Psychological Edge: Leveraging Market Sentiment

The stock market is not just a series of numbers; it's driven by human emotions—fear, greed, excitement, and uncertainty. Our strategy taps into this emotional undercurrent by leveraging the psychological impact of insider buying on the broader market.

Why does insider buying excite traders?

There's an ingrained belief among market participants that insiders have access to special information—whether it's an upcoming earnings beat, a new product launch, or insider knowledge of an acquisition. When insiders make a purchase, traders see it as a signal of future strength, even if no such information is publicly available. This creates a **buying frenzy** that we can exploit.

- **Market Psychology**: Insider buys often create a sense of urgency among traders. The belief is that insiders wouldn't be buying unless they knew something significant was about to happen. This belief fuels a short-term rally in the stock's price.
- **Momentum Trading**: Our strategy is built on capturing this short-term momentum. We don't concern ourselves with long-term company fundamentals or insider motivations; instead, we focus on the immediate price action driven by psychological excitement.

This psychological edge allows us to position ourselves ahead of other traders who may be slower to react. By executing trades early in the day, we ride the wave of optimism and close our positions before the hype subsides.

Execution: Buy at Market Open, Sell Before Market Close

Executing the strategy is simple in theory but requires discipline in practice. The core of the strategy is to **buy at market open** and **sell before market close**, capitalizing on the stock's movement throughout the day.

Here's how we do it:

1. **Market Open Entry**: We start by identifying stocks that have had insider buys reported the previous day. Using a combination of AI-driven tools and manual analysis, we filter out stocks that meet our criteria, such as volume, ATR (average true range), and price

momentum. Once the market opens, we enter the trade, typically within the first few minutes of the session.

2. **Set Stop Losses and Take Profits**: Risk management is key in any trading strategy. For each trade, we set predetermined stop losses and take profit levels. These are calculated based on the stock's historical volatility (ATR) and recent price action. Our stop losses are designed to protect us from significant downside risk, while our take profit levels lock in gains once the stock reaches our target price.
3. **Exit Before Market Close**: Regardless of whether the stock hits our take profit or stop loss levels, we always exit the position before the market closes. This ensures that we avoid the risks associated with holding positions overnight. If the stock has not reached our desired profit or loss levels by 3:59 PM EST, we manually close the trade.

This systematic approach ensures that we stay disciplined and consistent, adhering to the rules of the strategy without letting emotions dictate our decisions.

Strategy Variants: Adapting to Different Market Conditions

Markets are dynamic, and no single approach works in every scenario. To optimize returns, increase scalability, and reduce drawdowns, we diversify across multiple **day trading strategy variants**. These variants allow us to adapt to changing market conditions, while maintaining the core principles of our strategy.

Variant 1:

Our core day trading strategy is highly effective during earnings season, a period known for increased insider buying and heightened market activity.

- **Stock Selection:**
    - **Trade during earnings season:** Focus on February, May, August, and November, when companies are reporting earnings and insider buying spikes.
    - **Average Trading Range (ATR):** Target stocks with an ATR of 3.5% or higher to ensure enough price movement for profitable day trades.
    - **Volume:** Focus on stocks with daily trading volume between $30M and $100M, ensuring liquidity without the influence of large institutional trades.
- **Other Trading Rules:**
    - **Stop Loss:** Set at -50% ATR below the entry price to protect against downside risk.
    - **Take Profit:** Set at 100% ATR above the entry price to lock in gains within the trading day.

Variant 2:

This variant expands trading opportunities year-round, focusing on broader market momentum and increased volatility, while still adhering to the principles of day trading.

- **Stock Selection:**
  - **Trade Companies with Volume Between $30M and $10B:** Removing the maximum volume cap allows trading on larger companies with greater liquidity, expanding our pool of tradable stocks.
  - **Market Condition Filter:** Only trade when the overall market (measured by the SPY ETF) opens with a gap of +/- 0.5% compared to the previous day's close. This ensures trades are aligned with significant market momentum.
  - **Year-Round Trading:** This strategy variant operates continuously throughout the year, unlike the earnings season focus of Variant 1.
  - **Daily ATR of 7%-20%:** Focus on stocks with higher daily volatility, providing more substantial price movements for intraday trades.
- **Other Trading Rules:**
  - **Emergency Stop Loss:** Set at -150% ATR below the entry price to provide flexibility in high-volatility conditions.
  - **No Take Profit:** Positions are held until market close, allowing the full day's price movement to unfold before exiting.

Why We Diversify Across Strategy Variants

The rationale behind employing multiple day trading strategy variants lies in the desire to **increase scalability, improve returns, and reduce drawdowns**. Diversifying across strategy variants helps mitigate the risk of relying too heavily on one method or one market condition, while enabling us to deploy more capital without impacting stock prices.

Scalability:
Holding larger positions over the course of a day requires strategies that accommodate higher trading volumes without creating significant price distortions. By diversifying across variants that include different criteria for volume and volatility, we can execute larger trades across multiple stocks without influencing their price movements. For example, trading stocks with volumes up to $10B allows us to deploy more capital while maintaining the same percentage return.

Reducing Drawdowns:
Relying on a single strategy creates a single point of failure. Market conditions can change rapidly, and a strategy that works in one environment may falter in another. By diversifying

across multiple day trading variants, we can spread risk more effectively. Each variant is optimized for different conditions—whether it's earnings season with focused insider buying or broader market momentum with high volatility. This diversification helps smooth returns and reduce the severity of drawdowns when one variant underperforms.

Improving Returns:
Diversifying across strategy variants also enhances the potential for higher overall returns. For example, if a trader only followed the day trading strategy during earnings season, they might generate solid returns in those months but miss opportunities in quieter periods. By adding another variant that operates year-round, traders can take advantage of market movements throughout the entire year, increasing the potential for sustained profitability.

Conclusion

Our day trading strategy variants are designed to optimize performance by adapting to different market environments. **Variant 1** focuses on taking advantage of insider buying during earnings season, while **Variant 2** expands the strategy to year-round trading with greater flexibility and broader market momentum. By diversifying across these day trading variants, we increase the scalability of our strategy, improve returns, and reduce drawdowns, ensuring that our approach remains effective in a variety of market conditions.

Chapter 2: Discord Trade Plans – How to Know What to Trade

Introduction

In the fast-paced world of day trading, having a clear and actionable trade plan is essential to maintaining consistency and discipline. Our trading strategy is built on a foundation of thorough analysis and automated filtering, delivered directly through **Discord Trade Plans**. This chapter will walk you through the process of receiving, interpreting, and acting on these trade plans, ensuring that you are always prepared to execute trades effectively.

Daily Setup: Leveraging the AI Trade Plan Bot

Every day, the AI trade plan bot scans the market for stocks that meet our strategy's criteria, such as insider buys, volatility (measured by ATR), and sufficient volume. The AI bot compiles this data and generates a list of actionable trade plans that are sent out through Discord.

These trade plans contain vital information for each trade, including:

- **The stock to trade**
- **Stop loss levels**
- **Take profit targets**
- **Trade reasoning** (e.g., insider buying, earnings reports)
- **Additional notes**: Important details such as key support and resistance levels, or broader market considerations.

The purpose of this automated approach is to save time and ensure that you are focusing only on the most promising trade opportunities. The AI bot eliminates much of the guesswork, allowing you to focus on execution rather than analysis.

Confirmation of Trade Plans by 4 AM HST

While the AI bot provides the initial setup, I personally review and confirm each trade plan by **9 PM HST** (3 AM EST, 6.5 hours before market open). This extra step ensures that the trade plans are aligned with current market conditions and take into account any overnight developments that may have occurred.

During this confirmation process, I may:

- **Add or remove trades** from the list if new information emerges.
- **Provide additional insights** on why certain trades are particularly strong or should be approached with caution.

These updates are posted in the Discord channel for clients to review. By the time the market opens, you will have a clear and finalized set of trades to follow, with all the details you need to execute effectively.

Trade Alerts: Buy and Sell Alerts at Market Open and Close

Once the market opens, you will receive **real-time alerts** via Discord that confirm when to buy and when to sell the identified stocks. These alerts are sent out at the precise moment of execution and serve as a reminder to follow through with your prepared trade plans.

- **Buy Alerts**: These alerts are sent at market open, confirming the execution of the trade plan. If you've set up your trade correctly beforehand, the buy alert should align with the order being filled as the market opens.
- **Sell Alerts**: Sent within 30 minutes of market close or when the stock hits your take profit or stop loss levels, the sell alerts are designed to guide you out of the trade. Again, these alerts serve as a final confirmation that the trade plan has played out.

While the alerts provide real-time guidance, it's important to remember that your trades should already be **queued and ready** before the market opens. This ensures you're positioned to take advantage of the momentum as soon as trading begins.

The Importance of Following the System

One of the biggest challenges traders face is deviating from their trade plan due to emotions, fear, or external influences. The Discord trade plans are carefully crafted to remove this uncertainty by providing a **structured system** to follow.

By sticking to the plan, you avoid the pitfalls of emotional trading, such as:

- **Second-guessing entry and exit points**
- **Chasing trades that no longer meet criteria**
- **Hesitating on profitable trades out of fear of loss**

The system is designed to help you stay disciplined and objective, allowing the strategy to work over the long term.

Conclusion

The **Discord Trade Plans** serve as the foundation of our trading strategy, delivering actionable insights through a combination of AI-driven analysis and manual confirmation. By leveraging these plans, you ensure that you are always prepared to trade effectively, with a clear understanding of what to trade, when to enter, and when to exit. By following the system and trusting the process, you can trade with confidence and consistency.

Chapter 3: Setting Up Thinkorswim

Introduction

Setting up Thinkorswim is crucial for efficient trade execution and risk management. However, the platform can feel overwhelming when you first launch it due to its advanced features and complex layout. Our goal is to simplify your workspace so that you can focus on what's essential—executing trades confidently and consistently. Although learning the technical side of trading with Thinkorswim can be difficult at first, it becomes easier over time, and mastering the platform will help you become a more effective trader.

If you're interested in a deeper dive into the technical aspects of Thinkorswim, consider taking advantage of Schwab's resources at https://www.schwab.com/trading/thinkorswim.

Why Thinkorswim?

Thinkorswim by TD Ameritrade is a preferred trading platform due to its:

- **Advanced Charting Capabilities**: Customizable charts and indicators allow you to visualize market data in a way that fits your trading style.
- **Quick Execution Tools**: Features like Active Trader enable rapid trade entries and exits, which is crucial for day traders who need to act on short-term market movements.
- **Flexible Order Types**: The platform supports complex orders like bracket orders, enabling greater control over risk management.

For these reasons, we recommend Thinkorswim for executing the trading strategy outlined in this book.

Opening an Individual Schwab Margin Account for Day Trading

To day trade effectively with Thinkorswim, you'll need to open an individual margin account with Schwab. A margin account allows you to borrow money from the broker to increase your buying power, which is essential for day traders who need to make multiple trades throughout the day.

- **How to Open an Individual Margin Account**:
    1. Visit the Schwab website and navigate to the account opening section.
    2. Choose **Individual Brokerage Account** and opt for **Margin** in the account features section.
    3. Fill out your personal details, including financial information.
    4. Confirm that you agree to the terms and conditions regarding the use of margin and trading on leverage.

Opening a margin account comes with additional requirements and responsibilities, including adhering to certain regulations such as the **Pattern Day Trader (PDT) Rule**.

Understanding the Pattern Day Trader (PDT) Rule

The **PDT Rule** is a regulation set by the Financial Industry Regulatory Authority (FINRA) that applies to margin accounts. It is essential to understand this rule if you plan on day trading frequently.

- **What is the PDT Rule?**:
  - The rule states that a trader is considered a pattern day trader if they make four or more day trades (buying and selling a stock on the same day) within a five-business-day period, using a margin account.
  - If you are classified as a pattern day trader, you must maintain a minimum account balance of **$25,000** in your margin account to continue day trading.
- **Implications of the PDT Rule**:
  - If your account falls below $25,000 and you are flagged as a pattern day trader, Schwab may restrict your ability to make further day trades until your account balance meets the requirement.
  - This rule applies only to margin accounts and not to cash accounts; however, cash accounts have limitations on how quickly funds can be settled between trades, making them less suitable for frequent day trading.

Understanding the PDT rule is vital for managing your account balance and ensuring you can trade without interruptions.

Step 1: Download and Logging In

To begin, download the desktop version of Thinkorswim. **We do not recommend using the web version**, as it lacks the key features necessary for executing trades efficiently and managing risk effectively.

- **Logging In**: Once the desktop version is installed, log in using the username and password you created for your Schwab account. You'll have the option to enable **Paper Money** (demo mode using fake money) or **Live Trading** (real money).
  - **Paper Money**: This demo mode allows you to practice trading without risking real money. It's a great way to get comfortable with the platform and test strategies. However, be aware of its limitations. While it helps you practice, the emotional impact of trading with fake money is not the same as trading with real capital. It's crucial to understand that success in paper trading doesn't always translate

directly to live trading because real trades trigger stronger emotional responses, which can influence decision-making.

- **Live Trading**: This mode involves real money and should be used once you feel comfortable with the platform and strategy. When using live trading, always be cautious with your position sizes to manage risk effectively.

Step 2: Simplifying the Dashboard

To reduce overwhelm and create a clean workspace, it's important to simplify the Thinkorswim dashboard and focus only on the essential tools.

- **Left Column**: Remove unnecessary modules such as the watchlist, calculator, and gadgets. You can do this by clicking the gear icon next to each module and selecting "Delete." Keep only the **Account Information** and **News** modules. This ensures that you have quick access to your balance and relevant market updates without distractions.
- **Charts Window**: Navigate to the **Charts window** by selecting the **Charts tab** in the top menu. This is where you will do most of your market analysis. Clearing this space of unnecessary gadgets helps streamline your view so you can focus solely on the price movements of stocks.
- **Right Column**: Open the **Active Trader** panel by clicking on the small arrow on the right-hand side of the screen (sometimes labeled "AT" if minimized). Active Trader allows you to buy and sell stocks quickly and manage your orders efficiently.

By decluttering the platform, you create a more focused workspace, helping you stay on task and reducing confusion, especially when executing fast-paced day trades.

Step 3: Customizing Your Active Trader Panel

The **Active Trader** panel is essential for quick and efficient trade execution. Here's how to set it up for maximum effectiveness:

- **Customize the Menu**: In the Active Trader panel, add the **Buy MKT** and **Sell MKT** buttons for one-click market orders. These will allow you to enter and exit trades rapidly.
- **Template Customizer**: Enable the template customizer so that you can set up and save **bracket orders** (which include both a take profit and stop loss order) for automated risk management.

Step 4: Setting the Timeframes for Analysis

Choosing the right time frames in Thinkorswim is important for both research and trade execution.

- **1 Day, 1 Minute**: This short time frame is ideal for executing day trades as it provides detailed insight into price movements minute by minute.
- **1 Year, 1 Day**: This longer timeframe offers a bird's-eye view of the stock's performance over the past year. It’s useful for research and identifying broader trends but should not be relied upon for immediate trade execution.

You can change the timeframe by clicking on the timeframe button above your chart and selecting your desired interval.

Conclusion

Setting up Thinkorswim for simplicity and efficiency will enhance your ability to execute trades quickly and confidently. By reducing visual clutter and focusing on key tools like the Active Trader panel and customizable charts, you create an environment that supports effective day trading. Though the platform may seem complex at first, dedicating time to mastering its features will pay off in the long run, helping you become a more successful trader.

Don't forget to explore Schwab's educational resources to deepen your understanding of Thinkorswim and the technical aspects of trading:

https://www.schwab.com/trading/thinkorswim

Chapter 4: How to Execute Trades in Thinkorswim

Introduction

Executing trades with precision and confidence is at the core of successful trading. When using Thinkorswim, it's crucial to have a well-organized system in place, especially when day trading and operating under time-sensitive conditions. In this chapter, we'll walk through a step-by-step guide on how to set up and execute trades **before market open**, focusing on proper setup for **profit and risk management**. We will also discuss the **key differences between desktop and mobile trading platforms** to help you decide the most efficient way to manage your trades.

By mastering these techniques, you will eliminate common mistakes and ensure that your trades are ready to go when the market opens.

Step-by-Step Guide to Entering Trades Before Market Open

Step 1: Pre-Market Preparation

The best time to prepare for your trades is hours before the market opens. This allows you to avoid rushing through the process and reduces the likelihood of mistakes. Begin by analyzing your **daily trade plans** from the Discord channel, which should be posted well in advance of market open. These trade plans will include the following information:

- The stock to trade
- Stop loss percentage level
- Take profit percentage level
- Any additional relevant notes (such as insider buying or volume indicators)

Step 2: Log into Thinkorswim (Desktop)

Before executing any trades, make sure your Thinkorswim platform is properly configured and running smoothly. It's best to use the **desktop version** of Thinkorswim for its full range of features, as mobile versions can have limitations when it comes to setting complex orders, such as stop losses and take profits.

1. **Open Thinkorswim on your desktop** and log into your account.
2. Ensure that your account has sufficient margin available for the planned trades.
3. Navigate to the **Charts tab**, where you'll execute your trade.

Step 3: Setting Up the Trade Using Active Trader

Once you've identified the stock and prepared your trade based on the trade plans, it's time to input the orders. Thinkorswim's **Active Trader** functionality is a powerful tool that allows you to quickly set up entry orders along with corresponding take profit and stop loss levels. Follow these steps to set up your trade before the market opens:

1. Click on the **Charts tab** to bring up the chart.
2. **Search for the stock** by typing its ticker symbol into the search bar at the top left of the Thinkorswim platform.
3. On the right-hand side of the screen, open the **Active Trader** panel by clicking on the arrow labeled **Active Trader**. It may be written vertically and called AT.
4. In the Active Trader panel, **change the template** to “TRG w/ 1 bracket.” This bracket order template will allow you to set up both a stop loss and take profit order along with your entry.
5. Switch the **+/- option** to **%**. This will enable you to input your stop loss and take profit levels as percentages rather than fixed dollar amounts.
6. In the **LIMIT** box, input the take profit percentage based on the trade plan provided in Discord.
7. In the **STOP** box, input the stop loss percentage, again referencing the trade plan for accuracy.

Double-check that the take profit percentage is a positive value and the stop loss percentage is a **negative value**. These are crucial to ensure the correct execution of your orders.

Step 4: Entering the Trade Before Market Open

You can set up your trade so that it executes automatically at market open, ensuring that you don’t miss the initial surge of price movement. To do this, set up a **Market Order** that will trigger as soon as the market opens.

1. Calculate the quantity of shares to buy by dividing your dollar position size by the price of the stock and input the number into the **quantity** box.
2. Once your take profit and stop loss levels are set, click **Buy MKT** to enter the position.
3. Review the order confirmation that pops up. Make sure that the correct number of shares and prices are reflected, and then hit **Send**.

Your order will now be queued and will execute at the market open.

Ensuring Proper Setup for Profit and Risk Management

Properly managing your profit and risk is essential for maintaining long-term success in trading. In Thinkorswim, you can ensure that your trades are set up correctly with **bracket orders** that automatically execute both your take profit and stop loss orders, giving you peace of mind even in volatile market conditions.

1. **Take Profit Setup:** The take profit target is carefully calculated using the insider-buy strategy's historical data. Based on our trade plans, you'll input this value as a percentage of the stock's price movement. This ensures that if the stock rises to the predicted level, the position will automatically close, locking in your profits.
2. **Stop Loss Setup:** Protecting your capital is just as important as making a profit. By setting your stop loss to trigger automatically if the stock moves against you, you minimize your potential downside. This is especially important in a volatile day trading environment where rapid price changes can quickly erode your capital if not carefully managed.
3. **Final Review Before Market Open:** Double-check all aspects of the trade before the market opens. Confirm that your stop loss and take profit percentages are entered correctly, and verify that the order is queued to trigger at market open.

By setting everything up in advance, you avoid the stress and potential mistakes of trying to manually execute trades during the volatile moments when the market opens.

Key Differences Between Desktop and Mobile Trading

While Thinkorswim offers mobile capabilities, there are significant differences between trading on the desktop platform and using the mobile app. Understanding these differences will help you determine when and how to use each platform.

Desktop Trading (Recommended for Most Trades)

- **Full Functionality:** The desktop version of Thinkorswim provides the full range of tools and features necessary for day trading. It allows for complex order setups, such as **bracket orders** (stop loss and take profit orders combined), as well as more in-depth charting and analysis.
- **Speed:** The desktop platform tends to have faster order execution and fewer limitations, making it ideal for time-sensitive day trades
- Better Viewing

Mobile Trading (For Monitoring and Basic Order Management)

- **Basic Functionality:** The mobile app is best used for monitoring existing trades. It lacks some of the more advanced features of the desktop version, such as setting up complex percentage bracket orders.
- **Manual Setup Required:** You cannot set up both take profit and stop loss orders as a percentage simultaneously on the mobile app. If you must enter a trade via mobile, you will need to manually adjust the order after it is placed, which can be time-consuming and error-prone in a fast-moving market.

- **Emergency Use:** The mobile app is most effective for **emergency situations** when you cannot access your desktop. For instance, if you need to close a position quickly while you're away from your computer, the mobile app provides a quick solution.
- **Limited Charting Tools:** The charting features on the mobile version are more limited, making it harder to analyze trades effectively.

Recommendation: Whenever possible, use the **desktop version** of Thinkorswim to set up your trades, especially for day trading. The mobile app should be used primarily for **monitoring existing positions**, adjusting orders if necessary, or exiting trades in emergency situations. For best results, always prepare your trades the night before or several hours before the market opens while you are at your desktop.

Conclusion

Executing trades efficiently in Thinkorswim requires a thorough understanding of both the platform's tools and the specific needs of day trading. By following the step-by-step guide to entering trades before the market opens and using the full capabilities of the **desktop platform**, you can maximize your chances of success while minimizing risk.

Proper setup for both **profit and risk management** ensures that you are always protected from unexpected market movements, while the **key differences between desktop and mobile trading** help you determine when to use each platform.

By mastering these techniques and staying disciplined in your approach, you'll be well on your way to consistent trading success.

Chapter 5: How Much Money to Trade With

Introduction

One of the most common questions traders face is: **How much money should I trade with?** The answer depends on various factors, including your risk tolerance, the strategy you're using, and your financial goals. In this chapter, we'll explore key **risk management principles**, consider average losses and drawdown periods, and offer **capital allocation examples** that will help you trade with confidence—both in the short and long term.

Risk Management Principles

At the core of any successful trading strategy lies sound **risk management**. No matter how good your strategy is, there will always be losing trades. Effective risk management ensures that those losses don't jeopardize your long-term success.

Principle #1: Trade with Capital You Can Afford to Lose

This might seem obvious, but it's one of the most crucial rules in trading. Only trade with capital that you are comfortable losing. Trading with money that you can't afford to lose puts unnecessary pressure on your decision-making and can lead to emotional trading—where decisions are driven by fear and anxiety rather than rational analysis.

Principle #2: Position Size Matters

The size of your position in each trade should be directly correlated to your overall risk tolerance. Even if you have high confidence in a particular trade, overextending yourself by committing too much capital can be dangerous. By keeping your position size reasonable, you can ensure that a single bad trade won't significantly affect your overall portfolio.

Principle #3: Set Stop Losses

Stop losses are essential for protecting your capital. By setting a stop loss, you predefine the amount of money you're willing to lose on a trade. If the stock moves against you and hits your stop loss level, the trade will automatically close, preventing further losses.

- **Use ATR for Stop Loss Calculations**: In our strategy, stop losses are typically calculated using the stock's **Average True Range (ATR)**. The ATR measures the stock's volatility and helps set a realistic stop loss that isn't too tight, giving the trade room to breathe, but still protects you from significant losses.
- **Ego-less Approach:** Let the stop loss hit without adjusting it, even if you hope the trade will recover. Avoid moving the stop loss lower as this introduces emotion into the

decision-making process. Sticking to your original stop loss level helps maintain discipline and protects your account from larger, avoidable losses.

Average Loss and Drawdown Considerations

Understanding the potential losses and drawdowns that come with trading is essential to determining how much money you should trade with. Let's break down the **average losses** and **drawdowns** you can expect based on our strategy's past performance.

Average Loss Per Trade

In our trading strategy, the **average loss per trade** is around **2.4%**. This means that for any given losing trade, you can expect to lose roughly 2.4% of your position. This percentage is based on historical data and accounts for the volatility of the stocks we trade.

Example: If you place a trade with a $10,000 position size, a 2.4% loss would equate to $240.

Maximum Daily Drawdown

While the average loss is manageable, there will be days when losses are higher. In particularly volatile trading sessions, losses can reach as high as **7.5%** in a single day. It's important to prepare for these larger losses by ensuring that your capital can handle them without causing significant emotional or financial distress.

Example: If your position size is $10,000, a 7.5% loss would result in a $750 loss for the day.

Long-Term Drawdown

Over extended periods, it's possible to experience **multi-month drawdowns**. Our back-testing data indicates that the **maximum drawdown**—the peak-to-trough decline in your account during a sustained losing period—can reach up to **25%**.

Example: If you're trading with $80,000, you need to be prepared for the possibility of losing up to $20,000 during a prolonged drawdown phase.

Understanding these drawdowns is key to managing your expectations and avoiding overreaction during tough periods. Even with the best trading strategies, there will be times when you experience a string of losses. Knowing this in advance helps you stick with the system and avoid making impulsive decisions.

Capital Allocation Examples for Short-Term and Long-Term Confidence

Now that we've discussed risk management and potential losses, it's time to explore **capital allocation**—how to divide and invest your trading capital to minimize risk while maximizing gains. The following examples will help illustrate how to approach trading capital depending on your tolerance for risk and your financial goals.

Short-Term Example: Capital Allocation for Daily Drawdowns

Scenario: You're comfortable with the idea of losing **up to $1,000** in a single day of trading.

1. **Position Size Calculation for Daily Losses**:
   - Given that the maximum daily drawdown in our strategy is **7.5%**, you would want to trade with a position size that ensures a 7.5% loss would not exceed $1,000.
   - **Calculation**: $1,000 ÷ 0.075 = $13,333.
   - **Result**: You should trade with a position size of around $13,333 to stay within your risk tolerance for a single day.
2. **Position Size Calculation for Average Losses**:
   - If you prefer to base your position size on the **average loss** of 2.4%, you could be more aggressive with your trading capital.
   - **Calculation**: $1,000 ÷ 0.024 = $41,667.
   - **Result**: You could trade with a position size of $41,667, assuming that most losses will be within the 2.4% range.

Summary: If you're risk-averse and want to limit daily losses to $1,000, a position size of $13,333 is appropriate. If you're more aggressive and willing to accept larger losses in one day, you can allocate up to $41,667.

Long-Term Example: Capital Allocation for Multi-Month Drawdowns

Scenario: You're comfortable with a **maximum long-term loss** of **$20,000** during a sustained drawdown period.

1. **Position Size Calculation for Long-Term Drawdown**:
   - If you're prepared to endure a **25% drawdown** over a multi-month period, you'll need to allocate capital in a way that allows for such a loss without losing confidence in the system.
   - **Calculation**: $20,000 ÷ 0.25 = $80,000.
   - **Result**: To manage a 25% drawdown without exceeding your $20,000 tolerance, you should allocate $80,000 to trading.

Scaling Strategy for Long-Term Confidence:

While $80,000 might be the upper limit of your risk tolerance, it doesn't mean you should start trading with this amount right away. It's often better to **scale up** over time as you gain confidence in the system, especially if you're new to trading.

1. **Start Small**: Begin with a smaller allocation, such as $20,000, and adjust based on performance and your comfort level.
2. **Incremental Growth**: Gradually increase your position size by 10% each month if you're seeing consistent results. This allows you to build confidence while minimizing the emotional impact of larger losses.

Example: Start with $20,000 and increase by 10% each month. After one month, trade with $22,000; after two months, $24,200; and so on. This approach lets you adjust to the emotional demands of larger trades while staying within your risk tolerance.

Conclusion

Determining how much money to trade with is a personal decision, guided by your risk tolerance and financial goals. By understanding the **average loss** and **drawdown potential** of the strategy, you can allocate your capital in a way that provides both **short-term confidence** and **long-term stability**. Whether you choose to trade aggressively or conservatively, the key is to **scale your position size** based on your ability to absorb losses without losing faith in the system.

With the right risk management principles and capital allocation strategy, you can trade with confidence, knowing that you're prepared for both the highs and lows that come with day trading.

Chapter 6: Common Mistakes Clients Make

Introduction

Even the best trading strategies can falter when mistakes are made in execution. Many traders, especially those new to the system, fall into common traps that can severely impact their results. In this chapter, we'll outline the most frequent mistakes that traders make, how to avoid them, and why it's crucial to remain disciplined in your approach.

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1. Missing Trades

One of the most critical mistakes is simply **missing trades**. The nature of day trading is fast-paced, and missing a trade can mean missing out on a significant profit opportunity.

- **Solution**: Make sure you are always prepared before the market opens. Your trades should be set up in Thinkorswim in advance, ready to execute as soon as the bell rings. This ensures that you capture the movement as planned.

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2. Using Incorrect Stop Losses/Take Profits

Entering trades without properly setting **stop losses and take profits** can expose you to unnecessary risk or leave potential profits on the table.

- **Solution**: Always double-check that your stop loss and take profit levels are correctly entered before the market opens. Thinkorswim's bracket orders allow you to automate this process, ensuring that once a trade is entered, both exit points are predefined.

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3. Holding Stocks Overnight

Our system is designed for **day trading**, meaning that positions should be opened and closed within the same day. **Holding stocks overnight** introduces risks that are outside of our strategy, such as after-hours news or earnings reports that can drastically move the stock price.

- **Solution**: Always close your positions by the end of the trading day, regardless of whether they have reached the take profit or stop loss level. The goal is to avoid overnight risk and maintain the integrity of the day trading strategy.

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4. Incorrect Position Sizing

Incorrectly calculating your position size can lead to outsized losses or underwhelming gains. One of the most common mistakes traders make is scaling up or down too fast, either due to overconfidence from winning trades or fear after losses. Position sizing should be directly tied to your risk tolerance and the strategy's recommendations, and any changes to your size should be made in a measured, incremental way.

Scaling Up Too Fast: After a string of wins, it's tempting to increase your position size dramatically to capitalize on momentum. However, doing so without proper consideration of your risk tolerance can result in outsized losses if the market turns against you.

Scaling Down Too Fast: Conversely, scaling down too fast after losses can limit your ability to recover. If you reduce your position size too drastically due to fear, you may miss out on profitable trades that could have offset earlier losses.

- **Solution:** Ensure that you are consistently calculating your position size based on your short term and long term risk tolerances. When adjusting position sizes, do so gradually—whether scaling up or down—based on a defined percentage increase or decrease tied to your overall performance. This helps maintain control over both losses and growth, while preventing emotional decision-making from leading to oversized positions or unnecessary reductions.

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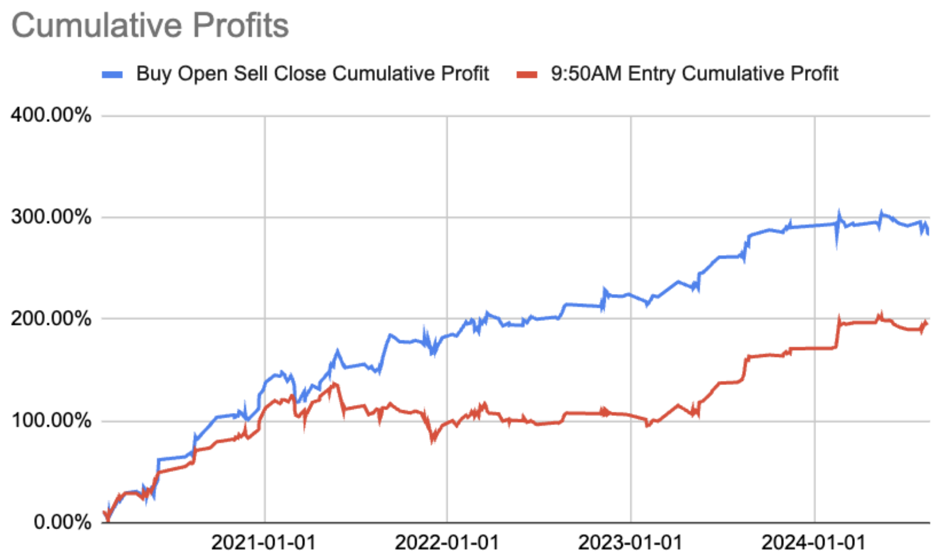
5. Entering Trades Late or Exiting Early

Timing is critical in day trading. Entering trades late or exiting early can severely impact your results. Late entries often mean you're buying at a higher price, which reduces your profit potential, while exiting early could mean missing out on gains or closing out before the trade plan is fulfilled.

Although there are instances where waiting and entering a trade later in the morning (e.g., 9:50 AM) might occasionally yield better short-term results, it is unpredictable and inconsistent. There's no reliable way to determine when waiting will be more beneficial. Over the long run, consistently delaying entries results in diminished overall performance as you miss out on the momentum and gains that the strategy is built to capture right after market open.

- **Solution:** Stick to the trade plan and enter trades as instructed. While waiting may sometimes appear to work out, the unpredictability of these situations and the long-term negative impact make it unwise to consistently delay entry. Trust the system and ensure that your entries and exits align with the predetermined take profit or stop loss levels, allowing the strategy to unfold as intended and maximizing long-term results.



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6. Accidental Shorting Instead of Selling

A common mistake among newer traders is **accidentally shorting** a stock instead of selling it. This occurs when traders select the wrong order type when trying to exit a long position, resulting in the unintended opening of a short position.

- **Solution**: Double-check your order types before executing trades. Make sure that when you intend to sell, you are indeed placing a **sell order** and not a **short sell order**.

Conclusion

Mistakes are a natural part of learning to trade, but they can also be costly if not corrected. By recognizing these common errors and implementing the solutions provided, you can significantly improve your trading performance. Discipline and attention to detail are key to avoiding these pitfalls and ensuring long-term success with our strategy.

Chapter 7: How to Track Your Trades

Introduction

Trade tracking is a critical component of successful trading. By documenting every trade, you create a record that can be used to analyze your performance, identify patterns, and refine your strategy over time. In this chapter, we'll explore the importance of trade tracking, what data to include, and how to use this information to improve your trading results.

The Importance of Tracking Trades

Keeping a **trade journal** helps you see both the forest and the trees. It allows you to:

- **Monitor your progress** over time.
- **Identify patterns** in your behavior and the performance of your trades.
- **Evaluate emotional states** during trades and how they might influence decisions.
- **Review performance** during coaching sessions, helping you receive more targeted feedback.

When you consistently track your trades, you can pinpoint what's working and what needs adjustment, making it easier to stay disciplined and improve your performance.

What to Track in Your Trade Journal

The key to effective trade tracking is ensuring that you're recording the right data consistently. Here are the essential elements to include in your trade journal:

- **Trade Date**: Record the date of the trade so you can reference market conditions and insider activity on that specific day.
- **Stock**: Write down the ticker symbol of the stock you traded.
- **Buy Price and Sell Price**: Document the prices at which you entered and exited the trade.
- **Quantity of Shares/Position Size**: Track the number of shares or the size of the position you took in the trade.
- **Emotional State**: Break this into three parts—emotions **before**, **during**, and **after** the trade. This helps you identify how emotions affect your decision-making.
- **Outcome**: Record whether the trade was a win or a loss and by what percentage or dollar amount.
- **Notes**: Include any additional observations, such as why you entered the trade, how it played out, and any deviations from your plan.

Insert Example Trade Journal Table

Conclusion

Tracking your trades is essential to becoming a disciplined and successful trader. By maintaining a detailed trade journal, you gain valuable insights into your trading habits, allowing you to improve your performance and stay on track with your goals. Whether you're reviewing your journal for self-analysis or during coaching sessions, it serves as a powerful tool for continuous improvement.

Section 2: Expectation Setting

Introduction

Trading can be an emotional rollercoaster, and setting the right expectations from the start is crucial to long-term success. In this section, we'll address the realities of trading—losses, drawdowns, and uncertainty—so that you can mentally and financially prepare for the ups and downs ahead.

While our strategy has proven to be effective, no system works 100% of the time, and understanding this is essential to staying committed during tough periods. This section will help you develop a realistic mindset, so you can manage your emotions, withstand periods of volatility, and remain focused on the bigger picture: consistent profits over time.

By the end of this section, you'll have the tools and insights to approach trading with confidence, knowing what to expect and how to handle the inevitable challenges that arise.

Chapter 8: No Strategy Works 100% of the Time

Introduction

In trading, it's critical to understand that no strategy—no matter how successful—works 100% of the time. In this chapter, we'll explore the reality of losing trades, how to prepare for them, and why maintaining a long-term perspective is key to staying committed to your strategy.

Understanding the Reality of Losing Trades

Even the most well-researched and back tested strategies will experience losing trades. Markets are inherently unpredictable, and external factors can cause unexpected price movements. Accepting this reality will help you manage your expectations and avoid unnecessary stress.

1. **Probability Over Certainty**: Our strategy operates on probabilities, not certainties. Even with a high success rate, losing trades are inevitable. Understanding that losses are part of the process will help you remain disciplined.
2. **Long-Term Success**: Focus on long-term success rather than individual trades. While some trades may result in losses, the overall strategy is designed to generate profits over time, especially when followed with consistency.

Preparing Mentally for Drawdowns

Drawdowns—periods of declining equity—are another reality of trading. How you handle these periods will determine your long-term success.

1. **Emotional Control**: Emotional discipline is crucial during drawdowns. It's natural to feel frustrated or anxious when your account is losing value, but panicking or abandoning the strategy can lead to greater losses.
2. **Sticking to the Plan**: Trust in the strategy and stick to the plan, even during tough periods. Our system has been designed to withstand drawdowns and ultimately recover, provided that you follow the rules consistently.

Conclusion

No strategy works 100% of the time, and losing trades are a natural part of trading. By accepting this reality and preparing mentally for drawdowns, you can remain committed to the strategy and increase your chances of long-term success.

Chapter 9: Nothing Is Guaranteed

Introduction

Trading always involves a degree of uncertainty. While our strategy has shown success, nothing in the markets is guaranteed. This chapter emphasizes the importance of caution, even when following a proven system, and why it's crucial to avoid trading with borrowed money.

Risk and Uncertainty in Day Trading

The markets are influenced by countless variables, many of which are unpredictable. From sudden news events to shifts in investor sentiment, external forces can disrupt even the most carefully planned trades. Because you could technically lose everything in trading, it is unwise to trade with borrowed money, especially from high-interest sources like credit cards or against your mortgage. The potential for large losses can be compounded by high-interest debt, putting your financial stability at serious risk.

- **Managing Expectations**: While our strategy has performed well historically, it's important to manage your expectations and understand that past performance does not guarantee future results. The fundamentals behind our strategy—like people's excitement over insider buying—could be overridden if the state of the world becomes uncertain enough. A major event, such as World War III or another 'black swan' event, could shift the markets in ways that even the most robust back tests since 2020 don't show. These unforeseen global disruptions could lead to extreme volatility, making it difficult for any strategy to perform as expected.
- **Protecting Your Capital**: Given the uncertainty inherent in trading, protecting your capital through disciplined risk management is essential. This includes using stop losses, sizing your positions appropriately, and avoiding emotional decision-making. Importantly, always use funds you can afford to lose, and steer clear of borrowing money to trade, as the risks could compound exponentially during unpredictable times.

The Importance of Caution

Even with a proven strategy, there's always a possibility of loss. Exercising caution and adhering to risk management practices will help you minimize the impact of losing trades. Trading with borrowed money amplifies these risks.

- **Avoiding Overconfidence**: Success in trading can sometimes lead to overconfidence, which can cause traders to take unnecessary risks. Stay grounded and maintain a cautious approach, even when you're experiencing a winning streak.
- **Continuous Learning**: The markets are constantly evolving, and no strategy is immune to change. A global event could completely alter market dynamics in ways that no backtest

could predict. Continuously reviewing your performance, remaining vigilant, and adapting as needed is key to long-term success.

Conclusion

While our strategy offers a structured approach to trading, nothing is guaranteed in the markets. Trading on borrowed money, especially from high-interest sources, can significantly amplify your risks, potentially putting you in a worse financial situation than before. Moreover, even a well-tested strategy could face challenges if a global event or market crash disrupts the fundamentals that typically drive insider buying excitement. By managing expectations, using only risk capital, and maintaining a cautious, disciplined mindset, you can protect your financial well-being and increase your chances of sustained success.

Chapter 10: Historical Performance

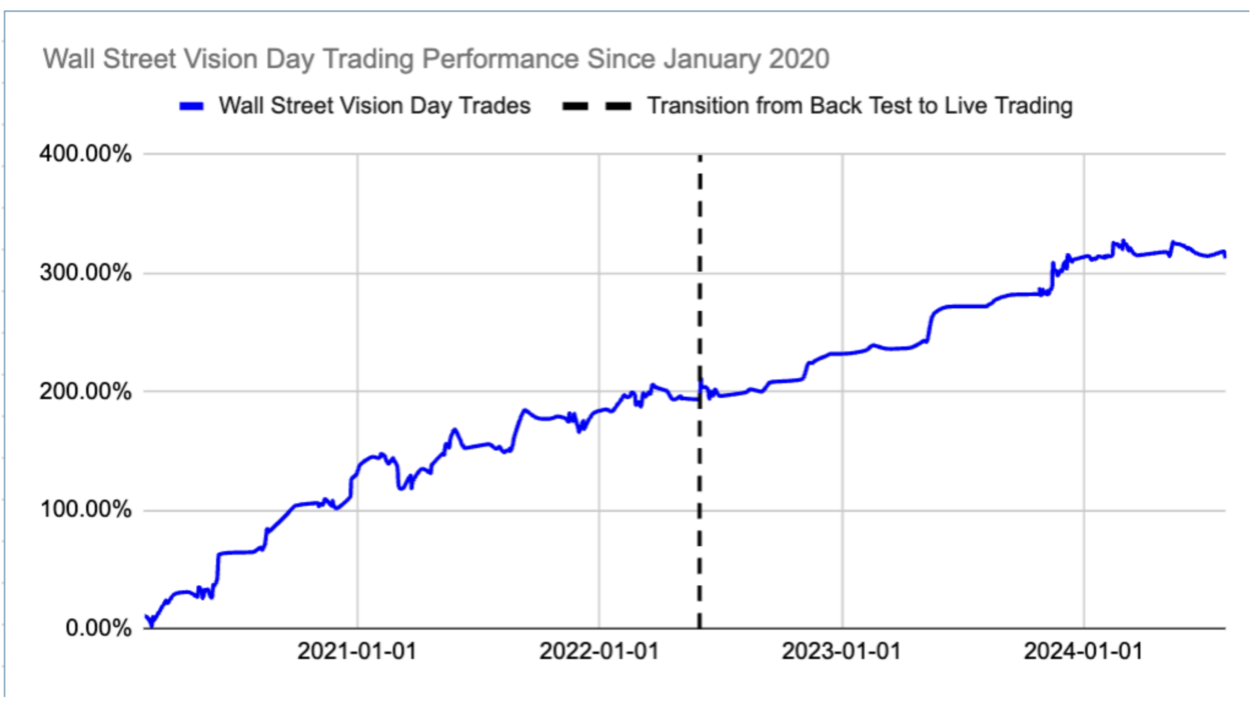
Introduction

Our strategy has a track record of success, but it's important to understand that historical performance is a guide, not a guarantee. In this chapter, we'll review the historical performance of the strategy, focusing on annual returns, drawdowns, and what traders can learn from past results.

Reviewing the Historical Performance of the Strategy

The strategy has shown strong historical performance, with annual returns that outpace the broader market. However, understanding the full picture of performance, including both the gains and the drawdowns, is essential.

1. **Annual Returns**: Over the past several years, our strategy has delivered consistent annual returns, with the potential for significant profits in years where market conditions align with the strategy's strengths.
2. **Drawdowns**: Along with the gains, it's important to recognize that drawdowns are a natural part of the strategy. By reviewing historical drawdown periods, you can set realistic expectations and prepare for the times when the strategy may not perform as well.



Analyzing Annual Returns and Drawdown Periods

By breaking down the strategy's performance year by year, you can see how different market conditions impact the strategy's success. Some years may offer higher returns, while others may experience prolonged drawdowns or flat performance.

1. **High-Performance Years**: In years where the market is more conducive to insider buying (e.g., when companies are in growth phases or there's increased market activity), the strategy tends to perform exceptionally well.
2. **Flat or Negative Years**: In years with more volatility or market downturns, the strategy may struggle. However, these periods are often followed by strong recovery periods, making it important to stay committed.

Conclusion

Reviewing the historical performance of the strategy helps you understand both the potential for significant gains and the reality of drawdowns. By analyzing past results, you can set realistic expectations and remain disciplined, even during challenging periods.

Chapter 11: Drawdown Periods Can Last 6-12 Months

Introduction

Drawdowns are inevitable in trading, and some can last for extended periods. In this chapter, we'll discuss how to mentally and financially prepare for drawdowns that can last anywhere from six to twelve months, and why it's crucial to stick with the strategy through these tough times.

How to Prepare Mentally and Financially for Long Drawdowns

Long drawdowns can be challenging both mentally and financially. Preparing for these periods before they occur will help you manage the stress and stay committed to the strategy.

1. **Mental Preparation**: Understanding that drawdowns are a normal part of trading will help you stay calm when they occur. Remind yourself that the strategy is built for long-term success, and that short-term losses don't define your overall performance.
2. **Financial Preparation**: Ensuring that your position sizes are appropriate and that you're not over-leveraged will help protect your capital during drawdowns. You should also have sufficient capital reserves to continue trading even during prolonged losing periods.

Tips for Staying Committed During Tough Periods

When drawdowns last for several months, it's tempting to abandon the strategy or drastically alter your approach. However, these actions often lead to greater losses.

1. **Trust the Process**: The key to surviving drawdowns is trusting the strategy and maintaining discipline. Abandoning the strategy during a drawdown can cause you to miss out on the recovery period that often follows.
2. **Support Systems**: Engaging with a community of traders or seeking mentorship can provide emotional support during tough times. Having others to discuss your challenges with can help reinforce your commitment to the strategy.

Conclusion

Drawdown periods are inevitable, and some can last for six to twelve months. By preparing mentally and financially, and staying committed to the strategy, you'll be better equipped to handle these tough times and emerge stronger when the market turns in your favor.

Chapter 12: Scatter Plot of Past Trades

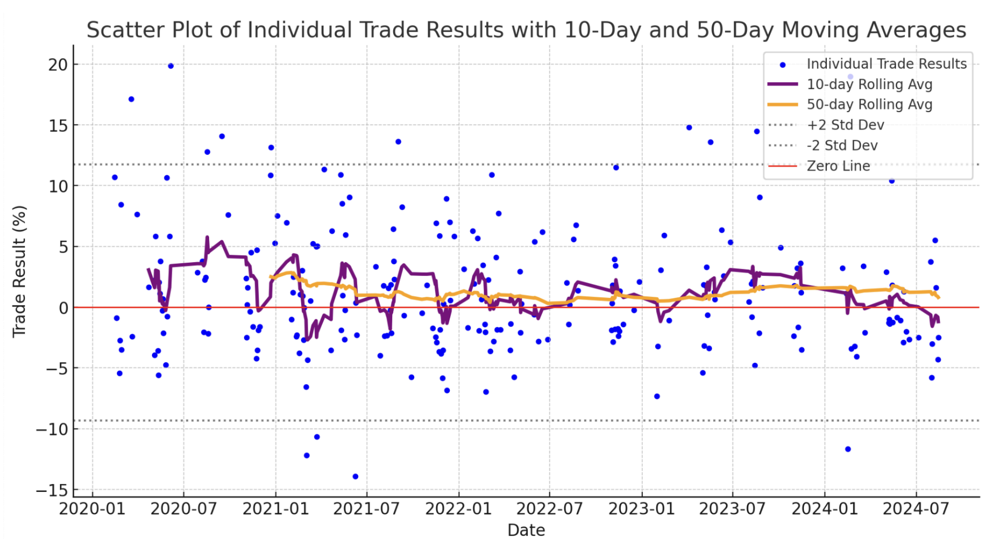
Introduction

Visualizing past trades provides valuable insights into how a strategy has performed over time. In this chapter, we'll review the scatter plot of past trades, which shows the results of our strategy over the past four years. By understanding this visualization, you'll be able to set more realistic expectations and gain confidence in the approach.

Reviewing the Scatter Plot

The scatter plot presented in this chapter shows the individual trading results from the past four years, with each trade represented by a blue dot. Alongside these individual results, we've included two key trendlines: a 10-trade rolling average plotted in purple and a 50-trade rolling average plotted in orange.

- **Blue Dots**: Represent the result of each individual trade, showing the variability of returns, including both wins and losses.
- **Purple Line (10-trade Rolling Average)**: Offers a short-term view of the average trading result over every 10 trades.
- **Orange Line (50-trade Rolling Average)**: Shows a longer-term view of the average result over every 50 trades, helping to smooth out short-term volatility and reveal longer trends.



Key Observations

- **Current Average**: As of now, the current average trading result is negative. This has occurred a few times over the past four years but was always followed by a recovery in performance.
- **Understanding Variability**: The scatter plot demonstrates that even successful strategies go through periods of drawdown or negative averages, which is part of the natural variability of trading. However, the rolling averages help us maintain perspective by showing the broader trends.

Setting Realistic Expectations

This scatter plot serves as a reminder that no strategy wins 100% of the time. There will be periods of drawdowns, negative averages, and outlier losses, but the overall trend has been profitable over the long term. By reviewing the plot, you'll be able to manage your expectations more effectively and trust the strategy during temporary downturns.

Conclusion

This scatter plot is a key tool to visualize the performance of our strategy. It highlights the ups and downs of trading while providing reassurance that, despite periods of negative performance, the strategy has historically rebounded and continued to deliver profitable results. Your focus should be on following the trade plans, reviewing the results, and asking questions when needed to ensure a clear understanding of the process.

Section 3: Trader Psychology

Introduction

Trading isn't just about numbers and strategies—it's a mental game that tests your emotional resilience as much as your analytical skills. In this section, we'll focus on the psychological side of trading, exploring how to manage emotions, handle both success and failure, and stay disciplined in the face of market volatility.

You'll learn how to avoid emotional pitfalls, develop greater emotional discipline, and increase your tolerance for risk. We'll also dive into personal stories and practical techniques that can help you strengthen your mindset, ensuring that you remain confident and committed, no matter what the markets throw your way.

By the end of this section, you'll be equipped with the psychological tools you need to trade with a calm, disciplined, and confident mindset—essential for achieving long-term success in trading.

Chapter 13: Avoid an Emotional Rollercoaster

Introduction

Trading is as much a mental game as it is a strategic one. Managing your emotions—whether you're losing money or making it—is key to staying disciplined and achieving long-term success. In this chapter, we'll explore the emotional highs and lows that come with trading and provide strategies for maintaining emotional control in the face of both success and failure.

Managing Emotions in High-Pressure Trading Situations

Whether you're in a winning trade or a losing one, emotions can easily cloud your judgment. Understanding how to manage your emotional responses in high-pressure situations is crucial to making rational decisions.

1. **The Pain of Losing Money**: Losing money often triggers feelings of anxiety, fear, or frustration. These emotions can lead to impulsive decisions, such as abandoning the strategy or taking on excessive risk to recover losses.
2. **The Thrill of Making Money**: While winning trades can feel exhilarating, they can also lead to overconfidence. This may cause traders to take on larger positions than they should or to deviate from the strategy in the hope of achieving even greater gains.

Recognizing the Emotional Impact of Wins and Losses

It's important to recognize that both winning and losing have emotional impacts that can affect your trading behavior. By being aware of these impacts, you can work to mitigate their influence on your decision-making.

1. **Emotional Balance**: Strive for emotional balance by recognizing that both wins and losses are part of the trading process. Neither should cause you to deviate from your long-term plan.
2. **Detaching from Outcomes**: Focus on executing the strategy correctly rather than fixating on individual trade outcomes. Detaching emotionally from wins and losses helps you stay objective and make better decisions.

Conclusion

Trading can be an emotional rollercoaster, with the highs of winning and the lows of losing often influencing your decisions. By maintaining emotional discipline and focusing on the long-term strategy rather than individual outcomes, you can navigate the ups and downs with confidence.

Chapter 14: Don't Act on Emotions

Introduction

Emotional trading is one of the biggest pitfalls that traders face. Acting on emotions—whether out of fear, greed, or overconfidence—can lead to poor decisions and unnecessary losses. In this chapter, we'll explore how to develop emotional discipline and provide techniques for sticking to your strategy, even when emotions are running high.

How to Develop Emotional Discipline in Trading

Emotional discipline involves training yourself to stick to the rules of your strategy, regardless of how you feel about a particular trade. This takes practice but is essential for long-term success.

1. **Creating a Routine**: Establishing a consistent routine helps reduce the likelihood of emotional trading. By following the same steps every day, from trade preparation to execution, you reduce the influence of emotions on your decisions.
2. **Trusting the System**: Trusting the system you're using is key to avoiding emotional decisions. If you have confidence in the strategy's long-term performance, you'll be less likely to make impulsive decisions based on short-term fluctuations.

Techniques for Sticking to Your Strategy

When emotions are running high, it can be tempting to deviate from your strategy. However, there are techniques you can use to stay disciplined and stick to the plan.

1. **Pre-Set Rules**: Establish clear rules for when to enter and exit trades, how much risk to take on, and how to manage your positions. These rules act as a safeguard against emotional decision-making.
2. **Take Breaks**: If you find yourself feeling overwhelmed or emotionally charged during a trading session, step away from the computer and let the trade play out according to the plan. This can help clear your mind and prevent impulsive actions.

Conclusion

Emotional discipline is critical to successful trading. By developing routines, trusting your strategy, and employing techniques to stick to the plan, you can avoid the pitfalls of emotional trading and make more rational, profitable decisions.

Chapter 15: Personal Story of Risk Exposure

Introduction

Learning to take on larger risks is a challenge for many traders, myself included. In this chapter, I'll share a personal story of how a $5,000 trade helped me overcome my fears and grow as a trader, and how this experience led to increased risk tolerance and confidence in my trading decisions.

Overcoming Fear and Increasing Risk Tolerance

Risk exposure is a gradual process that takes time and experience. Initially, I struggled with the fear of losing large sums of money. But through exposure and discipline, I learned to manage larger positions with greater confidence.

1. **The $5,000 Trade**: Early in my trading career, I was only comfortable risking around $1,000 per trade. One day, I decided to push myself by risking $5,000 on a trade. The fear was overwhelming, and as the stock moved closer to my stop loss, I felt intense anxiety. However, I forced myself to stay in the trade and let the strategy play out. By the end of the day, the stock had recovered, and I walked away with a 10% gain.
2. **Building Confidence**: This experience taught me that I could handle more risk than I initially thought. By gradually increasing the amount of money I risked on each trade, I built confidence in both myself and the strategy, ultimately allowing me to take on larger positions without fear.

How a $5,000 Trade Helped Me Grow as a Trader

Taking calculated risks is essential for growth as a trader. By pushing myself out of my comfort zone, I was able to increase my risk tolerance and develop a more resilient mindset.

1. **Exposure Therapy**: Just like overcoming any fear, increasing risk tolerance takes exposure. Each time I pushed my limits, I became more comfortable with the risks involved, and over time, I was able to take on larger positions without the same emotional response.
2. **Applying the Lesson**: Today, I'm comfortable risking much larger amounts on trades, but I always approach each trade with the same discipline and respect for the risk involved. The key is balancing confidence with caution.

Conclusion

The $5,000 trade was a turning point in my trading journey, teaching me to manage larger risks and grow as a trader. By gradually increasing your risk exposure and trusting your strategy, you can overcome fear and build the confidence needed to succeed in trading.

Chapter 16: Use an Amount of Money Where Losses Are Acceptable

Introduction

One of the most important principles of risk management is to only trade with an amount of money where losses are acceptable. In this chapter, we'll discuss how to calculate the right position sizes for your risk tolerance and ensure that your losses remain manageable, even in the worst-case scenarios.

Setting Appropriate Risk Levels for Different Trade Sizes

Before entering any trade, it's essential to determine how much you're willing to lose on that trade. By calculating your risk tolerance, you can set position sizes that align with your financial goals and emotional resilience.

1. **Calculating Position Sizes**: Use a percentage of your total capital to determine your position size. For example, if you're comfortable losing no more than $1,000 on a single trade, and the stock's ATR suggests a 2.4% loss, your position size should be around $41,667 ($1,000 ÷ 0.024).
2. **Maximizing Capital Efficiency**: By carefully calculating position sizes, you ensure that you're using your capital efficiently while minimizing the risk of significant losses that could erode your confidence or capital base.

How to Calculate the Amount You're Comfortable Losing

To determine how much money you're comfortable losing on a single trade, consider both your financial situation and emotional tolerance for risk.

1. **Single-Day Losses**: If losing $1,000 in a single day would cause significant stress, you should size your positions accordingly. For example, using a $13,000 position with a 7.5% stop loss would limit your loss to $1,000, keeping your stress level manageable.
2. **Long-Term Drawdowns**: In addition to single-day losses, consider your tolerance for long-term drawdowns. If you're willing to lose up to $20,000 over a multi-month drawdown, trading with $80,000 (with a 25% maximum drawdown) is appropriate.

Conclusion

Only trading with an amount of money where losses are acceptable is crucial to maintaining emotional and financial stability. By calculating position sizes based on your risk tolerance, you can trade with confidence and avoid the stress that comes with excessive losses.

Chapter 17: Ask for Help and Stay Confident

Introduction

Trading can be a solitary pursuit, but it doesn't have to be. In this chapter, we'll discuss the importance of asking for help when needed and how staying confident in your strategy can help you navigate challenging periods in the market.

Leveraging Mentorship and Community Support

Asking for help and staying connected to a community of traders can provide valuable support, especially during tough periods. Mentorship and peer support offer guidance, reassurance, and feedback that can help you improve your skills and maintain confidence.

1. **Mentorship**: Seeking advice from more experienced traders can accelerate your learning curve and provide insights that you might not discover on your own. A mentor can help you troubleshoot issues, refine your strategy, and navigate drawdowns with greater confidence.
2. **Community Support**: Engaging with a community of like-minded traders helps create a support system where you can share experiences, celebrate wins, and commiserate during losses. This sense of community can help reinforce your commitment to the strategy.

How to Stay Confident Through Drawdowns and Losing Trades

Maintaining confidence in your strategy is essential during drawdowns and losing streaks. By staying grounded and trusting the process, you can weather the ups and downs without losing faith in your trading plan.

1. **Trust the System**: Even when trades aren't going your way, remember that the strategy has been tested and proven to work over the long term. Trust in the process, and remind yourself that losses are a natural part of trading.
2. **Stay Focused on the Big Picture**: Instead of getting caught up in the emotions of individual trades, focus on your long-term goals. Confidence comes from knowing that you're following a system designed for success over time, not just in the short term.

Conclusion

Asking for help and staying connected to a supportive community can make a big difference in your trading journey. By maintaining confidence in your strategy and seeking guidance when needed, you can navigate challenging periods with greater resilience and ultimately achieve long-term success.

Section 4: How And Why Our Strategy Works In-Depth

Introduction

Now that you have a basic understanding of our system, this section will help you dive deeper into the mechanics and psychology behind it. While Section 1 focuses on getting you results quickly, Section 2 will give you a more thorough understanding of why our strategy works, which is crucial for long-term success.

Here, we'll explore the nuances that weren't covered in the first section—insider buying dynamics, earnings season effects, the role of volume and ATR, and more. This deeper knowledge will be especially important when you encounter periods of volatility. With a solid grasp of the underlying principles, you'll be better equipped to emotionally withstand market fluctuations, follow the strategy with confidence, and stick to the system even when trades don't go as expected.

By the end of this section, you'll not only know how to apply the strategy but also why it works, helping you build the emotional and intellectual resilience necessary for successful trading in all market conditions.

Chapter 18: First Principles – The Foundation of Effective Trading

Introduction

Before diving into the detailed workings of our trading strategy, it's essential to start with a critical concept: first principles thinking. This method forms the foundation of how we approach trading, ensuring that our strategy is grounded in solid, unchanging truths rather than assumptions or market norms. By breaking down trading to its most fundamental elements, first principles allow us to build a strategy that is not just based on past performance but thrives on the core drivers of market behavior. In this chapter, we'll also explore how notable figures like Elon Musk use first principles and how “following the money” became a key pillar in developing our insider buying strategy.

Applying First Principles to Trading

In trading, first principles thinking enables you to strip away all the noise and focus on the key elements that truly drive stock movements. Instead of relying on conventional wisdom or common heuristics, we look at the market from a fundamental perspective. Here are some of the core principles that shape our approach:

- **Supply and Demand:** At the most basic level, stock prices are dictated by the balance of buyers and sellers. When there are more buyers than sellers, prices go up; when there are more sellers than buyers, prices go down. This is a fundamental truth that underpins all market activity.
- **Following the Money/Insider Knowledge:** One of the most powerful principles in trading is to "follow the money." This concept led us to focus on insider buying as a key signal. Insiders, by definition, are putting their money where their mouth is. They aren't speculating—they are acting on real knowledge of their company's future potential. By tracking insider purchases, we're essentially following the money to find opportunities where there's real conviction behind the trade.
- **Psychological Reaction to Insider Buys:** Insider purchases don't just provide factual information; they also trigger strong psychological responses in the market. When traders and investors see that insiders are buying, they interpret it as a vote of confidence. This can lead to a wave of buying activity as others jump on the trend, creating short-term price spikes. Understanding this psychological reaction is crucial because it explains why insider buying often leads to immediate market movements, making it a key element of our trading strategy.
- **Volatility and Risk:** Every stock carries a certain level of volatility, which can be measured using indicators like ATR (Average True Range). Understanding how much a stock typically fluctuates allows us to assess the risk and potential reward of each trade.

Elon Musk and First Principles Thinking

Elon Musk is known for his use of first principles thinking across multiple industries—from electric cars to space exploration. When Musk set out to build Tesla, he didn't just accept the costs of manufacturing as a given. Instead, he broke the process down to its core components, asking, "What are the raw materials needed to build a battery?" By doing so, he discovered that building batteries could be much cheaper than the traditional methods suggested. This allowed him to revolutionize the electric car industry by significantly reducing production costs.

Similarly, when we apply first principles to trading, we break down the market into its simplest elements. We ask fundamental questions: What drives stock prices? What signals truly indicate future movement? Just as Musk didn't take the cost of batteries at face value, we don't take market norms as the only way to trade. Instead, we focus on core principles like insider knowledge and the psychology of the market to build a strategy that is both powerful and reliable.

Why First Principles Matter for Your Strategy

First principles thinking prevents overcomplication. In trading, it's easy to get bogged down by complex technical indicators, algorithms, and conflicting market opinions. But by focusing on the basics, you keep your strategy grounded in what truly matters: the unchangeable forces that move markets. This approach ensures that your strategy is not dependent on specific market conditions or trends but is instead built on a solid foundation that remains effective across different scenarios.

When you apply first principles thinking to trading, you're not chasing trends or reacting to market noise. Instead, you're building a strategy that is rooted in the core truths of how markets function. This makes your system adaptable, resilient, and capable of delivering consistent results over the long term.

By incorporating the principle of following the money, we further ensure that our strategy is grounded in real actions taken by those with the most knowledge about their companies. This is why insider buying is such a powerful signal—it reflects real confidence and creates an opportunity for us to act on this insider conviction.

Now that we've established the importance of first principles, let's explore how these core drivers are used in our insider buying strategy and how they shape our approach to data and backtesting.

Conclusion

First principles thinking is the bedrock of our trading strategy. By breaking down the market into its most fundamental elements—supply and demand, insider knowledge, volatility, psychological reactions, and following the money—we ensure that our strategy is built on unshakable truths. This approach keeps our system grounded and adaptable, helping us avoid common pitfalls in trading, such as overfitting or relying on assumptions. Understanding these first principles sets the stage for exploring the deeper mechanics of our insider buying strategy, which we will cover in the

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Chapter 19: Insider Buying as a Forward-Looking Strategy

Introduction

Insider buying has long been a key indicator for traders and investors, but its true potential lies in the ability to use it as a **forward-looking strategy**. This chapter explores how insider buying works as a market signal, the role of retail traders and social media in amplifying its impact, and the psychological and market-based factors that drive price movements following insider purchases.

The Role of Retail Traders and Social Media in Amplifying Insider Buying

In the past, insider buying was primarily observed by institutional investors who used it as a signal for long-term investment opportunities. Today, however, **retail traders**—those individual investors who trade on their own behalf—have taken a more prominent role in amplifying the effects of insider buying.

With the rise of platforms like **Reddit, Twitter, StockTwits,** and various trading forums, insider purchases are being broadcasted to a massive audience almost immediately after they're reported. Millions of retail traders now have the ability to act on these insider purchases in real-time, creating a significant shift in market dynamics. Let's break down why this matters:

1. **Social Media's Role**: When an insider buys shares, social media platforms quickly spread the news. For example, a single post on Reddit's r/WallStreetBets could cause a surge in trading volume as thousands of users rush to buy the stock. These collective actions amplify the stock's movement far beyond what institutional activity alone could achieve.
2. **The Impact of Retail Trading**: Since the boom in retail trading, particularly during the pandemic, millions of new traders have entered the market. This new influx of traders has added liquidity, but it has also amplified market volatility. Retail traders often buy into insider purchases with the belief that "the insiders know something," which can create short-term upward pressure on the stock price.
3. **Rapid Information Flow**: The internet has made financial data more accessible than ever. Tools like **OpenInsider.com** allow traders to track insider purchases as soon as they're filed with the SEC. This rapid dissemination of information gives traders the ability to act almost simultaneously, contributing to immediate price fluctuations.

Psychological and Market-Based Factors Leading to Price Movement

Insider buying taps into several psychological and market-based factors that, when combined, create powerful price movements. These factors are based on both **trader psychology** and **market mechanics**, which work in tandem to generate momentum in stocks.

1. **The Confidence Signal**: When insiders buy shares of their own company, it sends a signal of confidence to the market. Traders believe that insiders must have insight into the company's future performance that justifies their investment. This creates a psychological bias toward buying the stock, as traders assume that the insider knows something positive that the market doesn't.
2. **Scarcity and Urgency**: Insider buying triggers a sense of scarcity and urgency among traders. The thought process is often, "If the insiders are buying now, I need to act fast before the stock shoots up." This urgency can drive a wave of buying, pushing the stock price higher in a short period.
3. **Momentum Trading**: Many retail traders are momentum traders—they buy into stocks that are already moving up, with the expectation that they will continue rising. Insider buys create an initial upward movement, which momentum traders latch onto. This creates a self-fulfilling prophecy as more traders jump in, further pushing up the price.
4. **Market Inefficiency**: While institutional investors have sophisticated tools to analyze insider buying and predict stock movements, retail traders tend to act on emotion and groupthink. This creates short-term market inefficiencies where stocks may become temporarily overvalued as retail traders pile in. For day traders, this inefficiency creates an opportunity to ride the momentum and exit before the stock corrects.

Conclusion

Insider buying acts as a forward-looking signal that, when combined with the amplifying effects of retail traders and social media, can create powerful price movements in the short term. The psychology behind insider buying—confidence, urgency, and momentum—drives retail traders to react quickly, often causing rapid price surges. For traders who know how to capitalize on these movements, insider buying provides a unique and profitable opportunity to stay ahead of the market.

Chapter 20: Earnings Season and Insider Buys

Introduction
Earnings season is one of the most anticipated periods for traders and investors. As companies release their quarterly financial results, insider buying becomes particularly significant, offering unique insights into potential price movements. In this chapter, we'll explore how insider buying typically occurs after earnings and how traders can use this information to their advantage.

The Influence of Earnings Season on Insider Buying
During earnings season, insider buying usually takes place after companies report their quarterly results. Due to SEC regulations, insiders are restricted from trading before earnings, but once the "open window" begins, post-earnings insider buys can offer valuable signals to traders.

Earnings season brings increased attention to the market, with more traders and investors closely monitoring stock movements and company announcements. As a result, when insider buying occurs during this time, it has a heightened effect because more eyes are on the market. The increased visibility of these insider trades can lead to stronger market reactions, amplifying the impact of the buys.

These insider purchases often occur in two key scenarios:

- **After a Price Drop**: Insiders may buy shares if the stock has dropped following an earnings report, signaling that they believe the market overreacted and that the fundamentals are still strong.
- **After a Price Spike**: Alternatively, insiders may buy after a strong earnings report and a subsequent price rise, indicating their confidence that the company's momentum will continue.

In both cases, insider buying reflects the insider's belief in the company's future performance, offering traders an opportunity to capitalize on the market's reaction.

Insider Buy Volume and Trading Opportunities
Post-earnings insider buying typically spikes during the legal trading window, particularly in February, May, August, and November—following the most active periods of earnings season. These months often present increased opportunities for profitable trades as insider buying becomes more concentrated.

- **Post-Earnings Buy Opportunities**: The post-earnings period offers traders more frequent insider buy signals, which can be used to identify potential market overreactions or continued momentum.

- **Profitability After Earnings**: Data indicates that trades based on insider buys during this period tend to be more profitable due to the increased confidence that insiders have in their company's future performance. The added visibility of the market during earnings season further enhances these opportunities as more traders react to the signals.

Conclusion

Earnings season creates a unique environment for insider buying, as insiders are legally allowed to trade after earnings reports are released. The heightened attention to the market during this time increases the impact of insider buys, offering valuable signals for traders to identify profitable opportunities and capitalize on market reactions.

Chapter 21: Multiple Insider Buys on the Same Day

Introduction
While a single insider purchase can generate significant market interest, multiple insider buys on the same day create an even more compelling trading opportunity. In this chapter, we'll explore why multiple insider purchases create unique opportunities, examine the rarity of these events, and discuss how they offer high potential rewards with relatively lower risk.

Why Multiple Insider Purchases Create Unique Opportunities
Multiple insider buys on the same day are relatively rare but carry significant weight in the market. When several insiders from a company—such as the CEO, CFO, and other key executives—buy shares simultaneously, it signals strong confidence in the company's future. This coordinated buying can generate more excitement among traders than a single insider purchase, leading to greater market momentum.

- **Coordinated Confidence**: Multiple insiders buying on the same day suggests that these individuals share a unified belief in the company's prospects. This level of confidence often sparks more interest from traders, who see it as a collective endorsement of the company's future.
- **Market Perception**: The market perceives multiple insider buys as a more reliable signal than a single insider purchase. Traders assume that if multiple high-level insiders are investing their own money, it's likely based on solid internal knowledge, leading to stronger market reactions.
- **Momentum and Volume**: Multiple insider buys generate more significant momentum in the stock price as traders flock to the stock. The increased trading volume amplifies the stock's movement, leading to larger price swings and higher profit potential for traders who capitalize on this momentum.

Rare Events with High Potential Reward and Lower Risk
Multiple insider buys are rare events, occurring only a few times per month across the market. However, when they do occur, they present unique opportunities for traders to capture significant gains with a favorable risk-reward profile.

- **Rarity**: On average, non-repeat multiple insider purchases of significant volume (e.g., $30 million or more) occur only 2-3 times per month across the entire market. Some months may see no such events, while others could see as many as eight. This rarity makes these trades particularly valuable when they do arise.
- **High Reward Potential**: The win rate of trades based on multiple insider buys is similar to that of single insider buys, hovering around 50%. However, the difference lies in the potential reward. Due to the higher momentum and volume generated by multiple insider buys, these trades have a larger upside, offering greater profit potential than single buys.

- **Lower Risk**: Although no trade is risk-free, multiple insider buys tend to offer a more favorable risk profile. The collective action of several insiders reduces the chance that the purchase is based on a single person's isolated judgment. This collective confidence mitigates some risk, leading to better outcomes for traders who take advantage of these opportunities.

Conclusion
Multiple insider buys on the same day present rare but highly lucrative opportunities for traders. These events signal strong insider confidence, generate market excitement, and create significant momentum in the stock price. While they occur infrequently, the high reward potential and relatively lower risk make them a valuable addition to any trader's strategy. By monitoring for these rare signals, traders can capitalize on the unique opportunities they present.

Chapter 22: The Total Effect of Unfiltered Insider Purchases Over Time

Introduction

In this chapter, we'll explore the cumulative results from trades based on raw, unfiltered insider purchases. This analysis highlights the overall effect of insider buying on potential trades. It is important to note that this is not a representation of real returns, as on some days, there may be 10 or 20 trades, making it impractical to invest your full account into each one. Instead, this represents the total cumulative effect of insider buying across all potential trades, providing insights into long-term trends and the momentum generated by insider activities.

Graphing the Cumulative Results of Insider Buy Trades

To understand how the effect of insider buying changes over time, we analyze the cumulative impact of raw, unfiltered insider buy trades. This cumulative data charts the total sum of profits for every potential insider buy trade, though it may not represent real returns due to the practical limitations of investing fully in each trade.

- **Cumulative Performance**: Charting the cumulative performance of raw insider buy trades allows us to observe periods of growth, flat performance, and occasional drawdowns. These fluctuations reflect the natural rhythms of the market and demonstrate the broader influence of insider buying on stock performance over time.
- **2014-2019 Lower Performance**: From 2014 to 2019, the overall cumulative effect of insider buying appeared lower. This can be partly explained by factors discussed in Chapter 8, where the amplification of insider buying by retail traders and social media platforms was less prevalent. During this period, insider buys may have generated less immediate market excitement compared to the years following 2019, when retail traders and the rise of platforms like Reddit and Twitter amplified the impact of insider buying.

Comparing Unfiltered Cumulative Effect to Our Strategy

Comparing the total cumulative effect of unfiltered insider buys to our filtered strategy returns is an important exercise. If the cumulative effect of unfiltered buys during a given period is flat, it becomes significantly harder for even a filtered strategy to generate profits. The broader market conditions and the overall effectiveness of insider buys directly influence the performance of any strategy based on insider trading.

- **Practical Application**: This comparison helps us better understand how our filtered strategy performs relative to the total market impact of insider buying. By seeing when the overall market shows limited cumulative gains, we can adjust expectations for our strategy's returns during those periods.

How to Interpret Success Cycles and Flat Periods

Flat periods can be frustrating, but they are a natural part of any trading strategy. Understanding these cycles helps traders maintain discipline and continue following their strategy during quieter periods.

- **Success Cycles**: Growth periods indicate times when raw insider buy trades are performing well, resulting in cumulative gains. These success cycles often follow flat or declining periods, reinforcing the importance of staying the course during less profitable times.
- **Flat or Negative Periods**: Flat or negative periods may seem unproductive, but they often lay the groundwork for future gains. Maintaining discipline during these times is essential for capturing the upside when the market conditions shift in favor of insider buy strategies.

Conclusion

By reviewing the cumulative results of raw, unfiltered insider buy trades, we gain a better understanding of the overall impact of insider buying across various market conditions. The lower cumulative performance from 2014 to 2019 highlights how the effects of insider buying were less amplified during that time, a topic further explored in Chapter 8. Despite these fluctuations, success in trading requires patience and discipline, particularly during flat or negative periods that often precede cycles of growth. This broader perspective helps traders focus on long-term success and adapt to evolving market conditions.

Chapter 23: Gap-Up Analysis

Introduction

One interesting phenomenon in day trading is the gap-up—when a stock opens significantly higher than its previous closing price. While gap-ups are noticeable and may suggest strong market reactions, they are essentially neutral events in terms of our strategy. In this chapter, we'll explain why gap-ups occur after insider buying, address common interpretations of gap-ups, and discuss how they fit into our trading approach.

What is a Gap-Up?

A gap-up occurs when a stock opens at a price notably higher than its closing price from the previous day. For example, if a stock closes at $50 and opens the next morning at $55, it has gapped up by $5. Gap-ups typically result from overnight news, such as positive earnings reports, buyout announcements, or significant insider purchases.

- **Earnings Reports**: Earnings season often sees companies reporting better-than-expected results, which can cause their stock prices to gap up when the market reopens the following day.
- **Insider Purchases**: Significant insider buying can lead to anticipation that positive developments are forthcoming. When insider purchases are disclosed after market hours, they can sometimes cause a gap-up when the market opens the next day.

Interpreting Gap-Ups

Some traders interpret gap-ups as a signal that the news is already "priced in," believing the stock may have less upside potential from that point forward. This perspective suggests that a gap-up reflects market sentiment adjusting to new information, such as insider buying, resulting in the price increase being factored into the stock. However, there is no consistent trend in our data indicating that gap-ups lead to higher or lower success rates for our trades.

Sometimes, a stock that gaps up may pull back and hit the stop loss, while at other times it can continue to rise. The variability in outcomes shows that gap-ups do not significantly impact the overall probability of success for a trade.

Why Gap-Ups Haven't Increased Over Time

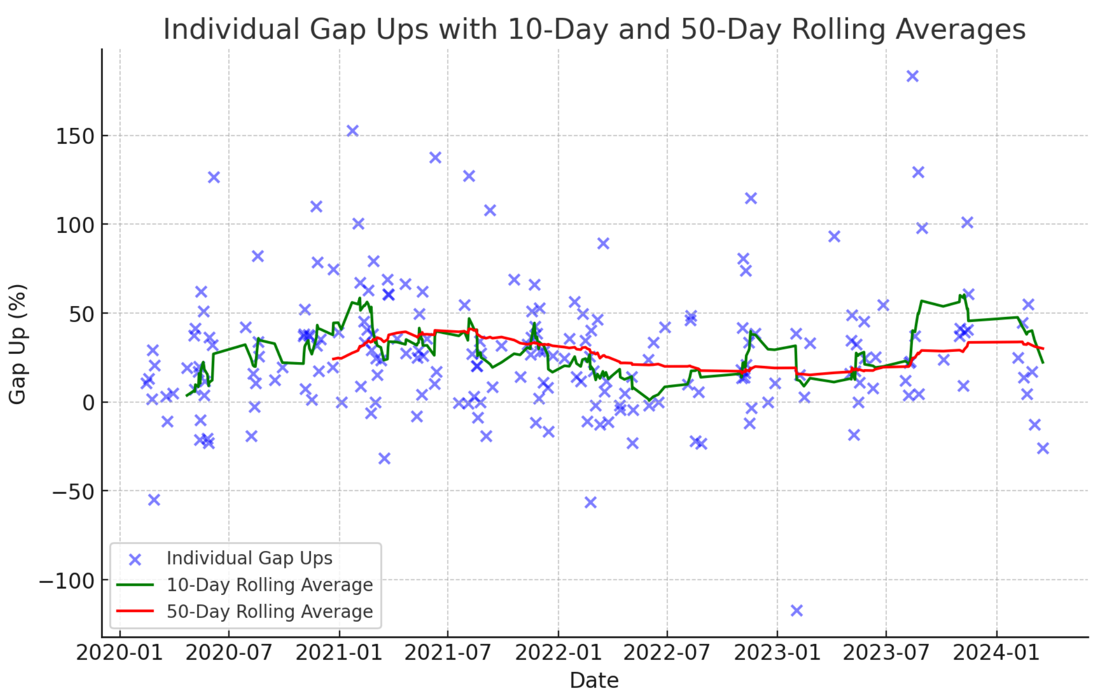
At first glance, you might expect that with increased awareness of insider buying due to platforms like Reddit and Twitter, gap-ups would become larger and more frequent. However, this hasn't been the case.

One reason is related to the insights discussed in the previous chapter. While insider buying generates excitement, the cumulative effect of these buys over time reveals that insider buying does not always lead to immediate and strong price movements. During certain periods, the overall cumulative effect of insider buys was flat, suggesting that the market reaction to insider buys was subdued, despite their occurrence.

This indicates that even when insider buying is widely known, the total market impact does not always result in large gap-ups. Additionally, pre-market trading is often constrained by limited liquidity. There are only so many shares available for purchase before the market officially opens, and without new sellers, there are fewer shares for traders to buy. This limited supply can cause the price to jump quickly in pre-market, but when liquidity increases at the market open, prices can stabilize—or even fall.

Another potential reason is that traders are often hesitant to buy in pre-market when the movement is not perceived as a guaranteed winner. Buying at elevated pre-market prices can be risky, and when traders are unsure of whether the price will continue to rise, they may choose to wait until more liquidity is present at market open. This hesitation might also explain why gap-ups have not consistently increased over time.

This explanation is just a theory based on our observations and the data we have seen so far. We could be wrong, and the dynamics of gap-ups may change in the future. If, over time, the average gap-up becomes elevated for an extended period, this could suggest that insider-related news is being priced in more aggressively than before. Should this occur, our current strategy might need to adapt. For example, we could consider developing strategies such as shorting stocks that experience over-reactions to insider buying, capitalizing on inflated prices that are likely to correct once the initial hype subsides.



Neutrality of Gap-Ups

Our analysis shows that the average size of gap-ups has not increased over the past four years, even with the rising influence of social media on market sentiment. Insider-related news is not being priced into stocks more aggressively now than it was in the past. Therefore, whether a stock gaps up or not is a neutral factor in terms of its potential to meet our profit or stop-loss targets.

The key takeaway is that gap-ups are simply part of the market reaction, and they do not consistently signal future price direction. The variability in outcomes, as demonstrated by the cumulative effect of insider buys, supports this neutrality.

Conclusion

While gap-ups can create short-term price movement, they remain neutral events within our strategy. The occurrence of a gap-up does not increase or decrease the probability of a trade's success, nor has there been any indication that insider-related news is becoming more priced in over time. However, this is just a theory based on current observations, and we could be proven wrong in the future. If gap-ups become larger and more frequent, it might indicate that insider buying is being overvalued in the short term, and we could develop alternative strategies, such as shorting stocks with over-reactions to insider news. For now, traders should stay focused on the overall trading plan rather than reacting specifically to gap-ups, as these price movements do not inherently affect long-term performance outcomes.

Chapter 24: ATR and Volume Explained

Introduction

The success of our trading strategy depends heavily on the ability to identify stocks with the potential for significant price movement. This is where **Average True Range (ATR)** and **Volume** play crucial roles. In this chapter, we'll explore how to filter trades using ATR to focus on high-impact opportunities and how volume considerations ensure that we are trading liquid stocks without being influenced by external market forces.

Filtering Trades by ATR to Focus on High-Impact Opportunities

ATR is a measure of volatility that calculates the average price range of a stock over a set period, usually 14 days. High ATR stocks offer more potential for profitable day trades due to their larger price swings, while low ATR stocks tend to lack the volatility needed for quick profits.

1. **Setting an ATR Threshold**: In our strategy, we use ATR to filter out low-volatility stocks. Stocks with an ATR of **3.5% or lower** are excluded from our trades as they offer little opportunity for profit. By focusing on stocks with a higher ATR, we reduce the number of trades we take but increase the potential returns on the trades we do enter.
2. **Prioritizing High ATR Stocks**: When we target stocks with higher ATR, we ensure that there is sufficient price movement to justify the trade. This results in fewer wasted efforts on stocks that won't move enough to hit our take profit targets within the day.

Volume Considerations to Ensure Liquidity and Avoid External Market Influence

Volume is another critical factor in determining the suitability of a stock for day trading. High volume ensures liquidity, meaning that we can easily enter and exit trades without affecting the stock's price. However, it's equally important to avoid stocks with excessively high volume driven by external factors, such as news or institutional trading, which may dilute the impact of insider buying.

1. **Setting a Volume Range**: We exclude stocks with less than **$30 million in daily dollar volume** to avoid liquidity issues. However, we also avoid stocks with **over $100 million in daily volume** when using certain strategy variants, as these stocks may be influenced more by overall market movements than by insider buying.
2. **Volume Trends**: When considering volume, it's important to analyze the **50-day average daily volume**. This helps to avoid trades based on temporary volume spikes or anomalies that don't reflect the stock's typical liquidity.

Conclusion

By filtering trades based on ATR and volume, we focus on high-impact opportunities that offer the best potential for profit while ensuring that we can enter and exit trades efficiently. These indicators allow us to fine-tune our strategy, ensuring that we're trading stocks with the volatility and liquidity needed for success in day trading.

Chapter 25: Stop Losses and Take Profits

Introduction

Properly managing risk is one of the most important aspects of day trading. In this chapter, we'll explain how to calculate stop losses based on ATR, how to set optimal take profit levels, and how to adjust exit points during market volatility to ensure that you're protecting your capital while maximizing gains. We'll also delve into the reasoning behind different stop losses and take profit levels in our strategy variants and how diversifying the approach helps improve consistency across varying market conditions.

Calculating Stop Losses Based on ATR

Stop losses are designed to limit your risk on any given trade. By using the Average True Range (ATR) to calculate your stop losses, you set an exit point based on the stock's historical volatility rather than an arbitrary dollar amount. This ensures the stop loss is neither too tight, risking premature exits, nor too loose, exposing you to unnecessary losses.

For **Strategy Variant 1**, the stop loss is set at **50% ATR**. This level provides enough wiggle room for the stock's volatility while still protecting against significant losses. In contrast, **Strategy Variant 2** uses a more aggressive stop loss of **150% ATR**. This deeper stop loss accommodates larger market movements, allowing trades to breathe while targeting a different profit strategy.

Ego-less Approach

One of the most important aspects of managing stop losses is to adopt an "ego-less" approach, where you respect the stop loss you've set and don't adjust it out of fear or hope for recovery. This means letting the stop loss hit if the trade doesn't go in your favor, without lowering it in an attempt to give the trade more room to recover. By following this pre-defined plan and allowing the stop loss to trigger, you remove emotion from the equation and prevent larger, unnecessary losses. Ego-less stop losses, calculated based on ATR, help you avoid the psychological pitfalls that often cause traders to lose more than anticipated. This disciplined approach ensures that your risk management strategy remains consistent, regardless of the market's movements.

Setting Optimal Take Profit Levels

Take profit levels are equally crucial as they ensure gains are locked in when the stock reaches your desired price target. Setting take profit levels based on ATR allows us to balance capturing profits with avoiding early exits.

For **Strategy Variant 1**, the take profit is set at **100% ATR**, aiming to capture steady, achievable gains from each trade. Back-tested data shows that this level maximizes profits while still aligning with the expected daily price movement.

In contrast, **Strategy Variant 2** has no predefined take profit level. Instead, it allows trades to run until the stop loss is triggered. This approach works well in momentum-driven conditions, as it allows the stock to continue climbing without restricting potential gains.

The Role of Gap-Ups in Take Profits

Our back-testing revealed that the average gap-up after insider buying tends to be around **50% ATR**. However, the peak price—where the highest potential profit is typically achieved—occurs at around **150% ATR** from the previous day's close price. Therefore, for **Strategy Variant 1**, we place the take profit at **150% ATR** when the market opens, aiming to capture that average peak price, based on historical data.

This methodology helps maximize gains by taking advantage of expected price movement and avoiding the temptation to exit prematurely. By consistently applying this rule, we align our profit-taking strategy with proven performance metrics.

Diversifying Approaches for Different Market Conditions

The rationale behind having two different approaches (Variant 1 and Variant 2) for stop losses and take profits is to diversify our risk management strategy. By having one variant with a tighter stop loss and defined take profit and another variant with a looser stop loss and no take profit, we increase our chances of success in varying market conditions.

- **Variant 1** is optimized for steady, predictable markets where the stock is expected to move within a defined range.
- **Variant 2** excels in more volatile markets where larger price swings occur, allowing trades to capitalize on extended momentum without capping potential gains too early.

By employing both strategies, we mitigate the risk of being overly reliant on a single market condition, which helps smooth out performance over the long run. This diversification approach enhances the probability of consistent success regardless of whether the market is trending or ranging.

Conclusion

By carefully calculating stop losses and take profits, and adjusting these levels when necessary, you can protect your capital while ensuring that you're capturing gains when the stock moves in your favor. The combination of ATR-based calculations and diversified strategy variants equips you with a flexible yet powerful risk management approach that is essential for long-term success in day trading.

Chapter 26: SPY Market Timing Filter Explained

Introduction
Timing is everything in day trading. Entering and exiting trades at the right time can make the difference between a profitable day and a losing one. In this chapter, we'll explain the importance of market timing and when to apply the SPY filter for high-volume trades within strategy variant number 2.

SPY Filter for High-Volume Trades
For stocks with high daily dollar volume (e.g., $100 million or more), we use the SPY filter to determine whether the broader market is stable enough to trade. If the SPY (which tracks the S&P 500) opens with a significant gap up or down, we avoid trading these stocks, as they may be influenced more by overall market movements than by insider buying.

- **Flat Opens**: When the SPY opens flat (within a 0.5% range), we consider the market stable and proceed with trading high-volume stocks.
- **Large Gaps**: If the SPY opens with a large gap (greater than 0.5% up or down), we hold off on trading high-volume stocks to avoid being caught in broader market volatility.

Reducing Trade Frequency Without Sacrificing Returns
Back-tests have shown that by selectively skipping trades based on market conditions, we can reduce the quantity of trades without reducing overall returns. For example, skipping trades when the SPY opens with a large gap allows us to avoid unnecessary risk, similar to how we skip low ATR trades. Just as avoiding trades with an ATR of 3.5% or less eliminates trading opportunities that historically offer little to no profit, avoiding large gaps helps streamline trading efforts. This approach reduces the amount of effort required while maintaining the same level of profitability, making trading more efficient.

Conclusion
Market timing is critical to executing our trading strategy successfully. By using filters like the SPY filter for high-volume trades and optimizing trade frequency based on data-driven insights, you can ensure that your trades are well-timed, less susceptible to broader market volatility, and more efficient without sacrificing returns.

Chapter 27: Repeat Insider Buys

Introduction

First-time insider buys, defined as purchases occurring for the first time within a 30-day period, often provide strong signals of future stock movement, while repeat insider buys—those following prior buys within the last 30 days—present a more complex scenario. Despite occasionally resulting in price gains, repeat buys can be unpredictable and often do not perform as consistently as initial purchases. In this chapter, we will explain why we avoid trading on repeat insider buys and discuss the unpredictable nature of these signals.

Why First-Time Insider Buys are Stronger Signals

First-time insider buys generate significant market excitement because they represent new information and a clear signal of insider confidence in the company's future performance. This often leads to strong price action as traders view it as a fresh indication of potential upside.

- **Fresh Momentum**: The first time an insider buys, the market interprets it as a clear vote of confidence, creating fresh momentum for the stock. This initial momentum tends to be more reliable and impactful in driving stock prices.

The Unpredictable Nature of Repeat Insider Buys

Repeat insider buys, while still indicative of continued confidence from insiders, tend to generate less excitement and are much more unpredictable. This lack of consistency makes them less appealing for our trading strategy.

- **Diminished Impact**: When insiders make additional purchases after an initial buy, the market response is often more muted. The information from the first purchase is already priced in, and subsequent buys fail to generate the same level of momentum.
- **Inconsistent Performance**: While some repeat buys can lead to continued upward price movement, many do not. In fact, repeat buys can often result in price drops or stagnation, making it difficult to rely on them for consistent trading gains.

Given this unpredictability, we have determined that trading on repeat insider buys does not align with the goals of our strategy, which prioritizes consistent, data-backed signals.

Conclusion

Although repeat insider buys may occasionally result in profitable trades, they are far too inconsistent to be a reliable part of our strategy. We focus exclusively on first-time insider buys, which offer clearer signals and stronger momentum. By avoiding the unpredictable nature of repeat buys, we maintain a disciplined approach that better positions us for long-term success.

Chapter 28: Earnings Season and Strategy Variants

Introduction
Earnings season presents a unique set of opportunities and challenges for day traders. This chapter will explain why earnings season is significant and how we adjust our trading strategy by using different strategy variants during this period to maximize profitability.

Why Earnings Season is Significant
Earnings season is known for increased market activity, heightened volatility, and larger price movements. Companies report their quarterly financial performance during this period, drawing more attention from investors and creating conditions that can amplify the impact of insider buying activities. With increased focus on company performance, insider buys tend to generate more pronounced price movements as the market reacts strongly to these signals.

How to Adjust Your Trading Strategy During Earnings Season
To take advantage of the heightened activity during earnings season while managing risk, we adjust our approach by focusing on **Variant 1** and avoiding **Variant 2** during this period.

- **Variant 1**: This strategy variant applies a 50% ATR stop loss and 100% ATR take profit. It is designed to take advantage of price movements that are more controlled, leveraging insider buys during earnings season when market sentiment is high, but maintaining a balance between risk and reward.
- **Variant 2**: We do not trade **Variant 2** during earnings season. This variant is more suited to non-earnings periods when market conditions are less volatile and the stock movements are not as strongly influenced by earnings reports and insider activity.

Benefits of Strategy Variants During Earnings Season
By focusing on **Variant 1** and avoiding **Variant 2** during earnings season, we can adapt our trading approach to the increased volatility while managing our risk more effectively. The diversification between stop loss and take profit levels in **Variant 1** ensures that we are well-positioned to capitalize on the opportunities presented by earnings reports and insider buying activities.

- **Managing Risk in Volatile Markets**: Earnings season brings greater volatility, which can increase both opportunity and risk. By sticking to **Variant 1**, you're able to navigate this volatility while maintaining disciplined risk management.
- **Maximizing Profit Potential**: The heightened market activity during earnings season creates more opportunities for insider buy signals to drive strong momentum. **Variant 1** capitalizes on this by setting take profit targets that allow for controlled gains while protecting against sharp downturns.

Conclusion
Earnings season offers unique opportunities for day traders. By focusing on earnings-related insider buys and adjusting our strategy to use **Variant 1** while avoiding **Variant 2**, we can maximize profitability while managing risk more effectively during this key period. This strategic adjustment ensures we are prepared for both the excitement and volatility that earnings season brings.

Chapter 29: Building a Backtest

Introduction

Backtesting is like giving your strategy a test run—without the risk of real money. It's a way to see how well your trading plan would have worked in the past, using historical data to simulate trades. Done right, backtesting gives you confidence in your strategy and helps you refine it before you go live. The key is to focus on first principles and avoid overfitting—making sure your strategy works because it's based on solid, fundamental truths, not just past patterns that may not continue working over the long term.

In this chapter, we'll walk through the purpose of backtesting, the steps to build one in Google Sheets, and how to analyze the results.

Purpose of Backtesting

The main goal of backtesting is to see if your strategy holds up across different market conditions. If your parameters are based on first principles—like insider buying, volatility (ATR), and market momentum—backtesting can give you clues about how the strategy might perform in the future. It's not about creating a strategy that fits the past perfectly; it's about finding a consistent approach that has real potential moving forward.

By testing your strategy on past data, you avoid flying blind when you start trading live. But it's also important to avoid over-optimizing for past performance. This leads to "overfitting," where your strategy works perfectly in historical data but crumbles in real-time trading. Instead, focus on finding strategies that perform well across many different periods and conditions.

Steps to Build a Backtest in Google Sheets

Step 1: Download Raw Insider Purchase Data
Start by collecting raw data on insider purchases. You can get this from sources like OpenInsider.com or the SEC's Form 4 filings. Make sure to capture key details like:

- Date of insider buy
- Stock symbol
- Insider buy price
- Volume of the buy (single or multiple insiders)
- Whether it's a repeat buy or a first-time purchase

This will be the foundation of your backtest.

Step 2: Label Each Insider Purchase with Key Variables
Now, you'll label each insider purchase with the variables we use to filter trades. These might include:

- **Month of Year:** Whether it's during earnings season (February, May, August, November) or not.
- **ATR %:** A measure of the stock's volatility.
- **SPY Gap-Up Amount:** How much the overall market gapped up at the open.
- **Daily Volume and Average Daily Volume:** Helps assess liquidity.
- **Number of Insider Buys:** Whether it's a single insider buy or multiple buys on the same day.
- **Repeat Buy:** Is this a repeat purchase by the insider?
- Any other variables you would like to test. The more the merrier.

Labeling each purchase with these variables will allow you to test different conditions and refine your strategy.

Step 3: Add Market Data to Simulate "Buy Open, Sell Close" Performance
Next, pull in daily market data for the stocks you would have traded, including:

- Market Open, Close, High, and Low prices for the day you'd be able to trade for the insider buy. This is usually the next day after the insider purchase is reported since filings are made after the market closes.

The simplest way to test your strategy is to simulate buying at the open and selling at the close. This approach doesn't rely on perfect timing and gives you a baseline performance. If the strategy works consistently with just this method, you're on to something.

Step 4: Calculate Key Performance Metrics
Now, calculate key metrics for each trade in Google Sheets:

- **Buy Open, Sell Close Return %:** Measures the change from the market's opening price to its closing price.
- **Buy Open, Sell High %:** Tracks the highest price compared to your entry.
- **Buy Open, Sell Low %:** Captures the lowest point the stock reached after your entry.

These metrics give you an idea of the stock's movement and how much you could have made—or lost—just by buying at the open and selling at key points during the day.

Step 5: Compare Returns to ATR for Meaningful Insights
Next, compare these returns to the stock's ATR (Average True Range). Why? Because a 5% gain for one stock might be massive, while for another it's just a normal day. By normalizing the returns to the stock's volatility, you'll get a clearer picture of its performance.

Step 6: Fine-Tune Your Take Profits and Stop Losses
Once you have your basic performance metrics, start testing different ATR-based take profits and stop losses. For example, try setting a take profit at 150% of the ATR and a stop loss at 50%. See how these adjustments impact your return, drawdown, and win rate. This process helps you optimize your entries and exits without relying on perfect timing.

Step 7: Filter Out Low-Performing Trades
Now that you've got your performance data, start filtering out trades that consistently underperform. For example, stocks with an ATR lower than 3.5% might show negligible returns, so filter those out. Similarly, filter out trades with low volume. The goal is to focus on high-potential trades that align with the core principles of your strategy.

Conclusion

Backtesting is your strategy's proving ground. By simulating trades based on historical data, you can fine-tune your approach, identify strengths and weaknesses, and gain the confidence to execute in live markets. Start simple with "buy open, sell close," then optimize from there using ATR-based take profits and stop losses. With a well-constructed backtest, you can build a strategy that is rooted in first principles and designed to hold up in real-world trading.

Chapter 30: Comparing Our Strategy to Control Groups

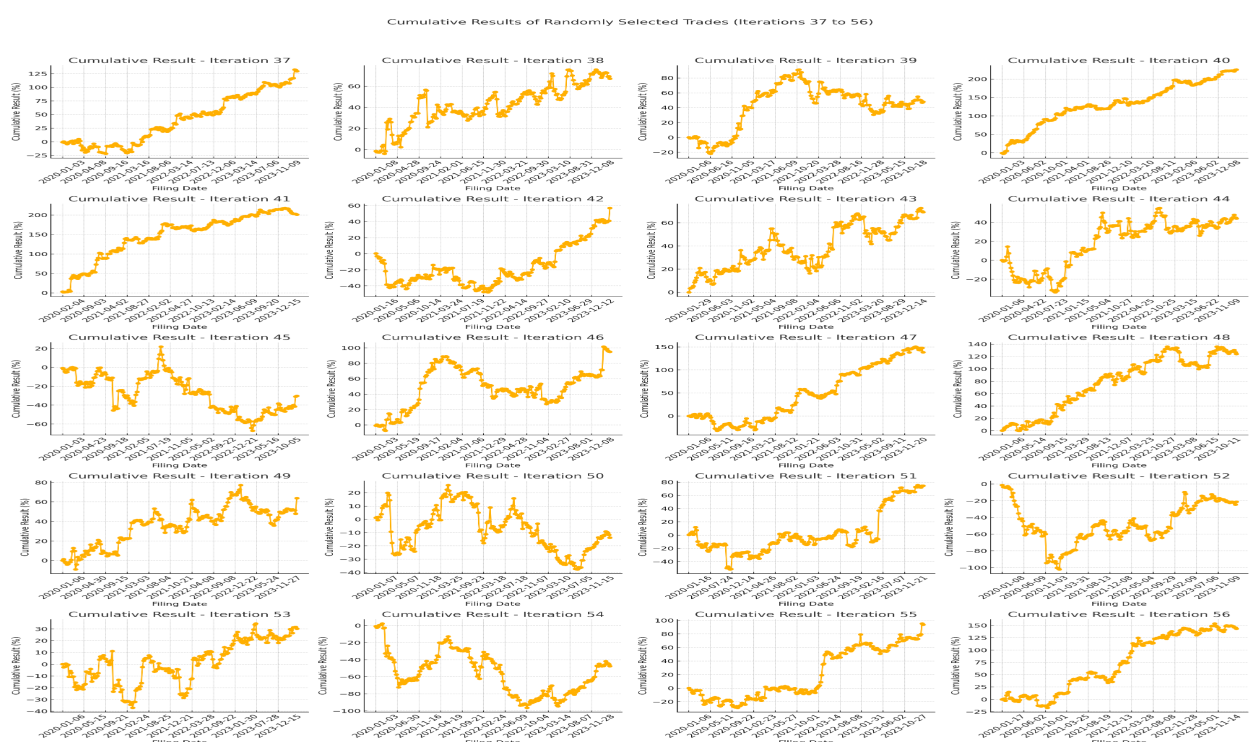
Introduction

In any trading system, it's important to not only validate performance through backtesting but also compare the strategy to alternative approaches or control groups. This helps confirm that the strategy isn't just benefiting from luck or random chance but is actually driven by sound principles. In this chapter, we will compare our strategy to a control group of randomly selected trades, illustrating how the strategic filtering applied in our insider buy system produces significantly better and more consistent results.

Setting Up the Control Group

To evaluate the effectiveness of our strategy, we created a control group for comparison. The control group consisted of 218 randomly selected trades from the larger pool of over 3,000 unfiltered insider buy trades since 2020. By running this process 100 times, each iteration selecting a new set of 218 trades, we were able to establish a baseline for what might happen if trades were selected without any of the strategic filtering applied in our system.

- **Filtered Backtest:** The filtered backtest represents the insider buy trades selected according to our strategy's criteria—focusing on factors like ATR, volume, and other market conditions. This dataset includes 218 trades since 2020.
- **Control Group:** The control group randomly selected 218 trades from the unfiltered pool of insider buy trades. This was repeated 100 times to get a broad sample of potential outcomes from random selection.



Results: Strategy vs. Control Group

The results of this comparison clearly demonstrate the effectiveness of our strategy when compared to randomly selected trades.

- **Our Strategy:** The filtered backtest yielded a significantly higher annual return of approximately 80%. This performance reflects the power of the specific criteria used to filter insider buy trades and maximize profitability.
- **Control Group:** In contrast, the control group—despite having the same number of trades—produced an average return of only 16% annually. However, it's important to note that the performance of the control groups varied widely. Some control groups delivered extremely good returns with great consistency, while others had very negative results, leading to overall volatility and inconsistency in returns across the random selections.
- **5x Outperformance:** On average, our strategy outperformed the control group by a factor of five. This significant outperformance underscores the value of the strategic filtering and trade selection process inherent in our insider buy system. The key difference is the reliability and consistency of returns that our filtered strategy provides compared to the erratic nature of the control groups.

Conclusion

Comparing our strategy to control groups of randomly selected trades demonstrates the substantial advantage provided by our systematic approach. While some random control groups delivered strong results, the inconsistency and variability in performance show that relying on random selection is inherently riskier and less predictable. In contrast, our filtered insider buy trades produce more reliable and consistent results, consistently outperforming the control groups by a factor of five. This comparison not only validates the effectiveness of our insider buy strategy but also reinforces the importance of disciplined filtering and analysis in achieving consistent, long-term trading success.

Conclusion: The Road to Mastering Day Trading with Insider Buys

As you finish this book, you've taken a crucial step toward mastering day trading, especially through the lens of insider buys. While trading can seem complex, the strategies laid out here are designed to simplify the process, helping you confidently navigate the markets and achieve consistent results.

Recap of Key Concepts

Throughout this book, we've broken down the essentials of our trading strategy, and here are the highlights:

- **The Strategy**: We've built our system around the strong signals generated by insider buying. This approach allows us to tap into psychological and market drivers that often cause rapid price movements within a single day.
- **Execution**: You've learned how to execute trades using tools like Thinkorswim and how to follow trade plans that are clear and actionable. Sticking to the plan is key—entering at market open and exiting before the day ends helps minimize risk.
- **Risk Management**: Success in trading requires managing risk. We've shown you how to size your trades, set stop losses, and lock in profits based on sound principles, ensuring that your capital remains protected.
- **Psychology**: The emotional side of trading can be challenging, but by trusting the system and staying calm, you can avoid common pitfalls like emotional decision-making.

The Path Forward

Now that you understand the core principles, your next step is to keep it simple: follow the trade plans. These plans are designed to guide you without needing complex analysis on your part. Your role is to trust the process, execute the trades as planned, and maintain discipline in following the system.

Adapting to the Market

The market will change, but the principles of insider buying and our approach to trading remain strong. While we handle much of the work through analysis and backtesting, your focus should remain on understanding the strategy and executing the trade plans as they are presented to you.

Trust in the Process

Patience and discipline are the foundations of long-term trading success. Losses and drawdowns will happen, but by sticking to the strategy and trusting the system, you'll position yourself for long-term gains. Remember, success is measured by your overall results, not individual trades.

Your Next Steps

To continue on your trading journey:

- **Follow the Plan**: Stick closely to the trade plans provided. They've been designed to maximize your chances of success.
- **Ask Questions**: If something isn't clear or if you have concerns, don't hesitate to reach out. Understanding the strategy is key to your confidence and success.
- **Stay Disciplined**: By sticking to the rules, you'll be able to maintain consistency and avoid emotional decision-making.
- **Engage**: If you need clarification or feel unsure, ask questions. We're here to support you.

A Bright Future Ahead

Day trading with insider buys offers a powerful edge, and by following the principles in this book, you're well on your way to becoming a confident, consistent trader. The road may have challenges, but with a commitment to the process and a willingness to learn, you can achieve great success.

Thank you for taking the time to invest in yourself and your trading journey. Let's make this a successful path to financial freedom.

Appendix A: Glossary of Trading Terms

This glossary defines key terms and concepts used throughout the book, helping you navigate the language of trading with ease.

Appendix A: Glossary of Trading Terms

- **Active Trader Panel**
  A feature in Thinkorswim that allows for quick execution of trades with customizable buy/sell buttons and chart displays, essential for fast-paced day trading.
- **ATR (Average True Range)**
  A technical indicator measuring the volatility of a stock by calculating the average range between high and low prices over a specific period. Used in setting stop losses and take profit levels.
- **Backtest**
  The process of testing a trading strategy on historical data to assess its performance. Backtesting is used to refine strategies before live trading.
- **Bracket Order**
  An order type that includes both a take profit and a stop loss order, placed automatically when a position is entered to manage risk.
- **Buy MKT**
  A market order that buys shares at the current market price, executed immediately at the best available price.
- **Community Support**
  Interaction with other traders through forums, Discord groups, or mentorship programs for feedback, advice, and emotional reassurance.
- **Cumulative Results**
  The total results from a series of trades, often shown in graphs to demonstrate the overall performance of a trading strategy over time.
- **Day Trading**
  Buying and selling a stock within the same trading day to capitalize on small price movements. All positions are closed before the market closes to avoid overnight risk.
- **Discord Trade Plans**
  Pre-prepared trade plans delivered via Discord that outline the trades to execute, including entry and exit points, reasoning, and stop loss/take profit levels.
- **Drawdown**
  The decline in an account's value from its peak to its trough during a sustained losing period, typically measured as a percentage.
- **Earnings Season**
  A period during which many companies release their quarterly earnings reports, which often leads to increased market volatility and insider buys.

- **First Principles Thinking**
  A problem-solving method where complex issues are broken down into their most fundamental elements to build strategies based on core truths rather than assumptions.
- **Gap-Up**
  When a stock opens at a price significantly higher than its previous closing price, often due to after-hours news such as earnings reports or insider buys.
- **Insider Buys**
  Stock purchases made by a company's executives, directors, or key insiders. These transactions are often viewed as a signal of confidence in the company's future performance.
- **Pattern Day Trader (PDT) Rule**
  A FINRA rule that classifies a trader as a pattern day trader if they make four or more day trades in a five-day period using a margin account. A $25,000 minimum account balance must be maintained to continue day trading.
- **Position Size**
  The number of shares or dollar amount invested in a trade, important for managing risk and ensuring no single trade disproportionately affects the overall portfolio.
- **Pre-Market**
  The trading session that occurs before the regular market opens at 9:30 AM EST. Pre-market price movements can offer insights into the day's potential trading opportunities.
- **Retail Traders**
  Individual traders who buy and sell stocks for their personal accounts rather than trading on behalf of large institutions. Retail traders have increased in influence due to the rise of commission-free trading.
- **Risk Exposure**
  The amount of capital at risk in a trade. Managing risk exposure is crucial for emotional stability and financial security in trading.
- **SPY Filter**
  A tool used to assess the overall market condition by tracking SPY (an ETF that mirrors the S&P 500) price movements. This filter helps decide when to execute trades.
- **Stop Loss**
  An order placed to automatically sell a stock when it reaches a predetermined price, limiting losses in a trade.
- **Take Profit**
  An order placed to automatically sell a stock when it reaches a predetermined price, securing profits from a trade.
- **Trade Journal**
  A record of all trades made, including details such as entry/exit points, position size, emotional state, and outcomes, used for self-analysis and improving future performance.

- **Volatility**
  The degree of variation in a stock's price over time. High volatility indicates large price swings, while low volatility suggests more stable price movements.

Conclusion

Understanding the terminology used in day trading is essential to executing trades confidently and effectively. This glossary provides quick definitions of the most important terms, serving as a reference guide as you continue to develop your trading skills.
